



## Mexican Dialogues

### Financing Green Growth Geneva, 1-2 September 2010

#### Messages and recommendations<sup>1</sup>

##### Questions addressed

- What are the conditions required to leverage private sector finance for the transition to a low carbon economy?
- What can the UNFCCC do to redirect existing, and channel new, flows of finance towards clean technology investments?
- How can private sector input be channeled most effectively into the UNFCCC process on issues, including finance, where it can provide unique value?

##### Messages

- 1. *Leveraging private sector finance is critical to meeting the challenges of climate change***
  - The public sector will have to make available funds to facilitate the adaptation to climate change and foster low-carbon economic growth in developing and developed countries. However, the total sums required to finance adaptation and mitigation actions are beyond the capacity of the public sector.
  - Private sector investment can multiply the effect of public finance investment. Governments can leverage their investment 3-15 times using private sector finance.
  - Whilst the UNFCCC is focused on low-carbon investment in developing countries, there is still a huge challenge to decarbonize energy systems and economies in developed countries.
- 2. *The main obstacle to greater low-carbon investment is the level of returns offered by investment opportunities compared to the level of risk.***
  - Investment in low-carbon projects is not flowing because of a perception (or reality) that risks are too high. Investment risk in developing countries is generally higher than in developed economies.
  - Investment risks include: policy, technology, scale, and capacity (of investors and policy makers). The main concern for investors is policy risk and an inconsistent regulatory framework.
  - Instruments exist to mitigate country, regulatory and currency risks for private investment in developing countries. Risk mitigation aims to reducing the cost of capital and facilitate the availability of capital in the countries that need it.
  - Bilateral and multilateral development banks can play a critical role in the use of public funds to reduce risk.
  - The international community could expand and scale-up risk mitigation by providing additional public finance and clear signals and policies towards clean technologies and a low carbon future

- Any new fund could include a window to support and incentivize private sector activities.

**3. *Businesses want public policy frameworks that promote a long-term sustainable strategy.***

- To attract investment, governments need to develop, integrate and communicate long-term low carbon strategies (e.g. thought NAMAs). Investment will flow to countries with positive investment credentials and, good governance structures.
- Public sector should create regulations and incentives through long-term policy strategies and immediate transitional reforms, for example short-term subsidies.
- In developing countries, some of these reforms might take time, and so international public money can provide a short-cut to boost confidence in these countries.
- One size does not fit all. Different countries require different interventions, different investors require different incentives (e.g. quotas, feed-in tariffs, green certificates) and different technologies require different instruments. However some policy harmonization will be necessary
- Private sector investment would be stimulated by higher degrees of ambition in emissions reductions targets than is currently the case.

**4. *Capacity-Building is needed in the private and public sector.***

- Capacity building in developing countries to enhance the necessary enabling frameworks is critical for successful investment.
- The exchange of analysis, experience and data among public and private investors should be promoted.
- Capacity building needs to go beyond niche investment actors to reach mainstream investors. The lead time to educate investors takes several years.

**5. *Private sector trust in any new international institutional architecture is critical.***

- The international financial architecture for climate investments should be efficient and responsive, with effective global oversight, and avoid duplication and overlaps with existing funds.
- Effective disbursement of funds and overcoming the historic distrust from developing countries are major challenges.
- Many methodologies for measurement, reporting and verification (MRV) disbursements and mitigation actions exist and large emitting countries will want autonomy. However there needs to be coordination on MRV.

## Recommendations - what can be done to progress the issues?

**A. A new form of engagement is needed, with greater involvement for the private sector.**

Private sector engagement is necessary to implement a global climate agreement. There should be a window for private sector engagement in the formal process which could be launched at Cancún.

The *private sector* should identify areas where it can add unique value in the UNFCCC process. These might include, but not be limited to analysis and experience on the effectiveness of existing investment policies, or input on the design of funds (green fund), and policy instruments to manage risks.

*Governments* should provide a format (e.g. targeted workshops, dialogues or inclusion in contact groups) which can draw on the private sector expertise.

**B. The influence of the private sector is often greatest at a national level. The private sector should support the development of NAMAS to increase their potential for investment.**

The *private sector* should support low-carbon development planning and nationally appropriate mitigation actions in developing countries (NAMAs).

*Governments* should design policies that leverage private sector finance in their national strategies and NAMAs.

**C. Issue of capacity building for investors and governments.**

The *private sector* should support capacity building in developing countries as a priority, both with the business community and governments.

There is also a need to help build the financial literacy of negotiators and ENGOs.

**D. Private sector information for negotiators should be concise and usable.**

The *private sector* should provide information on the key drivers for investment decisions from a financial perspective

*Governments* should provide an opening for the private sector to provide input on decisions to promote implementation.

**E. Governments should encourage the involvement of Finance/Economic ministries in UNFCCC negotiations.**

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### ***Special information session feedback***

#### ***Status of work of the Secretary-General's High-level Advisory Group on Climate Finance with a focus on private sector finance***

*Janos Pasztor – Director, Secretary-General's Climate Change Support Team*

The objective of the Secretary General's High-level Advisory Group on Climate Finance (the "Group") is to identify potential sources for the US\$100bn committed under the Copenhagen Accord. . The Group is not evaluating how the money will be spent. A final report with recommendations is expected to be delivered at the end of October and it is anticipated that the Group will then be dissolved. The report will be presented to member states, with an expectation that it will be used for direct input to the UNFCCC process.

The Group has been able to identify sources that are both analytically and politically feasible. While specifics were not shared, four primary sources were cited, but no further details shared:

- 1) Grants and concessional funds, carbon taxes (likely to include aviation and maritime), auctions;
- 2) Development bank loans;
- 3) Carbon market finance; and
- 4) Private capital.

The Group's has evaluated each of these categories against a common set of criteria, including revenue potential, efficiency, incidence and practicality, reliability, additionality and acceptability.

While obtaining the full US\$100bn was recognised to be challenging, it was possible and the intention would be to build-up funds each year towards 2020. It was noted that the diversity of sources would promote stability. The Group also believes there to be considerable potential for leveraging.

A new group set up by the Secretary General, the Global Sustainability Panel, will address the issue of broader finance and is expected to deliver its report at the end of 2011.

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