DOHA DATELINE
Dr R. Seetharaman

Carbon financing is key to PPP model

THERE IS A need to find ways of engaging new private investors, particularly institutional investors to help address the climate financing gap. To engage the private sector, expected returns on climate-related investment should be commensurate with the perceived level of risk. This is, however, often not the case and the private sector continue to face challenges in investing in the low carbon sector. But, despite the concerns, the potential of public-private partnership (PPP) may be wasted if profit is the main motivation for the private sector. Rather, combating climate change along with climate proofing of interventions and commitment to corporate social responsibility (CSR) must be a priority for business.

Leverage is more often broadly applied to a set of instruments provided by a financial institution that encourage and catalyse other public and private investment by reducing investment risk or increasing project returns enough to attract private investors. A ratio of total private foreign direct investment (FDI) flows to the net public guarantee coverage issued and ratio of the net present value of the carbon finance unit to the overall capital investment needed for the project are some of the leverage ratios which are used in climate change financing.

Carbon Finance (CF), Global Environmental Facility (GEF), Clean Technology Fund (CTF), and Feed in Tariff and Infrastructure Investments (FiT) are some of the financing models for climate change financing. The World Bank Carbon Finance Unit (CFU) uses money contributed by governments and companies in OECD (Organisation for Economic Cooperation and Development) countries to purchase project-based greenhouse gas emission reductions in developing countries and countries with economies in transition. Carbon Finance provides a means of leveraging new private and public investment into projects that reduce greenhouse gas emissions, thereby mitigating climate change while contributing to sustainable development. The GEF is today the largest funder of projects to improve the global environment, which is supported by various UN bodies and World Bank. The GEF has in the past used the term leveraging to imply co-financing. The GEF requires that co-finance from other public agencies is provided for the GEF projects as it expands the resources available to finance environmental objectives.

The CTF is one of the climate investment funds which provide developing countries with positive incentives to scale up the demonstration, deployment, and transfer of technologies with a high potential for long-term greenhouse gas emissions savings. The CTF concessional financing focuses on large-scale, country-initiated projects in power sector, transport sector and energy efficiency. In particular, the PPP are emerging as a successful business model within the Clean Technology to create scale and mobilise necessary funding. Feed in Tariffs (FiT) are payments to ordinary energy users for the renewable energy they generate. The tariffs give three financial benefits such as generation tariff, export tariff and energy bill savings. In certain projects World Bank Group does infrastructure financing along with public and private investors. This is more relevant in renewable energy projects which support infrastructure as solar or wind power.

To attract private sector investment in climate change there should be effective policies; policies are well designed and ensure the effectiveness of the institutions charged with implementing these policies. In particular, relevant regulatory or oversight bodies should have appropriate resources, and have the ability and authority to ensure that climate change and related energy policies are effectively implemented. The G-20 should mandate green economic development so that it should be part of risk framework of Basel III. Public-private finance model for climate change can promote green economies and global sustainability.

“ The PPP model can promote green economies

The author is the group chief executive officer at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy