Overview and access to international climate finance

Training Workshop for National and Local Governments in
Southeast Asia and South Asia on Climate Change Adaptation and Mitigation

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Shaping sustainable futures

Presentation

❶ Overview of the current international climate finance architecture

❷ Needs and challenges

❸ Improving access to climate finance

➊ Current architecture of climate finance

What is climate finance?

- No agreed definition but is commonly understood as covering the financial resources used to mitigate CC and support adaptation to climate change impacts in developing countries.
- Contentious issues:
  - Geographical scope
  - Types of sources and instruments
  - Scope of activities
  - Incremental cost vs. investment capital
  - Gross vs. net flows
  - Additionality

- A useful distinction: climate-specific vs. climate-relevant finance

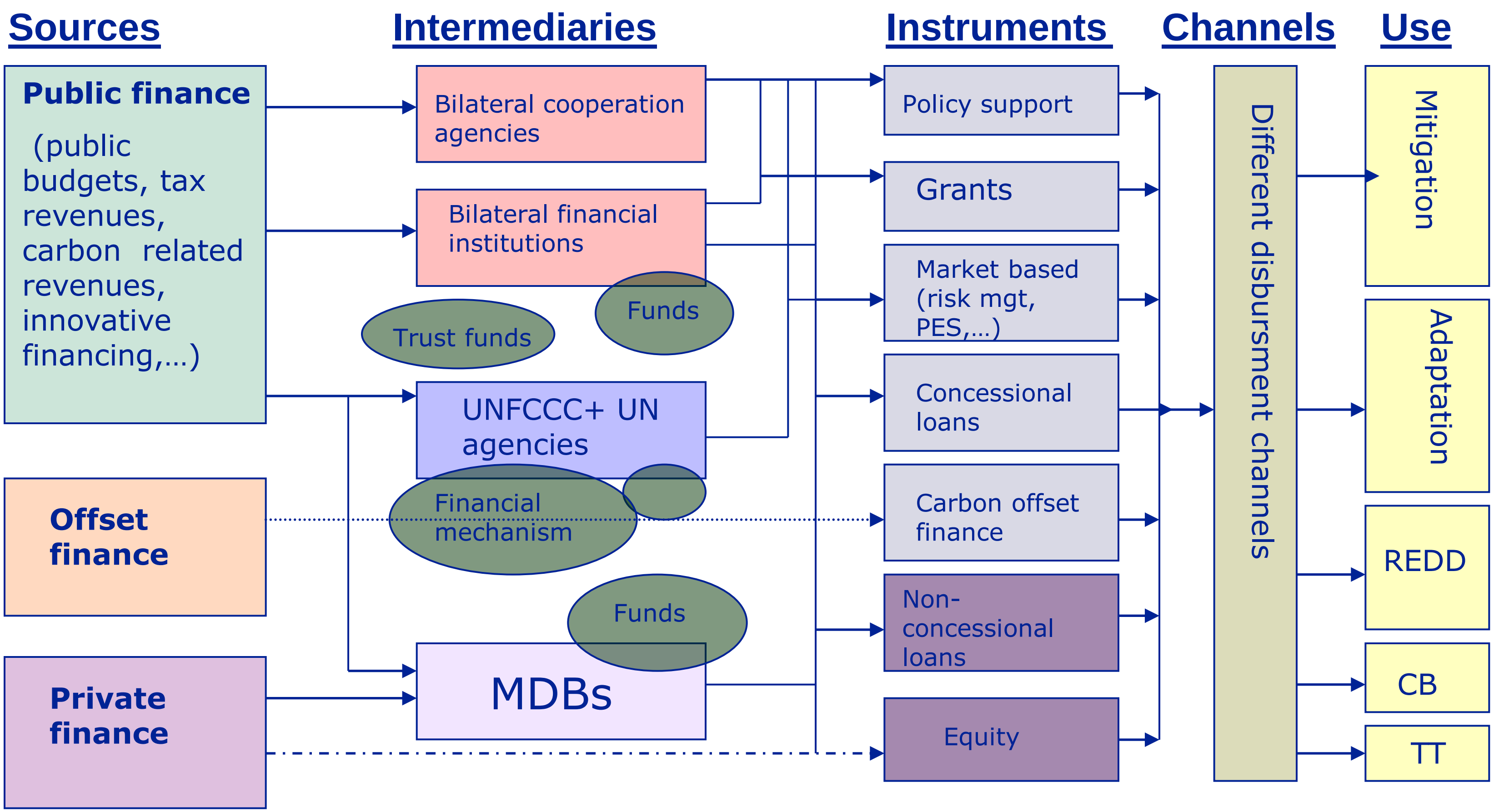
An AFD definition

- Use of tools to assess ex-ante the impact of funding

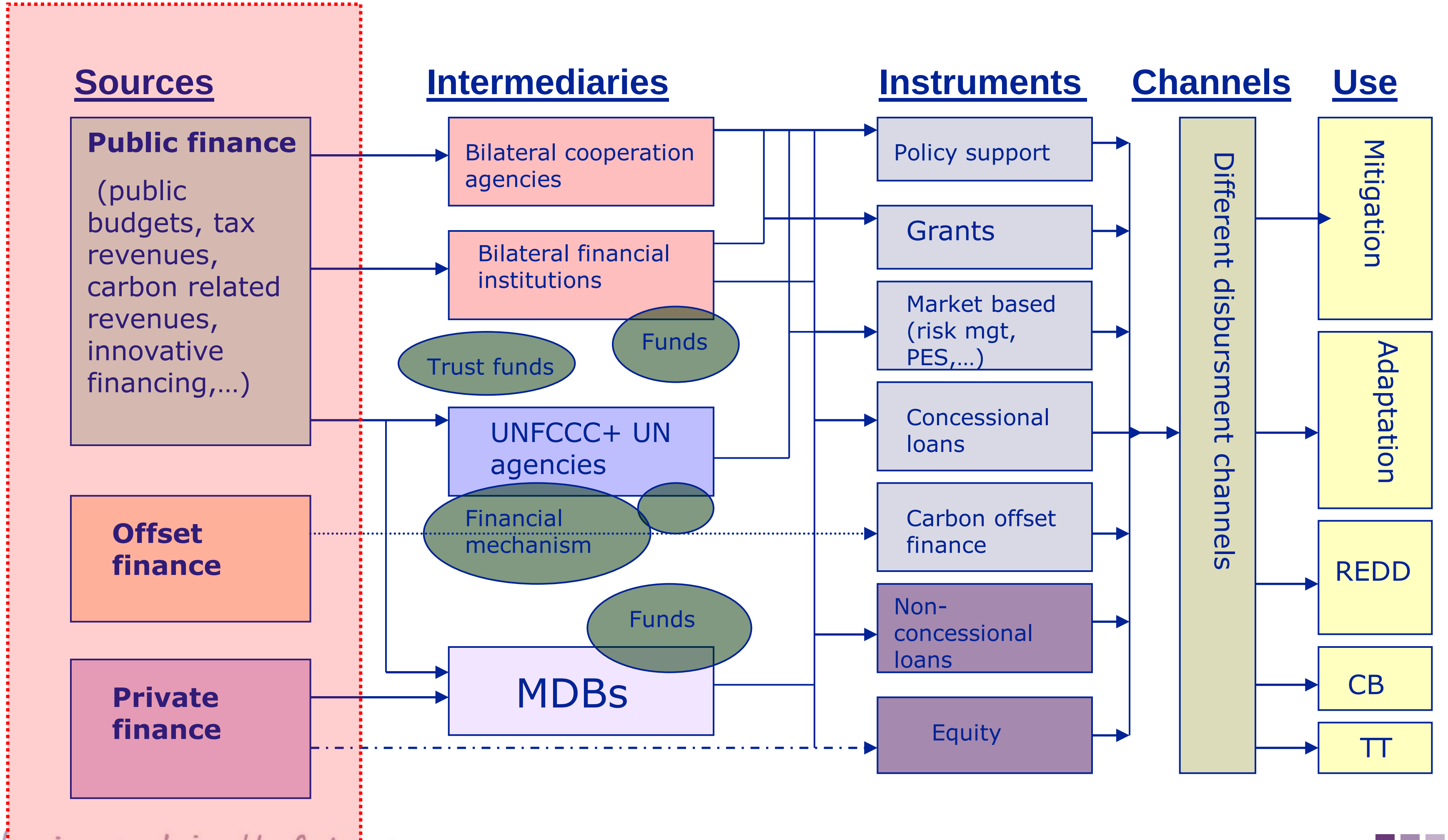
- Climate mitigation:
  - Carbon footprint tool to measure the emission impact
  - Project qualifies as mitigation when avoiding more emissions than generated during its lifetime http://climat.afd.fr

- Climate adaptation:
  - In-house classification and methodology based on sectoral and geographical vulnerability matrices
  - Project qualifies when helps decrease the vulnerability of populations, infrastructures and ecosystems to current and future impacts of climate change

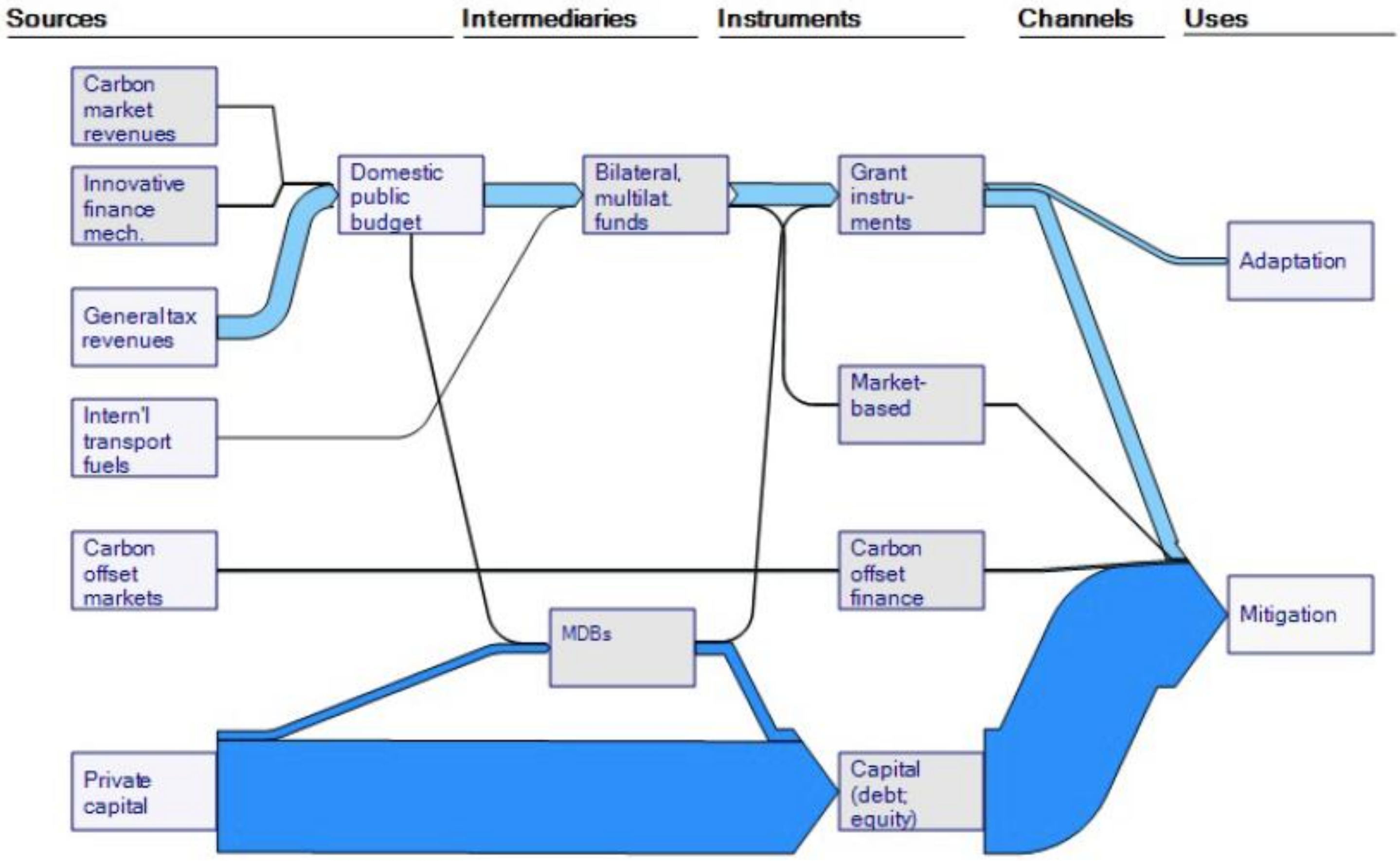
The landscape of climate finance



Sources of international climate finance

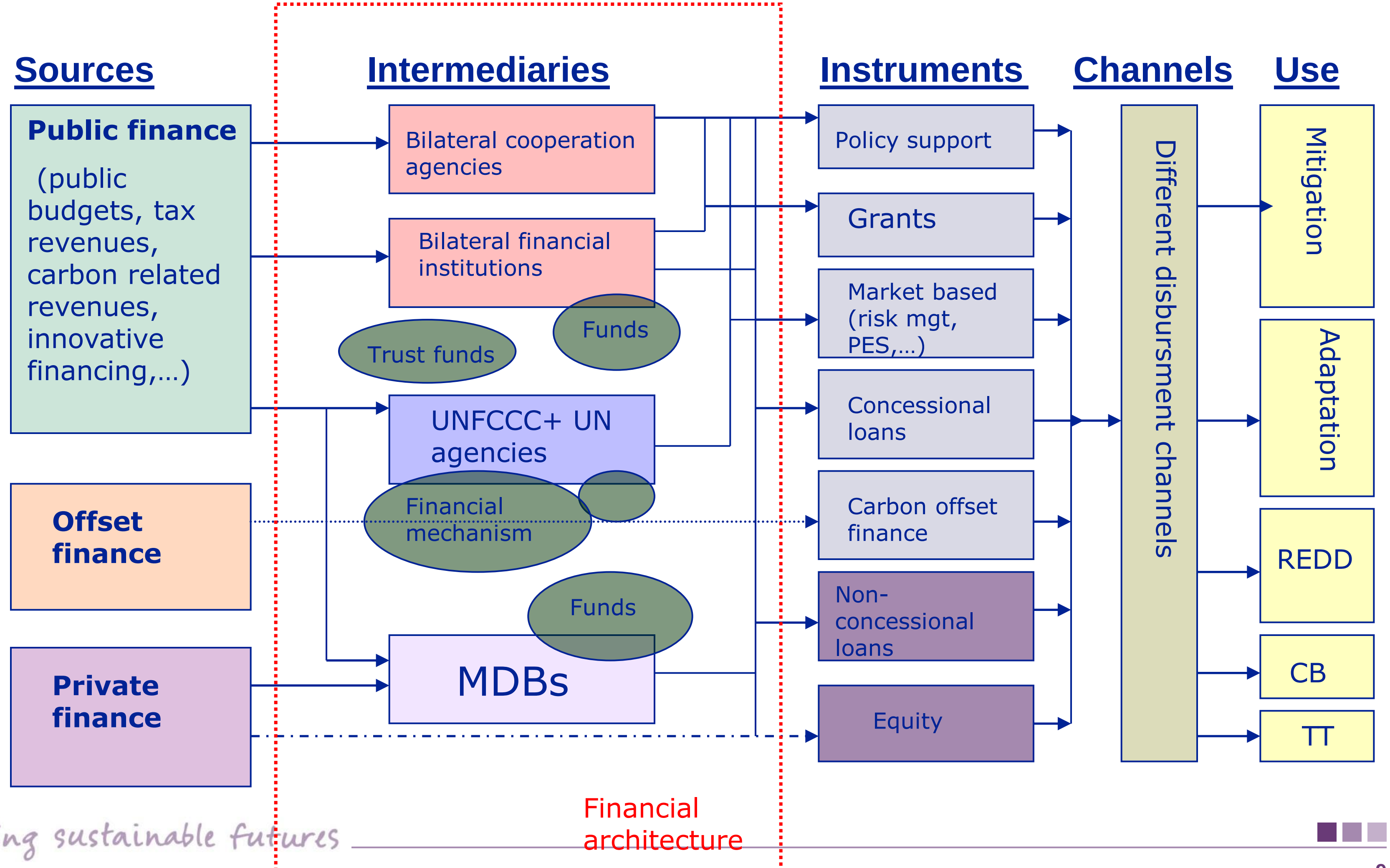


What are current flows?



Source: CPI (2011)

Intermediaries



Public intermediaries

Specialised climate funds and institutions (CIFs, GEF, SCCF, LDCF, AF, …)

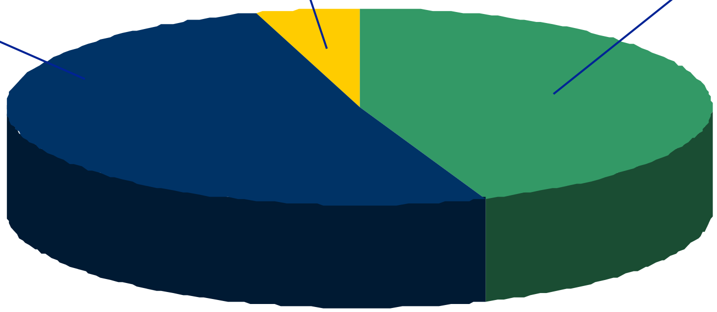
USD 1.4bn (5%)

Multilateral Development Banks (WB, AsDB, AfDB, IDB, EBRD)

USD 15bn (51%)

Bilateral institutions (AFD, KfW, EIB, JICA, NEFCO)

USD 13bn (44%)

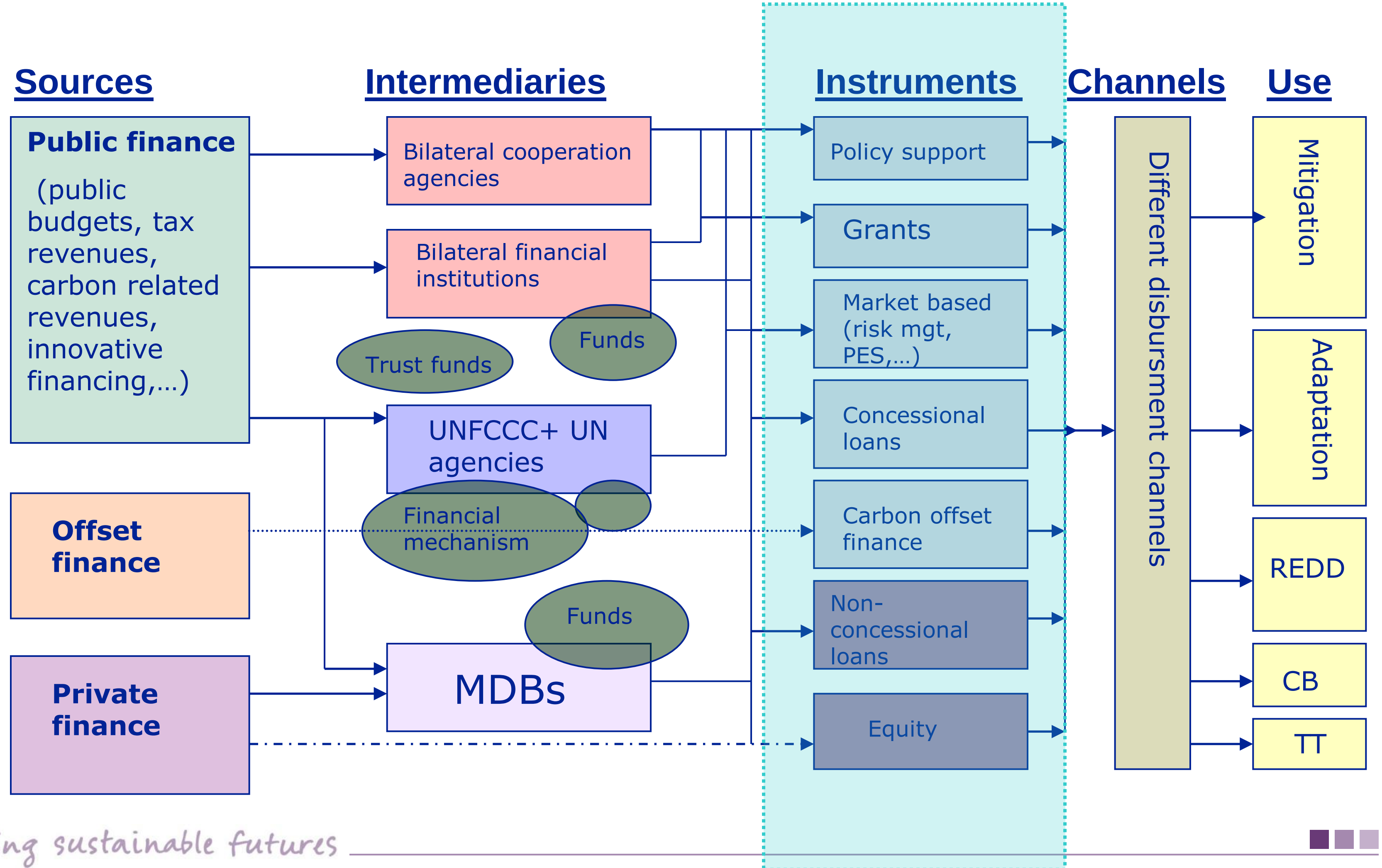


Total USD 29.5 bn

Distribution of the main international public funding sources for climate

Source: UNEP/SEI Mapping of 2009 Climate Financial Flows to Developing countries

Instruments



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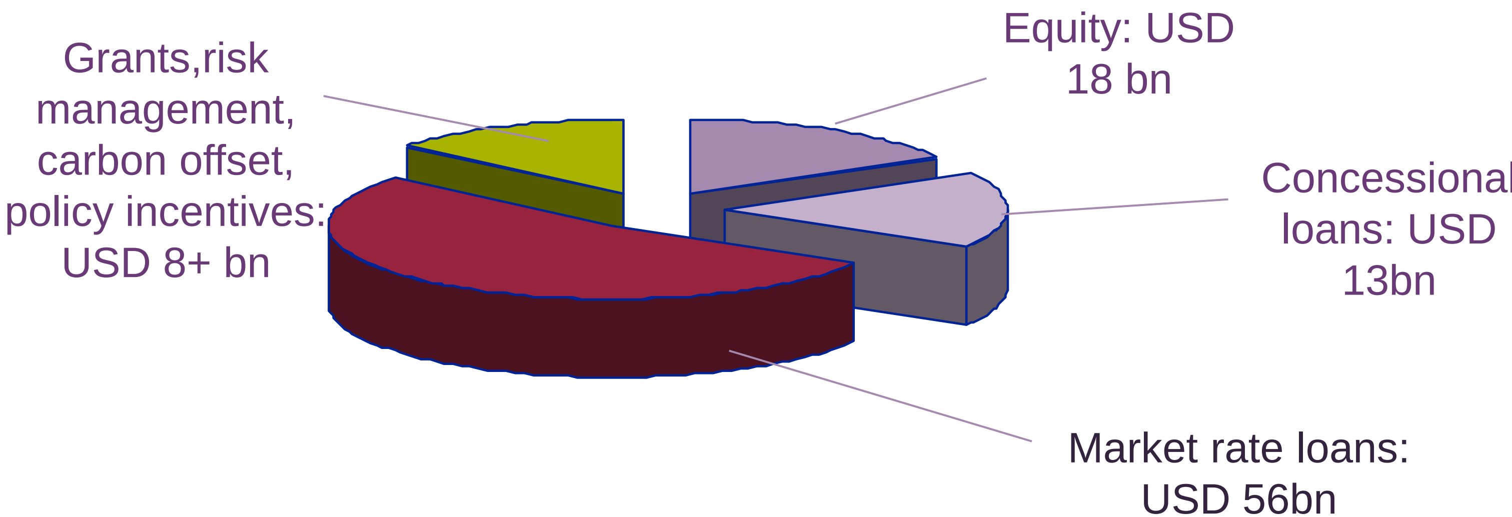
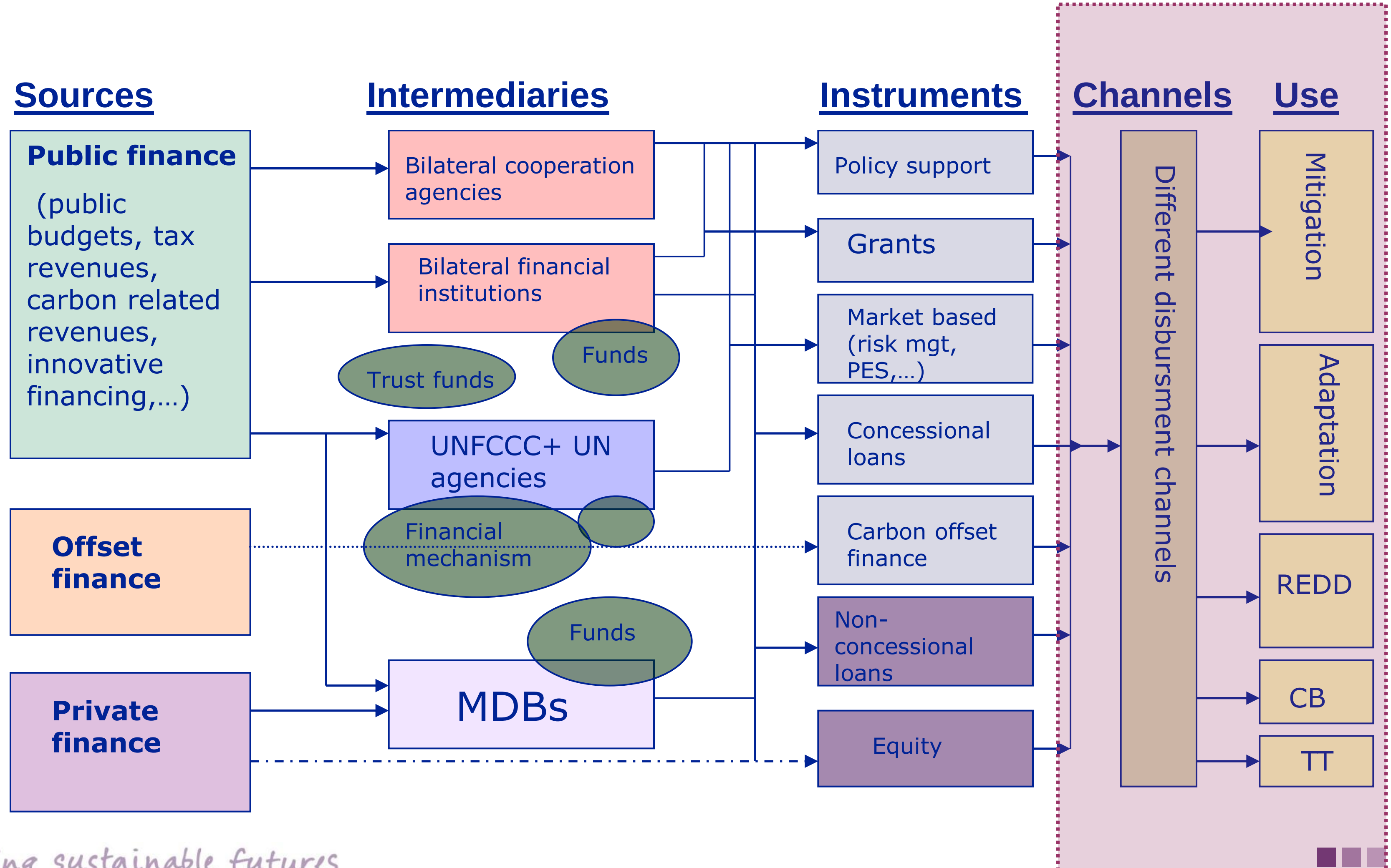
Instruments



- Striking role of investment/ ownership finance
- Move from project-based support to program/policy-wide support, especially in emerging economies
  - e.g.: Mexico, CCPL in Indonesia, but also at city-level through the financing of climate change action plans & investment plans; sectoral approaches for carbon finance

Channels & Uses



Channels & Uses

- 95:5 for mitigation: adaptation
- Adaptation predominantly financed through bilateral institutions
- Mitigation finance provided by a wider range of sources

Source	Total^ (USD m)	Adaptation (%)	Mitigation (%)	Adaptation (USD m)	Mitigation (USD m)
Bilateral	22,767	16%	84%	3,641	19,127
Multilateral	14,361	3%	97%	475	13,886
Funds	2,492	3%	97%	65	2,428
Offsets*	2,250	0%	100%	0	2,250
Philanthropy**	450	47%	53%	210	240
Private finance	54,600	0%	100%	0	54,600
Total	**96,920**	**5%**	**95%**	**4,390**	**92,531**

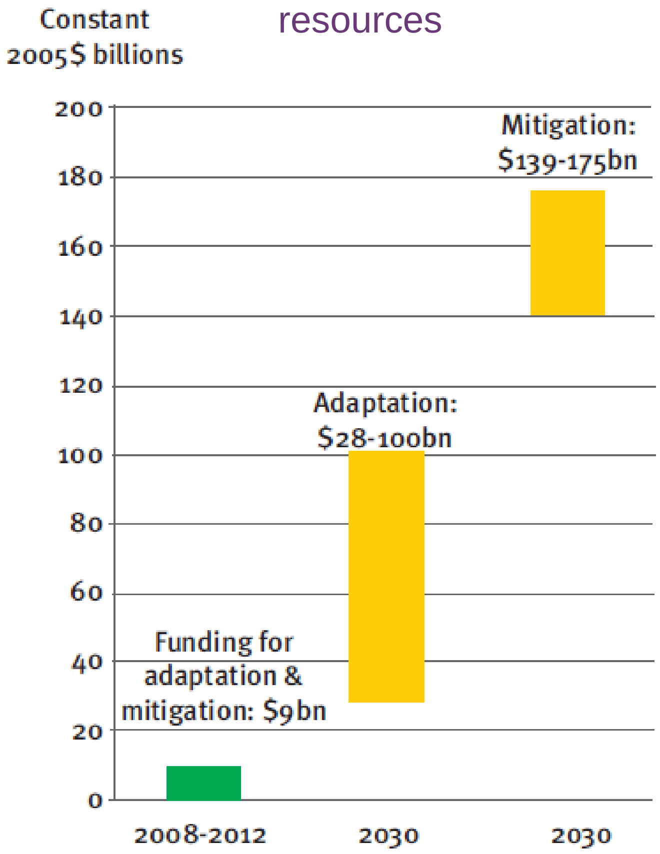
Source: Climate Policy Initiative (CPI)

❷ Needs and challenges

What are the needs?

- Cost of transition to a climate-resilient future is high
- COP 15: USD 100bn/year by 2020, « challenging but feasible » (AGF,2010)
- USD 30bn for 2010-12 as fast-start finance
- Bulk of financing will need to come from the private sector

Estimated annual funding requirements required in developing countries to limit temperature rise to 2°C, compared to current resources



Source: *World Development Report 2010*, Ch. 6.

Climate finance in the urban context

- Cities have a crucial role to play in the transition to low-carbon societies
- Challenge of overcoming constraints that might placed by central government
- City-friendly windows of certain intermediaries: GEF, CTF, development banks,…
- Importance of risk management instruments
- Look out for innovative solutions, such as city funds and financial partnerships
- Local climate change planning is key to attract financing

Resources

- **List of funding options:**
  - Climate Finance Options www.climatefinanceoptions.org
  - Carbon Finance Options www.carbonfinance.org
- **Tracking of finance:**
  - Climate Funds Update www.climatefundsupdate.org
  - Fast-start Finance www.faststartfinance.org
- **Institutional websites:**
  - Adaptation fund www.adaptation-fund.org
  - Global Environmental Facility www.thegef.org
  - Climate Investment Funds www.climateinvestmentfunds.org
  - Global Facility for Disaster Reduction and Recovery www.gfdrr.org
- **Independent reviews:**
  - World Resource Institute
  - Climate Policy Initiative
  - Henrich Boll Foundation

Challenges for a comprehensive international climate finance system

- Proliferation of new funding initiatives, increasing the fragmentation and complexity of the financial architecture
- Insufficient donor coordination and consistency between the actions engaged with international funding and the national development strategies and priorities
- Poor transparency and traceability of funds, at both disbursement and user sides
- Most initiatives are not well designed to handle the disbursal of finance at scale and ensure a demand and beneficiary-driven process
  → ***Need to rethink the role of intermediaries***
  → ***Requires an international governance framework***

Campaigners and farmers hold placards displaying international currency symbols, urging world leaders to fulfill their promises on a global climate fund, Phnom Penh, Nov. 29, 2010. REUTERS/Chor Sokunthea

❸ Improving access to climate finance

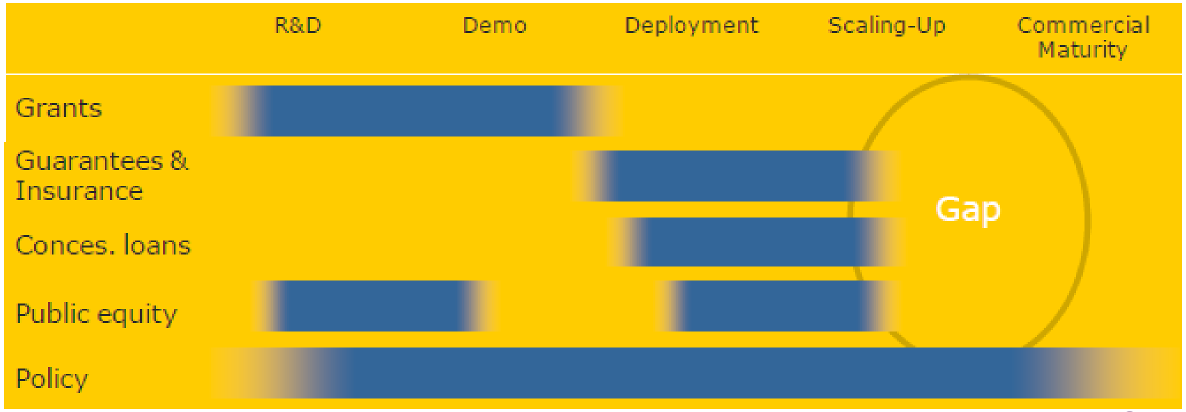
An emerging new climate finance architecture

- Emerging international financial architecture to support transition to low-carbon and resilient economies
- What can we expect from new institutions?
  - Green Climate Fund
  - Standing Committee
  - NAMAs Registry

- Sources of long-term finance?
- Strong MRV needed to ensure transparency of funds and effectiveness of delivery

Supply-side solutions to improve access

- Enhance direct access to sources
- Improve coherence of climate finance architecture
- Put in place an internationally recognised performance-based system with strong Monitoring, Reporting and Verification (MRV) for all climate finance investments
- Acknowledge that international public climate finance is a finite resource
- Ensure tailoring of instruments to circumstances and maximise leveraging effect of public finance to close gaps



Source: Ecofys (2011)

Demand-side solutions to improve access

- Create a vision for climate finance: comprehensive national budget, climate action plan, pipeline of investment projects for international funding, NAMAs

→ The more comprehensive the plan is, the more attractive it is to external donors

- Put into place national mechanisms to attract climate finance and investment
  - Clearing house mechanisms, national climate change funds, …
- Support shifting from project-based to sector-based approach to CDM, by establishing sectoral baselines
- Strong PFM and donor coordination
- Resolve institutional, informational, regulatory, and policy bottlenecks for enhanced private sector participation


CARBON
ADDICTION
RUINED
MY LIFE

AGENCE FRANÇAISE DE DÉVELOPPEMENT

Merci!
Thank you!
Maraming salamat po!

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Current flows