



International Chamber of Commerce

*The world business organization*

Policy  
statement



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**Environment and Energy**

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# ICC Public Policy Roadmap on Finance and Climate Change

## Highlights

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- Public-Private Partnerships

### Key messages

- Investment in climate change mitigation and adaptation projects and capacity building in developing countries is a critical consideration in the negotiation of a post-2012 international framework agreement on climate change.
- The private sector has a crucial role to play in this regard as according to the United Nations and the International Energy Agency (IEA), in order to halve global emissions by 2050 the private sector will contribute more than 80% of the estimated \$1 trillion in climate finance required.
- Institutional structures and frameworks to govern financial flows will also be critical. They will require sound governance and transparency or the size of the investment transfers is certain to raise political concerns in donor countries and focus attention on the effective and sound nature of the funding to achieve global greenhouse gas reduction goals.
- Although international climate policy is an important backdrop to climate financing and already influences most project investment decisions today, far more relevant is the way that new international political agreements are translated at the national level, for example, through national policies that affect energy prices. In recognition of the importance of national policy, international agreements should enable clear, precise frameworks for execution in national systems.
- The fundamental issue for business is not the availability of capital, but whether proposed projects work within a policy framework that is clear, stable and predictable so that investors trust that policy goals and incentives will be in place for the duration of the project.
- Governments should refocus on the potential of market approaches and build on the successes and lessons learned from the current carbon and greenhouse gas markets, along with the United Nations Clean Development Mechanism (CDM) regulatory framework.
- Public funds should be used with care and in a way that does not violate the key principle of technology neutrality, i.e. maintaining all technology options open. Effective public funding could encourage more private sector actors to seek to commercialize at first risky but potentially viable and deployable technologies. The challenge is to recognize when such technologies have the potential to become commercial after overcoming startup barriers, and when they are in fact not viable.
- Once technologies have a commercial track record, another significant issue is driving technology costs down to a level that can compete with more carbon intensive technologies. Public policies that address demand and price as well as demonstrate public financing commitments that will last for the duration of a project will encourage private sector investment into low carbon climate finance projects.
- One way to encourage early promotion and allow for essential large scale projects is to leverage Public-Private partnerships (PPP) to a larger extent. PPPs are an effective mean of sharing relevant risks between the public and the private sector and have a critical role in promoting key investments in large scale infrastructure investments required to combat climate change.
- Business is prepared to share its experience and work with governments and others to design effective procedures to finance adaptation and mitigation activities in developing countries.

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The private sector has a crucial role in climate finance, and as an authoritative voice of the international business community, the International Chamber of Commerce (ICC) wishes to offer its collective experience and perspective on the development of international climate finance policy.

This paper presents the overarching themes that should underpin international cooperative action on climate change. Its main focus is on investment flows to developing countries, though business also recognizes a strong need for finance in the further development of energy infrastructures in developed countries. Sources of private and public finance as well as their utilization and stewardship are also addressed with comments and suggestions, including considerations of enabling frameworks, governance and synergies between public and private sector financing.

## Towards effective public and private finance for international cooperative action on climate change

### *Diverse streams flowing to one goal – climate finance*

Climate finance, that is, investment in climate change mitigation and adaptation projects and capacity building in developing countries - is a critical consideration in the negotiation of a post-2012 international framework agreement on climate change. These are fundamental considerations which should be resolved in order to advance in the development of a post-2012 framework.

At the 2009 U.N. Climate Change Conference in Copenhagen, several governments committed to mobilize \$100 billion a year for climate finance by 2020. In addition, governments agreed to deploy \$30 billion in 'fast start' financing over 2010-2012 for vulnerable developing countries. Other estimates of needed finance to achieve deep, long-term global emissions reductions are far higher. Such estimates of the large sums necessary make clear the need to establish trust, institute effective governance, and pursue win-win propositions for both donors and recipients of finance, if such large flows are to be sustainable.

In response to these challenges, the UN Secretary-General appointed a High-level advisory Group on Climate Change Financing (AGF) to identify potential sources of financial flows. Although the Group has no formal standing in the UNFCCC negotiations, its recommendations will help to identify potential sources of funds, and raise awareness of the issues that must be resolved to mobilize them.

### *Role of the private sector*

Yet in terms of the revenue challenge, the private finance sources, rather than public, are by far the most significant. Indeed, according to the United Nations and the International Energy Agency (IEA), in order to halve global emissions by 2050 the private sector will contribute more than 80% of the estimated \$1 trillion in climate finance required annually. The private sector invests when a business opportunity (a notion that includes a market, a stable business environment, etc) is perceived.

Since investments in facilities, equipment and infrastructure to mitigate and adapt to climate change are typically very long-lived, governments will need to provide confidence that financial policies and procedures will be stable for extended periods. Institutional structures should help facilitate and enhance private sector capital flow but the key driver is business opportunity which also drives Research & Development (R&D) investment.

Climate policy is intrinsically linked to trade, energy, economic and employment policies. The global financial crisis has highlighted the need to work efficiently, cost-effectively and cooperatively to shape a future global low-carbon economy with economic growth as well as energy access and security.

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The UNFCCC must also identify ways to collect, utilize and steward finance from both public and private sectors, and seek synergies.

### Overarching considerations for climate finance policy

#### *A public policy roadmap and institutional structures*

Shared and clearly articulated strategic goals for public finance are an indispensable part of the roadmap business needs to help understand the public policy agenda, what funds from the public purse will support that agenda, and over what timeframe.

Institutional structures and frameworks to govern financial flows will also be critical. Achieving the goals presented in such a roadmap will require sound governance and transparency or the size of the investment transfers is certain to raise political concerns in donor countries and focus attention on the effectiveness of the funding to achieve global greenhouse gas reduction goals. One high profile scandal or evidence of corruption could weaken support for the entire process. In particular, procedures will be needed to assure that:

- firms from all nations can compete for resources that promote actions in any nation,
- available resources are used effectively,
- operating companies and suppliers from firms in donor countries are not penalized, and
- countries respect contractual commitments.

#### *Stable and predictable investment policy for long-term climate finance*

Although international climate policy is an important backdrop to climate financing and already influences project evaluations and investment decisions today, far more relevant is the way that new international political agreements are translated at the national level, for example, through national policies that impact energy prices. In recognition of the importance of national policy, international agreements should enable a clear, precise framework for execution in national systems.

The importance of policy to investment decisions cannot be overstated. In economic models of stabilization scenarios, the investments that drive emissions reductions require considerable financial support, e.g. through a price on greenhouse gas emissions (GHG) emissions. Setting aside constraints arising from the financial crisis, the fundamental issue for business is not solely the availability of capital, but whether a policy framework is clear, stable and predictable so that investors trust that policy goals and incentives will be in place for the duration of the project.

Post-2012 funding mechanisms will generate investment flows for activities in developed countries to the extent that they are clear, stable and predictable. Specifically, funding mechanisms should:

- ensure sustainability over the duration of the investment period through control procedures in the host countries,
- impact the bottom line by improving returns to make investment commercially viable
- provide a clear regulatory framework within a stable regime .

In addition, funding mechanisms should contain clear, objective eligibility criteria for financing, project selection and linkage to the Nationally Appropriate Mitigation Actions (NAMAs). Failure to address these issues will increase the perception of risk for financiers, and is likely to result in a greater need for direct public finance tools to make a commercially attractive investment case.

### Private finance

Private finance will be mobilized if an appropriate incentive or support structure exists to stimulate domestic investments required to meet national obligations, and through investments in recognized offsets. Investment in offsets will be facilitated through reform of CDM, including by creating streamlined procedures and expanding the scope of eligible activities, and through the possibility of

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new offset mechanisms perhaps associated with NAMAs.

### *Carbon and greenhouse gas markets*

There is broad consensus among those involved in climate policy analysis – from academia, government, NGOs and industry - that markets are essential to harness private sector investment efficiently. Indeed, early lessons show that markets are a catalyst for development finance while simultaneously supporting GHG mitigation and sustainable development. Given this premise we urge governments to refocus on the potential of market approaches and the successes and limits of the current carbon markets, along with the CDM regulatory framework.

According to current United Nations estimates, by the end of the Kyoto Protocol's first commitment period in 2012, the CDM will have delivered over 1 Gigaton of offsets.<sup>1</sup> At the same time, between 2002 and 2009, transactions in the form of forward contracts covered about 2.2 billion CDM credits worth some \$25 billion, leveraging more than an estimated \$100 billion in underlying low carbon investment. While the CDM has proven to be of some value, it has also been overly bureaucratic and its restricted scope undermines its role in stimulating significant climate-friendly investments in developing countries or in delivering deep, long-term global emissions reductions required to stabilize GHG concentrations.

Improvements to the CDM are needed. Proper implementation of the reforms agreed upon in Copenhagen will go a long way towards addressing many of its shortcomings. In sum, to build upon the successes of the CDM and foster investment flows to the developing world we support:

- Continuity - Existing public institutions at the national and international level have developed capacity and expertise in managing climate change financing programmes that target private sector involvement. Governments should utilize and leverage existing efficient institutions rather than spend time and resources creating new ones
- Policy clarity - Investor demand for carbon and GHG reduction projects hinges upon certainty over the post-2012 international climate change regime. Uncertainty jeopardizes the very real progress that many countries and companies have made in integrating GHG considerations into policy and investment decisions as well as sustained GHG emissions reductions.
- Mechanism reforms - The CDM provides a base on which to build. The international community should consolidate the lessons learned over the past decade and make necessary changes within the current regulatory framework.

In broader terms, greenhouse gas and carbon markets, in those nations and regions that chose to utilize them, can play an important role in creating signals and actions to stimulate technology development and deployment. Even more importantly, GHG policies should continue to recognize and build on existing commercial markets to achieve efficient outcomes. From a private sector perspective, such markets should be designed to:

- ensure environmental integrity - which will require a close look at the basis for issuing allowances and qualifying offset investment through measuring, reporting and verification (MRV) requirements,
- encourage research and entrepreneurship in the business community,
- provide a clear market signal that drives efficient and low emissions investment decisions and consumer behavior,
- ensure compatibility with existing and evolving national policies and measures,
- ensure that policies are consistent with strong protection for intellectual property rights to encourage innovation and deployment of advanced technologies,
- ensure that safety mechanisms are implemented against trading of a highly speculative nature,
- embody rigorous enforcement procedures to identify and eliminate illegal transactions,
- work within existing agreements that promote open trade and investment, and

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<sup>1</sup> [World Bank Report - Ten Years of Experience working with Carbon Finance](#) pg 7

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- ensure that private finance can participate.

### *Using public finance to leverage private investment*

Business believes that a primary role of public finance should be to leverage private investment. In many cases, existing mechanisms and institutions can be modified to make them more effective at attracting private capital and private technology for projects that reduce GHG emissions. However, public funds should be used with care and in a way that does not violate the key principle of technology neutrality, i.e. maintaining all technology options open.

As new technology projects move from research and development towards commercialization, they often lack investment to bear the scale up risks. This investment gap is common to projects that are too capital intensive for venture capital and too risky for private equity. In some cases, effective public funding could encourage more private sector actors to seek to commercialize risky but potentially viable technologies. The challenge is to recognize when such technologies have the potential to become commercial after overcoming startup barriers, and when they are in fact not viable. It is the traditional role of the private sector to accept such risks and benefit from the rewards of successful commercialization. The introduction of public finance to commercial decisions runs the risk of politicizing them.

Once technologies have a commercial track record, another significant issue is driving technology costs down to a level that can compete with more carbon intensive technologies. Public policies that address demand and price as well as demonstrate public financing commitments that will endure for the duration of a project will encourage private sector investment into low carbon climate finance projects.

Business has experienced successful experiences with the following approaches:

- Tax Credits - Easy to use and can specifically target each phase of technological maturity, whether R&D, demonstration, deployment or commercialization, but should seek to avoid targeting specific technologies or solutions over others that may be more economically efficient.
- Loan guarantees - Can efficiently reduce risks highlighted as impediments to private sector investment.
- Public concessionary loans or equity - Can provide long-term leverage at low costs; especially helpful to large infrastructure projects.
- Grants - Reduce high start-up costs and stimulate supply to underserved markets.
- "Green" procurement - Incentivize deployment and commercialization of commercial, cleaner technology by employing it in a variety of public projects, from road signs to energy efficient buildings to power plants.

### *Public-Private Partnerships*

One way to encourage early promotion and allow for essential large scale projects is to leverage Public-Private partnerships (PPP) to a larger extent. PPPs are an effective mean of transferring relevant risks between the public and the private sector and have a critical role in promoting key investments in large scale infrastructure investments required to combat climate change.

For instance PPPs could be used in expanding the electricity grid infrastructure, which is essential in almost all parts of the world to accommodate for higher degree of intermittent energy sources. PPP also play a key role in facilitating investment in capital intensive renewable energy such as wind, hydro and solar and nuclear power.

By making the most of PPPs, governments can stimulate investments in large infrastructure that will be a prerequisite to enable the dissemination of climate change mitigation technologies, such as carbon capture and storage. Furthermore, PPPs allow for greater private sector involvement and more effective risk sharing.

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## Challenges

While some or all of the tools above may be useful, each can also be abused. Inappropriate or narrow targeting can erode confidence in the long-term integrity of public investment. Rent seeking needs to be avoided. Inefficient use of public funds increases the costs to all and weakens confidence in public institutions.

In our experience, the processes used to award public funds are as important as the types of support offered. The approaches noted above have succeeded when they:

- have transparent, predictable rules that allow timely and efficient access by the private sector;
- are technology neutral based on objective criteria, e.g. GHG emissions per unit of activity without favoring one producer's technology,
- prioritize and provide mitigation funding to those projects that are most economically efficient in reducing GHG emissions,
- adopt equality of competitive opportunity and other norms set forth in the Arrangement on Officially Supported Export Credit of the OECD<sup>2</sup> (and the WTO Government Procurement Agreement),
- have sufficient levels of funding to close the gap in available private financing; and
- embody a predictable, results-oriented approach that minimizes transaction costs, avoids constraints on utilization (such as price controls, ownership or state control percentages, etc.) and rewards performance,
- build confidence among donor and recipient nation through disciplined financial controls, including audits to learn from problems, establish best practices and prevent corrupt behavior;
- decisions are taken by professional staff based on objective criteria and subject to appeal, and
- employ effective oversight and stewardship to verify performance, assure accountability for results, and embody a process of continuous improvement.

## Conclusions

The challenges of financing mitigation and adaptation action as part of a post-2012 agreement are daunting, particularly in the current economic downturn. More than ever, the right enabling frameworks and clear policy roadmaps are needed to encourage private sector sources, and seek synergies between public and private sector sources.

We encourage negotiators to recognize and take advantage of the enormous wealth of experience that resides in existing institutions, markets and investment activities. New finance should be used to leverage and benefit from this experience. Business is prepared to share our experience and work with governments and others to design effective procedures to finance adaptation and mitigation activities in developing countries.

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<sup>2</sup> OECD Arrangement on Officially Supported Export Credit (Feb. 16, 2009), available at: [http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000BE6/\\$FILE/JT03259737.PDF](http://www.oilis.oecd.org/oilis/2009doc.nsf/LinkTo/NT00000BE6/$FILE/JT03259737.PDF)

# The International Chamber of Commerce (ICC)

ICC is the world business organization, a representative body that speaks with authority on behalf of enterprises from all sectors in every part of the world.

The fundamental mission of ICC is to promote trade and investment across frontiers and help business corporations meet the challenges and opportunities of globalization. Its conviction that trade is a powerful force for peace and prosperity dates from the organization's origins early in the last century. The small group of far-sighted business leaders who founded ICC called themselves "the merchants of peace".

ICC has three main activities: rules-setting, dispute resolution and policy. Because its member companies and associations are themselves engaged in international business, ICC has unrivalled authority in making rules that govern the conduct of business across borders. Although these rules are voluntary, they are observed in countless thousands of transactions every day and have become part of the fabric of international trade.

ICC also provides essential services, foremost among them the ICC International Court of Arbitration, the world's leading arbitral institution. Another service is the World Chambers Federation, ICC's worldwide network of chambers of commerce, fostering interaction and exchange of chamber best practice.

Business leaders and experts drawn from the ICC membership establish the business stance on broad issues of trade and investment policy as well as on vital technical and sectoral subjects. These include financial services, information technologies, telecommunications, marketing ethics, the environment, transportation, competition law and intellectual property, among others.

ICC enjoys a close working relationship with the United Nations and other intergovernmental organizations, including the World Trade Organization, the G20 and the G8.

ICC was founded in 1919. Today it groups hundreds of thousands of member companies and associations from over 120 countries. National committees work with their members to address the concerns of business in their countries and convey to their governments the business views formulated by ICC.



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**Policy and Business Practices**

38 Cours Albert 1er, 75008 Paris, France

Tel +33 (0)1 49 53 28 28 Fax +33 (0)1 49 53 28 59

E-mail [icc@iccwbo.org](mailto:icc@iccwbo.org) Website [www.iccwbo.org](http://www.iccwbo.org)