Financial Instruments to promote public-private investment in low-carbon, climate-resilient development

15 November 2016
COP 22
Program

Introduction & Moderator:
- **Ian Cochran**, *I4CE – Institute for Climate Economics*

Panelists:
- **Béryl Bouteille**, Project manager, Financial Institutions and Private Sector Support, Agence Française de Développement
- **Paul Horrocks**, Lead Manager – Private Investment, OECD
- **Boutania Benchekroun**, Senior Structuring Officer – Moroccan Solar Energy Agency (MASEN)
- **Coşkun Kanberoğlu**, Head Engineering Analysis Department – Industrial Development Bank of Turkey (TSKB)
How can financial instruments improve access to capital for low carbon, climate resilient projects & activities?
**Financial Instruments to promote public-private investment in low-carbon, climate-resilient development**

**Annual issuance of bonds**
($100tn)

**Current annual investment in low-carbon technologies**
World ($0.3tn)

**Gross fixed capital formation**
World ($16.2tn)

**FDI received**
World ($1.4tn)
EU ($0.3tn)
China ($0.25tn)

**Subsidies for fossil fuels**
US+EU+CN+JP+IN ($1.5tn)

**GDP**
EU or USA (app. $16tn)
China ($8.2tn)
Germany ($3.6tn)

**Needs in the 2DS scenario**
World ($2tn)

**Sources:** IMF, IEA, UNCTAD, BIS
A domestic financial value chain from sources to projects

**Sources & Intermediaries**

- Public administration
  - Central and local governments, public agencies
- Public financial institutions
- Commercial banks and financial markets
- Revenues, savings and assets of households and private companies

**Landscape of Climate Finance in France, in 2013**

- **Project developers**
  - 13.9 Public project developers
    - Central and local governments, public operators, public housing authorities
  - 22.5 Private project developers
    - Households, private companies

- **Sectors**
  - 12.1 Transport
  - 0.3 Agriculture
  - 1.8 Industry
  - 4 Centralized energy production & networks
  - 18.1 Buildings

I4CE - Institute for Climate Economics, Landscape of Climate Finance in France, 2015 edition
No one size fits all

Instruments
• Green bonds
• Green credit lines
• Blended finance
• Guarantees
• ....

Contextual Factors
• Project developers
• Sectors
• Size of projects
• Capital provider needs
• Domestic capital markets
• Technical capacity
Green redirection financial tools can fill in the gap in the financial chain.
I4CE’s Focus: Financial Additionality & Environmental Integrity

• What is the current contribution of these instruments?

• How to ensure environmental integrity and safeguard transparency benefits?

• Can these financial instruments provide net environmental impacts?

• Do the provide improved access and additional financing for the low-carbon transition?

• What needs to happen next?
Green Bonds

The green bond market is soaring

*Source: Climate Bonds Initiative (2016)*

### Green Bonds

The green bond market is soaring

<table>
<thead>
<tr>
<th>Year</th>
<th>ABS</th>
<th>Bank</th>
<th>Corporate</th>
<th>Development Bank</th>
<th>Muni/Provincial/City</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td>2.6</td>
<td></td>
<td>2.6</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.5</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>37</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>41.8</td>
</tr>
</tbody>
</table>

*Source: CBI 2016a*
The added value of transparency on environmental integrity of underlying assets

<table>
<thead>
<tr>
<th>Actor</th>
<th>Benefits of green bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers</td>
<td>✓ Communicating the sustainability strategy</td>
</tr>
<tr>
<td></td>
<td>✓ Improving and broadening relationship with debt providers</td>
</tr>
<tr>
<td></td>
<td>✓ Internal synergies (finance and sustainability)</td>
</tr>
<tr>
<td>Investors</td>
<td>✓ Developing better-informed investment strategies</td>
</tr>
<tr>
<td></td>
<td>✓ Smooth implementation of long-term climate strategies</td>
</tr>
<tr>
<td></td>
<td>✓ Helping responsible investors broaden their portfolios</td>
</tr>
<tr>
<td>Public</td>
<td>✓ Indirectly supporting the low-carbon transition (better match green issuers and investors)</td>
</tr>
<tr>
<td></td>
<td>✓ Potentially ‘lock in’ climate policies (French sovereign bonds)</td>
</tr>
</tbody>
</table>

Source: I4CE (2016)
But financial additionality is not that simple....

Green bonds
Outstanding green bonds by sector and rating, 2015

Municipal
Utilities
Technology
Industrials
Government
Financials
Energy
Consumer staples
Consumer discretionary

S&P Rating
AAA AA A BBB BB B No rating

Sources: BlackRock Investment Institute and Bank of America Merrill Lynch, November 2015.
What roles ‘beyond transparency’ on environmental integrity of investments?

- Improving the financial conditions for transition-coherent investments and entities:
  - Reducing the ‘cost’ and improving ‘terms’ of capital provision for projects often perceived as ‘risky’
  - Ensuring full subscription for entities that are unable to do so today
  - Increasing access to the bond market for smaller projects and/or entities with lower credit ratings

- How could this occur in practice?
  - Increasing ‘committed demand’ from institutional investors
  - Tools: securitization and asset aggregation; credit enhancement
  - Direct public support schemes?
Green financial instruments face common challenges

Defining, understanding and identifying what is green at an affordable cost
Being able to build, manage and use better information on impacts needs expertise and resources

Finding a sustainable pipe of green projects to (re)finance
Green projects may still be lacking because of the political/economic environment
Project developers must be aware of available financial tools

Going beyond the informational benefit and providing tangible benefits to projects
Green redirection financial tools are perfect vehicles for support policies
Today’s Discussion & Panel

Introduction & Moderator:
• Ian Cochran, I4CE – Institute for Climate Economics

Panelists:
• Boutania Benchekroun, Senior Structuring Officer – Moroccan Solar Energy Agency (MASEN)
• Béryl Bouteille, Project manager, Financial Institutions and Private Sector Support, AFD
• Paul Horrocks, Lead Manager – Private Investment, OECD
• Coşkun Kanberoğlu, Head Engineering Analysis Department – TSKB (Industrial Development Bank of Turkey)
Thank you!

For more information contact:

ian.cochran@I4CE.org

or go to

www.I4CE.org
Upcoming I4CE Side Events

Industry, Energy and Climate

- **Carbon Pricing** on November 15 from 3pm to 4.30 pm in the Blue zone – French Pavilion, organized by DGEC
- **How to align EU policy with the goals of the Paris Agreement** on November 17 from 4.30pm to 6pm in the Blue zone – EU Pavilion, organized by I4CE, IETA, Enerdata
- **State and trends of carbon pricing** on November 17 from 10.30am to 12pm in the Blue zone – EU Pavilion, organized by I4CE, Ecofys, World Bank

Finance, Investment and Climate

- **Financial Instruments to promote public-private investment in low-carbon, climate-resilient development** on November 15 from 11am to 12.30pm in the Green Zone - Draa room organized by I4CE
- **African savings for a low-carbon development** on November 16 from 10.30am to 12.00am in the Blue zone – Morrocan Pavilion, organized by CDG
- **Synergizing international climate finance, market mechanisms and philanthropy** on November 18 from 1.15pm to 2.45pm in the Blue zone - Observer room 6 UNFCCC, organized by Perspectives

Territories and Climate

- **What options to facilitate the transition towards an agricultural sector generating less emissions and better adapted to climate change** on November 17 from 5pm to 6.30pm in the Blue zone – room Ziz, organized by I4CE, Crédit Agricole du Maroc