Climate solutions
The role of innovative financing in sustainable development and climate change
Leading Group experts’ workshop
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IFC, World Bank Group
Creating an enabling environment

• WBG’s Doing Business: objective measures of business regulations and their enforcement across a number of indicators in 189 economies

• Used by policy-makers, business community and others to identify barriers and promote reforms

• Business regulatory reforms making a tangible impact, e.g. helping increase employment: Mexico’s simplified municipal procedures increased employment by 2.8%

Source: WBG 2014
Creating an enabling environment

- G20 Dialogue Platform on Inclusive Green Investment
- Practical and implementable interventions
- Significant potential for investment risk reduction and higher investment flows towards adaptation

Data and information
1. Climate and hydrological projections
2. Direct and indirect impacts
3. Adaptation measures, costs and benefits
4. Community vulnerability, risk and adaptation

Institutional arrangements
5. Institutions and forums

Policies
6. Building standards and/or codes
7. Public infrastructure
8. Local zoning rules
9. Permitting and impact assessments
10. Investor relations and/or stakeholder management

Economic incentives
11. Government incentives
12. Finance
13. Full-cost accounting for water and energy
14. Environmental trading markets

Communication, technology and knowledge
15. Information and communication technologies
16. Technology and knowledge

Enabling Environment for Private Sector Adaptation

Vladimir Sternek, International Finance Corporation
Jean-Christophe Amado, David Grenfell, Deloitte

Source: IFC 2014
De-risking investments

- Port Muelles el Bosque, Colombia

- USD 180,000 investment in information:
  - mobilized USD 20 million in private finance for adaptation
  - de-risks and protects several hundred million worth of infrastructure

- Climate Risk Management: financial, environmental and social

Sources: IFC 2011, Escuela Naval CIOH 2010

Seawater flooding, 2050, observed and accelerated SLR scenarios
Financial Products - From Equity to Debt

**Senior Debt & Equivalents**
- Corporate and JV
- Typically 5-15% shareholding (not to exceed 20% of total equity)
- Long-term investor, typically 6-8 year holding period
- Not just financial investor, adding to shareholder value
- Usually no seat on board
- Infraventures (early equity investments)

**Mezzanine / Quasi Equity**
- Subordinated loans
- Income participating loans
- Convertibles
- Other hybrid instruments

**Equity**
- Senior Debt (corporate finance, project finance)
- Fixed/floating rates, US$, Euro and local currencies available
- Commercial rates, repayment tailored to project/company needs
- Long maturities: 8-20 years, appropriate grace periods
- Range of security packages suited to project/country
- Mobilization of funds from other lenders and investors, through cofinancings, syndications, underwritings and guarantees

IFC International Finance Corporation
Risk positions at the level of the FI:
- Equity;
- Credit lines;
- Subordinated debt;
- Currency swap;

Risk positions at the level of the underlying assets:
- Guarantees;
- Portfolio Risk Sharing;
- Mezzanine instruments.

Type 1.

Type 2.
Over $410M Concessional Funds Available for Climate Smart Investments

**Canada Climate Change Program (CCCP)**
- US$280M in-house
- **Eligible Projects**: RE, EE, forestry, adaptation
- **Country Eligibility**: select countries are not eligible
- No equity or CDM
- Max 30% subordinated
- Local currency where possible

**Climate Investment Funds (CIF)**
- Comprised of 4 funds
  - Mitigation (CTF)
  - Forestry (FIP)
  - Adaptation (PPCR)
  - Small RE (SREP)
- Funds in house
  - ~$328M (CTF)
  - ~$19M (FIP)
  - ~$14M (SREP)
  - ~$13M (PPCR)
- Available for countries with approved Investment Plans

**Global Environment Facility (GEF)**
- Environmental Business Finance Program
- Projects for SMEs through FIs (~$24M)
- Eligible Projects: RE, EE, biodiversity conservation

Available $158M
Available $246M
Available $12M

*IFC has delegated authority from donors to utilize these funds*
## IFC’s Principles for deploying Blended Finance

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<thead>
<tr>
<th>Category</th>
<th>Principle</th>
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<tr>
<td><strong>Moves Beyond IFC Additionality</strong></td>
<td>Only supports transactions where a subsidy is needed to complete a transaction</td>
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<td><strong>Avoids Market Distortion</strong></td>
<td><strong>Minimum concessionality</strong>: Provide minimal subsidy to make the project happen with minimal market distortion</td>
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<td><strong>Leads to Sustainability</strong></td>
<td><strong>Time-bound</strong>: should not be applied where long term subsidies are required; limited in time; couple with advisory services (as needed) to broaden impact and achieve market transformation</td>
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<td><strong>Promotes Transparency</strong></td>
<td><strong>Conflicts of interest addressed by</strong>: Blended Finance Committee, a sub-committee of IFC’s Senior Management that approves use, structure, and terms of concessional donor funds</td>
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Green Bonds

- Instruments for financing projects with environmental benefits; a focus on climate change

- World Bank Treasury issued the first green bond in 2008

- IFC Treasury issued $3.4 billion in green bonds, including two $1 billion benchmark sales that helped develop the market (proceeds for RE, EE projects).

- More than $30 billion in circulation. Diversification of currency, tenor, issuers, including municipalities and corporates:

  - GDF Suez, May ’14, 2.5 billion euro offering, 3x oversubscribed

  - Unilever, March ‘14, $374 million, for emissions reduction, water use and waste

  - Toyota Motors, $1.6 billion, March ‘14, hybrid vehicle financing
Thank you!

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