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Combating Climate Change and Realizing Low Carbon Growth in Developing Economies

UNEP and Finance Groups Spotlight Transformative Policies to Beat Down the Barriers

Cape Town, 26 October 2009 — Ways of triggering multi billion dollar, low carbon technology investments in developing economies are outlined in a new report today.

Experts indicate that investments of around \$500 billion a year will be needed to assist developing countries adapt to climate change while powering low carbon growth. (see background)

Much of the money will come from the private sector but will only flow if creative public policies that reflect the differing circumstances of developing economies are swiftly adopted, says the report issued by the UN Environment Programme (UNEP) and a global partnership of investors and insurance companies.

The report *Catalysing Low Carbon Growth in Developing Economies: public finance mechanisms to scale up private sector investment in climate solutions*, was prepared by Vivid Economics based on case studies. The report makes several broad recommendations to overcome current hurdles.

1. *Country risk cover* – Insurance against country risk - i.e. risk of expropriation, breach of contract, war and civil disturbance - should be expanded and explicitly provided to support low carbon funds.
 2. *Low-carbon policy risk cover* – Insurance should be provided where countries renege on policy frameworks / incentive schemes that are underpinning low-carbon investments, e.g. emissions trading, renewable energy support mechanisms.
 3. *Funds to hedge currency risk* – Public finance could provide currency funds which offer cost-effective hedges for local currencies which would otherwise not be available in the
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commercial foreign exchange markets.

4. *Improving deal flow* – In order to provide a series of easily executable, commercially attractive projects, vehicles specializing in early-stage low carbon projects could be developed, and technical assistance could be provided to increase demand.
5. *Public sector taking subordinated equity positions in funds* - the public sector could invest directly in low carbon funds via “first loss equity”, thereby improving the overall risk-return profile of such vehicles.

The findings were presented today in Cape Town at the 2009 Global Roundtable of the UNEP Finance Initiative which brings together investors, financial institutions, policymakers and civil society from around the world.

Background

The total investment required to avoid dangerous climate change is more than USD 1 trillion per annum, according to the International Energy Agency (IEA). The World Bank suggests that around half of this will have to be deployed in the developing world.

The public and private sectors have complementary roles to play in meeting this challenge. Demands on public finances are acute, particularly following the recent financial crisis. Private sector investment is therefore critical.

A recent study commissioned by the United Nations Framework Convention on Climate Change (UNFCCC) says the private sector will have to supply close to 90 per cent of the funds needed to meet the climate challenge. However, at present, the private sector is unable to undertake the level of investment needed in developing countries because the returns on low carbon investments are not commensurate with the risks.

Today’s report considers how public sector funds can be deployed most effectively to leverage private sector investment in developing countries. This requires an effective distribution of roles between public and private sectors.

It says that through appropriate public finance mechanisms (PFMs), the public sector can assist in managing those risks the private sector is not able to control and alter the risk reward balance for private investors.

PFMs can also fund the technical assistance required to generate demand for low-carbon projects at a scale likely to be attractive for large private sector investors. Furthermore, PFMs can leverage significant private capital, with previous research suggesting that \$1 of public money spent through well-designed mechanisms can leverage between \$3 and \$15 of private sector investment

One of the report’s recommendations is for the establishment of a forum for on-going dialogue between the public and private sectors, to improve the design of the proposals outlined and implement the mechanisms proposed.

Quotes from Partners and Experts

Achim Steiner, United Nations Under Secretary General and UNEP Executive Director, said “Combating climate change represents an important opportunity to move economies onto a low carbon, resource efficient, Green Economy path. If this is to succeed, developing countries should and must be part of that transformation. Today’s report underlines a range of public policy options that reflect the varying circumstances currently prevailing in developing economies and show how existing barriers to a Green Economy can be leap-frogged. In doing so it opens the door to a new

partnership between North and South”.

Lord Stern, Chair of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science, and Special Adviser to the Group Chairman of HSBC, said "Now is the time for investors and policy makers to work together, not just to limit the severe risks from climate change, but also to seize the opportunities available from low-carbon economic growth. This is a critical moment, with barely 40 days until the United Nations Climate Change Conference in Copenhagen in December, when governments from around the world will attempt to agree on a strong and effective international agreement. This report offers valuable examples of how public and private finance can be mobilized effectively to drive the transition to a future era of dynamic low-carbon growth."

Rob Lake, Head of Sustainability at APG Asset Management, a member of IIGCC and P8, said “Investors are starting to speak with one voice on climate change. We are calling on policymakers to maximise the impact of public funds by using them to enable the private sector to mobilise the capital needed to tackle climate change and finance the transition to a low-carbon economy. We need real partnership if we are to meet this enormous challenge.”

Nick Robins, Head of Climate Change Centre with HSBC, and Co- Chair of the UNEP FI Climate Change Working Group, said "Investors and policymakers increasingly agree on the need to deploy public finance at the margin to mobilise institutional capital for low carbon growth. This report provides real world insights on how public finance mechanisms can work on the ground. It offers a range of approaches for addressing the risks of low carbon investment in developing countries - thereby unlocking the flow of funds that can deliver both healthy returns and progress towards global climate goals."

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Notes to Editors:

Catalysing Low Carbon Growth in Developing Economies: public finance mechanisms to scale up private sector investment in climate solutions will be available on line on 26 October at <http://www.unepfi.org>

The United Nations Environment Programme Sustainable Energy Finance Initiative (UNEP SEFI)

UNEP is working to create the policy and economic framework whereby sustainable energy can increasingly meet the global energy challenge. Changing attitudes and helping mainstream financiers to consider sustainable energy investments are key components of the energy work within UNEP and the starting point for the UNEP Sustainable Energy Finance Initiative. SEFI provides current and targeted information to financiers and facilitates new economic tools that combine social and environmental factors – both risks and returns – as integral measures of economic performance.

The United Nations Environment Programme Finance Initiative (UNEP FI) is a global

partnership between UNEP and the financial sector. Over 170 institutions, including banks, insurers, fund managers and investors, work with UNEP to understand the impacts of environmental and social considerations on financial performance. The UNEP FI Climate Change Working Group (CCWG) aims to identify the common grounds shared by the societal goal of effective climate change mitigation / adaptation and the core interests of financial institutions, investors and capital market actors.

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The group's objective is to catalyze greater investment in a low carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors. The group currently has 56 members, representing assets of around €4 trillion.

Ceres is a leading coalition of investors and environmental groups working with companies to address sustainability challenges such as climate change. Ceres also directs the **Investor Network on Climate Risk**, an alliance of over 80 institutional investors with collective assets totaling more than \$8 trillion.

ClimateWise is a global collaboration of leading insurers focused on reducing the risks of climate change. Knowing that insurance is vital in managing risks faced by governments around the world, all ClimateWise members have committed to a holistic set of actions on climate change. These cover risk analysis, public policy, customer awareness, investment strategies, operations and reporting. Since the initiative was conceived, the number of members has grown to 40, over a quarter of which were listed in the Fortune Global 500 for 2009. The membership now covers Europe, North America, Africa and Asia and is facilitated by the University of Cambridge Programme for Sustainability Leadership.

The P8 Group brings together senior leaders from twelve of the world's largest public pension funds to develop actions relating to climate change. It is facilitated by the University of Cambridge Programme for Sustainability Leadership and convened by HRH Prince of Wales. The P8 Group members represent over \$3 trillion of investment capital and include funds from Europe, Asia, North America and Australia. The first P8 Summit was held in November 2007. The group has continued to meet and the last Summit was hosted by the World Bank Group in Washington DC in March 2009.

The Principles for Responsible Investment (PRI), convened by the UNEP Finance Initiative and the UN Global Compact, was established as a framework to help investors achieve better long-term investment returns and sustainable markets through better analysis of environmental, social and governance issues in investment process and the exercise of responsible ownership practices. The Principles themselves, a full list of over 600 signatories and more information can be found at www.unpri.org

The UK Department for International Development (DFID)

The Department for International Development (DFID) is the part of the UK government that manages Britain's aid to poor countries and works to get rid of extreme poverty. DFID is present in 150 countries and has 2,600 staff, half of whom work abroad. Two sets of targets underlie DFID's work: first, DFID is working to reach the Millennium Development Goals, international targets agreed by the United Nations to halve world poverty by 2015. Second, the government's Public Service Agreement sets objectives and targets by which DFID measures its progress towards this aim. DFID works with governments of developing countries, charities, businesses and international bodies, including the World Bank, the UN agencies and the European Commission.