Basics on climate finance for green growth

Accessing LEDS Finance for Green Growth
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Ari Huhtala, Deputy CEO – CDKN
ari.huhtala@cdkn.org / www.cdkn.org
Small part of the global investment that needs to shift to support climate compatible development

LEDs investment challenge in the broader context: 2030

- <2C requires $10 trillion in additional energy investment to 2030
- Shifting $26 trillion from high to low carbon energy investment
- $145 trillion in infrastructure investment to 2030 needs to be made low carbon, resource efficient and climate resilient
- Doubling rate of global technology diffusion
- New investment in G20 economies mainly low carbon from 2020?

Meeting this scale and pace requires transformational changes to public and private sector financial architecture
Climate Finance: Fast Start & Long Term

Fast Start Finance (2010-12)

Goal to mobilize Long-term Finance of $100 billion per year by 2020 agreed in Cancun

- Variety of sources including: public, private, bilateral, and multilateral
- Significant share of multilateral funding for adaptation should flow through the Green Climate Fund

Issue: How to leverage (multiply) public funds through mixing with private, public, and carbon market funding

FSF delivered but not all new & additional
Landscape of International Climate Finance
A growing menu of climate finance instruments to catalyze and leverage

**Adaptation**
- The Adaptation Fund
- Special Climate Change Fund
- Least Developed Country Fund
- Global Environmental Facility (GEF)
- Pilot Program for Climate Resilience
- Global Facility for Disaster Reduction & Recovery
- Risk Instruments

**Mitigation**
- Global Environmental Facility (GEF)
- Clean Technology Fund
- Forest Investment Program
- Scaling Up Renewable Energy for the Poor
- Carbon Funds
- Carbon Partnership Facility
- Forest Carbon Partnership Facility
Source: The Landscape of Climate Finance 2012 (Climate Policy Initiative, December 2012).
Green Climate Fund (GCF)

- Fully established, secretariat in Songdo, Korea, but no significant funding yet
- Board discussing business model and types of windows (mitigation, adaptation, REDD+, private sector)
- National Designated Authorities (NDE) by June 2014
- Different types of access modalities
- Capitalisation pledges expected Sept-Dec 2014
- Relationship with CIF, AF?
Beyond The Sum Of Its Parts

Efficient combination of resources from different instruments can maximize and leverage public and private sources while encouraging climate-resilient and low-carbon development.

Each source addresses different set of needs, risks or barriers, and also reduce transaction costs of navigating the landscape of climate finance.

Climate finance is catalytic while most mitigation and adaptation action is funded from domestic and international mainstream sources.
Conceptual Framework for Readiness

A. National climate context, vulnerabilities and opportunities

B. Enabling Environment
   B1. Public
   B2. Private

Climate finance

C. Delivery of results

D. Information management and coordination

E. Managing for results
A ccors involved in readiness at country level

**Government Actors**
- Parliament
- Office of the President/Prime Minister
- Ministries of Finance and Planning
- Sectoral Ministries:
  - Environment
  - Energy
  - Agriculture
  - Mining
  - Water
  - Health
  - Others
- National Funds and Public Financial Institutions
- Regional and Local Governments (Executive and Legislative Branches)

**CSOs**
- Global
- National
- Regional
- Local
- Networks

**Communities**
- Global
- National
- Regional
- Local
- Networks

**Private Sector**
- Project Developers
- Investors
- Market Facilitators
- Financial Institutions

**Development Partners**
- NDBs and MDBs
- Bilateral Partners
- Funds/Institutions
Financing LEDS faces three types of challenges in practice

- **Front loaded costs**: high upfront investments needed to transition into low emission and energy efficient alternatives. Places strain on absorptive capacity of financial system especially in post-crisis climate.

- **Managing risk**: LED investment has higher political, technology, novelty and policy risks. Investors perceptions amplify low carbon risk and downplay high carbon risk.

- **Integration**: regulatory reforms needed to integrate low carbon and climate resilience into national development plans and catalyse investment through “demand signals”, particularly on-going infrastructure investment in cities, industrial clusters, electricity and gas grids.

Private sector finance will not “organically” flow to right investments without clear signal from government and direct public finance interventions and creation of enabling policy environment.
**Building Block 1: Integration of LECR with National Development Priorities**

Objective is to create alignment of national & sub-national priorities and implementation path over foreseeable future which builds investor confidence.

**National Green/Climate Programmes (integrated with national development agenda)**

- **Energy & Energy Efficiency**
  - National aims: Energy access & security
  - Green aims: Shift fuel sources & reduce energy demand
  - Emerging funding instruments: • RE-IPP Fund? • NAMA for housing?
  - Source: DBSA, 2010

- **Natural Resources**
  - Policy: Climate Change Policy, NEMA, Waster
  - National aims: Land use, waste, biodiversity and conservation
  - Green aims: Expand adaptive capacity of natural infrastructure base and prepare for change
  - Emerging funding instruments: • Drylands Fund • Acid Mine Drainage allocation • Payment for Ecosystem Services

- **Local Government**
  - Policy: Integrated Development Plans
  - National aims: Effective service delivery to all South Africans
  - Green aims: Build climate resilient economic and social systems and develop green economy (jobs, localisation)
  - Emerging funding instruments: • Green Cities Support grants? • On-budget support through existing instruments
Building Block 2: Financial System is designed to unlock investment opportunities

Public finance & fiscal frameworks
Taxes, incentives, market mechanisms, ODA and international co-operation, trade agreements

Financial intermediaries & institutions
+ Commercial and investment banks
  + microfinance institutions
  + Community organisations
  + National development banks
+ Private equity & venture capital firms
  + International banks
+ International development agencies
  + Pension funds
+ Other ....

Source: http://commons.wikimedia.org (adapted for use)
Building Block 3: Using standard investment risks to unlock private capital for LEDS plans

Risk management is a core part of how investors make decisions, and the ability to extract an attractive “return on investment. Some of the issues taken into account include:

1. **Technology** – Maturity and the cost of “new” technology
2. **Policy** – Large investment programme vs. smaller programmes would have different cost of capital
3. **Legal and Regulatory** – Clear frameworks with avenues for protection in event of default
4. **Counterparty** – Strong parties able to implement
5. **Financial** – Predictability of revenue generated by project
6. **Ability to exit the investment** – “Distribution strategy” (i.e. who can they sell to?)

In making these decisions, investors also conduct sensitivity analysis to determine the factors that affect revenue generation the most.

Negotiations take place between borrowers and lenders to ensure such factors are eliminated (where possible) and/or additional “security for the loan” is added.
Building Block 4: International Climate Finance System can bridge resource gaps if used effectively

**UNFCCC Support package** = Finance + Technical support + Technology transfer

**International climate finance system**
- Supply driven (donor focused)
- Direct access is difficult
- Lacking in coherence
- Replicating and scaling up examples
- Emerging financial innovations from traditional sources

**National Financing Strategies and Platforms** that identify opportunities for use of climate finance to effectively mobilise public and private sources of finance and promote:

- Capacity of National Financial Institutions — State/Development Banks and hosts of Green Funds — that blend, direct and track domestic and international sources of finance
  
  - Facilities to create deal flow: develop investment programmes to build a pipeline of financeable projects

- Market development facilities — national and regional
Key questions in developing NFP: Addressing the who, what and how questions ....

• Who are the key domestic financial players that will need to take action?

• What is the role of existing or new domestic and international public finance mechanisms?

• How should existing mechanisms be deployed most effectively?

• What is the interaction with public policy and regulatory frameworks in catalysing scale and setting pace of investment?