



Financing low-carbon, climate-resilient development in the Caribbean: addressing the challenges and creating new opportunities

Abyd Karmali

Managing Director, BofAML

43rd Annual Meeting of the Board of Governors, CDB, St. Lucia, May 2013





Overview

- Lessons learned on mobilising private capital
- Framing the challenge
- Effective strategies for engaging the private sector
- Menu of potential new approaches for Green Climate Fund



Lessons learned

- Limited success to date in using development finance to mobilise private sources of climate finance
- Better tailor public-finance instruments by expanding range of approaches deployed
- Address specific financing barriers to private investment by exploiting several characteristics



Framing the challenge

- Low-emission, climate resilient investments in developing countries face policy, risk, cost, and liquidity impediments
- The financial requirements are substantial but there is sufficient capital to invest, particularly among institutional investors
- There is consensus that the private sector has a critical role to play
- Carbon pricing continues to expand in new regions around the world but, on its own, is not up to the task



Effective strategies for engaging the private sector

- *Instruments that directly fund* the outcome of an investment by increasing the return on equity or debt
- *Instruments to reduce risk* in the financing cycle by increasing the likelihood of a project reaching financial close, including by decreasing the cost of capital
- *Instruments to provide seed capital* for low-carbon business having strong social impacts on top of the underlying emission mitigation

Green Climate Fund: potential new approaches

Category→ Mitigation Sector	<i>Increasing Returns</i>	<i>Reducing Risks</i>	<i>Providing Seed Capital</i>
<i>Large-scale clean energy</i>	<p>1. Bankable Power Purchase-Like Agreement for Energy Efficiency</p>	<p>2. Policy Insurance for Renewable Feed-in Tariff</p> <p>3. Credit Enhancement of Project Debt</p> <p>4. Clean Energy Loan Guarantee</p> <p>5. Mono-Line Insurance for First Loss</p>	
<i>Energy access</i>	<p>6. Emission Reducing Under-writing Mechanism to Purchase CERs from LDCs</p>	<p>7. Public-private fund to absorb potential first loss from high-risk investments in LDCs</p>	<p>8. Revolving fund for low-carbon social enterprise focusing on energy access</p> <p>9. Pooled fund for small-scale VC to promote low-carbon social enterprises in LDCs</p>
<i>Bio-carbon</i>	<p>10. Advanced Market Commitment for REDD+</p>		