



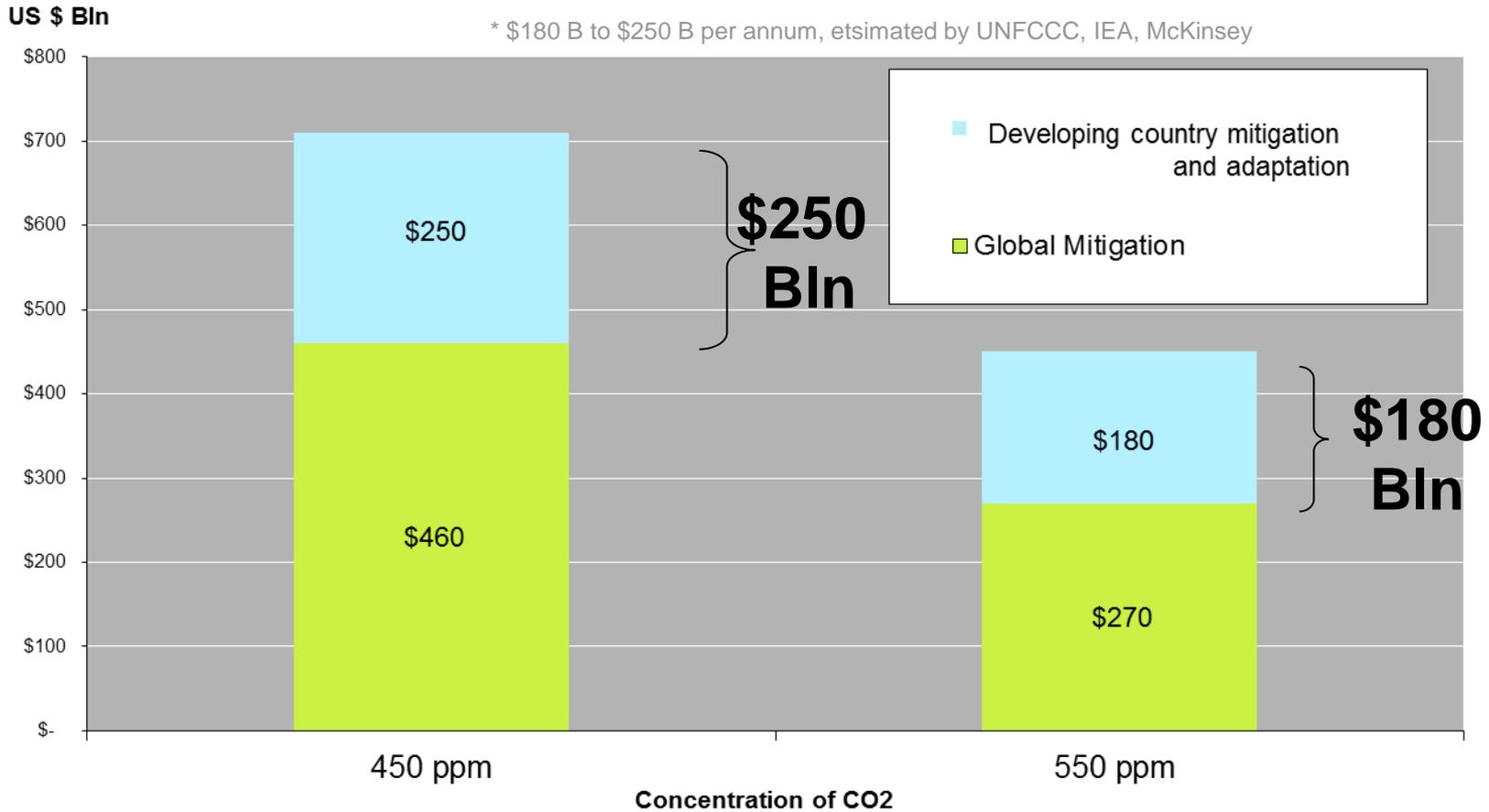
# Experiences with international climate finance

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# Scale of the problem

## Climate Finance Costs in US \$Bln: (2010 to 2020)



# Climate Finance Landscape

- Creating climate change safe future will require:
  - **Large shifts in investment patterns**
  - **Significant scaling up of climate finance**
  - **Optimizing the allocation of existing funds.**
- Incentives and a large share of investment and financial flows will need to be directed to **developing countries** where most of the cost effective opportunities for reducing emissions will happen and because they will be particularly vulnerable to climate change impacts.

# Climate Finance Landscape

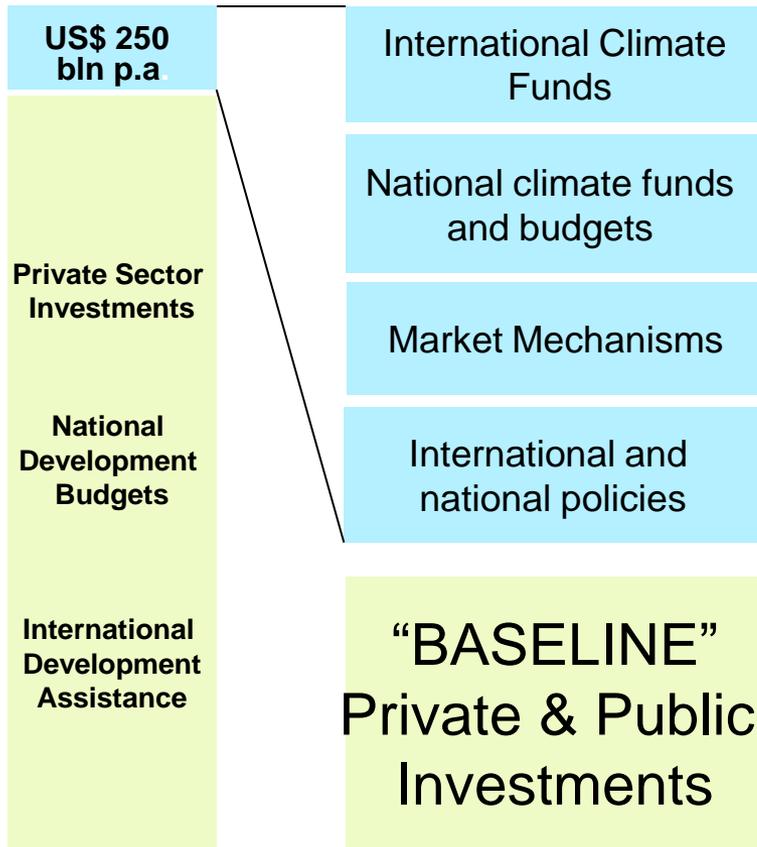
- In 2010 Cancun conference **developed countries pledged to leverage additional USD 100 bio a year till 2020**, with a fast start funding window of USD 30 billion a year between 2010 and 2012.
- While at least **USD 97 bio/year were invested in climate related activities in 2009-2010**, these funds can not be entirely accounted to the USD 100 billion pledge.
- **Private-sector investments** constitute the largest share of climate investment flows (57 % of USD 97 billion invested last year).
- More than **40% of flows of climate finance have been occurring through intermediaries.**

# Options of funding sources for climate finance by public sector

- International finance through contributions from developed countries budgets (tax payers) (e.g. GEF)
- International finance through contributions from developed and developing countries budgets (tax payers) (e.g. MDBs)
- Domestic public finance (national budgets)
- Cap and trade (including also CDM and voluntary offsetting mechanisms)
- Auctioning of emission rights
- Carbon taxes (global, regional and/or national)
- Levies / taxes / royalties applied sectors (e.g. aviation, oil producers, etc..)
- Regulatory incentives for carbon pricing and development of environment assets (e.g. renewable energy credits)
- Other taxes

# Climate Finance Mechanisms

Climate finance can leverage other investments. When blended together...



... Can catalyze transformatinal investments for low-carbon, climate-resilient development



# International Climate Funds

Mechanisms	Key features	Capitalization	Funding mechanisms
Global Environment Facility	<ul style="list-style-type: none"> <li>- For about 15 years operates as Financial Mechanism of the CC Convention. Manages different funds for mitigation and adaptation (GEF trust Fund Climate Change window, SCCF, LDCF). Moved from project by project programming to country programming systems.</li> <li>- Benefits all developing countries of the CC Convention.</li> <li>- Mainly executed through MDBs and UN.</li> </ul>	Mainly public donor contributions.	Mainly grants. Provides for concessional lending in some cases too.
Adaptation Fund	<ul style="list-style-type: none"> <li>- Operational since 2008 with the aim to finance adaptation activities.</li> <li>- Benefits all developing countries – with priority to most vulnerable ones.</li> <li>- Executed through “accredited” entities which can be national or international.</li> </ul>	Levy (%) of carbon credits (from CDM).  Public donor contributions.	Grants.
Climate Investment Funds	<ul style="list-style-type: none"> <li>- A mechanism to pilot transformational low carbon development. Has 2 main funds, the CTF and SCF (FIP, SREP, PPCR). Has a sunset clause.</li> <li>- Pilot programs in 46 countries with 35 projects underway</li> <li>- Executed through MDBs.</li> </ul>	Public donor contributions.	Grants and concessional lending.

# International Climate Funds

Mechanisms	Key features	Capitalization	Funding mechanisms
MDBs	<ul style="list-style-type: none"> <li>- Most MDBs have dedicated climate funds / trust funds. In addition, many are earmarking their resources to promote activities to address climate change. For example IDB has an objective that 25 % of its portfolio should be to be allocated to environmentally friendly activities.</li> <li>- Benefit their own constituencies</li> </ul>	Mainly members contributions.	Grants; Lending and concessional lending; Guarantees; Bond issuance; Carbon Funds.
Bilateral Institutions	<ul style="list-style-type: none"> <li>- A significant number of climate funds have been pledged by donor countries as part of their commitments to the Climate Change Convention (so called “Fast Track Finance”).</li> <li>- Eligibility by countries to participate in funds and specific conditions/criteria differ.</li> </ul>	Budget contributions.  Auctioning of emissions rights.	Grants; Lending and concessional lending; Carbon Funds.
<b>Green Climate Fund!</b>	<ul style="list-style-type: none"> <li>- Established at COP 16 held on December 2010 in Cancun, Mexico, the Green Climate Fund (GCF) was established. The Fund is expected to become the largest multilateral source of finance for climate change activities.</li> <li>- Expected to finance activities in developing country Parties using thematic funding windows.</li> </ul>	<b>Donor country contributions.</b> <b>Other sources TBD!</b>	<b>TBD!</b>

# National Funds and Budgets

- Integration of climate change in budget and fiscal planning – examples of Costa Rica and Chile.
- National Funds: e.g. Bangladesh, Brazil, China, Colombia, Ecuador, Indonesia.
  - Scopes: from broad range (“mitigation and adaptation” to very specific “disaster management and adaptation”, “REDD”).
  - Capitalization: national budgets, levies on carbon credits (e.g. CDM Fund in China), royalties or taxes in specific sectors (e.g. Climate Fund Brazil), international funds.
  - Finance mechanisms: grants and concessional lending.
  - Fiduciary responsibility: vary from national banks, new institutions created to manage funds, MDBs and UN.

# Market Mechanisms

- Carbon markets:
  - CDM: revenues of \$27 billion in 2002-10 (leveraging another \$125 billion in low-emission investment). Worked well in countries with capital liquidity and large GHG emission reduction potential projects.
  - Voluntary carbon market: are a small share of global markets (0.3 %) but is increasing (28 % increase a year) – particularly in the LAC region and for REDD (500% market share increase!)
  - New carbon market mechanisms are underway: national and sub-regional, city-wide levels.
- Environmental assets:
  - Capital market indexes (ranking of companies on basis of environmental performance)
  - Payment for environmental services (e.g. Mexico, Costa Rica)
  - Other environmental asset markets – e.g. renewable energy, biodiversity – for which there is potential for accounting carbon value as well.

# Policies

- Shifts in investments need **long term regulatory signals (predictability)** with clear sets of incentives and pricing to carbon.
- **Lack of international agreement** on the detail framework for commitments under the climate change convention is one of the most important uncertainties for shifting investments.
- Governments play a key role in supporting finance through **regulations, standards and commitments (enabling environment)**.
- National policies may play an important role in ensuring that the **use of resources, both public and private, is optimized**. In particular there is a need for:
  - Planning regulations and design standards for infrastructure;
  - Promoting standardization and cost effective measures such as energy efficiency;
  - Defining technologies to be adopted, e.g. types of new generation capacity
  - Providing incentives for private investors to adapt new physical assets to the potential impacts of climate change;
  - Integrating climate change adaptation considerations in key sectors;
  - Attracting and coordinating foreign investment.

# Finance architecture

- Issues to be addressed for an effective climate finance architecture:
  - Mobilize **scaled up, adequate, and predictable sources** of funding
  - Having clarity about the **overall ambition level of results expected and MRV** system to be applied
  - Define what the **gross allocation of resources** will be while embodying a flexible scope of funding areas and financing tools (for mitigation, adaptation, technology, capacity development, programs and projects)
  - Increase **transparency and coordination of climate change financing** (ideally aligning funds outside the UNFCCC around common principles/standards over time)
  - **Set the details on how resources will be channeled** to result in major economic transformational programs – **i.e. operationalization.**

# Lessons learned for operationalization

- **Operationalization** of climate finance need to consider how best to:
  - Ensure large, transformational and long term impacts in the economies
  - Move from “project by project” to “programmatic”
  - Mobilize / Leverage private sector investments
  - Become host driven - ensure close link of international finance to national development goals
  - Promote the enforcement of carbon price
  - Ensure transparent and efficient use of resources
  - Capacity to navigate the complex landscape of financial incentives and resources available
  - Have “real” environmental results that are monitored, verified and reported

# Focus on operationalization

## Governance

Focus, strategy, project approval...

## Implementation

Project implementation

## Monitoring & Evaluation

Environmental & social safeguards  
Fiduciary and fiscal MRV  
Performance measurement (results)

Institutions for People



**IDB**

Inter-American Development Bank/ [www.iadb.org](http://www.iadb.org)