PRACTITIONERS' DIALOGUE ON CLIMATE INVESTMENTS

Introduction to the

1st Practitioners' Dialogue on Climate Investments 2015

in cooperation with the 3rd Sustainable Business Dialogue

7-9 October 2015 | Shangri-La Hotel | Jakarta | Indonesia

Federal Ministry for Economic Cooperation and Development

implemented by

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

PRACTITIONERS'
DIALOGUE ON
CLIMATE INVESTMENTS

I. Foreword

Dear ladies and gentlemen,

2015 is a key year for international climate policy; the Green Climate Fund (GCF) has taken major steps to start supporting developing countries to adapt to the adverse effects of climate change and to reduce greenhouse gas (GHG) emissions. The upcoming UNFCCC climate conference in Paris is expected to lead to a new international climate agreement, applicable to all countries with the objective of keeping global warming below 2° Celsius.

The greatest challenge ahead of national governments is engaging the private sector while implementing UNFCCC decisions at national country levels, so the public sector and private businesses and financiers are pulling the same rope towards a low-carbon and climate-resilient society. National sector ministries, planning authorities and ministries of finance need to understand UN climate negotiations and reach out to corporations and financial market players to identify national policies which foster sustainable and resilient economic growth *and* reduce global warming.

In this context, the Practitioners' Dialogue on Climate Investments facilitates exchange between policymakers and professionals in the business and financial sector. PDCI aims to advance our understanding of how developing country and emerging economy governments can effectively secure the participation of private businesses and the financial sector in climate resilient and low-emission growth.

PDCI events also provide an excellent opportunity for businesses and financial institutions to present their climate products and services to governments and other enterprises.

The 1st Practitioners' Dialogue on Climate Investments on 8-9 October, in Jakarta, is hosted by GIZ in cooperation with the Indonesian Chamber of Commerce and Industry (KADIN); it presents the start of a series of flagship dialogue events. As this is *your* dialogue process, we are very keen to learn more about the policy or business challenges *you* face in your daily work. Moreover, we want to jointly identify how the PDCI network can support you in finding sustainable solutions.

I am looking forward to meeting you in Jakarta!

Frédéric Wils
Head of Project Dialogue Forum on Climate Investments

II. Introduction to the Practitioners' Dialogue on Climate Investments (PDCI)

Context and objective

Fighting global climate warming is one of the most urgent challenges of today's world. Significant reduction of global greenhouse gas (GHG) emissions and effective adaptation to climate change will require the provision of substantial financial resources: the World Economic Forum estimates total global annual investment needs in green infrastructure to be about $5.7 trillion by 2020. Much of these investments will take place in today's developing countries. According to the World Resources Institute, this will require shifting the world's $5 trillion in business-as-usual investments into green investments, as well as mobilizing an additional $700 billion to ensure this shift actually happens.

Public financial sources to cover even a part of these investments needs are scarce. A global green transformation will only succeed if smart public actions and enabling business environments stimulate private businesses and the financial sector to re-direct investments in low-carbon and climate-resilient technologies, infrastructure, products and services.

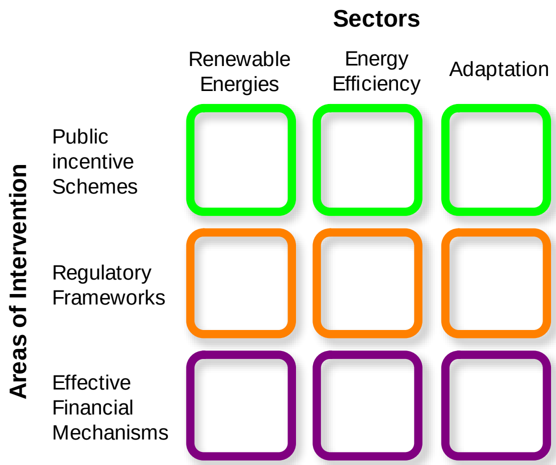
There are various financial and non-financial barriers; inter alia limited access to private finance, inadequate regulations, lacking incentive schemes or little information, which prevent low-carbon and climate-resilient investments from being profitable. Many of those barriers are rooted in a fundamental lack of understanding between public and private sector actors about their respective needs. It is in this context, that the German Federal Ministry for Economic Cooperation and Development (BMZ) commissioned Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH with developing and implementing a "Practitioners' Dialogue on Climate Investments (PDCI)"

The Practitioners' Dialogue on Climate Investments (PDCI) aims to advance our understanding of how governments in developing countries and emerging economies can secure the participation of private businesses and the financial sector in climate-resilient and low-emission growth. The international dialogue process also aspires to strengthen governments' capacity to act and unlock private investments in renewable energy projects, energy-efficiency improvements and adaptation measures.

The PDCI is one of the few fora in the context of the international climate negotiations, which facilitates cross-sectoral exchanges and networking between developing country climate negotiators, government officials from key sectoral ministries and agencies, and decision-makers from the business and financial sectors.

Approach

PDCI focuses on smart public incentive schemes, effective regulatory frameworks and innovative financial mechanisms with the aim of encouraging more private investment in renewable energy projects, energy efficiency improvements and climate change adaptation measures.



According to the International Energy Agency, "the energy sector generates approximately two thirds of global greenhouse gas emissions and over 80% of total CO_2. It produced 31.7 Gt of CO_2 in 2012, the largest share of which came from power generation. If current energy policies remain unchanged, emissions will continue to grow, driven by increases in non-OECD countries and steady OECD emissions" (IEA 2015). To deliver a peak in global energy-related emissions by 2020, the IEA proposes a "bridge scenario" which suggests, amongst other, increasing energy efficiency in the industry, buildings and transport sectors and investment in renewable energy technologies in the power sector from $270 billion in 2014 to $400 billion in 2030.

The transition to a low-carbon economy will require governments "to create sustainable markets for low-carbon technologies, fill in RD&D funding gaps, create the enabling infrastructure and encourage international collaboration" (IEA 2015). **Two out of PDCI's three thematic areas therefore cover the energy sector and look at the promotion of private investments in renewable energy projects and energy efficiency improvements.**

Even with the most ambitious and effective efforts in reducing GHG emissions in the energy sector and other areas, climate change is unavoidable and we will have to cope with extreme weather events such as heavy rainfalls, floods, heat waves and droughts. Such shocks threaten lives and livelihoods and can create enormous costs for companies or even put them out of business.

To secure sustainable development goals and provide economic growth, economies need to build up resilience to the expected negative impacts of climate change. It is therefore imperative for businesses and financial institutions to assess potential climate risks on business models and supply chains and integrate resilience measures into long-term corporate strategies. Climate change adaptation needs can also create new business opportunities.

While there is some solid experience with mobilizing private investments in renewable energy projects and energy efficiency improvements, there is, however, **little practical knowledge on how the public sector can encourage corporate activities to improve climate resilience in various sectors. The PDCI has therefore included adaptation to climate change as one of its focus areas.**

PDCI applies three different perspectives to look at the challenge of mobilizing private investment in renewable energy projects, energy efficiency improvements and climate change adaptation measures: **smart public incentive schemes, effective regulatory frameworks and innovative financial mechanisms.**

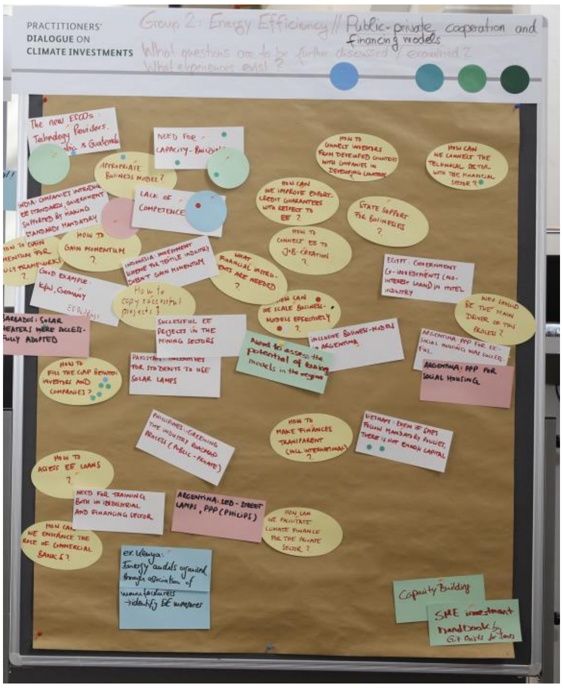
- **Public (financial/economic) incentive schemes**, such as tax credits for certain types of investment or grants, subsidies or discounts for certain products are used as a means of influencing the actions of individuals and corporations. Economic incentives are often a key part of any package of measures to promote behavioral change through encouraging action.

- **Regulatory policy** is about achieving governments' objectives through the use of laws, regulations, standards and other instruments which prescribe a certain conduct.

- **Innovative financial mechanisms** can be new development finance instruments inter alia blending mechanisms, first loss guarantees, risk-sharing instruments and green credit lines, or an innovative mix of these instruments with classical instruments such as direct investments, equity funds, mezzanine funds, loans and grants.

III. Launching the Practitioners' Dialogue on Climate Investments (PDCI) in Bonn/ June 2015

The lead-up event in Bonn in June 2015, laid the foundation of the Practitioners' Dialogue on Climate Investments (PDCI) series by inviting relevant stakeholders to brainstorm on key issues and to build-up the PDCI network.



Box: results at Bonn lead-up event

The event enabled participants to work in small expert groups on business opportunities, specific investment challenges and the particular role of governments in overcoming barriers to investment. The event applied a highly interactive methodology to identify three categories of public sector interventions – public incentive schemes, effective regulatory frameworks and innovative financial mechanisms – to guide the dialogues process 2015 - 2016 in the areas of renewable energy, energy-efficiency and – more broadly – adaptation to climate change.

IV. PDCI at the SEED Africa Symposium 2015

Drawing back to the regional findings from the Bonn session on renewable energy projects, PDCI hosted a break-out on: "Shaping renewable energy markets in Africa – how international climate finance can support unlocking the potential of SMEs". Estimations say that in order to achieve universal energy access by 2030, Africa needs up to $40-50 billion of annual investment into sustainable energy. In reality, current and predicted public and private investment volumes combined fall short by 80 % and have to be quintupled. A dramatic increase of private sector investments and entrepreneurial activities is required, in particular when it comes to scalable renewable energy based off-grid and mini-grid energy supply. For more information on the discussion and the results of the break-out session, please visit our website.

V. The 1st Practitioners' Dialogue on Climate Investments (PDCI) conference

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), Gesellschaft fuer Internationale Zusammenarbeit GIZ) GmbH in cooperation with the Indonesian Chamber of Commerce and Industry (KADIN) is implementing the 1st Practitioners' Dialogue on Climate Investments on 8-9 October. To fully engage the Indonesian business and financial sector in the PDCI dialogue process, the conference follows on directly from the 3rd Indonesian Sustainable Business Dialogue on 7 October 2015.

Based on the results of the lead-up event to the Practitioners' Dialogue on Climate Investments (PDCI) in June 2015, the conference will continue the practice-oriented dialogue on catalysing private climate investments.

The 2-day long 1st Practitioners' Dialogue on Climate Investments (PDCI) aims to

- discuss in-depth how to mobilize private investments in the energy sector and in the area of climate change adaptation;
- showcase and discuss concrete public sector concepts or initiatives to unlock more private investments in products or services which reduce GHG emissions or help individuals and institutions to adapt to climate change and
- provide space for peer-to-peer exchange on presented public measures and stimulate further action. The Practitioners' Dialogue on Climate Investments and GIZ are in a position to support the latter.

The 1st Practitioners' Dialogue on Climate Investments will convene 120 practitioners from national governments and the business and financial sectors, and facilitate cross-sectoral exchanges and networking. 60-70% of the participants come from BMZ partner countries worldwide, 30-40% come from Indonesia.

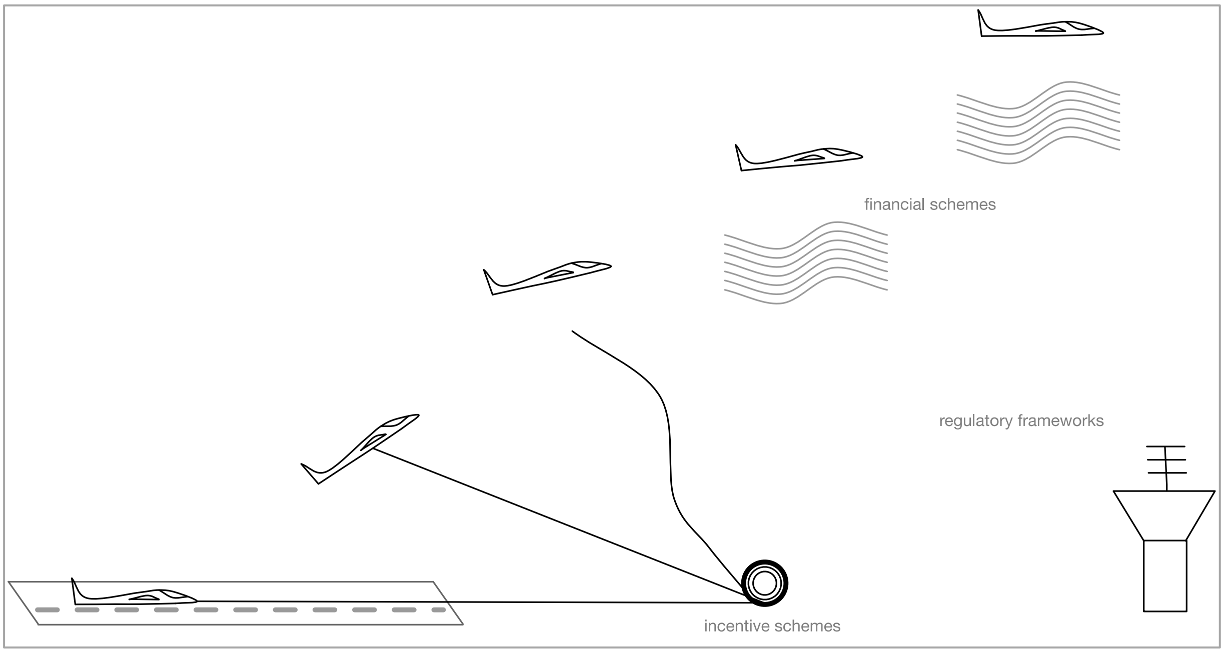
The first day of the conference is structured along the PDCI approach and looks at the challenge of mobilizing private climate investments in renewable energy projects, energy efficiency improvements and climate change adaptation measures from three different angles: in the first module, participants will discuss how to advance public incentives schemes, followed by debates on the needs to adjust regulatory frameworks. Last, practitioners will look into the potential of Innovative financial mechanisms.

In line with the Bonn lead-up, the 1st PDCI in Jakarta will apply a highly participative, solutions-oriented dialogue methodology. Each of the three modules will start with a short input introducing the topic. Selected participants will then kick-off parallel working groups by presenting concrete public sector concepts or initiatives to unlock more private investments.

All working group participants will then discuss the presented solutions, analyze additional ideas and jointly reflect upon opportunities for action. All suggested solutions should include a general approach and be applicable to various countries' contexts.

These will be presented by a means of using the following glider graphic:

PRACTITIONERS' DIALOGUE ON CLIMATE INVESTMENTS



Module 1: Advancing Public Incentives Schemes

Feed-in tariffs (FITs) as well as tax reductions for energy efficient equipment have shown to be widespread instruments to stimulate private sector investments in renewable energy projects and energy efficiency improvements. It remains unanswered, however, how to design a cost-effective policy mix, which lowers policy risks and contains instruments that transfer financial investment risk.

Furthermore, an ideal policy mix consists of practices that incentivize private sector investment in effective energy savings. Key questions in this regard refer to the availability and accessibility of such practices and how these can be disseminated and/or exchanged between countries.

Lastly, since for most businesses return on investments prospects in adaptation measures and products are unclear or widely unexplored; specific incentives to stimulate private investments with a focus on climate resilience are needed. Practitioners in Jakarta will discuss how public incentive instruments need to be designed to achieve the sought-after impact.

In detail, the following questions will be in the focus of this working group phase:

Group 1.1: How can governments incentivize private investments in adaptation measures and products?

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With unclear or unexplored return prospects, private investments in adaptation measures remain limited. Public incentive measures can help to enhance private investments in adaptation by placing key issues on corporate agendas, reducing investment risks and improving stakeholder engagement. The aim for this session at the 1st PDCI in Jakarta is to identify how such measures are to be designed in order to be effective.

Key questions for discussion will include:

- A clear business case is needed to drive substantial and sustainable private investment in adaptation. How can public incentive schemes reduce investment risks?

- Stakeholder engagement is pivotal for the design of effective incentive schemes. How can business engagement be improved in government initiatives to increase private investment in adaptation?

- Private investments in adaptation measures and products will vary widely between sectors.

- What is needed to ensure targeted measures that fit specific sector and location contexts?

Group 1.2: What is a cost effective policy mix to promote private investments in renewable energy solutions?

Although many countries have adopted renewable energy promotion schemes over the past years, renewable energy deployment differs substantially among countries. Some countries, despite apparently favorable policy schemes, have not recorded substantial growth in renewable energy technologies over the past years.

This implies that incentive schemes, such as feed-in tariffs, may have been a necessary condition for increasing renewable energy deployment, however, they do not directly explain discrepancies in renewable energy utilization. An ineffective policy mix is not necessarily attributed to lack or insufficient design of renewable energy incentive schemes, but the problems are usually embedded in country-specific risks and barriers which increase financing costs. These therefore impede private sector engagement in renewable energy investment.

Key questions for discussion at the 1st PDCI will include:

- How to systematically address country specific risks and barriers to renewable energy in order to design a cost-effective policy mix?

- How to foster favorable financial conditions and low costs of capitals in order to catalyze private sector investment?

Group 1.3: What are the best practices to incentivize energy efficiency measures in private companies?

Lower energy usage boosts companies' competitiveness and reduces the need for energy imports or electricity generation. However, it often proves challenging to convince companies to invest in energy efficient technologies given the intangible outlook of future energy savings. In addition to low confidence in energy savings predictions, there are also financial barriers to energy efficiency investments for private companies. For instance, business capital, particularly in developing countries is limited and companies prefer to allocate resources to their core business activities. Furthermore, high collateral requirements inhibit companies from acquiring debt capital for energy efficiency investments while at the same time little value is assigned to energy assets once installed.

Key questions for discussion will include:

- What mechanisms exist to mitigate the risk for businesses and provide predictable and stable cash flows to the investors to enable energy efficiency investments?
- What are innovative financial products to foster private sector investments in energy efficiency technologies?

Module 2: Adjusting Regulatory Frameworks

During the second module, practitioners will debate on adjusting regulatory frameworks since these are paramount for companies, banks and investors when assessing the reliability of an investment. Smart policies and regulations create the necessary environment for climate investment. In detail, this working phase aims at exploring:

Group 2.1: How to adjust banking regulation to promote clean energy investments?

Lending from public and commercial banks is a viable source of capital for renewable energy investments. Banking regulation can facilitate or hinder these investments.

Key questions for discussion at the 1st PDCI will include:

- Which banking regulations can facilitate more private sector investments in clean energy?
- How can banks develop human capacity to comply with regulations?

Group 2.2: Mandating preparedness: How to set standards for climate-proof infrastructure?

The private sector invests in, builds and runs critical infrastructure potentially at risk from extreme weather events. It provides products and services that contribute to making infrastructure more resilient to the adverse effects of climate change. In turn, business continuity often depends on resilient infrastructure to bounce-back from shocks. The public and private sectors have a common interest in climate-proofing infrastructure. This module will discuss how to put in place effective regulation for preparedness that reduces risks for companies and investors and improves the business case for adaptation investments.

Key questions for discussion at the 1st PDCI will include:

- How can regulation and standard setting processes deal with the uncertainty of climate change impacts and their variation across countries and sectors?
- Are there existing standards that we can build on?
- How could standards be designed to optimize regulatory enforcement or oversight?

During this session, one of the aims for the 1st PDCI in Jakarta will be to further define a sector focus on e.g. energy, water or transport infrastructure.

Group 2.3: How to develop a market for stand-alone renewable energy systems?

Especially off-grid and mini-grid / stand-alone renewable energy systems are seen as solutions for rural electrification, but national regulations do not always endorse this solution.

Key questions for discussion at the 1st PDCI will include:

- Which stand-alone renewable energy system work on a wide scale?
- How should regulatory frameworks be designed to support stand-alone renewable energy systems?

Module 3: Introducing Innovative Financial Mechanisms

In a last step, participants will have the opportunity to discuss on introducing innovative financial mechanisms, concentrating on topics such as impactful banking products for energy investments, investing in resilient supply chains as well as effective financial mechanism to finance energy services companies (ESCOs).

The rationale behind this is that around the world individuals, financial markets and investors have sufficient liquidity and are seeking interesting investment opportunities. The main questions are what are attractive financial mechanisms? And which of these are attracting the available private sector capital. Furthermore, which role does the public sector need to play to enhance the latter?

To gain some perspectives on these questions, the following topics will be addressed:

Group 3.1: Investing in resilient supply chains: How to form partnerships for financing MSMEs?

Taking into account that "the private sector" particularly "businesses" are a highly diverse set of actors, the general call for private investment in adaptation needs to be therefore differentiated. In many cases businesses will actually need investment to support their continuity planning, risk management and financing for adaptation measures. This is especially the case for MSMEs in developing countries and emerging economies.

Key questions for discussion at the 1st PDCI in Jakarta will include:

- Which successful examples of partnerships for financing MSMEs in adaptation related sectors do exist?
- Which modalities exist for engagement of large enterprises and the development and delivery of partnerships for investing in MSMEs and resilient supply chains?
- What needs to be done to devise new pilots and scale up partnership approaches for financing MSMEs?

Group 3.2: How do high-impact innovative financial instruments for energy investments look like?

Key questions for discussion at the 1st PDCI in Jakarta will include:

- Which financial instruments are not only innovative, but actually have proven to created wider and larger scale energy investments?
- Are these financial instruments sustainable?

Group 3.3: How does an effective financial mechanism to finance ESCOs look like?

ESCOs are seen as a major vehicle to identify and realize the potential for energy efficiency in a country, but most ESCOs lack the necessary financial resources. Financial barriers for ESCOs include for example the difficulty in accessing long-term credit to support energy efficiency projects or the small scale of individual energy efficiency projects with relatively high transaction costs diminishing project returns. This lack of availability of sufficient financial resources inhibits many ESCOs to pursue energy efficiency projects using the performance-contracting mode. At the same time, the prospect of future difficulties in electricity supply is stimulating both business and government to seek smaller-scale energy solutions closer to the consumers.

Key questions for discussion at the 1st PDCI in Jakarta will include:

- How to reduce the transaction costs of individual energy efficiency projects to achieve higher returns?
- How to develop insurance and/or guarantee mechanisms to support ESCO project financing?

- How to foster the interest from utilities or sector-oriented funds in investing risk capital into the ESCO market?

Outlook

The 1st Practitioners' Dialogue on Climate Investments (PDCI) strives to facilitate in-depth discussion on how to mobilize private investments in the energy sector and in the area of climate change adaptation and aspires to strengthen governments' capacity to act.

Discussion results of the 1st Practitioners' Dialogue on Climate Investments (PDCI) will inform the design of the further PDCI process in 2015 and beyond. The dialogue process will continue to offer space for peer-to-peer exchange and can support participants to advance concrete concepts and public sector initiatives in the upcoming months.

The conference results will also be presented to the German Federal Ministry for Economic Cooperation and Development (BMZ) and other international stakeholders to provide concrete feedback on the questions how international climate funds such as the GCF, including its Private Sector Facility, can catalyze, mobilize and leverage flows of private climate finance in developing countries and engage local financial institutions and businesses, including small and medium-sized enterprises, in low-carbon and climate-resilient growth.