



Insights on Mobilising Private Finance for NDC Implementation - from Challenges to Innovations

Part of the IKI NDC Support Cluster's thematic workshop series 2018

1 Background and objectives of the workshop

On 13–15 June 2018 the NDC Support Cluster’s (www.ndc-cluster.net) Thematic Working Group on Financing brought together renowned experts from climate and development implementing organisations, country governments, think tanks and academia in Cape Town, South Africa, to discuss **key experiences, challenges and barriers with regard to mobilising private sector financing for NDC implementation**. The Cluster is funded by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

Key areas discussed at the workshop:

- a. **Improve communication and deepen dialogue with the private sector**
 - Develop communication approaches that ‘speak’ to business
 - Engage with the right stakeholders
 - Enhance linkages between policy-making and business interests
- b. **Support activities that enable and facilitate private sector engagement**
 - Bridge the gap between finance and action (matchmaking)
 - Help to identify business opportunities and models
 - Improve the availability of climate-change-related data and information
- c. **Utilise innovative financing approaches and support their application**
 - Address (perceived) risks and provide investment incentives
 - Monetise new services
 - Build capacity and technical expertise

2 Workshop themes

Participants identified common challenges and possible solutions with regard to mobilising private sector finance for NDC implementation and then developed a series of NDC implementation approaches to overcome the identified barriers. The workshop discussions focused on three topics:

- **Mobilising private finance for NDC implementation in the energy sector:** The energy sector is responsible for the largest share of global greenhouse gas emissions and therefore has a crucial role to play in achieving the ambitious emission reductions targeted in many NDCs. The workshop participants identified persistent barriers to increased private sector involvement and discussed possible solutions for mobilising additional private finance in the sector.
- **Engaging the private sector and private financial actors in the financing of adaptation measures:** While increased private sector engagement is needed to meet the task of adaptation, mobilising this sector remains a huge challenge. Participants explored specific

challenges related to engaging the private sector and private financial actors in the financing of adaptation measures and shared their thoughts on potential solutions for overcoming them.

- **Climate-proofing private investments and the role of climate risks for the mobilisation of private finance:** Climate-proofing involves analysing the risks that climate change poses to investments and business activities and then protecting the latter against these risks. Workshop participants addressed this topic first by identifying the challenges in incentivising the private sector in developing countries to consider climate risks and to climate-proof their private investments, and second by developing approaches with the potential to achieve this incentivisation.

3 Discussion outcomes

Three focus groups were formed to discuss the above-mentioned topics. During the discussions a number of recurring themes and key findings were salient and are summarised below. Each point describes the key challenges (shown in *italic*) and then offers solutions for the effective and successful implementation of NDCs.

a. Improve communication and deepened dialogue with the private sector

- **Develop communication approaches that ‘speak’ to business:** *Due to the mismatch between ‘business language’ and ‘development language’, the relevance of climate change and more specific issues such as the definition of climate risks are not always clear to companies.* The key to enhancing understanding between the public and private sectors may therefore lie in more effective communication. Speaking ‘business’ (e.g. by focusing narratives on co-benefits for businesses and providing sound climate data) helps to build strong relationships based on trust. Communicating with businesses through industry bodies or other ‘connectors’/intermediaries might in some cases be a more promising way to convince the business community to take action than would communications coming directly from government.
- **Engage with the right stakeholders:** In addition to improving mutual understanding and finding appropriate communications channels, it is of paramount importance to engage the ‘right’ stakeholders. These could, for example, be major power consumers in a specific country that are then encouraged to form renewable energy buyer clubs for the purpose of increasing investments in renewable energies, or be companies that are affected by a specific issue at the local level such as firms that require large amounts of water but are located in areas where it is in short supply. Finally, engaging the insurance sector is a key element in building the financial structures for financing adaptation measures.
- **Enhance linkages between policy-making and business interests:** *Often, government officials do not have a clear understanding of their own role in mobilising private adaptation finance, stakeholder management tends to be weak, and cooperation and understanding between the public and private sectors is limited. For example, the NDC implementation roadmaps drawn up by governments are often not shared with the private sector, which provides the sector with little incentive to commit to action and inhibits the establishment of productive cooperation between the private sector and government.* To avoid such a situation, it is important to involve the private sector in the identification and development of mitigation and adaptation actions and policies from the very outset. The public sector must work to better understand what the private sector needs if it is to develop tailored, demand-driven solutions. Policy measures should be combined with campaigns to drive up private sector commitment levels and with cross-sectoral working groups comprising representatives of diverse ministries.

b. Support activities that enable and facilitate private sector engagement

- **Bridge the gap between finance and action:** *Numerous renewable energy business models have already been shown to work successfully in practice. However, in many developing countries, a key challenge is often accessing affordable finance and not the lack of finance per se. Limited financial viability and high transaction costs associated with smaller renewable energy projects as well as long-term financing requirements and limited access to long-term capital prevent the financing of many promising projects.* Targeted and systematic matchmaking between project developers and potential financiers (e.g. through local funds) could address such barriers by, for example, supporting the translation of promising ideas into investment-ready project proposals, or bundling together a number of smaller projects to create larger-scale investment opportunities.
- **Help to identify business opportunities and models:** *Major challenges for adaptation projects include limited returns on investment and a lack of viable business models. An additional problem is that, in many cases, there is a somewhat limited understanding of what business models or instruments work in practice and would best fit a specific company and context. While new initiatives and instruments are being implemented in some countries, they are still in the early stages of development and thus remain difficult to evaluate.* To overcome these barriers, the public sector can work to identify viable business opportunities in the area of adaptation. Feasibility studies on energy projects or adaptation activities that consider relevant local, regional or national circumstances can be conducted to prove financial viability. A public funder facility or other professional intermediary (e.g. a green investment bank) may be a useful means to support the design of adaptation projects to be taken up by private companies. Assisting companies in translating climate data into risk assessments may also be a useful line of service for such an entity.
- **Improve the availability of climate-change-related data and information:** *Domestic businesses tend to be insufficiently informed about climate-change-related risks and opportunities (e.g. related to the physical exposure of facilities, supply chains, distribution networks, customers and markets). The availability and quality of downscaled climate and weather data is often insufficient and difficult to obtain and interpret. In addition, the tools and resources for mainstreaming climate change into investment planning or portfolio composition are often unavailable or the private sector is not aware of them.* While big companies tend to be more willing to make long-term investments, it is necessary to showcase and explain how climate change can impact on businesses of all sizes as well as raise awareness about the opportunities that climate change offers for the private sector. Climate risks are more understandable for companies if they are broken down into sectors and types of risks (operational risks, stranded assets risks, etc.). Links with academia can be established to identify science-based climate risks for specific sectors and areas. The public sector could help to set up and operate knowledge platforms for financing institutions and the private sector that, for example, quantify climate risks. Such a platform could also offer information on different financing models that could help companies to maximise profit while working with the risks.

c. Utilise innovative financing approaches and support their application

- **Address (perceived) risks and provide investment incentives:** *Technologies like those in the renewables sector are often perceived as high risk due to their lack of a track record, political circumstances or regulatory and legal frameworks. Accordingly, interest rates for financing renewable energy projects in developing countries are still often higher than for conventional energy projects, which significantly reduce the likelihood of investments being made. Another*

set of problems is related to the availability and accessibility of suitable financing instruments and to private companies' limited knowledge of these instruments. A combination of financial instruments could be used to de-risk investments for the private sector, such as on-lending schemes or concessional financing from local banks. It is also essential for the public sector to create incentives in the form of subsidies, taxes or reward schemes for companies that invest in adaptation (e.g. score cards for public procurement). Making use of the opportunities offered by the green bond market may also help to bring down (re-)financing rates.

- **Monetise new services:** *It is often not possible for the private sector to monetise climate-related risks and opportunities or the sector is not incentivised to do so. There is often no transparency regarding the emission (reduction) potentials of private sector projects and the climate risks faced and addressed by companies.* The government can institute the mandatory disclosure of climate-related risks and of private companies' strategies to cope with these risks, and can require the disclosure of the emission potentials of upcoming projects in environmental impact assessments. Providing an estimate of the costs that will be avoided by implementing adaptation measures may also be a useful way to incentivise private sector action. In joint discussions with the private sector, opportunities could also be identified for monetising new services (e.g. the provision of water) in a local-context-specific setting.
- **Build capacity and technical expertise:** *The engagement of the national financial sector (e.g. commercial banks, investment banks, insurance companies) in funding adaptation activities for NDC implementation is often limited, for both mitigation and adaptation activities, due to a lack of skilled staff and technical expertise.* To plug the knowledge gap, it may be useful to set up within banks special units with the required technical expertise ('clusters'). One successful example of a support body for enterprises is the Private Financing Advisory Network (PFAN) in Africa, which identifies promising clean-energy projects at an early stage and provides mentoring for the development of a business plan, investment pitch, and growth strategy, and connects project developers with investors. Multilateral and bilateral financial institutions could fund targeted capacity-building, with the aim of establishing lasting capacity within banks and other financial institutions. Once this local capacity is in place, it can be used to select bankable projects for investments.

4 Panel discussion

The closing panel discussion put the workshop deliberations in the broader context of the ongoing international climate debate and served as a starting point for the NDC Support Cluster's Thematic Working Group on Financing to undertake further work on understanding obstacles and bottlenecks in the transition towards the full integration of Article 2.1c of the Paris Agreement ('[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development') into national financial regulations and finance streams.

A practical starting point for 'shifting the trillions' could be tackling asset management – i.e. exploring how multilateral development banks, funds, companies and others can shift their resources to more sustainable uses. This alone is a formidable task, involving difficult discussions on the need for shifting assets from certain activities (e.g. the extractive industries) as well as action to ensure freed-up resources are invested in a climate-friendly way. It is, however, still the case that many countries focus too heavily on projects while neglecting the role of enabling environments in mobilising private sector investments. An interesting example is set by Nigeria, which has pursued a promising multi-faceted approach that includes an incentive-based risk-sharing scheme in the agriculture sector, a green bond

issued by the Ministry of Power, Works and Housing, and a diaspora bond for infrastructure development.

Regarding adaptation, the public sector can raise awareness about the adaptation business case, provide non-financial (e.g. data and information) and economic (e.g. tax cuts) incentives, use funding to support implementation, and explore financial mechanisms (e.g. royalties) for re-investment in adaptation. As a bottom-up-driven process, NDCs have an important role to play when it comes to thinking through transformative processes, including for promoting and delivering adaptation. The NDCs could serve as a roadmap and planning tool for exploring finance options. For this to be effective, cross-sectoral coordination will need to be improved in the many countries where interesting approaches are emerging. For example, Mexico has worked through a process to translate the country's national target into sector targets and policy actions at the sectoral level. A next step for Mexico involves producing a costing of actions that will serve as a basis for developing concrete projects. For its part, Colombia already has a comprehensive climate finance framework in place that takes into account different funding sources. The next step required here is to tie this framework in with the country's NDC.

Overall, the discussion revealed that key steps for mobilising the private sector to engage in climate action are the development of more ambitious, large-scale transformative projects (that even the Green Climate Fund does not yet seem to receive) and the provision of mechanisms for aggregating smaller projects into something larger and thus more likely to secure financing, while not forgetting the importance of improved enabling environments. Bottom-up-driven processes may be conducive in this context. The NDC implementation approaches developed during the workshop can provide important food for thought to think through some of these issues.

5 Workshop organisers and participants

The workshop was jointly organised by the GIZ International Climate Initiative (IKI) Support Project for the Implementation of the Paris Agreement (SPA), which coordinates the NDC Support Cluster, and by SouthSouthNorth, which leads the Thematic Working Group on Financing. Other NDC Support Cluster members who took part included Climate Analytics, the German Institute for Economic Research (DIW Berlin) and the UNDP. Also participating were representatives from Peru's Ministry of Environment and Uganda's Ministry of Water and Environment and from the following climate and development implementing organisations, think tanks and academia: Clean Energy Consult, Ekasi Energy, Energy Research Centre of the University of Cape Town, Ethio Resource Group PLC, Fayan Consulting, International Institute for Sustainable Development, National Renewable Energy Laboratory, NDC Partnership Support Unit, Overseas Development Institute, Perspectives Climate Group, PricewaterhouseCoopers and the South Africa National Business Initiative. adelphi developed the overall workshop methodology, supported the preparations and took charge of moderating and facilitating the individual sessions.

It is with great sadness that we learned of the untimely passing of our dear friend and colleague Dr Webster Whande of SouthSouthNorth two weeks after the workshop. His contribution to the workshop, to SouthSouthNorth's work and to the climate and development cause in Africa has been immense. He will be dearly missed.

6 Annex: Summaries of NDC implementation approaches

Drawing on the findings and outcomes of the in-depth discussions on challenges and solutions, the participants engaged in a co-creation process to develop seven new and innovative approaches (described in full in an annex in form of a separate document) to address some of the identified barriers:

- **Raising ambition for the private sector implementation of NDCs through transition risk roundtables:** While there is widespread agreement that the private sector needs to be engaged in order to achieve ambitious climate goals, there is a lack of trust between the public and private sectors, and the latter also lacks incentives to commit to government climate initiatives. This approach addresses these issues by convening high-level transition risk roundtables that are intended to help align business activities with the Paris Agreement.
- **Opportunity identification mechanism – translating risks into investments:** This comprehensive approach seeks to outline a process that can be applied in different settings to identify adaptation-related investment opportunities for the private sector. This process, which would need to be facilitated, would provide a convening space for a specific local problem (e.g. water shortage). All relevant stakeholders would jointly identify the needs of the business community and then engage individual companies in making investments or providing services.
- **Mini-grid market development (power generation/distribution) facility/programme/initiative:** This approach seeks to address the lack of relationships and thus of trust between developers or small-scale projects and providers of finance for these projects, the lack of bankable projects, and the difficulty in efficiently navigating complex ecosystem of financiers that have different requirements with regard to returns/impacts. The general idea is to form a network of existing incubators, support the strongest ideas coming out of the incubators, develop these ideas into bankable projects, and then take these to a trusted network of financing institutions for investment.
- **Transparency and efficient allocation of finance (transparency mechanism on finance):** Trying to find ways to raise new finance (e.g. by using new types of financial instruments such as green bonds) or to improve access to existing finance (e.g. through matchmaking and project bundling services) is one way to increase climate finance. Another is to improve the efficiency of existing spending in order to free up resources for additional activities. Providing information and data on finance can help to minimise overlaps and duplications in spending, streamline financial flows and enhance financial integrity.
- **Facility for blending finance to mobilise private investments in the mini-grid business (MPI):** The goal of this approach is to address persistent barriers to the further uptake of mini-grid schemes in developing countries. While mini-grids offer many social and economic advantages in rural areas, they often do not get built due to the high investment costs and long payback periods they entail. This approach involves bringing together institutions and other elements to de-risk energy project investments for banks and using grant/government financing to unlock further financing.
- **Readiness support for domestic financial institutions:** The financing of many renewable energy projects in developing countries often fails due to local banks' limited understanding of the business model and/or limited skills to put together an appropriate financing structure.

This approach, which is demand-driven and builds on existing policies, centres around building durable capacity within banks and utilising local capacity to select projects for investments and provide financing.

- **Physical risk resource platform – quantifying (physical) climate risks to enable better decision-making in investment:** Investment in climate-related interventions remains limited because the private sector is not integrating climate risk into its decision-making. There are a number of reasons for this, including: limited access to widely accepted methodologies, insufficient data, the lack of a commercial incentive to generate data sets and the lack of understanding about the costs of inaction in relation to physical changes/climate-driven events. This platform seeks to address these challenges by identifying impact pathways and providing global aggregated standardised data about physical change/impacts.