Summary of Day 1 of Private Investment for Climate Conference - 10 October 2018

1) Opening remarks

Paul Oquist (Minister of Nicaragua) and **Ko Hyoung-kwon** (Vice Minister of the Ministry of Economy and Finance of South Korea) delivered a welcome address highlighting key outcomes of the IPCC report on the 1.5 degrees Celsius global temperature. They instigated that major social change in responding to climate vulnerability starts with social movements and the world needs such a movement now more than ever. They highlighted that the private sector has corporate social responsibility in climate financing which can be leverage through insurance and reassurance industry. The private sector plays a crucial role in dealing with climate change as the global climate change finance needs amount to USD 7 trillion.

Park Nam-Choon (Mayor of Incheon Metropolitan City) underscored the need of timely and relevant mobilization of resources towards climate actions by catalyzing private finance and bringing together various stakeholders globally. He enumerated two things involved in combatting the adverse impacts of climate change:

1. Public Private Partnerships in renewable energy, low carbon transportations and smart cities
2. Public finance must lower uncertainties of climate-related projects

Javier Manzanares (Deputy Executive Director of GCF) delivered the opening remarks, entitled "GCF catalyzing private sector investments". He outlined that the main objective of the conference is to convene private sector actors, like institutional investors who managed assets amounting to more than USD120 trillion but invested less than five percent in climate finance, into redirecting investments towards net zero carbon emission to achieve the target goal of below 1.5 to 2-degrees instigated in the Paris Agreement. Prioritizing financial flows to green financing and integrating climate risks in market assessments will become a new trend/norm in up-and-coming businesses in the future.

2) Climate Facts – IPCC Interview

Youba Sokona (Vice Chair of IPCC) stipulated the importance of the IPCC Report and the dangers of climate change if the target of 1.5C is not reached. The private sector will have to play an important role in fighting climate change by shifting investment to low carbon or zero carbon. Sokona accentuated four messages from the report:

1. Climate change is already affecting people, ecosystem, livelihood, and people all around the world. This is supported by findings on coral reef decline, rise of sea levels, melting of the Arctic cap, more frequent heat waves, and biodiversity loss. All countries are affected, but impact is felt more by poor and vulnerable ones, particularly small island states, mega cities, coastal regions, mountainous areas.
2. There are clear benefits if global warming is kept to 1.5 °C compared to 2 °C. Every extra degree will worsen the impact. Interestingly, we have not yet adapted to the current degree of warming.
3. Limiting global warming to 1.5 °C is not impossible but would require unprecedented transition and deep changes in all aspects of society within the next 10 years. It requires collective ambitions and at different levels.
4. Limiting warming to 1.5 °C can go hand in hand in achieving the SDGs. Strengthening governmental and sub-national authorities, civil society, and local communities can support the ambitious action. International cooperation is necessary.

3) A View from Climate Leaders

Four climate leaders highlighted what their priorities on climate change action are:

- **Claudia Dobles Camargo** (First Lady of Costa Rica): There is a need to provide certainty and correct legislation to risk climate investments. In addition to that, institutions need to be reinforced to promote public-private partnerships.
- **Una May Gordon** (Ministry of Economic Growth& Job Creation of Jamaica): The private sector speaks a different language compared to the public sector. One needs to understand and be able to speak this language to encourage them to get engaged in climate action.
- **Barbara Buchner** (Climate Policy Initiative): It is important to get the narrative right and ensure that opportunities are presented to the private sector. The correct investment vehicles to address the risks still need to be identified.
- **Oyun Sanjaasuren** (GCF): Changing lifestyle, sustainable production and consumption, and deviating away from business as usual can offer a promising impact.

4) Industry Interview

The third session was an industry interview that discussed why climate change matters and how the private sector can bridge the climate finance gap.

- **Bill Hare** (Climate Analytics): If we want a healthy and sustainable planet, we need to get moving. There are massive benefits, such as health, wellbeing and economic development. The Economic costs of inaction are visible now in developing countries, for example when a storm hits small islands states there is a cost of the damage and a negative economic impact.
- **Barbara Buchner** (Climate Policy Initiative): We need a trillion of investment to get the energy sector aligned with the Paris agreement, which we are falling short of. The shortfall is especially visible in the adaptation sector, where currently only USD22 billion have been spent on. There is a need to inform and attract private investment and to foster innovative solutions to solve this gap. It is important to make sure that climate change is a priority for pension funds in developing countries, while building internal capacity. We need to make it a climate investment match - build the capacity, explain the need and presented it as the right investment.
- **Selina Wrighter** (GCF): All climate finance is developmental finance, but not all development finance is climate finance. GCF is committed to climate finance, targeting 50/50 investment and implementation on mitigation and adaptation. Thera are some encouraging developments in the adaptation area, recently the Board approved one of the first projects of private equity funds in adaptation. Things that GCF could work on are (i) creating a market place, (ii) building climate information capacity to engage the private sector, and (iii) providing lower cost financing for focus sectors like renewable energy.

5) The emergence of climate funds in adaptation & mitigation

Over the past 10 years, Private Equity has raised about USD 4 trillion. Little of this amount has gone to fighting climate change, as little as 5% has gone to non-fossil fuels. Therefore, the question is how to channel more funds towards climate change at scale. The session focused on the emergence of climate funds in adaptation and mitigation, specifically by discussing the role of GCF in future funds, expected returns and FX risk.

Some key messages from panelists were:

- **Jay L. Koh** (The Lightsmith Group): Climate action has to, can be, and is a profitable enterprise and can generate the appropriate risk and return. GCF has a transformation role to play by creating the first examples of investments, returns, business cases, instruments, strategies – data that will allow us to scale.
- **Raj Pai** (GEF Capital Partners): Two points of skepticism on this sector, whether these projects would be scalable and whether they could generate market rate returns. In the past 10 years, the South Asian market has proven to be able to scale without problems. Regarding market returns, the renewable energy market has become a commercially viable sector, in fact it has become more competitive than thermal energy.
- **Sachindra Rudra** (Acumen): Private capital will flow in if the risk versus reward is favorable. Acumen started as a mitigation fund as it was easier to attract investors, e.g. power-grid energy in Africa. However, adaptation funding has been much more difficult due to the need to explain the investment not as a cost, but a benefit with a higher return or reduction of risk. To explain this to an investor takes times and can be difficult. In addition to that, there is a need to innovate and experiment in this sector.
- **Alberto Pisanti** (Absolute Energy): The role of GCF is crucial. The first loss piece is important, but the branding of GCF is a very important factor for first funds. The capital has in an important function, but the project is also very important.
- **Patrick Doyle** (MGM Innova Capital): There is a gap in equity capital for renewables.

6) Lunch Interview

The lunch interview with **Rachel Kyte** (UN Secretary-General) focused on sustainable energy, exploring how we can make energy systems accessible for everybody. The amount of investment in renewable energy is healthy but needs to increase. We are not on track in terms of need and speed. We have benefited from technology and energy, but we have not driven a change towards sustainable energy.

Some key messages were:

- Call for leadership in climate change action and the need to understand what climate change action means for everyone, from what buying at the supermarket to casting a vote in elections. We need to change our behavior and routine.
- Change also needs to happen in the financial sector, a sector that is deeply conservative. Capital market development must receive more importance on the climate change agenda. Private innovation needs to get more attention (e.g. mobile banking systems).
- Long term solutions need to replace short term solutions. For example, the way we build cities needs to change, rather than just giving people cooling devices.

7) Experience from Technology Investors

The flow of technology will move faster once more validation of the merits is provided. The private sector is a good place to start making good investments and making people or institutions more confident in taking risks. When all the institutions are in sync, there will be a great interaction that will spill over to the population and will engaged them. We need to foster synergies.

8) A view of Investors: Challenges and Opportunities of Investing in Climate

Moderated by **Douglas Leys** (GCF), the panel reflected on the challenges and opportunities of investing in climate from intuitional investors perspectives. The moderator pointed out three main challenges. Firstly, that it's difficult to find bankable opportunities. Secondly, that in many countries the regulations are non-existence or not friendly. Thirdly, that economic incentives for switching to new technologies don't exist.

Patrice Backer (CIO of AIFG) addressed the three-fold role PE can play in such environment for climate finance: firstly, to introduce climate finance to the regular pipeline; secondly, to identify climate-resilient investment opportunities for co-financing, and thirdly to invest in companies with innovative technological solutions.

9) GCF Interview with Ayaan Z. Adam

The interview with **Ayaan Adam** (GCF) was on de-risking financial structures to mobilize institutional capital. GCF is equipped with instruments that give great flexibility (e.g. debt, equity, grant, guarantees). The GCF is unique in its ability to invest in equity, subordinated equity, junior equity and others. Insurance as a financial instrument has not yet been used much but will probably be used more in the future.

On the risk appetite, the GCF was created to be high risk taker. At this point the GCF invests through accredited institutions that happen to have a big private sector clientele. Because of the project size, people are getting more conservative. PSF would like to engage more with other entities in the embryonic project stage. PSF would like to explore investing more in platforms.

GCF has a clear invest thesis, filling the climate financing gap in the market. PSF has excellent flexibility in the use of instruments and has a strong team with the right skill set. PSF has implemented many projects that would not have been able to succeed in the market without the GCF intervention. GCF needs to be in a leadership position on new products in the market. GCF needs the ability to mobilize and organize other sources of founding and further de-risking.

10) Hedging Climate Investment Risk: Do we have the right products?

Session eight focused on the transfer of risk through insurance and on managing risk to make projects viable. Firstly, there is an under insured, or self-insured market of US$ 220 billion a year in pure natural catastrophe losses. This translates to about 70% on the global average. In Asia and Africa, this goes up to almost 100% for climate risk such as floods and rain storms, either knowingly and willing or because people are unaware of the risk. Awareness of risk is a critical part. Secondly, is the need of attractiveness and supply of insurance products to cover more risks. Thirdly, government regulations need to allow for modern risk transfers.

Key messages were:

- Insurance should be part of the risk management toolbox, especially for severe and infrequent risks (e.g. natural catastrophes).
- Insurance market needs to be used wisely to control risk and get value from the markets. One must have a risk appetite and risk tolerance to understand what types of risks can be self-insured. The insurance industry has a particular risk appetite for things that are relatively low probability with high severity.
- GCF should and has an important role to play in de-risking projects. GCF doesn't need to take the risk directly. There is plenty of capital available, but there is a need to catalyze and mobilize.

11) Investment opportunities in developing countries: The case for institutional investors in climate

The panel discussed the opportunities and challenges for institutional investor in investing in climate change related projects in a developing countries. The moderator, **Mitch Carpen** (GCF), indicated that developing countries will need new investments of up to $300 billion annually by 2020—growing up to $500 billion annually by 2030—to adequately limit their growing greenhouse gas emissions. Currently, the funding gap is significant. The public sector needs to leverage private capital investment in climate change projects in developing countries.

- **Joon-Yong Park** (IFC) noted that in order to channel private sector investment, the projects need to meet the parameters private investors are looking for – bankability and regulations in place to make investors take the leap of faith to invest in developing countries. There are opportunities like co-financing in green bonds and green loans with high risk-adjusted returns.
- **Chika Fukuyama** (MUFG Bank) reflected on the importance of mitigating the risks. For commercial banks like MUFG Bank, the loans they provide to the projects come from the saving of their customers and thus, they can't risk losing the investments. They have a comprehensive risk profile and mitigation strategies for such investments, such as sponsor risk, operations and manage risk and local currency risk.
- **Mauricio Chacon Romero** (CABEI) explained that CABEI is facing challenges in bringing private sector investment to developing regions. Although some developing countries have been creating adequate regulations (e.g. PPP frameworks), financial institutions have been set up to ensure the continuing investment in the prioritized climate-related projects. Private investors still need more incentives to invest in the region.
- **Uche Orji** (Nigerian Investment Authority) emphasized the gap between perceived and actual risks of investing in the region. Private investors from developed regions need to visit the countries and communities to understand the local settings and thus will be more comfortable in making investment in the region.
- **Neo Gim Huway** (Temasek) noted that the following lenses need to apply to do investment: investment into business, investment into projects and investment into ideas. Moreover, the key is to have collaboration and co-share of risks with a partner like GCF.
- **Matthias Borners** (KfW Development Bank) noted that there is a three-fold role development banks plays. First, development banks usually have a long history of operations in the countries. They create the environment for the private sector to enter the countries and can share knowledge on the regulations. Second, they can provide technical assistance in grant forms to build necessary institutions in place. Third, they can also ensure the projects have the environmental and social integrity in place. Working with the development banks, the private sector can have such knowledge and expertise of development banks.