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CIF 2012 Private Sector Forum

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2012 CIF PRIVATE SECTOR FORUM

The CIF 2012 Private Sector Forum convened on Monday, 5 November, organized in partnership with Bloomberg New Energy Finance (NEF). The Forum, which met for the first time, is expected to contribute to the CIF 2012 Partnership Forum, which meets on 6-7 November. Investors, policymakers, project developers and civil society and NGO representatives attended the Forum.

WELCOME

Forum moderator Susan Kish, Cross Platform Initiatives, Bloomberg, welcomed participants, and, quoting US journalist James Surowiecki, said that under the right circumstances, groups are often smarter than the smartest people in them.

KEYNOTE ADDRESS: THE PRIVATE SECTOR IN ENERGY MARKET TRANSFORMATION

Michael Liebreich, Chief Executive, Bloomberg NEF, highlighted that global new investment in clean energy has increased from 2004 to 2011, and stressed the sector is striving for trillions of dollars in investments. Liebreich noted that the sector is currently in a transitional phase and that the valuation of clean energy stocks has collapsed recently, due to the European financial crisis and the US political situation. At the same time, he said the sector has a positive future, noting that costs of clean energy technologies are continuously decreasing and that, for instance, photovoltaic module prices have dropped by 75% since 2008. Referring to the 2009 Copenhagen Accord's goal of mobilizing US\$100 billion a year by 2020 to address climate change in developing countries, he stressed that North-South clean energy investment flows are currently approximately US\$7-8 billion so any approach to increasing finance should consider whether it can be scaled up ten-fold.

PRIVATE SECTOR ADAPTATION: EMERGING EXPERIENCES FROM GLOBAL BUSINESS

Frances Way, Carbon Disclosure Project (CDP), explained the project provides a system for companies to voluntarily disclose environmental information, and that in 2011, 80% of respondents identified substantive risks to their business as a result of climate change. She said companies are realizing adaptation is a business issue, and that climate change impacts can resonate throughout the supply chain. Way explained that companies identified increased operational cost and reduction/disruption in production capacity as risks with the greatest potential impact. She said in order to effectively respond to climate change risks and opportunities, businesses need to be strategic, not reactive, and recommended: improving communication between companies and policymakers; improving companies' risk assessments; and undertaking risk reporting.

CREATING AN ENABLING ENVIRONMENT FOR BUSINESS ACTION ON ADAPTATION

This panel was moderated by Özlem Gürses, CNN Turkey. Wendy Poulton, ESKOM, highlighted the introduction of dry cooling in all new power stations, in anticipation of water scarcity. She noted that the power generation sector has a 50-year planning horizon and considers future costs of inaction.

Lola Vallejo, UK Committee on Climate Change, described her government's invitation to key public services to report on their adaptation actions. She emphasized the need to raise

awareness in the telecommunications industry, which other sectors rely on, and among local authorities responsible for land-use planning and emergency services.

Patrick Karani, Bureau of Environmental Analysis International, highlighted adaptation opportunities in standards for construction of infrastructure, such as roads and bridges, and suggested procurement should require bidders to incorporate climate resilience considerations.

Sibel Sezer Eralp, Regional Environmental Center for Central and Eastern Europe, mentioned the Center's current survey of CEOs' understanding of climate risk in various industry sectors.

Frances Way, CDP, highlighted that integrating adaptation into business planning requires the support of senior company management, as well as the public sector.

SHOWCASING THE CLIMATE INVESTMENT FUNDS

This session was moderated by Susan Kish, and consisted of two panel discussions.

CIF SUCCESS STORIES THROUGH DIRECT INVESTMENTS:

Paddy Padmanathan, ACWA Power International, presented on the Quarzazate concentrated solar power project (CSP) in Morocco, noting it is one of the largest CSP projects in the world and uses an innovative public-private partnership model.

Gulnara Artambaeva, Central-Asian Electric Power Corporation, presented on a district heating project in Kazakhstan, stating that the US\$50 million project received a US\$30 million loan from the EBRD and a US\$10 million loan from the Climate Technology Fund (CTF), and will be completed in 2015.

In response to a question on how a local currency investment component impacted the project, Artambaeva noted that combined currency loans help decrease risks. On working with advisory services to address barriers, she said that the EBRD approached the government to reform tariff establishment. On engaging multiple investors, Padmanathan said that involving international financial institutions made the project attractive for the private sector.

Through an interactive voting system, participants selected "degree of risk-taking" and "scale of investment" as the two most important factors for direct investment viability.

CIF SUCCESS STORIES THROUGH FINANCIAL INTERMEDIARIES:

Ture Oral, Denizbank, presented the bank's financing activities, totaling US\$2.7 billion in transactions since 2006, around half of them in energy. She noted an abundance of projects in the pipeline, and said that limited funding and complex market mechanisms make prices and costs difficult to predict.

Javier Warman, Financiera Rural, Mexico, described the bank's role in: consolidating financial intermediaries to provide second-tier loans; enabling forest communities to acquire a credit history; reducing the perception of risk; and providing incentives for sustainable activities.

Kagan Aktan, Yapi Kredi, Turkey, described benefits from the CTF, which enabled funding energy efficiency and renewables through small and medium enterprises.

During the discussion, speakers highlighted industries, including heating, wood processing, food processing and capacity increase in natural gas turbines, as among those most suitable for investment.

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Through an electronic vote, participants identified “degree of risk sharing” as the most important factor for financial intermediary viability.

STATE OF PLAY: STATISTICAL ABSTRACT BY BLOOMBERG NEF (1)

Ethan Zindler, Bloomberg NEF, said the sector is oversupplied with clean energy equipment, but project valuations are going down and the amount of investment is declining in 2012 for the first time in eight years.

Through the interactive voting system, participants selected financiers and policymakers as those who currently have the greatest leverage in the market, although Zindler disagreed, noting it is project developers who benefit the most because of low prices for equipment.

MATCHING EXPECTATIONS OF DIFFERENT ACTORS PROJECT DEVELOPERS, INVESTORS AND POLICYMAKERS:

This panel discussion was moderated by Nat Bullard, Bloomberg NEF, who asked panelists to reflect on what they can and cannot do for climate finance. Pasha Bakhtiar, Willow Impact, Lebanon/UAE, answered they can invest in clean energy entrepreneurs with bright ideas, but cannot influence policy due to the focus on small-scale projects.

Sherife AbdelMessih, Future Energy Corporation, Egypt, said his company is oriented toward project development rather than investment, and noted that renewables have transitioned from a niche development industry to a mainstream industry.

Wilbur Ottichilo, Kenya, highlighted the importance of a policy and legal framework for developing the clean energy sector and provided an example of tax removal for solar panels in Kenya, which led to the proliferation of small businesses.

Roberto Dumas Damas, Itau BBA, Brazil, stressed that three parties – customers, financial institutions and policymakers – should work together to increase clean energy investment, and said policymakers should get involved to make projects viable.

INVESTORS PANEL: This session was moderated by Ethan Zindler. Peter Greenwood, China Light and Power, highlighted negative aspects of renewables, stating: they are more expensive than conventional sources; and sensitivity to risk was previously underestimated.

Dima Rafai, Paradigm Change Capital, acknowledged risks, noting, however, current pressures on institutional investors to consider the environmental, social and governance aspects of investments.

John Lynch, Bank of America Merrill Lynch, commented that project bond markets for renewables require more liquidity. Regina Mead, Mb4, discussed investors’ interest in exit strategies, and the importance of minimizing political uncertainty, highlighting examples of the Libyan upheaval, and US temporary tax credits for wind energy.

During the discussion, speakers noted that: returns on renewables projects are not necessarily financially attractive; investors prefer “de-risked” projects; institutional investors are moving towards unleveraged assets; and the CIF plays an essential role in making finance available.

During an interactive voting session, the highest percentage of participants believed that manufacturers and project developers were best positioned to manage technology risk; project developers and sovereign entities to manage market risk; sovereign entities to manage policy risk; private sector lenders and MDBs to manage currency risk; and MDBs and sovereign entities to manage country risk.

STATE OF PLAY: STATISTICAL ABSTRACT BY BLOOMBERG NEF (2)

Nat Bullard discussed venture capital and private equity in clean energy and said innovations are either very big or very small, noting that with small innovations, the trick is measuring and verifying that it is an investment and not a “giveaway.”

INNOVATIVE FUNDING AND FUNDING INNOVATION

This session was moderated by Josué Tanaka, EBRD. Wochong Um, Asian Development Bank, noted the bank was transitioning from lending to leveraging. He discussed innovative ways of using money, pointing to, *inter alia*: financing technology not yet at the commercial stage; and scaling up the Climate Public-Private Partnership (CP3) fund to tap into sovereign wealth and pension funds.

Dimistris Tsitsiragos, International Finance Corporation (IFC), elaborated on the IFC’s work on climate-smart investment, noting expanding beyond energy efficiency and renewable energy to green buildings and green bonds. He stressed the need: to mobilize pension funds and expand education for both the public and private sectors; and for clear messages from governments.

Sean Kidney, Climate Bonds, said they work with institutional investors such as pension funds, which still have a minimal energy component, and which are ready for energy and infrastructure investments.

Responding to a question from Tanaka on whether innovation means deploying standard products at a greater scale or using new instruments, Um said both approaches are important, but in a step-by-step manner where new technologies are first tested and then scaled up. Tsitsiragos noted that the MENA region has tremendous energy efficiency potential but little investment and, hence, traditional financing instruments can be deployed.

On the CIF and design of the Green Climate Fund, Kidney stressed the importance of engaging investors and considering tools for leveraging private finance, and Tsitsiragos said arrangements must be simple, understandable and easily “sold” to all actors.

UN-CONFERENCE: REIMAGINING APPROACHES AND OUTCOMES

Facilitators Joumana Asso, CIF Administrative Unit, and Nat Bullard invited participants to work in groups to discuss solutions to investment barriers.

On policy issues, participants identified problems, including: lack of capacity to satisfy due diligence requirements; excessive bureaucracy and lack of regulatory frameworks; and lack of local knowledge regarding opportunities and risks. They suggested solutions, including: CIF funding for technical assistance to meet compliance and due diligence requirements; consolidating issuing of permits through a “one-window shop;” creating platforms to bring national stakeholders together; and developing new insurance mechanisms as a hedge against policy uncertainty through cooperation by governments and the international community.

On market issues, participants identified needs for incentives to internalize externalities, level playing fields and funding for early-stage innovative solutions. They suggested, *inter alia*: introducing carbon taxes; providing political risk guarantees; removing fossil fuel subsidies; and MDBs taking on higher-risk investments in technology development.

Asso noted that each problem identified has several dimensions. Bullard added that they indicate an increased scale in energy projects that are now concerned with leveling the playing field in relation to old technologies, rather than the initial problems of access to markets by small projects.

CLOSING REMARKS

Michael Liebreich described the challenges which the industry is facing with the words of a bullfighter El Gallo: “It is impossible – and also very difficult.” He then summed up the discussions, noting existing business actions like the CDP, the need for policymakers’ input, and the innovative nature of the clean energy sector. On innovative financing, he noted two approaches: multiple small innovations; or a small number of large innovations, like climate bonds. He summed up that the sector is still in an exploratory stage, the best approaches need to be scaled up significantly to make a difference, and climate-related finance will become more specialized in the future. Liebreich also highlighted that many approaches will only work in developed capital markets so expanding them to less developed markets will be a challenge.

Forum moderator Kish thanked the CIF and the EBRD for co-organizing the event and participants for contributing to the discussions.