Financing of Clean Cooking

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United Nations Capital Development Fund

Impact Capital for Development
ECONOMICS does not work
- for people, companies and investors

**Customers**
Cost of access is much higher than purchasing power and willingness to pay of customers.

**Investments**
There are few companies to cater to customer demand, and most of the companies have smaller balance sheets. Investors not interested, except with those with high-risk appetite.

**Companies**
Market has few viable companies/business models - To achieve greater economies of scale, the company need to reduce prices further
Economics do not square up yet for mass/universal clean cooking access
The main barriers to the adoption of clean cooking techniques

- Financial Constraints
- Access to Fuels and Technologies
- Awareness on benefits and ties to traditional methods
- Lack of Political Will
- Ensuring Quality Production
- Logistical issues for last mile reach
Carbon markets offers the single biggest opportunity to disrupt the economics of clean cooking and put it on an accelerated path to universal access.

- **4%** of the voluntary carbon market

  - ~$400m May translate to funding for clean cooking from VCM in 2030
  - 7th most common project type in terms of carbon credits issued

- **$12bn** Potential additional funding through Article 6.2

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### Simplified illustration of compliance and voluntary carbon markets and taxes, including Article 6

- **Compliance programs**
  - Carbon-tax payers
  - Carbon-market participants
- **Voluntary markets and Article 6**
  - Low-carbon project developers
  - Companies and individuals with voluntary climate targets
  - Governments

**Legend**
- Seller ➔ Buyer
- Permits
- Offsets
- ITMOs
- A6.4ERS

**GLOBAL VOLUNTARY CARBON MARKET IS GROWING**

- VCM expected growth and good standing of clean cooking among financed projects
- Commercial capital showing signs of interest for clean cooking
- Bilateral deals (ITMOs) involving clean cooking
- Global compliance market progressively shaping

**Source:** BloombergNEF. Note: A6.4ERS = credits from Article 6.4 mechanism.
Carbon markets offers the single biggest opportunity to disrupt
- the economics of clean cooking and put it on an accelerated path to universal access
- leverage carbon finance to put companies on a path towards accessing more sustainable forms of financing

Carbon revenues could be used in a range of ways: from (1) pass-through to households either as cash payments or price reductions, (2) cross-subsidies to reduce pricing for relatively poorer customers, as for example is often baked into grid-based tariff arrangements, (3) for companies to improve commercial viability, (4) for government’s, also including emissions reductions as part of nationally determined contributions.

Monetizing the value of carbon credits is causing significant changes to the unit economics across the value chain, and this trend is expected to strengthen in the coming years.

The viability gap of serving deep rural customers can quickly become prohibitive if there is not some form of subsidy (grants, RBF, or some form of carbon revenue allocations, for example).
Tools to address financing for Clean Cooking

Goal

To stimulate domestic and international financial market actors to increase financing for clean cooking companies and projects

- Need combination of financial products and processes catering to different growth cycle of clean cooking carbon projects
- Overall catalyzing finance through risk adjusted returns to all stakeholders in the clean cooking sector
Removing roadblocks to finance flowing from transnational carbon markets to domestic financial institutions to companies and consumers remains a priority.

**Financial Institutions can support in the rapid growth of carbon markets** - Liquidity in traditional financial markets needs to be tapped: Liquidity in global markets - $US 200 trillion held by investors in 2020 - need shift in capital allocation towards green SMEs.

**Price Risk.** Emissions reductions purchasing agreements may define a price, although may not. Guarantees could mitigate risks associated with voluntary carbon market pricing volatility.

**Volume Risk.** Risk of developer generating sufficient volume of carbon credits. Credit enhancement may help crowd in other international investors to help reach scale.

**Credit risk.** Ongoing viability of the project developer and/or carbon off-takers.

**Policy and country risk.** There may be policy changes around accounting for carbon as Article 6 mechanisms are adopted. Furthermore, successful projects will depend on a stable underlying country political context.

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**those that have made the decision to invest and are trying to manage some of investment risks or are looking for better risk-adjusted returns**

**those that interested but just doesn’t know how and what is involved in making investments**

**those that are unaware of the opportunities (including how clean cooking finance helps meet their ESG commitments and regulatory requirements)**
Ecosystem of financing for sector

Strategic partnerships

- Guarantee to de-risk lending
- International investors & funds (UNCDF, impact funds, DFIs)
- Off-takers with advance market commitments

Portfolio guarantee

Portfolio guarantee

Liquidity support to banks

Local Banks

Loans

Repayments

Investment ready clean cooking ventures (project developers) and SPV

Enterprise capacity building to de-risk with non-financial services

Junior debt, syndicated loans, blended finance

Carbon income receivables and price support

Carbon credit sales