

CASE STUDY

The Lab: Driving Private Sector Financing for Clean Energy Projects

The Lab gathers new ideas to encourage more private sector investment for environment-friendly projects in developing countries.

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Overview

Climate change and its adverse effects are caused by the continued use of carbon-based fuels that harm the environment. This calls for a worldwide transition into more environmentally friendly or renewable "clean" energy sources such as solar or wind power.

This transition, however, is hampered by lack of investment, particularly coming from the private sector. Government funding alone will not cover the huge financing requirement, especially in developing countries. While the total funding for clean energy projects may have increased over the previous years, amounting to \$391 billion in 2014, there is still a gap of \$5 trillion to \$6 trillion in required investments through 2020.

At the Asia Clean Energy Forum (ACEF) sponsored by the Asian Development Bank (ADB) in June 2016, Randy Rakhmadi, analyst for Climate Policy Initiative (CPI) Indonesia presented the work of the the Global Innovation Lab for Climate Finance, or "the Lab". Along with its local counterpart in India—the India Innovation Lab for Green Finance—these organizations have established a system to attract more private sector financing into the clean energy sector. To date, the Lab has raised over \$500 million in initial funding for pilot projects.

Project snapshot

Dates	<ul style="list-style-type: none">• April 2013: The Lab was established in a meeting of various countries hosted by the United States.• May 2014: The first international "call for ideas" was made.• November 2015: The Lab's local counterpart in India was established.
Cost	<ul style="list-style-type: none">• US\$ 500 million: Initial funding for pilot projects
Institutions and Stakeholders	<p>Others</p> <ul style="list-style-type: none">• Governments, pension funds, investment banks, project developers and development finance institutions <p>Financing</p> <ul style="list-style-type: none">• UK Department of Energy and Climate Change (DECC)• German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety• U.S. Department of State• The Netherlands Ministry for Foreign Affairs• Bloomberg Philanthropies• The Rockefeller Foundation

Challenge

Private investors hesitate to fund clean energy projects due to a range of perceived risks and fears of limited financial returns. These concerns are underscored by the fact that projects often involve higher up-front costs than conventional technologies and can easily be adversely affected by changes in government regulations. Thus, there is a need for measures to remove these barriers to financing and encourage the business sector to actively participate in ensuring a healthier and safer environment.

Solutions

The Global Innovation Lab for Climate Finance draws on experience and expertise from around the world to identify, design, and pilot the next generation of climate finance instruments. These instruments provide concrete solutions to financing challenges faced in real projects, and can build new markets, attract new investors, and help to unlock billions of dollars in new climate-friendly investment in developing countries.

The Lab's process includes the following steps:

- It issues a public call for innovative solutions for such problems as climate change mitigation or adaptation, access to finance, and cost of finance risk management.
- It carries out an in-depth analysis of the proposals, making sure that selected projects are easily implementable and address actual investment needs.
- Based on the analysis, The Lab then endorses and pilots the most promising proposals.

The Lab has completed two cycles and is now entering a third.

Facts

The Lab criteria for idea selection and development are the following:

Actionable

An instrument is actionable when it identifies (1) the type of entity(ies) that could implement it, (2) the pathway towards implementation, including the timeframe, activities, and key milestones, and (3) possible challenges to implementation and related management strategies.

Innovative

An instrument is innovative when it demonstrates the ability to address, directly or indirectly, barriers to private climate finance that (1) have not yet been addressed or (2) that will be addressed more effectively compared to other instruments in the market.

Catalytic

An instrument is catalytic when it demonstrates potential to (1) mobilize private climate capital within a sizeable market, (2) be scaled up or replicated in other contexts and, (3) achieve socioeconomic, development, and environmental impacts.

Financially sustainable

An instrument is financially sustainable when it identifies (1) a strategy to phase out public financial support, thereby achieving market viability and (2) possible challenges to achieving its intended objectives and related management strategies.

Results

Previous winners have raised nearly USD 600 million through the Lab network for renewable energy, energy efficiency, and climate-smart land use projects.

Instruments launched by the Lab programs include [Energy Savings Insurance](#), which guarantees the financial savings of energy efficiency projects. It was launched successfully in Mexico and Colombia,

and was recently approved by the Green Climate Fund for funding in El Salvador;

Climate Investor One, which has recently signed partnership agreements to provide renewable energy to millions of people in East Africa;

Affordable Green Homes, which has built thousands of energy and water efficient houses in South Africa, and is now expanding to additional regions; and

Climate-Smart Lending Platform, which aims to mainstream climate-smart agriculture metrics into the potentially USD 200 billion smallholder lending market.

Lessons

The Lab is demonstrating that a new approach is possible to catalyze more private sector investment in environment-friendly projects, particularly in developing countries. Its efforts have resulted in concrete solutions to the challenges faced by private investors with clean energy projects. Ultimately, this can result in new markets and increased levels of investment in climate change initiatives.

Resources

R. Rakhmadi. From Ideas to Action: Driving Investment in Clean Energy through Innovative Finance Instruments. Slideshow presentation at the Asia Clean Energy Forum (ACEF) 2016. Manila. 6-10 June 2016.

Related links

Asia Clean Energy Forum (ACEF) 2016

Asian Development Bank. 2014. ADB acts as catalyst for private sector financing for development initiatives. Infographic. Manila

The Global Innovation Lab for Climate Finance

The India Innovation Lab for Green Finance

International Call for Transformative Ideas

Randy Rakhmadi

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Randy Rakhmadi is an analyst at Climate Policy Initiative (CPI) Indonesia office and his works focus on climate finance in energy and land use. He specializes in corporate finance, and prior to joining CPI, had spent his career in the private sector, mostly in the investment banking business where he assisted and advised corporations in raising capital in the financial markets. He also worked at an energy company,

where he was responsible for evaluating mergers and acquisitions activities across the company.

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