

Mobilizing Public and Private Finance for Inclusive Green Growth Investment:

Stocktaking for the G20 Development Working Group

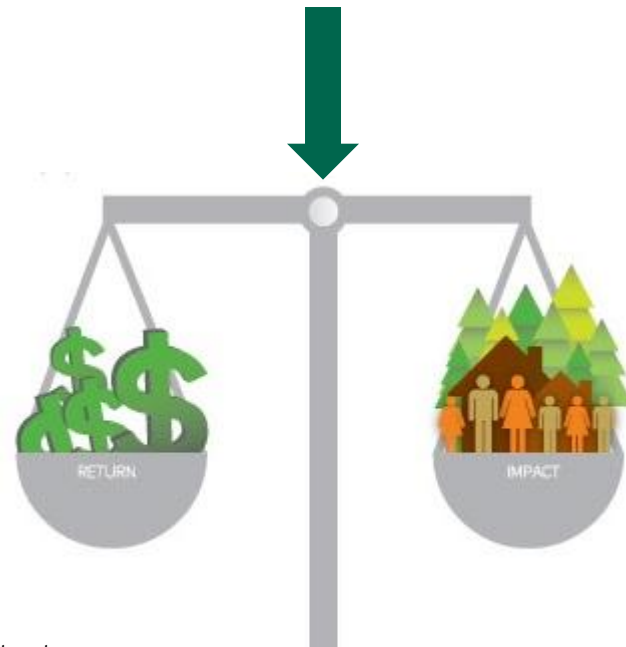
Aditi Maheshwari, Alan Miller & Shilpa Patel
30 January 2014



RUSSIA

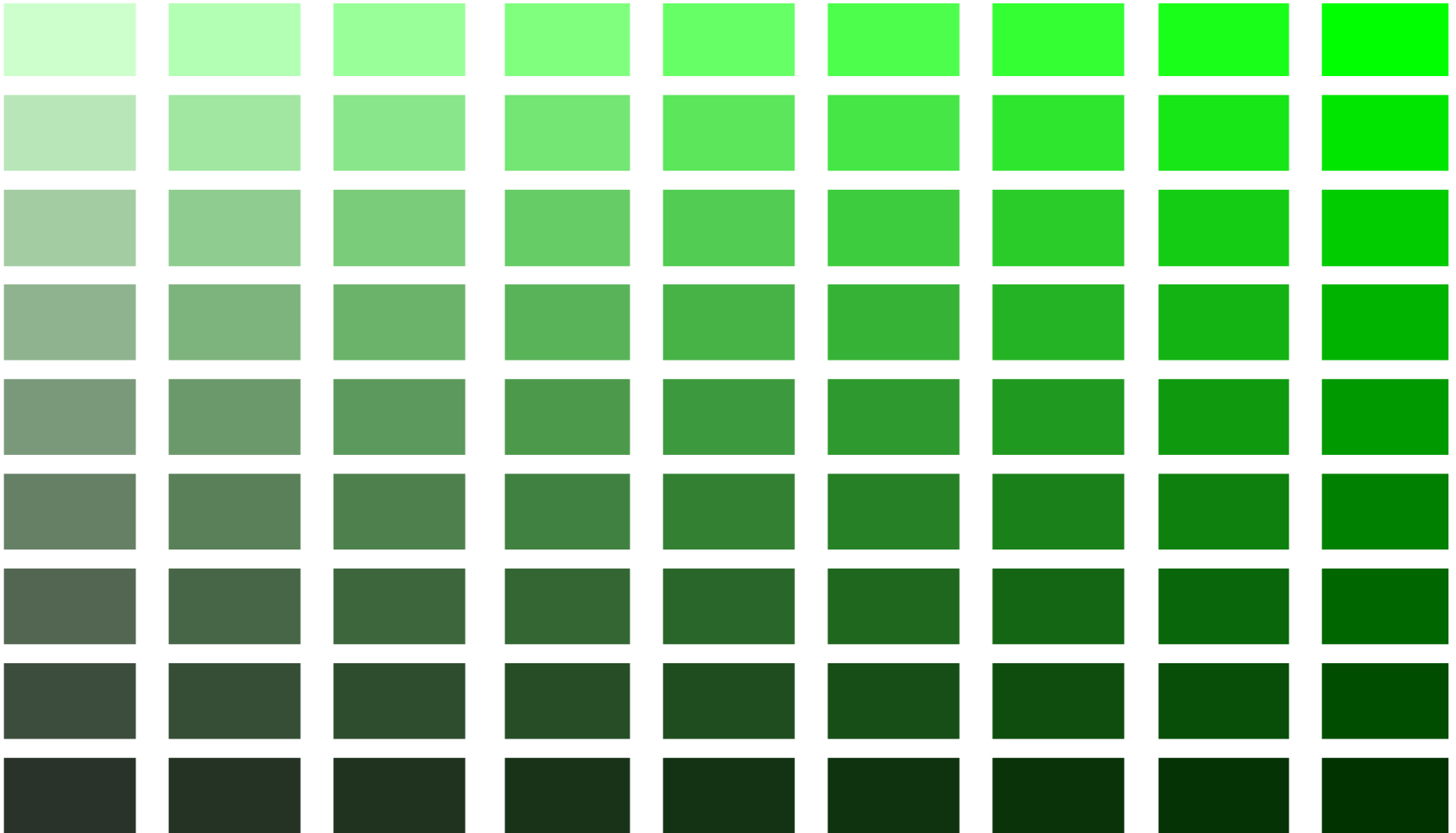
G20

CONTEXT



PURPOSE

Source: <http://blog.lohas.com/blog/socially-responsible-investment>



SHADES OF GREEN

Source: www.sodahead.com

Framing the Stocktaking

- Mandate: provide insights on how the Dialogue Platform on Inclusive Green Investments could engage new stakeholders e.g. institutional investors.
 - 160 publications and documents reviewed and summarized
 - IGG finance flows mapped and sectors, geographies, technologies underserved by private finance identified.
 - 7 case studies providing lessons learned across sectors on structuring investments; addressing barriers; and ensuring a supportive policy and enabling environment.
 - Portfolio analysis on innovative mechanisms to leverage private finance and how to scale them up.
 - Studied initiatives to engage institutional investors to identify best practices and gaps to inform approaches to be adopted by the DPIGI.

What do we mean by inclusive green growth?



Source: www.enterprise-development.org

Inclusive = base of pyramid and low income countries



KEY FINDINGS

Source: insight.mrsc.org

Key Findings

Literature
Review

No one size fits all

Mapping IGG
Finance
Flows

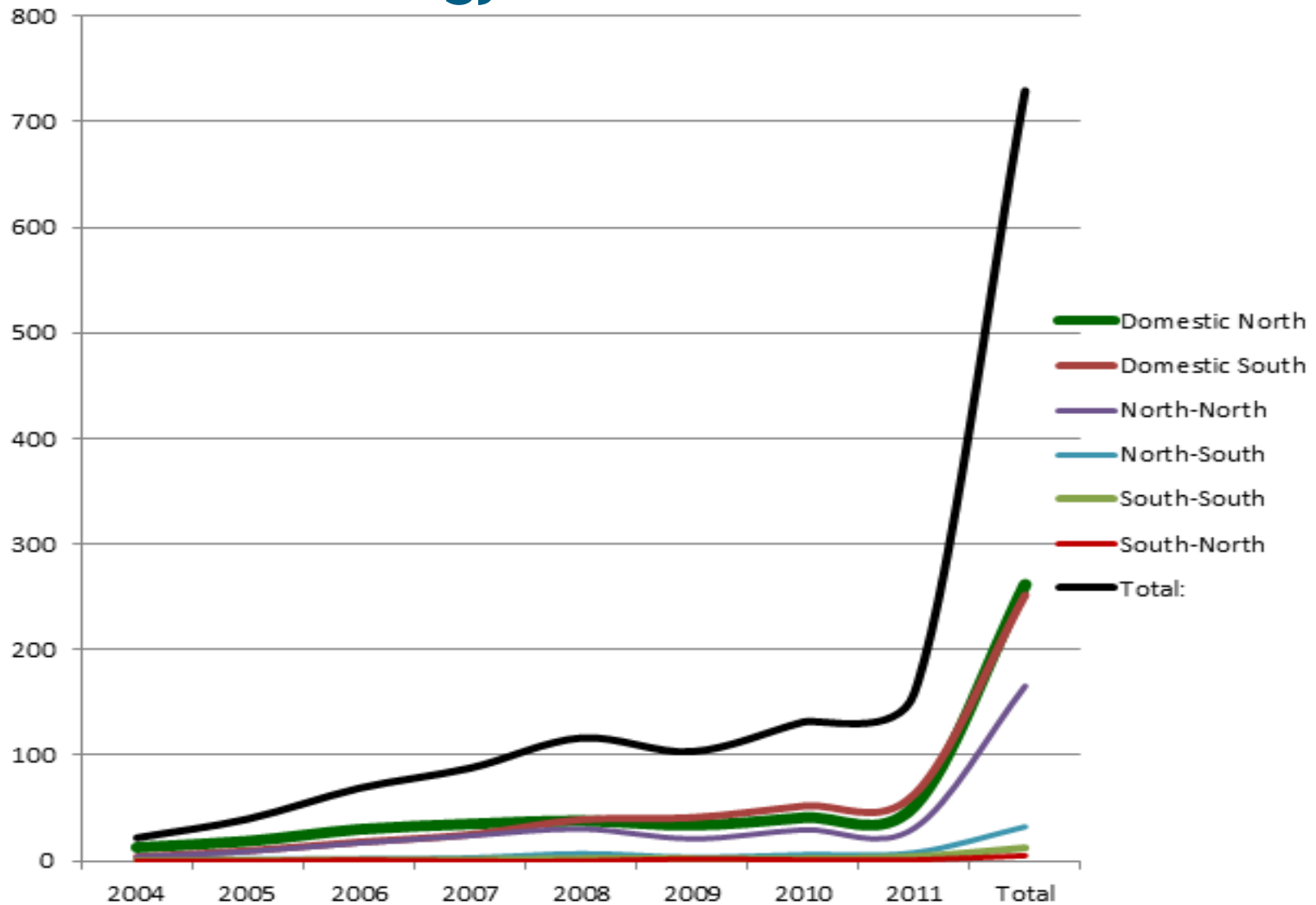
Not tracked as IGG; absence of consistent definitions

No Coherent Sources of Information

Sources / Sectors		TOTAL	PUBLIC MONEY					PRIVATE MONEY					
		Annual (US\$ billion)	Dedicated Climate Funds	Nat. Fin. Institutions	Gov. Budgets	Intl. Fin. Institutions	Total Pub. Sector	Corporate Actors	Institutional Investors	Project Developers	Households	Pvt. Fin. Intermediaries	Total Pvt. Sector
ADAPTATION	Total (2010/2011) ¹	14	NA	5.2	2.7	6	13.9	NA	NA	NA	NA	NA	NA
	AGRICULTURE AND FORESTRY (2011)	5.1	NA	3.78	NA	NA	NA	NA	NA	NA	NA	NA	NA
	WATER PRESERVATION, SUPPLY AND SANITATION (2011)	3.22	NA	3.22	NA	NA	NA	NA	NA	NA	NA	NA	NA
	CAPACITY BUILDING AND TECHNICAL ASSISTANCE (2011)	1.40	NA	1.4	NA	NA	NA	NA	NA	NA	NA	NA	NA
	DISASTER RISK REDUCTION (2011)	1.40	NA	1.4	NA	NA	NA	NA	NA	NA	NA	NA	NA
MITIGATION	Total (2010/2011)	350	1.1-1.5	37.5	14.9-18.2	26.9	82.0	74.9	0.6	122.2	32.3	37.95	267.9
	ENERGY EFFICIENCY (2011)	23.68	NA	NA	NA	23.68	NA	NA	NA	NA	NA	NA	NA
	INFRASTRUCTURE (2011)	74.4	NA	NA	NA	NA	NA	NA	74.4	NA	NA	NA	74.4
	RENEWABLE ENERGY (2004-2011)	141.4	NA	NA	3.1	NA	NA	NA	NA	138.3	NA	NA	138.3
	LCET (2009-2010)	23	NA	NA	23.54	NA	23	NA	NA	NA	NA	NA	NA
	REDD+ (2010-2012)	1.3	NA	NA	NA	1.3	NA	NA	NA	NA	NA	NA	NA
OTHER	Total (2010/2011)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	WATER (2010)	270 ²	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	WASTE MANAGEMENT (2011)	0.52	NA	0.52	NA	NA	NA	NA	NA	NA	NA	NA	NA

Sources: CPI, G2A2, UNEP, McKinsey Global Institute, USAID, IEA.

Domestic Finance Dominates Global Historical Clean Energy Investment Flows



Source: Green Investment Report: The Ways and Means to Unlock Private Finance for Green Growth- GZA2, (2012)

Key Findings

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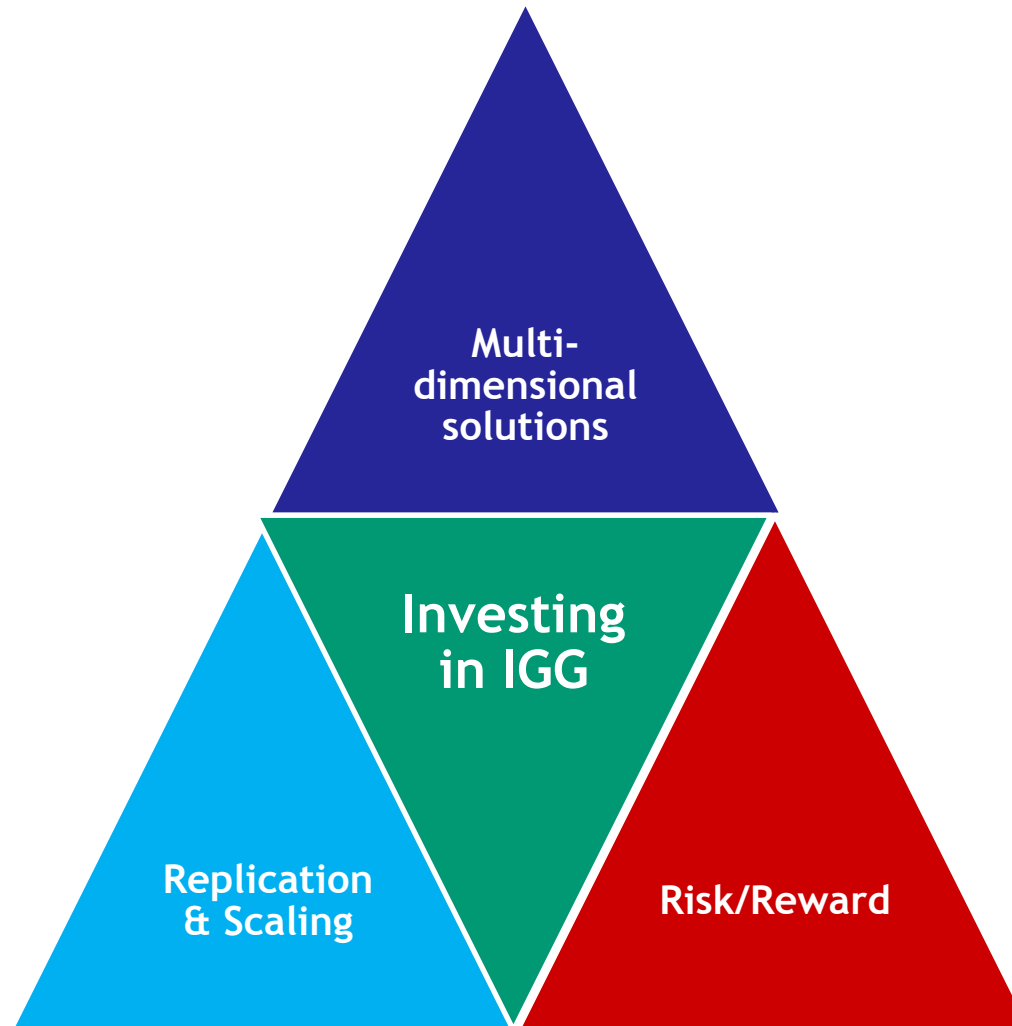
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Case
Studies

Financing is not primary barrier to IGG Investment

Understanding Investment in IGG Through Case Studies



Focusing on New Technologies



- Mixed results due to non-technical barriers
- Strategies must be localized
- Consumer and SME financing often lacking

New Business Models

- Challenge - developing markets that serve lower income populations
- Support for entire value chain is essential
- Leverage, replication, and sustainability can be impressive



Provision of Information

- Absence of information on risks/opportunities
- Modest investment can yield significant leverage and market impact



Effective use of Donor Support for IGG



- Work directly with private sector
- Loans with return of capital
- Patient and allow for some failures
- Vested interests
- Approval requirements debate

Source: ec.europa.eu

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Understanding
Leverage

No universally accepted definition

Understanding Leverage

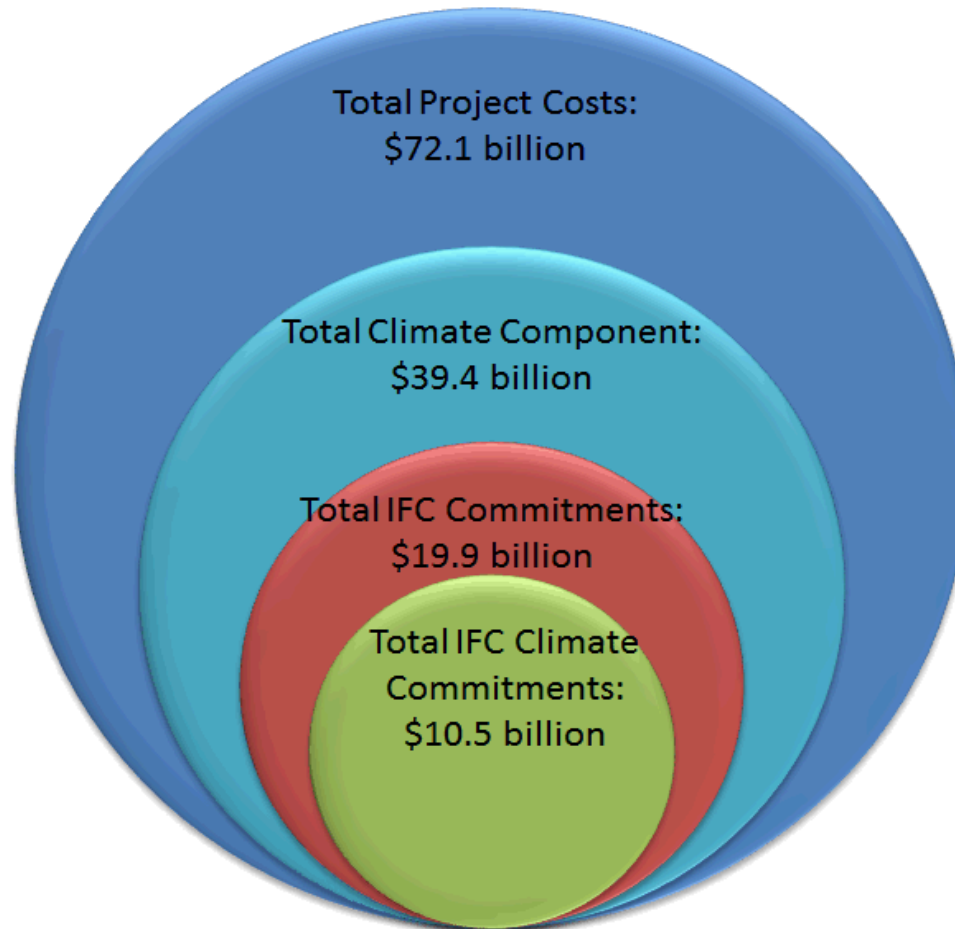
**\$2.4
billion**



**\$34.7
billion**

14:1

IFC's Climate Portfolio



Leverage ratio for IFC's Climate Portfolio = 4.1

Insights for Consideration

MDBs have high leverage potential

Leverage ratios mask variation across project type

Greater leverage achieved with well-established technologies and larger project size

Climate-related investment follows underlying market trends

Active “selling” of climate-related activity helps

What gets measured gets managed

Leverage is an important “bang for buck” measure, but not the only one

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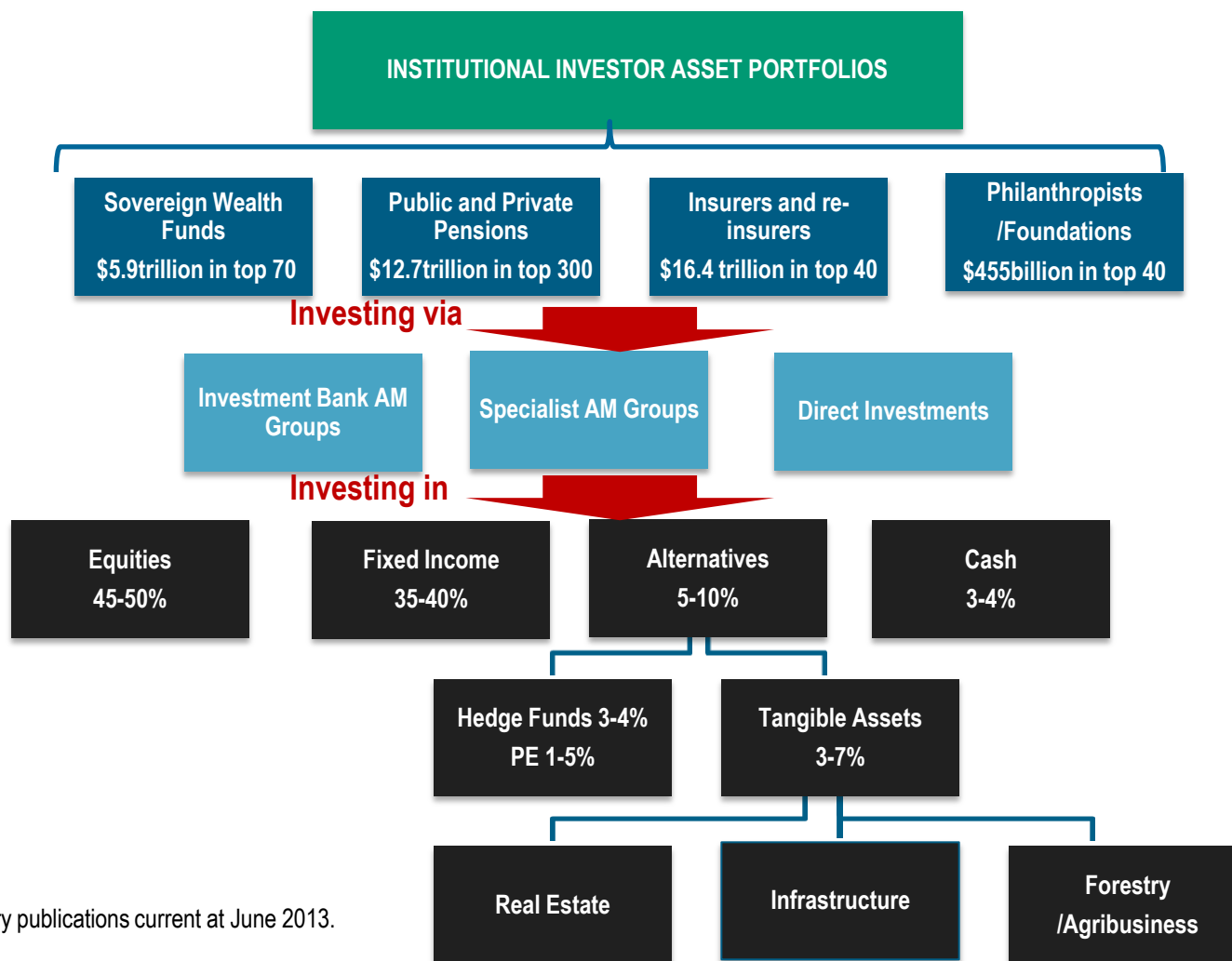
Understanding
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Institutional
Investors

Highly differentiated group subject to very different regulatory and management environments

What are Typical Investor Portfolios & Allocations?



Data from industry publications current at June 2013.

Institutional Investors: Decision Making

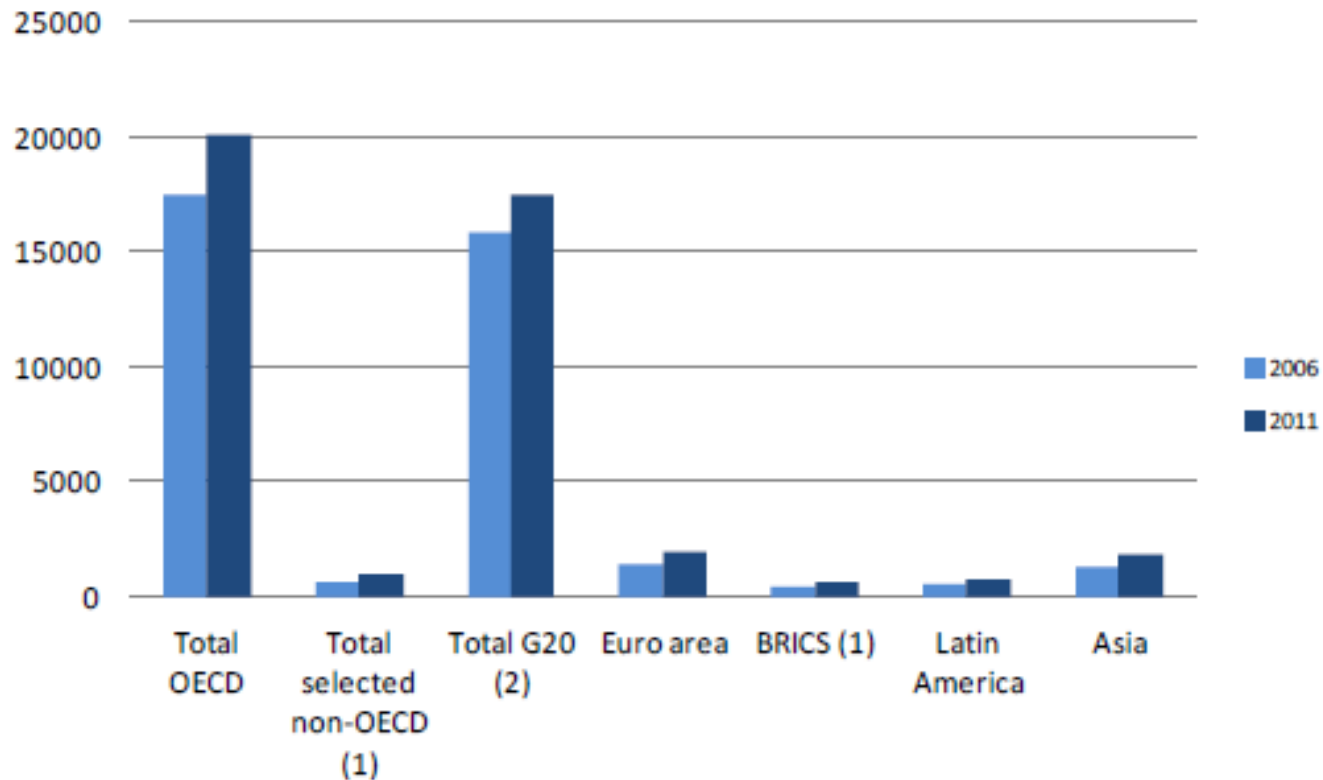


Barriers to Investment

- Lack of an economic business case
- No material weight (if any) on “inclusive”
- Inconsistent terminology used
- Policy uncertainties
- Developing country risks
- Lack of track record
- Liquidity concerns
- Investment time horizons

Domestic and South-South Investing Offers Opportunities

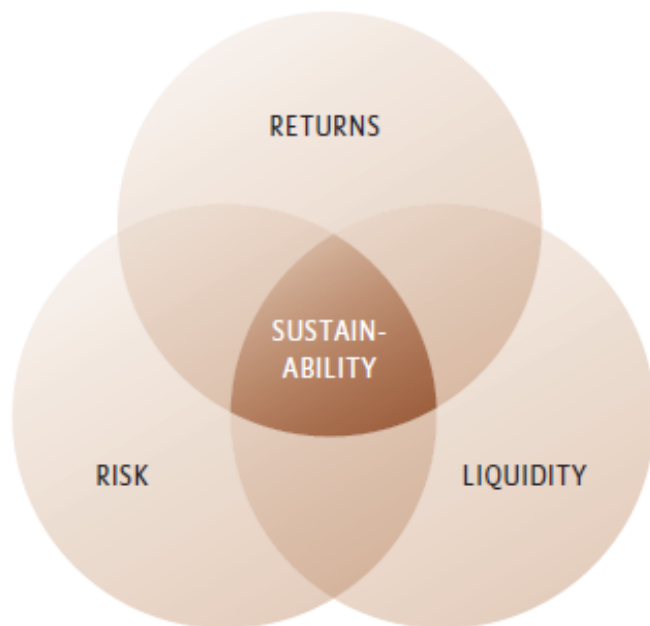
Top Pension Funds Assets by Regions (2006 - 2011) in US\$ billions



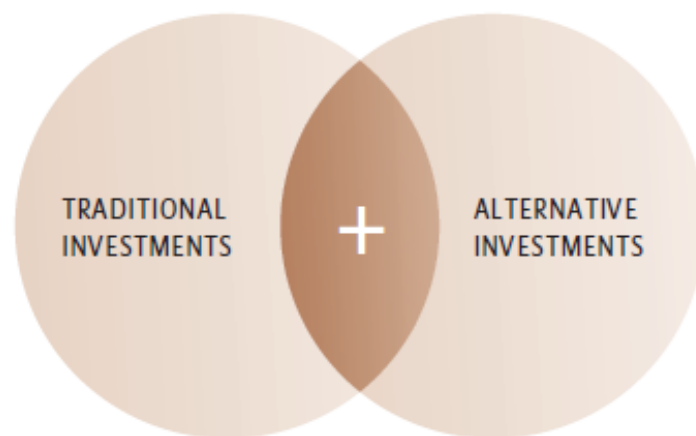
Source: OECD Pension Markets in Focus <http://www.oecd.org/daf/fin/private-pensions/PensionMarketsInFocus2012.pdf>

Sustainability Needs to be an Integral, Targeted Part of Financial Investment Strategies

Investment Objectives

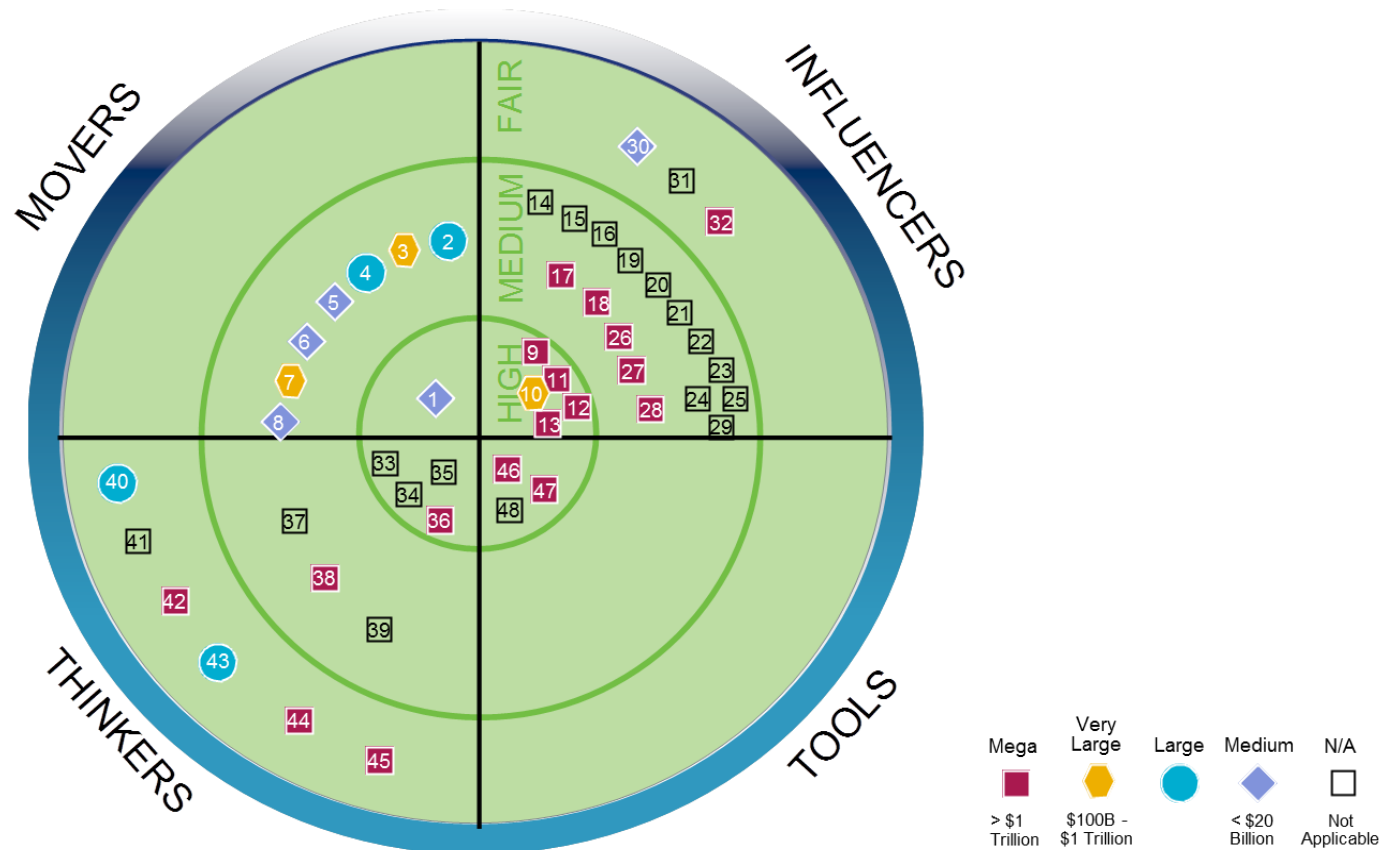


Portfolio Strategy



Source: Returns in Low-yield times: Alternatives for returns in a low interest rate environment, Allianz Global Investors, 2013

Mapping Progress by Investor Initiatives Toward Filling Gap Between Investor Interest and IGG Investment Needs



Broad Framework Objectives for the DPIGI



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Publications at: www.ifc.org/Report-MobilizingGreenInvestment

THANK YOU

www.ifc.org/climatebusiness