ASIA LEDS PARTNERSHIP

SUMMARY WORKSHOP REPORT

Preparing for Scaled-up Climate Financing: New Business Opportunities for Green Growth

An Asia Low Emission Development Strategies (LEDS) Partnership Workshop on Financing for Green Growth

April 2-4, 2013 – Asian Development Bank Headquarters, Manila, Philippines

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INTRODUCTION

On April 2-4, 2013, the Asia Low Emission Development Strategies (LEDS) Partnership convened a regional workshop at the Asian Development Bank (ADB) headquarters in Manila, Philippines to exchange knowledge and lessons learned learn about financing low-carbon, climate-resilient growth in Asia. The event, entitled "Preparing for Scaled-up Climate Financing: New Business Opportunities for Green Growth," was supported by the United States Agency for International Development (USAID), ADB, and the Climate and Development Knowledge Network (CDKN). More than 100 participants attended from 12 developing Asian country governments, multilateral and bilateral development finance institutions, private sector banks, investment funds, and others organizations involved in promoting green growth. The diverse mix of public and private sector participants served as a unique and defining element of the workshop.

Objectives

The objectives of the workshop were to:

- promote increased understanding by Asian governments of available public-sector and private-sector mechanisms to finance green growth;
- build the capacity of Asian governments to access financing for green growth and low-emission development; and
- enhance the role of private sector banks, financial institutions, investors, and fund managers in financing green growth investments; and strengthen their capacity to expand their portfolios by leveraging donor funding for climate-related projects and businesses.

Sessions

Utilizing a variety of session formats, the workshop provided opportunities for knowledge exchange, peer learning, and collaboration on key issues related to financing low-carbon, green growth in Asia.

An optional pre-workshop meeting on April 2nd, entitled "Introduction to LEDS and Climate Financing", provided an introduction to the main concepts, issues, and trends involved in LEDS and climate finance in Asia. Three pre-workshop sessions featured topics including the costs of climate change, how LEDS fits into national development priorities and donor financing, and why both public and private sector financing mechanisms are essential to address climate change.

The main workshop began the following day, with four sessions featuring perspectives from the public and private sectors on the opportunities and barriers associated with climate finance. The day ended with a "marketplace" style session which provided an opportunity for small group and one-on-one discussions on national climate policy and finance frameworks.

The final day of the workshop featured a total of seven plenary and parallel sessions on mainstreaming climate finance; access to finance in the "bottom of the pyramid"; energy efficiency, renewable energy, and transport; and capacity building. During the final plenary session on capacity building, participants prioritized capacity building needs through a real-time electronic survey.

KEY THEMES AND OUTCOMES

An estimated USD 140-175 billion annually will be required for developing countries to effectively mitigate the effects of climate change by 2030. A new international mechanism, the Green Climate Fund, is being designed to address these financing needs and is expected to begin operation by 2015.

In the meantime, developing countries are preparing themselves to plan for, access, deliver, and monitor the increased levels of climate financing. This is otherwise known as building "climate finance readiness".

The workshop in Manila brought together a unique cross-section of experts from Asia and around the world to exchange knowledge across both public and private sectors and within multiple climate sectors, including renewable energy, energy efficiency, and clean transport, with the aim of building increased climate finance readiness. The workshop consisted of 15 different thematic sessions with nearly 50 speakers and panelists. The most important topics from these sessions are highlighted below.

Climate Finance Outlook

The climate finance outlook for Asia is one of significant opportunities and challenges. As described in recent ADB studies on the economic costs of climate change, the projected costs of adapting to the impacts of climate change and mitigating greenhouse gases are much lower than the costs of inaction. On the one hand, climate finance offers an important funding source to build more climate-resilient societies and advance the region's energy security, energy access, and economic development. Yet, a significant gap exists today between climate finance needs and current flows. Although the precise size of the financial gap is debatable, experts at the workshop agreed that the scale of the problem is immense and is likely to require more than a ten-fold increase in current funding levels of climate finance to Asia.

As noted in the report *Fast Out of the Gate: How Developing Asian Countries Can Prepare to Access International Green Growth Financing*, commissioned by USAID, and the *Landscape of Climate Finance* study, commissioned by Climate Policy Initiative, current climate funding is dominated by the private sector, which provides approximately 75 percent of total climate finance flows to Asia. Participants agreed that the private sector is likely to remain the single largest and most important source of climate finance into the future, especially for mitigation projects like renewable energy and energy efficiency. For sectors like urban transport, participants noted that public finance and strong political support have been, and are likely to continue to be, the key drivers for the sector.

The climate finance landscape is also characterized by a concentration of finance in too few sectors (e.g., renewable energy) and in too few countries. Data presented at the workshop indicated that the bulk of private climate finance in developing Asia (excluding China) is concentrated in India, Thailand, and Indonesia, where relatively favorable investment climates exist (e.g., tax policy for the wind sector in India). Participants agreed that stronger enabling environments (policy, institutional, and technical) are required in the region to attract private climate finance to a wider range of countries. Participants also discussed the need to allocate funding to where it is needed most. This is especially true for adaption measures (e.g., for the agricultural and water sectors), which are particularly important to Asia given the region's unique vulnerability to the impacts of climate change.

Country-led Action

Activities that are country-led rather than led by donors or multilateral players are growing in prominence in Asia. These are emerging in the form of national planning frameworks for green growth (e.g., Vietnam), national climate funds (e.g., Bangladesh and Philippines), climate change offices within national governments (e.g., Philippines and Papua New Guinea), domestic emissions trading schemes (e.g., China), as well as private sector action led by local investment funds for clean energy. The national budgets, accounting, and measurement, reporting and verification systems that are needed to attract public funds (and which also may be increasingly useful in unlocking private

investment in the future) are in various stages of development throughout Asia. Recent work with several countries in Asia on Climate Public Expenditure and Institutional Reviews (CPEIRs) demonstrate the importance of linking climate change policies to national budgets. It is also clear that greater attention needs to be paid to local or sub-national governments, since they are an important channel of climate finance.

Mobilizing Climate Finance

De-risking Climate Finance Investments

The issue of risk was discussed extensively during the workshop. Several participants stressed that risk, whether real or perceived, is the single most important factor impeding investment in climate projects in developing Asian countries. The reason is that both the sector (climate-related investments) and the region are perceived by many investors as still relatively new and untested. As such, participants agreed that risk mitigation or de-risking instruments, which range from guarantees to public co-investments, are critical to scaling-up climate finance in Asia. The goal of risk mitigation is to foster "smart" risk allocation and to create an attractive risk-reward profile for investors, particularly for institutional investors such as pension funds and insurance companies.

Private sector participants noted that the private sector is particularly sensitive to political risks, given that government policies and regulations often change over the course of a project's lifetime. They suggested that it would be both "smart" and cost-effective for the public sector, including development banks and development finance institutions, to increase the provision of de-risking instruments such as long-term credit lines and guarantees.

Several organizations and initiatives are already involved in risk mitigation, including ADB, the World Bank, the International Finance Corporation (IFC), the United Nations Development Programme (UNDP), Deutsche Bank, and Development Finance International. For example, in the Philippines, the IFC has a risk-sharing facility in place with the Bank of the Philippines Islands, which provides guarantees to loans disbursed through the bank's Sustainable Energy Finance window. The Global Energy Transfer Feed-in Tariff (GET FiT) program led by Deutsche Bank and UNDP is another successful risk mitigation initiative which is helping to reduce the cost of capital for project developers.

Effective Public Policy Instruments for Mobilizing Private Sector Finance

Effective policy and regulatory instruments are key to mobilizing and attracting private sector financing to clean energy projects. Participants noted that feed-in-tariffs (FiTs), in particular, have become an increasingly important policy tool for attracting private sector finance to renewable energy projects. This is particularly the case for medium-sized, grid-connected power projects, which are now more reliant on FiTs given the sharp decrease in carbon financing available through the Clean Development Mechanism (CDM).

Despite their growing importance, the implementation of FiT schemes has had mixed results in Asia. Examples of successful FiT schemes include those used in Indonesia and in India's Gujarat Solar Rooftop Program. On the other hand, the experience of the Philippines demonstrates that challenges still exist in designing FiT schemes that adequately respond to investor needs. Additional case studies, research, and guidance on the use of public policy instruments in mobilizing private sector climate finance are available through organizations such as UNDP and the World Resources Institute.

Cooperation

Cooperation between the public and private sectors is essential in designing effective climate finance frameworks and increasing climate finance. Participants consistently recommended greater public-private sector cooperation. For example, closer public-private sector cooperation could benefit public policy making, such as in the design of FiT schemes. GET FiT was cited as an innovative and effective public-public-private partnership.

Participants also discussed the issue of coordination and cooperation within the public sector itself. For example, the experience of UNDP's CPEIRs show that greater coordination is particularly needed between financing and planning ministries, both of which require more technical input from environment and line ministries. Central climate change offices can facilitate this coordination, as in the Philippines and Papua New Guinea.

Public-private partnerships, and partnerships in general, were highlighted as a means of helping public institutions spend or channel their resources more effectively. Partnerships and networks such as the Asia LEDS Partnership were mentioned as effective means of transferring knowledge between and within sectors which, as some participants noted, is as important as transferring capital.

Capacity Building Needs

Participants consistently noted the need for capacity building throughout the workshop. The final plenary session focused specifically on capacity building and included a real-time electronic survey. The major capacity building needs identified in the survey were in the areas of:

- national and sub-national government policy and regulations;
- financial institutions (e.g., banks);
- development of "bankable" project proposals;
- cross-collaboration between and within the public and private sectors;
- measurement, reporting, and verification;
- technology;
- definitions, data, and tracking; and
- adaptation.

Of these, two received the greatest interest and were prioritized by workshop participants from developing Asian countries.

The first is **building the capacity of government officials to create enabling environments for increased climate investments**, particularly for investments from the private sector. This was especially apparent during discussions about the design of FiT schemes, as several case studies from Asia and the rest of the world have demonstrated the difficulties governments have in designing effective FiTs. Also, since Asia is home to a wide variety of national and sub-national frameworks to support climate finance, capacity building needs for government officials vary from country to country.

Participants agreed that countries with strong and stable policy and regulatory frameworks and institutional capacities have a competitive edge in accessing climate finance. As one participant stated, this is supported by the CDM experience where China, India, and Brazil (three countries that have created strong institutional CDM capacities) have historically received the majority of CDM revenues.

The second priority is **capacity building of banks and other financiers to better understand climate projects and their risks**. Participants generally agreed that there is a willingness among banks in Asia to engage in renewable energy projects, but the perceived risks of such investments are still relatively high. Participants recommended that banks, in particular, be the focus of future technical assistance and capacity building efforts, as a means of building up their internal expertise to evaluate climate-related projects. Models for how to accomplish this are emerging in the region. For example, Bank Indonesia serves as an information hub for banks on topics such as green lending and provides classroom style training on green financing, supplemented by project field visits.

In response to the urgent need for climate finance readiness, several capacity building initiatives for climate finance readiness are underway in Asia. Participants discussed programs such as UNDP's CPEIRs and the European Union and UNDP-supported Low Emissions Capacity Building Program. Despite these important initiatives and the learning by doing that is taking place, participants stressed that capacity building must happen even more quickly to properly prepare countries to access or make effective use of climate finance.

NEXT STEPS

Through the final plenary session survey, an overwhelming majority of participants (87 percent) confirmed that they would attend the workshop if convened again, signaling their desire to have the Asia LEDS Partnership convene a similar event next year. Participants also expressed their desire for the Asia LEDS Partnership to continue to bring together a similar unique mix of donors, government officials, and private sector actors, and to follow-up on the actions and capacity building needs identified during the workshop.