

Financing for Climate Innovative Solutions and New Markets

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'Financing for Climate: Innovative Solutions and New Markets' (FFC) brought together representatives of the Swiss State Secretariat of Economic Affairs (SECO) and the International Finance Corporation (IFC), a member of the World Bank Group, with leaders from the risk transfer and financial industries and climate-related technology companies. The symposium examined the means of mobilizing private and public capital for climate-related investments in emerging and developing countries. The opening addresses, summarized below, established the broad theme of the event and highlighted the issues that were to re-surface throughout the conference.



Jacques Aigrain, CEO, Swiss Re, in greeting the more than 170 participants, noted that Swiss Re takes great pride in its role of helping to position climate change on the international agenda. Climate change has been a Top Topic at Swiss Re and a key component of its long term strategy development for two decades. He stressed that Swiss Re's sole business is to take the uncertain events of its clients and to make business enterprises possible by mitigating these uncertainties. As a result, Swiss Re has been an innovator in developing products to manage the threats of climate change, ranging from carbon trading and carbon insurance to green investments and weather risk transfer solutions.

Mr. Aigrain stated that the key challenge was in making these products economically attractive for the financial sector, as the costs of these risk solutions cannot be placed solely on tax payers. The private and public sector, together with the multilaterals such as the IFC, all have their respective roles to play. The private sector can supply most of the solutions needed, but it is multilaterals such as the IFC, and governments working together that can set the tone of the dialogue. What is necessary, however, is the regulatory and legal framework to make this market viable. This is the role of government.

Doris Leuthard, Minister of Economic Affairs, Switzerland, in her address, stressed that climate change is a global challenge. Echoing Mr. Aigrain's comments, she noted that neither the public nor the private sectors can do it all, and that working in partnerships is crucial. One prominent example of such a partnership is SECO's work with the IFC in providing climate change solutions to developing countries. She stressed that governments can foster innovation and investment by partnering with the multilaterals and the private sector to fund projects which are too risky for the market place, but if successful could serve as the model for future ventures. Federal Councillor Leuthard noted that the Swiss government is currently re-evaluating its climate change policy, but that Switzerland has a good track record in addressing the issue, dating back to the 1990s, when it was a pioneer in the international CO₂ emissions market. However, she noted, it can do more.

For Switzerland, Federal Councillor Leuthard noted, the benefits of the international emission trading mechanisms are clear. Given that there are only a small number of large industrial plants within Switzerland, it is thus more efficient for the Swiss to focus efforts on CO₂ abating investments abroad. The challenges are also obvious. Current uncertainties have to be addressed, and post-Kyoto initiatives must involve all of the major CO₂ emitting countries. The knowledge and tools of the financial sector are urgently needed to address the needs of the poorer countries; however, these mechanisms must be on a sound economic footing. The implementation of best financial practices is key to SECO, as sustainability encompasses not the only the environment but also the financing necessary to address the challenge. In closing, she returned to the theme of partnerships. The cutting edge technologies and solutions necessary to support sustainable development and eliminate poverty in developing countries, she stressed, are only feasible when international multilateral corporations, governments and the private sector are all working together and within their respective areas of competency.



On behalf of the IFC, both Lars Thunell, CEO & Executive Vice President, and Rachel Kyte, Vice President, Advisory Services, gave opening keynote speeches at the symposium. Mr. Thunell, appearing by video, declared that addressing climate change was the critical issue of our generation and confronting the challenges posed by both emerging and developing markets is vital to ultimate success. The IFC's role is clear. It can provide transparency in transactions that satisfies both the public and private sectors' requirements for viable economic investments.

Mr. Thunell specifically addressed what is meant by sustainability. Sustainable growth is not only part of the battle to combat climate change, but also lifts poor farmers out of poverty. This is essential as developing countries face the immediate need of supplying water and electricity to their people. These countries appreciate the benefits of developing a sustainable energy supply; but for them the question is what are the current, viable alternatives to fossil fuel? He maintained that the precedents are there to answer this question. A clear business case has been established, that successful projects money recoup the investment within a circumscribed time period, there are savings year after year, and greenhouse gas emissions are reduced. This is a win-win for all.

Ms. Kyte presented a three-fold message that clearly depicted not only the reality of the present but also the opportunities and challenges of the future. She noted that the stress signals concerning climate change are becoming ever more apparent and that the risks for the public sector, including natural catastrophe losses, are now too large to ignore. Secondly, that in the history of mankind, it has always been stress that triggered innovation. Finally, the dynamics of innovation in addressing the challenges of climate change are being felt; but the challenge is to increase the pace of innovation, while simultaneously minimizing any associated risks. Cooperation amongst the various stakeholders is critical to signal to all the urgency and priority of the task ahead.

The role of government was debated throughout the conference. Governments must not only create the regulatory and legal framework, which promote means to combat climate change, but also work to eliminate tariffs and subsidies that prohibit market forces to act. Subsidies for clean technology have prevented prices from coming down and thus making such technologies unaffordable in developing countries where the need is greatest. Tariffs and energy subsidies have likewise distorted the market place and stifled competition by tipping the balance in favour of continued reliance on fossil fuels. On the flip side, subsidies can be valuable incentives to build up a market and create a stable infrastructure to permit sustainable growth to take root. "Smart" subsidies must have a shelf life and be phased out incrementally to be truly beneficial.

The financial industry spoke with one voice in stating that it must focus on the return of any investment. Large institutional investors, such as pension funds, have no alternative in this regard. They cannot invest in projects which lose money but have a great environmental upside. However, the situation is changing. Many investors look beyond financial return and also consider corporate governance and environmental issues when choosing where to deploy their money. It is becoming increasingly evident that superior environmental performance will in the long run lead to a superior financial performance. This, as much as anything, will create a market place that supports and funds climate change.

Clean technology (clean tech) and the venture capital that supports its development and growth were also key topics. Clean tech is the fastest growing sector for venture capital funds. The sector is broader than just renewable energy, as it also encompasses clean air, water and land. The money available for investing is increasing despite the global economic climate and the rate at which new venture capital funds are being formed continues to increase. Energy generation is the largest sector, as it grabs most of the headlines, with solar being at the top. Solar energy has a more attractive venture capital profile than either wind or wave alternatives.



However, as the amount of total venture capital increases, estimated to be USD 19.46 billion in 2008, the number of deals is decreasing. This is due not only to the relatively small number of viable investment opportunities, but also because deals, especially in the US, are becoming ever larger. Another change is that North America has awoken to the opportunities in the clean tech market and has over taken the EU both in terms of innovation and manufacturing. North America and the EU remain the prime centres for the venture capital funds relating to clean tech.

Nonetheless, there is activity in other parts of the world. As Asia, the Middle East and other regions do not have an established culture of venture capitalism, these markets will take time to develop. However, China, Turkey, Morocco and other developing countries sense the benefits and profits from clean tech and are eager to obtain new technologies and enter the market place.

Certainty and predictability were key themes addressed by all speakers. No one challenged the basic premise that questions about the future loom large. Much depends on the outcome of the 2009 Climate Change Conference in Copenhagen. What role the US will play after the upcoming presidential elections is also uncertain. Some cautioned that even though the chances of obtaining a global accord on greenhouse gas emissions are small, there should be no paralysis if Copenhagen does not result in certainty. Financial solutions and products are already in place that bridge the 2012 expiration of the Kyoto Protocol. The political space embracing climate change has expanded and will continue to do so. Even though the US did not adopt the Kyoto Protocol, California is playing a leading role in addressing the problem. Progress will undoubtedly be slower if there is not global agreement, but the markets will move forward, grow and integrate. And ultimately, the development of a viable, unified market supporting and embracing climate change will have more to do with accounting rules and energy prices than with any agreement at Copenhagen.

Further information can be found at: <http://www.sustainability-zurich.org/financing-for-climate>