Options for mobilising climate finance from **private** sources

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Some fundamentals…..differentiating between:

Financing: *often means making money available, ex-ante, for investment; that money is typically repaid from the ex-post operations and cash-flows of the investment. Examples of finance, using legal language, are debt (often loans) and equity stakes.*

Covering the incremental cost: *entails a subsidy aimed at making any given investment alternative commercially viable, or competitive to other conventional investment alternatives. This is usually not repaid.*

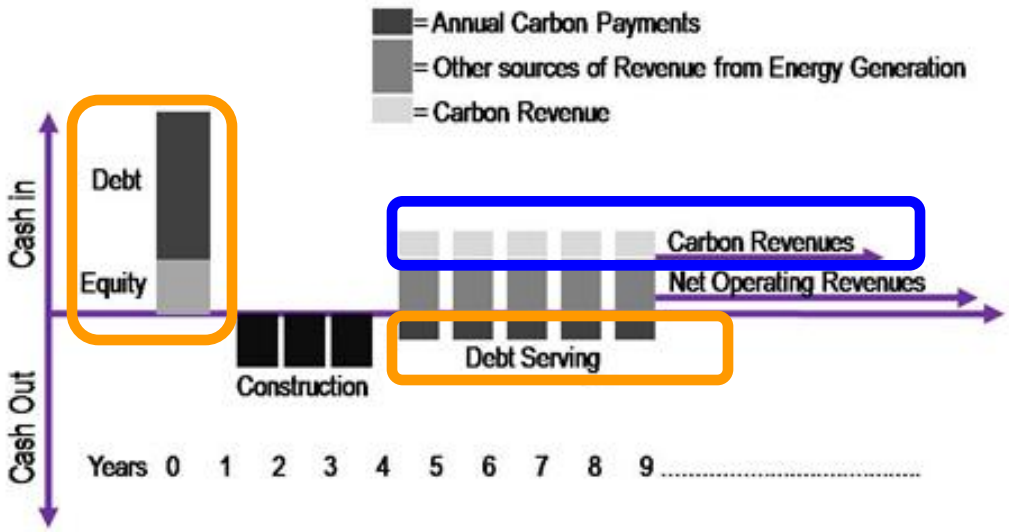
Some fundamentals…..differentiating between:

'Financing' & 'Covering the incremental cost'

Using the example of a CDM project:

'Financing'

'Covering the incremental cost'



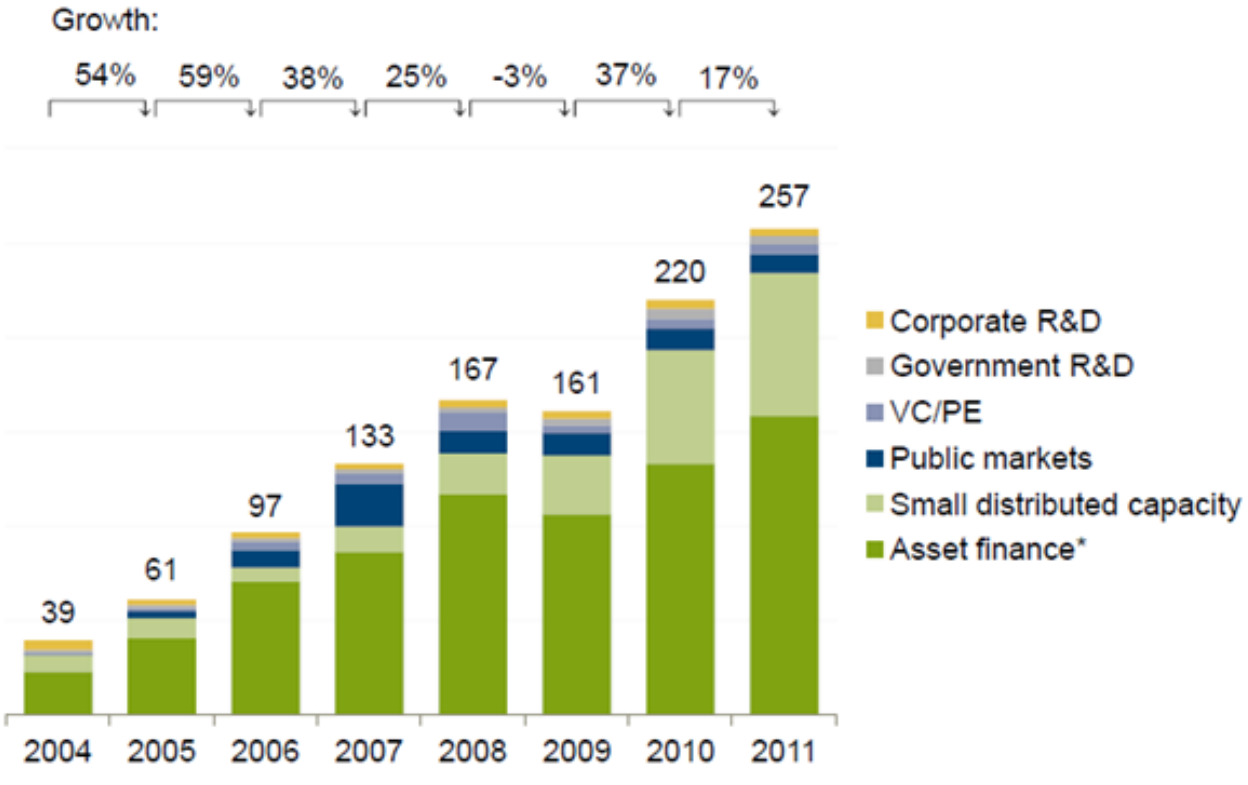
Some fundamentals…..differentiating between:

	Public money	Private money	'Polluter money'
Criterion			
Is this 'finance' or 'covering the incremental cost'?	**Can be both.**	**Can only be 'finance'.**	**Can only cover 'the incremental cost.'**
Political versus commercial motivation	**Does often not have to be repaid (or it has to be repaid at favorable conditions).**	**Does have to be repaid (usually at market conditions, meaning at conditions which are competitive with the risk/return profile of other investments).**	**Does not have to be repaid.**
Availability (in principle)?	**Very limited, particularly at the moment; unlikely that availability will increase in light of budget situations of Annex-1 countries.**	**Vastly available (in principle).**	**There is a lot of GHG pollution: vastly available, in principle.**

Reliability and predictability over time	**Depends on politics which tend to be volatile.**	**Depends on economic fundamentals of investments which tend to be stable. Regulatory regime needs to be well designed and stable.**	**There will be a lot of GHG pollution in the future: flows will tend to be stable.**
Effectiveness (will finance truly lead to mitigation?)	**No automatically built-in guarantee for effectiveness.**	**Built-in guarantee for effectiveness: finance only flows at high levels of certainty that it will be repaid. Repayment hinges on successful project implementation.**	**Built-in guarantee for effectiveness: money flows ex-post on the basis of verified emissions reductions.**
Efficiency (how much mitigation is achieved by unit of finance)	**Given political motivation, no automatically built-in guarantee for efficiency.**	**Given commercial motivation, there is an automatically built-in guarantee for efficiency.**	**Given commercial motivation, there is an automatically built-in guarantee for efficiency.**
Can it be used for Readiness?	**Yes; the built-up of capacity and readiness typically does not lead to immediate cash flows and/or emissions reductions. No money can be repaid on the basis of capacity and readiness improvements.**	**No, because the built-up of capacity and readiness typically does not lead to immediate cash flows and/or emissions reductions.**	**No, because the built-up of capacity and readiness typically does not lead to immediate cash flows and/or emissions reductions.**

Current state of affairs (focus: renewable energy investment)

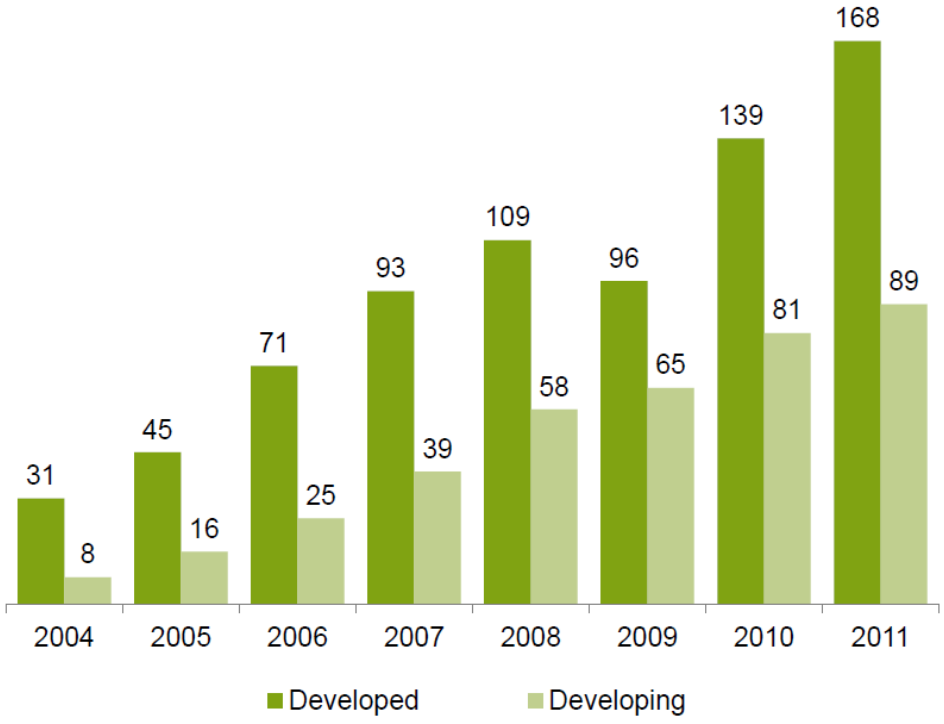
Global new investment in renewable energy by asset class, 2004-2011, USD billion



Source: UNEP / Bloomberg New Energy Finance

Current state of affairs (focus: renewable energy investment)

Global new investment in renewable energy: developed v developing countries, 2004-2011, USD billion



Source: UNEP / Bloomberg New Energy Finance

Current state of affairs

Estimated annual climate mitigation funding needed in developing countries, 2005 USD billions

Mitigation financing needs	2010–20	2030
International Institute for Applied Systems Analysis (IIASA)	63–165	264
International Energy Agency (IEA) Energy Technology Perspectives	565[a]	
McKinsey & Company	300	563
Potsdam Institute for Climate Impact Research (PIK)		384

Source: World Bank

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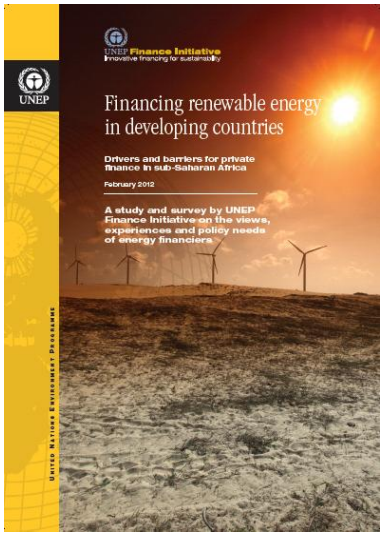
What are barriers to more private climate mitigation finance?



UNEP FI study

38 energy infrastructure financiers surveyed

Recommendations

Private finance mobilization to deploy climate mitigation technologies in developing countries will require national governments and the international community to address three critical barriers:

1. **No level playing field between high-carbon and low-carbon investment alternatives**
2. **Regulatory barriers in developing countries. In the energy sector, for instance, there is often no easy market/grid access for low-carbon technologies**
3. **Political and regulatory investment risks**

What are barriers to more private climate mitigation finance?

1. No ‘level playing field’ between high-carbon and low-carbon investment alternatives:

- Sustainable, low-carbon technologies and infrastructure are typically more expensive, despite fastly becoming increasingly competitive
- High capital intensity of low-carbon energy options in a challenging risk landscape: high CAPEX and low OPEX of renewable energy versus low CAPEX and high OPEX of fossil-fuel-based generation
- Higher transaction costs
- Fossil fuel subsidies

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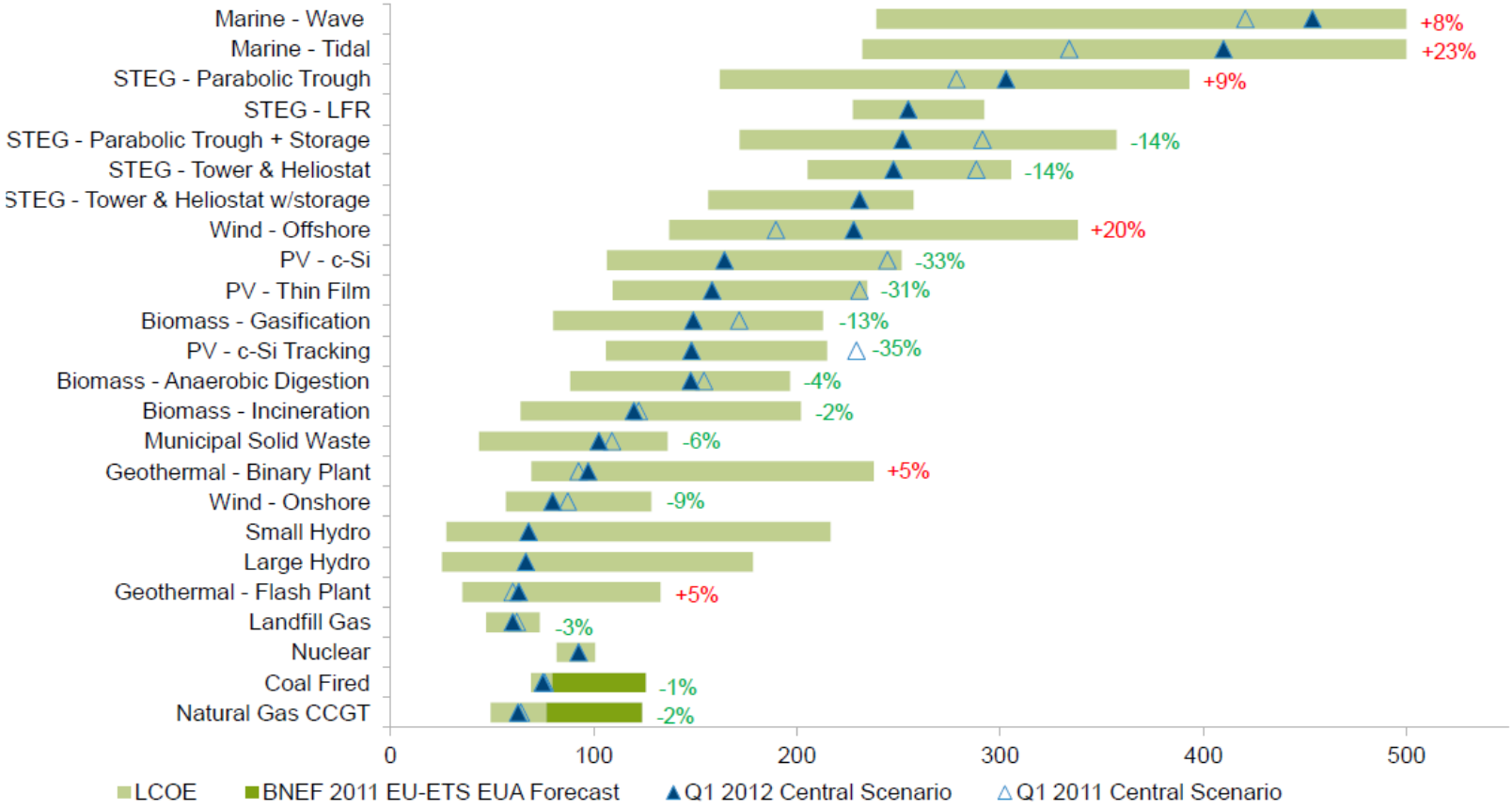
What are barriers to more private climate mitigation finance?

Levelised cost of electricity for different generation technologies, Q1 2012 V Q1 2011, USD per MWH



Source: UNEP / Bloomberg New Energy Finance

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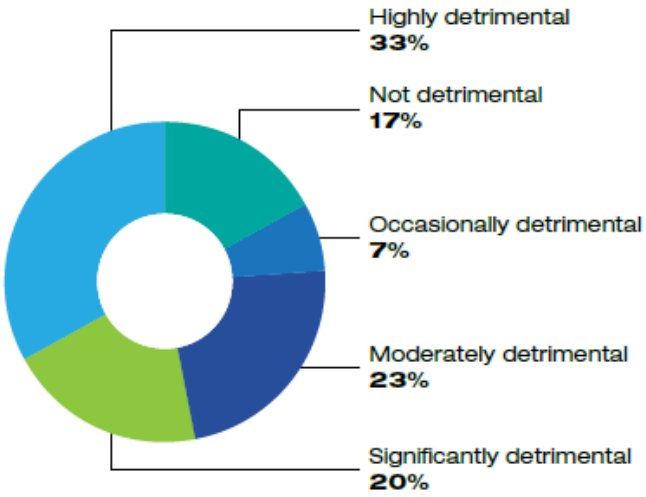
What are barriers to more private climate mitigation finance?

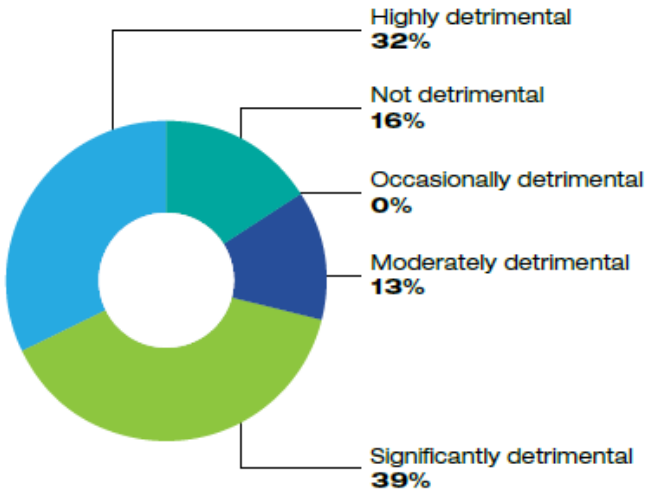
2. Regulatory barriers in developing countries. In the energy sector, for instance, there is often no easy market/grid access for low-carbon technologies

Views of private finance practitioners on unsustainably low energy prices and energy sector policies which stifle innovation, as barriers to renewable energy deployment in developing countries

How detrimental are unsustainably low energy prices and prohibitive energy sector policies for the viability of renewable energyin developing countries?



Unsustainably low energy prices



Energy sector policies

Source: UNEP Finance Initiative

What are barriers to more private climate mitigation finance?

3. Political and regulatory investment risks, particularly…

I. Country and political risk

II. Low-carbon policy risk

III. Currency risk

What can governments and the international community do about this? How can the barriers be overcome?

1. Create a level playing field

in terms of profitability, between innovative and promising low-carbon technologies and conventional, but cheaper high-carbon options.

- **Formulate national energy visions with clear renewable energy and energy efficiency targets**
- **Put in place credible and stable (not overly generous!) incentive mechanisms for renewable energy and energy efficiency technologies and infrastructure**
- **Phase out fossil fuel subsidies to fund the required incentive mechanisms for sustainable energy**

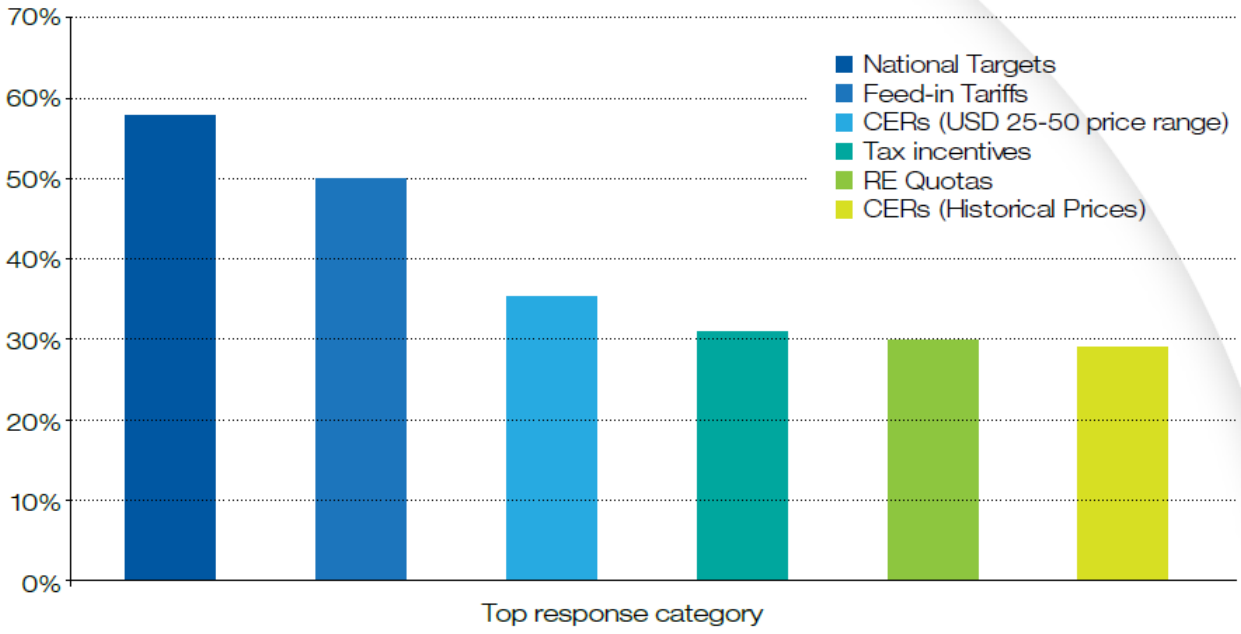
What can governments and the international community do about this? How can the barriers be overcome?

1. Create a level playing field

in terms of profitability, between innovative and promising low-carbon technologies and conventional, but cheaper high-carbon options.

The most powerful incentive mechanisms for renewable energy deployment in developing countries, according to private finance practitioners

Which types of incentive mechanisms are "most powerful" in mobilizing private finance for renewable energy deployment in developing countries?



Source: UNEP Finance Initiative

What can governments and the international community do about this? How can the barriers be overcome?

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in terms of profitability, between innovative and promising low-carbon technologies and conventional, but cheaper high-carbon options.

First option for the international regime to leverage private climate finance is, therefore, to:

- support developing countries in the set-up and running of such public interventions at national level which create the required level playing field
- 'support' should entail both advise as well as the 'coverage of the incremental cost'
- For instance, the international community could support Feed-in Tariffs for renewable energy technologies in developing countries

What can governments and the international community do about this? How can the barriers be overcome?

1. Create a level playing field – the tragedy of the CDM

- Problem with Option 1: 'public interventions at national level' hinge on national institutions, readiness and willingness, on a country by country basis
- The CDM is different: a global mechanism accessible to all developing countries; legal, regulatory and institutional requirements are reasonable
- Main benefit of the CDM: it exists, in fully operational form, already! Existing systems, governance, process and institutional infrastructure (DNAs, DOEs, EB, etc.) in place! Existing industry in place (financiers, project developers, certifiers etc.)
- The CDM covers the incremental cost of low-carbon investment options from polluters in developed countries, rather than from tax-payers.

What can governments and the international community do about this? How can the barriers be overcome?

1. Create a level playing field – the tragedy of the CDM

What can governments and the international community do about this? How can the barriers be overcome?

1. Create a level playing field – the tragedy of the CDM

Second option for the international regime to leverage private climate finance is to **keep the CDM**, its systems, institutions and infrastructure as well as the industry which has built up, **from collapsing**; this can only be achieved by CER prices reaching more meaningful levels again.

What can governments and the international community do about this? How can the barriers be overcome?

2. Provide easier market access for low-carbon technologies
and grid access, to private sector actors on a competitive basis; without access, the required skills, technologies and financing will not move

Third option for the international regime to leverage private climate finance for mitigation in developing countries is

to support developing countries reform key sectors in their economy (in this case, the energy sector), with advise and support.

Note that undertaking such regulatory sector reforms does not cost much money. Such reforms could perhaps qualify as NAMAs.

What can governments and the international community do about this? How can the barriers be overcome?

3. Mitigate political and regulatory investment risk

which continue to be detrimental, particularly for sustainable technologies, even in situations where a level playing field and easy market access have been established.

I. Country and political risk → 'CLIMATE MIGA'

II. Low-carbon policy risk → 'CLIMATE MIGA'

III. Currency risk → 'CLIMATE CURRENCY FUND'

What can governments and the international community do about this? How can the barriers be overcome?

3. Mitigate political and regulatory investment risk

which continue to be detrimental, particularly for sustainable technologies, even in situations where a level playing field and easy market access have been established.

Fourth option for the international community to leverage private climate finance could consist in: funding made available through the Private Sector Facility of the Green Climate Fund, for instance, should be used for the setting up of investment risk mitigation instruments specifically in a climate change context, such as a “climate-focused Multilateral Insurance Guarantee Agency” (Climate-MIGA), or a “climate focused Currency Exchange Fund” (Climate-CEF).

What can governments and the international community do about this? How can the barriers be overcome?

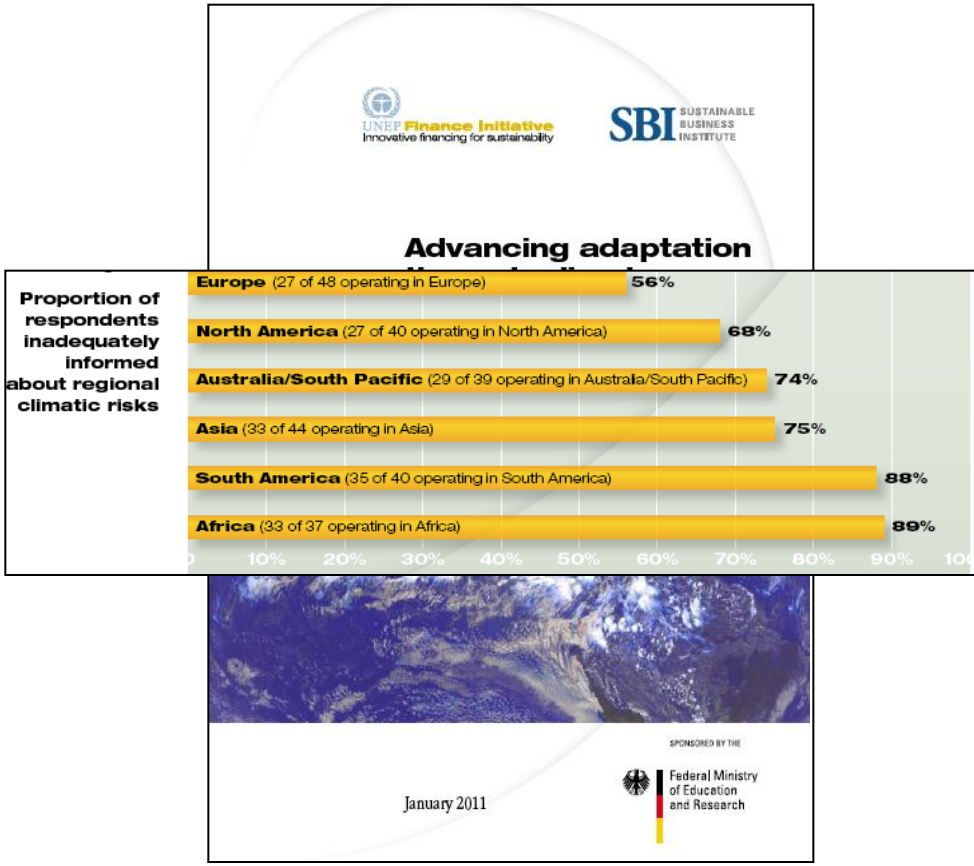
A basket of possible instruments for discussion:

1. Mono-line insurance mechanism providing first loss guarantee
2. Loan guarantee programme
3. Mezzanine debt enhancement
4. Subsidised feed-in-tariff for renewable energy or other carbon reduction performance-based subsidy
5. Bankable purchase agreement instrument for energy efficiency ("EEPA" combined with an insurance mechanism)
6. Pooled Fund for small-scale venture capital to promote low-carbon social enterprise in LDCs
7. Revolving fund for Low-Carbon Social Enterprise focusing on energy access
8. Advanced market commitment for Bio-Carbon
9. A political risk insurance mechanism for climate related investments
10. A public-private fund to absorb potential first loss from high-risk investments

Private climate adaptation finance? Need to differentiate.

Adapting private sector assets

- Economic tissue means societal well-being – policy needs to worry.
- However: no strong free-rider problem
- Public policy approach: raise awareness and provide information, also in developing countries
- Improve quality of forecasts



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Thank you.

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