

Financing Climate Compatible Development

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Even as countries struggle to agree on a **global framework** for limiting greenhouse emissions,

and so limit
society's contribution
to dangerous levels of
climate change,



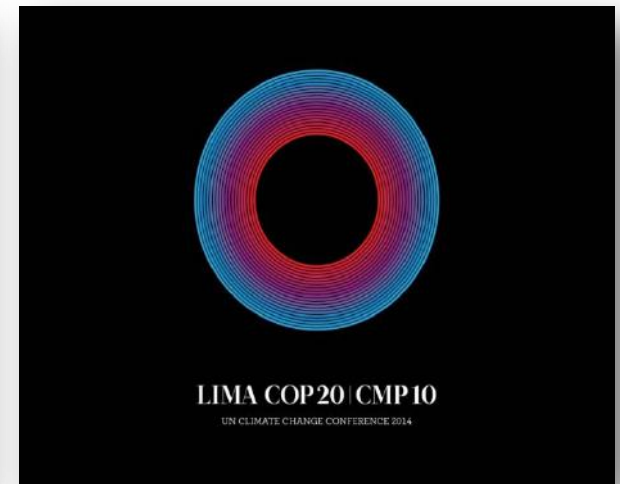
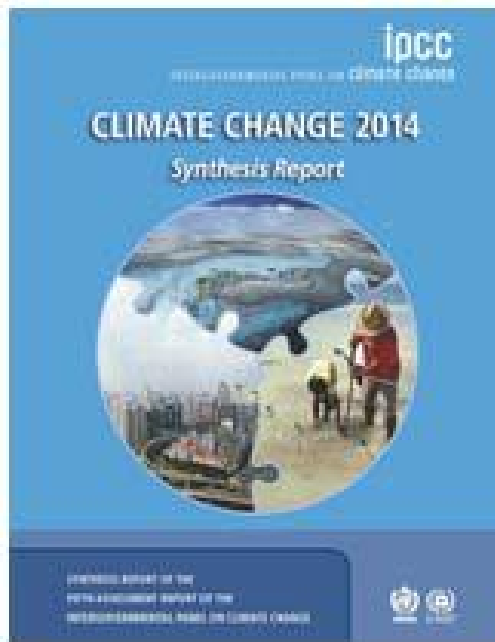
A photograph showing three women wading in shallow, clear water. The woman in the foreground is wearing a light green t-shirt and a blue skirt, carrying a white bag. The woman in the middle is wearing a blue tank top and red shorts. The woman in the background is wearing a dark patterned top and a green skirt. The water is very clear, showing the seabed with rocks and coral. The sky is blue with scattered white clouds. A small boat is visible on the horizon.

developing countries must already adapt to rising temperatures, changing rainfall patterns, melting glaciers and sea level rise.

There are opportunities for getting ahead in the global economy if countries transition quickly to a low carbon development path.

Information and **different approaches** to climate change and development planning have blossomed.





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Comment is free

The China-US climate change agreement is a step forward for green power relations

Acting on climate change is a strategic move for China and a breath of fresh air for its citizens. It shows China is a capable – and positive – regional player in the Asia Pacific

Synthesis Report
of the
Secretary-General 
On the Post-2015 Agenda

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THE NEW CLIMATE ECONOMY
The Global Commission on the Economy and Climate



BETTER GROWTH, BETTER CLIMATE
The New Climate Economy Report

Pope Francis's edict on climate change will anger deniers and US churches

Pontiff hopes to inspire action at next year's UN meeting in Paris in December after visits to Philippines and New York

John Vidal

The Observer, Saturday 27 December 2014 21.06 GMT

 [Jump to comments \(5449\)](#)

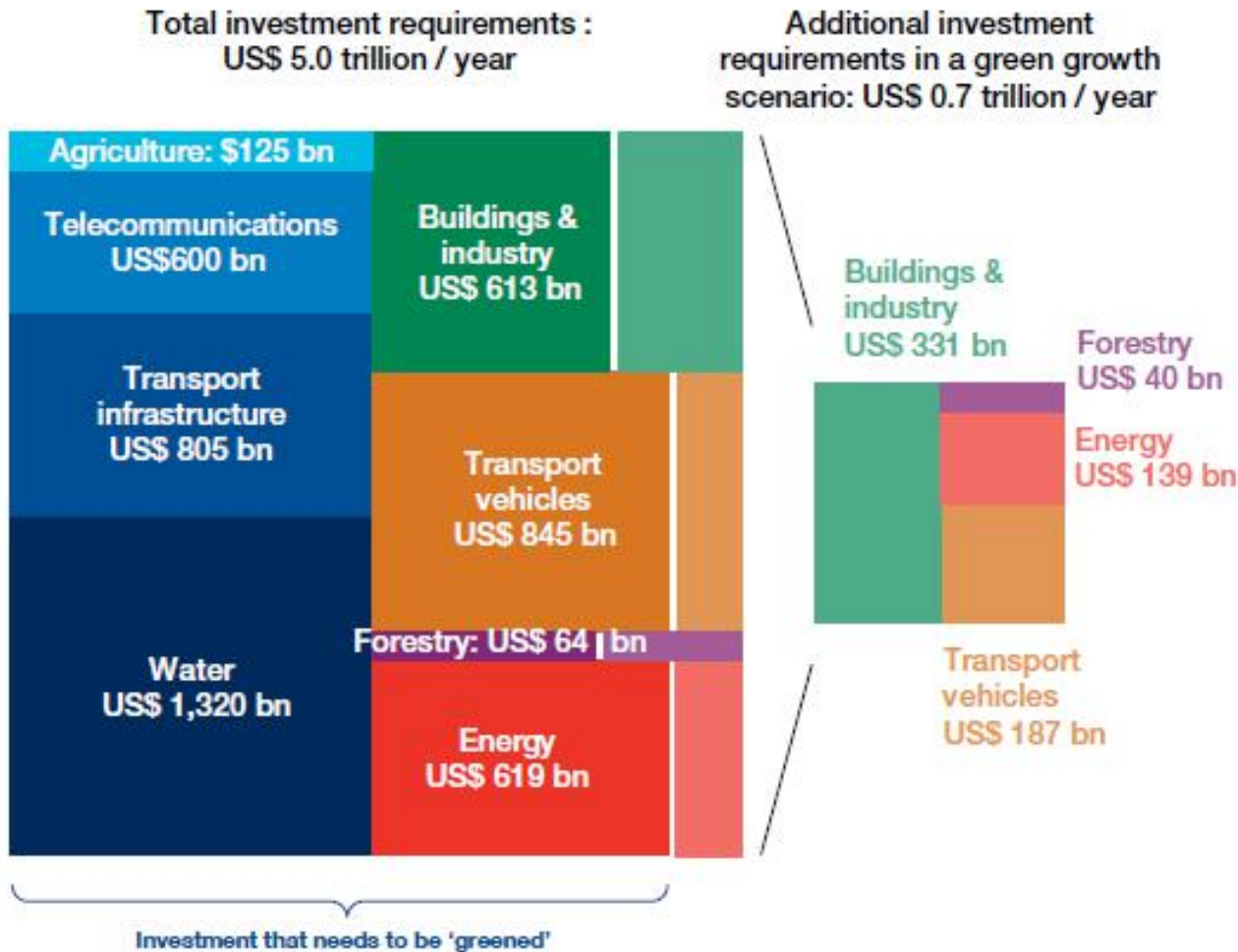


Pope Francis was a key player in thawing relations between the US and Cuba.
Photograph: Franco Origlia/Getty Images

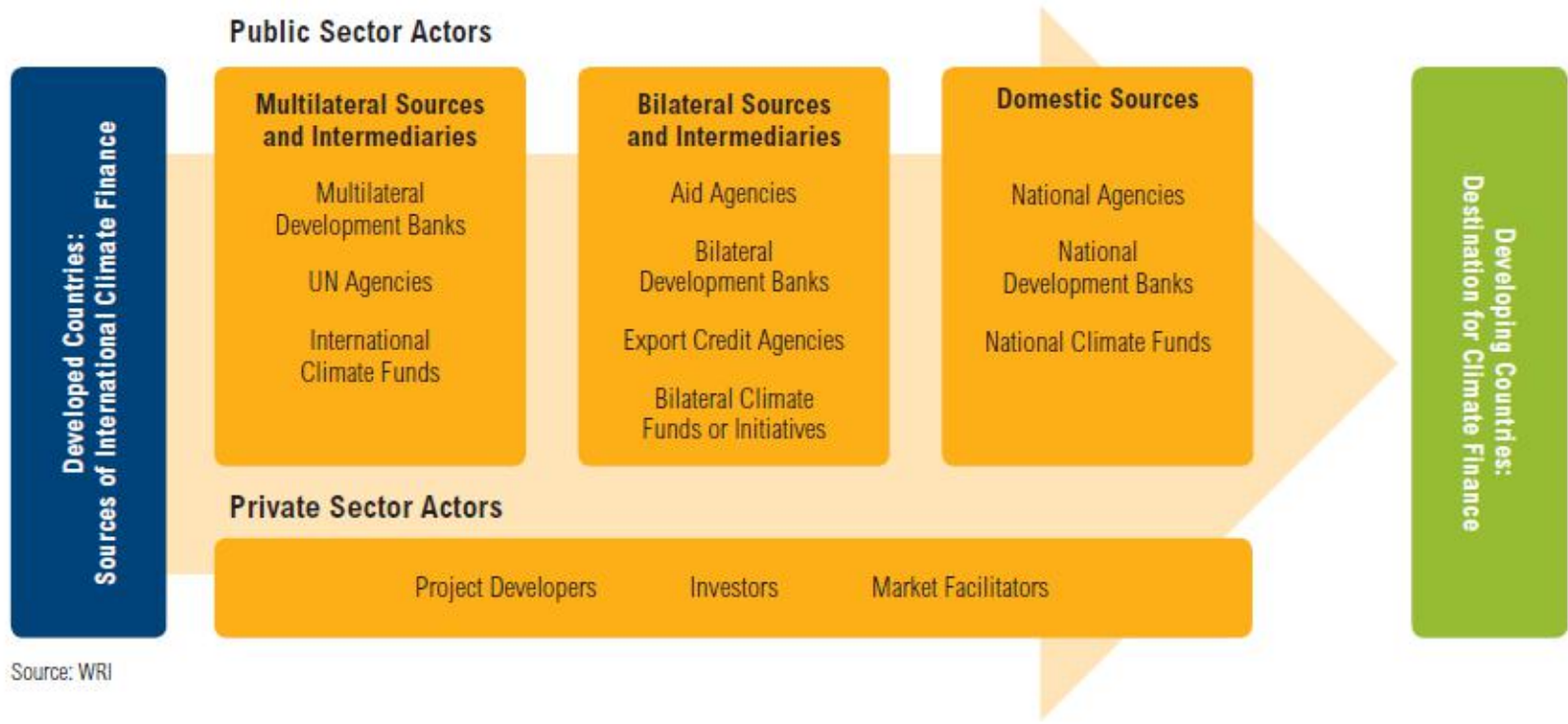
New Global Sustainable Development Goals



Small part of the global investment that needs to shift to support climate compatible development



Landscape of International Climate Finance



Source: WRI

GLOBAL LANDSCAPE OF CLIMATE FINANCE 2015

Landscape of Climate Finance 2015 illustrates climate finance flows along their life cycle for the latest year available, mostly 2014, in USD billions

USD 391^{BN} TOTAL

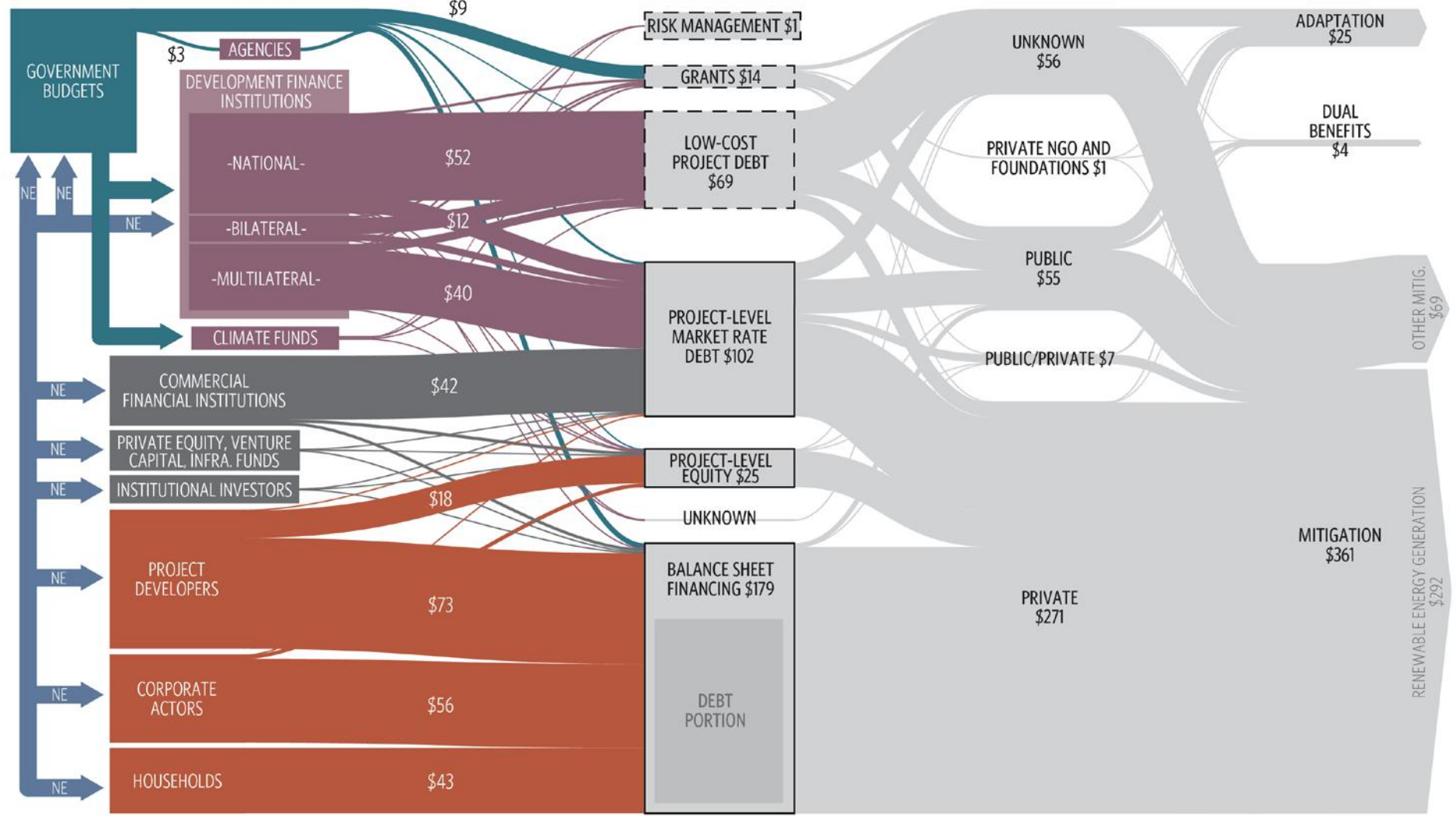


SOURCES AND INTERMEDIARIES

INSTRUMENTS

RECIPIENTS

USES

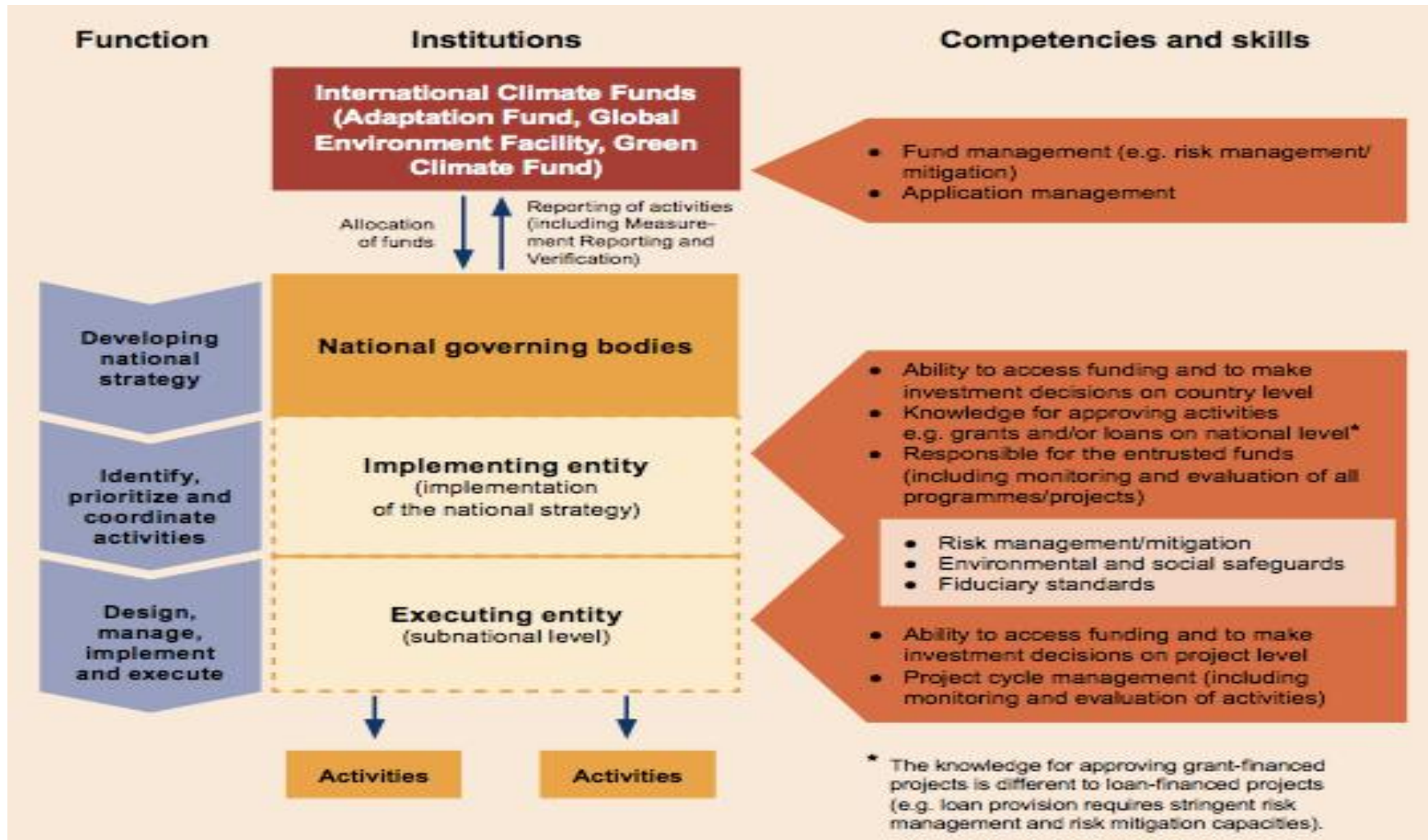


KEY

- PUBLIC MONEY
- PRIVATE MONEY
- PUBLIC FINANCIAL INTERMEDIARIES
- PRIVATE FINANCIAL INTERMEDIARIES
- CAPITAL INVESTMENT
- CAPITAL INVESTMENT AND INCREMENTAL COSTS
- FINANCE FOR INVESTORS & LENDERS

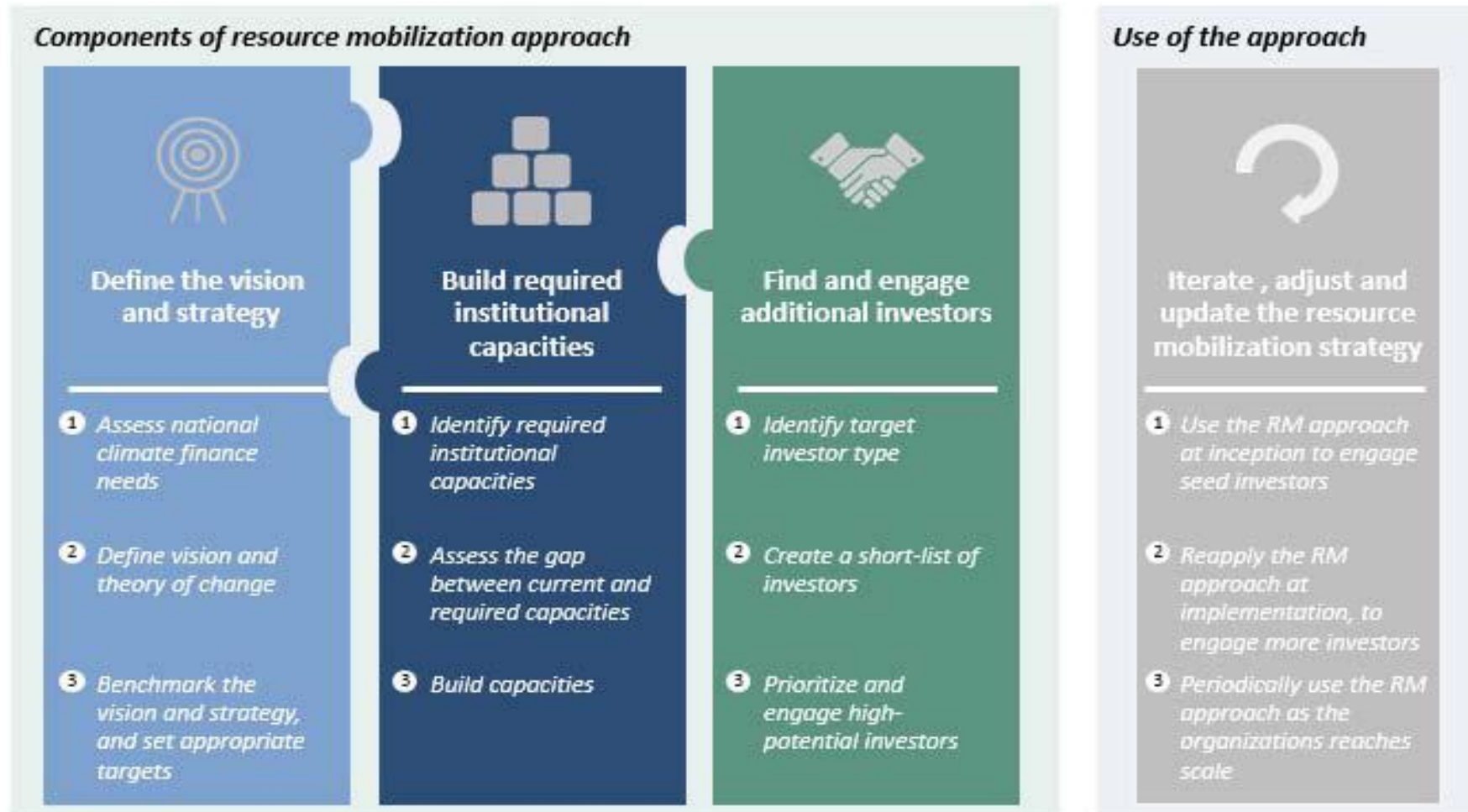
NE: NOT ESTIMATED

Framework and competencies for direct access

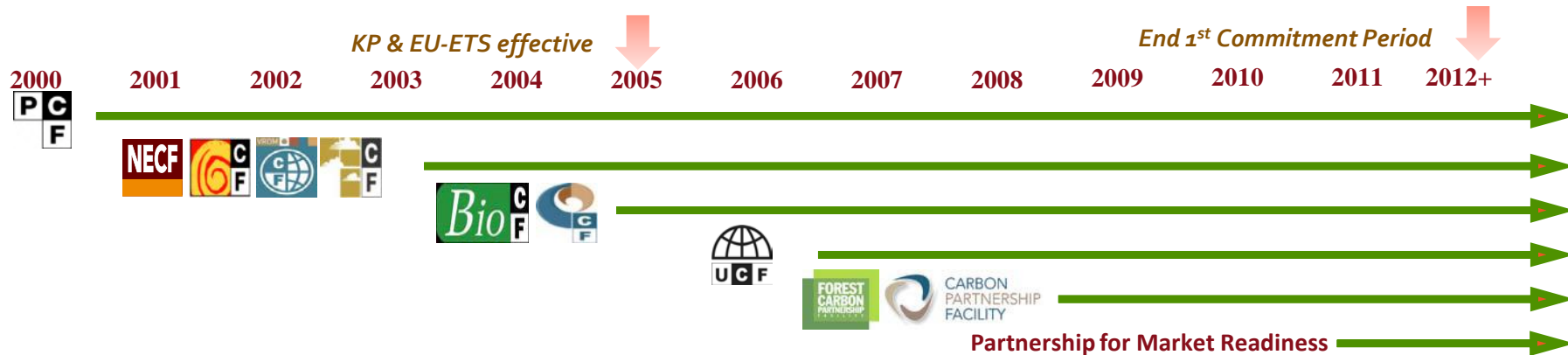


Resource mobilization strategies & sustainability of national climate change funds (NCCFs)




Resource Mobilization Approach for NCCFs



Evolving carbon finance activities & vehicles



Post-2012 focus

	Category	Circumstances/needs	World Bank Approach	Launch
	Low-income countries & poorest communities	<ul style="list-style-type: none"> By-passed by carbon markets as CDM rules not adapted to LDC realities Lack of domestic enabling environment, financing barriers, limited capacity Economic and mitigation opportunities in forestry & agriculture unexploited 	<p>Financing vehicles under development (structured carbon finance, expanding land-based carbon transactions)</p> <p>Multi-channel access to markets</p>	2011 (est.)
	Forest countries	<ul style="list-style-type: none"> Large emissions from deforestation and land degradation unaddressed Significant technical, financial, social, and institutional hurdles to overcome (Need accounting, regulatory frameworks local & indigenous livelihoods) 	Forest Carbon Partnership Facility (FCPF)	2008
	Middle-income countries	<ul style="list-style-type: none"> Responsible for increasing share of global GHG emissions Expected to contribute to mitigation efforts in a significant way Need to better integrate climate change and carbon market in development strategy 	Carbon Partnership Facility (CPF)	2009
			Partnership for Market Readiness (PMR)	2010

Mobilizing Finance via Capital Markets

World Bank Green Bonds:

- \$21 billion issued in 2016
- Growing exponentially in MDBs and private banks in developed and developing countries
- Green Bond Principles adopted by consortium of investment banks in January 2014

Products and Advisory Services for catastrophe risk financing

- **MultiCat Program**
- **Caribbean Catastrophe Reinsurance Facility (2007, 2008, 2009)**
- **CAT DDOs**
- **Weather hedges**



Example: *Mongolia Index-based Livestock Insurance Project*

- In Mongolia, the livestock sector represents 87 % of GDP and supports at least half of the population.
- Between 1999 and 2002 however, one-third of the national herd was lost in successive harsh seasons, showing extreme vulnerability.
- This project introduces a new market-based approach that spreads the risk across herders, government, and the private sector.

Disaster Risk Financing & Insurance Program



- **Mainstream disaster risk financing and insurance in national DRM strategies**
 - Knowledge management and capacity building
 - Product Development
 - Technical assistance and operations
- **Partnerships**
 - World Bank Group: FPD, SDN/GFDRR, Treasury, regional VPUs
 - Academic partners: Wharton School, NTU Singapore
 - Practitioners: Willis Research Network, Geneva Association, brokers, reinsurers
 - Regional development banks: IADB, ADB

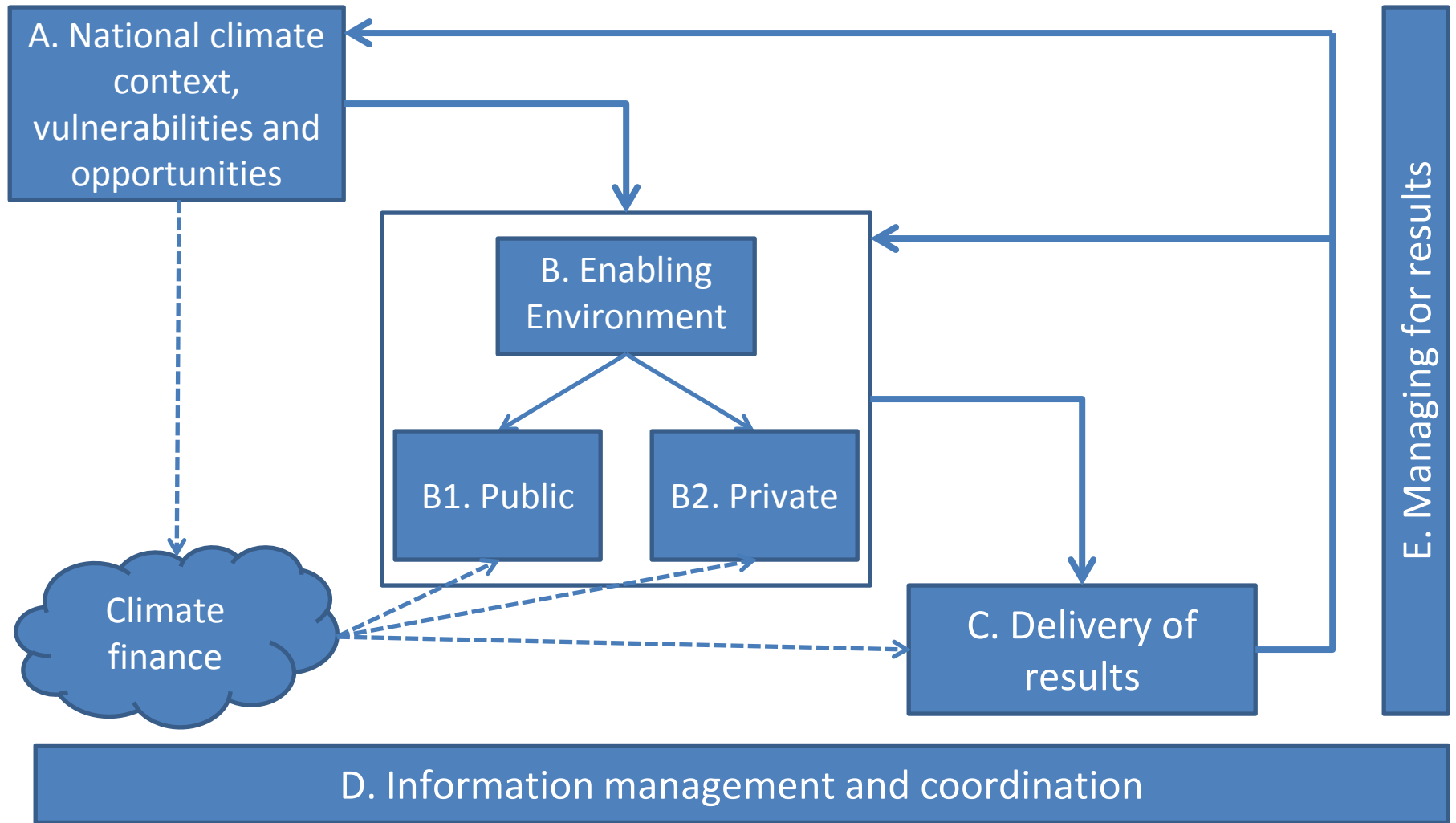
Beyond The Sum Of Its Parts

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

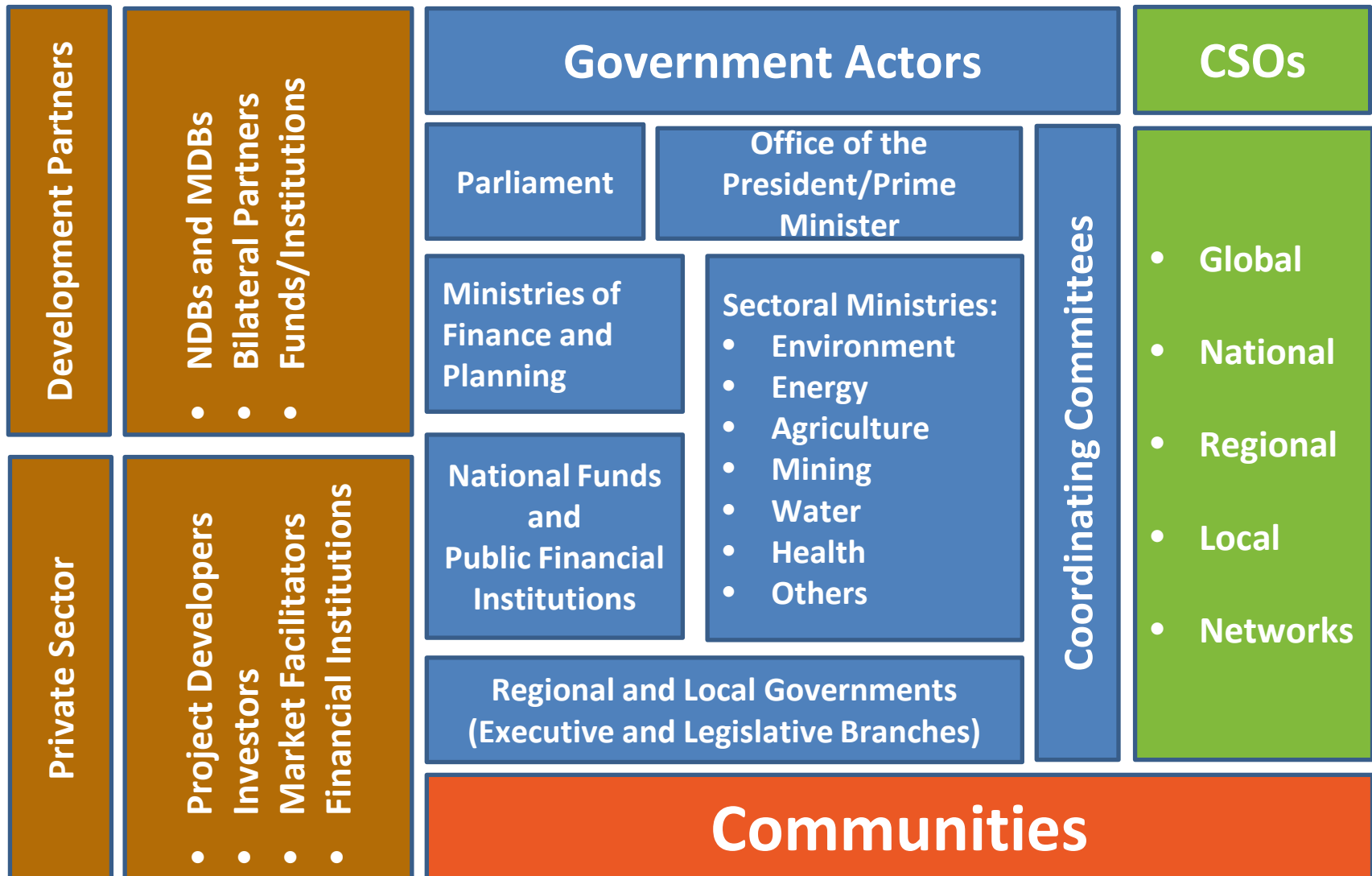
Each source addresses different set of needs, risks or barriers, and also reduce transaction costs of navigating the landscape of climate finance

Climate finance is catalytic while most mitigation and adaptation action is funded from domestic and international mainstream sources

Conceptual Framework for Readiness



Actors involved in readiness at country level



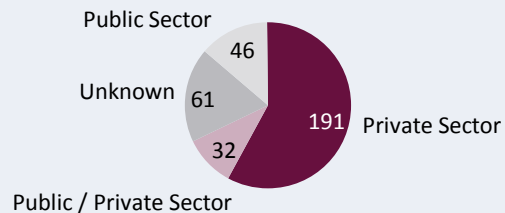
The Climate Change (CC) challenge

Climate mitigation and adaptation will require the private sector

Spenders of climate finance

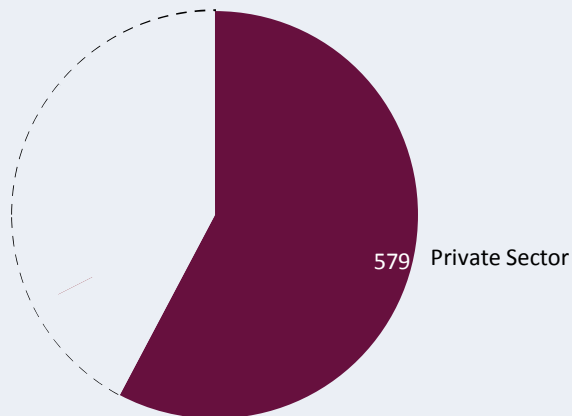
Current spenders of climate finance, 2013 (USD Billions)

Total finance = USD 330B



Future private sector spending of climate finance (USD Billions)

Total finance = USD 1000B



Implications

- The private sector is the main energy user and green house gas producer so plays an important role in mitigation and requires climate resilience to protect its business operations
- At present, the private sector spends USD 191 billion, which is over half over all climate finance, and will likely play a greater role mitigation and adaptation in future
- Future private sector climate finance expenditures might need to reach USD 580 billion annually or beyond, to keep the earth on a 2C emissions path
- The private sector is well positioned to drive mitigation and adaptation activities because:
 - It has the incentive and capacity to develop new technologies faster, more efficiently, and at a lower cost than the public sector
 - It has a stronger connection with consumers than the public sector, so is better positioned to provide climate mitigation and adaptation technologies to low income populations

The Climate Change (CC) challenge

Involvement of MSMEs will be critical

MSMEs

- The term 'MSME' is used to describe micro, small and medium enterprises
- Enterprises are defined using a variety of parameters including:
 - Number of employees
 - Annual sales
 - Value of fixed assets
- Different institutions use different combinations of these parameters to create their own definitions of MSMEs
- According to the World Bank definition, a business is classified as MSME when it meets two of the three criteria below

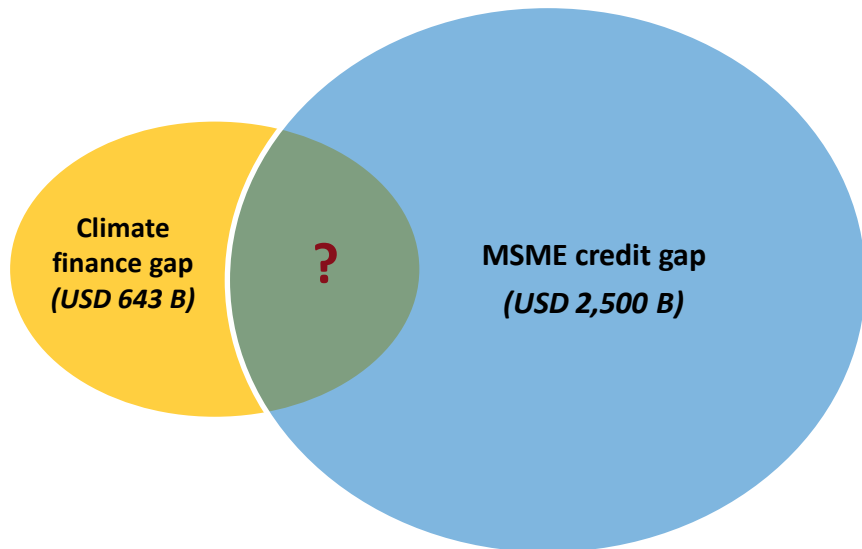
Enterprise size	Employee	Assets (USD M)	Annual Sales (USD M)
Medium	< 300	≤ 15	≤ 15
Small	< 50	≤ 3	≤ 3
Micro	< 10	≤ 0.01	≤ 0.01

Importance of MSMEs to climate change

- MSMEs contribute to ~80% of employment and ~60 % of GDP in developing countries. As such, they are a strong driver of economic and social development.
- MSMEs account for the vast proportion of the businesses and employment in the private sector, and in developing countries constitute ~90% of companies
 - *Medium companies*: ~ 8%
 - *Small companies*: ~20%
 - *Micro companies*: ~70%
- **Greening** MSMEs will therefore be vital for moving the private sector to a low carbon trajectory
- MSMEs **provide essential climate technologies** that have significant potential to drive mitigation and adaptation across the economy
- Due to their local networks, MSMEs are **uniquely positioned to deliver climate technologies** to the bottom of the pyramid, and increase the climate resilience of the poorest populations

The Climate Change (CC) challenge

To increase MSME climate action, the climate finance gap must be bridged

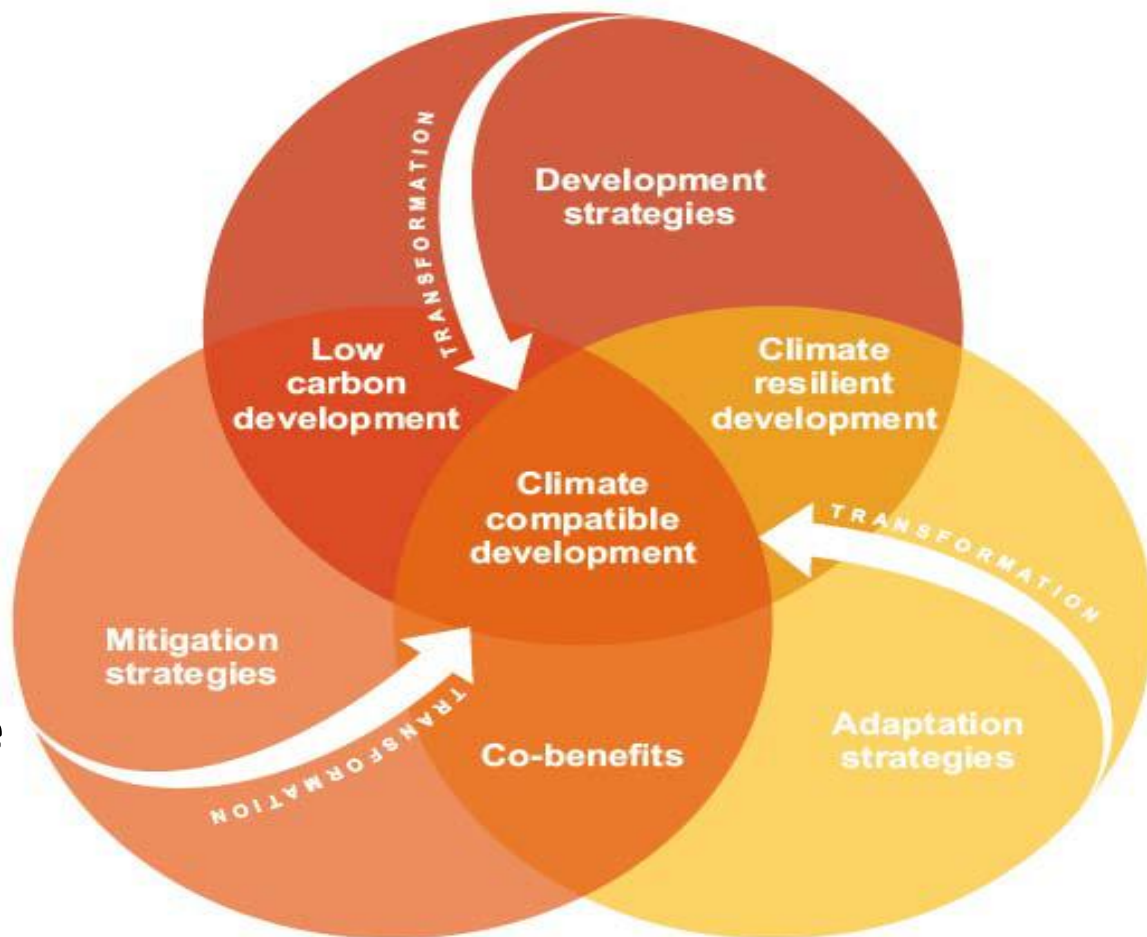


- It is difficult to accurately qualify the MSME climate finance gap, given the absence of reliable and consistently monitored sources of data on earmarked financial flows to MSMEs
- The climate finance gap for MSMEs is a subsection of the general MSME credit gap, and the climate finance gap. The size of this subsection could be estimated in the following ways:
 - Calculate the proportion of climate finance needed by MSMEs according to their contribution to global GDP;
 - Use a bottom up approach that estimates the climate finance need of MSMEs in each sector, by estimating the finance needed for greening, adaptation or for climate technologies
- Available data on these gaps suggests that the ***overall climate finance gap for MSMEs will be in the magnitude of billions of USD***

Climate Compatible Development

CDKN's core aim is to promote climate compatible development (CCD) policies and practices that will assist those most affected by climate change.

CCD is development that minimises the harm caused by climate impacts, while maximising the many human development opportunities presented by a low emissions, more resilient, future.



Elements in resource mobilisation for CCD (1)

- Country's NDC
- National and municipal budgets
- Wide range of grant, concessional, capital, equity, etc. finance
- Infrastructure investment opportunities and plans
- Identified investment projects

Elements in resource mobilisation for CCD (2)

- Pre-feasibility analysis
- Feasibility analysis
- Financial engineering of a project (blended finance making smart use of concessional sources & risk mitigation instrument to leverage significant volumes of other public and private capital/equity)

Elements in resource mobilisation for CCD (3)

- Negotiation between project developers and financiers
- Implementation
- Evaluation and assessment of impact, including commercial success



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