TRANSITIONAL COMMITTEE
FOR THE DESIGN OF THE GREEN CLIMATE FUND

SURVEY OF THE PRIVATE SECTOR

At the sixteenth session of the Conference of Parties (COP) to the United Nations Framework Convention on Climate Change, governments agreed to create a new institution called the Green Climate Fund (GCF). A Transitional Committee (TC), comprised of representatives from 25 developing countries and 15 developed countries, was mandated to design this new Fund for approval at the 17th session of the COP taking place in Durban, South Africa, in December 2011.

At the second meeting of the Transitional Committee to the Green Climate Fund, held in Tokyo on 13 and 14 July, 2011, committee members requested input from the private sector on how the Fund should be designed to maximize private sector financing for climate related projects in developing countries. You are cordially invited to respond to this request based on the following questionnaire.

1. *Opportunities*

(a) What opportunities do you see today for scaling up your organization's financing in mitigation[1] and adaptation[2]?

As a trade association presenting private sector's interest in emission trading, we engage with companies in understanding their activities in mitigation projects as well as adaptation projects for developing countries. A market-based solution to lack of demand and difficulty to construct projects is a key element in scaling up financing in mitigation and adaptation.

(b) What are the possible avenues for bringing private sector finance into the GCF, for instance through climate bonds raised on the capital markets?
CDM methodology is proven successful but depends on scarcity in compliance market to create value, so offset to compliance could work here but again there needs to be demand. For near commercial projects, public sector assistance can make the difference between projects that can be financed by climate bonds. IETA structured NAMA bonds offer a means of combining enhancement of lending and carbon value.

(c) What are the opportunities for the GCF to support and leverage private sector investment in climate change mitigation and adaptation?
There are many opportunities that are held back by lack of additional financing
GCF design must create a clear and transparent system that is user friendly by applicants from the private sector. GCF can be structured in a form of various programs including for specific countries or sectors of industries that can support a particular type of projects. Although private sector has a role in adaption, there are limited commercial opportunities outside direct tendering by public authorities.

[1] Reducing greenhouse gases and/or implementing strategies to capture and store carbon.
[2] Measures to reduce the vulnerability of natural and human systems to climate change.

2. *Barriers*

(a) Risks*:* In relation to investing in climate change mitigation and adaptation, which commercial, technological and political risks do you see as most difficult to deal with? What risks are associated with the overall investment environment? Which risks are better managed by the public sector and which by the private sector?

Private sector would be able to assess commercial risks as well as technology risks unless the fund wants to specify technologies which are not well understood. Political risks are by far the most difficult to deal with and a key example is the risk of continuation of government support program, for instance renewable energy support regimes. Feed in tariff is an example in this case. These risks need to be managed by the public sector that would give confidence to the private sector for instance risk guarantee, collateral, and compensation arrangement. Different public sector bodies can involve, for instance institution trust fund, government bodies, and international financial institution.

(b) Access*:* Is there a lack of long-term or other necessary financing for climate change projects in the markets where you operate? What are the reasons for this lack of access to finance?

There is plenty of money looking for renewable energy or low carbon or climate change projects but there is a lack of projects that are commercial in their own rights. If the GCF is properly structured, it offers the opportunities to make financing accessible. But the GCF must properly cover the risks and revenues shortfall that hider financing ability of these projects. Educational outreach is needed to spread the knowledge widely.

(c) Economics*:* Do many climate sectors/projects you deal with lack financial viability? (see the above) How are adaptation and mitigation projects different from the financial perspective? For adaption that goes beyond mere government procurement, first thing is to create some sort of revenue streams. For climate change impact protection in developing countries, that would be hard to structure though some form of insurance premiums perhaps could be supported by GCF. The risks obviously could make the structuring less worthwhile. The question of maintaining the insurance premiums paid by the insured parties could be for the GCF and a variety of structures.

(d) Other*:* What other barriers prevent you from financing climate projects?
Despite current evidence, governments are more persuaded by argument that climate change is less important than it seems to be. Where new technologies evolve, stronger evidence of the potential technology both in reducing carbon and revenue stream is necessary to persuade the investors. Technology that investors are not familiar should not increase more risk premium.

3. *Responses*

(a) Risks: In what ways could the GCF most effectively help the private sector overcome risks to climate investments? What risk sharing instruments could the GCF support (e.g., partial credit guarantees, local currency hedging, subordinated financing structures and other public-private instruments)? What design elements should be considered for the GCF to ensure the most effective implementation of such instruments?

All of the above including partial credit guarantees, local currency hedging, subordinated financing structures and other public private instruments are valid in the effort of creating risk sharing instruments supported by the GCF, however specific technology guarantee can also be added. Support to government subsidy programs which are essential for achieving adequate project return. In order to help explain the potential coverage of GCF, we suggest consider the structure of sub funds where technologies and countries become clearly marked as points of focus managed by the sub funds.

(b) Access: What options could the GCF consider to improve access to finance for climate actions, particularly for those most vulnerable to the adverse impacts of climate change, including the least-developed countries and small island states?

Capacity building of local banks is necessary to increase the understanding of potential opportunities and how to tap the GCF potential.

(c) Economics: What are the options for the GCF to improve project economics and which do you feel would be the most cost-effective? What are the options for lowering the cost of capital for projects and what impact could they have on project economics? How could the GCF enhance or otherwise improve revenue streams?

Guarantee low rate of capital either through direct lending program or insurance against higher commercial rate or direct grant aids to lower project capital cost. Other risk management or reduction techniques via using global understanding of project technologies and countries to offer the best combination of project mix.

(d) Other: What other actions could be undertaken by governments or supported by the GCF to improve the conditions for climate investment (e.g., project development support, institutional strengthening)?

Governance issues related to intellectually property and land use tenure and the enforcement ability of contracts are necessary actions which should be undertaken by governments and supported by the GCF to improve the conditions for climate investment.

4. *Engagement*

(a) How could the GCF engage effectively with the private sector in developing and implementing instruments to support private sector climate investments?

Workshops focusing on private sectors and market analysis of investor appetite should be carried out.

(b) Would a dedicated GCF window for the private sector be useful?[3] If so, how would this window operate differently from the rest of the fund?

The size and exclusivity of the advantage of GCF available to the private sector is less important than being clear that there are specific private sectors opportunities and user friendly disbursement in management procedure.

(c) Of the current multilateral fund models (Climate Investment Funds, the Global Environment Facility, etc), which ones are working well for the private sector? What concrete

[3] A private sector window could include a dedicated governance structure and special approval, contracting and reporting procedures.

improvements could be implemented to increase private sector engagement in climate change action through the GCF?

No existing models are regarded by the private sector as easy to use. It must be understood that institutional lenders, insurers, contractors all have different needs and requirements. We would recommend that once the main target of the GCF's interaction with the private sector is determined, detail survey and discussion with representatives such as IETA should be undertaken to better understand the gap.

The survey responses will be synthesized into a report for members of the Transitional Committee for consideration at their next meeting in Geneva from September 11–13, 2011. All responses can, or will be, made publicly available. Please submit responses electronically to tjacinto@unfccc.int by August 12th, 2011.