Increasing ambition pre-2020 by scaling up and speeding up flows of climate finance

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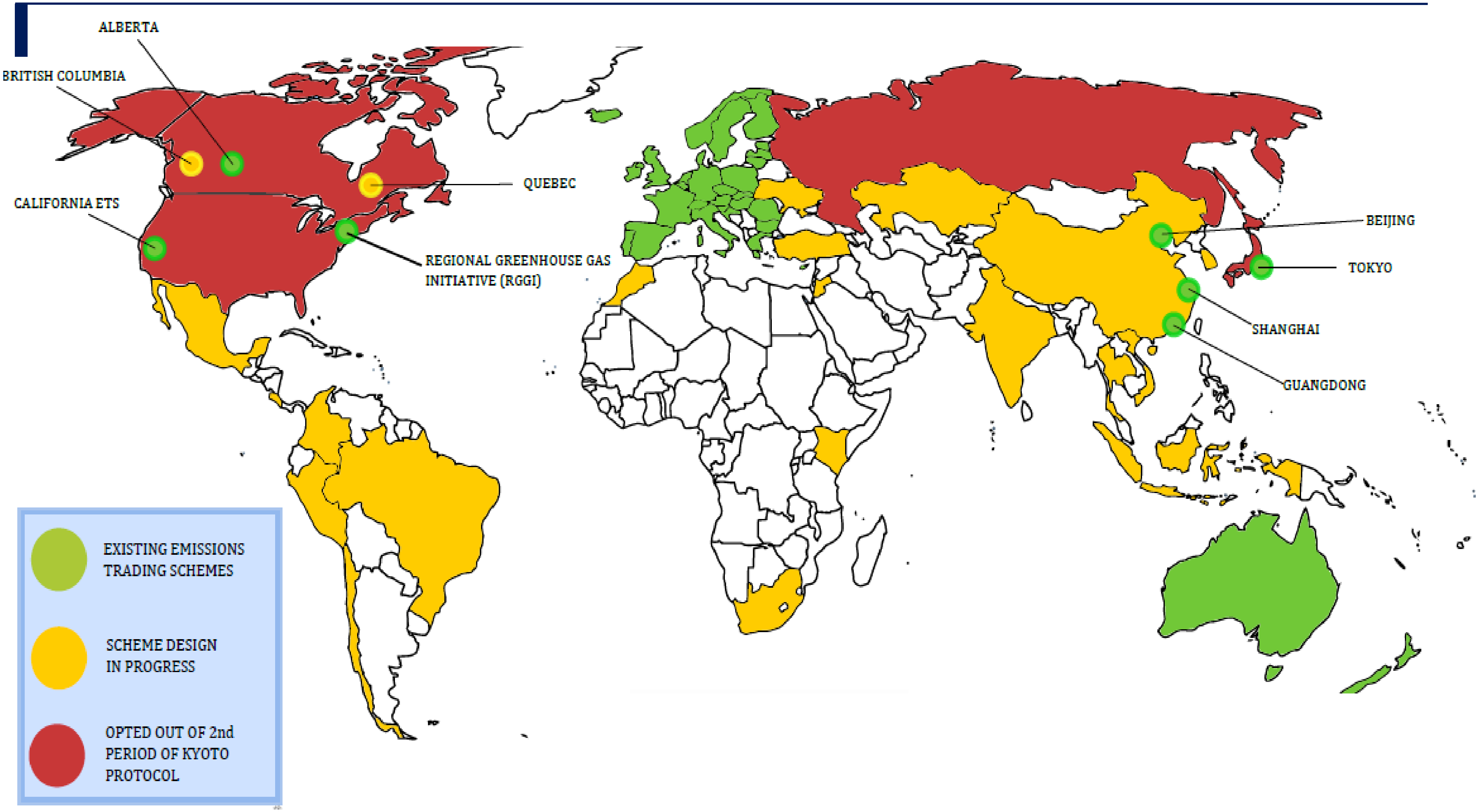
Setting the current context from private sector perspective

- Bridging the emissions gap will require implementing a suite of mitigation wedges whose deployment is enabled through smart use of climate finance.
- The incremental financial requirements are substantial – estimated at more than USD 60-175 billion/year – *IEA (2012)*
- There is clear consensus that the private sector has a critical role to play in financing the shift to a low-carbon economy.
  - The limited public finance available must incentivise a massive amount of private investment by reducing the risk or lowering the cost of capital for investors – *Long-Term Finance Workshop (2012); CAN submission to ADP (2012)*
  - "Private initiatives motivated by profit are essential in seeking out and implementing least cost options for mitigation and adaptation. The dominant scale of global private capital markets and the growing fiscal challenges in many developed countries also suggest that the large financial flows required for climate stabilisation and adaptation will, in the long run, be mainly private in composition"
    – *G20 Finance Ministers (2011)*
  - Agreement from all key investor groups about the kinds of instruments that will stimulate larger flows of private finance – *Glen House Recommendations (2012)*
- Carbon pricing continues to expand in new regions around the world…but faces headwinds for a variety of reasons including supply-demand imbalances, the adverse impacts of macroeconomic factors, and price competitiveness of fossil fuels.

Development of carbon pricing around the world



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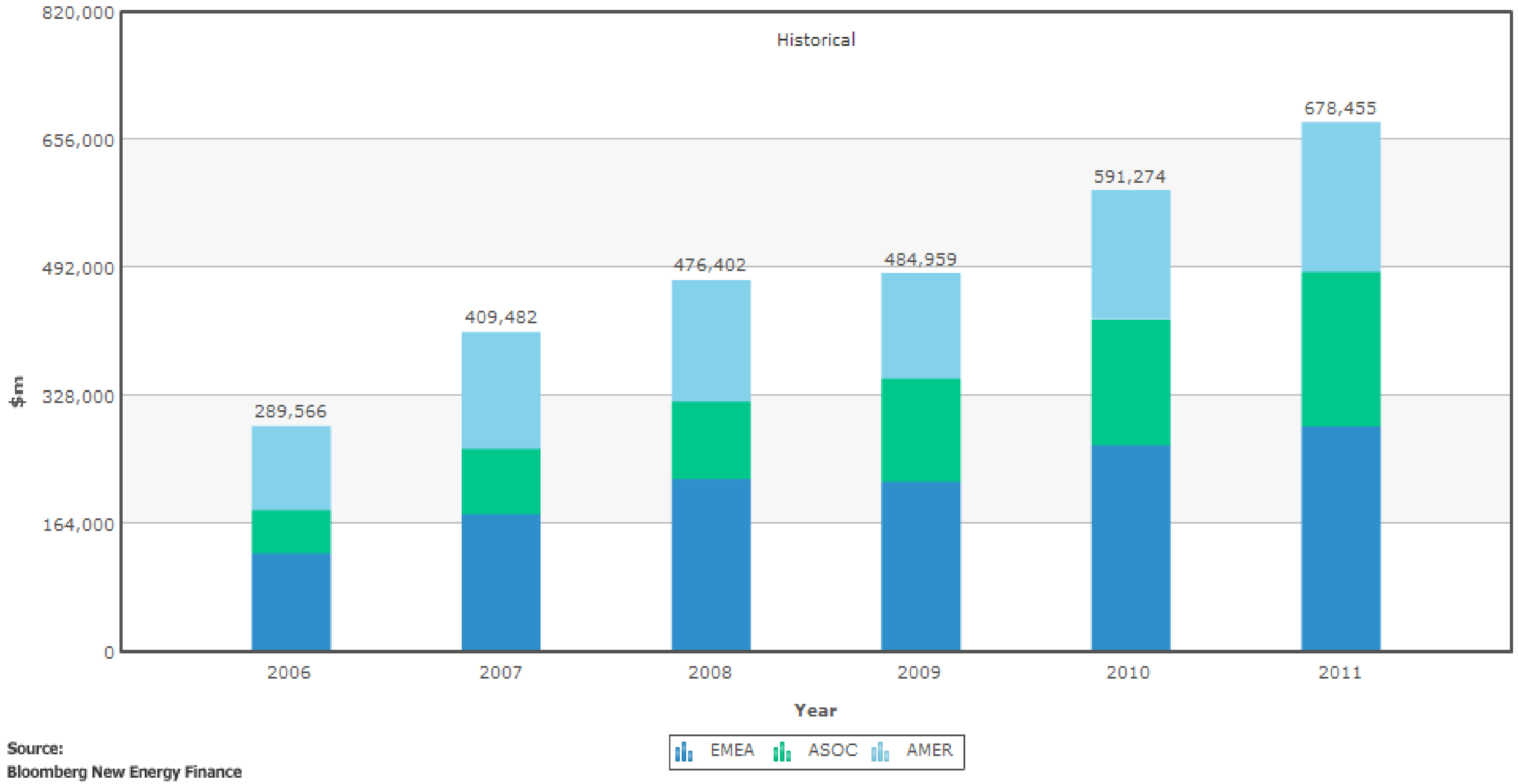
Source: IETA

Risk/reward equation will likely remain challenging

- Clean energy finance is growing consistently…but renewable market share has not changed and macro-picture suggests fossil fuels will remain competitively priced
- Fundamentally, the risk-reward equation has not tilted sufficiently from the high-carbon business-as-usual option to the low-carbon climate-resilient alternative.
  - With few exceptions, investors interested in low-carbon opportunities are missing transparency, longevity, and certainty (TLC) of pricing signals.
- New financial institutions like the UN Green Climate Fund's Private Sector Facility offer an international testing ground to pilot new mechanisms pre-2020.
- Other new national institutions are being set up to fill the gaps
  - UK Green Investment Bank
  - Australia Clean Energy Finance Corporation
- While existing institutions are rapidly evolving their mission
  - US OPIC
  - Germany KfW
  - Brazil BNDES

Continued growth in clean energy finance



Source:
Bloomberg New Energy Finance

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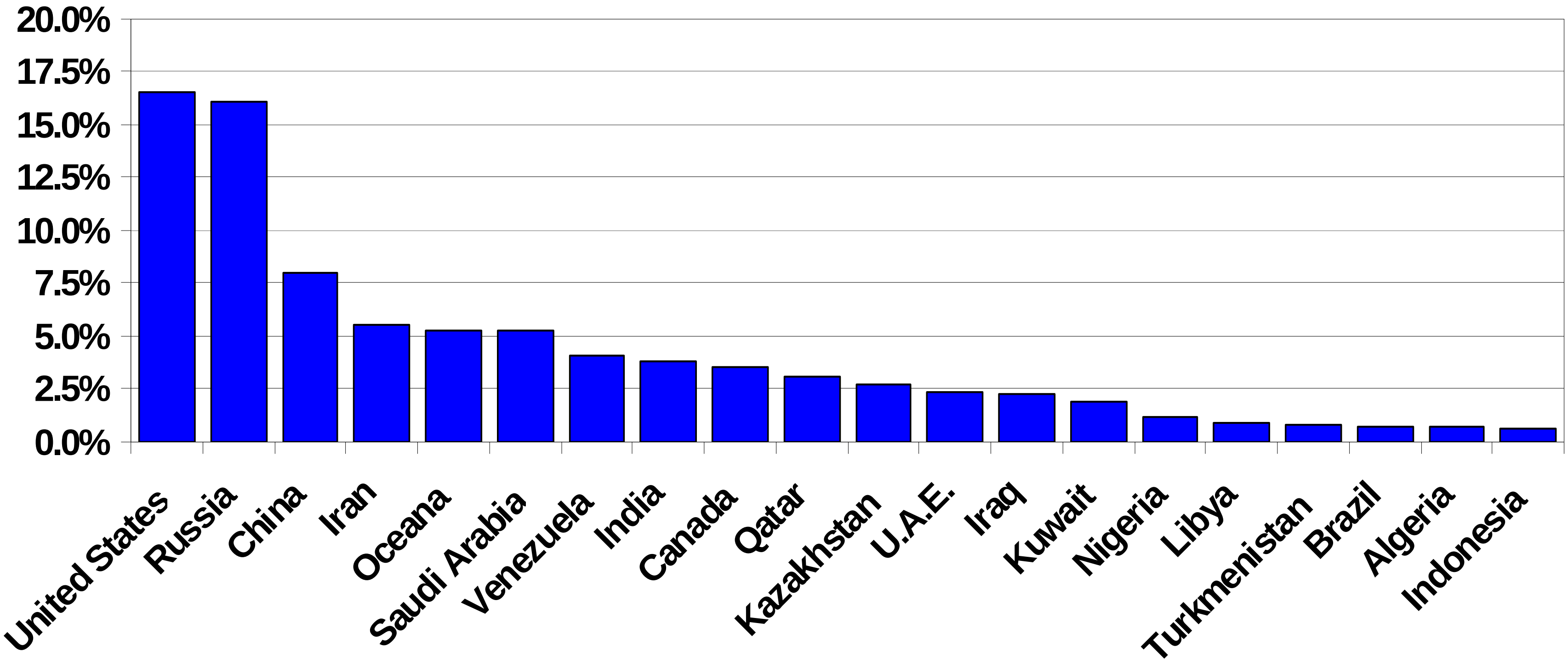
Evolving reality about distribution of oil, coal, and gas supplies

Percentage of global fossil fuel reserves held



Source: EIA

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Suggested financial mechanisms to scale up and speed up

Category→ Sector	*Increasing Returns*	*Reducing Risks*	*Transformational*
Large-scale clean energy	1. Bankable Power Purchase-Like Agreement for Energy Efficiency 2. Subsidised Renewable Feed-in Tariff	3. Mezzanine Debt Enhancement 4. Clean Energy Loan Guarantee 5. Mono-Line Insurance for First Loss	
Bio-carbon	6. Advanced Market Commitment for REDD+	7. Political risk insurance mechanism	
Energy access	8. Emission Reducing Under-writing Mechanism to Purchase for CERs from LDCs	9. Public-private fund to absorb potential first loss from high-risk investments in LDCs	10. Revolving fund for low-carbon social enterprise focusing on energy access 11. Pooled fund for small-scale VC to promote low-carbon social enterprises in LDCs
Adaptation	12. Vulnerability Credit Mechanism		

Other observations about incentivising climate finance

- **Capitalise on emerging focus from companies on potential climate impacts**
  - More extreme weather events means more data, more first-hand experiences, more revisions required to outdated risk management models
  - It has been difficult for companies incorporate macroeconomic risks from supply chain disruptions because of a lack of granularity of precipitation and temperature impacts. This rarely affects planning, investment, or operating decisions.
  - IPCC Fifth Assessment Report 2013-2014 offers an opportunity to mainstream climate-resilience
- **Explore synergy with emerging trends around information disclosure**
  - Carbon Disclosure Project; Forestry Footprint Disclosure Project
  - Mandatory greenhouse gas emission reporting requirements
  - Carbon Tracker Initiative
  - Voluntary commitments taken by progressive stock exchanges
- **Establish a regular climate finance forum to increase velocity**
  - Dissemination of best practices and experiences in leveraging finance from the private sector
  - Helps to calibrate efforts to track climate finance which is inherently difficult because of the complex web of delivery mechanisms and channels