COUNCIL OF THE EUROPEAN UNION

Brussels, 6 November 2013 (OR. en)

15710/13

CCG 16
ENV 1008
FIN 700

NOTE

From:	The Danish delegation
To:	The Export Credits Group
Subject:	EKF Catalogue of ideas on mobilising private sector climate finance in developing economies

Delegations will find in the annex an EKF Catalogue of ideas on mobilising private sector climate finance in developing economies.

Date
21 October 2013

EKF CATALOGUE OF IDEAS ON MOBILISING PRIVATE SECTOR CLIMATE FINANCE IN DEVELOPING ECONOMIES

FINAL VERSION

› INTRODUCTION

This catalogue of ideas on how ECAs could do more to mobilise private finance for climate projects is inspired by discussions at a workshop held in Copenhagen on 19-20 September 2013. The workshop was a work stream under the ministerial process initiated by the US in Washington in April 2013[1]. The participants at the workshop included a broad selection of participants from the private and public sector. A communiqué from the workshop has been issued separately on 30 September 2013.

The ideas presented herein by EKF reflects EKF's understanding of the discussions by participants based on their experience and knowledge of ECA business and climate finance. More exploration is needed in order to cover all aspects of each idea. This catalogue of ideas is therefore, no more than a catalogue of ideas. It is not a list of recommendations nor is it an exhaustive list of all possible solutions to mobilise climate finance. The individual ideas cannot be attributed to any particular participant, ECA or otherwise, nor can it commit the ECAs present to any specific action. However, it is EKF's hope that the catalogue may be used as a stepping stone for further work by ECAs, other relevant official climate finance bodies as well as private sector parties involved in climate finance.

› THE EKF CATALOGUE OF IDEAS ON HOW ECAS CAN MOBILISE PRIVATE SECTOR CLIMATE FINANCE

The catalogue includes all ideas raised in connection with the workshop but seven ideas were selected for in-depth discussion. At the workshop, the participants had the possibility to exchange their immediate views on the merits and challenges of some of the ideas and possible solutions to the challenges. These non-exhaustive points are reflected in the EKF catalogue that contains, for each of the seven main ideas:

- Name of the idea
- Description of the idea
- Advantages of the idea
- Challenges connected to the idea
- Possible solutions to these challenges
- Actions to be undertaken

[1] The "Ministerial Meeting on Mobilizing Climate Finance" held in Washington on April 10-11 2013 discussed ways to meet the challenge of scaling up low-carbon investments in developing countries, in light of the commitment developed countries made to the goal of mobilizing USD 100 billion in climate finance per year by 2020, from a wide variety of public and private sources to developing countries.

Examples of other ideas raised in connection with the workshop are also included in the catalogue, but are only listed with a short description and a few non-exhaustive examples of possible pros, cons and challenges.

› SCOPE OF THE WORKSHOP

As set out in the invitation and the discussion paper that informed the workshop, focus was placed on identifying technical ideas for solutions on how ECAs could contribute to closing the financing gap for climate projects. A recurrent discussion during the workshop was that a major contributing factor that would enable ECAs to help close the gap lies with the buyer economies, developed as well as developing. The more active buyer countries are in creating enabling environments for climate projects, the easier it would be for the private sector and ECAs to finance climate projects. This lies outside the ECA sphere of influence and thus outside the scope of the workshop, but it is an important message to pass on to both buyer and exporting countries.

Other policy issues such as the definition of climate projects, and possible restrictions on ECA cover for non-climate projects were also outside the scope of the workshop.

› PROCESS AND RESULTS OF THE WORKSHOP

The workshop's first day was dedicated to a thorough exploration of the climate finance concepts and the various players and their roles in the field. This was done through a series of presentations and panel discussions that aimed to identify the challenges of the private sector, discuss the role of the public sector (ECAs in particular), and explore the international map of climate finance.

The second day allowed the participants to process the input from the first day in seven different breakout sessions with various themes such as "small scale climate projects" or "ECA cover for policy breaches". In smaller groups, the participants discussed ideas under the different themes that the day one-presentations had inspired, both for individual ECA action or possible partnerships between ECAs and other institutions.

Each breakout session introduced one idea for plenary discussion. These seven ideas are considered by EKF to be the main outcome of the workshop. The seven ideas are presented in the catalogue. They have not been prioritised but ordered by the level of involvement by other financial players than ECAs. As EKF hopes the catalogue to be used as inspiration for further work, the catalogue also lists for illustrative purposes, other ideas that were raised in connection with the workshop. These ideas are grouped after the forums in which further discussion would be required..

The results are not a set of recommendations, but rather namely a set of ideas complemented the various advantages and disadvantages that discussions revealed. Some ideas could already be taken up by a group of interested ECAs while other ideas may need to be evaluated and further discussed at the political level.

› EKF'S REPORT ON THE DISCUSSIONS ON HOW ECAS CAN HELP MOBILISE PRIVATE FINANCING FOR CLIMATE PROJECTS

An official agreed report of discussions will not be produced. This section constitutes EKF's understanding of the discussions from an ECA perspective.

During the final high-level ECA panel discussion of the seven ideas and the discussions in general, the ECAs present indicated support for the discussion on ECA involvement in climate finance. ECAs have supported trade flows and covered financing gaps for many years and it is clear that ECAs have a role to play.

The discussion on the seven ideas did not indicate a clear preference for any one idea but rather underlined some of the challenges these ideas will face. On the one hand it was expressed that a more efficient use of existing ECA products and framework would be sufficient. ECA activities are acknowledged to mobilise private financing and much could be gained by simply strengthening co-operation among ECAs and with other official and private financial partners on climate projects, possibly combined by increasing flexibility in the export credit regulations for climate projects.

This would also meet the call that was made for simplicity. The simpler the solution the easier to implement. ECAs do not necessarily need new instruments. The existing instruments could perhaps be assembled in different ways or ECAs could co-operate to provide them through reinsurance or co-financing. The main challenge related to these ideas lie with allocating the necessary resources for these activities that require the extra effort in ECAs and relevant partners.

On the other hand, interest in exploring some of the ideas that perhaps are on the edge of what ECAs are mandated to do was found to be interesting, especially as some might prove to be good business solutions for ECAs and their export support and promotion mandates. The challenges for ECAs of setting up funds and issuing bonds were discussed. Some ECAs are limited in these activities by their mandates. Working with bonds has, however, been done by some ECAs including in other sectors such as aircraft, so it is not impossible. The overall challenge would be to do this is a regulated way that wouldn't undermine the export credit framework that has its own specific task and in the case of some ECAs, a change in operating mandate.

In general, a better division of labour between concessional and commercial funding was called for but it was recognised that there lies a great challenge in achieving this. ECAs have expertise in financing commercial projects in developing economies but they are not development agencies. At the same time, development agencies and banks may be involved in projects that could be covered by commercial financing through ECAs. ECAs have expertise in specific sectors or regions defined by their export structures. Expertise that could be shared with others, but whose job is it to ensure the most effective use of the varied official financing mechanisms and sources on individual projects, and how is this knowledge shared most efficiently? ECAs meet regularly and share experience among themselves such as in the OECD and the Berne Union, but how could co-ordination with other official entities be improved i.e. go beyond the ad hoc meetings all entities have with one another?

Finally, it was generally emphasized that the importance of a strong governance framework in the buyer country cannot be underestimated. Improved governance would allow projects that ECAs otherwise have had to decline due to excessive political risk to become feasible.

› ECAS ON THE MAP OF CLIMATE FINANCE INSTRUMENTS

One of the aims of the workshop was to map out global instruments for climate finance and place the role of ECAs in this map. Throughout the breakout sessions of the second day of the workshop, a recurring theme was "partnerships" and possibilities for cooperation between ECAs, international funds, MDBs and international financial institutions. EKF will continue to work on updating the map of climate finance instruments that includes the role of ECAs.

› NEXT STEPS

The catalogue of ideas will be presented and discussed at the second ministerial meeting on climate finance hosted by the US in Copenhagen on 24 October 2013. At the meeting, the donor countries will also discuss how to best communicate the results to the 19th Conference of the Parties (COP) of the UNFCCC in Warsaw.

EKF will further present the catalogue to the OECD Export Credit Group.

For each idea, it will be up to the interested parties to establish work streams and define further work.

EKF will follow up among participants in the workshop in the beginning of 2014 to assess the status of any initiatives undertaken as a result of the workshop.

Annex 1

THE EKF CATALOGUE OF IDEAS – FINAL VERSION

Mobilising private sector climate finance in developing economies

Date
21 October 2013

CONTENT:

Seven ideas:

The ideas in this catalogue may stem from any one participant, private or public, in the ECA Workshop on Mobilizing Private Sector Climate Finance in Developing Economies hosted by EKF on September 19-20 2013, and the individual ideas cannot be attributed to any particular participant, ECA or otherwise, nor can it commit the ECAs present at the workshop to any specific idea or any specific action, and the catalogue itself does not constitute an agreement among participants.

SUMMARY OF THE IDEAS

A. Building bridges between ECAs, MDBs, IFIs, DFIs, DBs and national aid authorities
The limited public development funds could perhaps be used more efficiently and with greater effect when combined with export credits. Development aid should not necessarily finance entire projects like today, but instead help the projects to become "bankable", and export credits should take care of the rest. Means of obtaining more efficient division of labour and closer cooperation between the ECAs, MDBs and the different Aid Authorities should be explored.

B. Dual approach to investment guarantees and improved IPAs
One of the major challenges for private investors is the unstable political and legal conditions in developing countries. Consequently, an option is to develop a multilateral "Investment Protection Agreement" that will create uniform guidelines for the protection of the rights of investment in developing countries. As such, the traditional investment guarantees from the ECAs could eliminate the risk of policy changes from the business.

C. International climate fund insured by ECAs
An international climate fund to finance climate projects with ECA guarantees could create access to new long-term capital. The equity of the fund will be deposited by the authorities of the ECAs, while additional capital is raised via e.g. pension funds. The international climate fund will be able to invest without regard for the national constraints applying to the ECAs. This could be covered by cooperation with the Green Climate Fund.

D. Fund to cover project development costs
The intention would be to create a multinational fund that specifically invests in entrepreneurs and project development. All countries/ECAs contribute capital which would be invested and repaid, if the project were to be realised. Among other advantages, the process between planning and total financing would be very short due to the coupling with ECAs.

E. Climate bond warehouse
Capital markets and institutional investors can/will not handle small amounts; thus hampering the financing of small projects. An ECA guaranteed bond pool reserved for climate change projects could enable funding to be found for very small projects, as the market will be attracted to a large transaction, and the funding can subsequently be submitted to individual small projects.

F. Risk sharing pool of ECA capacities
The guarantee capacity of the individual ECA on developing countries may be limited. ECAs could cooperate in establishing reinsurance-pool of guarantees for climate projects regardless of national contents requirements, which in principle could be reinsured in the market.

G. Scope of ECA cover – the role as arranger
In the financing of export credits ECAs are often described as a "back office" that accepts an application and then issues a guarantee. The ECA role may be modified into an actor in the front lines of the business as a natural unifying link between developers, exporters, lenders and borrowers.

A. BUILDING BRIDGES BETWEEN ECAs, MDBs, IFIs, DFIs, DBs AND NATIONAL AID AUTHORITIES

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
Improvement in the division of labour between the ECAs, MDBs and the different Aid Authorities could leverage limited funds. Cooperation could be both on a national level and an international level with the MDBs. Available grants could (i) be targeted the project development phase in order to improve projects bankability, (ii) finance the local project costs in the buyer country that ECAs and /or private financial institutions cannot cover, or (iii) provide the aid element where concessionality is required according to the DSF. Grant funding could primarily be used for projects that are not commercially viable, but that can still attract (sufficient) private funds. MDB could buy insurance or reinsurance from ECAs for their loan or guarantee exposure. This could free up substantial amounts of capital within MDBs, which in turn could be used for other developmental projects. MDBs could set up a "stand by fund". ECAs would review and assess the creditworthiness of a commercially viable project and would proceed to support it per normal process. If the DSCR (debt service coverage ratio) of the ECA debt associated with the climate project falls below a certain level, the "stand by fund" would be triggered (to avoid an event of default).	<u>Buyer Countries</u>: would experience that the aid money is stretched to encompass even more projects. <u>Aid authorities/MDBs</u>: would be involved in many more projects that can attract private investment. The "stand by fund" would allow MDBs to leverage funds, because the goal would be to never (or rarely) use the fund. <u>ECAs</u>: expand business into markets where the risks have been perceived as being too high or where IMF/WB debt sustainability framework (DSF) requires concessionality and therefore indirectly limits the use of commercial export credits.A MDB "stand by fund" would add to creditworthiness considerations. <u>Donors</u>: receive more value for the scarce funds available for aid. <u>Project sponsors</u>: would have the benefit of addressing a one stop shop.	The use of development finance subsidies (e.g. ODA) could soften ECA loans for countries where concessionality thresholds apply may have a distorting effect on commercial principles MDBs and aid authorities also need to showcase their project merits which can be difficult if e.g. only local costs are financed. Lack of experience in cooperation between commercially orientated ECAs and development orientated authorities. There is no formalised exchange of information and knowledge between the institutions and partners involved in climate finance.	A clearly established division of labour between ODA credits and commercial credits (including ECA finance) would avoid the crowding out of commercial credits and the distortion of commercial principles. Structured dialogue and fixed annual workshops between ECAs, aid authorities and MDBs where e.g. the agenda could be to identify projects for cooperation or e.g. claims and disputes experiences. Continued exchange of experience and exchange of personnel between the institutions. The developers and project sponsors should be invited to attend and meet the ECAs, aid authorities and MDBs annual workshops.	Governments could promote that ECAs, aid authorities and the many multilateral and bilateral development banks and financial institutions should engage in a formalised cooperation. The relevant parties engage in a joint dialogue to discuss how this division of labour could be established and including how this is aligned with buyer countries' climate strategies (NAMAs). The management level of the ECAs should as far as possible already engage in a dialogue on an administrative level to explore possibilities for more formalised contact points between ECAs and MDBs.

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B. DUAL APPROACH TO INVESTMENT GUARANTEES AND IMPROVED IPAs

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
Stable legal and regulatory frameworks in the buyer countries are crucial for mobilising private finance. The ECA investment insurance guarantee could be combined with purpose made bilateral or, preferably, multilateral investment protection agreements (IPAs). This would counteract host country risk of policy changes that would impede on a particular climate project. The IPAs could be general agreements that would specify consequences as a result of breaches, i.e. limit future climate support. The general agreement could be followed by a number of project specific addenda.	Specially designed IPAs will require from the host country stable and specified legal, regulatory, and policy environments on the back of which the Overseas Investment Guarantees could be revitalised. Such initiative does not require injection of new public funds – nor does it require the establishment of a new institution/organisation, because the investment guarantees is an existing ECA product.	Achieving a multilateral approach with the IPAs. A bilateral approach would significantly limit the effect described. It is necessary that an analysis takes into account the moral hazard risk when covering general policy breaches that may affect climate projects. It should in the IPAs be taken into account that for some countries, there may be an unavoidable need to change energy policies when faced with e.g. an economic crisis.	Establishing a common approach would secure an effective way forward, time wise as well as regards substance. A common approach could be launched under the broadest possible umbrella including but not limited to OECD, EU, MDBs, DFIs, IFIs, ECAs etc. It could be contemplated whether the ICSID (International Centre for Settlement of Investment Disputes) under the World Bank Group could be involved in the process	Governments could encourage relevant stakeholders to agree on a common approach and on common terms to secure stable climate investment related environments to encourage and mobilise private sector capital flows. A working group with interested stakeholders could be set up.

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C. INTERNATIONAL CLIMATE FUND INSURED BY ECAs

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
A. An international climate fund insured by ECAs aimed at raising long term private capital into the fund for climate projects, thereby leveraging scarce public funds. ECAs would contribute with their expertise and well established status in the financial markets to identify projects to be supported. B. Alternatively to a new fund, formalised involvement of ECAs in the Green Climate Fund (GCF) could be established e.g. (i) by ECA representation on the board/secretariat to assist in assigning the projects to be supported by the GCF or (ii) through a sub-investment committee of the GCF (possibly as part of the private sector facility). A separate committee would allow ECAs to share their expertise and provide support to projects with sufficient national content.	A. The commitment of a certain level of public contributions to start up a fund could be opened up to include private sector funding such as pension fund, bonds and other. An international fund could overcome the criticism of giving aid to support national exports. B. It would be possible to harness the established different frameworks in the export finance market thereby avoiding further administrative units. ECAs could take leadership in asking the Fund to commit to invest equity and/or debt into projects in a fast track process since the ECAs have the information on projects that are either lacking these funds or have not yet attracted any private means	Scarcity on available public funds to start the climate fund. The existing funds (e.g. GCF) may not be interested in giving up their sovereign role. Pension funds abide to different national rules on what assets they can invest in.	It could be started with relatively small public contributions. The ECA insurance would have the mobilising effect on attracting private funds. Reluctance from the funds could be overcome by proper guidelines and monitoring or it could also be solved if the Fund were to be administered by the World Bank or other institutions. Other financial parties e.g. commercial banks could perhaps cover the risks that pension funds cannot accept such as short term construction phase risks.	Governments could allow ECAs a mandate to cooperate with the GCF or to establish a separate fund. The management level of the ECAs should contemplate how to administratively establish link from ECAs to the GCF or how a separate fund could be operated. The GCF should engage into cooperation with ECAs.

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D. FUND TO COVER PROJECT DEVELOPMENT COSTS

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
Establishment of a national or a pan-national entity that can lend money on a non-recourse basis to the project development of climate change mitigation or adaptation projects. The maturing process of projects is often costly and time consuming for ECAs. The fund would mitigate the high risk for project developers/exporters associated with high development costs (legal, technical, market, etc.) compared to project size. The non-recourse basis of the lending means that if the project is successful it can be duplicated and the money is repaid to the fund. If the project fails, money is not repaid. Loans and projects will be matched on a one-to-one basis. The developer will bear part of the development costs to prevent moral hazard/free-riding.	<u>Project developers and exporters</u>: Possibility to realise many of the good project possibilities that are never developed. Removes the risk of high development costs that may not be proportional to the size of the project. <u>ECAs and banks</u>: Less effort/resources will be needed to assist in the development of the project. The fund will get a lot of expertise in the area lowering the cost and resources spend on the risk reviews.	Who will fund the Fund? How should efficient allocation of funds (identifying the right projects) be ensured? Who would operate the fund?	Establish national/pan-national working group to develop the fund Defining operating principles ECAs could operate the fund together, perhaps with a rotating secretariat, in terms of identifying the right projects and assess project eligibility/risk. Coordination with the Green Climate Fund could be investigated The aid authorities in the donor countries could be involved in raising the equity of the fund. MDBs could cover costs associated with feasibility studies needed for project sponsors to bid for projects in markets like India where reverse auction bids have gone vacant.	Governments could contemplate whether it would be possible to allocate funds for the fund, and whether ECAs could be mandated to operate the fund jointly or on a national basis. A working group between ECAs/interested stakeholders could be set up to define the operating principles. MDBs could be asked to consider a product in cooperation with ECAs where e.g. feasibility studies are covered by the MDBs.

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E. CLIMATE BOND WAREHOUSE

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
Establish a "climate bond warehouse" that pools or "warehouses" small climate projects to find/raise funding. Small developers would "submit" projects to the warehouse. When the warehouse is full then ECA-covered climate bonds would be issued with a portfolio approach. The funding obtained through the climate bonds would then be used to finance the projects. ECAs might cooperate with the warehouse in various ways: they might continue business as usual (being allocated projects with national interest by the warehouse) or they might cooperate more closely on the due diligence for each project in the warehouse without consideration of national interest.	<u>Banks and investors</u>: Investors would be more inclined to invest in small projects when they are bundled in a portfolio. Bundling of small projects would make finance for these projects more readily available <u>ECAs:</u> Cooperation on the due diligence of projects without consideration for national interest might make the due diligence process more efficient and could also improve ECA cover to e.g. 100 pct. <u>Exporters and developers</u>: Small projects will be financeable. Unlimited pool of money. Project developers will have easy access to ECAs.	<u>ECAs:</u> Cooperation under the warehouse would require a standardization of the ECA guarantee covering the bonds <u>National authorities:</u> With no consideration for national interest, taxpayers' money could be spent for non-national exports <u>Other challenges:</u> Who should lead the warehouse and distribute the cases among ECAs/issue the bonds? How should it be administered? Should investors know who the guarantor is? It must be ensured that the warehouse do not only appeal to ECAs in countries that are lower rated, since countries with an AAA-rating would have an easier job in securing financing for projects in other ways.	A small scale pilot project between few ECAs could be launched to test the set-up. In this pilot project the ECAs could administer the warehouse themselves in order to gain experience on the competences needed and the operational principles that should be developed at a larger scale. To increase the likelihood that this proposal is scaled up it could be linked to the Green Climate Fund. The on-going discussions about the governance structure of the GCF and its mandate provide an opportunity to encourage cooperation with ECAs.	Governments could discuss whether ECA cooperation under a climate bond "warehouse" could be operated without consideration of national interest, as this would make administration less burdensome. A working group of interested parties could be established to discuss the operational principles for the warehouse, for example: - If seven ECAs/countries join the warehouse would the warehouse then only apply to projects with exports from these seven countries? - Could the guarantees under the warehouse be made without consideration for national interests? - Should the warehouse only include ECAs subject to the OECD Arrangement Rules? It should be explored whether MDBs or perhaps more appropriate the Green Climate Fund would be able to lead the warehouse and issue the climate bonds.

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F. RISK SHARING POOL OF ECA CAPACITIES

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
The guarantee capacity on developing countries is often restricted within each ECA. A. The creation of a pool of ECA guarantees based on projects already committed would require that each ECA reserves just a fraction of their guarantee capacity into the reinsurance pool. B. A further development of the idea that could introduce a very high leverage on climate projects in developing countries would be realised when the private market invests in the ECA-guaranteed pool and the ECA-capacity revolves back into the pool.	The pool could be a good instrument for accessing private capital and could attract e.g. private insurers but also other private investors since the security of the pool would be based on the ECAs guarantee. ECAs: could handle the input to the pool without any changes to their products since the pool would consist of well-known risk elements and be based on normal ECA business. There is already an existing framework for bilateral reinsurance and it is part of the normal business procedures. ECAs are used to work together and exchange information on a broad scale. Therefore the creation of a pool would be within the capability of ECAs	Guardian Authorities of the ECAs: have restrictions on the capital and requirements for national content in the exports covered by the ECAs. Projects in the developing countries could have requirements for concessionality. Less appetite amongst ECAs and market for a pool filled with unproven technologies. To be the most efficient in attracting private investors the pool would require an element of equity that could be a first loss buffer.	The overall aim of climate finance could be allowed to equal the requirements of national content since the implications of climate change are cross border. Climate projects could be merited as having development status per se. The majority of projects in the pool could be with proven technologies thereby creating valid business cases that can be built upon. The required equity could be supplied by other entities such as IFIs	Governments could encourage their ECAs to engage into cooperation with the specific outcome of a pool. The management level of the ECAs could review if e.g. reinsurance agreements amongst ECAs could be used as stepping stones for further development into a pool. A working group of interested ECAs could be established to discuss operational criteria including consultation with private sector entities. Governments could encourage DFIs and MDBs to participate in the construction of such a pool under an appropriate division of labour with commercial credits. Governments could consider entering into a dialogue with the World Bank/IMF on whether there should be some flexibility in concessionality requirements when dealing with certain climate projects.

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G. SCOPE OF ECA COVER –THE ROLE AS ARRANGER

Description	Pro	Challenges	Solutions to challenges	Actions to be undertaken
ECAs could change their role from a demand driven insurer/finance provider to a lead arranger that can ensure that the exporter meets the right developer and that they meet with the banks, buyers and other key partners of an export credit transaction. The ECA should (together with the developer) be the driver of projects and thereby take on responsibilities that have so far been attributed to the developers/exporters.	Developers and exporters: Will have easier access to banks and other financing institutions when it is the ECA that is in front due to their acknowledged status. Business would thereby expand. Commercial Lenders: Inflow of possible business would increase.	ECAs are today not administratively in a position to be arranger. Cost constraints could hamper this development as ECAs would require new competences. New risks in e.g. the project development phase could be unfamiliar to ECAs.	Dedicated budget for the ECA's coupled with enhanced political mandates that enable ECAs to take on the role as an arranger. Use ECA expertise to develop risk control measures or products that can cover development phase risks. A formalised cooperation on a national level between the institutions involved in exports and foreign investments could be a first start e.g. DFIs and ECAs.	Goverments could consider whether ECAs should broaden their role. The management level of the respective ECAs should prepare the institutions for the expanded business.

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EXAMPLES OF OTHER IDEAS

	Description	Possible pros	Possible cons and challenges
The World Bank Group and IMF	The creation of an MDB "stand by fund" to cover costs of and Debt Service Coverage Ratios (DSCR) below a certain level. The "fund" would only come into play if the DSCRs of a particular ECA covered credit fell below a 1-1.3 level.	A DSCR Stand By Fund managed by MDBs could significantly increase bankability. This would provide ECAs with greater confidence in the repayment through improved project stability. Such a fund should not enhance projects of doubtful stability but enhance existing projects bankability. The capital of such MDB fund is not seen as a grant but is regarded as a kind of first loss protection. MDBs would be "protected" through their de facto or de jure preferred creditor status. MDBs financial capacities are hereby leveraged	MDBs have individual and specific mandates. In case a DSCR Stand By Fund is outside the scope of an MDB it would be difficult to realise this idea.
	When an ECA covers a sovereign loan or a sovereign guarantee (via reinsurance) the involved ECA could benefit from the preferred creditor status of the MDB for climate projects. That would justify a lower risk premium than the regular OECD minimum premium.	Some ECAs are not willing to participate in projects with MDBs because of these institutions' preferred creditor status. The same status for ECAs could make cooperation with MDBs more feasible. A lower risk premium might make financing more accessible for, especially, smaller climate projects that are cost sensitive.	The definition of climate projects. ECAs are national entities and other countries would probably not approve a preferred creditor status. The essence of the preferred creditor status concept would be watered down which is of interest to none.
OECD and World Bank	Introduction of a "CAC" in addition to "DAC", where climate finance is registered i.e. climate finance would per se be considered as a sort of development aid.	Would increase flexibility in the use of scarce development funds.	Could in principle increase the use of tied aid and could be in contradiction to the DAC recommendations.

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	Description	Possible pros	Possible cons and challenges
OECD governments	Climate projects are allowed to deviate from the 35% or 50% concessionality requirements.	Would increase flexibility in the use of scarce development funds. Why use high grant elements if less can do it.	Could increase use of tied aid and could be in contradiction to the recommendation on tied aid.
	Premium reductions/adjustments for climate projects are allowed to be counted as aid?	Developer/Buyer/Borrower will have lower costs.	Reduction in premium not based on risk measures are not WTO compliant. Requires changes to the OECD Arrangement for Officially Supported Export Credits that provides a framework for the orderly use of officially supported export credits.
	ECAs would apply a term adjusted risk premia system to climate projects	Reduction in financing costs because the current curve is linear and not necessarily risk reflective.	Requires changes to the OECD Arrangement for Officially Supported Export Credits that provides a framework for the orderly use of officially supported export credits.
	Expand the CCSU to include also adaptation and resource efficiency not just energy efficiency.	Longer tenors might improve access to finance for smaller projects that uses new and insecure technologies that may require longer periods for repayment. Broadening the CCSU would make more climate friendly projects that are not directly associated with energy production eligible for these longer tenors.	Keeping projects bankable with long tenors Defining "resource efficiency" and establish the need for ECAs in this sector Requires changes to the OECD Arrangement for Officially Supported Export Credits that provides a framework for the orderly use of officially supported export credits.
	Expand grace period for climate projects.	Longer grace increases the economic feasibility of any transaction. Historical figures show that the first three to four years of a transaction is the period where the likelihood of a claim is highest.	
	Increase the allowed local cost threshold for climate projects	Can leverage foreign private finance for the local costs as well and make the required local investments more independent of immature local financial markets.	Guardian Authorities of the ECAs: have restrictions on the capital and requirements for national content in the exports covered by the ECAs. Requires changes to the OECD Arrangement for Officially Supported Export Credits that provides a framework for the orderly use of officially supported export credits.

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	Description	Possible pros	Possible cons and challenges
OECD govern-ments, continued	Allow for further flexibility in repayment profiles for climate projects	Increased flexibility can ease the challenge of matching the cash flow from projects with the debt payment.	Requires changes to the OECD Arrangement for Officially Supported Export Credits that provides a framework for the orderly use of officially supported export credits.
Buyer Country	Enhance standardisation among small climate projects in order to make bundling of projects possible.	ECAs, developers, banks: Standardisation of small projects that can be bundled in a portfolio would be time- and cost-saving that may otherwise be disproportionate compared to the size of projects.	Standardised projects must be in the same country/same legal and regulatory framework and have similar setups to have effect in a bundling situation because otherwise each project must be assessed individually all the same. Who should be in charge of the standardization/bundling/process?
Buyer and donor country	Based on IEA recommendations with regard to the huge potential within the energy renovation of the building sector there could be merits in ECAs joining forces to present buyers with package solutions that captives the GHG emission reductions potential, offers a financial package for the investments and secures exports from the participating countries.		

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	Description	Possible pros	Possible cons and challenges
Donor Country	ECAs could nationally implement policies restricting support for specific sectors e.g. coal fired power plants.	A policy not to support coal-fired power plants would increase ECA capacity for even more climate friendly projects. It could force buyer countries to switch to more climate friendly power plants because finance for coal-fired power plants would not be available.	The policy could become self-contradictory because it might impede on the possibility to participate in emission-improving projects on coal-fired power plants. The choice of energy sources should be respected depending on an access to energy sources and energy policy of buyer countries, and it would be more realistic and effective to promote cleaner coal technologies rather than limit support for coal fired power plants. If such restrictive policy was created, it might divert trade from leading technologies to inferior technologies provided by countries with no restrictions. A restrictive policy contradicts the demand-driven ECA business and the international regulatory framework where incentives to switch to greener technologies have been created rather than setting up restrictions. It may prove very difficult to distinguish coal from other fossil fuels. Several other types of fossil fuels might be less climate friendly than coal, e.g. heavy fuel oil.
Individual ECAs	The ECA PPA Guarantee would give ECAs the ability to guarantee that the Power Purchasing Agreement of renewable energy projects would be respected. Any losses caused by a breach of the agreement would be covered by the ECA.	Who: Developers, project owner and banks. Why: It provides the projected cash flow with a guaranteed minimum, and hence ensures a balance of the budget of the project.	Who: depending on who is the risk object, there is a moral hazard. The risk is a momentarily black box to ECAs. How to avoid an expected claims situation, what actions can the ECAs take themselves to minimise losses. How does the guarantee fit with the existing export credit regulative framework
	The ECAs offer a credit line to be used for many small projects in the developing country	What: The bundling creates a volume that can spur bankability.	What: Too many buyers, no single point of risk, administratively burdensome.

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