



CLIMATE CHANGE [ADAPTATION] FINANCE

WHAT YOU NEED TO KNOW

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Asian Institute of Technology, 11 February 2020

SESSION OUTLINE

1. Overview of Global CC Finance
2. Some Major Sources of Finance
3. Blended Financing, CPEIR/CFN, Proposal
Preparation
4. Takeaways

A QUESTION

On a scale of 1-10, how would you rank the relative importance of increasing current levels of climate finance as compared with:

- access to innovative technology?
- adequate capacity?
- strong political will?
- accurate and comprehensive data?
- meaningful participation from all sectors of society?
- other considerations?

OVERVIEW OF CC FINANCE

PARIS AGREEMENT

2015 COP 21 – Finance (Article 9)

- Article 9 mandates developed countries to provide \$, but there are no concrete figures or a timetable
- Keeps the “existing mobilization goal” (\$100B/yr by 2020) will continue through 2025 and then reassessed*
- Requires developed countries to submit “transparent and consistent” biennial reports on levels of assistance
- Cooperative approaches and REDD+

* Now changed to 2020 reassessment
http://unfccc.int/paris_agreement/items/9485.php

COP24 IN KATOWICE

COP24 did:

- \$100B mobilization goal will be reassessed 2020
- i.d. info for *ex ante* finance transparency (but shaky)
- Matters related to the Adaptation Fund

COP24 did not:

- make progress on Article 6 – carbon markets
- clearly commit to new and additional \$ above ODA
- signal adequate, predictable \$ in future

COP25 IN MADRID

COP25 did:

- see 477 investors with \$34 trillion in assets, call for greater ambition
- announce the EU plan to commit 25% of budget to CC
- change “get togethers” to “multilateral informal informals with co-facilitators” to describe Article 6 negotiations!!!

COP25 did not:

- agree final rules on Article 6 – carbon markets
- back a requirement for Article 6 proceeds to support adaptation
- agree to new and additional finance for loss and damage
- decide whether to continue the long-term finance (LTF) work stream
- agree to needed changes in Adaptation Fund Board membership

<https://enb.iisd.org/climate/cop25/>

<https://www.carbonbrief.org/cop25-key-outcomes-agreed-at-the-un-climate-talks-in-madrid>

CPI'S CLIMATE FINANCE ESTIMATES



<https://climatepolicyinitiative.org/wp-content/uploads/2019/11/2019-Global-Landscape-of-Climate-Finance.pdf>

STANDING COMMITTEE ON FINANCE



United Nations
Framework Convention on
Climate Change

2018 Biennial Assessment and
Overview of Climate Finance Flows

Summary and recommendations by the Standing Committee on Finance on the 2018 Biennial Assessment and Overview of Climate Finance Flows

<https://unfccc.int/sites/default/files/resource/51904%20-%20UNFCCC%20BA%202018%20-%20Summary%20Final.pdf>

SCF – A SIDE NOTE

Call for contributions/case studies (by end Feb)

- Determining the needs of developing countries in Paris Agreement implementation
- 2020 Biennial Assessment and Overview of Climate Finance Flows
- Both are looking for methodological inputs

UNCERTAINTY!

Landscape coverage and remaining data gaps by sector and institution
(USD billion, 2017/2018 annual averages)



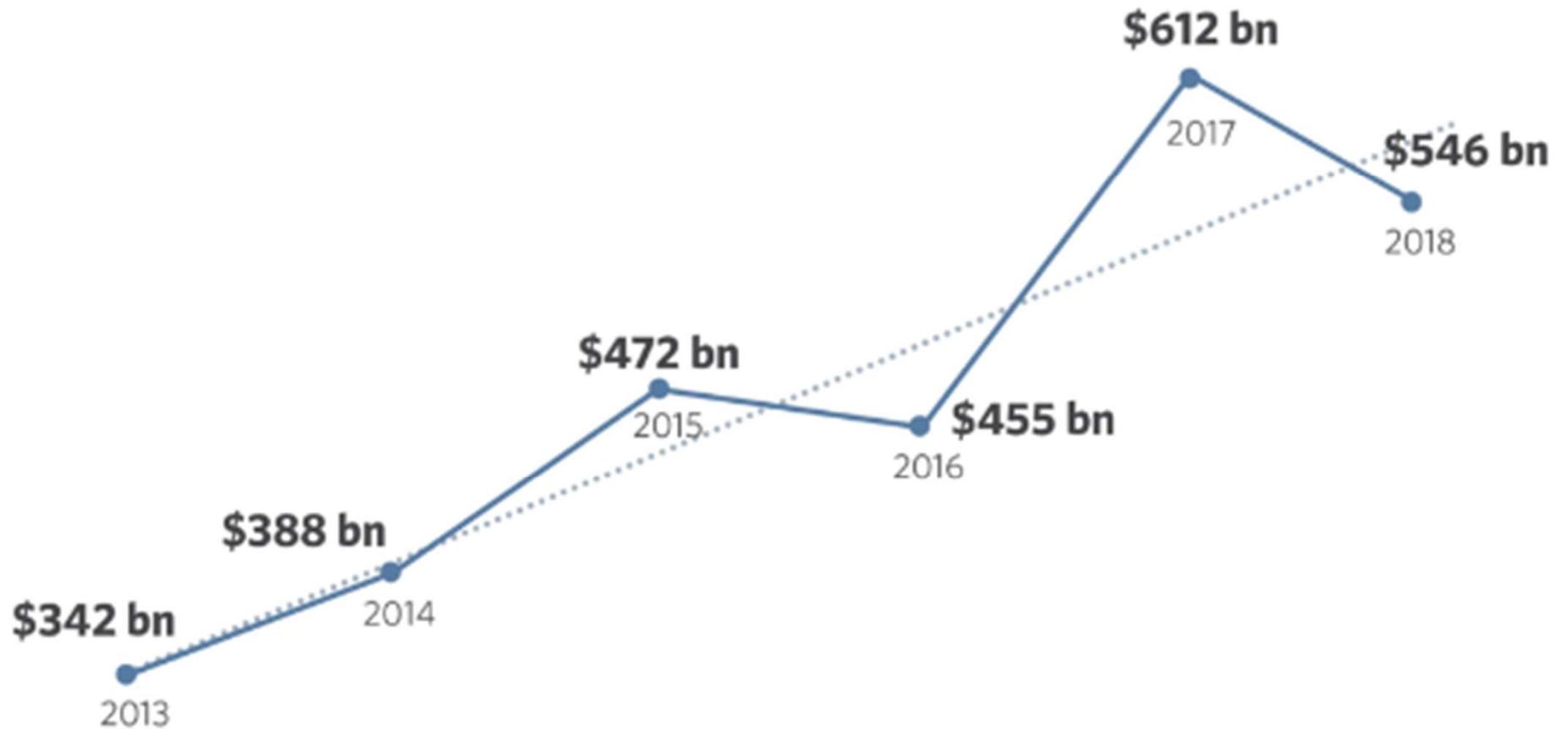
All figures in USD Billions

*Note: This excludes amount allocated towards adaptation projects

Source: Climate Policy Initiative

GLOBAL CC FINANCE 2013-2018

Total global climate finance flows, 2013-2018



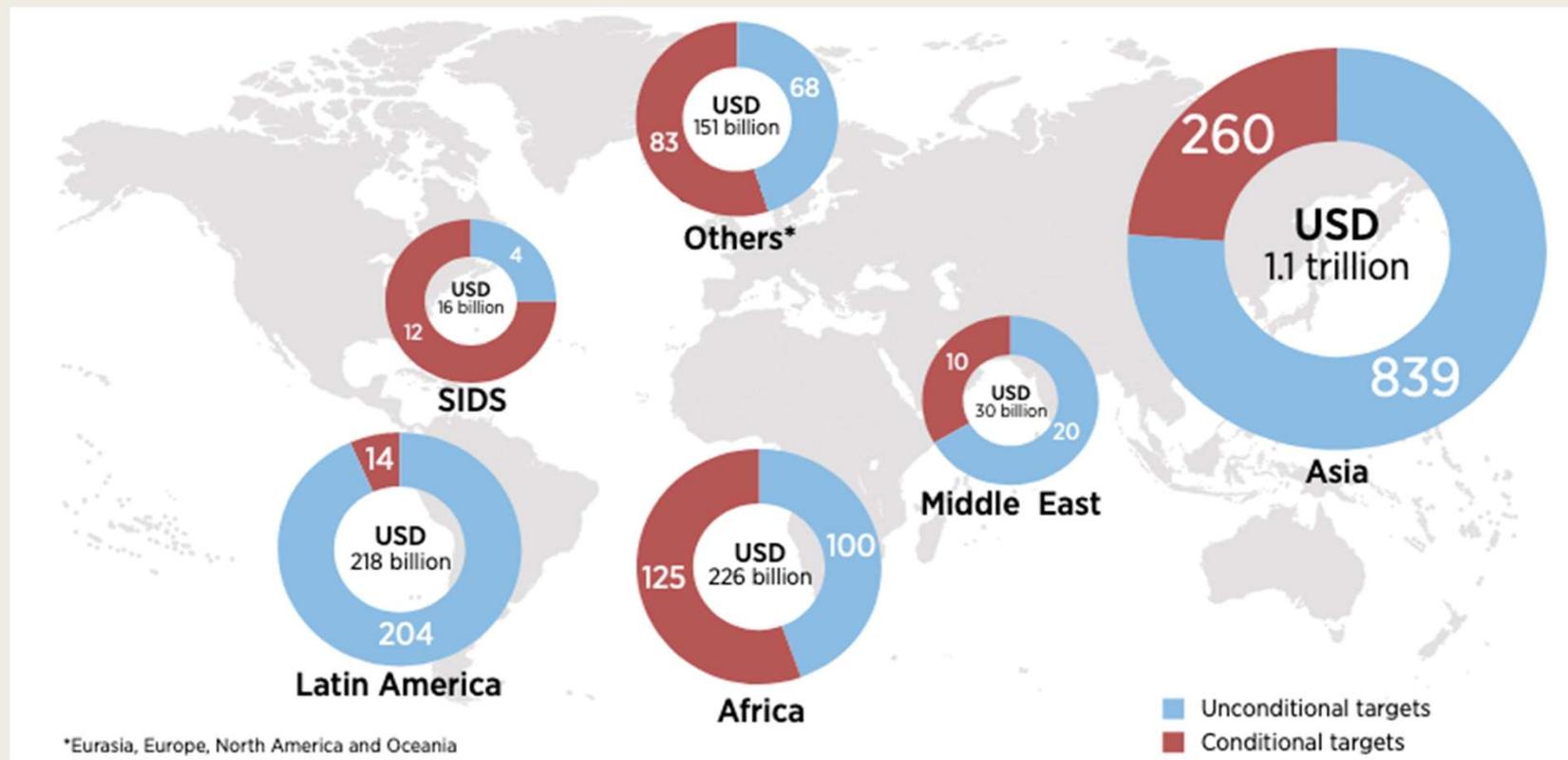
Source: Climate Policy Initiative

FINANCE SUPPLY VS DEMAND

Supply	Demand
Total \$579 B in 2017/18	\$1.6-3.8 T annually to 2050 for supply-side energy systems investments alone (IPCC)
Mitigation \$537 B (93%)	Up to \$1.16 T annually for “abatement opportunities” by 2030 (McKinsey)
Adaptation \$30 B (5%)	\$180 B annually from 2020-2030 for adaptation (GCA)
Mitigation-Adaptation \$12 B (2%)	\$140-\$300 B annually by 2030 and \$280-\$500 B annually by 2050 (UNEP)
	\$46 billion in annual socio-economic losses in Asia-Pacific due to extreme climate-related weather events, 2006-2015 (ADB)

<https://www.un.org/sustainabledevelopment/blog/2016/05/unep-report-cost-of-adapting-to-climate-change-could-hit-500b-per-year-by-2050/>
<https://climatepolicyinitiative.org/wp-content/uploads/2019/11/2019-Global-Landscape-of-Climate-Finance.pdf>
<https://ourworldindata.org/how-much-will-it-cost-to-mitigate-climate-change>

TOTAL INVESTMENT TO MEET RE TARGETS IN NDCs BY 2030



Global climate finance flows along their life cycle in 2017 and 2018. Values are average of two years' data, in USD billions

LANDSCAPE OF CLIMATE FINANCE IN 2017/2018

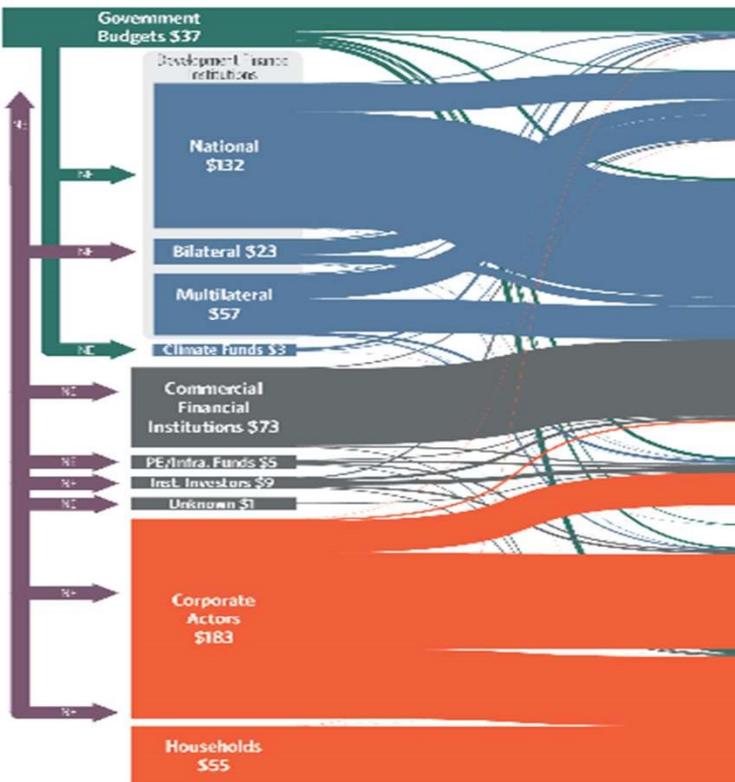
Global climate finance flows along their life cycle in 2017/2018. Values are average of two years' data, in USD billions

579 BN USD ANNUAL AVERAGE



SOURCES AND INTERMEDIARIES

What type of organizations are sources or intermediaries of capital for climate finance?



INSTRUMENTS

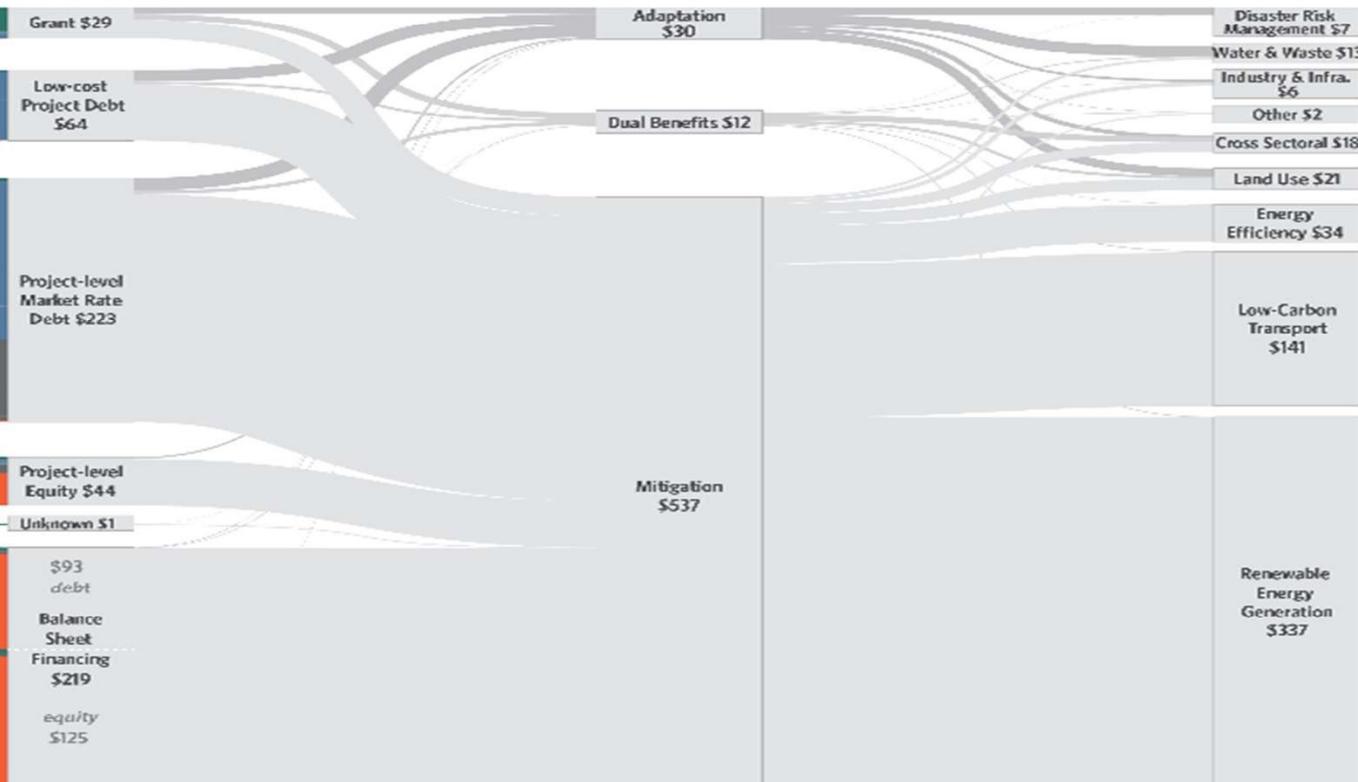
What mix of financial instruments are used?

USES

What types of activities are financed?

SECTORS

What is the finance used for?

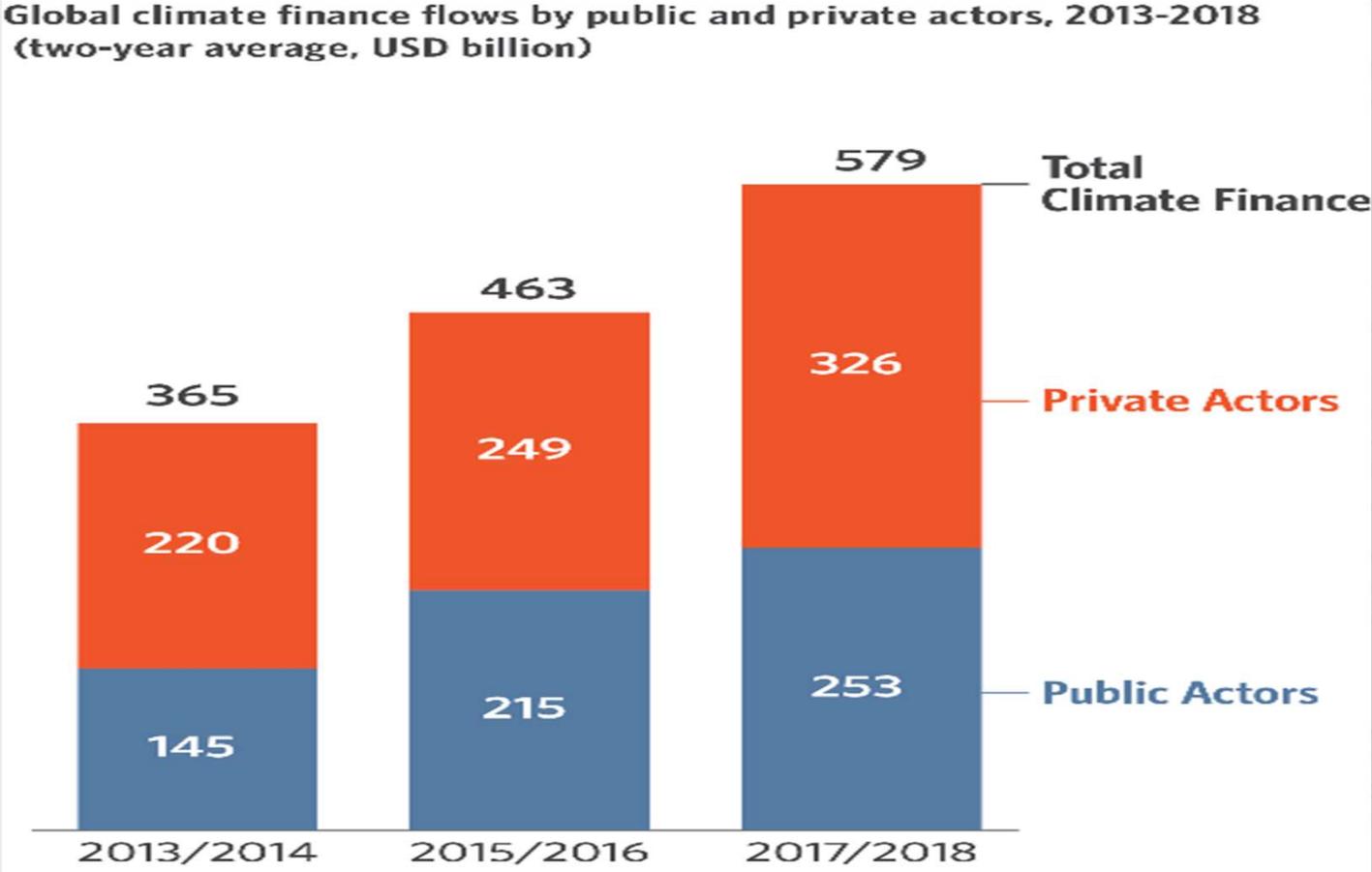


Source: Climate Policy Initiative

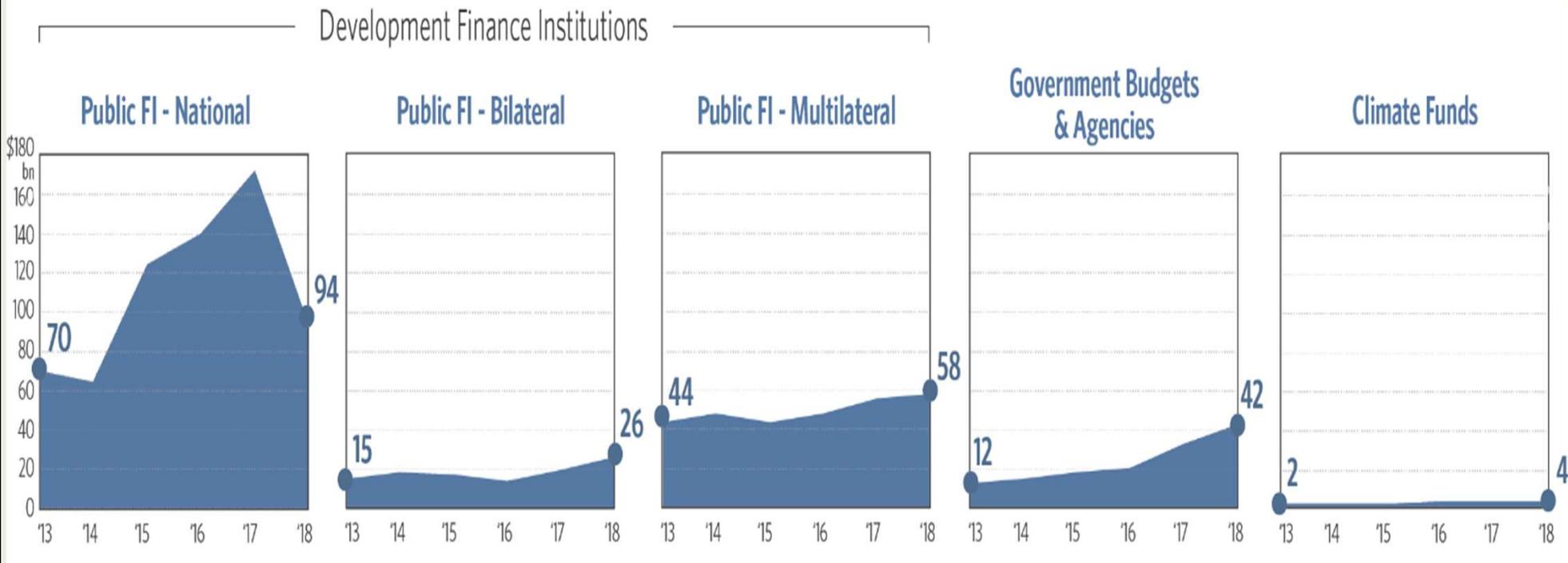
KEY

- PUBLIC MONEY
- PUBLIC FINANCIAL INSTITUTIONS
- PRIVATE FINANCIAL INSTITUTIONS
- PRIVATE MONEY
- FINANCE FOR INVESTMENT
- BE: NOT ESTIMATED

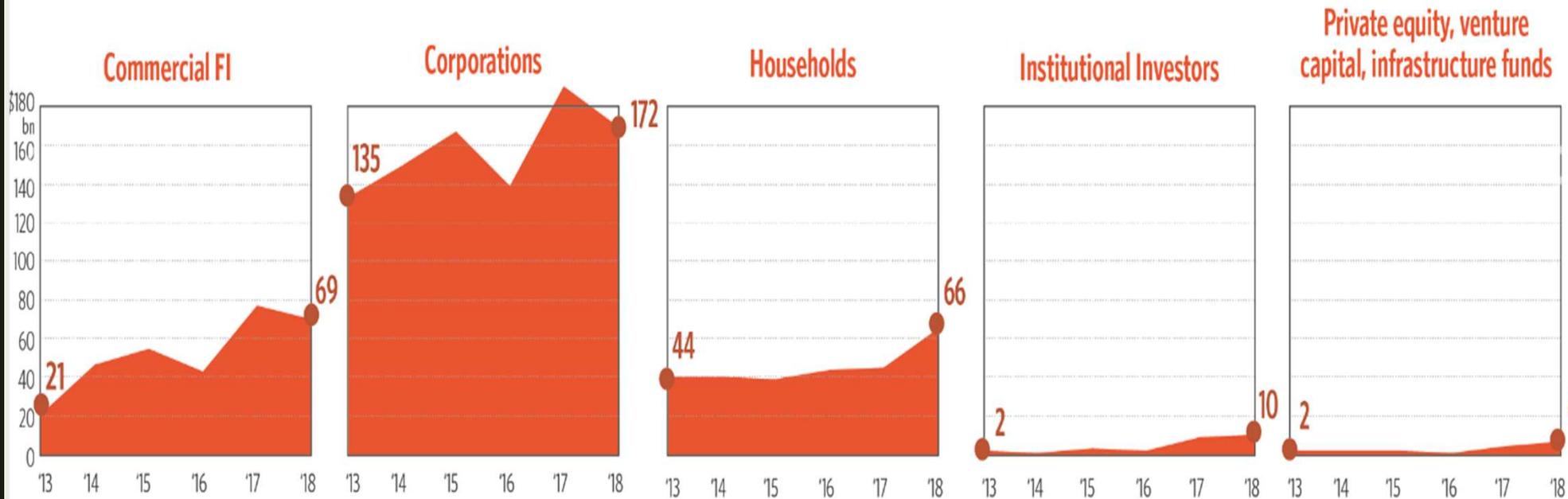
GLOBAL CLIMATE FINANCE BY PUBLIC AND PRIVATE ACTORS (\$bn)



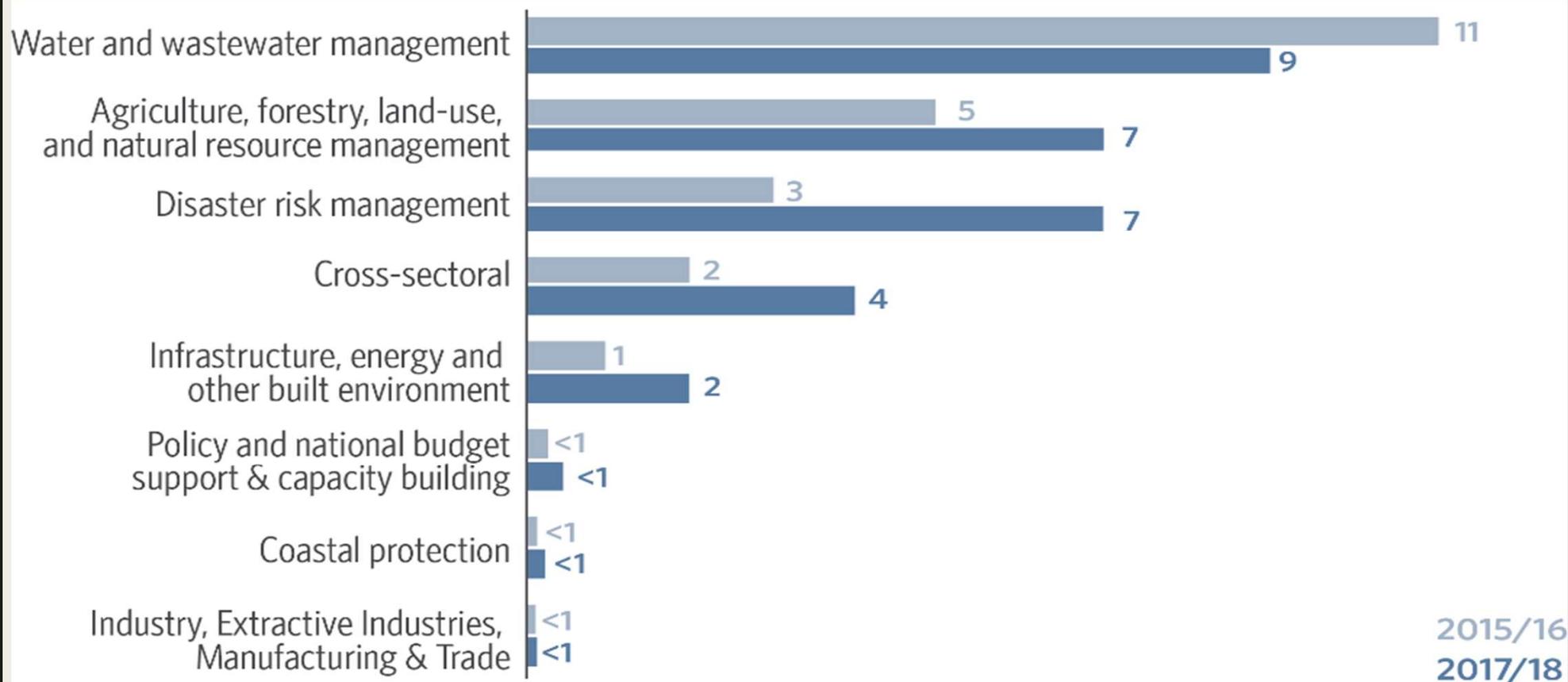
FINANCE SOURCES & INTERMEDIARIES: PUBLIC



FINANCE SOURCES & INTERMEDIARIES: PRIVATE

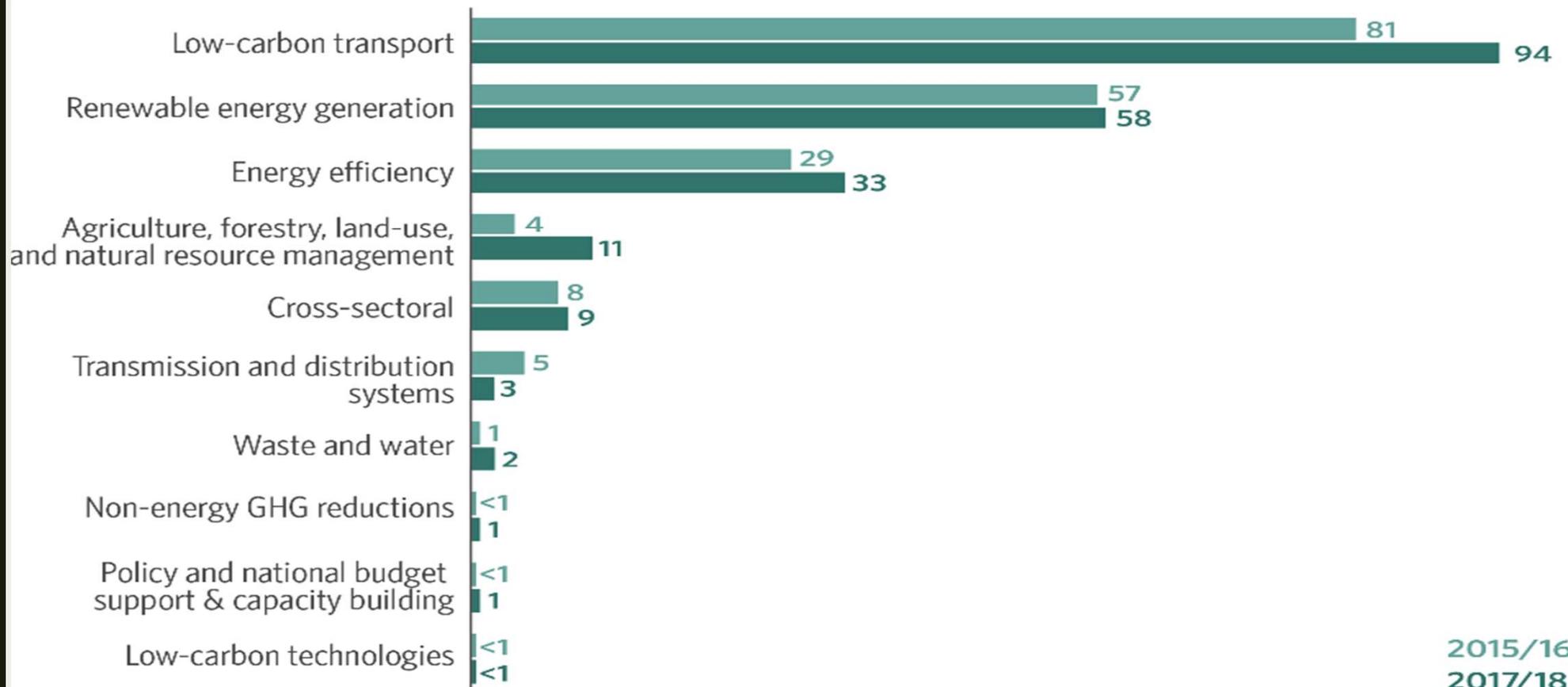


AVERAGE ANNUAL PUBLIC ADAPTATION FINANCE (\$bn)



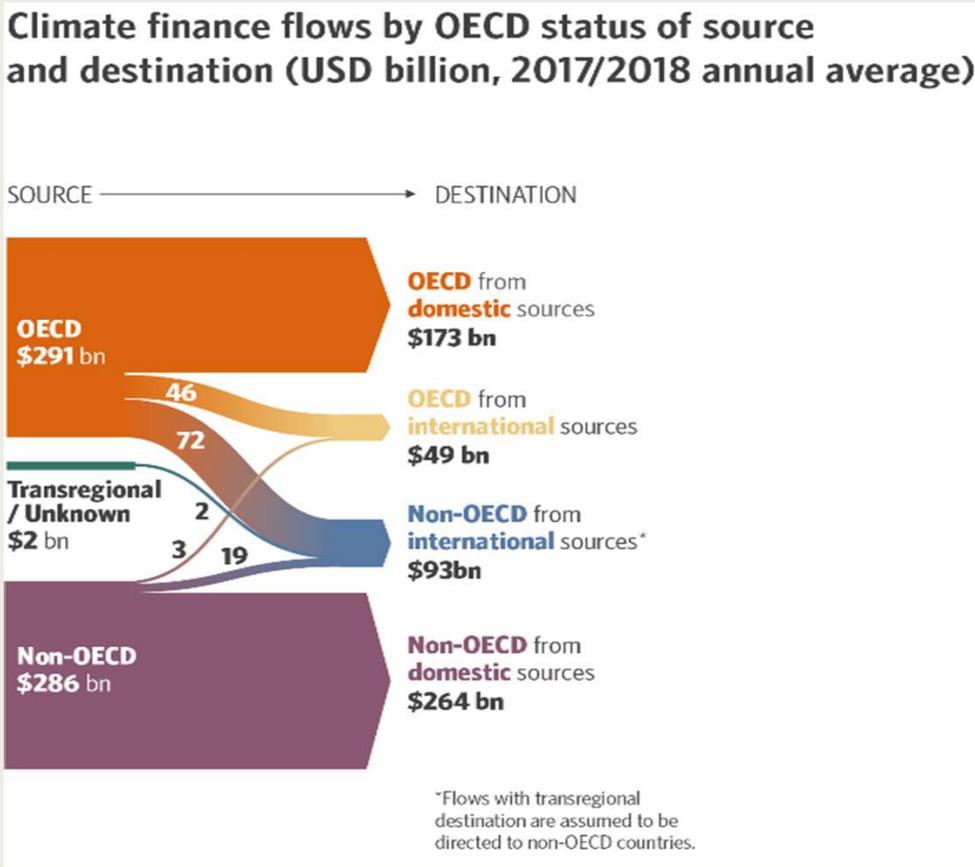
2015/16
2017/18

AVERAGE ANNUAL PUBLIC MITIGATION FINANCE (\$bn)



2015/16
2017/18

FINANCE FLOWS BY OECD STATUS OF SOURCE & DESTINATION, 2017-2018 (\$bn)



DESTINATION OF CLIMATE FINANCE, 2017/18



CPI's SUMMARY OF CONCLUSIONS

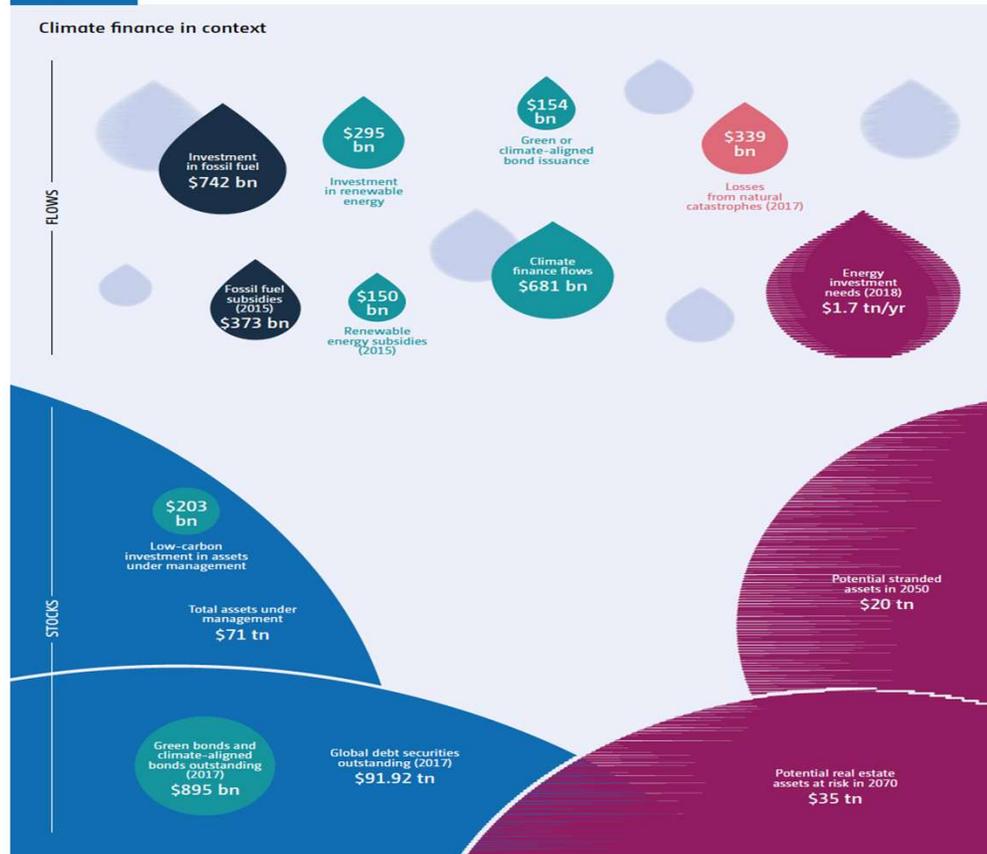
Several positive climate finance trends are still outweighed by:

- the volume of need, and
- continuing investment in fossil fuel supply chain

We haven't moved from "climate finance as usual" to truly transformative investments and policies

Needs are an order of magnitude more than current finance, so incremental increase in flows will fail to deliver on global goals

Figure 3



Note: All flows are global and annual for 2016 unless stated otherwise. Energy investment needs are modelled under a 2 °C scenario. The representation of stocks that overlap is not necessarily reflective of real world overlaps. The flows represented are not representative of all flows contributing to the stocks presented. Data points are provided to place climate finance in context and do not represent an aggregate or systematic view. Climate finance flows are those represented in Section B of the Summary and Recommendations and as reported in chapter 2 of the 2018 Biennial Assessment and Overview of Climate Finance Flows technical report. Investment in renewable energy overlaps with this estimate of climate finance flows.

Source: Asset Owner Disclosure Project, 2017; Bosteels and Sweatman, 2016; Boston Consulting Group, 2018; CBI, 2017; IEA, 2017; IEA, 2018; IRENA 2017; OECD, 2018; SIFMA (2016 data); Swiss Re Institute, 2018.

CPI's SUMMARY OF CONCLUSIONS

- Governments should continue to raise their levels of ambition
- Public and private actors must coordinate to rapidly scale up finance beyond RE, e.g., EE, adaptation and resilience, food, technologies and R&D
- Financial institutions must accelerate portfolio and operations alignment with the Paris Agreement

CPI's SUMMARY OF CONCLUSIONS

- Capital markets and banking must shift toward green finance
- Public institutions must make every dollar count and ensure quality as well as quantity
- Must progress in finance information and communication, including tracking

UNFCCC FINANCIAL MECHANISM

- Global Environment Facility & Green Climate Fund are operating entities
- Special Climate Change Fund (SCCF) & Least Developed Countries Fund (LDCF)
 - *GEF managed*
- Adaptation Fund
 - *2% of certified emission reductions (CERs) from CDM projects*
- (Standing Committee on Finance)

GEF CC	LDCF/SCCF	AF	GCF
Mitigation; UNFCCC Operating Entity	CCA & technology transfer; GEF administered;	CCA; Adaptation Fund Board; GEF Secr.	CCA & Mitigation; UNFCCC Operating Entity
Est. 1992 (pre-Rio Summit)		Est. 2007	Est. 2015
\$4.2B; \$38B co-financing (as of 2017)	320 projects; \$1.3B; \$7B co-financing (as of 2017)	91 projects; \$639M (as of 2017)	54 projects; \$2.6B (\$147M disbursed); \$6.5B co-financing (as of 2017)
All developing countries & economies in transition	LDCF – only LDCs are eligible	All members of Kyoto Protocol eligible	All non-Annex 1 Parties
New replenishment to target CC, Biodiversity and Land Degradation	SCCF targets water, land, agri, health infrastructure, ecosystems, coasts; LDCF for NAPA prep & implementation	Targets all sectors but must reflect government CC policies	8 "impact areas"; 6 criteria;
	Grants	Grants (\$10M cap/country)	Various instruments
	Must go through 1 of 14 Implementing Agencies (ADB, WB, UNDP, etc.)	First with direct access through Implementing Entities; only 5 NIEs in Asia	Direct access through Accredited Entities, some flexibility; 7 in Asia
	Application process is complex, though streamlined if under \$2M	Application process is complex, though streamlined if under \$1M	Tough but have Simplified Approval Process for "safe" projects up to \$10M

GREEN CLIMATE FUND

- 124 projects
- In 2019 received \$9.7 billion in new pledges for next 4 years
- \$5.6 billion in financing committed; \$3.6 billion implemented; 3:1 leveraging
- From 2015-19, 53% for adaptation, and 69% of this went to LDCs, SIDS and Africa
- New draft Strategic Plan for approval in March is here:
<https://www.greenclimate.fund/sites/default/files/document/gcf-b24-inf01.pdf>
- Just launched an e-learning course on Simplified Approval Process at <https://ilearn.greenclimate.fund/thematicarea/category?id=2>

<https://www.greenclimate.fund/>

<https://www.wri.org/blog/2020/02/insider-four-ways-green-climate-fund-can-strengthen-its-next-strategic-plan>

GREEN CLIMATE FUND

Key Issues for the new strategy

- Aligning GCF allocations with the 1.5C target and help drive ambition
 - Institutional and regulatory reform, support difficult but consequential sectors, use an ambition filter
- Sharpening GCF's approach to adaptation and loss and damage
 - Recognize that adaptation is not separate from develop and remove arguments over this false dichotomy, explicitly recognize loss and damage
- Ensuring quality in programming and practice while increasing efficiency
 - Don't overdo leveraging goal, provide adequate resourcing for any new modalities, e.g., venture-style incubators
- Empowering developing country institutions
 - Only 18 of 56 direct access entities have approved projects; cut waiting time (3-4 months) for capacity support; streamline project preparation; improve country programs

<https://www.wri.org/blog/2020/02/insider-four-ways-green-climate-fund-can-strengthen-its-next-strategic-plan>

OTHER PUBLIC FINANCING

- Bilaterals: Germany, Norway and the United Kingdom have committed \$5 billion to climate and forests during 2016-2020
- GEF recently set up a \$45 million program on “taking deforestation out of commodity supply chains”
- Green bonds
- Global Commission on Adaptation mobilizing \$500 million for locally-led adaptation by end of 2020 from international and regional organizations

<https://www.conservation.org/projects/Pages/Finance-for-Forests-Initiative.aspx>

<http://www.undp.org/content/sdfinance/en/home/solutions/impact-investment.html>

<https://www.wri.org/news/2020/01/release-global-commission-adaptation-launches-action-track-accelerate-local-climate>

PRIVATE FINANCING

- Microsoft recently pledged \$1 billion to remove as much carbon as it emitted in its 45-year history
- Goldman Sachs aiming for \$750 billion in financing, investment and advisory work over 10 years on “climate transition and inclusive growth;
- Impact investment market - \$2.6 billion to forests since 2010
- Coca Cola – funds to conserve forested watersheds supplying water to its operations
- Many investors and bans divesting fossil fuel

<https://www.conservation.org/projects/Pages/Finance-for-Forests-Initiative.aspx>

<http://www.undp.org/content/sdfinance/en/home/solutions/impact-investment.html>

CLIMATE FUND INVENTORY (OECD)

■ Total Global CC Funds	=	91
■ Funds accessible by SEA countries	=	63 (69%)
- <i>with forestry component</i>	=	44 (48%)
- administered by multilaterals	=	30 (68%)

BLENDING CLIMATE FINANCE

- Most money is with the private sector. They tend to be risk averse and may require financial incentives to overcome risks.
- Blended finance "sweetens the pot". It can deploy limited public resources to effect change in how the private sector deals with climate change.
- It incorporates different types of development finance, such as grants, concessional loans, equity investment, insurance and guarantees, into a project or fund in order to deal with project/program risks and mobilize commercial finance.
- One estimate: 150 blended transactions since 2000 worth \$40B. DFIs have much experience (see link)

http://www.ifc.org/wps/wcm/connect/30635fde-1c38-42af-97b9-2304e962fc85/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES
<https://www.economist.com/news/finance-and-economics/21697263-fad-mixing-public-charitable-and-private-money-trending-blending>

BLENDING CLIMATE FINANCE - EXAMPLES

Khun Wandee rejected by commercial banks for a loan to establish solar farms in the Northeast.

- IFC provided \$8M commercial loan with \$4M low-interest loan in 2011.
- Gave banks confidence. \$800M investments by 2015.

Expanding telecommunications into remote Pakistan: GaurantCo (backed by aid agencies) guaranteed an Islamic bond denominated in Pakistan rupees

Impact Investment in India: Children Investment Fund Foundation pays a return of 10% if girls' school enrolment, literacy and numeracy improve as agreed after 3 years.

CLIMATE PUBLIC EXPENDITURE AND INSTITUTIONAL REVIEW (CPEIR)

- Ultimately, sustainable climate adaptation finance requires
 - *An ability to tag and track climate finance throughout the government system*
 - *Strong governance and institutional frameworks*
 - *Reliance on national sources of finance rather than international*
- CPEIR is “a systematic qualitative and quantitative analysis of a country’s public expenditures and how they relate to climate change”
 - *Expenditures with definitions tailored to each country’s situation*
 - *Analyze and improve policies, institutions, public finance architecture*
- BAN, CAM, INO, NEP, PAK, PHI, THA, VIE, Pacific

<https://www.climatefinance-developmenteffectiveness.org/about/what-cpeir>

http://www.asia-pacific.undp.org/content/rbap/en/home/library/democratic_governance/cpeir-methodological-guidebook.html

CPEIR CFN (CLIMATE FINANCE NETWORK)

Aims to identify, support and scale up climate finance innovations

6 workstreams

- CC and domestic budget reforms
- Direct access to international CC finance
- Innovative CC financing
- Gender and social inclusion in CC finance
- Transparency and accountability of CC finance
- Modelling climate impacts on economic growth

<https://climatefinancenetwork.org/#>

CPEIR CFN (CLIMATE FINANCE NETWORK)

- Run through UNDP Bangkok Regional Hub
- Countries: AFG, BAN, CAM, FIJ, NEP, PAK, THA, TON, IND, INO, VAN
- Partners: World Bank Group, GEF, GCF, Sida, Ukaid, Oxford Policy Management, UNEP, NAP-GSP, IBP, ICCCAD, wocan, AP-DEF, NDC Partnership, CANSA

PROPOSAL CONSIDERATIONS

Guide to Climate Change Adaptation Project Preparation

How is the proposed action nested within local/national CC and sustainable development policies and strategies?

- *Links to national priorities*
- *Links to past/ongoing initiatives*

What are my government's rules & procedures for submitting proposals internationally?

- *Essential if you are from a government office*

PROPOSAL CONSIDERATIONS

What are the gender implications of the proposed project?

- *Donors' special attention to gender aspects*
- See <http://asiapacificadapt.net/gender-sourcebook/>

How much time & resources will I need to prepare the proposal?

- *Proposals prepared in a hurry are seldom funded*
- *Think carefully about adequate human and financial resources*
- *Bring in someone with a good track record*

PROPOSAL CONSIDERATIONS

What are the specific requirements of my chosen financier?

- *Read the rules carefully. Normally on the internet.*
- *Ignoring rules/formats/procedures can delay or derail proposals*
- *Give special attention to:*
 - Eligibility requirements
 - Application format
 - Specific goals of the financier
 - Decision criteria of the financier
 - Access modality and procedures

PROPOSAL CONSIDERATIONS

Are approved project proposals available?

- *Most financiers will post approved proposals on the internet. Read these carefully.*

Are there opportunities to inject CCA into investment projects?

- *Look for opportunities to provide CCA input to the design of investment projects in transport, water supply, etc.*
- *Some financiers look for “blending” opportunities with big investment projects*

PROPOSAL CONSIDERATIONS

Is my draft proposal clear and succinct?

- *Financiers give less attention to proposals that are difficult to read & understand*
- *Read your proposal out loud*
- *Establish a peer review committee to provide feedback before submitting the proposal*

TAKEAWAYS

- Globally, climate finance is making progress, but:
 - needs are an order of magnitude above current levels of finance;
 - we're like Sisyphus and his rock: we'll never achieve global climate goals if we roll climate change finance up the hill only to have it fall back because we're providing even more finance for fossil fuels and the other things that drive global heating

TAKEAWAYS

- Most climate finance is domestic, therefore it's important to:
 - develop high quality national climate finance policies, strategies and institutions
 - establish a reliable climate finance tracking system nationally and sectorally
 - think carefully on how to incentivize and elevate awareness/capacity among private sector actors in your country

TAKEAWAYS

■ As a rule of thumb:

- use international public climate funds for innovation and demonstration; these are catalytic
- use market mechanisms for mitigation (and maybe adaptation*)
- use domestic funds for transformation and sustainability

*Adaptation Benefit Mechanism proposed by African Development Bank. https://unfccc.int/files/parties_observers/igo/submissions/application/pdf/708.pdf

TAKEAWAYS

- Sufficient climate finance means little without:
 - adequate capacity/institutions and/or partnerships to conceptualize, design and implement projects/programs
 - high quality climate and sustainability policies and strategies
- Give close attention to your country's NAMA, NAP and NDC when developing financing proposals

TAKEAWAYS

- Only seek financing support after doing a thorough study of the funds and funding institution. This will:
 - determine whether your interests and the funding agency's interests are aligned;
 - result in a stronger proposal that highlights these overlapping interests;
 - save you time in the long run.
- Look into developing CFN (CPEIR) activities in your country

TAKEAWAYS

- Keep on the lookout for tools and initiatives such as
 - Global Innovation Lab for Climate Finance (CPI)
 - Climate Adaptation Knowledge Exchange (CAKE)
 - Global Forest Financing Facilitation Network (GFFN)
 - *Mapping Forest Finance: A Landscape of Available Sources of Finance for REDD+ and Climate Action in Forests through 2017*
 - ADB/World Bank/UNEP/UNDP/WRI publications
 - Many training opportunities throughout A-P & on Web

<https://www.climatefinancelab.org/the-labs/global/>

<http://cpilabs.wpengine.com/the-labs/india/>

<http://www.unredd.net/announcements-and-news/2763-upcoming-redd-learning-session-mapping-the-landscape-of-finance-for-redd-and-climate-action-in-forests.html>

THANK YOU!



(DON'T LOOK HERE FOR CLIMATE FINANCE!)