



The Role of International Financial Institutions in financing Climate Change

Josh Carmody, Asian Development Bank
G20 Workshop on Climate Change, 2009, Sydney, Australia

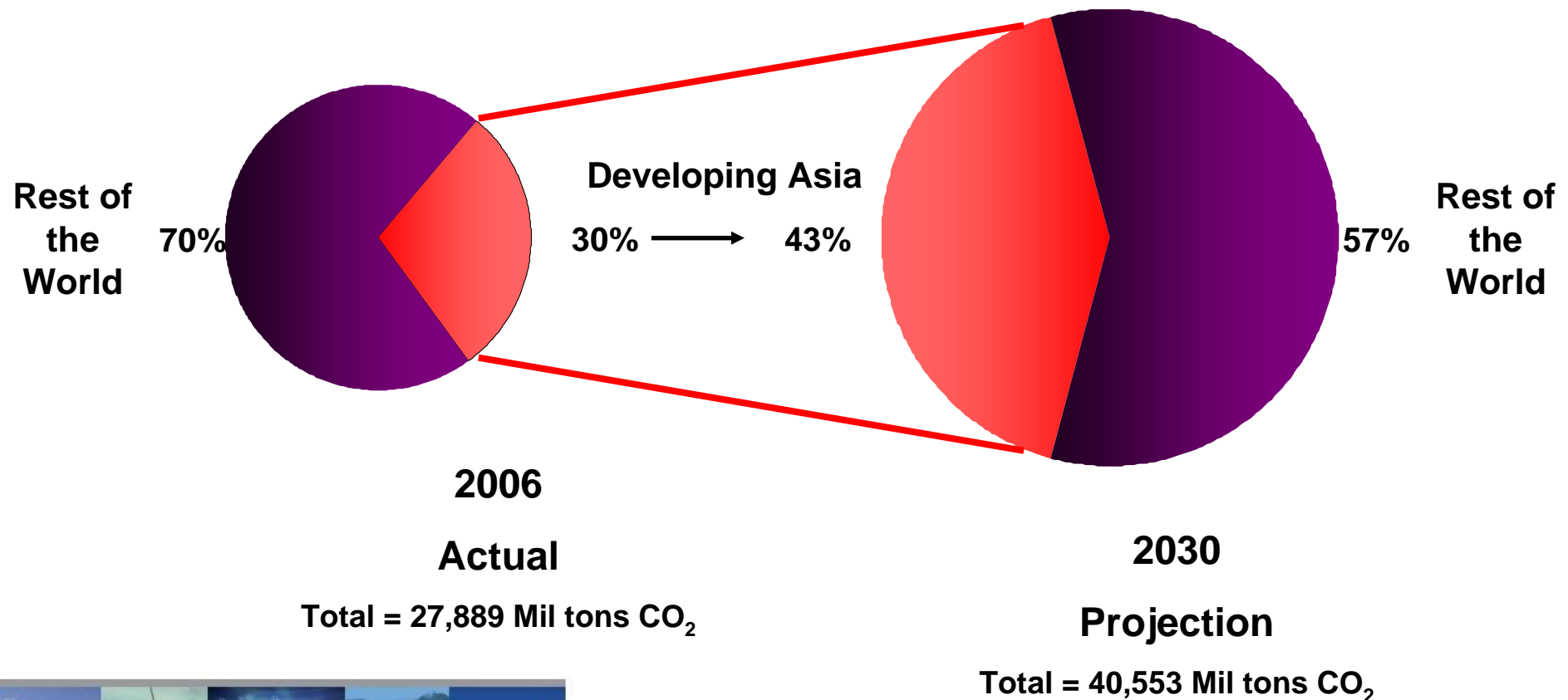


IFIs & Climate Change

- Achieving Scale in Climate Change
- Strengths & Benefits of IFIs
- Existing Climate Interventions
- Leveraging IFI & G20 strengths

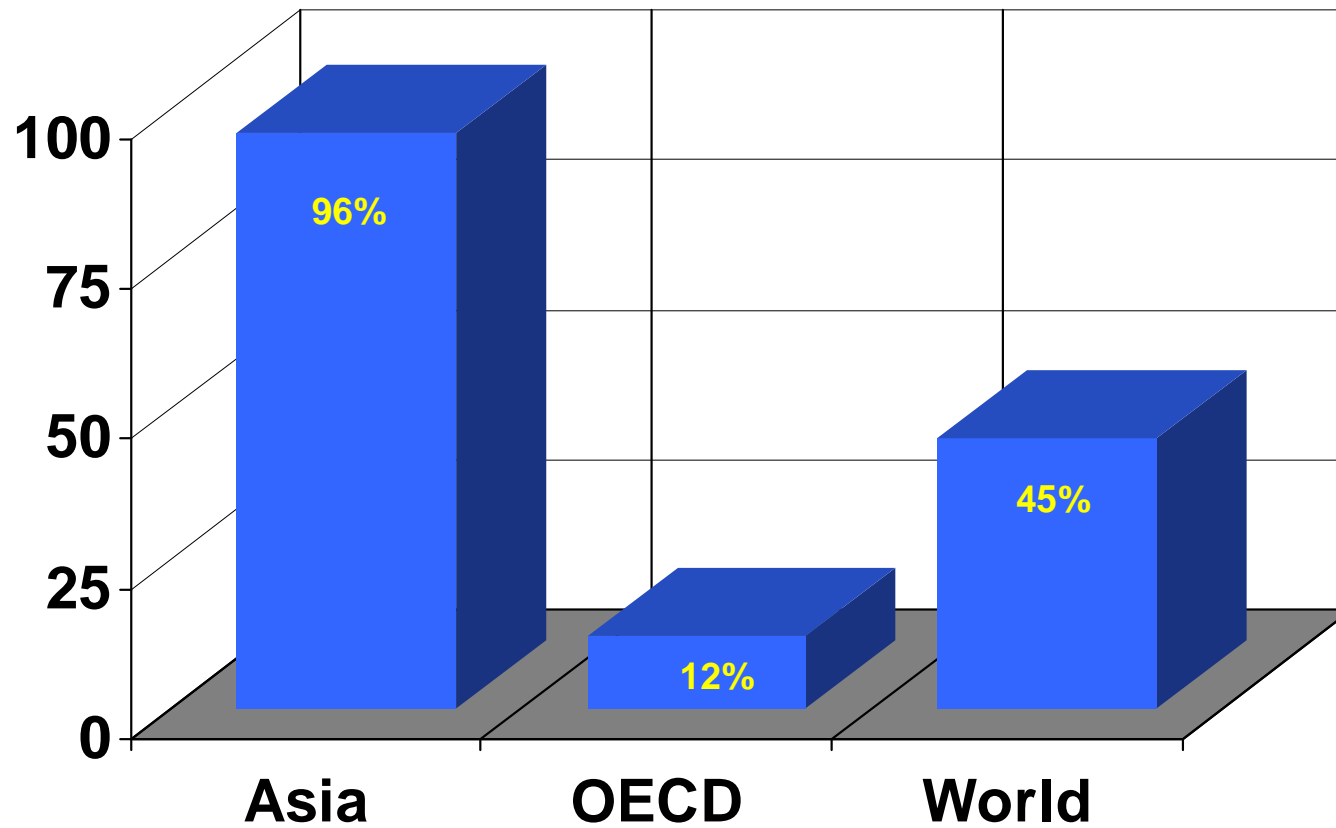


Developing Asia's Share in Global CO₂ from Energy Consumption



Source: ADB, data from IEA World Energy Outlook 2008

Growth Rates in Energy Consumption (2006-2030)



Source: International Energy Agency. World Energy Outlook 2008

A Climate Change Equation

- Global energy infrastructure spend \$26.3 trillion (2007 dollars). Of this developing Asia will require \$7.4 trillion (China \$4.2 trillion, India \$1.7 trillion) (WEO2008)
- To avoid dangerous climate change:
 - 25-40% global GHG reductions by 2020
 - 50% cuts in GHG by 2050

UNFCCC Financial Flows analysis (2007)

- 86% of capital flows will be private
- Diversion of 46% of capital to developing countries will deliver 76% of GHG reductions.
- Mitigation will require additional \$150-200Bn/yr
- Adaptation requires \$30-70Bn/yr
 - ***How to get scalable financial flows where most effective?***



Strengths of IFIs

- Strong relationships with central & key ministries/agencies in developed and developing markets (G20).
- Core IFI business comprises:
 - Direct public & private investment in projects
 - Thought & knowledge leadership
 - Risk taking (guarantees)
 - Capacity building
 - Institution building
 - Regulatory reform
 - Sustainability
 - Transparency, governance & probity
 - Focus on development and poverty alleviation



IFIs & Carbon Finance

- Pioneered the Carbon Market (PCF, CF Assist)
- Demonstrated replicability of Carbon Fund model
- Continued innovation in & around Carbon Finance
 - Advance Payment Funding Mechanisms
 - Post 2012 funding mechanisms
 - A&R & REDD financing
 - Leadership in technical & policy issues (Methodologies, Program of Activities)
 - Climate Investment Funds



Climate Investment Funds (CIF)

- Partnership of Multilateral Development Banks (admin by World Bank). Operational Oct 2008.
 - i. Clean Technology Fund
 - ii. Strategic Climate Fund
- Beginning to get scale = \$6 Billion from >10 donors
- Public Private Partnership
- Compliment other existing MDB/IFI financing mechanisms & modalities



Clean Technology Fund

ADB

- Focus on scaled up demonstration, deployment and transfer of low carbon technologies
- Can include loans on concessional terms, filling finance gaps, provision of risk mitigation products
- CTF funding co-mingled with existing suite of IFI/MDB products and services



Strategic Climate Fund

ADB

- Funding for targeted projects to pilot new approaches with potential for scaling up:
- i. Pilot Program for Climate Resilience
 - ii. Forest Investment Program
 - iii. Program for Scaling up Renewable Energy in low income countries

But much more capital required



Other IFI interventions

- Public Sector Finance Programs
- Direct Private Sector Project Investment
- Equity Investment in Clean Funds
- Grant Support:
 - Project
 - Sector
 - Policy
- Regulatory & Institutional Reform
- Risk mitigation & leverage



Other IFI interventions (2)

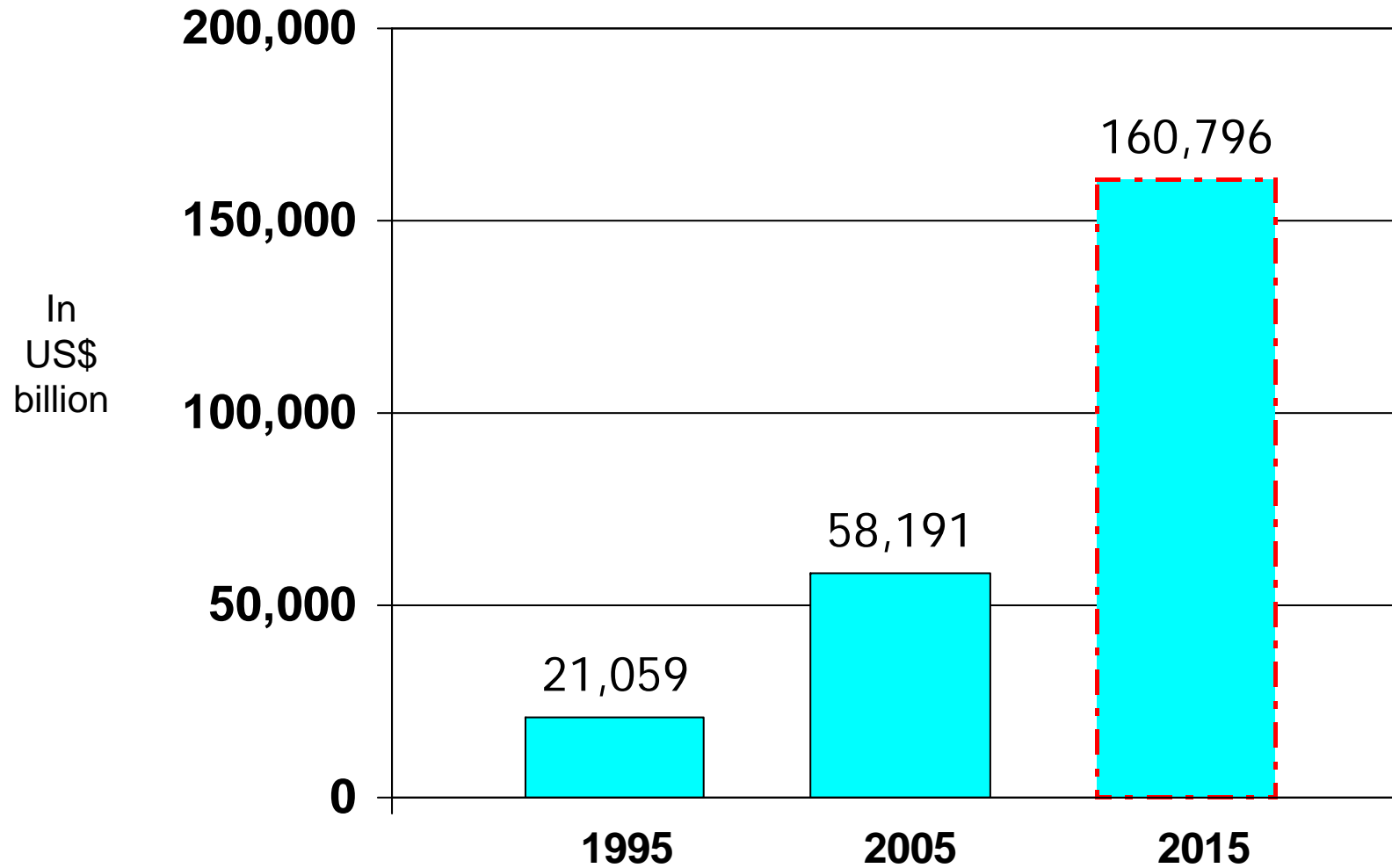


- P8 Initiative with 10 largest Pension Funds with \$3 trillion under management
- IFIs/donors de risking to permit Pension Fund trustees/managers to increase asset allocation into climate friendly infrastructure and technology



Growth of Holdings by Institutional Investors

(assuming 10.7% growth continues from 2005-2015)



Accessing Institutional Investment

- Fund managers strict legal & fiduciary duties
- Long term investment time horizons
- Asset portfolio exposed to climate risk
- IFI interventions:
 - Donor insurance products
 - Political risk guarantees
 - Credit support
 - Project aggregator/replicator
- Compliment other existing MDB/IFI financing mechanisms & modalities



Risk Taking & Leverage

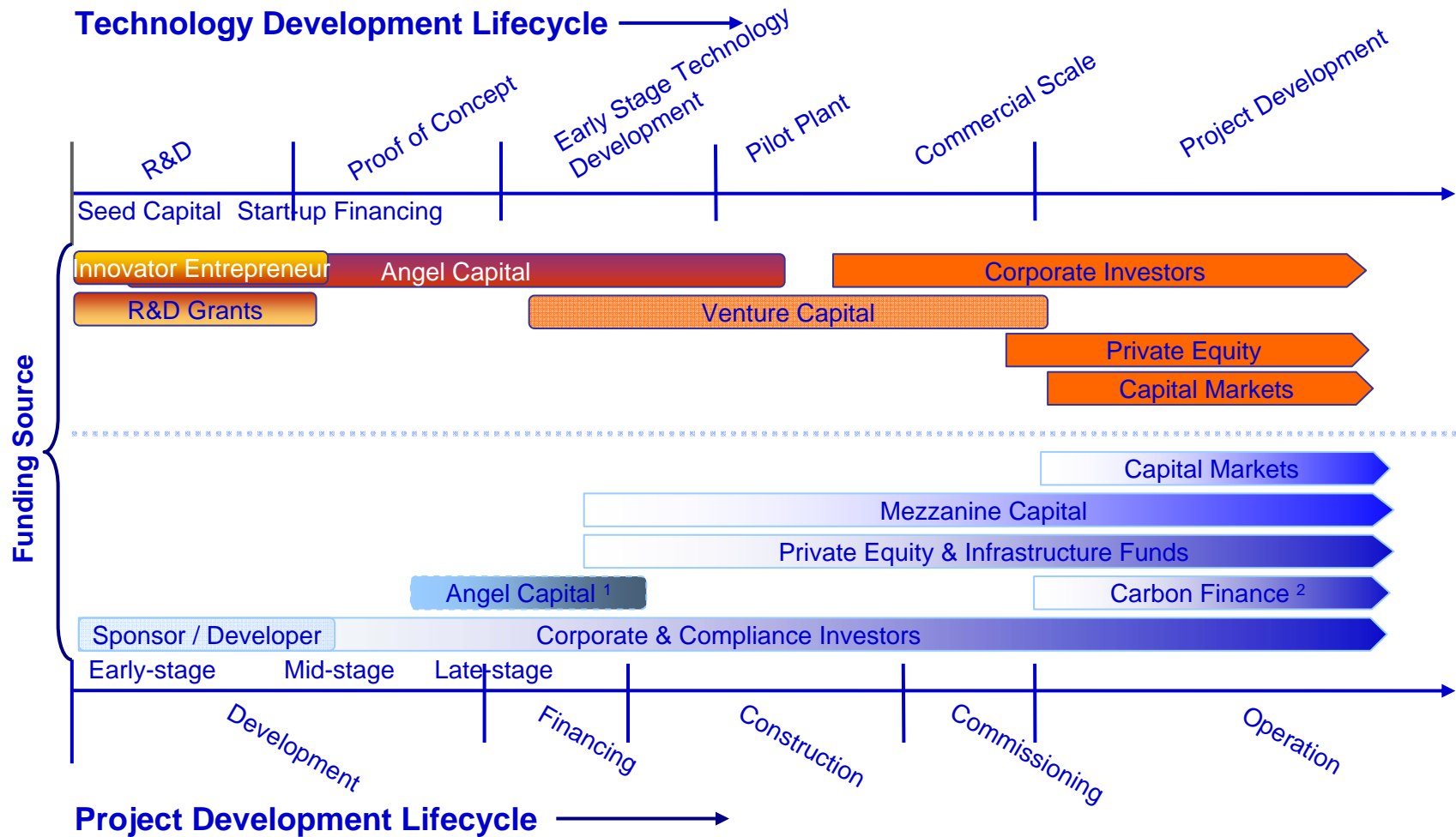
- Innovative risk taking products:
 - ESCO Credit Guarantee
 - EE/RE Guarantee
 - Insurance
 - IFC/MIGA
- New Bond Products: Adaptation, Green Bonds
- PPP models
- Comingle & partner with IFI, EXIM, ECA, donor & private finance





Investment Development Lifecycle

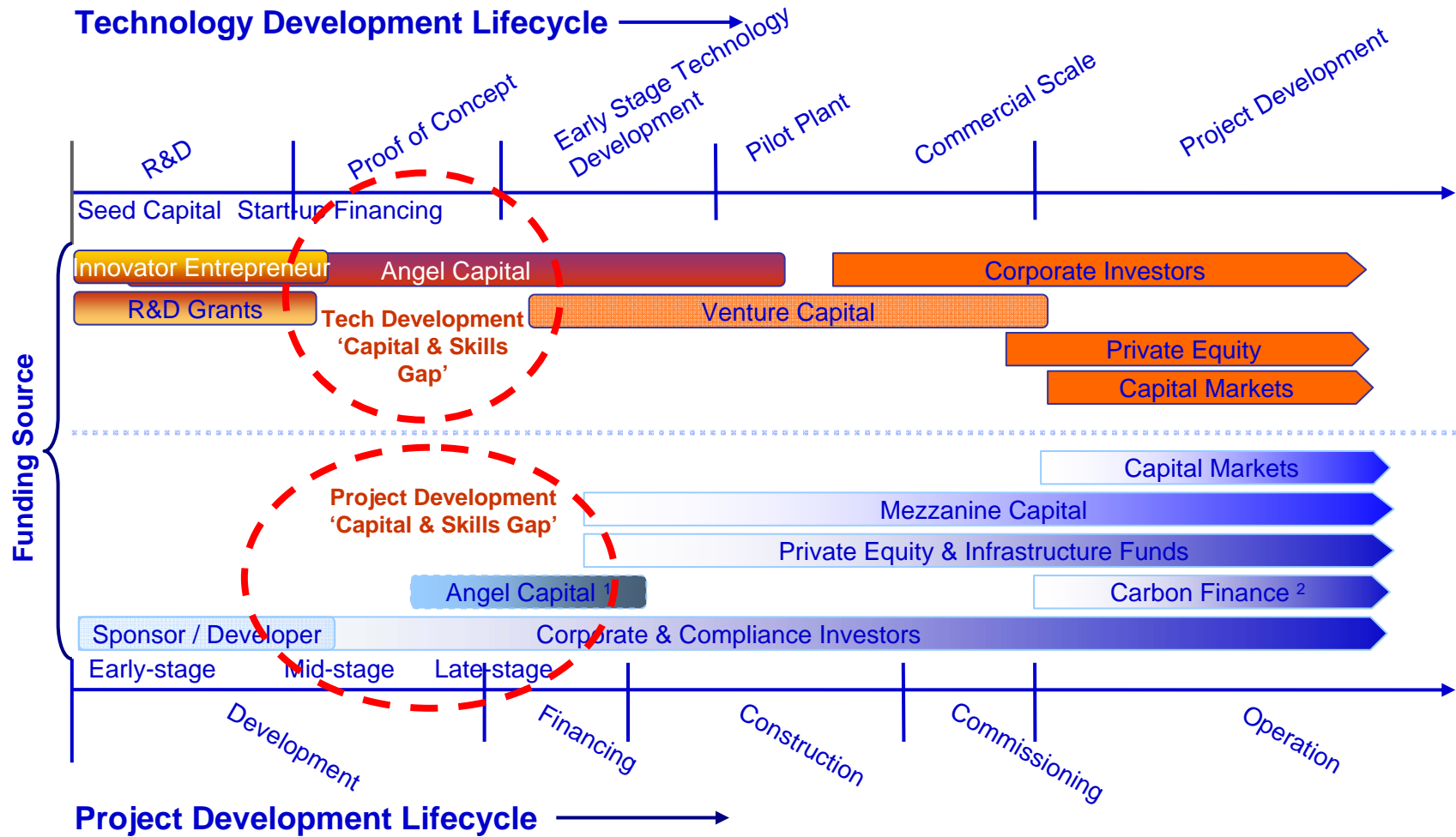
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Investment Development Lifecycle

ADB



Other Considerations

- Local regulatory landscape critical
- Removal of negative subsidies & regulatory barriers
- Introduction of “smart subsidies” with appropriate shelf life and phase out
- Favorable tax & excise regime
- Facilitate inflows of carbon finance
- And a robust long term carbon price signal



Conclusions

- IFIs have central & strategic role
- G20 Finance & central planning agencies key constituency and partner with IFIs on climate change finance
- Transforming times – requires adaptability
- IFIs need respond and adapt to respond to client needs
- Increasing focus to use IFIs strengths and donor funds to de risk transactions and leverage private capital
- Goal is expose greater surface area of capital to climate investment to achieve necessary scale.





Thank You

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