Policy Dialogue Breakfast
3 December 2011 – Durban, South Africa

- Meeting Summary -

➢ Overview and Main Conclusions

The Center for Clean Air Policy (CCAP) and the Dutch Ministry of Infrastructure and Environment held an informal policy breakfast on the private sector and the Green Climate Fund (GCF) after the first week of COP 17, in Durban, South Africa. The meeting was directed at senior negotiators from both developed and developing countries to discuss an enhancement of private sector (PS) engagement in the prospective GCF, leveraging of PS investment for the same and for bilateral NAMA finance programs, and how the principles agreed to in the Transitional Committee of the GCF can be integrated into bilateral assistance programs in advance of the full launch of the GCF.

The gathering brought the following main points to light:

- Countries cannot always determine optimal climate policies by looking solely at GHG reduction potential. A more nuanced view is needed to include policies that are also politically feasible and that promote sustainable development.

- There is a clear need for incentives for bringing banks and financial players to the table, but these must be implemented in a manner that gives them an option to participate on their own terms, as their drivers are different from GHG reductions.

- Good examples of the following should be identified before the GCF is up and running: 1) financial mechanisms that have promoted PS involvement; 2) trickle-down effects of climate finance on an economy (domestic industries, job creation, etc.); and 3) tested regulations for mitigation policies (feed-in tariffs, energy audit subsidies, bus rapid transit, etc.).

- The insurance sector should be viewed as a necessary partner in assuring the investments of the PS.

- Small countries should not be ignored by the GCF, nor should there be a focus on only large global banks to funnel PS investment. On the contrary, smaller national banks of developing countries should be encouraged to take part, as well as multilateral or national development banks. In particular, national development banks in developing countries can play an important role in designing the financing structures of NAMAs and in leveraging private-sector interest through those design decisions.

- **Introduction to GCF and Potential PS Involvement (Ned Helme, CCAP; Maas Goote, the Netherlands)**

Ned Helme began the discussion with a brief overview on bringing the PS into mitigation actions, and on how current bilateral work with NAMAs could lay the groundwork for what the GCF will eventually be constructed to do. While there will probably be an opportunity for developing countries to get direct access to the GCF based on public funds, the bulk of investment supporting GCF initiatives will most likely come from private sources. Therefore, it is imperative that PS engagement be facilitated and optimized to ensure maximum effect.

Maas Goote spoke of the Netherlands' Climate Consensus Workshops, which connect individual companies to the international climate negotiations with the dual goals of highlighting opportunities business and drawing on PS knowledge for the negotiations. He underscored that in the PS, the impetus is not primarily GHG reductions but rather other drivers such as consumer demands, the cost savings of energy efficiency, or the creation of marketable technology innovations from the incipient green tech revolution.

Private-sector executives find it difficult to understand how the GCF will operate since the negotiations concentrate more on the organizational structure and less on financing mechanisms and criteria for project selection. Ways to bridge this difference in emphasis between negotiators and business executives should be explored. The Netherlands is doing this through its workshops, which include a wide array of companies (BMW, Wal-Mart, waste and cement companies, etc.).

While mitigation usually reaps the majority of private-sector attention, it is important to note that adaptation holds a great deal of potential. In either case, the engagement of the insurance and information-technology sectors should be a top priority. The former can create products to lower the risk of private-sector investment, while the latter can build systems to perform MRV for mitigation actions, biennial update reports (BURs), national communications, etc. With this in mind, the design of the GCF must include space for the PS, or a PS facility.

Another barrier to overcome in a policy setting is the difficulty in adopting climate change policies for sectors that face international competition or those strategic to a country's export market. For this reason, domestically focused sectors such as the building and waste sectors are good starting points for NAMAs to minimize domestic political tensions.

Nevertheless, some of the biggest opportunities for mitigation lie in strategic sectors such as steel and cement, and these eventually need to be brought to the table. Later in the meeting, it was highlighted that this discussion can be very sensitive given the fact that strategic sector players are sometimes few in number and such talks among them could be construed as market collusion and in violation of competition law (anti-trust law).

- **Participant Perspectives of PS Involvement and Design of the GCF**

Various developing-country participants acknowledged that the private sector should be involved in the GCF, largely echoing the views of many developed countries, with the question remaining of how best to include them in the fund. Likewise, although many developed countries have now finalized their fast-start finance (FSF) contributions, many still do not have clarity on how best to include the PS in leveraging public funds.

For both groups of countries, capacity building for the financial sector will be paramount. A good example of how this has been started is the network of development financial institutions created recently between 19 institutions, mostly from developing countries such as China, Brazil, Mexico, and South Africa (International Development Finance Club). Acting at the national level, Indonesia is currently working on investment schemes for medium to large enterprises and attempting to build trust between the PS and an active government implementing climate change policy, a process that can take years and is best started as soon as possible.

A representative from a European national development bank mentioned that they have been trying to engage with the PS for some time with only mixed results. He suggested that it might be useful to bring development experiences into climate change policy implementation. Uncertainties need to be dealt with in order to engage the PS, and it should be noted that the presence of a financial-sector intermediary should not lead to a compromise of its climate change policy aspect. Luckily, they have had some very positive experiences with energy efficiency in small and medium enterprises on which to build.

A participant from a large developing country highlighted the progress that is being made toward PS engagement, and how nowadays many countries' delegations for the climate negotiations include business representatives. He suggested an expedited effort to identify best practices, especially a need for good examples of replicable leveraging mechanisms for the PS. The expected multiplier effect of private investment should also be studied, with a focus on job creation as well as domestic "green tech" industries.

A country delegate speaking on behalf of their country's new climate-focused development program stated that this new program will both increase energy access and reduce GHGs. It will seek out mitigation programs or projects that have strong political leadership and would look upon PS involvement as a favorable attribute. Another developed-country participant expressed the fact that they do not have the resources to work bilaterally in every Latin American country and they are trying to work with multilateral development banks such as the Inter-American development Bank to have broader reach. Some smaller developing countries expressed concern that large financing entities might overlook them, although in some cases this is driving them to design strong policy options that they can do on their own and/or present to interested contributing countries.

A representative from a developed country stated that although large sectors are important, opportunities exist in smaller sectors through broad sweeping programs such as microfinance initiatives, and the application of aid effectiveness principles can be useful to guide policy. She reiterated that it does not matter whether investment is public or private, but something needs to catalyze it. Further, she insisted that sustainable outcomes must involve the PS to achieve long-term success.

- **Next Steps**

CCAP will host its next policy dialogue during the upcoming climate negotiations (tentatively May 2012) and continues to work with developing countries on NAMA development through its Mitigation Action Implementation Network (MAIN).