



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:

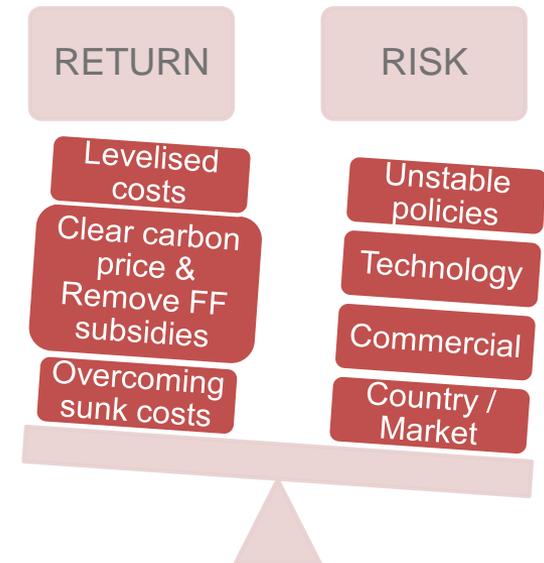
1. Lack of low-carbon, climate-resilient project opportunities

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

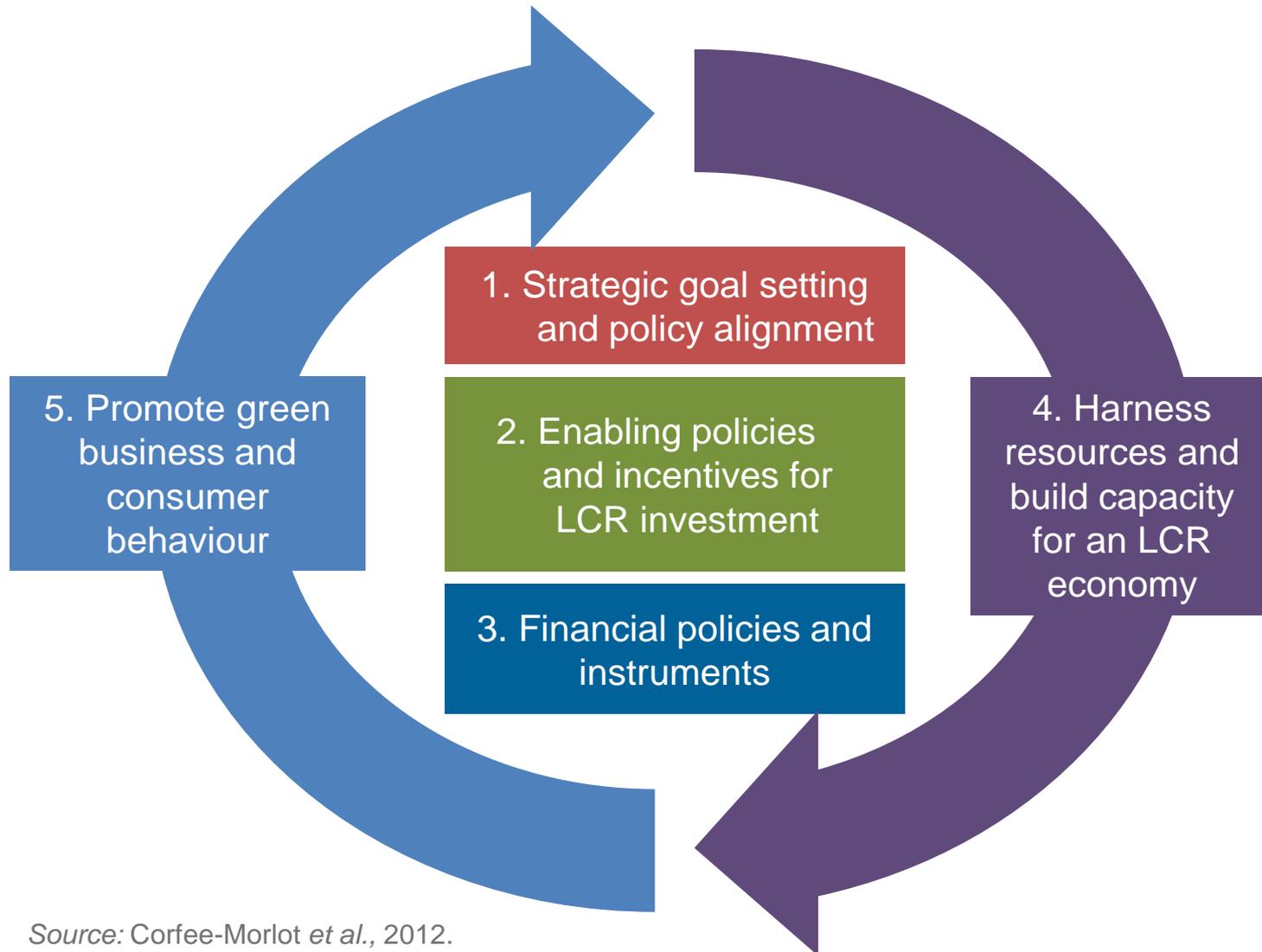
- High capital upfront, low returns over long timeframe
- Unintended consequences of new regulations (Basel III; Solvency II)





What can governments do?

A Green Investment Policy Framework



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

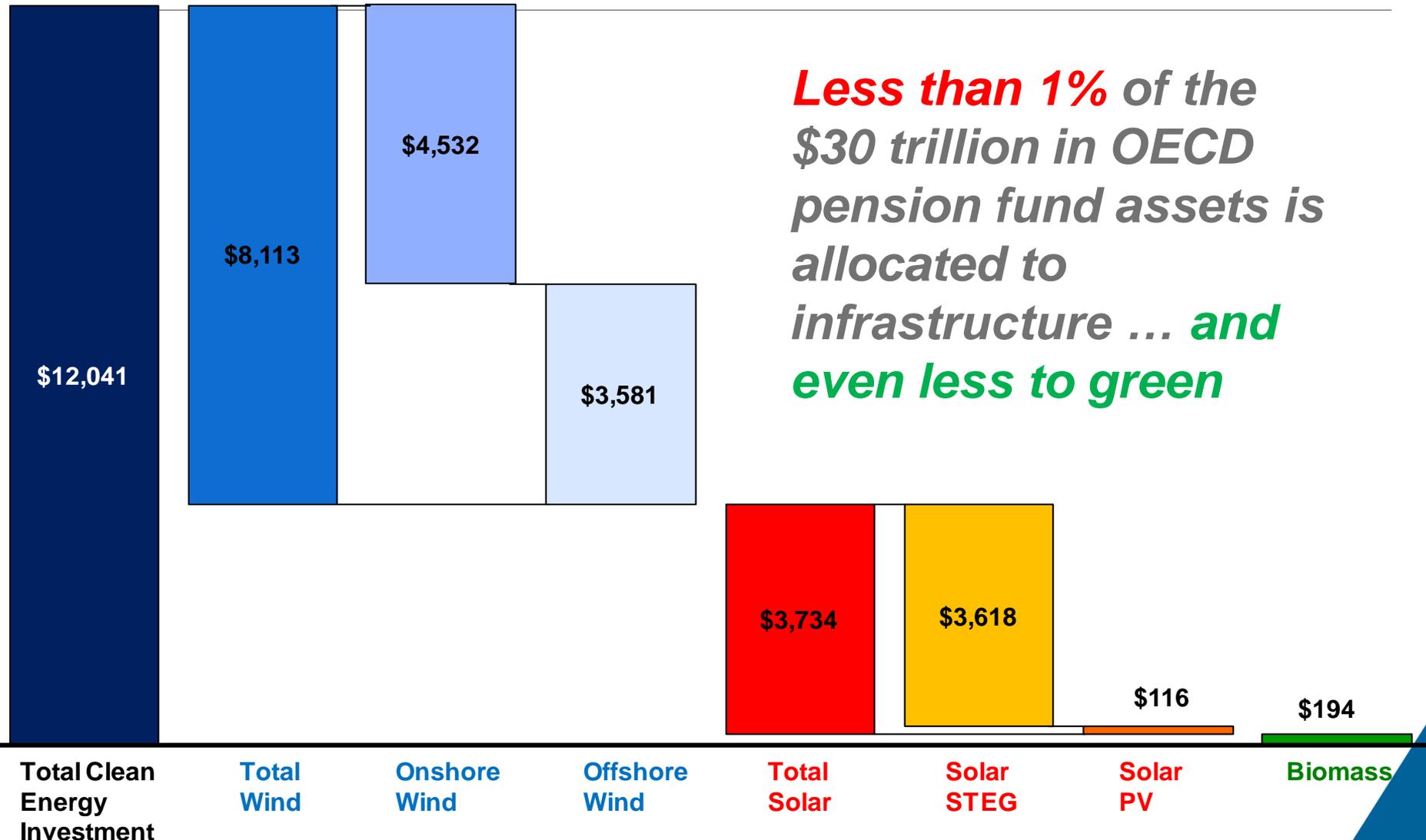
- R&D for green technology
- Capacity building to support LCR innovation
- Monitoring and enforcement
- Climate risk and vulnerability assessment

5. Promoting green business and consumers behaviours

- Information policies
- Consumer awareness programmes, public outreach
- Corporate reporting



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 bn 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

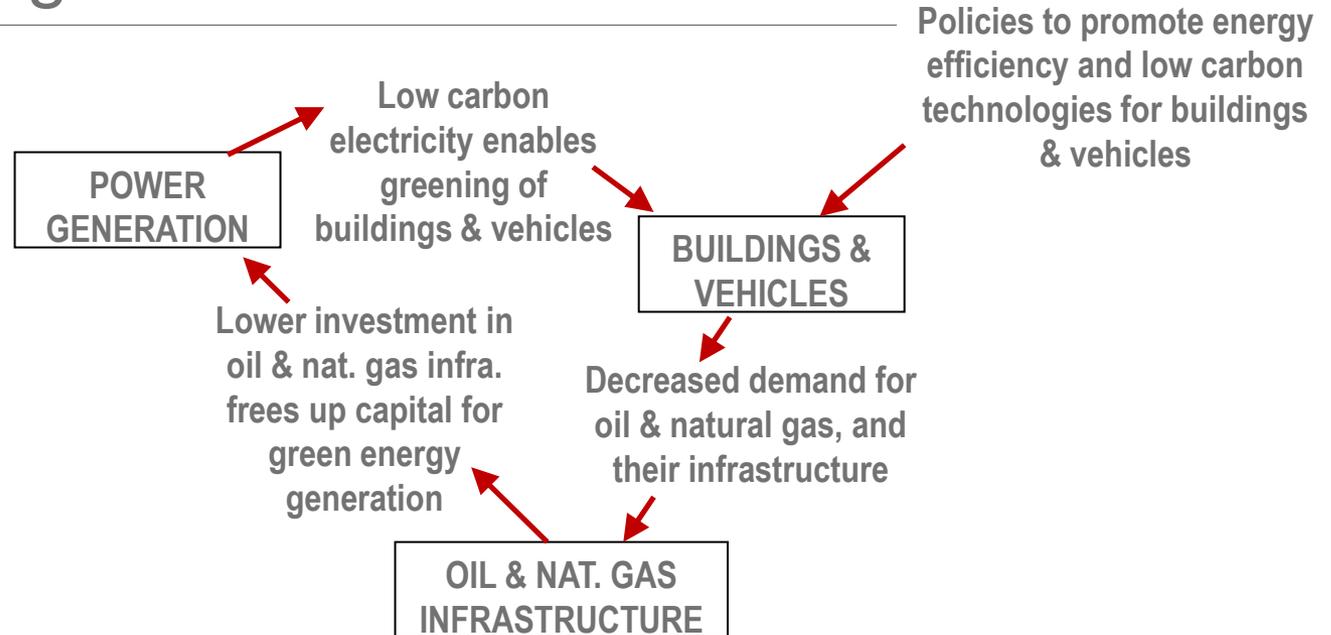
Munich Re: has announced plans to invest about EUR 2.5 billion in next few years in renewable energy assets (wind farms, solar projects & new electricity grids).

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



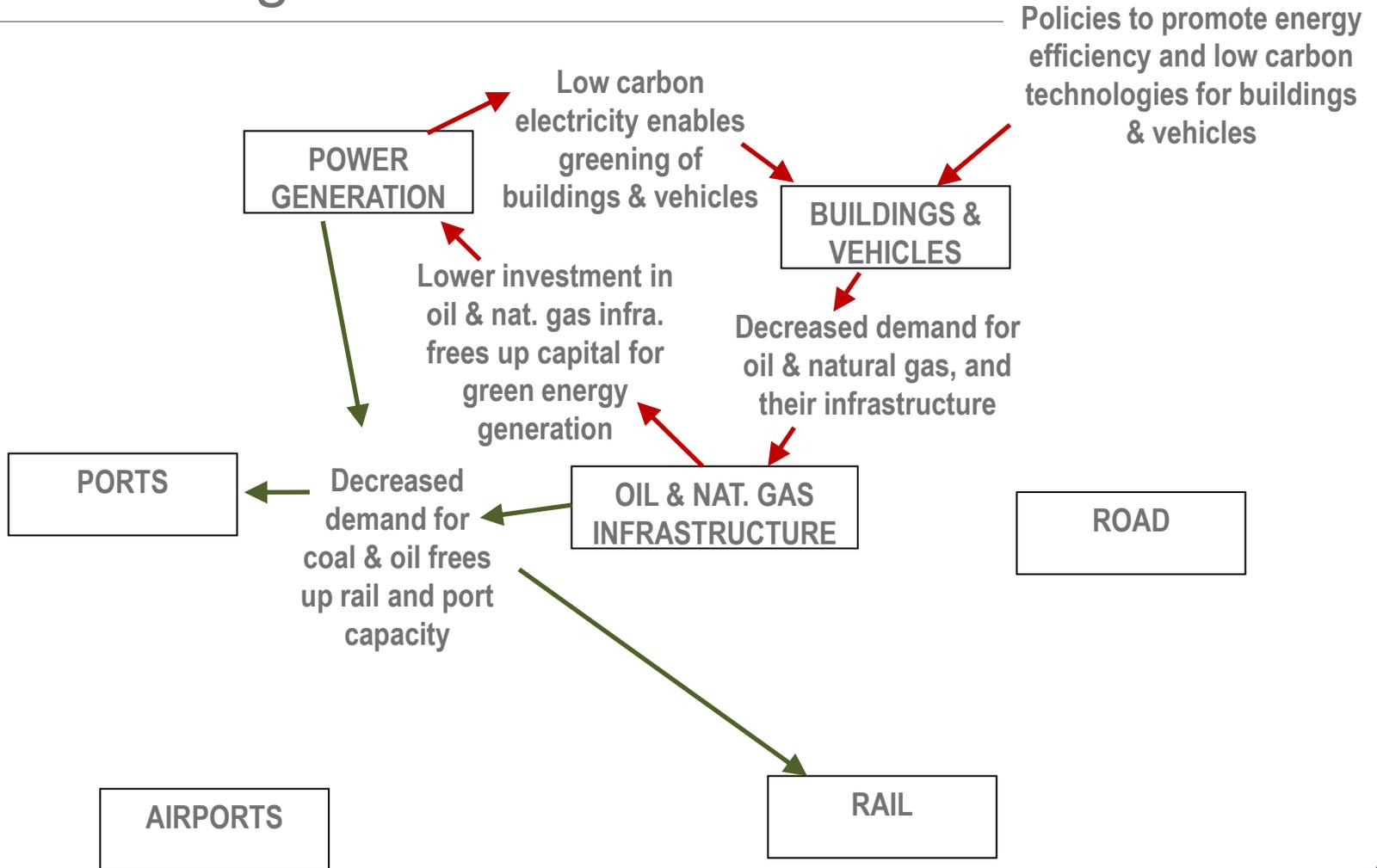
Virtuous circles of infrastructure for low carbon growth



Source: Kennedy C. and J. Corfee Morlot, 2012 *forthcoming*, Mobilising private investment in low-carbon, climate resilient infrastructure, OECD.



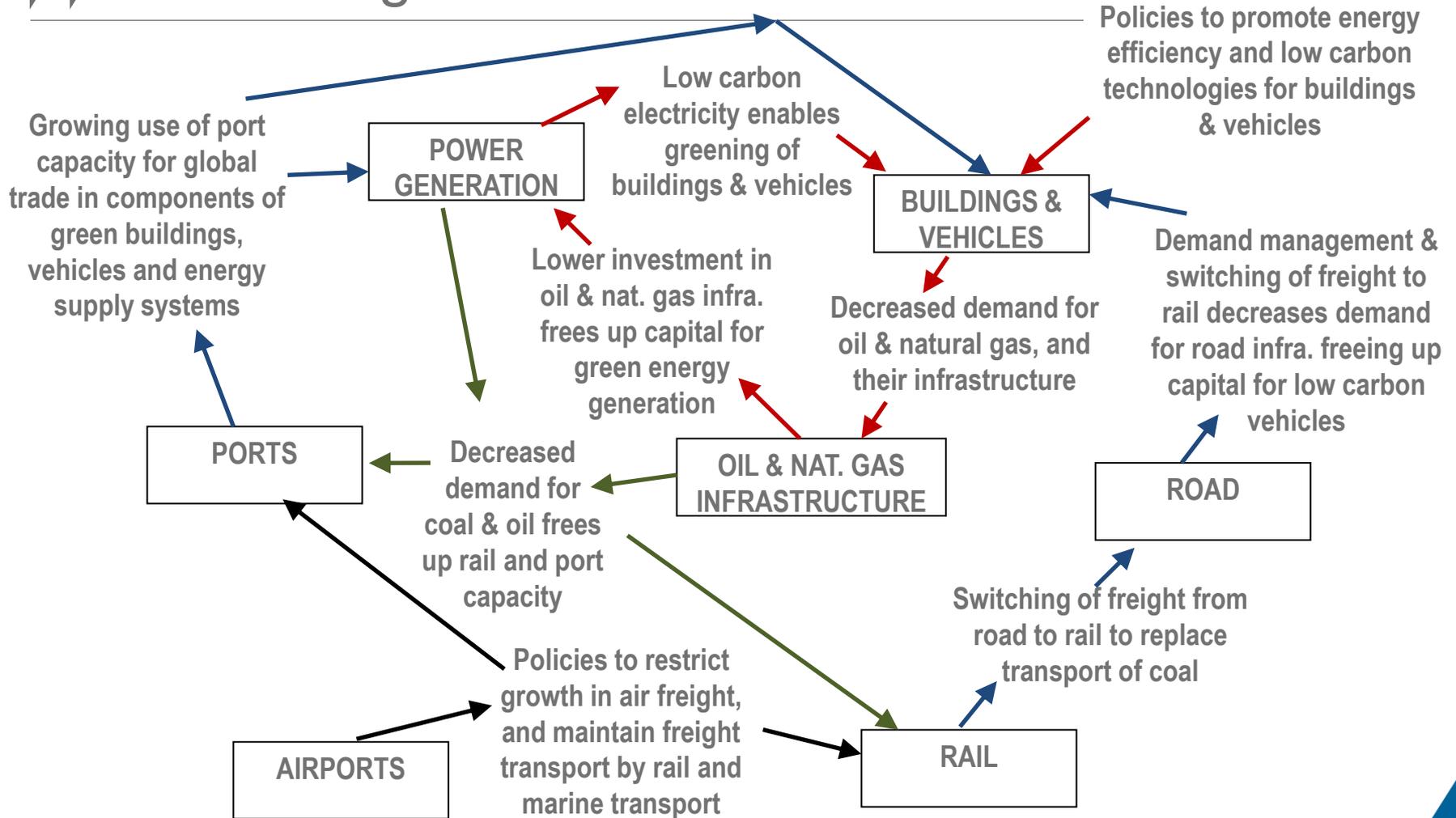
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What role for governments?

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!

For more information:

www.oecd.org/env/cc

www.oecd.org/env/cc/financing