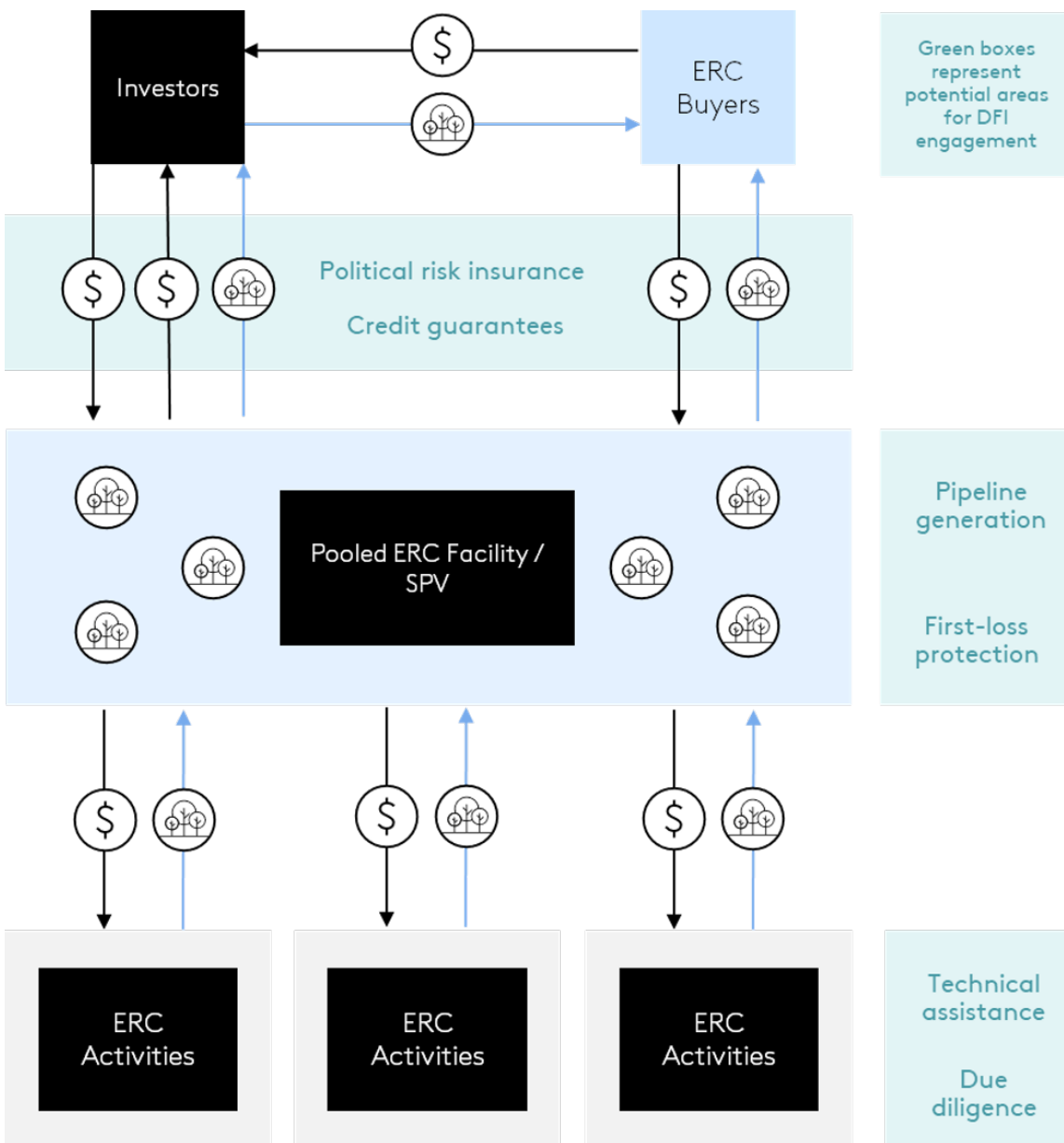


Aggregate ERC Activities

Full Description

For smaller economies and many subnational entities, an aggregation facility that pools multiple ERC activities can help overcome some of the challenges to accessing finance and attract large-scale private sector capital (Figure 14), including through issuing ERC-backed debt. While some larger sovereigns and subnationals could alone issue ERC-backed debt and attract international capital, it is challenging for many smaller economies (e.g., islands) and subnationals (e.g., smaller provinces or cities) to attract international capital generally and the scale of ERC activities in these jurisdictions may not yet be sufficient to do so. In this context, combining the financing needs for smaller ERC activities across multiple economies or subnational entities could help reach institutional financing and, in doing so, help expand ERC investment to smaller and harder-to-reach segments of the market.

Figure 14. Illustration of an indicative ERC-linked aggregation facility structure.



An aggregation facility can help mitigate multiple risks for investors, but depending on the underlying ERC activities may raise the potential of concentrating some risks that would need to be managed. Aggregation

could permit diversification across ERC activities and reduce the risk of financial loss in the event that one project underperforms or experiences a default that affects the delivery of ERCs. An aggregation facility could also facilitate risk pooling and better access to operational insurance for smaller ERC activities. Diversification could be used to mitigate credit risk and operational risk and may help mitigate market risks if the financed ERC activities range across sectors and types of ERCs. Aggregating projects across countries may help mitigate political and other country risks. However, aggregating across countries would need to manage the potential for compounding ERC-specific political risks if the ERC policy environment (e.g., ERC rights, cross-border trade) is uncertain or faces similar challenges across the invested jurisdictions.

A DFI could provide assurance of the underlying quality of the ERC activities and their ability to get ERCs to market as a facility sponsor or key partner. To help ensure success of ERC activities and attract investment, an aggregation facility could provide standardized processes for ERC activities, due diligence the activities, and provide technical assistance to help ensure their effective design and ultimate success. This would be an intensive role for a DFI or similar body but helping expand the market and finance to these hard-to-reach segments of the market is an important and non-distortive role for concessional or philanthropic support, and a role that has played out in other sectors (e.g., community and off-grid solar in EMDEs).

Additional Resources

[Sub-national and Municipal PPPs](#)

[ESTABLISHING THE PPP FRAMEWORK](#)

[Climate-Smart PPP Legal and Regulatory Framework](#)

Page Specific Disclaimer

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