COUNCIL OF
THE EUROPEAN UNION

Brussels, 10 May 2011

9935/11

ECOFIN 255
ENV 349

NOTE

From:	General Secretariat of the Council
To	Delegations
Subject:	Leveraging private finance for climate actions in developing countries – Information note on the Joint JWG-EGIF Workshop

Delegations will find attached the information note on the Joint JWG-EGIF workshop 'Leveraging private finance for climate actions in developing countries' prepared by the EFC/EPC Joint Working Group on Economic and Financial Aspects of Climate Change.

Information note on the Joint JWG-EGIF workshop

'Leveraging private finance for climate actions in developing countries'

Introduction

1. In Cancún in December 2010 developed countries, in the context of meaningful mitigation action and transparency on implementation, committed to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries. The Ecofin Council has previously concluded that the private component of this funding[1] will, via appropriate policy frameworks, be a major source of the necessary investment.
2. From a broader perspective, the International Energy Agency (IEA)[2] has estimated that substantial additional capital investments per year will be needed to facilitate low-carbon development in developing countries, further underlining the critical importance of private sector financing in achieving overarching climate policy goals. Moreover, the climate challenge offers significant opportunities to domestic and international businesses in terms of new products and markets in emerging economies[3] as well as potentially significant economic development co-benefits.
3. The Joint EPC EFC working group on international climate finance held a workshop together with expert colleagues from Environment Council in Brussels on 12 April 2011 with the objectives of increasing awareness and understanding of the particular barriers that private companies face when pursuing 'green' investments in developing countries, and identifying the scope, ways and means for public support to mobilise private finance on climate action without creating unwarranted windfall gains accruing to private investors.[4]

[1] It has been recognised by the Council and international parties that a combination of public finance and private sources is essential to delivering this amount of funding.
[2] IEA, World Energy Outlook, 2009.
[3] For example, HSBC's 2011 analysis suggests the Indian climate-relevant economy alone could stand at $135bn by 2020).
[4] See workshop programme in annex for further information.

Main messages

4. There is already a considerable amount of private sector investment in climate-related actions flowing between developed and developing countries: as much as USD 29 billion annually according to recent OECD estimates.[5] The tracking of these flows, however, is currently very technically challenging given that there is no internationally agreed definition of climate-related investment or approach on estimating the levels and net benefits of these flows.
5. Among the barriers identified to scaling up these flows at the scale and speed required, the basic elements of a sound investment policy framework (including regulatory policies aimed at supporting low carbon investments) are a central concern for investors. Without such a framework, the risk-return profile of investments is simply not viable and the most creative and innovative policy instruments would be unable to deliver the required investments.
6. While there are numerous ongoing initiatives to tackle this lack of 'investment-grade' policies (such as capacity-building, regulatory reform and carbon pricing), existing initiatives will not be sufficient to achieve results quickly enough to facilitate the more immediate investment that is required. Consequently, direct policy measures and public finance interventions to influence the risk/return ratio of private investments may be needed. Such interventions should be viewed as a temporary measure while investment-grade regulatory reforms are put in place.
7. Climate-related investments in developing countries are often perceived as being very high risk due to the combination of the following factors. Firstly, the technologies tend to be new and often untested while the financing market for projects tends to be underdeveloped, which leads to lack of access to capital. Secondly, as the project pipeline is weak, investors struggle to find bankable projects to invest in. Thirdly, in the absence of credible carbon markets, feed in tariffs and other policies aimed at supporting project liquidity, the risk-return profile of low carbon investments tends to be unattractive.

---

[5] North-south annual investment flows, annual average 2007-2009, OECD

8. Workshop presentations highlighted the potential of various policy instruments to improve the risk-return profile of projects and otherwise leverage private finance flows throughout the investment chain such as: insurance products, public guarantees, equity and debt financing, to share/ otherwise reduce perceived and known risks and therefore enhance access to capital; technical assistance and venture capital support, to help develop the project pipeline, and; advanced market commitments (AMCs) a 'results-based' funding mechanisms, to support project liquidity.
9. Workshop presentations highlighted the relatively high level of ongoing use of some of these instruments in development finance institutions and multilateral development banks, in particular the European Investment Bank. The workshop also emphasised the value of further 'capacity-building' across a broader range of public institutions in developed countries to support greater use of the full range of these tools.
10. A limited amount of the public finance committed by the EU and its Member States, both during the fast start and the longer-term period to 2020 could usefully be directed to support the leveraging of private investment in both mitigation and adaptation actions in developing countries. To further ensure an efficient and effective combination of public sources and private finance in delivering longer term climate finance, proactive input from the private sector is needed on how these leveraging actions could best support the development of a new and self-sustaining model for private investment in such projects at scale over the longer term.
11. Further work is needed to learn the lessons from experience to date with these instruments (mostly in the area of development finance) a

    larger scale of investments that is urgently required. This work should focus on the five key areas as follows:
    a. Public-private sector dialogue at the EU level to better identify common interests, the scope for cooperation to further explore the potential of existing and new innovative instruments for leveraging scaled-u

[6] The UK launched such a dialogue in 2010 with their Capital Markets Climate Initiative (CMCI).

b. Further technical cooperation with experts OECD and other relevant actors to develop a clear definition of what constitutes a green or climate-specific investment, better understand the key drivers of such flows, and develop a common methodology for tracking and accounting them;

c. A review of existing analytical work, drawing out key lessons on how to ensure that any such deployment of public funds minimises deadweight and moral hazard effects and avoids compensating for policy failures in developing countries(e.g. a

) or having a 'crowding out' effect on private investment.

d. Further assessment of possible risks to government budgets and taxpayers involved in the use of such leveraging instruments to government budgets and options to minimise or cap these risks;

e. Technical work to develop environmental integrity and sustainability standards to underpin possible leveraging instruments, including an assessment of their efficiency, consistency with EU and WTO rules and any possibly adverse effects on developing countries.

ANNEX: WORKSHOP PROGRAMME

EFC/EPC JOINT WORKING GROUP ON THE INTERNATIONAL FINANCIAL ASPECTS OF CLIMATE CHANGE

THE SECRETARIAT

Brussels, 11 April 2011

ECFIN/EPC/ Ares(2011) 371958

Leveraging private finance for climate action in developing countries

Joint JWG-EGIF workshop, 12 April 2011

Room OD, Borschette Conference Centre, rue Froissart, Brussels

Draft Programme

Session 1. Introduction (09:00-10:30)

- Welcome: Fredrik Bysted (chairman, JWG), Anikó Dobi-Rózsa (chairwoman, EGIF)
- Opening remarks/ chair: Michael Liebreich., Bloomberg New Energy Finance
- Ar -Metzger, Director, DG Climate Action, European Commission
- Martin Hallet, Deputy Head of Unit, DG ECFIN, European Commission
- Virginie Marchal, Policy Analyst, Climate Change, Biodiversity and Development Division, OECD Environment Directorate

Session 2. Financial sector perspectives on barriers and instruments (10:30-12:15)

- Opening remarks/ chair: L. Warren Pimm, CFA, Partner, Sustainable Development Capital LLP
- Sylvain Goupille, Director Carbon Finance, BNP Paribas
- Reto Schnarwiler, Director, Global Partnerships, Swiss Reinsurance Company Ltd.
- Rob Lake, Head of Sustainability and Governance, Asset Management All Pension Group (APG) (NL), member Policy Working Group, Institutional Investors Group on Climate Change (IIGCC).

12:15 – 13:15

Buffet lunch hosted by DG CLIMA (Borschette Centre, outside meeting room)

Session 3. Industry perspectives (13:15-14:45)

- Opening remarks/ chair: Brindusa Fidanza, Associate Director, Environmental Initiatives, World Economic Forum
- Sarah Eastabrook, Power and Environmental Policies, Alstom
- Joeri Vanbelle, Business Development Manager, Electrawinds

Session 4. Institutional experience (14:45-16:45)

- Opening remarks/ chair: Jörg Haas, Programme Director, Climate Diplomacy, European Climate Foundation
- Richard Weber, Advisor Hors Classe, DG Climate Action, European Commission (Climate change windows in the EU regional investment facilities)
- Monica Beck, KfW (Global Climate Partnership Fund initiative)
- Martin Foeth, Senior Investment Officer, Financial Sector and Private Sector Support, Groupe Agence Française de Développement (AFD)
- Thomas Barrett, Director for New Products and Special transactions, European Investment Bank (Global Energy Efficiency and Renewable Energy Fund)
- Ajay Narayanan, Head of Sustainable Finance, Financial Markets Department, International Finance Corporation

Session 5: National experience (16:45 – 18:30)

- Opening remarks/ chair: Fredrik Bystedt, JWG chairman
- John F. Moran, Managing Director, Investment Development and Coordination, Overseas Private Investment Corporation, USA.
- Dr.Giedre Kaminskaite-Salters, Senior Private Sector Development Adviser - Climate Change, Department for International Development, UK ("results-based financing")
- Henkjan Bakker, Head of Division for Sustainable Economic Development, Ministry of Foreign Affairs, (NL) (tbc)
- Lena Kovamees, Programme Manager/ Policy Adviser, Loans and Guarantees Unit, Department of Global Cooperation, Swedish In (guarantee instrument launched in 2009)

***