

Capital Markets Climate Initiative (CMCI): Overview

Context

The level of investment required to transform the global economy to a low carbon path is considerable. The International Energy Agency (2009) estimates that \$197 billion of additional capital investments will be required by 2020 in developing and emerging economies to be consistent with the goal of limiting global mean temperature to an increase of 2 °C above pre-industrial levels.

The CMCI was launched in September 2009 by UK Minister of State for Energy and Climate Change, Gregory Barker, to help accelerate the response to this financing challenge by supporting the scale up of private finance flows to developing countries.

Focus

The CMCI will focus on catalysing systemic change by assisting policymakers in understanding why and how public sector action can help mobilise private capital and encourage new markets in low carbon investments. This will focus on the role of “investment grade” policy and public finance mechanisms. This approach recognises the need to move from theory to action by developing practical propositions and support for policy makers and testing and demonstrating the potential impact of public sector action through practical implementation. Through this process CMCI should also help raise private sector interest in countries / sectors where they would not have otherwise invested, and strengthen their appetite for those areas they already deemed attractive.

Approach

A substantial body of work and ideas has been developed to date around a general set of public policies and finance mechanisms that can help to leverage private investment. To help move this agenda forward CMCI will focus on developing these ideas into a practical set of principles and toolkit to assist policymakers in mobilising private finance for low carbon investments. This will be based on a combination of:

1. Research and analysis, including aggregating and extracting a diverse range of past and current experiences, perspectives and lessons in leveraging private capital;
2. Public-private dialogue and consultation; and
3. Real application and empirical demonstration on how public actions can leverage private capital to deliver low carbon investments and goals.

Focusing on 2-3 sectors (e.g. low carbon energy, transport and land use / forestry), the work will be delivered through two working groups:

Working Group 1 will focus on developing a set of principles and toolkit for policymakers that will help to create a common understanding on what “investment grade” policy and public finance mechanisms means in practice for policymakers, why it is important in terms of the scale of capital that can be leveraged, and how such measures can be implemented in practice. This will be based on research, analysis and consultation and involve the identification and creation of a set of common standards and streamlined approaches (being clear where these are specific to certain country / sector characteristics). The necessary structure and content of the principles and toolkit could include e.g.:

- *Guidelines on public policies / finance mechanisms:* e.g. which mix of policies and mechanisms work well in which sectors and situations and why; how international public climate finance can support governments crowd in private sector and where its use is most effective.
- *Guidelines on process / means for implementation:* e.g. which processes have been effective and who needs to be consulted; how to measure and define the public value case for action and the timescales involved in developing a sustainable investment climate; the relative roles of different international finance institutions, based on their comparative advantages and success to date.
- *Compendium and database of experiences:* e.g. aggregating lessons, results and contacts from different countries / sectors / institutions in a publicly accessible form.

Such a toolkit could in turn be integrated into technical assistance provided by existing organisations such as the Climate and Development Knowledge Network (CDKN) and the Global Green Growth Institute (GGGI).

Working Group 2 will focus on assisting governments wishing to develop their low carbon policies, programmes and projects into investable propositions to take to the capital markets, helping to demonstrate the role of public action in leveraging private finance. WG2 will combine public policy and private investment expertise to help government officials pin-point what specific types of policy, regulatory and public-private finance innovations are needed in practice and at which stages of the investment / project development chain in order to upscale the deal flow of low-carbon transactions. The focus and support provided by CMCI will vary depending on country demand and opportunities but could include:

- *Top down policy approach:* CMCI could assist governments in identifying the conditions that would attract domestic / international private investors and enhance the likelihood of specific programmes / projects from happening; understanding the leverage potential that public interventions could create through project transactions they help stimulate; assessing the potential type and scale of low carbon investments that could be mobilised; and identifying the emissions reductions and other economic / social benefits the interventions could help catalyse.
- *Bottom-up programme or project approach:* CMCI could assist governments in developing a specific low carbon programme or project into an investable proposition by helping to identify how and where barriers exist that are preventing private capital from being invested and how these could be overcome by specific policy changes and /or public finance mechanisms.

Through support provided in a specific country and sector content, WG2 will test and refine the principles and toolkit developed in WG1 and create 'proof-points' to demonstrate in practice why and how public action can leverage private capital.

CMCI implementing country partners are to be selected shortly, based on a number of factors such as country partner demand and likely recipients of the UK's International Climate Fund.

Working Groups 1 and 2 will collectively provide advisory inputs to the UK Government based on CMCI's findings and experience. This includes helping to inform UK Government thinking on the design of the *Green Climate Fund* (GCF). While recognising that the Transitional Committee responsible for the design of the GCF will decide where and how to collate inputs from the private sector, CMCI will look to build on its findings to help inform this process. This may involve collaboration with similar initiatives led by other governments and will be taken forward by a sub-group of interested members of WG1 and WG2.

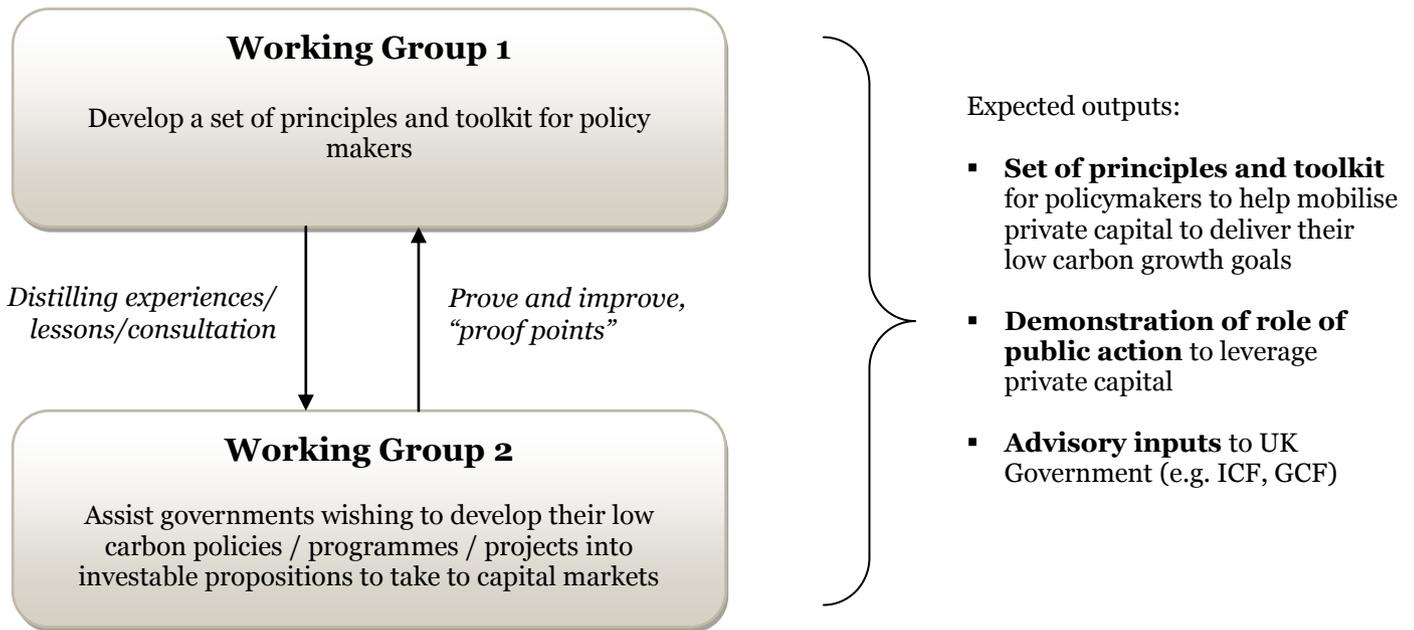
Similarly recommendations will be generated which could help inform relevant UK Government public spending decisions and policy development in relation to leveraging private investment flows, such as the disbursement of the UK's International Climate Fund (ICF). This may be in the context of support to WG2 country partners identified through the CMCI process, or in relation to support identified through the WG1 process. Ideas and recommendations will be submitted to Minister of State, Gregory Barker, and can be considered in the context of ICF funding.

Differentiating Strengths of CMCI

Recognising the urgency for building institutional and organisational learning and capacity around these issues if they are to work in practice, CMCI can help move this agenda forward more rapidly than if it were left to governments or the market alone. This is driven by a combination of:

- UK Government leadership, in turn facilitating engagement with other governments and international processes on leveraging private climate finance;
- Financial innovation expertise from the City of London to help identify financial solutions to the barriers identified, as well as scope for capital investment; and
- Improved prospects for delivery given potential to deploy UK public climate finance through the International Climate Fund.

The diagram below summarises the proposed approach and outputs of CMCI:



Timeline

The work programme as currently proposed will be a sequenced effort likely spanning over two years. The two working groups will start in tandem and work very closely given that the design of the principles and tools for policy makers (WG1) and its application through assistance provided to partner governments (WG2) requires a process of iteration and collaboration.

Support for CMCI

CMCI is a UK-led initiative spearheaded by Minister of State, Gregory Barker. The Steering Group and two Working Groups currently comprises of key decision makers from the UK government, institutional investors, investment banks, insurance companies, stock exchanges, credit rating agency, Development Finance Institutions, think tanks and professional services.

As the programme develops, CMCI aims to draw in other stakeholders as appropriate, such as developing country policy makers, developing country banks and pension funds, other donors, project developers, pension fund consultants, and civil society.

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