Critical Knowledge Gaps Existing in Climate Finance

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Outline

- Background
- Knowledge gaps
- Next Steps/ Conclusion

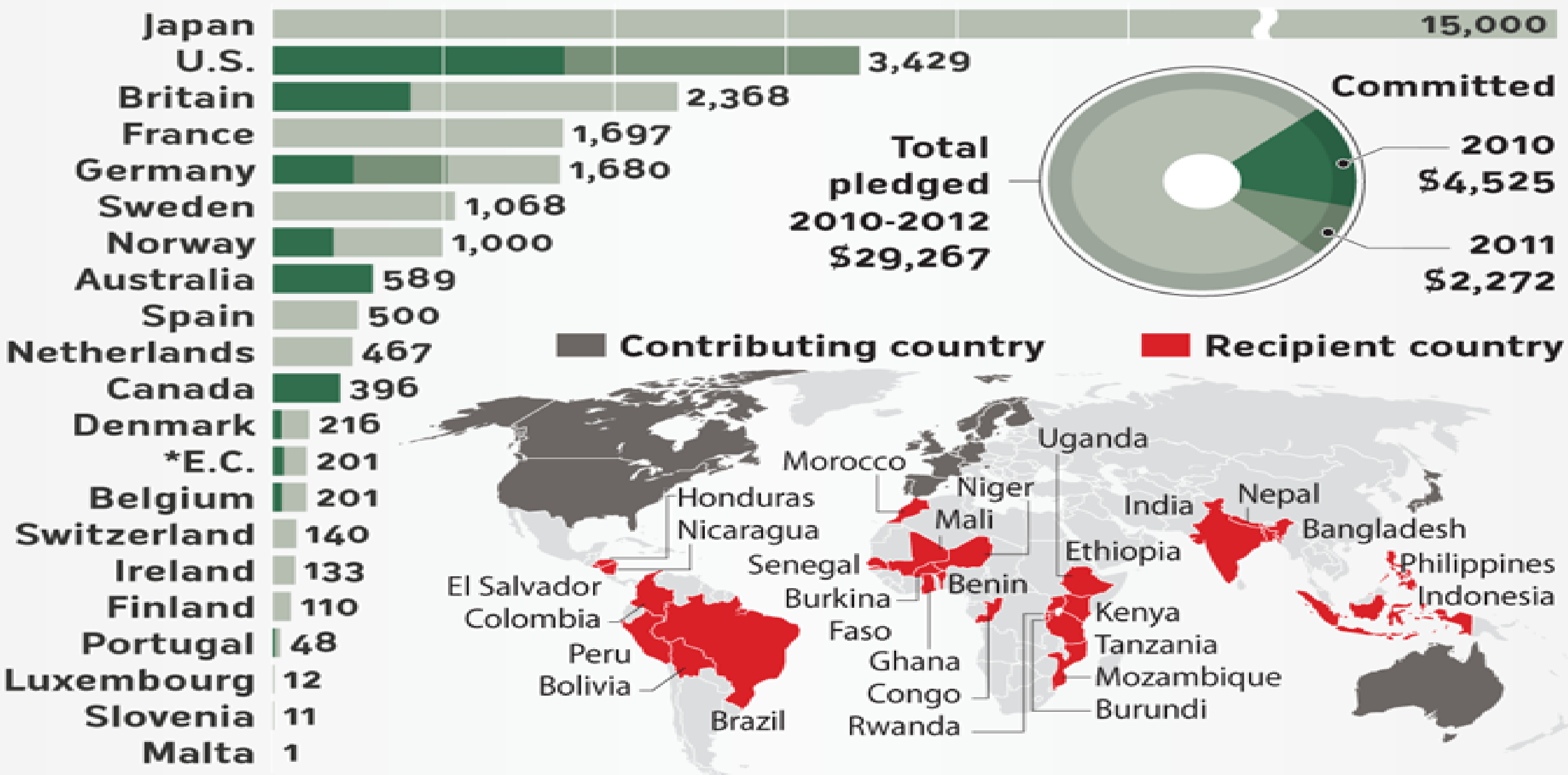
Background

- Climate finance for adaptation and mitigation is of critical importance;
- *"Delivering ambitious climate change goals will require a significant scaling up of today's levels of support for climate action to address both adaptation and mitigation in developing countries between now and 2030"* (OECD, 2012)

CLIMATE FINANCE PLEDGES

Twenty developed countries and the European Commission have pledged $30 billion for enhanced action on climate mitigation. This "fast-start" finance will help developing countries reduce their greenhouse gas emissions, and adapt and cope with the effects of climate change

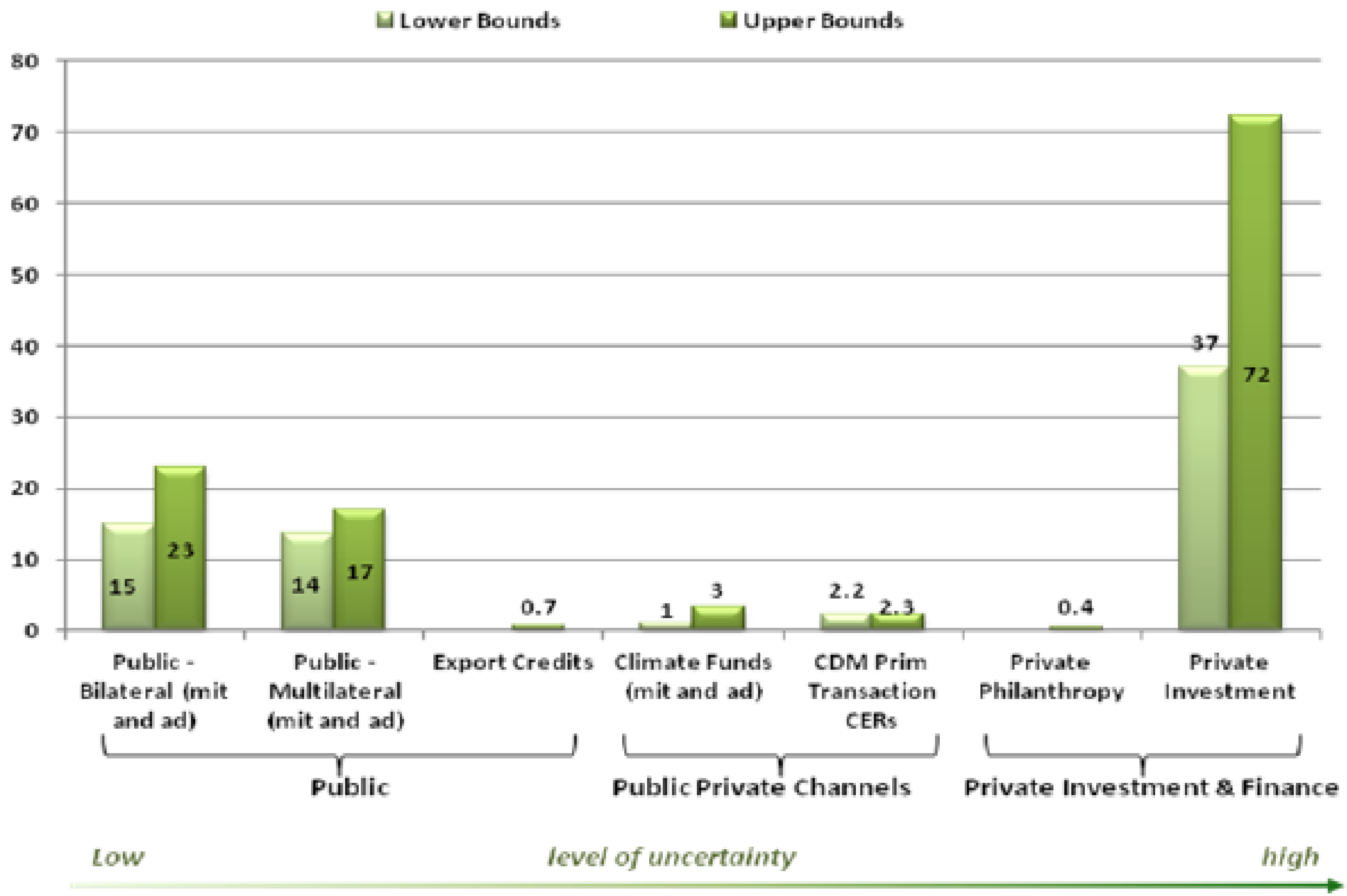
THE PLEDGES (in millions of dollars)



* European Commission
Sources: World Resources Institute, Fast Start Finance
Credit: Reuters

Figure 1. Estimates of North-South Climate Finance Flows:

(USD 70 – 120 billion per year, latest year estimates 2009-2010, billion USD)



Source: Clapp *et al.*, 2012, http://www.oecd.org/dataoecd/61/27/50034816.pdf.

Background

- However, gaps exist in terms of knowledge for climate finance which vary in terms of :
  - Where to spend funds- which sector, how to priorities
  - When to spend - what is the right time for investing in adaptation
  - How much to spend - - how to measure the actual cost of investment
- Also varies depending on whether one is looking at public sector or private sector finance;

Knowledge Gaps- Public Sector

- Availability of information and criteria related to climate finance
  - Unavailability of information in an easily accessible manner
- Project type and formulation-
  - “Additionality”-
    - definitional challenge for different sectors and geographical areas
    - requires information which is unavailable
    - how to justify
- M&E
    - How to conduct
    - How to report M&E and results
- Capacity of reporting
    - Limited capacity for reporting as different donors have different reporting requirements

Knowledge Gaps- Public Sector

- Sources of finance (national and regional):
  - What are the sources
  - How to identify
  - How to calculate
- How to identify which areas to target where private funding will not be available or sufficient, e.g. adaptation and REDD+;
- How to allocate climate finance
  - Priority sectors
- How much to allocate;
- Institutional mechanism;

Knowledge Gaps- Public Sector

- Tracking flows of public finance;

Transparency → how to abide by the rules on climate finance;

- How to classify development finance vs. climate finance;
- Regional level:
  - Regional need for climate finance

Knowledge gaps- Private Sector

- The signals being sent by governments to investors remain weak and in places contradictory, which is hampering investment decision-making;
- Even where climate change risks and opportunities are material to a company's financial performance, these issues are not being systematically incorporated into investment managers' decisions;
- Systemic gaps and weaknesses in the quantitative data;

Knowledge gaps- Private Sector

- Climate change risks and opportunities:
  - A particular priority is the development of the tools required to ensure that these issues are properly incorporated into investment analysis.
- How to cover the risk of investment or ensure returns from investment;
- Regulation of private sector investment;

Knowledge gaps- Private Sector

- How to track private climate finance flows →a key task in monitoring progress in the international effort to address climate change mitigation and adaptation;
- Addressing significant data, methodological and knowledge gaps on private climate finance flows, and available information which is scattered across numerous different actors.

Next Steps/ Conclusion

- Further research:
  - How to Scale-Up New Sources of Climate Finance especially public sector finance (e.g. use of market instruments?);
    - “World Bank/IMF/OECD/RDBs report (2011) to the G20 underscores the need to mobilise new sources of climate finance, including from the private sector. It states: “*Both public and private flows are indispensable elements of climate finance. Competitive, profit-oriented private initiatives are essential in seeking out and implementing least cost options for climate mitigation and adaptation. The dominant scale of global private capital markets and growing fiscal challenges in many developed economies also suggest that the large financial flows required for climate stabilization and adaptation will, in the long run, be mainly private in composition” (OECD, 2012);*

Next Steps/ Conclusion

- What are the incentives / conducive environment required to promote government as well as private sector investment in climate adaptation;
- What are the existing data gaps;
- Identify how to improve measurement, reporting and verification (MRV) of climate finance both in developed and developing countries under the UN Framework Convention on Climate Change;
- Robust risk screening tools as well as monitoring and evaluation of adaptation interventions;
- The role of market instruments in generating public finance

Next Steps/ Conclusion

- Practical ways for donors to support developing country partners in their efforts to reduce their vulnerability to climate change need to be identified, integrating adaptation to climate change into all development activities (OECD, 2009);
- How can climate change considerations be integrated within existing planning and budgeting processes?

and better co-ordination of ongoing initiatives are therefore required to improve the identification, measurement, and reporting of private climate flows.