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World Business Council for
Sustainable Development

“Investing in a Low-Carbon Energy Future in the Developing World”

- Report launched at COP 13 in Bali
- Explores how governments and business can work together to address climate change while facilitating continued economic growth and social progress.

Agenda

- Investment Needs
- Addressing the Investment Gap
- Understanding How & Why Business Invests
- Harnessing Capital Markets
- Key Messages

Investment Needs

- Underinvestment in energy reduces GDP growth in some countries by as much as 1-3% annually.[1]
- The UNFCCC in its 2007 analysis of financial flows estimates that **US $200-210 billion** will be necessary in 2030 **to stabilize GHG emissions** at today's levels.

[1]Source: World Bank. "Investment Framework for Clean Energy and Development: a platform for convergence of public and private investments."

Investment Needs

- The IEA estimates that developing countries will need annual **electricity supply investments** of approximately **US $165 billion** through 2010, increasing at about 3% a year through to 2030.[1]
- About half of the necessary financing is readily identifiable, leaving an **investment gap** in the energy sector of about **US $80 billion per year.**
- The IEA estimates that international financial institutions, aid donors and the private sector can close this gap by approximately **US$ 11 billion per year** through additional investments using existing financial instruments.
- The incremental costs of **low-carbon investments** in developing countries are likely to be at least **US$ 20-30 billion per year.**[2]

[1]Source: World Bank. “Investment Framework for Clean Energy and Development: a platform for convergence of public and private investments.”
[2] Source: UNFCCC. 2007. “Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change.”

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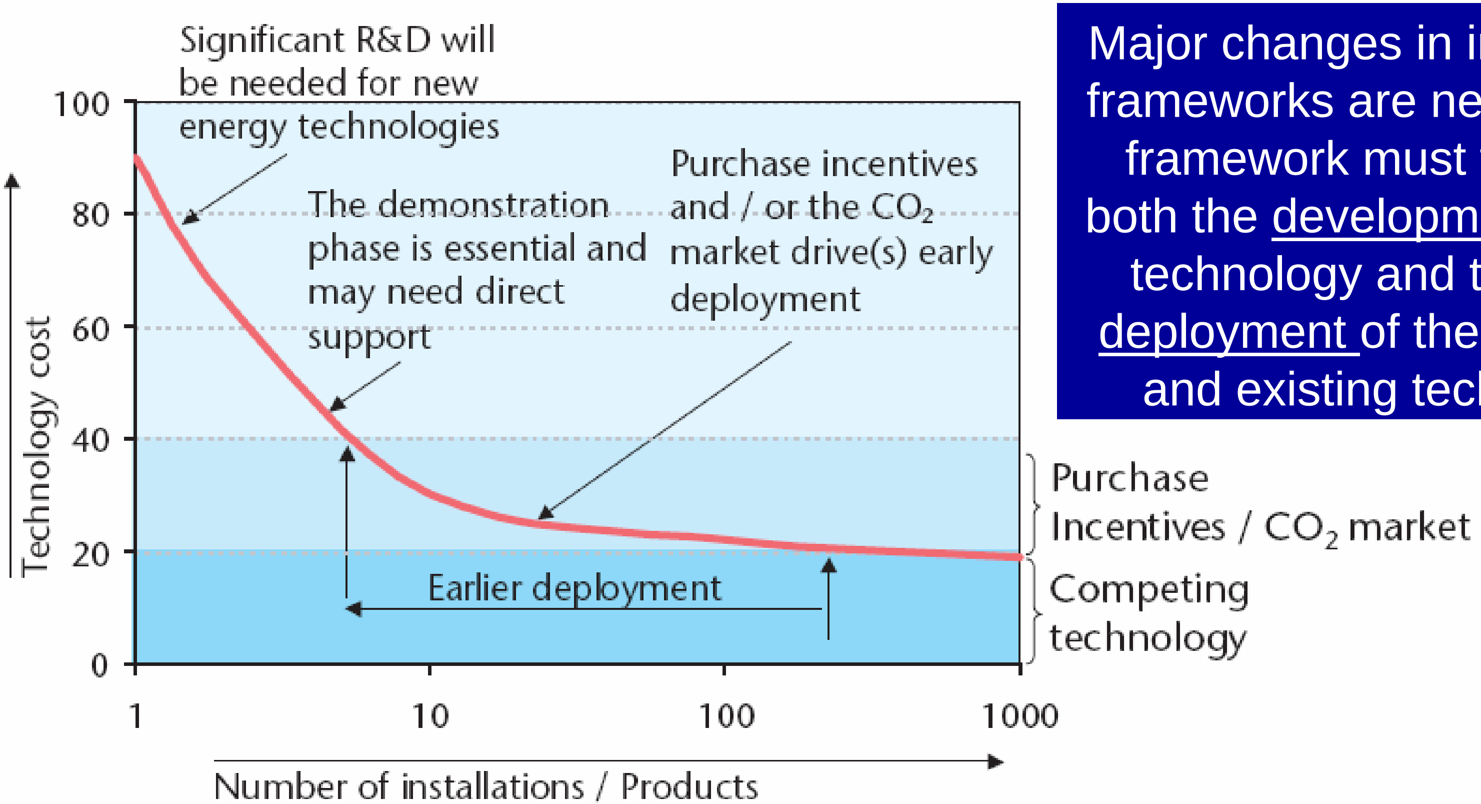
Addressing the Investment Gap

Implementing framework conditions that direct financial flows toward the development, demonstration and deployment of commercially viable low- and zero-carbon energy technologies is key.



Major changes in investment frameworks are needed. The framework must focus on both the <u>development</u> of new technology and the rapid <u>deployment</u> of the both new and existing technology

Figure 3: Technology development and deployment

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Understanding How & Why Business Invests

- Each project requires a detailed evaluation of the prospective rates of return, investment and technological risks, as well as sources of competitive advantage.
- A business primarily exists to create value and returns fro its shareholders.
- Negative factors include: Structural obstacles, rigidities, overly complex regulation, legislation based on obsolete technologies, etc.

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Transforming Energy Services

- Government policies
  - Integrate energy, climate change and development strategies
  - Improving energy transmission
  - Subsidies and other incentives
- Private sector participation
  - The role of large companies
  - The role of SMEs
- Funding models
  - Multilateral or mutual funds
  - Bilateral deals
- Capacity Building
- Clean Development Mechanism

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Harnessing Capital Markets

Using the markets to drive capital flows in clean technologies for developed and developing countries can only reach its full potential – in improving energy services while reducing emissions – if **mainstream investors recognize the market potential** of the energy underserved and the associated value in technologies, activities and infrastructure that reduces the carbon intensity of the global economy.

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Key Messages

Create robust and integrated policy frameworks

- Develop **policy frameworks that create predictable future demand** for new technologies and reward innovation
- Establish a **clear and strong expectation of a carbon price** in the near and long-term future to encourage investment
- Incorporate energy and climate strategies into national **development plans**
- Develop approaches that **expand or aggregate projects** through programs or portfolios to standardize and streamline the transaction process
- Establish **stable and transparent regulatory regimes** to help reduce corruption and improve country risk profiles.

Business will invest in developing countries if the right framework conditions are in place.

Key Messages

Address all stages in the technology development cycle

- **Invest in public and private energy R&D** with the support of international financial institutions to help low-GHG technologies such as CCS, renewables and nuclear power through the various stages of development
- Ensure the commercial viability of technologies such as CCS and IGCC through **direct support and incentives in the demonstration phase**
- Adopt pragmatic and inclusive approaches that create **fast-track approval processes** to accelerate deployment of these new technologies
- Set an example for other sectors by acting **as an early adopter**, buying new, advanced technology products for government fleets and operations.

Key Messages

Encourage technology cooperation to developing countries

- Enhance growth and competitiveness in developing countries through technology cooperation by establishing a **competitive business-to-business framework** for transactions
- **Dismantle trade barriers** affecting the diffusion of technologies to encourage investment and business participation
- Manage the **intellectual property rights regime** to balance the need to incentivize innovation and the dissemination of technologies to support investment in new technologies.

Key Messages

Build capacity

- **Build institutional capacity** to translate policies into robust and integrated development plans

- Support **investment in SMEs**, particularly in capacity building, so they can own and/or operate smallscale energy projects in order to help ensure deployment of technologies

- **Influence public behavior and acceptance** of new technologies through awareness raising and education to help ensure future demand for low-GHG energy services.

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