SUMMARY

R20AWS Breakout Session

CLIMATE FINANCE
New Opportunities for Developing Countries

Background

Climate Finance continues to be a key issue in order to bring the Paris Agreement to life. It requires a huge shift in investment towards low-carbon, climate-resilient options if we want to keep the rise in average global temperatures below two degrees Celsius. Not least because of the urgent need of climate action, Article 2.1c of the Paris Agreement includes a long-term ambition to *"make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"*. Whilst climate-related finance flows are considerable, they remain relatively small in the context of wider trends in global investment.

The breakout session on Climate Finance was organized by R20 AWS and brought together experts from financing institutions, public authorities and advisors with project developers to discuss how more investments in low-carbon, climate-resilient projects could be mobilized and how these funds could be made more accessible to small and medium sized projects, particularly in developing countries.

Following a panel discussion on these issues, the second part of the session consisted of five working groups, each hosted by one of the panellists, discussing the following topics in greater detail:

- which barriers in accessing finance do project developers experience (hosted by the Climate Policy Initiative)
- the role of the public sector for mobilizing capital, e.g. through adequate frameworks, incentives etc. (hosted by the Austrian Ministry for Sustainability and Tourism)
- how project holders can benefit from climate finance through the OeEB (hosted by the Development Bank of Austria OeEB)
- ideas for projects that support the creation of much-needed data in developing countries (hosted by REEEP)
- nature-based solutions and their success factors (hosted by South Pole)

In addition, several showcase projects and initiatives from the R20 AWS Special Reports 2018 and 2019 pitched their climate impact solutions and explained which financing approaches they applied.

Outcomes

The discussion, following up on the "Mobilizing Investments by Green Finance" panel discussion held on the first day of the conference, reiterated the urgent need for capital for low-carbon, climate-resilient projects and the transition of our economy in general. Given the fact that another €180 billion is needed annually, the panellists agreed that mobilizing the private sector is key to reaching the Paris goals. However, this requires an adequate policy framework, available instruments and mechanisms, as well as common standards and definitions. The EU Commission's Action Plan on Sustainable Finance, which was adopted last year, represents a significant step forward in this regard. Austria is also working on these issues with its Green Finance Action Agenda and a Working Group has already been set up.

On the side of asset owners, the discussion showed that risk perceptions have been changing in recent years due to climate change, although not fast enough. Investments in climate-resilient projects have become a means to mitigating climate-related physical (operational) and financial risks. Educating investors further and emphasising the multitude of advantages green investments hold is therefore extremely important.

Some participants pointed out that there is theoretically already enough finance available, but the key issue was to bring finance and investible projects together and how to reach significant scale, e.g. through the replication and bundling of smaller projects. Another discussion point was the allocation of risks and the risk taking by public institutions in particular.

In this context, several innovative financing instruments were discussed. Blended finance was considered a powerful force in mobilizing private capital for projects that are currently not bankable. This approach can be used to overcome information asymmetries and close financing gaps, although care should be taken not to crowd-out other private sources of capital. Other relevant financing approaches discussed were green bonds, venture capital and crowdfunding, contracting models, as well as public guarantees and on-lending by development banks through financial intermediaries.

In the end all experts agreed that as a prerequisite for successful financing of climate-impact projects, particularly in developing and emerging countries, capacity building on the side of project developers is of the utmost importance. Therefore, access to and (public) funding of business development and technical advisory services, as well as information about existing funding opportunities, should be improved.

Further success factors and policy recommendations gained from the working groups

Key success factors for the realization of projects:

- technically, economically and ecologically sound project design as a prerequisite
- in developing countries there is a specifically high demand for off-grid energy solutions
- heating/cooling needs also to be included, not only electricity production
- nature-based solutions and carbon removals are important upcoming trends, also transportation (incl. shipping)
- upfront equity/pre-phase project financing is a key success factor for SMEs
- subordinated/mezzanine capital is an additional asset
- access to financing networks and other forms of cooperation
- local partners (bottom-up, local context)
- "project killers": delays in (public) funding processes, lack of public support

Recommendations for public authorities and the finance industry:

- platforms to bring projects and finance providers together and make projects bankable
- bringing different risk perceptions together, risk sharing by public institutions, banks, NGOs…
- guarantees and blending to support start-ups
- providing seed/venture capital for project development (reducing initial risks)
- innovative financial solutions/tools for pooling/bundling/aggregation of projects
- aligning interest between governments and the private sector, creating awareness
- effective policies that penalize carbon emissions and environmental pollution, stopping subsidizing fossil fuels
- strict monitoring of on-lending
- common definitions, standards and language
- transparency/disclosure and ambition by asset owners
- knowledge and capacity building in financial institutions, local fund managers engaged with local authorities
- closing the financing gap for project sizes of between €500,000 and 4-8 million
- re-organizing carbon trade