SECURING CLIMATE FINANCE AND INVESTMENT TO SUPPORT LOW-CARBON AND CLIMATE-RESILIENT GROWTH

Part I

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Why isn’t more private finance going to green infrastructure?

Key investment barriers:

1. Lack of low-carbon, climate-resilient project opportunities

2. Insufficient risk/return value proposition versus carbon-intensive options
   - **Returns low**: because haven’t internalised price of carbon, fossil fuel subsidies, sunk costs
   - **Risks high**: Policy and regulatory uncertainty (climate); technology risk (innovation)

3. Availability of long-term finance for green infrastructure projects
   - High capital upfront, low returns over long timeframe
   - Unintended consequences of new regulations (Basel III; Solvency II)
What can governments do?
A Green Investment Policy Framework

1. Strategic goal setting and policy alignment

2. Enabling policies and incentives for LCR investment

3. Financial policies and instruments

4. Harness resources and build capacity for an LCR economy

5. Promote green business and consumer behaviour

Source: Corfee-Morlot et al., 2012.
How to integrate climate & investment policies in a green investment policy framework

| 1. Strategic goal setting and policy alignment | • Clear, long-term and predictable policies  
• Align goals at all levels of governance  
• Engage the private sector |
| 2. Enabling policies for green investment | • Put a price on carbon  
• Remove fossil fuel subsidies  
• Energy efficiency and product regulations |
| 3. Financial policies, tools and instruments | • Financial regulations to drive long-term investments  
• Targeted subsidies with predictable phase-out  
• Leverage public finance (loans, guarantees, bonds) |
| 4. Harnessing resources and capacity | • R&D for green technology  
• Capacity building to support LCR innovation  
• Monitoring and enforcement  
• Climate risk and vulnerability assessment |
| 5. Promoting green business and consumers behaviours | • Information policies  
• Consumer awareness programmes, public outreach  
• Corporate reporting |

Source: Corfee-Morlot et al., 2012.
Pension fund participation in clean energy asset financing deals (USD Millions, 2004-2011)

Less than 1% of the $30 trillion in OECD pension fund assets is allocated to infrastructure ... and even less to green

But some large Pension Funds and Insurance Companies are active in the space

**Pension Funds**

**PensionDanmark**: USD 23 billion AUM. Aims to allocate 10% to long term holdings - currently USD 1.5 bin in portfolio of solar & offshore wind.

**APG**: in Holland EUR 300 billion AUM and has invested EUR 5 billion in renewables.

**ATP**: in Denmark has invested DK 600 million directly in renewables and committed over DK 2 billion in renewables equities.

**CalPERS**: is largest public pension system in US with USD 237 billion AUM. Has USD 1.2 billion aggregate exposure to the renewables.

**CalSTERS**: has commitments over USD 600 mn in a portfolio of venture and buyout investments across clean energy universe.

**Insurance Companies**

**Allianz**: German insurer aims to invest up to EUR 1.5 bn in renewable energy projects by 2012 and is almost there after buying 3 additional wind farms.

**Munich Re**: has announced plans to invest about EUR 2.5 billion in next few years in renewable energy assets (wind farms, solar projects & new electricity grids).

**Manulife (John Hancock)**: US insurer has an investment team dedicated to renewable energy investing, and has invested USD 3 billion in the US, mostly through tax equity in wind and geothermal.

**MetLife**: US insurer has invested over USD 2.2 billion in renewable energy
Virtuous circles of infrastructure for low carbon growth

- **POWER GENERATION**: Low carbon electricity enables greening of buildings & vehicles
- **BUILDINGS & VEHICLES**: Lower investment in oil & nat. gas infra. frees up capital for green energy generation
- **OIL & NAT. GAS INFRASTRUCTURE**: Decreased demand for oil & natural gas, and their infrastructure

Policies to promote energy efficiency and low carbon technologies for buildings & vehicles

Virtuous circles of infrastructure for low carbon growth

POWER GENERATION

Low carbon electricity enables greening of buildings & vehicles

BUILDINGS & VEHICLES

Lower investment in oil & nat. gas infra. frees up capital for green energy generation

Decreased demand for oil & natural gas, and their infrastructure

PORTS

Decreased demand for coal & oil frees up rail and port capacity

OIL & NAT. GAS INFRASTRUCTURE

ROAD

AIRPORTS

Policies to promote energy efficiency and low carbon technologies for buildings & vehicles

Virtuous circles of infrastructure for low carbon growth

Growing use of port capacity for global trade in components of green buildings, vehicles and energy supply systems

POWER GENERATION

Low carbon electricity enables greening of buildings & vehicles

BUILDINGS & VEHICLES

Lower investment in oil & nat. gas infra. frees up capital for green energy generation

 Decreased demand for oil & natural gas, and their infrastructure

OIL & NAT. GAS INFRASTRUCTURE

Decreased demand for coal & oil frees up rail and port capacity

PORTS

Policies to restrict growth in air freight, and maintain freight transport by rail and marine transport

AIRPORTS

Switching of freight from road to rail to replace transport of coal

ROAD

Demand management & switching of freight to rail decreases demand for road infra. freeing up capital for low carbon vehicles

POLICIES TO PROMOTE ENERGY EFFICIENCY AND LOW CARBON TECHNOLOGIES FOR BUILDINGS & VEHICLES

What role for governments?
No one-size-fits-all

- **Specific country contexts** (resources and capacity, maturity of financial markets, access to international finance)
- **Specific sectors** (transport, energy)
- Specific challenges of **adaptation and energy efficiency finance**
- **Staged approach**: Short-term versus long-term responses
- **Country reviews by OECD**: political commitment, public funds, investment incentives & facilitation, international co-op, responsible business conduct.

**OECD Investment Reviews = tailoring guidance to country circumstances (Colombia, Jordan, Malaysia, Tunisia…)**
THANK YOU!

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