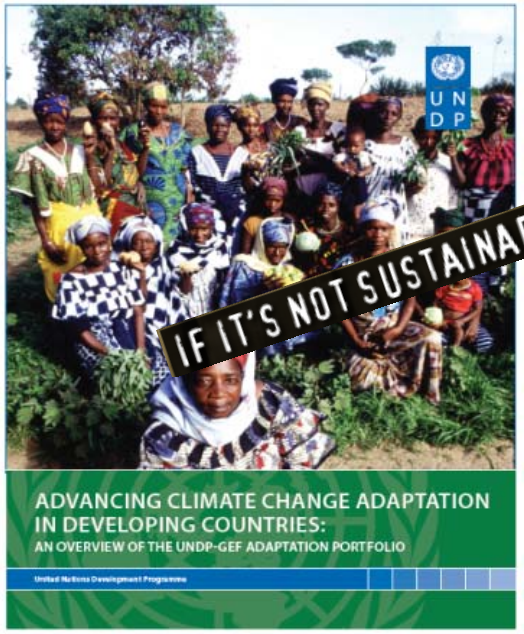
United Nations Development Programme

Financing the Transition to Low Emission and Climate Resilient Development



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Bangkok, Thailand

Charting a course away dangerous climate change: A shrinking window of opportunity

To keep within 2C threshold CO2e concentration should stabilize at 450 ppm

The UNDP 2007/2008 HDR estimated that the 21st Century carbon budget is set at 1,456 Gt CO2

A sustainable emissions pathway will require the world to cut emissions by at least 50 percent by 2050

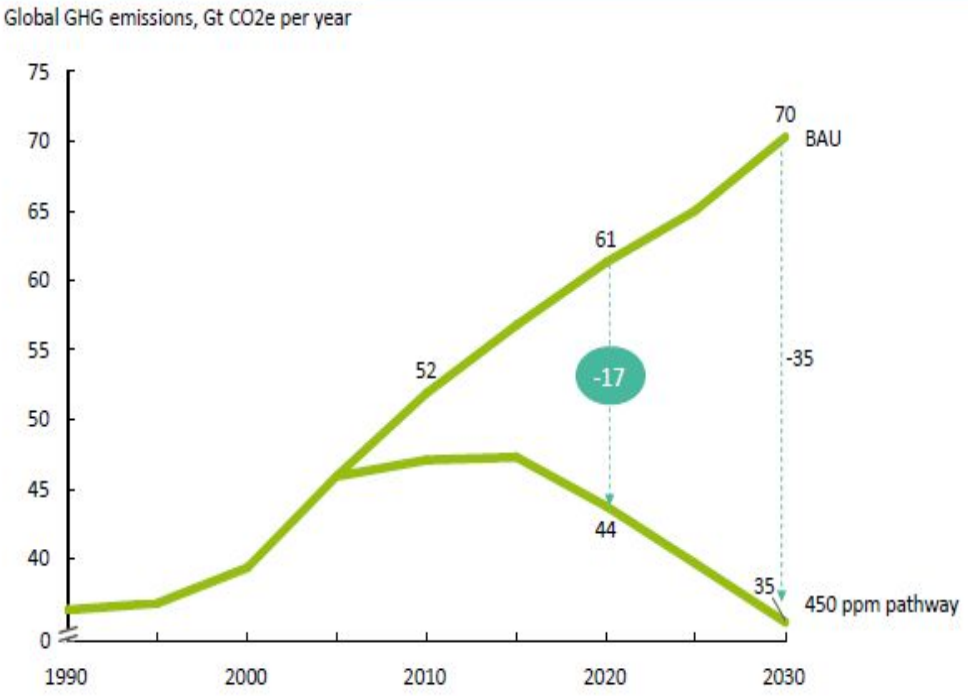


Fig. 3.1. 17 Gt of reductions below the reference pathway in 2020 are required to stay on a 450ppmv pathway. (Source: McKinsey Global GHG Abatement Cost Curve v2.0 (2009); M. G. J. Den Elzen and M. Meinshausen, *Multi-gas emission pathways for meeting the EU 2°C climate target*, 2006; IEA World Economic Outlook 2007; Project Catalyst analysis)

Costs of Managing Climate Change in Developing Countries

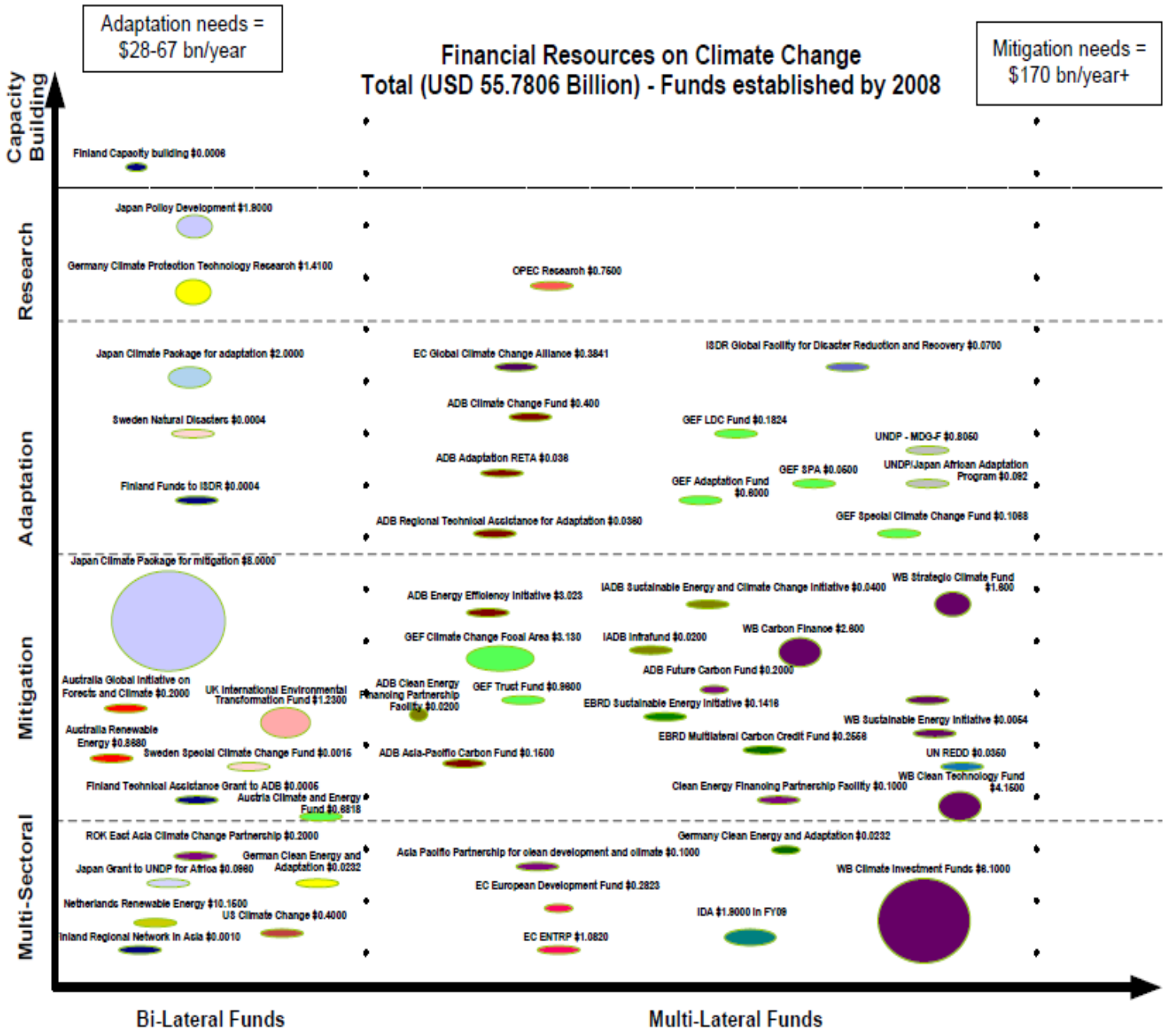
US $100 billion
per year ***by*** **2020**

UNFCCC **Copenhagen Accord**

Costs of Adaptation (World Bank and UNFCCC, $billions to 2

Sector	UNFCCC (2007)	EACC Study Scenario	
		NCAR (wettest)	CSIRO (driest)
Infrastructure	2-41	27.5	13
Coastal zones	5	28.5	27.6
Water supply and flood protection	9	14.4	19.7
Agriculture, forestry, fisheries	7	2.6*	2.5*
Human health	5	2	1.5
Extreme weather events	—	6.7	6.4
Total	28-67	81.5	71.2

Source: EACC, WB 2010

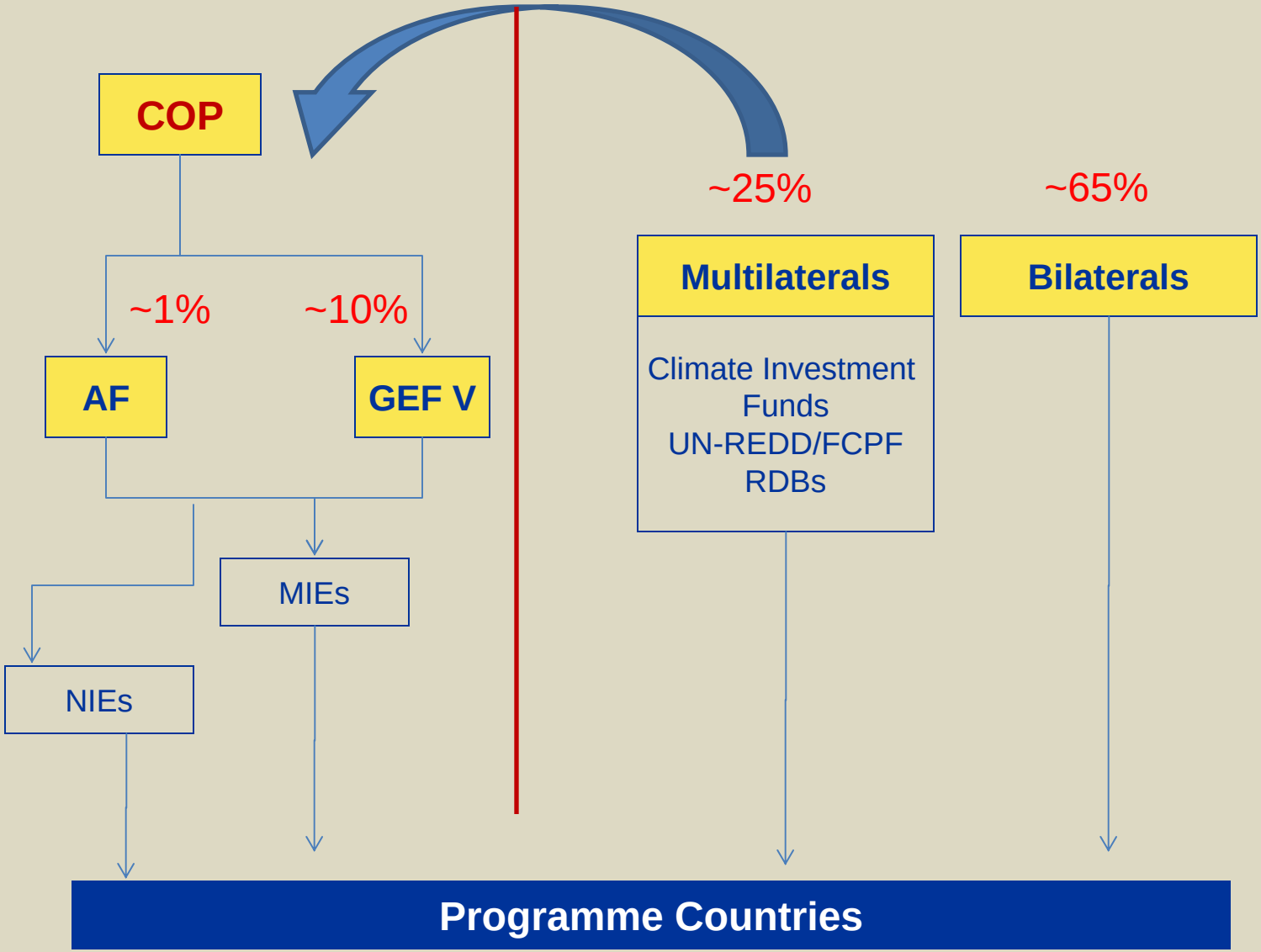


Consolidated overview; UNEP - 2009 NOTE: This includes only those Funds that have specific institutions attached. It does not include all private venture capital, innovative financial mechanisms, voluntary carbon markets, and private foundations.

Potential Sources of Innovative Climate Finance

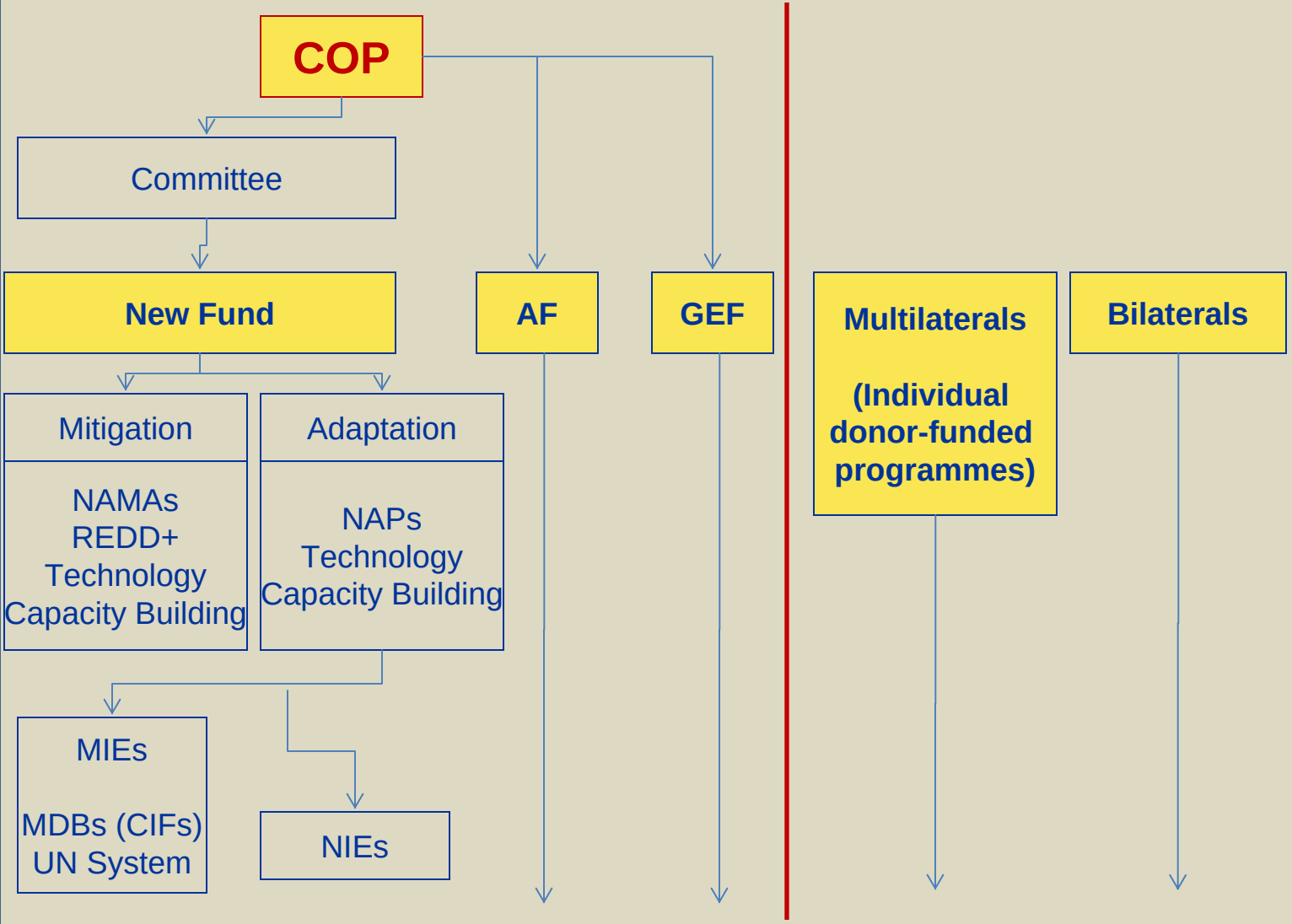
1. Public finance from climate sources
   - Phase out of regressive fossil fuel subsidies
   - Fossil fuel extraction royalties/licenses
   - AAU auction proceeds
   - Emission Trading Schemes (ETS) auction proceeds
   - Carbon taxes/Carbon export optimization taxes
   - Marine and aviation/bunker fuel levies
   - Offset levies
   - Wires charge on electricity production
2. Public finance from non-climate sources
   - 'Tobin' tax, taxing revenues from financial transactions
   - Leveraging of IMF Special Drawing Rights

Public Climate Finance Landscape



Source: Simon Billet, UNDP, 2010

The Evolving UNFCC Funds Architecture



Source: Simon Billet, UNDP, 2010

Sources of Finance for Adaptation

Least Developed Country Fund

Available: $130m

Over $150 million after December

Funding Approvals: $190m

(Only for LDCs)

Source of Funding

Replenished Voluntarily Donor Contributions

2010-2014 Expectation

$500m

Governance

GEF LDCF/SCCF Council

Special Climate Change Fund

Available: $22m

(reflects pledged amounts)

Funding Approvals: $112m

(For all non-annex 1 Parties)

Source of Funding

Replenished Voluntarily Donor Contributions

2010-2014 Expectation

$250m

Governance

GEF LDCF/SCCF Council

Adaptation Fund

DIRECT ACCESS

Available : $164m

(as of Sept 21, 2011)

Funding Approvals: $76m

(For all Parties to Kyoto)

Source of Funding

CER Sales

2010-2012 Expectation

$300-400m

Governance

AF Board (Parties)

Sources of Finance for Adaptation (continued)

GLOBAL ENVIRONMENT FACILITY
INVESTING IN OUR PLANET

Least Developed Country Fund

Available: $130m
Over $150 million after December

Funding Approvals: $190m

(Only for LDCs**)**

Source of Funding
Replenished Voluntarily Donor Contributions

2010-2014 Expectation
$500m

Governance
GEF LDCF/SCCF Council

- Established under the UNFCCC in 2001
- **Top priority**: financing the implementation of National Adaptation Programmes of Action in Least Developed Countries
- Support projects addressing the **urgent and immediate adaptation needs of LDCs**
- **Key sectors:** water, agriculture and food security; health; disaster risk management and prevention; and infrastructure, as identified and prioritized in their National Adaptation Programmes of Action.
- Proposals reviewed and approved by the LDCF/SCCF Council on a rolling basis throughout the year

Sources of Finance for Adaptation (continued)

GLOBAL ENVIRONMENT FACILITY
INVESTING IN OUR PLANET

Special Climate Change Fund

Available: $22 m
Over **$80 million** after December

Funding Approvals: $130m

(For all non-annex 1 Parties)

Source of Funding
Replenished Voluntarily Donor Contributions

2010-2014 Expectation
$250m

Governance
GEF LDCF/SCCF Council

- Established under the UNFCCC in 2001
- Top Priority: support the implementation of adaptation actions in **non-annex I parties.**
- The Parties to the UNFCCC identified **adaptation to climate change** as the **top priority of the SCCF**.
- The SCCF serves as a catalyst to leverage additional resources from bilateral and other multilateral sources.
- Proposals reviewed and approved by the LDCF/SCCF Council on a rolling basis throughout the year

Sources of Finance for Adaptation (continued)

The Adaptation Fund

Available (as of June 30, 2011): $164m

Funding Approvals: $76m

(For all Parties to Kyoto)

Source of Funding
CER Sales

2010-2012 Expectation
$300-400m

Governance
AF Board (Parties)

- Established by the Parties to the Kyoto Protocol (UNFCCC)

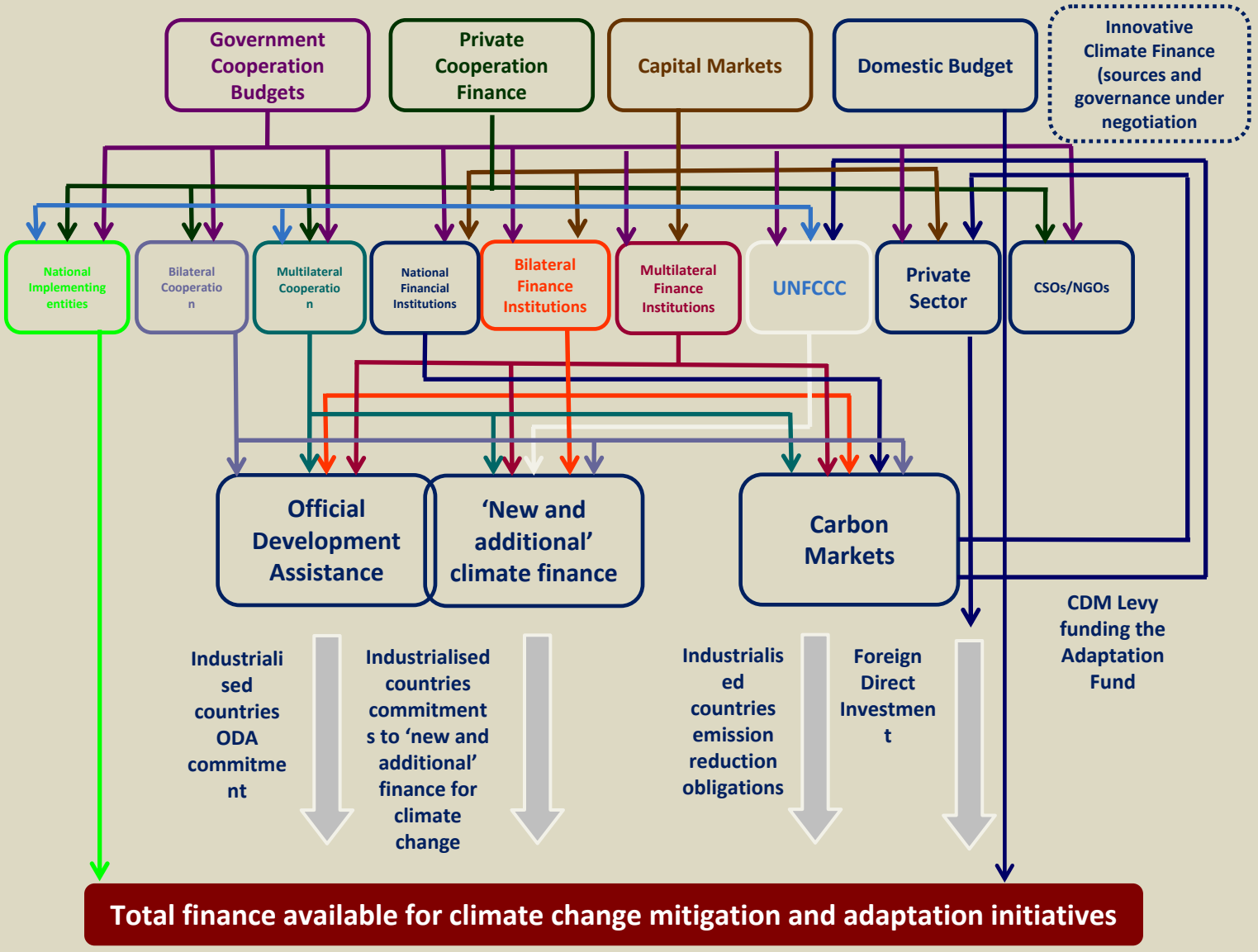
- Key priority: to finance **concrete adaptation projects and programmes** in developing countries that are Parties to the Kyoto Protocol.

- **Source of funding**: financed with 2% of the Certified Emission Reduction (CERs) issued for projects of the Clean Development Mechanism (CDM) and other sources of funding.

Two modalities for accessing resources: National Implementing Entity or Multilateral Implementing Entity

Implementing entities (IEs) accredited
National IE (direct access) 6: Jamaica, Belize, Uruguay, Benin, South Africa, Senegal; Regional IE 1 BOAD
Multilateral IE 9 ADB, AFDB, IFAD, UNDP, UNEP, WFP, World Bank, WMO, IDB

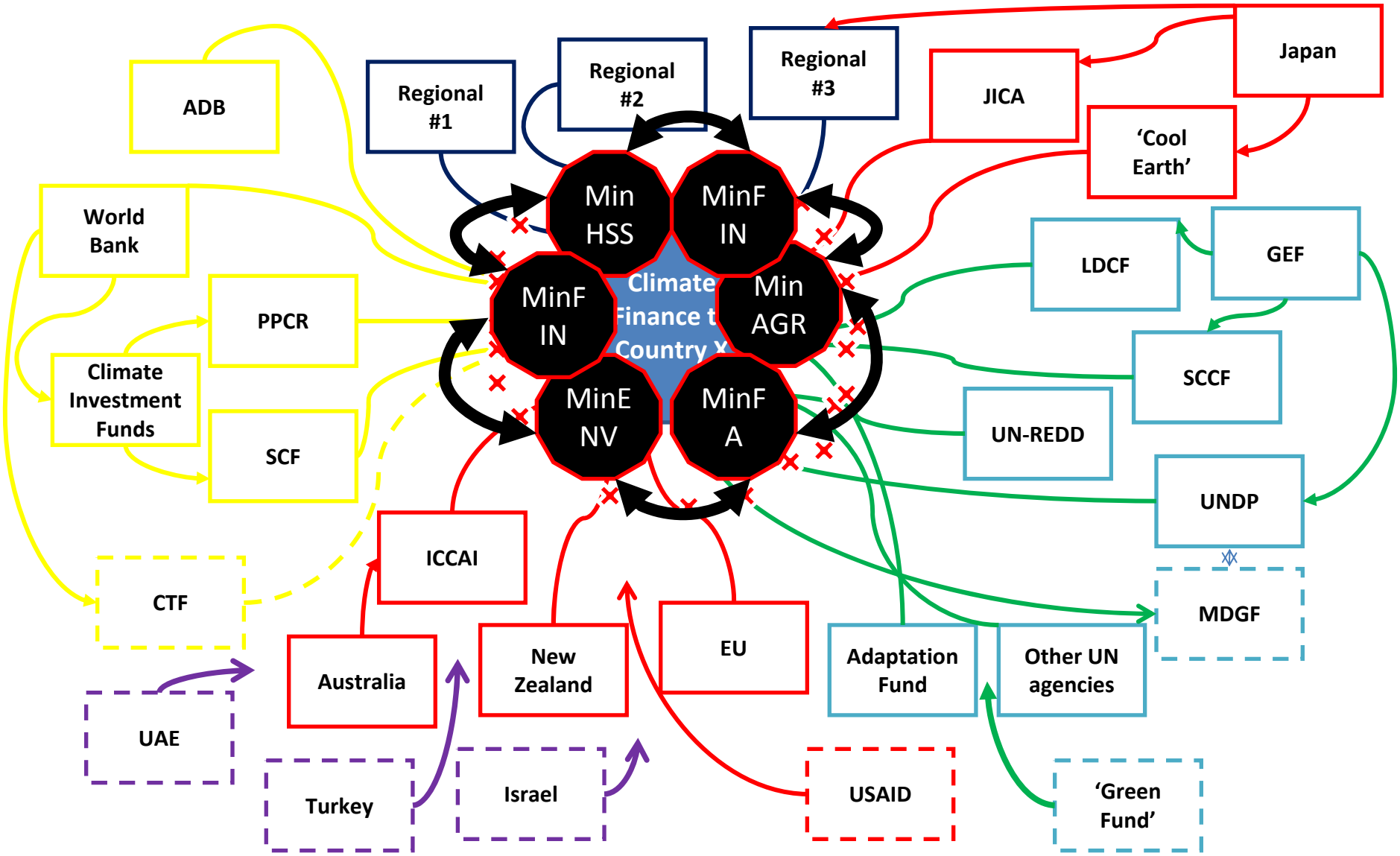
Climate Change Finance: Sources, Agents and Channels



Source: Adapted from SEI 2009

Source: G. Vereczi, UNDP

From country perspective



Key Challenges in Climate Finance

- **National Ownership and Synergies between Development and Climate Finance**
- **Catalytic Use of International Public Finance**
- **Balanced and Fair Access to Finance**
- **Coordinated Implementation and Reporting Mechanisms**

Challenge #1: National Ownership and Synergies between Development and Climate Finance

- **National ownership is the key prerequisite** for effective action to combat climate change
- **Alignment of proposed activities with national and local priorities and needs**
  - This alignment is critical to ensuring synergies between climate and development finance
- Xlimate change finance **framework should be able to support a country-driven, development-oriented transformation of the economy** in the face of great climate uncertainty
- Objective: to **create a double dividend** of both climate and development impacts
  - In practice, this equates to the internalization of climate change response into national development processes

Challenge #2: Catalytic Use of International Public Finance

- **Actual scale of investment needed is immense**
- Such climate change investments can often be **commercially attractive**
  - It is estimated, for example, that energy efficiency in transport, buildings and industry could reduce energy bills by over $8.6 trillion globally over the period 2010-2030
- The **bulk of climate investment will ultimately be made by business, households and national governments**
  - The IEA (2009) estimates that approximately 40% of the global additional investment needed in 2020 will come from households, 40% from businesses and the remainder directly from governments
- A key objective of an climate change finance **frameworks should be to enable countries to establish the optimal mix of policy and financing tools to reduce regulatory uncertainty and investment risks**

Challenge #3: Balanced and Fair Access to Finance

- **Access currently is uneven**
  - Although an estimated 575m people still rely on traditional biomass for cooking in Sub-Saharan Africa, the region accounts for less than 1% of total private investment in clean energy
  - Similarly for most new market-based sources of climate change finance (export credits, green bonds, weather derivatives, etc.)

- U**neven access to financial resources could worsen in the coming years** as climate change financing shifts from project-based to programmatic / sector approaches and as the innovative sources of funds multiply

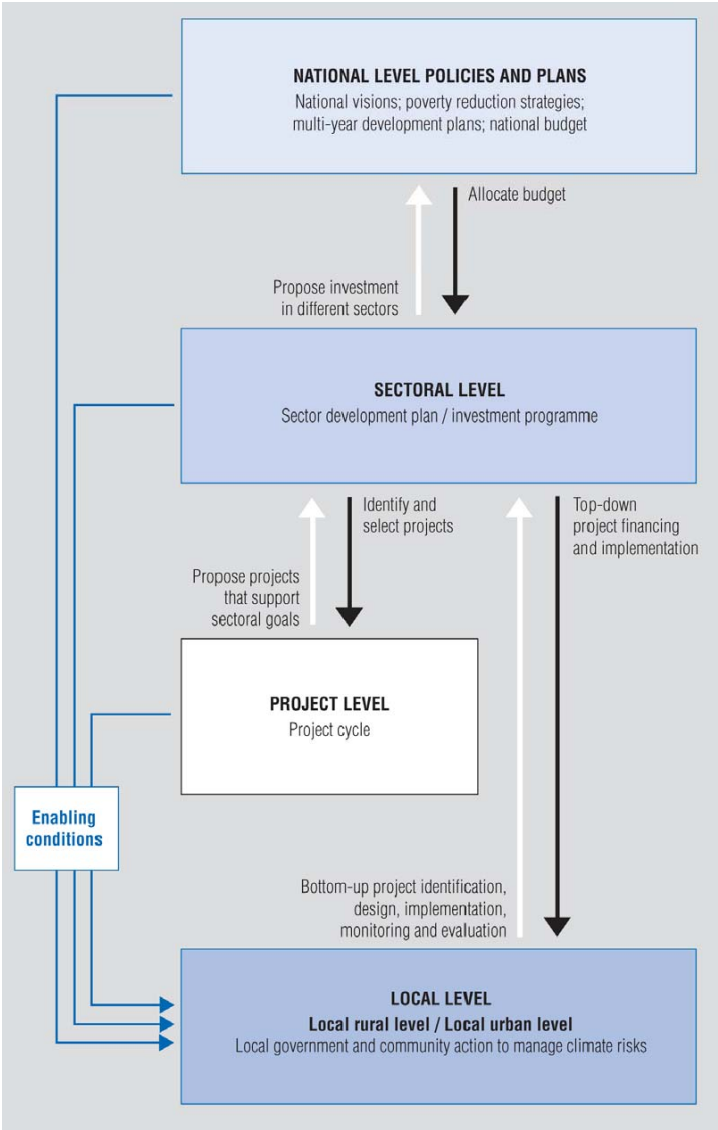
- **political discussions of balanced and fair access to public financing**

Challenge #4: Coordinated Implementation and Reporting Mechanisms

- Climate finance required will entail an **unprecedented level of implementation and reporting complexity**
- National **climate change activities will need to be updated** on a regular basis
- A **monitoring framework will need to be put in place** to assess progress and evaluate the need for remedial measures and new strategic approaches
- Climate finance framework will need to encourage coordinated, effective implementation and reporting to
  - **Avoid duplication and fragmentation**
  - **Inform the formulation of several generations of strategies, programs and projects**
  - **Optimize** the use of international finance

Mainstreaming Climate Change at National Level

- Stand alone adaptation not likely to be sufficient
- Will also need to internalize climate change risk management as part of a broader suite of measures within existing development processes and decision cycles
- At all levels (national, sectoral and local)



Source: *OECD (2009) Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation*

Emerging Trends

National and sub-national Governments able to attract and direct **public** and **private investment** towards catalyzing and supporting sustainable economic growth

United Nations Development Programme

Supporting Low-Emission Climate Resilient Development

Develop LECRD Strategies

Establish Enabling Environment

Catalyse Finance

Generate and Share Knowledge

UNDP Support

- Technical and Policy Advice
- Developing and Applying Methodologies
- Oversight and Financial Management
- Training
- Multi-stakeholder Dialogues
- Convening and Coordination

Addressing barriers to Low Carbon & Climate Resilient Development Strategies

Reducing Risks
Managing Uncertainty
Promoting Green Jobs

Partnership & Coordination Structure

Climate C… …act Scenarios
…cenarios
…narios
…narios

…Adaptation Scenarios
…ation of priority M&A options

Assessment of financial flow requirements and additional costs

Identification of possible policies and financial instruments to implement priorities

Climate Change Policy & Investment Roadmap

22

Facilitating national transition to low emission and climate resilient development

Low Carbon Economic Development

UNDP

Services

Policy Advice

Project Dev. and Impl.

Knowledge management.

Advocacy

Capacity Dev.

Community approach.

Fiduciary Stds.

Implementing Agency

Implementation of Sectorial Policies and Consensus Towards a Low Emission and Climate Resilience National Plan

Objective: Support market transformation towards low-emission economies

Objective: Promote climate resilient economies and ecosystems

Sustainable Transport	Energy Renewable and efficiency	Low emission tech.	Infra-structure and Climate Change	LULUCF /SFM Mitigation/ Adaptation	Sector based adaptation	Ecosystem based adaptation	Increasing ecosystem resilience to CC
Biodiesel train model Cost Analysis of Adaptation in Railroad Transport. National Railroad Infrastructure	Feasibility of forestry energy Bioenergy Development in North-East Region	Mitigation Cost Analysis in agriculture Mitigation in Rural production systems.	Vulnerability analysis of public investments Climate proofing infrastructure	Gran Chaco Subregional Program Forests & biodiversity UN REDD Observer	Energy Adaptation Cost Analysis Rural Adaptation Cost Analysis Rural Adaptation Intervention Framework	Payment for Ecosystem services Land Use on Yungas Ecosystem	Marine Protected Areas Fresh-water fisheries Conserving agro-BD Patagonia FREPLATA

Access US$

Global/ Regional

GEF

SGP

SCCF

MDG /CF

MP

ICI

RBLAC

Bilateral

GC

AGF

AF

TTF

UNDP

Local

WB

IDB

Gvnmt

23

Take Home Messages

- **Multiple funding windows** – Emerging CC architecture; Need strategy to access
- **Private finance** expected to dominate over public finance (Businesses and households will account for over 80% of the additional climate investment required in 2020).
- **Direct Access** – new and emerging reality in parallel to option of access through **Multilateral** Instruments
- Internally **coordinated and holistic solutions** (integrated adaptation/mitigation/ ecosystems resilience); multiple benefits (promote synergies between development, climate and ecosystems finance)
- Use limited sources of public finance to **catalyze much larger private flows**.
- **Prepare countries to benefit** from emerging architecture

(**Low Emission Climate Resilient Development Strategy**)

Visit: http://www.undp.org/energyandenvironment