

# Major Economies Business Forum

on Energy Security and Climate Change

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## Major Economies Business Forum: Green Climate Fund and the Role of Business

### KEY MESSAGES

- In the Cancún Agreement, developed nations pledged to mobilize \$100 billion<sup>1</sup> per year by 2020 to fund efforts in developing nations to mitigate and adapt to climate change, with a portion of the finance to flow through a new Green Climate Fund (GCF).
- While it remains unclear how funds will be raised, the private sector is expected to play a central role providing finance for climate action, especially in mitigation, and related technology deployment and diffusion.
- A robust and strong international policy framework is important to provide needed predictability over the long-term.
- If structured properly, the new GCF can help scale-up financing, both public and private, for all of these activities.
- The GCF should complement, not compete with, already existing bilateral or multilateral funding programs.

<sup>1</sup> All dollar figures in USD.

- Because of the large amount of money that is expected to flow through the GCF, eligibility and decision making processes within the Fund need to be objective, transparent, and based on clear technical—not political—criteria.
- The GCF should support a wide range of projects and related activities. Project funding should focus on early stage projects and technology assessment, build capacity, not create competitive disadvantages, and complement, not compete with, the Clean Development Mechanism (CDM).
- Monitoring progress will be important. Measuring, reporting, and verification (MRV) will be essential to examine the environmental benefits, economic efficiency, and impacts of GCF projects, to provide accountability on how funding is used, to provide a basis for ongoing improvement, and to ensure funds are used in a cost-efficient way.
- Improving the investment climate in many developing countries will be essential to realize large-scale investments, such as those in the energy sector.

## INTRODUCTION

The GCF agreed to as part of the COP-16 decision in Cancún, Mexico is being set up to provide financial resources for climate change actions in developing countries. Some of the funding is expected to come from the \$100 billion per year in financial support developed countries pledged to mobilize by 2020.

Parties to the UN Framework Convention on Climate Change (UNFCCC) are following an ambitious schedule to make the GCF functional by 2013, around the time when the \$30 billion or so in fast-start-financing pledged by developed countries as part of the Copenhagen Accord expires.

At the same time, it is obvious that the capital needs for the transition to a low-carbon economy as well as for adaptation actions in developing countries will far exceed the financial resources pledged to date by governments of industrialized countries. Especially in the wake of troubled financial times, few expect that government-to-government financial transfers will approach \$100 billion per year. Private sector capital must also be mobilized. To promote this, the new GCF should make it a priority to support projects that have as one of their aims catalyzing and leveraging further private investment.

For this to happen, there needs to be recognition that the private sector can only mobilize capital if investors believe a project is commercially viable and promises appropriate rates of return. The design of the GCF should address this explicitly, for example, through instruments that complement private sector funds or ones that provide risk-sharing between the

public and private sectors.

Business, however, needs credible policies to undertake or scale up investments that support mitigation and adaptation in developing countries, especially those that are not currently economic. Robust and sustainable policy frameworks will be essential to drive long-term action that increases the scale and scope of activities already being taken to build capacity, promote adaptation, and encourage efficient and low-greenhouse gas (GHG) development. One pillar of that framework would be an international climate agreement that promotes co-operation, limits competitive distortions, and provides a predictable environment in which to invest in low-carbon projects that yield an appropriate return over the long-term.

Many countries choose to promote action by means of price signals implemented, for example, through an economy-wide cap-and-trade or carbon tax system (though often these clear price signals are distorted by policies that favour different activities or technologies over others). Provision for offsets is a widely-used tool to incentivize investments in developing nations when such actions are more cost-effective than actions to reduce emissions in through domestic GHG controls. Offsets can be used in a variety of policy frameworks, including GHG markets. (Recent BizMEF papers on [markets](#) and [international offsets](#) can be found on the [BizMEF webpage](#).)

Many businesses engaged in providing goods, services, and technologies that reduce GHG emissions also need stable domestic economic policies that promote productivity and increased competitiveness. High levels of government debt and poor

fiscal policies influence interest and exchange rates and can create barriers to unlocking the private and public sectors' funding potential. Stable financial institutions that facilitate efficient access to capital for projects and infrastructure will be important. Besides the policy framework under the UNFCCC, BizMEF believes that greater attention needs to be directed at policies and practices in a host of institutions that support investment in developing nations and could leverage action to address climate risks. These can improve the environment in which companies operate, invest, and innovate.

## **DESIGN OF THE GCF AND THE ROLE OF PRIVATE SECTOR**

BizMEF offers the following views on the design of the GCF, the role the private sector can play in the Fund, and what is needed to mobilize private sector capital.

**Avoid crowding out effects of established co-operation programs:** The GCF should complement, not compete with, existing bilateral and multilateral funding programs. Governments, business and other stakeholder groups in the field of business and development assistance have put significant effort into establishing well working and efficient development programs and structures in recipient countries.

It would be counter-productive if programs run under the GCF led to parallel structures that did not add value. Therefore, an oversight function should be established to ensure that the GCF is active only in fields where additional funding is necessary and

where existing programs either do not exist or are ineffective. The Technology Executive Committee established as part of the Technology Mechanism in the Cancún Agreement might also provide advice to the UNFCCC on these issues.

In addition to project funding, BizMEF believes the GCF can play an important role in monitoring existing programs and reporting to the UNFCCC on the status of fast-start financing programs and progress towards the goal of mobilizing \$100 billion per year by 2020.

**Transparent decision-making in the GCF:** Because of the large amount of money that is expected to clear through the GCF, the eligibility and decision making processes within the Fund need to be transparent and based on clear technical—not political—criteria. One way to assure more objective approaches would be to establish an appeals process as part of the GCF.

We support a transparent approach and the inclusion of key indicators into the decision-making process. In our view, one of these key indicators should demonstrate that GCF projects promote beneficial change in recipient countries. This means that, besides environmental and climate-related benefits, GCF-funded projects also should contribute to reducing poverty, building market-economy structures, and supporting capacity building. Only if all these goals are considered will projects under the GCF achieve sustained, long-term success.

Furthermore, it will be necessary to establish a clear role for many different stakeholders to provide input to the project selection and review processes. For example, independent business or

economic experts could verify that a GCF project would probably not have negative effects on the market economy in the recipient region.

**Monitoring success is critical:** Transparent eligibility, decision-making and appeals processes will be very important for project submission and decisions. Additionally, MRV will be essential to examine the environmental benefits, economic efficiency, and impacts of GCF projects, to provide accountability on how funding is used, and to ensure funds are used in a cost-efficient way to achieve optimal abatement costs. They can also play an essential role in providing insights for review and improvement of procedures going forward.

**Scope of projects to be funded under the Green Climate Fund:** BizMEF believes that the GCF should support a wide range of projects consistent with those mentioned in the Cancún Agreement. However, in the long-term technology deployment will play a crucial role, and most projects under the GCF will contribute in some way or another to the diffusion of climate-friendly technologies. Therefore, the GCF should pay special attention to the following issues:

- **Avoid market disturbance and competitive disadvantages through funding:** To be effective, support designed to diffuse technologies must avoid any unfair competitive advantages to specific industry sectors or companies competing on national or international level. Furthermore, the principle of technological neutrality should be respected in GCF decisions.

- **Conduct market assessments:** An overall market assessment of project proposals under all funding windows should be included in the GCF. Especially when it comes to funding of technology actions, the assessment should verify that the proposed project would not proceed without GCF funding. Furthermore, project funding should be time-limited from the beginning to secure the creation of market-matured technologies and local market-based environments.
- **Focus on early stage projects and demonstration projects:** Funding gaps are especially prevalent in the field of early-stage projects and demonstration projects, where risks are high and rates of return are more difficult to predict than those earned under programs dealing with more developed or marketable technologies. These circumstances often lead to financing gaps for the private sector. The GCF could provide a valuable instrument to share risk in these situations.
- **New market-based instruments should complement CDM:** The CDM has established itself as a key driver in providing financial resources for mitigation actions in developing countries under the Kyoto Protocol. National Appropriate Mitigation Actions (NAMAs) and Sectoral Approaches, if designed properly, are two other ways under consideration as part of negotiation under Long-Term Co-operative Action that could unleash private

sector capital for mitigation, especially in new areas, and adaptation activities. Thus, clear rules are needed that establish CDM and NAMA's as complementary, not competing, instruments.

Furthermore, it is important that market-based instruments emerging from the GCF provide assurance that individual companies can compete on a level-playing field and that non-domestic as well as domestic companies can participate in GCF-supported projects without restrictions.

- **Capacity building is needed:** As mentioned above, the aim of GCF-projects has to be to lead to sustained long-term success. GCF funding should promote capacity building in recipient governments on national and local levels, which will help them to create and institute self-initiated policies and continuous efforts after the GCF-funded project has concluded.

**Improving the investment environment in developing countries:** The investment environments in many developing countries need to be improved, both for purely

private sector activities and for projects financed through the GCF, which can leverage further private investment. In some developing countries, for example, business often faces higher risks due to the relative immaturity of many important governmental and economic institutions and lack of capacity in infrastructure and workforce. In particular, improvements in governance, the rule of law, honoring of contracts, and stable fiscal and financial policy are required.

Risks related to these and other issues can and do hinder investment in large-scale projects. Financial mechanisms that enable certain of these risks to be shared in a way that makes them more manageable will help attract private sector funding. In this regard, the GCF could develop risk-sharing instruments. Public private-partnerships can also play an important role in leveraging finance for climate actions in developing countries. In particular, they may provide means to address risk-sharing between the public and private sector. Pension and insurance funds, for example, could be attracted by these kinds of large-scale projects as they take a long-term view of their investments, which allows them to smooth their return profile over the investment's duration.

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Canadian Council of Chief Executives  
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Iniciativa para el Desarrollo Ambiental y Sustentable S.C. – IDEAS (Mexico)  
Mouvement des Entreprises de France  
National Confederation of Industry (Brazil)  
Nippon Keidanren (Japan Business Federation)  
Turkish Industry and Business Association (TUSIAD)  
U.S. Chamber of Commerce, Institute for 21st Century Energy  
U.S. Council for International Business

## **ABOUT BizMEF**

The Major Economies Business Forum on Energy Security and Climate Change (BizMEF) is a partnership of major multi-sectoral business organizations from major economies. Modeled after the government-to-government Major Economies Forum, BizMEF is a platform for these groups to:

- promote dialogue and exchange views on climate change and energy security across a broad spectrum of business interests including major developed, emerging, and developing economies;
- highlight areas of agreement among participating organizations on the most important issues for business in international climate change policy forums; and
- share these views with governments, international bodies, other business organizations, the press, and the public.

Organizations that have participated in BizMEF meetings represent business groups in Australia, Brazil, Canada, China, the European Union, Denmark, France, Germany, India, Italy, Japan, Mexico, New Zealand, South Korea, Turkey, the United Kingdom, and the United States. Collectively, BizMEF organizations represent more than 25 million businesses of every size and sector. Because BizMEF partnering organizations represent a broad range of companies and industries—including energy producing and consuming companies as well as energy technology and service providers—the partnership is able to provide robust and balanced views on a range of issues.

For more information on BizMEF, please visit our website at:  
[www.majoreconomiesbusinessforum.org](http://www.majoreconomiesbusinessforum.org).