Seed Capital Assistance Facility for FLR

International Conference on Forest Landscape Restoration under Global Change

June 8, 2017, Puerto Rico
I. Frankfurt School and the FS UNEP Collaborating Centre
II. Market failures and the need for intervention
III. The Seed Capital Assistance Facility- overview
IV. Seed Capital Assistance Facility RE – approach and instruments
V. Why is it relevant for FLR?
FS-UNEP Centre

- 'Advisory arm' of a private German university
- UNEP’s competence partner for climate finance
- 25 experts
- Offices in Frankfurt and Nairobi
- Three partners:
I. Frankfurt School and the FS UNEP Collaborating Centre

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What are the underlying finance issues in FLR?

- Financing the substantial challenges faced and commitments made by governments, FLR cannot be financed solely with increasingly scarce public funds.

- Despite the fact that the private sector has currently pledged up to USD 1.5 billion for FLR activities, very little has actually happened so far.

- What is needed to initially pilot and then scale up private investment in FLR?

- Are there approaches and concepts from other climate finance activities that could be replicated or adapted to FLR?

- Are there private players already out there today that can be enticed to show-case that FLR projects can attract triple bottom line investors?
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The SCAF approach

- Created in 2010, the original Seed Capital Assistance Facility (SCAF RE) worked with 6 private equity funds in renewable energy in Africa and South East Asia; currently upscaled in its 2nd round with another 7 partners

- The SCAF RE approach: use limited public funds to leverage a maximum of private investments (leverage factor of > 10x on average)

- Twofold objective: (i) entice the private sector to engage in early stage project development deemed too risky; and (ii) work through the private sector to achieve local capacity building

- Achieve alignment of interest through cost-sharing approach and obligation to reimburse grants in case of success
Where are financiers along the project cycle – the case of RE

- **Sponsor / Developer** (30-40%)
- **Corporate & Compliance Investors** (15-20%)

- **Early Stage Financing Gap**

- **Capital Markets** (generally driven by P/E and other comparables rather than return)
- **Carbon Finance** (20-25%)
- **Debt Finance (Project Finance)** (Indicatively, e.g., 7-8% in US$; 11-13% in INR)
- **Mezzanine Capital** (12-15%, somewhere between debt and equity return)
- **Private Equity & Infrastructure Funds** (18-25%)

**Development/Transaction Costs**

Source: UNEP, Aequera
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• Lack of local project developer expertise to get bankable renewable energy project to financial close

• Lack of fund management expertise in early stage renewable energy projects

• Lack of sufficient equity resources for early stage investment & high transaction costs

• Lack of appetite for least developed/low income countries
SCAF approach supporting RE projects

Source: Aequero, UNEP, FS
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Why is SCAF relevant for FLR?

• A recent market mapping studies shows a (yet limited) number of private equity funds that could engage in FLR
• Due to their professionalism & risk profile, PE funds could be used as catalysts to demonstrate the commercial viability for FLR projects
• Market failures identified for the renewable energy sector are to some extent comparable with the FLR sector
• Seed capital investment is risky for private equity funds but critical to develop bankable FLR projects
• SCAF could provide a risk-sharing mechanism for early-stage FLR project development activity similar to the existing facility
• Accordingly, SCAF could provide an incentive to private equity funds to consider engaging in FLR and opening a dedicated FLR window
Key messages

- By addressing early stage investment barriers, the Facility leverages substantial private funds.
- Efficient use of donor funds through a recycling of grants throughout its lifetime.
- By working entirely through commercial partners, the Facility avoids moral hazard in project selection.
- Innovative approach of different instruments available to beneficiaries, from fund raising to project support.
- Proven implementation concept, in operation since 2010 with various renewable energy players.
Thank you!

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