Climate-Related Investment at IFC

San Giorgio Group:
Expanding Green, Low-Emissions Finance

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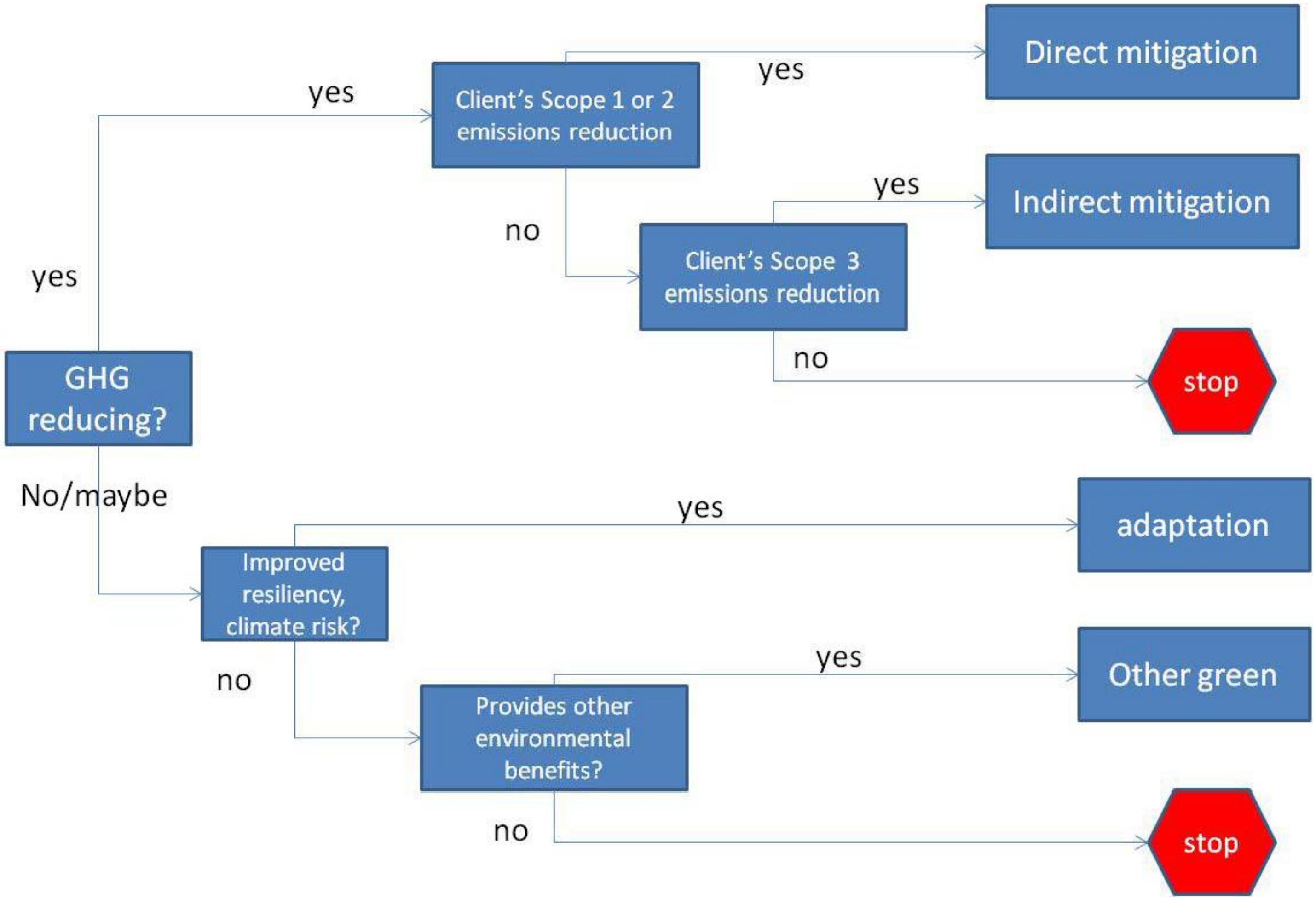
Structure

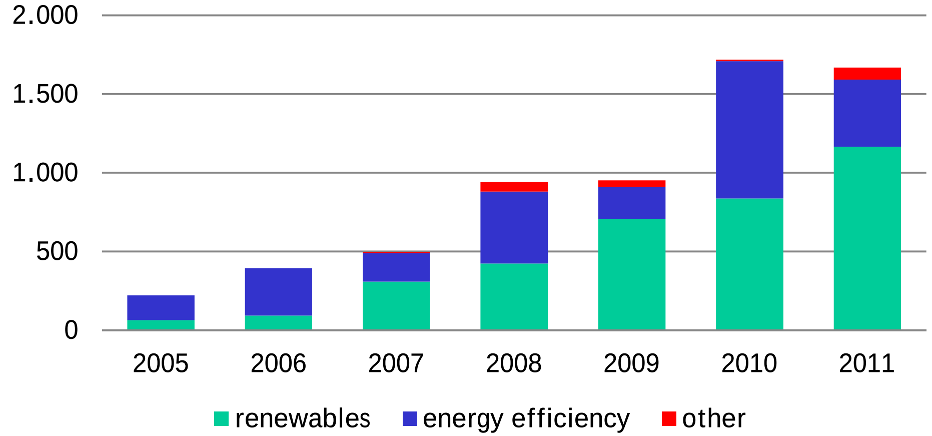
- **Definitions**: what IFC considers “climate-related” or “green” and how it makes that determination
- **Investments**: evolution of IFC’s activities in this space
- **Leverage**: some thoughts based on IFC’s experience
- **Concessional Finance and other support**: when it is needed

What does “climate-related investment” mean?

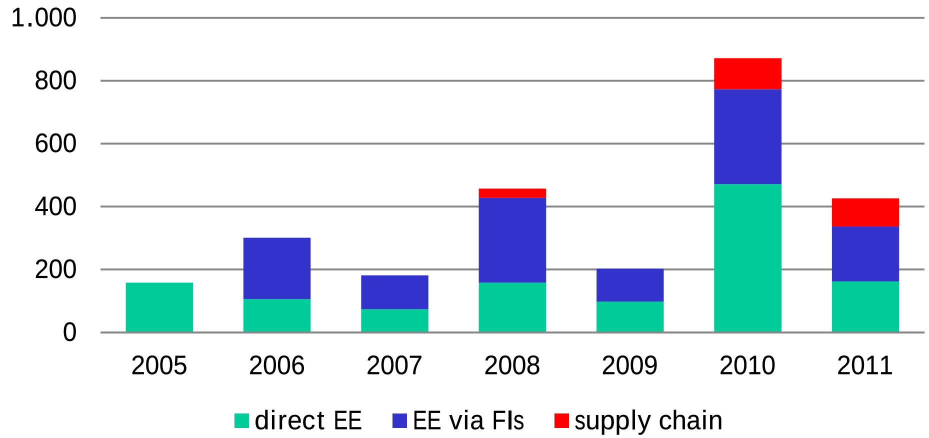


IFC's own account investments…

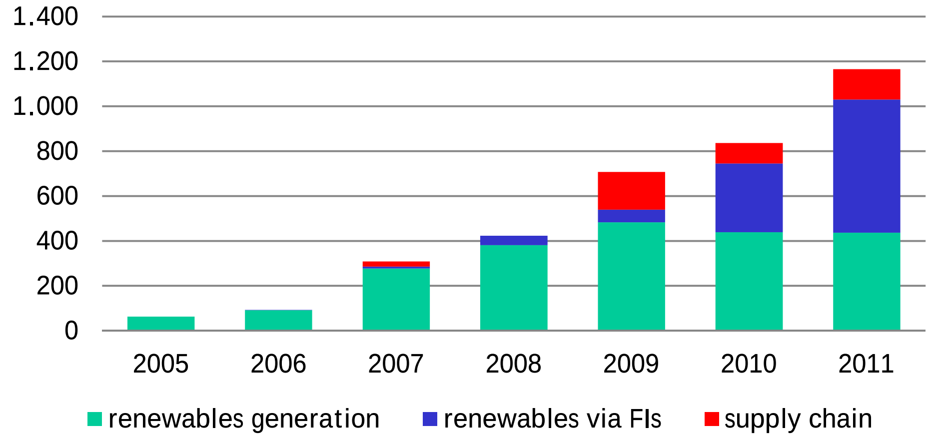
Climate-Related Investment
$ millions



Energy Efficiency Investments
$ millions

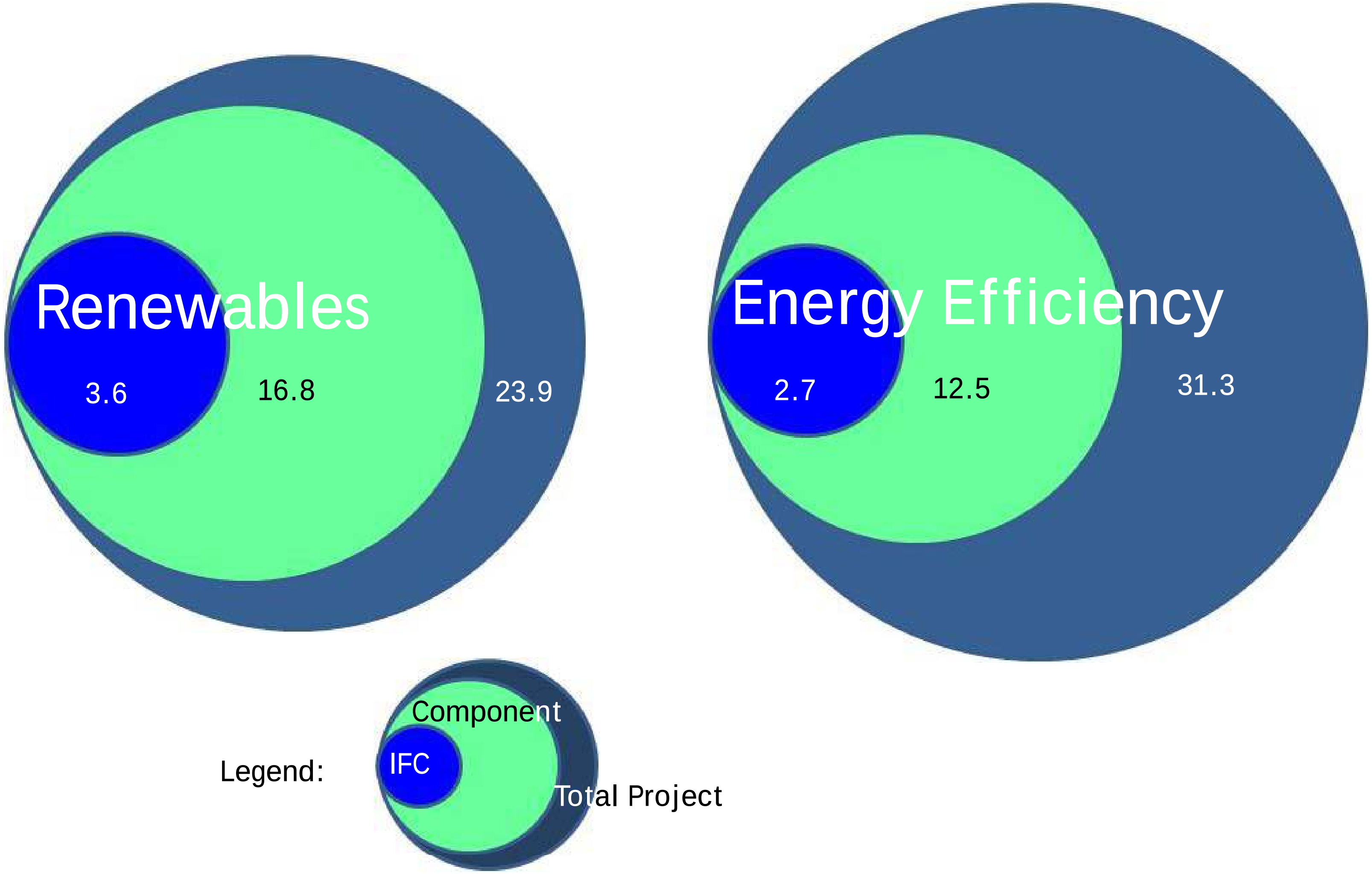


Renewables Investments
$ millions

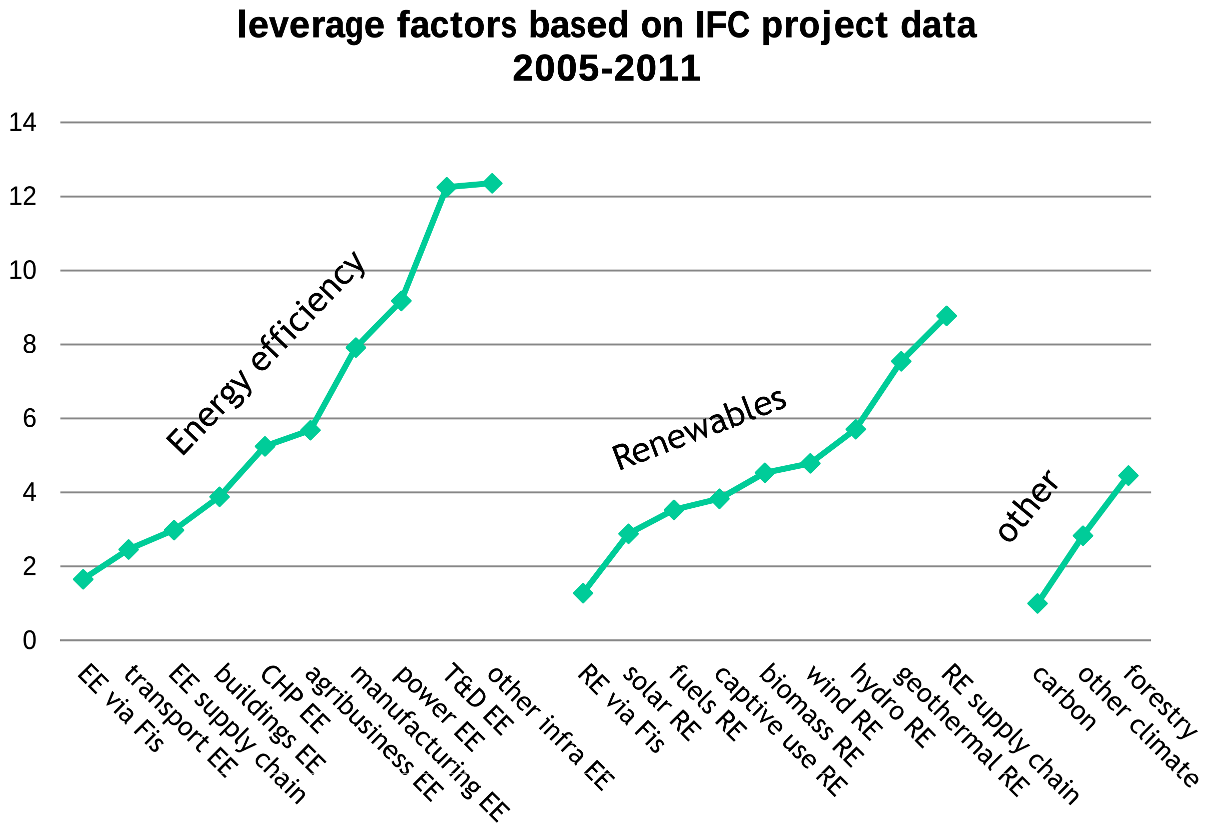


...are a fraction of total investment

2005-2011, $ billions



Thus, one IFC dollar leverages many more



Preliminary: not to be quoted

What explains the different leverage ratios?

- Leverage is higher when:
  - The impact of the climate investment is felt directly on revenues
  - There are few technological surprises
  - There are offtake agreements or long-term supply contracts
- Leverage is lower when:
  - The technology is new or emerging with limited track record
  - Viability is dependent on regulatory or policy support
  - Informational barriers pose high transaction costs
  - The impact of the investment is small relative to revenues or costs
- Figures for FI lending are misleading:
  - They represent a pure resource transfer
  - They do not include the value of the underlying investments financed
  - Actual mobilization probably similar to direct investments

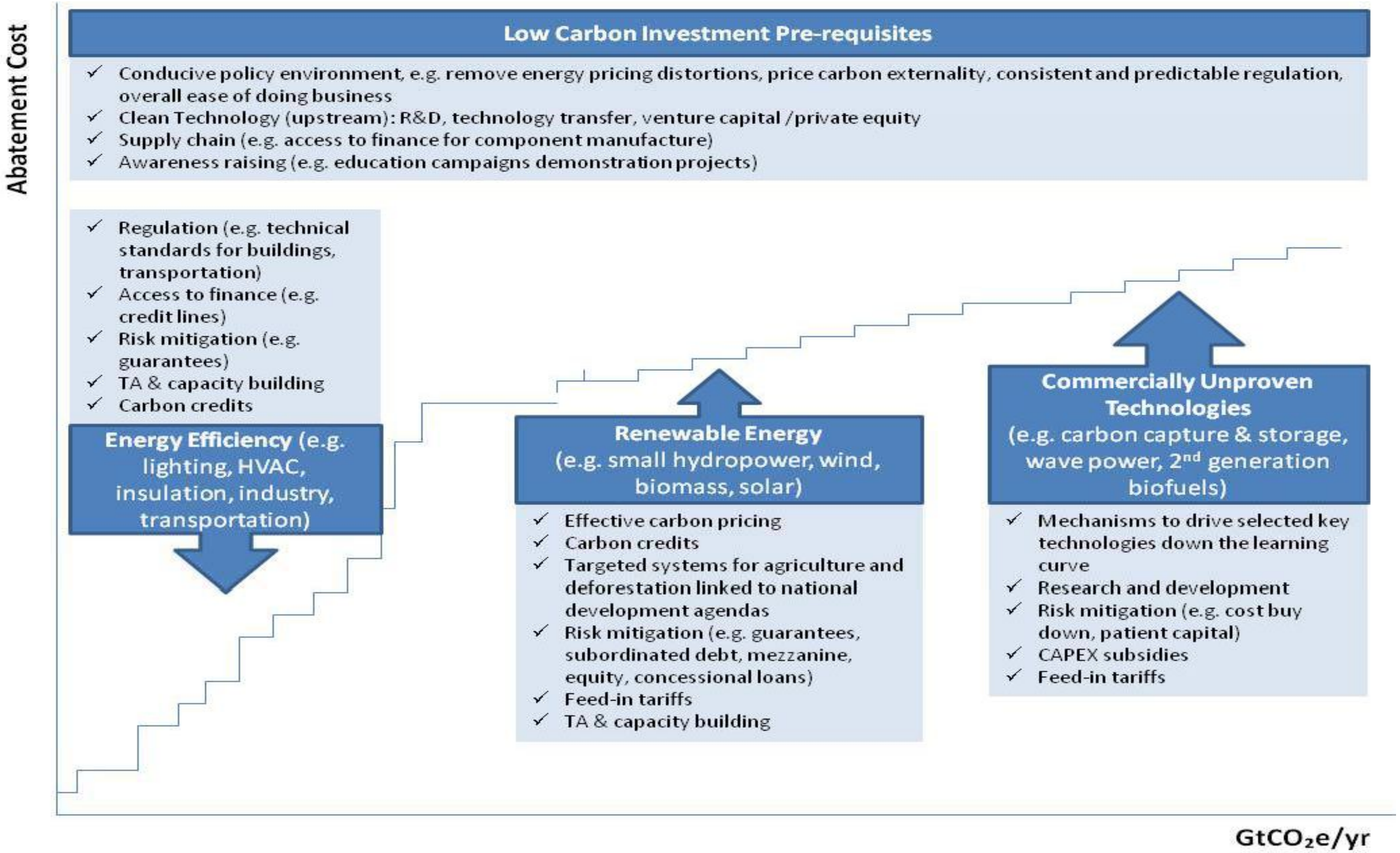
Most IFC investments to date have been undertaken without any concessional finance

- Concessional finance has not been available in any significant amount until recently
- Some activities have involved small amounts of TA
- GEF and bilateral donor funds played early role in developing IFC's climate business:
  - Risk-sharing facilities for sustainable energy lending (eg CHUEE)
  - Cleaner Production program
  - Cleantech investment
  - Carbon transactions
- CTF and bilateral money (Canada) currently major source of concessional funding available for IFC projects

So why is concessional finance needed?

- To address barriers to investment for low-carbon investment for which adequate risk mitigation is not available in the market
- Incremental (and transitional) cost disadvantage of some low-carbon technology
- Other financial barriers: revenues, O&M costs, financing cost
- Structural barriers: network effects, high transaction costs, agency issues
- Technical capacity gaps: lack of awareness, inability to price risk, lack of know-how
- Ultimately: to absorb the gap in risk-return expectations of the market

Financial instruments and support mechanisms needed for low-carbon investment



Source: Adapted from Pathways to a Low-Carbon Economy, Version 2 of the Global Greenhouse Gas Abatement Cost Curve, McKinsey & Company, 2009

Concluding thoughts

- Conducive investment environments and policy frameworks are required for private sector investment
- The private sector needs returns commensurate with risks
- Existing mechanisms can mitigate many of these risks
- But risk mitigants may not be available or too expensive for some low-carbon activities
- Carbon pricing and markets are critical for large scale impact
- Public (concessional) finance can catalyze low-carbon investment
- Project developers need ex-ante indications of how such finance will be deployed to create a robust deal pipeline

Thank you!

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