Public/Private Leveraged Climate Investments
Towards Common Definitions and Assessment Modalities

Public funds are key to address climate change issues, and are also pivotal to mobilize and scale-up the necessary co-investment by private entities, ranging from philanthropists to institutional investors.

The term "leverage", which is sometimes misleadingly used interchangeably with the term "catalytic effect", is used to describe the phenomenon whereby the use of public money for a climate finance activity has directly led to contribution of additional resources to the same investment. Moreover, the underlying meaning of "leverage" varies across donor governments and development funds. For example, a distinction needs to be made between financial leverage, which describes the ratio of equity to debt in a financing structure, and non-financial leverage, which can include signaling effects and other non-financial aspects that lead to co-investment.

Methodologies to estimate mobilized private sector investment are still in their infancy and no agreed definitions exist. The varying existing approaches make it currently impossible to estimate global mobilization of climate-friendly investment from all sources. In addition, methodologies may not take into account investment of public money from other agencies in a given project, creating double or triple counting of resources.

The group of Multilateral Development Banks (MDBs) jointly reporting on climate finance tracking are also cooperating with one another to harmonize the methods they use to calculate leverage ratios across different financial instruments and make the results more comparable. The MDBs are also taking into consideration external published methodologies. This work is expected to be completed later in 2015. Under the OECD Research Collaborative, a working group is also reflecting on practical methods for measuring private climate finance mobilized from public finance. Through its blending mechanisms and facilities, the European Commission is also working in this area. In addition, a group of Development Finance Institutions (DFIs) from developed countries has recently developed an approach to estimate private funding (loans and equity) mobilized by equity, concessional loans and revolving and structured funds provided these institutions.

Key climate finance practitioners involved in the above mentioned processes discussed today at the Climate Finance Forum the opportunity to establish common definitions and principles for measuring the public/private leverage of climate investments. In particular, the MDBs look forward to discussing their common approach with some International Development Finance Club (IDFC) members and other stakeholders before COP21 at the end of 2015.

Consistently quantifying and credibly reporting leverage can help encourage higher levels of finance for development and climate action. This effort will accelerate the catalytic role that MDBs, DFIs and other public financing sources play to engage private financiers to accelerate investments and develop innovative financing instruments that leverage existing financing and have potential to go to scale. A common approach will also accelerate efforts to promote transparency on climate flows.