



CLIMATE FINANCE INNOVATION FACILITY

Mobilising Climate Investment: A UNEP framework for promoting increased finance sector engagement in climate change mitigation

PROBLEM: Most early investments in clean energy technology have gone towards a comparatively limited number of large-scale renewable projects and into major developing countries such as India, China and Brazil. As a result, enormous opportunities for sustainable energy in the rest of the developing world and a myriad of small-scale projects have scarcely been tapped. Unstable investment environments, fragmented energy policies, unfamiliar business models, inadequate financial instruments, and limited know-how currently obstruct the mobilization of financial resources from source to solution. In short, the private sector does not have the confidence to invest in many of these projects. UNEP believes that this disconnect can be overcome through the implementation of projects that concentrate on creating better circumstances for investment, thereby liberating capital flows to the extended developing world and the multitude of smaller-scale clean energy projects and technologies that need it most.

Another hindrance to the expansion of clean energy technology is the investment community's unfamiliarity with the risk and rewards associated with sustainable energy development. In general, banks tend to associate climate or clean energy projects with new technologies that are considered unproven and risky. In addition, these markets often require new and specialized financial instruments for which the development and initial transaction costs are high. As a result, many financial actors prefer to wait on the side-lines instead of investing in clean energy technology.

SOLUTION: UNEP's proposed *Climate Finance Innovation Facility* will work with financial institutions to shepherd a climate-friendly proposal through a bank's financial approval process, building a strong internal case that a particular initiative is a good financing opportunity and help management to understand that the project or financial product will provide returns that are commensurate with the risks. The Facility will directly tackle the internal roadblocks faced by many commercial financiers and public funders and donors by catalyzing new financial product development and reducing transaction costs of first-time investments.

Operational tasks for the Facility include:

- Cost-sharing different aspects of financial product development – UNEP will share the development risk, but will require repayment for new financial products that are successfully launched;
- Assisting evaluations and transactions of first-time loans and investments in the climate mitigation sectors;
- Providing a range of training courses and information tools to help staff of financial institution to build a familiarity with climate mitigation technologies, including an understanding of project operating characteristics, key risk and market potential; and
- Building the capacity of the Sustainable Energy Finance Alliance public fund managers operating in developing country governments. The UNEP Sustainable Energy Finance Alliance is a grouping of public or publicly-backed institutions each financing development of the clean energy markets in their respective regions.

The *Climate Finance Innovation Facility* aims to develop thirty new climate finance products, each mobilizing some form of capital, typically in the \$10 million to \$50 million range, for climate mitigation projects in the developing world. The Facility will also assist in generating financing for sixty climate/clean energy projects. Additional goals include training hundreds of bankers and other finance sector professionals and assisting in the creation of at least three new public finance initiatives. The budget of this project is \$10 million. **[Is this correct?]**

EXPERIENCE: **[Mark- Any ideas? Relevant case studies?]**