PRACTITIONERS' DIALOGUE ON CLIMATE INVESTMENTS

EVENT REPORT

Translating the Paris Climate Agreement into action: Engaging the private sector

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On 23 May 2016, approximately 150 international representatives from government agencies, the private sector and research institutions as well as UNFCCC delegates followed an invitation to the evening event on "Translating the Paris Climate Agreement into action: Engaging the private sector" of the Practitioners' Dialogue on Climate Investments (PDCI) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

Philipp Knill, Head of Division from the special unit on climate change of the Federal Ministry for Economic Cooperation and Development opened the high-level event, recognizing the Paris Climate Agreement as an important policy signal for both, the public and private sectors. While it was a victory for diplomacy, Paris marks the beginning for action, not the end of the road. The nationally determined contributions (NDCs) and countries' national climate plans will be the main vehicle to drive mitigation ambitions, and the rules to guide them will be essential. He stressed that the aim of governments to keep the rise in global temperatures well below 2 degrees Celsius from pre-industrial levels, will only be met in collaboration with the private sector. Mr. Knill presented two initiatives adopted at the G7 Summit in 2015 where unique opportunities to attract private finance exist: At first, 'InsuResilience', an initiative which aims at providing climate risk insurance to 400 million vulnerable people worldwide until 2020. The G7 initiative shall stimulate the creation of effective climate risk insurance markets and therefore strongly collaborates with the insurance industry. Secondly, he promoted the 'Africa Renewable Energy Initiative (AREI)', led by the African Union's commission which aims at enabling the installation of large-scale renewable energy capacity on the African continent by 2020. According to Mr. Knill, public and highly concessional finance from bilateral, multilateral and other sources, including the Green Climate Fund, will be needed to leverage further large scale private investments.

Barbara Buchner, Executive Director of the Climate Finance Programme at the Climate Policy Initiative (CPI) highlighted that the Paris Agreement laid out the path to an ambitious future, yet that there are still a number of tasks that must be completed in order to put the world on a low carbon pathway. In order to use the momentum of December, it is crucial to include the private sector and to address the implementation of NDCs collectively. According to Ms. Buchner, the private sector will need stable investment environments that allow investors to scale up climate finance. Hence, governments need to send strong signals to businesses, allowing them to accelerate decarbonization of economies, supply chains and business models. Ms. Buchner stated that according to CPI's Global Landscape on Climate Finance 2015, a record of $391bn was invested in low-carbon and climate-resilient projects in 2014. While private finance seems to be on the rise, there is still a need to unlock investment at scale. And according to the International Energy Agency, the world needs $1 trillion a year over 2012 to 2050 to finance a low-emissions transition, thus, current finance flows still fall far short of what is needed. She stated that in order to get there, we need to (a) set domestic policies and support legislative frameworks right, (b) innovate and refine instruments to build a business case for NDCs and, (c) equip businesses with necessary information and knowledge tools in order to assess potential climate risks.

In the subsequent debate, panelists explored implications and opportunities of the Paris Climate Agreement for the private sector, particularly with regards to the implementation of NDCs. **Martin Hiller**, Director General of REEEP – Investing in Clean Energy Markets argued that NDCs have to become 'blue prints' for the economic and industrial development of each country as well as for different sectors and become the baseline for the next 20-30 years. With this in mind, governments will be able to bring forward a reliable plan that will attract private capital. **Katharina Klein**, Head of Department for Climate and Environment of the German Association of Energy and Water Industries (BDEW), elaborated that the Paris Agreement has brought a change of culture in today's discussions as German energy companies are not talking about the 'if' anymore but rather about 'how' to achieve a low-carbon emissions pathway. Ms. Klein introduced Germany's target to cut greenhouse gas emissions by 40 percent by 2020 and up to 95 percent in 2050. Renewables shall make up a minimum of 80 percent of the country's gross power consumption by the middle of the century. She emphasized though that the energy sector will not be able to reach such objectives on its own. **Yono Reksoprodjo**, Vice President of Corporate Affairs, Sintesa Group and the CEO of PT Sintesa Banten Geothermal in Indonesia, outlined that the corporate and financial sector need sustainable, firm and long term strategies and risk sharing mechanisms in order to invest in renewable energy, energy efficiency and climate resilient solutions. Governments should develop innovative solutions or models, such as insurance funds that take over potential risks. Concessional financial instruments could help covering risks or investment gaps, helping to leverage private sector investments. **Peter Nyeko**, CEO and Co-Founder of Mandulis Energy Limited elaborated how start-ups can benefit from the implementation of the Paris Agreement. According to Mr. Nyeko, Uganda profits from a rising interest in renewable energy and is currently experiencing a bigger flow of innovation. His company, Mandulis Energy Limited, contributes to such shift. It develops and operates biomass power projects for the private and public sectors in 16 locations across Uganda, relying only on sustainable resources.

Practitioners from the audience engaged in the discussions and stressed that low-carbon investments need to become commercially viable and at least as profitable as less climate friendly alternatives. This would encourage the private sector to make the necessary change in their investment decisions. **K.S. Venkatagiri**, Executive Director Designate from the Confederation of Indian Industry (CII) also advocated for a private sector engagement in order to successfully adopt NDCs. He outlined that businesses would benefit from more competitiveness and new business opportunities in the renewable energy sector. **Iffat Farooq** from the Energy Department, Government of Punjab added that not only energy production but also energy conservation needs to be taken into account when transitioning to a low-carbon pathway. **Rafaelita Aldaba**, Assistant Secretary of Industry Development & Trade Policy Group from the Department of Trade & Industry in the Philippines, offered a practical solution on how governments could encourage energy efficient technologies in order to achieve countries' NDCs. She presented her current prototype "CLIMA" which aims at encouraging investments in energy efficient technologies in the Philippines. According to her, it is critical that government establish an enabling investment environment for businesses. Therefore, the Philippian government plans to provide fiscal incentives to the energy intensive industry (e.g. cement, iron and steel, chemicals) in order to encourage them to invest in energy efficient technologies.

The panelists further discussed incentives that could trigger climate investments in developing countries. They agreed that in order to attract private capital, climate projects have to become more 'bankable'. According to Mr. Nyeko, there is often a lack of financial support at the early stage of a project. Therefore, governments could provide more information and necessary tools to access the impact of climate change to businesses, create standard procedures about available project information, invest in feasibility studies and the early prototype development of projects or provide financial support through debt guarantees or tax incentives. Another identified barrier is that projects are often considered too small for investors. In order to attract large scale investors, Ms. Klein suggested developing innovative instruments allowing bundling up small projects while Mr. Hiller advocated for small funds allowing green start-ups to help building up their own track records. Another part of the debate focused on carbon pricing. According to **Kai Schlegelmilch**, Founder of Green Budget Europe, a carbon market could promote innovation and accelerate low carbon development. He advocated for eco tax reforms which, according to him, have led to the creation of more jobs and increased competitiveness in Germany. Ms. Klein agreed that global carbon markets could effectively encourage less carbon-intensive pathways and investment decisions. Being regulated under the European Emissions Trading Schemes (EU ETS), German companies have gained experiences with the largest carbon market worldwide. While the ETS faces weaknesses, such as over-allocation of certificates, windfall profits and price volatility, Ms. Klein stated that EU companies are confident that the adopted reforms will provide more stability in the cap-and-trade system in the long term. Ms. Klein further acknowledged the potential of China's ETS which is to be launched in 2017 and advocated to put carbon pricing together with the Paris Agreement on the agenda of the G20 Summit in 2017.

In a closing statement, **Peter Greg McQuaide**, Head of Unit of the Commission's Directorate-General for International Cooperation and Development (DG DEVCO) C6 – Sustainable Energy and Climate Change from the European Commission, summarized the findings of the panel debate and briefly outlined EU's activities on private sector engagement in the field of climate change. He informed about the EU policy on "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries" (EU Communication). The EU further provides its financial support though EU development work, where the EU member states are currently investing 2bn EUR in the private sector in a 7-year period[1]. DG DEVCO further supports the integration of climate change considerations into the broader development cooperation portfolio. According to Mr. McQuaide, several financial instruments and aid delivery channels are used to attract private investments at scale. These include investment facilities and blending frameworks designed to leverage additional funds to complement official development aid. In conclusion, Mr. Greg McQuaide summarized that in order to shift investments from business-as-usual towards climate friendly projects, rules, regulations, fiscal incentives and effective markets need to be in place. Hence, he pointed out that practitioners from all sectors need to quickly begin to translate the Paris Agreement into concrete actions.

About the Practitioners' Dialogue on Climate Investments (PDCI)

The global Practitioners' Dialogue on Climate Investments, implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), offers a platform for decision makers from governments, the private sector, financial institution and civil society to engage in a cross-sectoral and -regional dialogue on how to mobilize private investments.

In 2016, a core group of practitioners of the PDCI began to design innovative prototype policy instruments and other solutions which scale up financial flows in low-emission development and unlock private sector investments in climate-resilience measures.

For more information please visit our PDCI website.

[1] For the seven year period (2014-2020), the EU has nine instruments covering external cooperation and external aid, including the European Development Fund (EDF) and the Development Cooperation Instrument (DCI).