# African Bankers' Carbon Finance & Investment Forum

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**The DBSA Vulindlela Academy, Johannesburg, South Africa**

**Closing Remarks by Mr. Remco Fischer**

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A fundamental problem of all environmental challenges, be it water scarcity, the depletion of biodiversity, the exploitation to collapse global fish stocks and certainly the issue of climate change, is that they are not regarded as what they are essentially are: truly economic problems, with economic causes and major future implications on the economies and the economic well being of people. Businesses and policy makers do not really understand and believe that climate change will, if left unchecked, have negative economic implications, many several times more severe than the financial crises that we have seen in the last 3 years. It is not surprising that those tasked with crafting global responses to climate change at the global level are the environment ministries which unfortunately in many countries have less political weight than other ministries.

This applies not only to the risk side of the environmental challenge, but also to the economic opportunity offered, such as the growth of new markets, the positive economic implications of low carbon innovation and the opportunities of growth which is less resource intensive.

UNEP's new global strategy aims at taking these highly important issues out of the green niche into broader considerations on socio-economic development.

Looking at the discussions over the last 2 days, some key messages relate to the financial sector perspective of the carbon markets, including the financial opportunities as well as market shortfalls that have thus far limited wider-scale implementation in Africa. Rousing discussions also highlighted **what we have today,** in terms of overall CDM, as well as in terms of the CDM and other efforts towards low carbon economic development in a South African and sub-Saharan African context.

Some other messages relate obviously to what are the gaps between carbon finance and the key role it plays in stimulating poverty reduction and low carbon growth, and what is **needed going forward – partly from governments but also and particularly – from the private financial services sector in this country and other countries in Africa.**

**Key messages**

- Carbon needs to be a core business within the financial sector.
- African supply of good carbon projects, more so than demand for African carbon credits, has been a primary bottleneck.

- The private sector needs to mobilise leadership and recognise it has a role. CDM is a market based mechanism that requires extensive input from those that deal with markets on a daily basis.
- Governments need to come on board to establish legal and regulatory frameworks that support CDM and stimulate carbon markets; however, as the Forum was focused on the finance sector, this was not addressed in detail.
- Carbon investors would benefit from greater clarity on carbon opportunities, and this could take the form of an investors guide.
- During climate change negotiations, to attract greater investment and stimulate its carbon markets, Africa needs to present what the Continent has to offer rather than focusing on what it wants.
- KfW highlighted a large potential for POA in Africa (16% POAs are in Africa as opposed to 2% of all CDM) and the significant need to support CDM for households (1% stand-alone CDM activities take place in rural and urban households; whereas 50% of POAs are in households).
- International Carbon outlined how to make a carbon deal innovative (i.e., structure, more inclusion of carbon finance rather than just carbon trading, sector of CDM such as POA, African solutions being smaller and simpler, development of LULUCF credits).
- The development of the carbon derivative, a structured investment product targeting investors looking to divest into a carbon portfolio. The lack of skills and interest for smaller asset managers in South Africa where they are familiar with the mining and power sectors and carbon is relatively exotic and risky.
- Two comments on CDM obstacles: Beven Jones of Rand Merchant Bank noted investors have a limited percentage of funding to spend on commodities, and carbon is usually not at the top of the list. Beven highlighted the influence of the global downturn in financial markets, noting risk aversion to take on an added carbon risk. Geoff Sinclair of Standard Bank noted the uniqueness of CDM and how it doesn't fall into the slot of the tax and spend paradigm, but rather relies on international contributions.

**In terms of what we have today:**

Just looking at the discussions over the last 2 days, it becomes clear that what we have is **not a CDM that has failed,** even though that is what we very often hear.

**Only 5 or 10 years** ago a discussion among mainstream and commercial financial institutions on the questions of financing emissions reductions in developing countries would not have been thinkable. **Banks** would rather have laughed at the idea. Today that's quite different, as the discussions and the level of participation at this forum have shown: more and more FIs are serious about the opportunities and keen to finally be able to reap financial returns coupled with environmental returns at the same time and at much greater scales.

**The CDM has enabled** the first step of what is needed in order to achieve a real transition to a low carbon economy: it has created a real emissions reductions industry, driven by markets. 10 years ago that would have been impossible.

The CDM in Africa is **not a failed child**, rather a teenager with certain, perhaps severe difficulties but with a promising talent and a promising future, as long as the parents get it right. The example of older Chinese brother is the more promising.

What we also have is a **government awareness** on the issue and determination to undertake steps that go in the right direction, such as the implementation of feed-in tariffs. Highest in Africa with implications on the additionality. However, we have seen that there is much scope in increasing awareness, particularly, but not only among governments.

**Local banks that fully** understand the relevance of environmental and sustainability issues for the long term success of their business, often including a very sophisticated understanding of the CDM, its risks attached to it and the opportunities it offers.

The **international climate change regime,** following the recognition of the shortcomings of the project-by-project approach of the CDM particularly in Africa and LDCs around the world, has come up with less stringent **small scale as well as the possibility for POA approaches.**

**In terms of what we need:**

- **MORE TRUST and EFFICIENCY –** moving from excellent policy design and ideas to implementation and enforcement in such ways that ensure private sector confidence in the policies in the long term. Feeding tariffs are useless unless market players can confidently rely on them in the long term. Also, administrative processes, domestically as well as internationally need to be made shorter and quicker. Trust is also needed in the international negotiations, particularly between the developed world on the one side and the developing world on the other, particularly between the US and China.

- **MORE AWARENESS and CLEARER UNDERSTANDING –** among relevant stakeholder groups about the both economic and environmental potentials of the CDM and the great opportunities it offers in terms of potential job growth, energy securities, exports, **when compared with China,** where there are entire masters programmes on the CDM, and where the issue appears omnipresent in both environmental but also FDI, trade, and energy policy. At the macro level, the **CDM is not a burden for African economies / it is a new avenue for economic growth, a new commodity to be exported, it translates into inflows of clean capital into African countries.** At the micro level, that CDM is not a COMPLIANCE issue, it is a new interesting market and potential profit centre worth looking at!!

- **AWARENESS on the COMPETITIVE ADVANTAGE –** African policy and business leaders need to be made aware that now, relative to the CDM powerhouses of the world – The Chinas, Indias and Brazils – they feature a key competitive advantage. That advantage is called preferential access to the European market post 2012 while others are struggling to cope with the post-2012 uncertainty.

- **MORE SYMPATHY AMONG BANKS** SO THAT POTENTIAL REVENUE STREAMS FROM THE SELLING ARE REGARDED AS CORE BUSINESS AND AS GOOD AS OTHER REVENUE STREAM AND NOT ONLY AS **ICING ON THE CAKE.** The CDM needs to finally be truly mainstreamed into financial decision making and capital allocation. Standard Bank, for instance, has shown that this is possible.

- **CUSTOMISATION > CDM project classifications, modalities, rules and procedures** that better match African needs, be it with regards to **small-scale, POAs,** and reforms when it comes to, for example, forestry, reforestation and afforestation and the **potential inclusion of REDD** into carbon markets. **Such customisation** will, however, require more intense **negotiation efforts by the African world in the UNFCCC process** based on what Africa can deliver, and not on what it wants based on what is pragmatically better for Africa and not what is politically en vogue. Key issues such as monitoring reporting and validation (MRV) also need to be addressed.

- **LEADERSHIP.** What is also needed **from financial institutions is leadership and commitment** in working with **legislation and regulation in designing policy framework**, mechanisms and incentives are private finance friendly. **Product categories need to be adapted,** eventually with government support such as guarantees, to match the needs of CDM project development (the length of tenors was mentioned as an example (and the at time prohibitory high interest rates demanded)).

- **INTERNALISATION.** The global price continues to be small and not reflective of the real environmental cost of carbon emissions, which in turn slows down CDM development, particularly when the low hanging fruit of emissions reduction will have been fully exploited.

- **LIABILITY. Monitoring and verification** are considered possible but too expensive for many of the projects thinkable in Africa.