Secretariat Summary of the Inaugural Meeting of the Global Innovation Lab for Climate Finance

The Rt. Hon. Gregory Barker, UK Minister of State for the Department of Energy and Climate Change, and Elizabeth Littlefield, President and CEO, United States Overseas Private Investment Corporation, co-chaired the first meeting of the Global Innovation Lab for Climate Finance (The Lab) in London on 3 June 2014. The Lab's goal is to identify, design, and support the piloting of new climate finance instruments with the aim of unlocking private investment for climate change mitigation and adaptation in developing countries. In consultation with Advisors and other experts, 19 Lab Principals from a wide range of public and private institutions located in developed and developing countries selected six climate finance instrument ideas to further analyze and stress test. These six included ideas to facilitate greater numbers of climate-friendly investment opportunities in developing countries, create project aggregation platforms to make smaller projects attractive to large institutions, and improve the risk-return profile of green investments. Advisors to Lab Principals, with the support of The Lab Secretariat (made up of personnel from Climate Policy Initiative and Bloomberg New Energy Finance) will subject the most promising of these ideas to further in-depth analysis in an effort to prepare them for piloting and implementation.

Advisors' Meeting

1. Advisors to Lab principals were convened on the morning of June 3rd by representatives of The Lab Secretariat, Barbara Buchner of the Climate Policy Initiative (CPI), and Kieron Stopforth of Bloomberg New Energy Finance (BNEF). Advisors representing the three 'sponsor' governments (the UK, U.S. and Germany) reaffirmed The Lab's mission to incubate new financial instruments designed to spur climate-friendly investment in developing countries by addressing barriers to scaling up investment in green projects and infrastructure. Advisors expressed hope that the work of The Lab could support efforts by donor countries to meet their goal of mobilizing $100 billion of climate finance per annum by 2020 from a range of public, private and other sources.

2. Advisors noted that many "talk shops" had been created over recent years to consider questions relating to climate finance, some of which had generated interesting proposals and ideas, but that The Lab should be a vehicle for moving from talk to action. Given that objective, Lab participants committed to identifying, stress testing, and refining the most promising instruments with the aim of making them viable and bankable. Advisors agreed that a key metric for evaluating The Lab's success would be whether 'Lab-endorsed instruments' are ultimately piloted by relevant financial institutions such as multilateral funds, various development finance institutions, or private sector financial actors.

3. Barbara Buchner explained that the Secretariat ran a 'call for ideas process', which resulted in over 80 proposals, and described the selection criteria against which submitted ideas were assessed. Ideas were ranked based on their real-world innovative, transformative and catalytic potential to drive capital into developing countries for low-carbon and climate-resilient investments. Top-ranked ideas were further screened to evaluate whether the Lab could 'add value' to them, for example by marshaling resources

(analytical, technical and financial) to support their quick transition from concepts to pilot-tested instruments.

4. Applying these criteria narrowed the list of ideas from over eighty submissions to 14 instruments, which were grouped into four categories: (1) primary deal flow and early-stage project development; (2) capital aggregation/pooling platforms and mechanisms; (3) risk mitigation; and (4) adaptation and resilience. Ideas that didn't make the cut were eliminated because The Lab had limited capacity to add value to substantive work already being done on them by others and/or there was not a sufficiently reliable revenue stream associated with them and/or they had other challenges associated with their proposed design.

Principals' Meeting

5. The Rt. Hon. Gregory Barker, UK Minister of State for the Department of Energy and Climate Change, and Elizabeth Littlefield, President and CEO, United States Overseas Private Investment Corporation, co-chaired a meeting of The Lab Principals on the afternoon of June 3rd. The co-chairs, together with Franz Josef Schafhausen, Director General from Germany's Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, reiterated The Lab's goal to help accelerate and increase the flow of capital into green investments and infrastructure in developing countries. They underscored that The Lab should exploit synergies with the existing and emerging climate financial architecture, notably the Green Climate Fund (GCF). They requested the Secretariat take steps to publicly report on the Lab's work at upcoming events including potentially the United Nations Secretary General's (UNSG) Climate Summit in September, 2014, and the UNFCCC Conference of the Parties (COP) 20 in December, 2014.

6. Before evaluating the instruments recommended for consideration by their Advisors, Principals discussed the factors currently preventing climate-friendly projects from finding investors, especially in emerging and developing country markets. They agreed that reasons for the shortage of capital vary across markets and regions but that in addition to policy and political risks, barriers to heightened levels of climate investment in developing countries include: (1) a lack of bankable projects, particularly in lower income countries, (2) challenges of pooling smaller projects, particularly those with different risk profiles, (3) lack of long-term liquidity and refinancing risks, (4) foreign currency exchange risk, and (5) transaction costs associated with a lack of standard approaches to adjusting risk and return or conducting due diligence.

7. The following table illustrates the six instruments selected by Principals according to their groups.

Grouping	Idea Title	Overview	Key June 3 Remarks
Aggregation/ pooling platforms and mechanisms	Renewable Energy Platform for Institutional Investors (REPIN)	• This instrument focuses on the refinancing of commercial bank debt to renewable energy (RE) projects by involving institutional investors (i.e. lowering the cost of capital to improve RE project bankability by	• There was strong support for REPIN which was seen to address deal flow and longer term asset liquidity issues, giving it high value in addition to its aim to bring in institutional investors.

		providing commercial lenders with an "exit"; this in turn would enable institutional investors with varying risk/reward profiles to acquire mature long-term renewable energy assets).	
Risk mitigation	Long Term Currency Swap	• This instrument aims to address the mismatch between the currency of project financing and the currency of a project's cash flows. It would provide currency swaps with tenors aligned with long-term contracts/payback periods (e.g., power purchase agreements).	• Although the Currency Exchange Fund (a special purpose fund based in the Netherlands) is designed to provide some hedging for borrowers and lenders of foreign currency in emerging and frontier markets, demand, especially by project developers, for currency swaps with long tenors is not being met. An effective long-term currency swap mechanism would allow project developers to enter new markets. Further analytical work is required to determine appropriate institutions for implementation.
	Insurance for Energy Savings	• This instrument would provide insurance that energy efficiency (EE) projects will generate financial savings. It focuses on developing a business model in which an "insurance component" underwrites minimum savings estimated for specifically defined EE measures.	• EE was seen as an important opportunity for managing and restraining growth in energy consumption. The proposed initiative seeks to mitigate barriers that companies encounter when seeking funding to implement energy efficiency measures in buildings and/or industry financed through expected energy savings. The proponents have commissioned a feasibility study to inform Lab analysis.
Primary deal flow and early-stage project development	FMO Climate Development & Finance Facility	• This instrument would include a fund consisting of (1) a Development Facility and (2) a Financing Facility. The Development Facility would serve to actively work with developers during the very early stages of project development and make projects bankable. Once	• The Development Facility aims to generate deal flow in lower income countries. The tiered Finance Facility was seen as having potential to bring forward different and new classes of investors.

		made bankable, the project will be financed (equity and/or debt) by the Financing Facility.	
	Debt Fund for Prepaid Energy Access	• This is a structured debt instrument combining public and private resources that could bring new commercial capital to off-grid energy.	• Reviewers believed this idea would have high potential to scale quickly.
	Global Renewable Independent Power Supplier (GRIPS)	• This instrument would aggregate base-load enabled renewable energy assets and storage (and possibly adaptation-resilience assets) under short-term power-purchase agreements (or similar instruments). Through risk pooling, it would enable bank financing.	• The proposal was seen to align with small community and small-holder needs. Lab endorsement could help attract equity.

Outreach and Next Steps

8. Principals stressed the need for instruments that unlock increased investment in adaptation and climate resilience. While several adaptation ideas were considered among the top 14, none were found to be sufficiently promising to be selected for further detailed analysis. Instead, Principals requested the Secretariat to run a further, targeted 'call for ideas', to invite the submissions of more and better adaptation finance instrument proposals. Lab Principals aim to identify one adaptation/resilience focused idea to include among the group of ideas that will be subjected to more detailed analysis.

9. These six instruments (and eventually one adaptation-related instrument) will now undergo more detailed examination ahead of the next Advisor meeting in October. This analysis will seek to estimate the market potential of each instrument, the amount of private money each instrument could leverage, the amount of public money needed to launch the instrument into use, and whether similar instruments already exist and why they are or are not working adequately. Beyond financial potential, other issues for analysis might include impacts on cost of energy, emissions savings, and reductions in transaction costs, as appropriate. The Secretariat will also issue a call for new ideas to address adaptation and resilience finance with the aim of stress testing the most promising idea ahead of the October Advisor meeting.