



Financing Climate Action: A Development Perspective

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G-20 Workshop on Climate Change
Sydney, Australia
February 13, 2009





Outline



1. Role of Global Climate Finance
2. Needs, Gaps, Options
3. A Phased Approach
4. Domestic Policies
5. Roles of Finance Ministers and IFIs



1. Role of Climate Finance



Role of climate finance



To help turn despair into opportunity

- Climate challenge for developing countries is by-product of development gains achieved by developed countries
- Cost of development is higher due to climate change; development pathways must be re-invented
- Climate finance must expand economic opportunities and enhance development outcomes in developing countries



Climate finance is a catalyst to re-orient private and public investments to lower carbon and climate-resilient solutions for development

Important to distinguish between additional resources (needed to catalyze investments) and total volume of investments (going to lower carbon and climate resilient options)

Three distinct sets of issues for catalytic climate finance:

- **How to raise finance?** – (*focus of this presentation*)
 - Market-based instruments, public funds, innovative mechanisms, policies and regulations, differentiated responsibilities
- **How to transfer finance?**
 - Institutions and governance
- **How to ensure impact?**
 - Leveraging private resources; scale of transformation; measurable, reportable, and verifiable (“MRV”) outcomes



2. Needs, Gaps, Options in Climate Finance



- **Mitigation in developing countries:** an additional US\$150 – 200 bln/year needed over next decade. On average, another ~ US\$400 bln/year after 2020.
- **Adaptation in developing countries:** an estimated US\$30-70 bln/year by 2030 (UNFCCC) to US\$90bln p.a. in 2016 (UNDP)
- **Research and development** for energy production and use would add US\$10 to 100 billion bln/year



... much beyond available and emerging resources



Current dedicated resources

Mitigation (bIn US\$/year)

GEF	0.25
C-Market	8+
CIF	1
Other	<u>1+ ?</u>
TOTAL	~10

Adaptation (bIn US\$/year)

LDCF&SCCF	0.1
Adaptation Fund	0.3-0.8
CIF	0.1
Other	<u>0.1+ ?</u>
TOTAL	~1+

Together, this will cover less than 5% of developing countries' additional needs 2010-20



Ensuring adequate and stable resources for **adaptation** is a major responsibility of the global development community

- Adaptation to climate change will be an integral part of development processes for decades. Financial support equally long-term
- Additional cost of climate proofing must be met with new and additional financing resources, i.e.: the Adaptation Fund and/or an “MRV” increase in grant based ODA funding



Climate change calls for reinvigorating financial architecture for development

- Current climate finance instruments cover only tiny portion of needed additional resources
- Required additional resources are comparable with or exceed current ODA, but are small compared to overall GNP or investment flows
- Climate change adds to many other challenges facing development finance
 - e.g.: need to fulfill ODA commitments of 0.7% developed countries GNP
- Important to explore synergies and innovative mechanisms



3. A Phased Approach to Climate Finance



A long-term vision of climate finance....

- A system with a clear global price on carbon and self-generating financial flows, such as carbon markets
 - important to work towards integrated global carbon market
- Policy measures that address market and/or regulatory failures and non-price sensitive activities (e.g. urban planning)
- Long-term public funding needed for adaptation and technology access in poorer developing countries



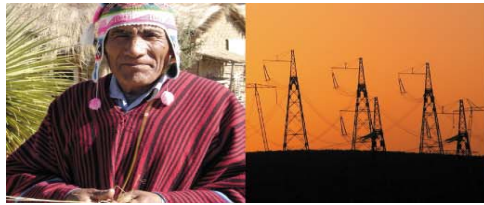
....requires a phased approach

- **Low-income countries** will need offset market (like CDM) and public finance for long period of time
- Many **middle-income countries** might migrate from offset market to integrated carbon market in the medium term
- **Developed countries** should meet most additional financing needs
 - Reflecting responsibility, wealth, and capacity
- In longer term, increased burden-sharing by middle-income countries will be facilitated by greater wealth, economic role, and voice in global financial governance



...already assessing potential and needs, defining measures, setting goals, and mobilizing finance

- **Brazil:** reducing deforestation in the Amazon by 70% by 2020
- **China:**
 - 20% reduction in energy intensity from 2005 to 2010;
 - 15% renewable energy target by 2020
- **India:** Climate Change Action Plan focuses on adaptation, energy efficiency, and development of solar energy; also plans to increase hydro and new renewable energy
- **Indonesia:** scaling up renewable energy, forest conservation programs, low carbon development fund
- **Mexico:** LT reduction target (50% below 1990 by 2050)
- **South Africa:** emissions to stabilize by 2025 (~20% above 1990) and decline in absolute terms by 2030-35



Options for mobilizing resources to 2020



Scaling-up existing mechanisms

Potential (US\$ bln/year)

More efficient and inclusive CDM
Adaptation Fund (2% of transactions)

35-50
0.7-1

Mechanisms under discussion

Potential (US\$ bln/year)

Levies on carbon asset transactions
Sale or auction of (part of) allowances
Levy on GHG emitting activities
Tax on international financial transactions

1-5
15-50
20
15-20

Even with all of the above, a funding gap for mitigation and adaptation is in the order of **US\$ 100 billion/year**



4. Role of Domestic Policies



It takes more than finance



- Domestic institutions, regulation, policies
- Lessons from development effectiveness of resource transfer
- Measures to leverage private sector resources and support technological change
- Aligning behaviors and social norms



Implications of financial crisis



Using stimulus packages for “green” growth

- Both financial and climate crises are urgent
 - Each year of delay adds 5ppm in GHG. Costs rise and options diminish. Avoiding the worst will soon become unfeasible
- Possibilities for synergies in solutions and response
 - Investment in green jobs via green infrastructure, incentives to industry and municipalities for EE, renewables, etc.
 - Incentives for many developing countries are weaker than for developed ones that have strong domestic legislation (e.g.: EU energy package) and international commitments

Accelerated technical assistance and additional finance is key to reconcile economic revival with green growth



5. Roles of Ministers of Finance and MDBs / IFIs



Role of Finance Ministers



- Domestic action:
 - All countries: enable domestic policies (pricing, cross-sectoral linkages, regulation, private sector tapping, etc.)
- Multilateral action:
 - Developed countries: conceptualize viable mechanisms to raise climate finance for developing countries
 - Developing countries: conceptualize domestic mechanisms to allocate and manage funding effectively (MRV-outcomes)
 - All countries: assess and suggest international mechanisms to allocate and transfer funds efficiently, transparently, and with equity



Role of MDBs / WBG



WBG and MDBs can offer:

- Global perspective, local reach
- Development experience and expertise
- Financing programs in all relevant sectors
- Strengthening policies and institutions
- Capacity to innovate and support innovation in technology, policy, and implementation
- Leveraging private finance via innovative application and/or packaging of financial products
- Learning and sharing lessons with a suite of global finance instruments – GEF, Carbon Finance, CIF



Thank You

More information at:

www.worldbank.org/cif

www.worldbank.org/climateconsult

www.carbonfinance.org



World Bank Group – Financing Climate Action



Leverage private sector resources via innovative financial products

- **Risk management products for climate-friendly investments**
 - IFC carbon credit delivery guarantee
 - MIGA non-commercial risk insurance
- **Frontloading mechanisms to forward carbon credits to towards reducing upfront investment costs**
- **Innovative packaging of “traditional” IBRD, IFC and MIGA financing products with climate finance instruments (CIF, CPF, GEF, etc.)**



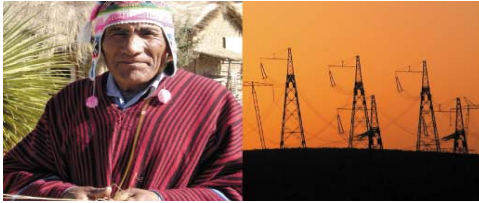
- **Facilitate the development of market-based financing mechanisms**
 - Current WBG Carbon Finance portfolio
 - US\$2 bln + across 10 funds and facilities
 - 16 govts. And 66 companies have contributed to these
 - Forest Carbon Partnership Facility (FCPF)
 - Carbon Partnership Facility (CPF)
 - Green Bonds
 - Catastrophic, weather, and climate change risk financing products
 - Caribbean Catastrophic Risk Insurance Facility
 - Catastrophe risk deferred drawdown option
 - Index-based insurance programs in India, Mongolia, Thailand, Senegal, Kenya, Malawi
 - Building on innovative environmental schemes, e.g. payments for ecosystem services



Deepening the reach of the carbon market: WBG initiatives



- **Target large investment programs in emission intensive sectors**, through the Carbon Partnership Facility (CPF).
- **Address mitigation potentials so far by-passed by the carbon market**, with the Forest Carbon Partnership Facility (FCPF).
- Further **expand the use of risk management products** (IFC carbon credit delivery guarantee or MIGA non-commercial risk insurance).
- Share knowledge, raise awareness and **build skills** (*Carbon Finance-Assist* program, methodology development, country dialogue).



CPF - Carbon Partnership Facility



- Assist developing countries and economies in transition by reducing GHGs in energy and infrastructure sectors:

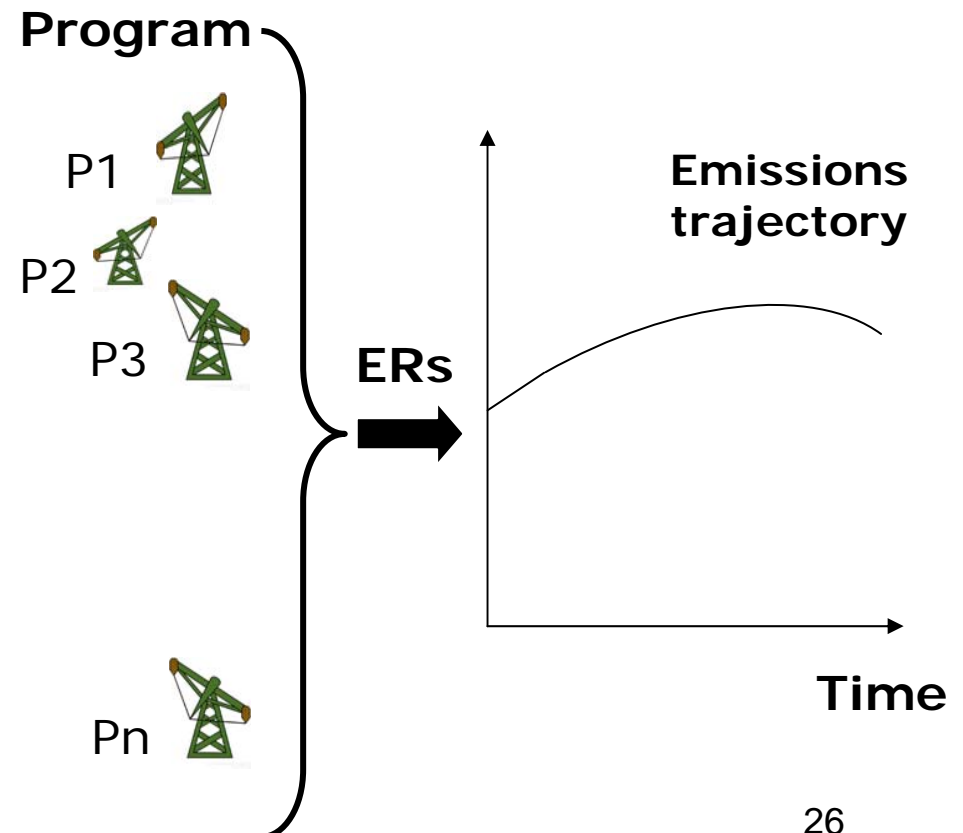
- Carbon Asset Development Fund (CADF): Program preparation funds
- Carbon Fund: Payments for emission reductions (ERs)

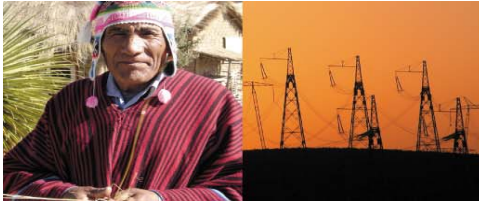
- Aims to move from one-off ER projects to scale through strategic, **long term programmatic approaches that have a significant impact on emissions and development** (Energy, Oil and Gas Sector, Waste Management, Transportation, Urban ...)

- Open for contribution since 10/11/2008
 - Over 30 companies and governments have signed an expression of interest to participate as a buyer/donor or a seller participant

- First tranche of the Carbon Fund expected to grow to several hundred \$ million; may over time grow to several \$ billion

Programmatic: larger scale, better planning environment for project owners, and transformational impact on emissions trajectory





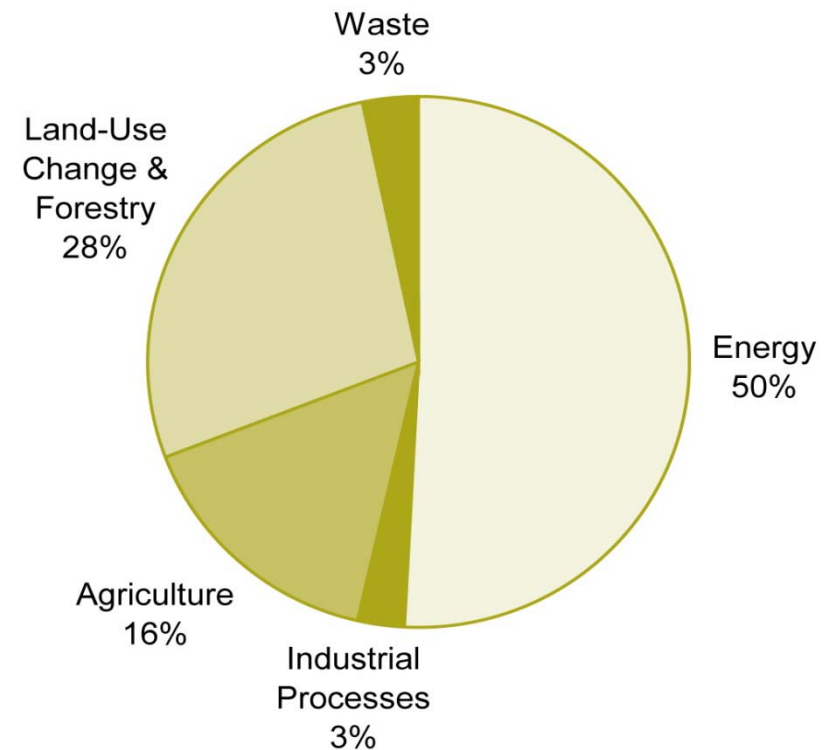
FCPF - Forest Carbon Partnership Facility



- 13 mln ha each year lost to deforestation: 18- 25% of global emissions, along with other factors (land degradation)
- Forestation, avoided deforestation and agriculture activities can have significant development benefits, while reducing emissions and enhancing resilience to CC
- **FCPF to assist developing countries in Reducing Emissions from Deforestation and Degradation (REDD)**
 - **Readiness Fund:** capacity building in 30 developing countries (US\$150 mln)
 - **Carbon Fund:** payments for verified emission reductions in 5 of those countries
- **Governance:** parity between financial contributors and developing countries
- **Operational since since 06/26/08:**
 - over US\$170 million pledged so far from 12 contributors
 - over 40 developing countries have asked to participate; 25 already selected
- **Indigenous peoples will benefit from a US\$1,000,000 ‘small grants’ program**

Agriculture, Forestry and Land Use account for almost 50% of emissions in developing countries

Developing Countries - GHG Emissions by Sector (2000)





CIF- Climate Investment Funds



- **Partnership of Multilateral Development Banks (MDBs), administered by the WBG**
 - utilize capabilities, skills, and core processes of MDBs to **deliver financing at significant scale** to unleash the potential of the public and private sectors in addressing climate change
 - **complement other multilateral financial mechanisms**, such as GEF and Adaptation Fund; provide coherence and avoid proliferation of multiple small initiatives to address CC
 - approved on July 1, 2008; with a “**sunset clause**” to avoid pre-judging a future agreement
- **10+ donor countries have pledged about US\$ 6 billion (additional to existing ODA), most of which under the *Clean Technology Fund***



CIF governance

Partnership Forum

Clean Technology Fund

Trust Fund Committee

to include 8 representatives from donors, 8 representatives from recipient countries; the country whose program or project is under consideration; representative of World Bank; representative of MDBs on rotating basis

Observers from the GEF, UNDP, UNEP, civil society organizations and business associations

Strategic Climate Fund

Trust Fund Committee

to include 8 representatives from donors, 8 representatives from recipient countries; the country whose program or project is under consideration; representative of World Bank; representative of MDBs on rotating basis and observers

PPCR Sub-Committee	FIP Sub-Committee	Program for Scaling-up RE in LICs Sub-Committee
Contributors / recipients / observers	Contributors / recipients / observers	Contributors / recipients / observers

Organizational meeting: October 14, 2008²⁹



- Finance **scaled up demonstration, deployment, and transfer** of low carbon technologies
 - Concessional loans, grants, guarantees tailored to specific barriers and financing gaps
- Supports country programs involving:
 - RE, EE, improved transport sector efficiency and modal shifts, improved efficiency of energy supply
- Criteria:
 - Potential GHG emission savings
 - Demonstration potential
 - Development impact
 - Implementation potential
- First investment plans *endorsed*: Egypt, Mexico, and Turkey.



- Several targeted programs with dedicated funding to **pilot new approaches with potential for scaling up**
- First SCF program is ***Pilot Program for Climate Resilience (PPCR)***
- ***Forest Investment Program is under design***
 - To serve as vehicle to finance large scale investments for implementation of policies and measures that emerge from inclusive multi-stakeholder REDD planning processes at the national level
- ***Program for Scaling Up Renewable Energy in Low Income Countries is under design***
 - Program would pilot programmatic interventions in selected low-income countries that greatly increase use of renewable energy to support economic development and improve access to modern clean energy



PPCR - Pilot Program for Climate Resilience



- **Explore practical ways to factor climate resilience into core development planning and budgeting:**
 - technical assistance for assessing and addressing climate risks in development plans and financing
 - additional financial resources to help fund public and private sector investments identified in the climate resilient development plans
 - building on National Adaptation Programs of Action (NAPAs)
 - generating early lessons to inform the Adaptation Fund

- Expert group (8) have provided advice on selecting 5-10 pilot programs.
- In late January 2009, the PPCR Sub-Committee selected 8 countries for funding: **Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan and Zambia**
- Expert Group requested to undertake further analysis to identify pilot country from **Middle East and Northern Africa region**, and cluster of countries to participate in regional programs in **Caribbean and South Pacific**

Mainly grants, with countries having option to increase financing via highly concessional loans