Mitigation & Adaptation in the Southern Mediterranean Region

Seminar on Climate Finance
Barcelona 09/11 March 2016
Existing Climate Finance Programs

ClimaSouth

Project implemented by
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Climate Finance

- Climate finance: New and additional financial resources to meet the agreed full incremental costs of implementing commitments under the UNFCCC taking into account the need for adequacy and predictability in the flow of funds. [Article 4.3 of the UNFCCC]
- Covers both mitigation and adaptation.
- Includes both public and private sector sources.
- “Transfers of financial sources from developed to developing countries for implementation of climate actions”.
- Distinct from ODA.

What is adequate?

- WEF: $5.7 trillion needed annually for green infrastructure by 2020, mostly in DCs
  - **$5 trillion shifted from BAU**
  - **$700 billion new investment**

Overview from UNFCCC

- Global total climate finance: ± $340-650 bn
- All financial flows from developed countries ± $40-175 bn
- Flows to developing countries through public institutions ±35 – 50 bn
  - MDB Finance: $ 15-23 bn
  - Climate related ODA: $ 19.5-23 bn
  - Multilateral climate funds: $ 1.5 bn
    - UNFCCC funds: $ 0.6 bn

(*2014 Biennial Assessment and Overview of Climate Finance Flows Report*)

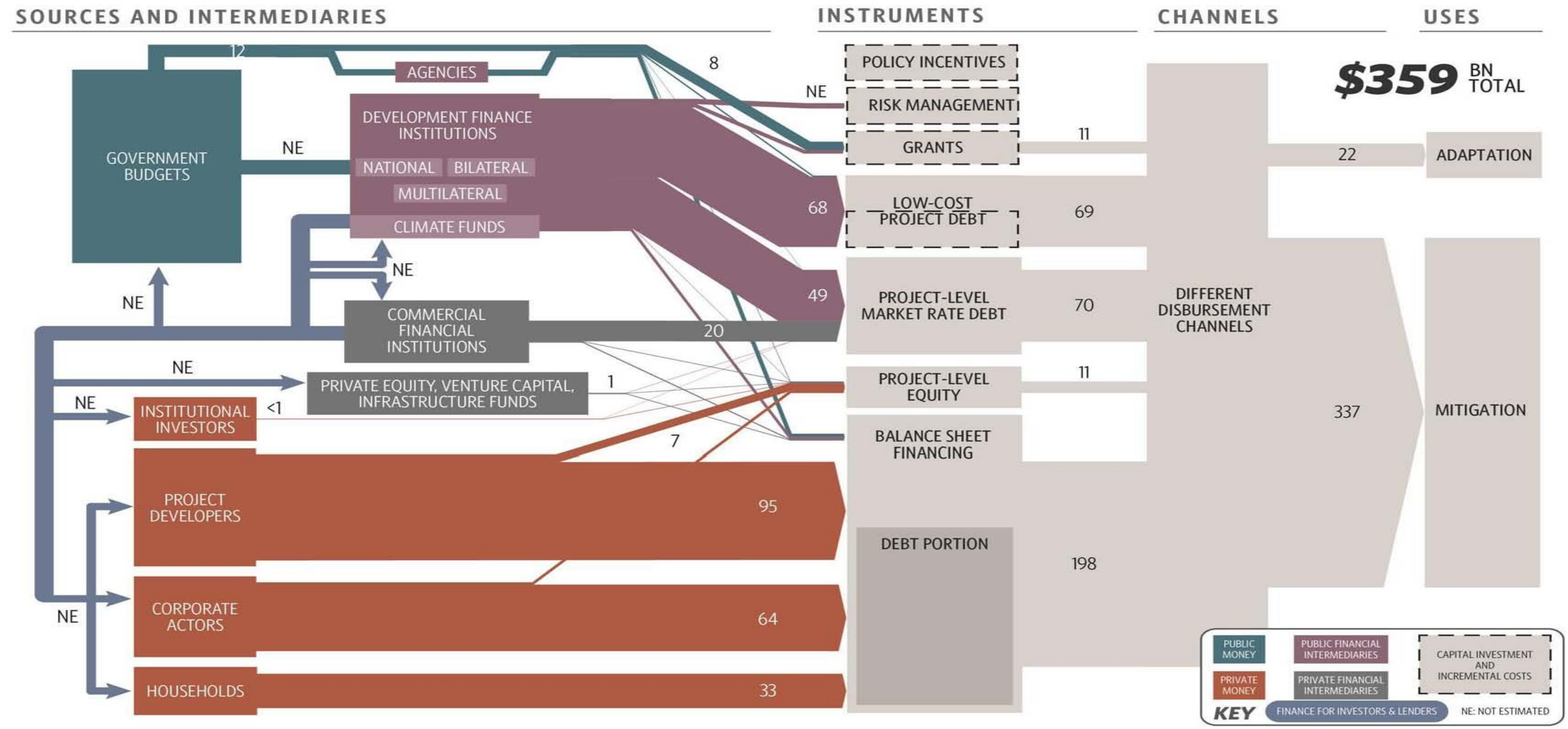
Implications

- Important role of the private sector
- Multiple channels
- Crowd-in private sector: “leverage”, “co-finance”
- Complicated structure

THE FLOWS OF CLIMATE FINANCE 2013

The Flow of Climate Finance 2013, also known as the 'spaghetti' diagram, illustrates the landscape of climate finance flows along their life cycle for the latest year available, mostly 2012.

CLIMATE POLICY INITIATIVE



Notes: Figures are indicative estimates of annual flows for the latest year available, 2011 or 2012 (variable according to the data source). Flows are expressed in USD billions and rounded to produce whole numbers. Where ranges of estimates are available, the mid-point is presented. All data presented relates to commitments in a given year due to the limited availability of disbursement data.The diagram captures upfront capital investment costs of low carbon, climate resilient activities plus grants for e.g. capacity building and enabling environment activities. The diagram highlights with a dotted line those financial resources which contribute to paying for upfront incremental investment costs, that is the difference in investment cost between cheaper, more polluting options and costlier, climate-friendly ones. This includes some portion of low cost debt. As Landscape 2013 only tracks upfront investments and not lifetime inflows (revenues) or outflows (costs), our estimate of finance only includes policy incentives provided as grants or concessional loans, excluding the value of policy-induced revenues, such as feed-in tariffs or carbon market payments.

Types of climate Finance

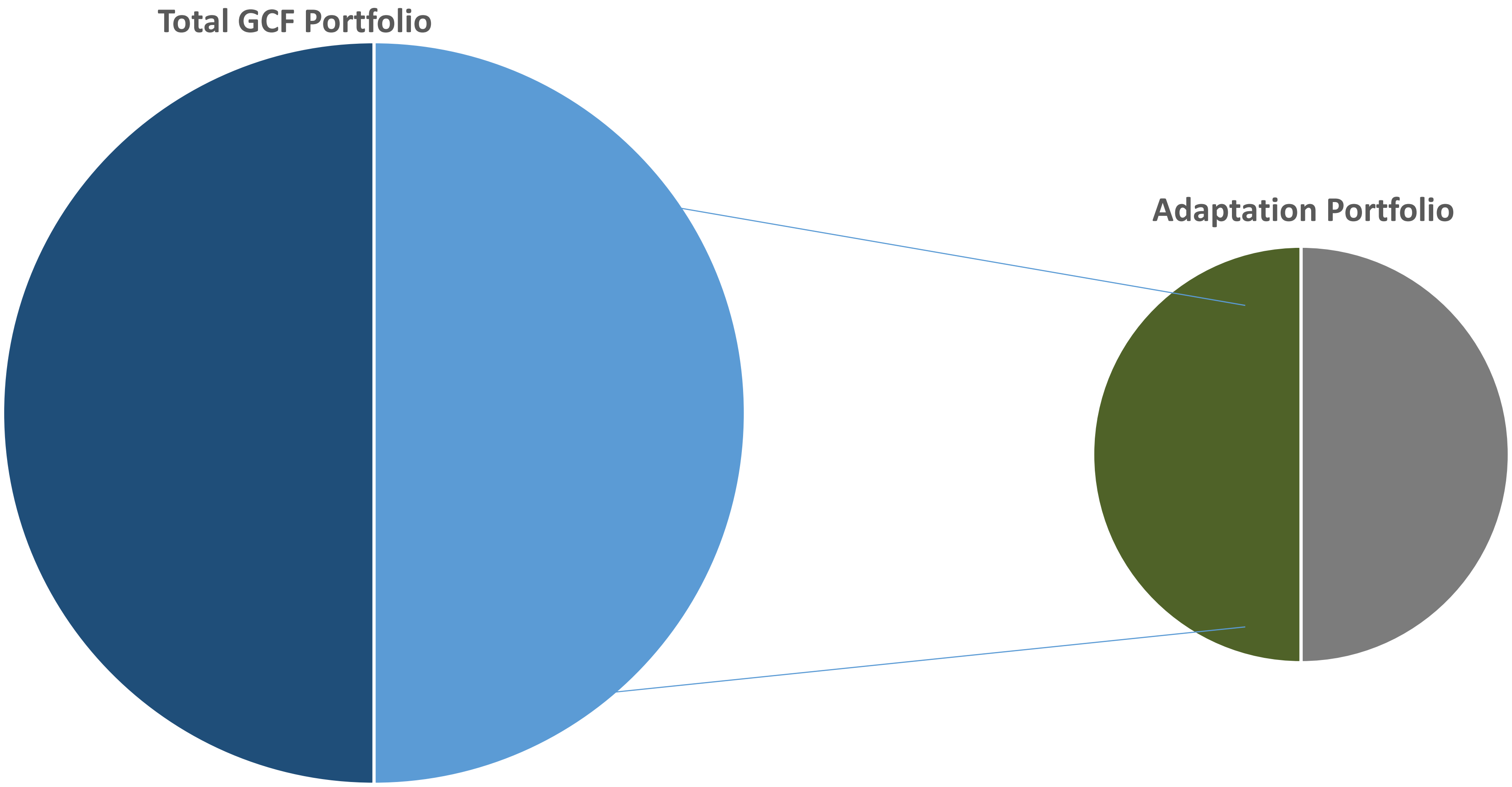
- Funding agencies
  - GCF
  - GEF
- Investment funds
- National Development Banks
- Market approaches
  - CDM
  - Voluntary market
- New approaches under UNFCCC
  - NAMA
  - JCM

GCF

GCF (Green Climate Fund)

- An operating entity of Financial Mechanism of UNFCCC
- Over time, will become main channel of climate finance
- Initially, 2 funding windows for mitigation and adaptation, and a Private Sector Facility
- Initially only grants and concessional finance
- Initial capitalization through grants, paid-in public capital contributions, and concessional public loans.

GCF Allocation Framework - 1



GCF Allocation Framework - 2

- Decision to manage access to resources with a view to seeking geographic balance and a reasonable and fair allocation across a broad range of countries, while maximizing the scale and transformational impact of the mitigation and adaptation activities of the Fund;
- Decision to maximize engagement with the private sector, including through a significant allocation to the Private Sector Facility;
- Decision that sufficient resources should be provided for readiness and preparatory support;
- Decision that all allocation parameters should be determined in grant equivalents

(6th Board Meeting)

GCF Strategic Impact Areas

Adaptation

- Livelihoods of people, communities and regions
- Health and well-being of people, food and water security
- Infrastructure and built environment
- Ecosystems and related services

Mitigation

- Low-emission energy and electricity
- Low-emission modes of transport
- Buildings, cities, industries and appliances energy intensity
- Land use and forests

GCF Investment criteria

Impact potential	Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas
Paradigm shift potential	Degree to which the proposed activity can catalyze impact beyond a one-off project or programme investment
Sustainable development potential	Wider benefits and priorities, including environmental, social, and economic co-benefits as well as gender-sensitive development impact
Responsiveness to recipient's needs	Vulnerability and financing needs of the beneficiary country and population in the targeted group
Promotion of country ownership	Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the programme/project, and for mitigation-specific programmes/projects, cost-effectiveness and co-financing

GCF Investment roadmap

2015	$0.75 bn
2016	$2.00 bn
2017	$3.25 bn
2018	$4.00 bn

GCF and Readiness

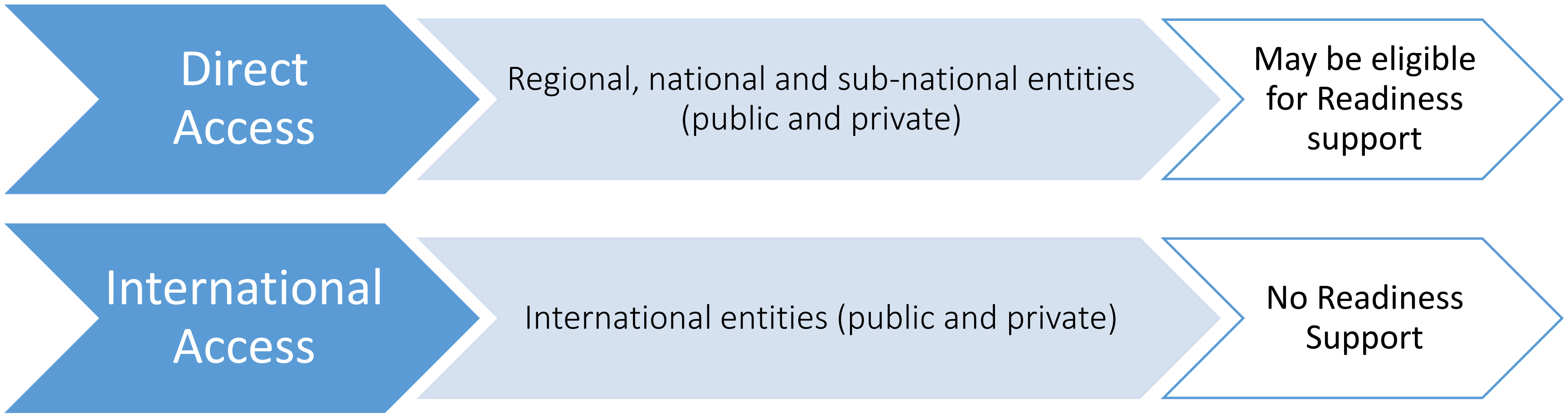
- UNDP definition of readiness: “Capacity to plan for, access, deliver, and monitor climate finance”
- LDCs, SIDS and some developed countries have asked GCF to provide early support for “readiness”.
- Germany and Korea have provided $30 million for GCF readiness activities
  - $7.5 million: Scoping missions for stock-taking
  - $7.5 million: Funding urgent readiness priorities
  - $15 million: Development of initial pipelines (max. $1.5 million per proposal)

Accessing the GCF - 1

- National Designated Authority (NDA) or Focal Point
  - Interface between the country and the Fund
  - Country driven, needs to include key stakeholders
  - Provide broad strategic oversight of Fund's activities in a country
  - Convene national stakeholders to identify priorities for funding support
  - Communicate nominations of/no objection to entities (sub-national, national or regional) seeking accreditation to the fund under the 'direct access' track
  - Recommend/Provide no objection on funding proposals submitted to the Fund
  - Ensure consistency of funding proposals with national plans and strategies

Accessing the GCF - 2

- Access to Fund resources is possible through accredited national, regional and international **Implementing Entities** and **Intermediaries**
- **All entities**, including public and private international, regional, national and subnational entities, can apply for accreditation through one of two modes of access:



Accessing the GCF - 3

- Accredited Entities (AEs) carry out a range of activities that may include:
  - developing and submitting funding proposals for projects and programs,
  - overseeing the management and implementation of projects and programs;
  - deploying a range of financial instruments (grants, loans, equity, and guarantees);
  - mobilizing private sector capital.
- Currently 20 accredited entities according to GCF website, including World Bank, UN, regional MDBs, national development banks, etc.

GEF

GEF

- GEF Trust fund
  - Mitigation
  - Adaptation
- SCCF
- LDCF

GEF 6 Strategy

1. Promote innovation & technology transfer

- Program 1: Promote timely development, demonstration & financing of low carbon technologies & policies
- Program 2: Develop & demonstrate innovative policy packages & market initiatives

2. Demonstrate systemic impacts of mitigation options

- Program 1: Promote integrated low-carbon systems
- Program 2: Promote conservation and enhancement of carbon stocks in forest & other land use, & support climate smart agriculture

3. Foster enabling conditions to mainstream mitigation concerns

- Program 1: Integrate findings of Convention obligations & enabling activities into national planning processes & mitigation targets

Goal:
To support developing countries and economies in transition in achieving transformational change towards development with low carbon emissions

www.theGEF.org

GEF-6: Climate Change Mitigation

CC1: Promote Innovation, Technology Transfer and supportive policies and strategies

- <u>Program 1</u>: Promote the timely development, demonstration, and financing of low-carbon technologies and policies
- <u>Program 2</u>: Develop and demonstrate innovative policy packages and market initiatives to foster a new range of mitigation actions

GEF-6: Excerpts from 4th meeting docs

- The GEF will support the development, adoption, and implementation of policies, strategies, regulations and financial or organizational mechanisms that accelerate mitigation technology innovation and uptake. Key mitigation options include (…), renewable energy, (…). The focus is on systemic solutions, rather than specific technology support and individual sectoral interventions.

SCCF

- Special Climate Change Fund (SCCF)
- Since 2001
- Grants totaling $96 million
- Co-financing $829 million
- Projects relating to adaptation; technology transfer and capacity building; energy, transport, industry, agriculture, forestry and waste management; and economic diversification.
- ClimaSouth recipients: Egypt, Jordan, Morocco.

LDCF

- Least Developed Countries Fund (LDCF)
- Since 2001
- Grants totaling $174 million
- Co-financing $380 million
- To assist Least Developed Country Parties carry out the preparation and implementation of national adaptation programmes of action (NAPAs).
- No ClimaSouth recipients.

Climate Investment Funds

Climate Investment Funds (CIF)

- Clean Technology Fund (CTF)
- Pilot Program for Climate Resilience (PPCR)
- SREP
- Forest Investment Program

CTF

- Clean Technology Fund (CTF)
- Tailored CTF investment plan aligned with national development goals; a framework to coordinate activities across institutions and stakeholder groups.
- $5.3 billion; 1:10 co-financing
- transformation in middle income and developing countries by providing resources to scale up the demonstration, deployment, and transfer of low carbon technologies with a signicant potential for long-term greenhouse gas emissions savings.
- Renewable energy (wind, solar, geothermal, others/mixed), energy efficiency, transport
- Dedicated Private Sector Programs (DPSP) created under the CTF to finance large-scale private sector projects with greater speed and efficiency in response to market demand, while maintaining country priorities. $508.5 million has been allocated to programs in geothermal power, mini-grids, mezzanine finance, energy efficiency, solar PV, and early-stage renewable energy.
- Egypt, Morocco, Tunisia, MENA.

PPCR

- Pilot Program for Climate Resilience (PPCR)
- $1.2 billion; 1:1.5 co-financing; grants and highly concessional financing (grant element of 75%); Adaptation focus
- two-phase, programmatic approach:
  - Assistance to national governments in integrating climate resilience into development planning across sectors and stakeholder groups.
  - Additional funding to put the plan into action and pilot innovative public and private sector solutions to pressing climate-related risks.
- Moving beyond project-by-project activities that have limited potential to effect national or sector-wide transformations, the PPCR programmatic approach entails a long-term, strategic arrangement of linked investment projects and activities to achieve large-scale, systematic impacts and take advantage of synergies and co-nancing opportunities.
- Channeled through the multilateral development banks
- No ClimaSouth countries (highly vulnerable least developed countries, including small island developing states)
- Concessional financing has been set aside to be awarded on a competitive basis for private sector projects advancing the goals of the PPCR.

SREP

- Scaling Up Renewable Energy in Low Income Countries Program (SREP)
- $798 million
- Empowering transformation in developing countries by demonstrating the economic, social, and environmental viability of renewable energy
- Channeled through the multilateral development banks
- No ClimaSouth countries (Sub-Saharan Africa and Asia mostly)
- to stimulate more private sector participation, also concessional financing has been set aside to be awarded on a competitive basis for private sector projects advancing the goals of the SREP.
- Seven private sector concept projects totaling $92.4 million have been endorsed for further preparation and approval. This financing is expected to secure significant amounts of co-finance at a rate of almost 20:1.

Forest Investment Program

- Forest Investment Program (FIP)
- $787 million
- Forestry and REDD
- Grants and low-interest loans, channeled through partner multilateral development banks
- No ClimaSouth countries (Forest rich countries in Africa, Asia and Latin America mostly)
- Concessional financing has been set aside to be awarded on a competitive basis for innovative private sector projects advancing the goals of the FIP.
- $80 million Dedicated Grant Mechanism for Indigenous Peoples and Local Communities

Adaptation Fund

Adaptation fund

- Under the Kyoto Protocol of the UNFCCC, since 2010 funding
- $331 million committed in grants in among others Egypt, Jordan, Lebanon, Morocco.
- Finances projects and programs that help vulnerable communities in developing countries adapt to climate change. Initiatives are based on country needs, views and priorities.
- Financed in part by government and private donors, and also from a two percent share of proceeds of Certified Emission Reductions (CERs) issued under the Protocol's Clean Development Mechanism projects.
- Accessing through "Designated Authorities" are government officials who act as points of contact for the Adaptation Fund and "Implementing entities" the national, regional and multilateral institutions accredited by the Adaptation Fund Board to receive direct financial transfers from the Fund in order to carry out adaptation projects and programs.

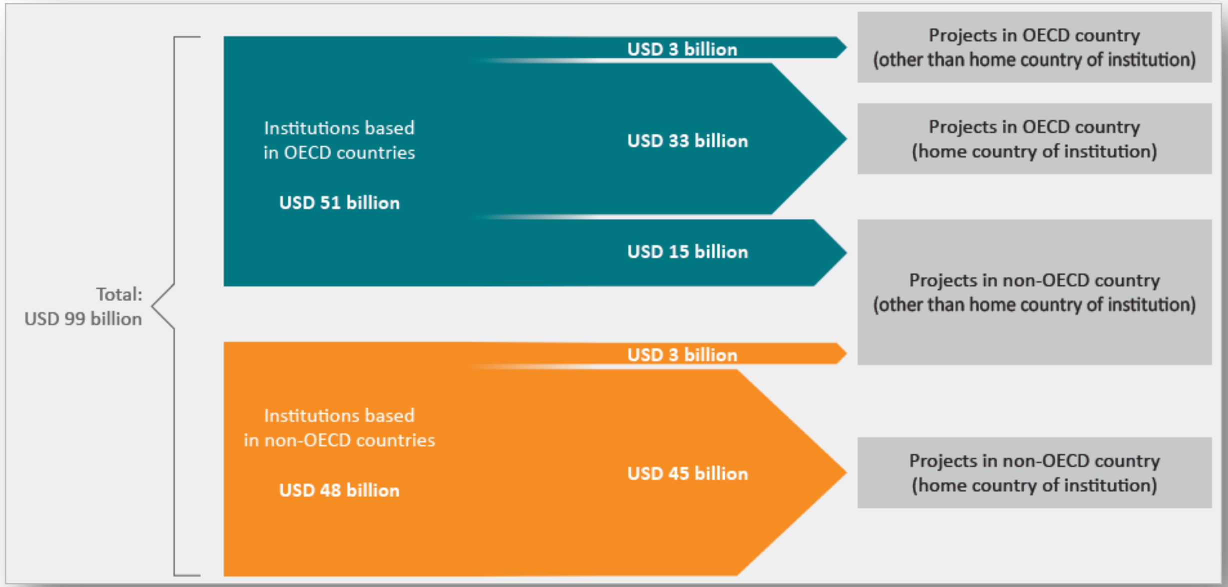
National Development Banks

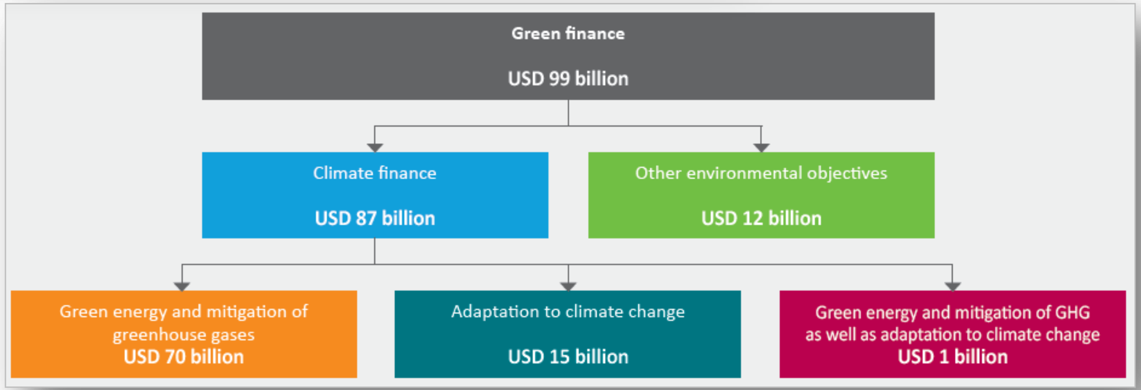
National Development Banks

- Heterogeneous – in Annex I and non-Annex I countries
- IDFC a key organization
- The International Development Finance Club (IDFC) is a network of 23 leading development finance institutions with mandates for national, sub-regional, regional and international activities around the world
- In 2013, 20 Members had total assets of more than $ 2,000 billion (World Bank Group: S 576 billion). The total commitments of the IDFC Members added up to approximately $ 430 billion (World Bank Group: $ 53 billion).
- In country, national capacity with relevant mandate.
- Networked, with relevant mandate...

IDFC's Climate Finance Mapping

Take Aways





Market approaches

CDM

Clean Development Mechanism (CDM)

- Sale of CERs – UN-recognized GHG compliance instrument
- After registration, construction, monitoring
- Transaction costs – POA approach
- CER prices have collapsed ~ 0.2-0.4 EUR / tCO_2
- LDC and RRE premium ~ 2.0 EUR / tCO_2

Voluntary markets

Voluntary market (Variety of standards)

- Sale of VERs – not recognized, non compliance
- After registration, construction, monitoring
- Transaction costs – POA approach
- VER prices have collapsed ~ ???
- LDC and RRE premium ~ 2.0 – 6.0 EUR / tCO_2
- Volume discount

New approaches under the UNFCCC

NAMA

Nationally Appropriate Mitigation Actions (NAMA)

- Mitigation actions fitting national priorities
- Policies and investments
- Measurable GHG emission reductions; MRV
- No fixed rules; support not tied to transfer credits
- Credible delivery organizations and mechanisms
- Limited funding on the table
- NAMA Facility calls; around 50 mio EUR calls for proposals

JCM

Joint Crediting Mechanism (JCM)

- Japanese government created mechanism; bilateral agreements with countries – only Ethiopia in MENA region.
- Operates like a bilateral CDM – with bilateral EB
- MRV based on CDM rules

Takeaways

- Multiple channels – climate finance is part of all finance for programs
- Co-financing and leverage
- Strategic & transformational, ambitious
- Via financial institutions – get feedback early on to see feasibility of structuring financing plan.

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