

Innovative Sources of Financing - Filling the Gap

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Structure slide



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- Finance: needs, commitments and progress so far
 - Innovative sources
 - Private finance

Needs and commitments



- Needs

Amount of investment needed in developing countries (2020)

–Approx \$197bn mitigation (IEA, 2009)

–Approx \$70-100bn adaptation (World Bank, 2009)

- Commitments Copenhagen / Cancun agreed

- “Approaching \$30bn” of new, additional resources through international institutions over 2010-12

- In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to goal of mobilising \$100bn a year by 2020. From a wide variety of sources, public and private, including alternative sources of finance

- AGF met last year to identify options

Public finance is essential.. But we need other sources too



Total fast start pledges....

Target: approaching \$30bn

Pledged: \$27.3bn

Delivered: \$11.3bn

As of August 2011

and EU contributions to date....

\$10bn pledged

\$4.8bn delivered

The EU is doing its bit but more widely too...

EU provides approx.
60% of global ODA flow

UK International Climate Fund

£2.9bn/\$4.6bn pledged (2011/12-
14/15) - beyond fast start period

For 2020

There will need to be a scaling up towards 2020 target but:

- Apples and pears - the \$100bn is a commitment to mobilise resources, not just public funds
- \$100bn = current total global ODA flows - will be a considerable challenge to raise
- Declining relative importance of ODA - net FDI to developing countries four times greater than ODA flows

Innovative Sources: some frequent challenges



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- Q Innovative sources are a way of developing countries avoiding their commitments
- A The majority are drawn from public sources of finance (bunkers) or are complementary (MDBs).
- Q Innovative sources are uncertain – only public funds can provide guarantees
- A Public funds based on current political priorities can be unstable. A diverse range of sources provides greater certainty in the long term
- Q Innovative sources are inconsistent with Common but Differentiated Responsibilities (CBDR)
- A Most innovative sources will be drawn from developed countries. Where this is not fully the case, solutions should be explored.

AGF Report - Key Messages



- Achieving the \$100bn goal is challenging but feasible.
- Both public and private sources of finance will be needed
- Grants and highly concessional loans must continue to play a critical role in adaptation funding.
- New public sources could mobilise \$50bn or more
- Strong mitigation commitments and concerted global action will be necessary to drive any future system of climate finance
- Achieving a stable carbon price of around \$25 will be central to this.

AGF Report: Feasible Sources



- Carbon taxes or emissions trading auctioning could raise **\$30 bn** per year;
- Schemes to tackle emissions in the international aviation and shipping sectors could raise **\$10 bn** per year;
- Using the multilateral and bilateral financial institutions to increase investments could raise gross flows of up to **\$40bn**;
- Redirecting fossil fuel subsidies could raise **\$10bn**;
- Carbon market finance could raise **\$30-50 bn**;
- Greater flows of private finance could be in the region of **\$100-200 bn**.

Innovative Sources - Auctioning permits: EU ETS



- AGF Report estimated that the EU ETS could contribute USD 8-38bn in 2020 for climate financing.
- The EU ETS Directive indicates that at least 50% of revenues should be used to reduce greenhouse gas emissions (domestically and internationally). (Total revenues up to 190bn euros by 2020; and up to 310bn euros if the EU goes to 30%)
- Revenues will flow from 2013. Some EU Member States such as Germany have said they will earmark revenues. All MSs will need to report transparently.
- But how do we avoid penalising developed countries who are taking the lead? How could the US, Japan and others without trading schemes do their bit?

Innovative Sources - Bunkers



- AGF found that emissions trading and levy are the most effective instruments on aviation and shipping.
- Measures should not distinguish between developed and developing countries.
- Revenues could be used to “**compensate**” developing countries for any economic incidence incurred, alongside climate purposes.
- Could this principle of “**no net incidence**”, when applied to LDCs, break the impasse on bunkers?
- Potential revenues (AGF): c. US\$ 10bn with a carbon price of 25 US\$

Aviation in the EU ETS



- Aviation will be brought into the EU ETS from 2012
- If an airline wants to emit more than its free allocation (which covers 85% of emissions), it needs to buy EUAs or CDM.
- 100% of revenues must be used for climate finance
- Exemption for airlines that fly infrequently to the EU, (equivalent to about 2 flights per day in to EU) and for airlines emitting less than 10,000 tonnes CO₂ pa.
- The airlines of over **90 developing countries will not be included** in the ETS (including Burkina Faso, Senegal, Swaziland, Uganda, Gambia...)
- Fast growing and new airlines will have access to a special reserve of free allowances.
- Countries that implement “equivalent measures” may be excluded from compliance.

Innovative sources - MDBs



- MDBs have a central role in channelling and leveraging climate finance. MDBs invested **\$17bn** in climate projects in 2009 (AGF).
- Are there ways to increase overall climate lending?
- Overall lending by MDBs is even higher - \$200bn in 2009 – we need to ensure this takes account of climate.
- The African Development Bank has made progress on
 - ‘climate proofing’ ;
 - supporting policy, legal and regulatory reform; and
 - knowledge generation and capacity building.
- Successful AfDB climate projects include investments in solar thermal in Morocco, hydropower in Madagascar and innovative approaches to forest management in Congo.
- But more can be done to mainstream climate into strategic investment decisions.

Innovative sources - private finance



Total (potential) supply

Total global investment flows (2010 estimates)

\$223.5 trillion

(e.g. banks, individuals, pension and insurance funds, sovereign wealth funds, mutual/managed funds, hedge funds etc)

Investors need diversified portfolios. Mobilising a small portion for low carbon investments in developing countries can have a very big impact.

e.g. 1/4 % = **\$0.6 trillion**

Clean energy investment rising too

\$243bn invested in clean energy globally in 2010.

An increase of 30% over 2009 levels

On renewable energy, investment in developing countries overtook developed countries in 2010

Challenge

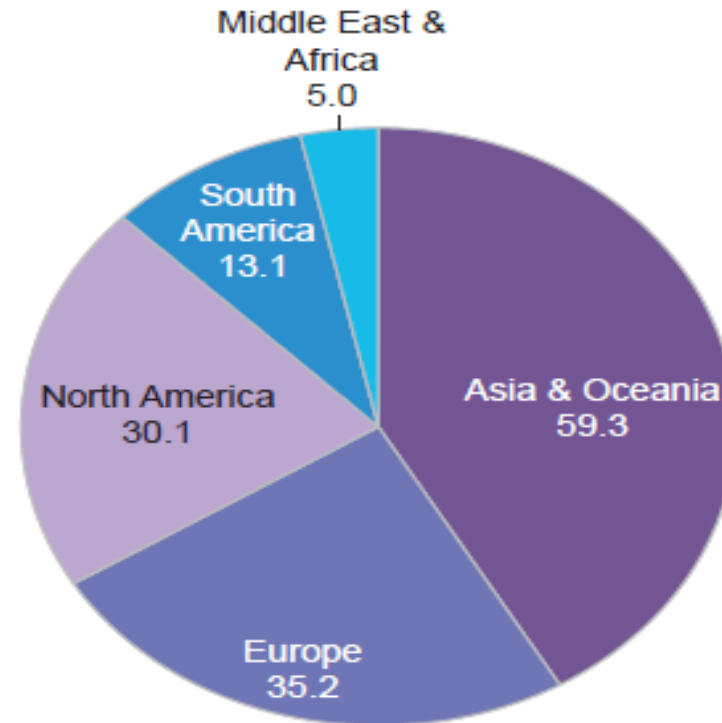
Barriers to private climate investments are manifold and well documented:

- Political uncertainty
- Untested technologies
- Uncertain regulatory environments
- **Not** lack of capital

Regional distribution of private investment in renewable energy



- Private investment in renewables is growing
- But Africa continues to struggle to attract investment



Source: Bloomberg New Energy Finance, UNEP

Financial new investment in renewable energy by region, 2010 (\$ billions)

Africa and Private Climate Finance



- Renewables are competitive in Africa – Solar PV cost 17 \$US cents per kWh. African consumers paying an average of 18 \$US cents per kWh.
- Dynamic sector with companies like WinAfrique recognised as being amongst the best in the world.
- From 2004 to 2010 African investment in clean energy has grown from \$300m to **\$4.5bn p.a.**
- Projects underway across the continent
- But still **just 3%** of global total clean energy investment.
- How do we overcome the barriers in Africa? Loan guarantees? Project bundling? Better policy and investment frameworks?

\$100bn – What Counts?



- \$100bn includes both public and private finance.
- Public finance can be tracked through the OECD DAC and Rio Markers but private finance is more difficult.
- Only private financing which flows as **a direct result of developed countries' public interventions** should be eligible
- Need to develop a methodology which covers:
 - **Weighting**: should a weighting system be applied to reflect differences, for example, in finance leveraged through concessional and non-concessional instruments?
 - **Cut-off point**: for how many years post public intervention should private flows “count”?
 - **Exits**: private equity is fluid and may be moved on.
 - **Reporting**: reporting adds costs to the private sector and cannot be expected to be mainstreamed through private operators.

Innovative Sources: The Way Ahead



G20 – Cannes

Innovative Sources

Heads recognise World Bank report to G20 Finance Ministers on innovative sources of finance.

Mexican Presidency continues discussion under the finance track and relevant for a (IMO/ICAO) take action on the back of the report.

UNFCCC - Durban

Innovative sources

Agree to build on AGF report & identify implementable options

Fast start finance and beyond

Transparency on progress to approaching \$30bn over 2010-12.

Discussion on trajectory for mobilising finance post 2012 to \$100bn/annum by 2020

But how do we break the political deadlock?

“Public finance can jump start the motor, but private finance in low-carbon infrastructure and solutions will need to keep it running”.

OECD, 2011