Intervention before the United Nations General Assembly on the Work of the High Level Advisory Group on Climate Finance July 12, 2010

On behalf of

Business Council for Sustainable Energy
Carbon Markets & Investors Association
Global Wind Energy Council
International Chamber of Commerce
International Climate Change Partnership
International Emissions Trading Association
World Business Council for Sustainable Development

Mr. Chairman, Excellencies, Ladies and Gentlemen, as the Permanent Representative to the United Nations for the International Chamber of Commerce, I greatly appreciate the opportunity to present the views of a broad range of international business and industry groups to the United Nations High Level Advisory Group on Climate Finance (AGF).

Today, we would like to express our support for the work of the AGF and to offer input on behalf of the private sector. The purpose of our intervention is to emphasize the need for a more structured engagement going forward between governments and the private sector on issues where we have particular expertise. We come before you today to offer our collective experience as a resource to the AGF as it works to achieve its mandate.

In our comments today, we want to share with you a sampling of the expertise that we can bring to this dialogue as you develop both short and long-term plans to mobilize financing for climate change mitigation and adaptation strategies. Although we represent a diverse coalition of business voices, the following points are commonly shared when thinking about climate-related finance.

- First, the creation of demand, through policy and/or other incentives is the strongest tool needed to spur private investment;

- Second, new public investment instruments must be kept simple and existing instruments must be streamlined;

- Third, while there are many existing tools to manage risk, when dealing with deployment of clean energy technologies in developing countries, these tools may need to be bundled, expanded, and/or streamlined to work more effectively;

- Fourth, insure that public finance mechanisms work in synergy with market-based approaches to establish goals and criteria, within which the private sector can work to innovate, invest and meet objectives in the most effective fashion. The creation of domestic or internationally recognized offset credits should also be an important component as offsets can lower the cost of domestic programs, promote efficient development in developing nations.

- Fifth, sectoral approaches or the aggregation of projects may be necessary, especially in energy efficiency and other clean energy initiatives, in order to generate the level of finance needed to result in project implementation; and

- Sixth, market-based mechanisms, a focus of one of the AGF work-streams, are an important vehicle that will drive investment.

Furthermore, in your work, we suggest the following recommendations be considered:

The AGF should stress the **importance of national policy in creating stable markets** for low-carbon and clean energy investments. Through the creation of strong domestic climate change policies and a price on carbon, governments can and will send the necessary long-term signals to incentivize private sector investment.

It should acknowledge the crucial role of enabling frameworks, such as rule of law, good governance, protection of intellectual property rights, and transparency in enhancing investment.

In addition, the AGF should seek to ensure alignment and compatibility with multilateral trade rules to enable governments to reap more fully the beneficial effects of trade liberalisation for both economic development and environmental protection.

Reforms to national energy policies and markets are also needed, and include the following critical aspects:

- Identifying and progressively eliminating the more than 500 billion USD in subsidies to conventional energy sources;

- Creating clear support mechanisms and regulatory frameworks to compensate for these subsidies and to recognize the energy security, environmental and economic development benefits associated with renewable energy and energy efficiency deployment; and

- Fostering the creation of real electricity markets within which private sector investment can be maximized.

In the wake of the global financial crisis, public finance has increased in importance. At the same time, however, the strains on sovereign public debt highlight more than ever that public finance must be used strategically. The AGF should investigate ways to **streamline, simplify, and fill-in the gaps with well targeted public policy instruments that succeed in leveraging private sector investment flows**. Smart policy instruments will be those that lower risks to both equity and debt providers and thereby lower the overall cost of capital which makes up a very large portion of the cost associated with various low-carbon investments. Examples include green bonds aimed at institutional investors, public-private equity funds that crowd in private investment, and incentives to encourage early investment from the private sector into REDD+ activities.

Examples of domestic public policy measures that could assist in financing low-carbon technology include the set up of publicly-funded Green Banks such as those proposed in the UK and US, or policy reforms to help manage the fixed costs of **financial due diligence** when implementing renewable energy projects. When seeking financing, large renewable energy projects are preferentially favored because due diligence is a smaller proportion of overall deal size, minimizing the impact on project economics. The AGF needs to address this hurdle for smaller projects by expanding or streamlining existing tools for bundling projects and lowering costs.

Similarly, the AGF should investigate the possibility of aggregating smaller energy efficiency and clean energy projects in more efficiently gaining access to existing finance mechanisms, such as the Kyoto Protocol's Clean Development Mechanism (CDM). For example, there are huge opportunities to derive synergy between the CDM and local microfinance institutions in developing countries.

While certainly not without flaws, the CDM has facilitated private investment of many billions of dollars in clean energy technologies in developing countries in just five years of operation. These successes should be analyzed and built upon, further streamlining and improving the CDM to help meet the challenges ahead. Putting a price on carbon will not do everything that we need, but it is a proven means to attract private investment in those countries that have created functioning frameworks for its operation, and this should be further encouraged and developed. The experience gained from the CDM should be built into the new and scaled-up financial mechanisms that are now required.

Finally, the AGF should **address the differences between financing in emerging markets and in OECD countries**. Emerging markets often contain additional risks to financiers. Reasons include political instability, uncertain legal and tax environments, exchange rate fluctuations, and the lack of infrastructure. This increases the need for new financial instruments and policy measures to serve as risk mitigants for investors.

Furthermore, we recognize that all of these recommendations and policy approaches presented today are not universally appropriate for specific countries or regions, and different windows of finance may be required even within the range of developing countries.

We want to reaffirm our strong support of the work of the AGF. In order to facilitate your work, we would like you to consider that a more formalized channel be established where this kind of information exchange with the private sector can occur. We would like to engage the various work streams of the AGF and the opportunity to comment directly on their work programs. The AGF is tasked with identifying innovative and practical approaches to deliver financing to a range of climate-related activities in developing countries. Direct communication with the private sector, whether through interventions like these, via a public website, open comment periods on work products or various other vehicles can tap into the innovative thinking and real-life experiences of businesses working and investing in those countries.

In closing, a tremendous opportunity lies before all of us. Leading economies have made financial commitments that could catalyze large-scale investments in clean energy sectors.

As you prepare your recommendations for the COP-16, we again strongly encourage a more formalized, active engagement with members of the private sector. The investment requirements of the climate change challenge can only be met by public-private partnership. We can provide expertise that can assist in setting the right policy course to leverage public sector investment, drive private sector capital and deliver global greenhouse gas emissions reductions.

Thank you.