



# **The World Bank Group's financing mechanisms for climate change**

**UNFCCC MEDIA TRAINING WORKSHOP**

**Accra, Ghana, 24-27 August 2008**



# Outline of the Presentation

- Climate Change and its challenges
- The international context
- Initiatives of the World Bank
  - Strategic Framework on Climate Change and Development
  - Carbon Partnership Facility
  - Forest Carbon Partnership Facility





- Climate Change and its challenges





# Climate Change is a Development Issue

- Developing countries are already being affected
- The poorest countries and communities stand to suffer the earliest and the most
- Development gains and achievement of the Millennium Development Goals are at risk
- Lower carbon and climate resilient growth offers opportunities for sustainable development with multiple benefits

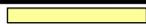




# Developing Countries Most At Risk:

## 6 Climate Threats

<i>Drought</i>	<i>Flood</i>	<i>Storm</i>	<i>Coastal 1m</i>	<i>Coastal 5m</i>	<i>Agriculture</i>
Malawi	Bangladesh	Philippines	All low-lying Island States	All low-lying Island States	Sudan
Ethiopia	China	Bangladesh	Vietnam	Netherlands	Senegal
Zimbabwe	India	Madagascar	Egypt	Japan	Zimbabwe
India	Cambodia	Vietnam	Tunisia	Bangladesh	Mali
Mozambique	Mozambique	Moldova	Indonesia	Philippines	Zambia
Niger	Laos	Mongolia	Mauritania	Egypt	Morocco
Mauritania	Pakistan	Haiti	China	Brazil	Niger
Eritrea	Sri Lanka	Samoa	Mexico	Venezuela	India
Sudan	Thailand	Tonga	Myanmar	Senegal	Malawi
Chad	Vietnam	China	Bangladesh	Fiji	Algeria
Kenya	Benin	Honduras	Senegal	Vietnam	Ethiopia
Iran	Rwanda	Fiji	Libya	Denmark	Pakistan

 Low Income

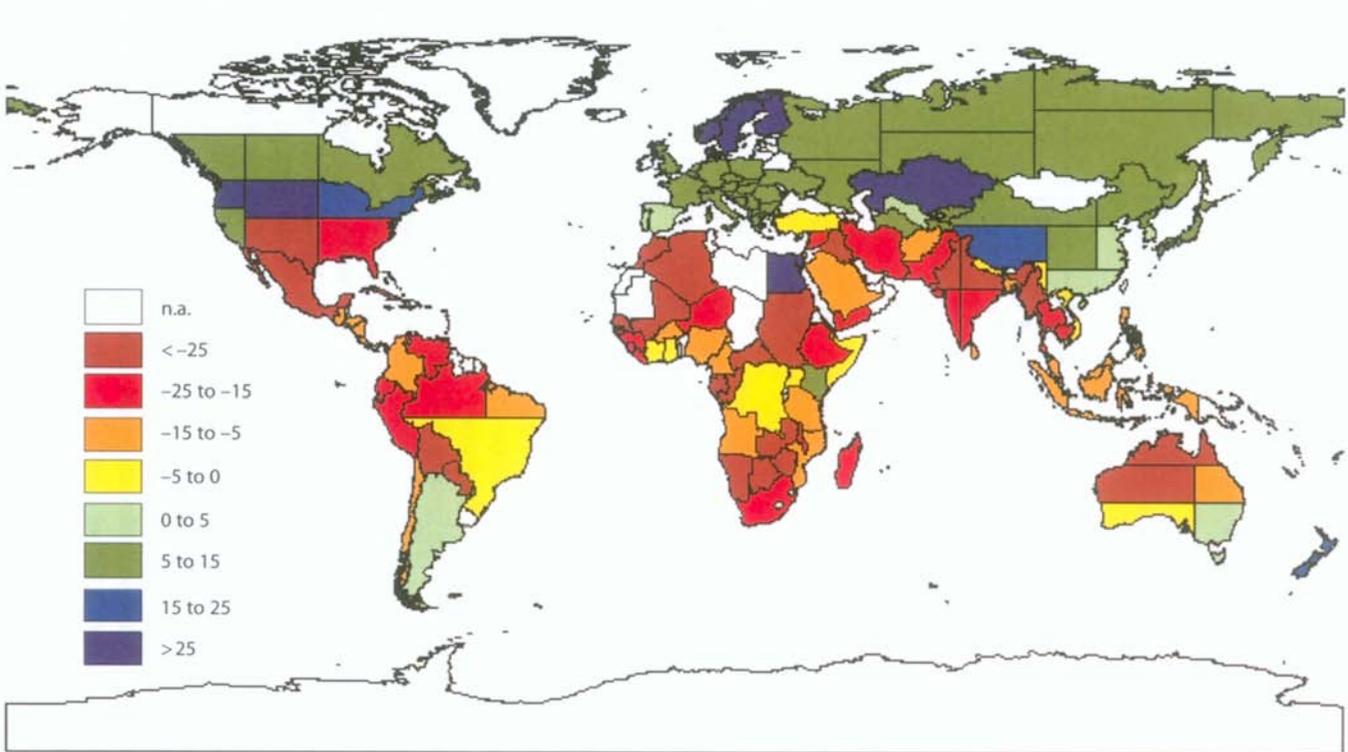
 Middle Income

Source: World Bank





## Potential Impact on Agriculture — Projected Percentage Change in Agricultural Productivity in 2080



**Note:** Scenario: SRES A2.  
**Source:** Cline 2007.





# Adaptation Challenges Over Time Will Depend on Mitigation Progress

Likely change  
already  
"baked in"



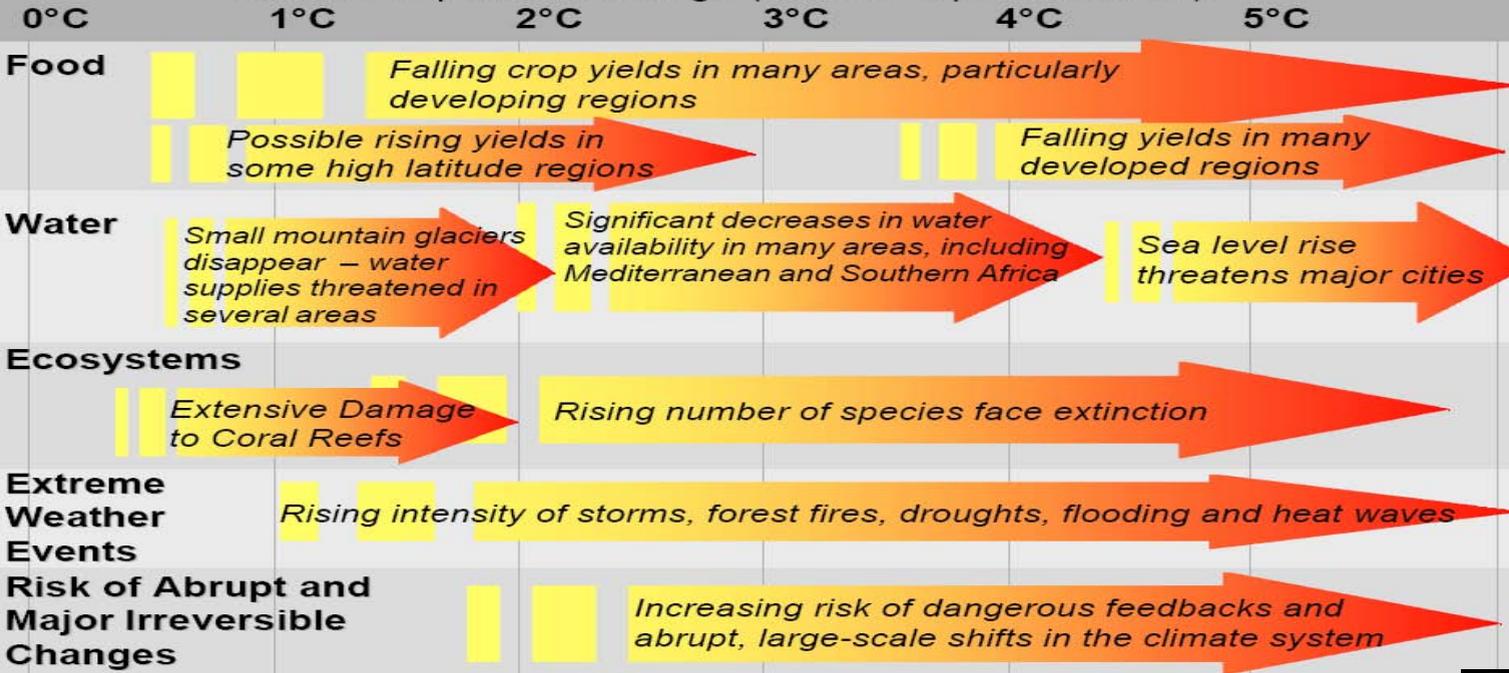
Likely change with  
successful  
mitigation action



Likely change without  
significant action on  
mitigation



Global temperature change (relative to pre-industrial)

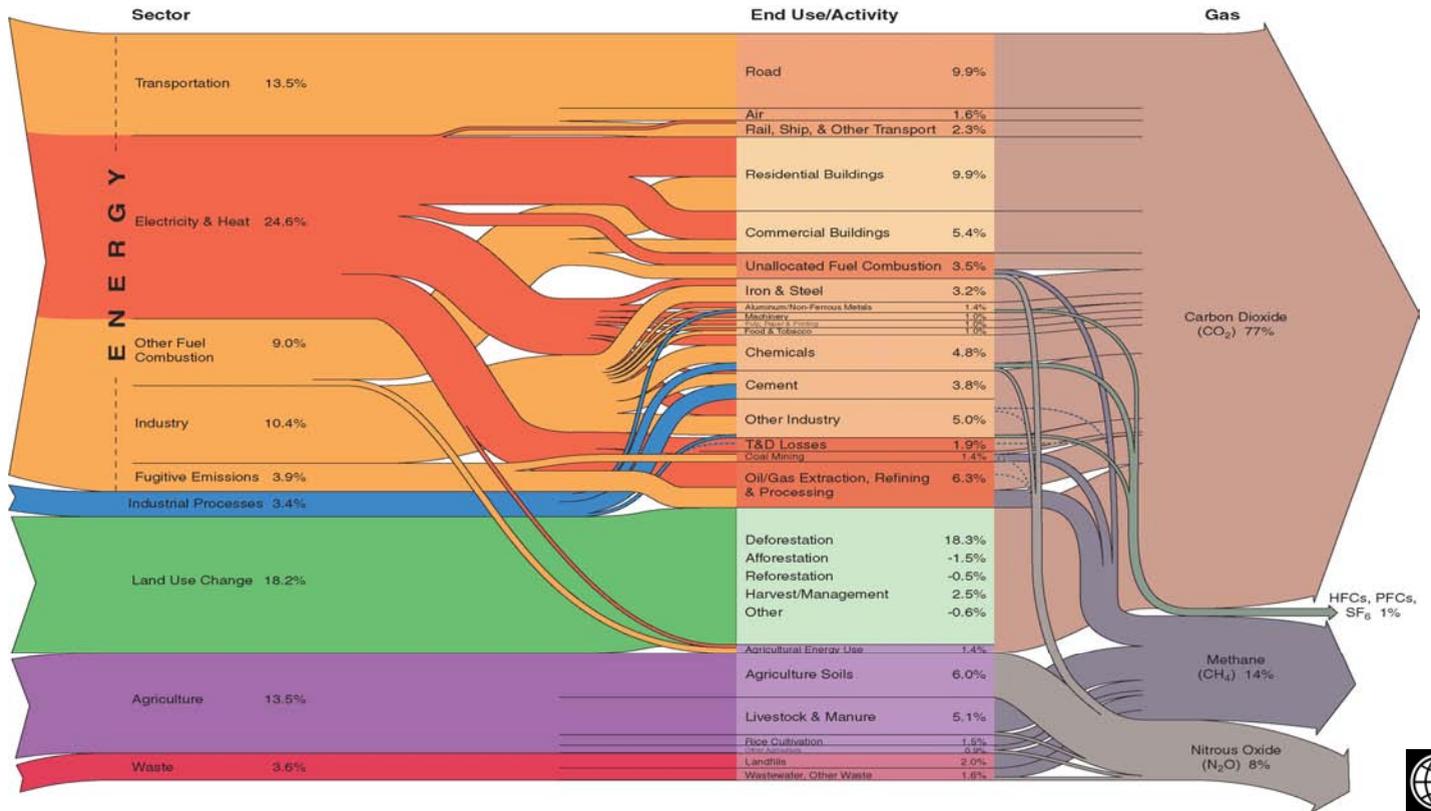


**Risk of catastrophic events increases with temperature**





# Sources of GHG are cross-sectoral and most significant from energy and land use change





# Outline of the Presentation

## The international context





## United Nations Framework Convention on Climate Change

- UNFCCC is the overall framework for intergovernmental efforts for climate change mitigation
  - Spirit of the UNFCCC: “common but differentiated responsibilities”
- Kyoto Protocol entered into force in February 2005 and is born out of the UNFCCC and endorsed by the Third Conference of the Parties in Kyoto in 1997
  - Transition from voluntary action to legally binding commitments
  - 38 ratifying industrialized countries are required to reduce their emissions by an average of 5.2% below 1990 levels during 2008-2012
- Countries can use market-based mechanisms to reduce their emissions.





# The Kyoto Protocol

- Compliance with their Kyoto commitments implies a total reduction of about 5.0-5.5 billion tonnes of CO<sub>2</sub>e over the 2008-2012 period.
- Kyoto targets may be achieved by:
  - Industrialized countries reducing domestic emissions
  - Trading emission permits (“allowances”) among companies and Assigned Amounts Units (“AAUs”) among governments
  - Purchasing emission reductions credits from projects
    - In developing countries (Clean Development Mechanism – CDM)
    - In economies in transition (Joint Implementation – JI)
- Market created mainly as a result of regulatory commitments
- The Bank is a pioneer in the CDM/JI segment of the carbon market with 10 years of experience.

Carbon Funds





## EU Emission Trading Scheme

- Aimed at helping EU countries meet Kyoto targets
- EU Allowances to 12,000 installations in the 25 EU Countries in key sectors
- Represents about 30% of all EU greenhouse gas emissions
- **Allows importing CDM and JI credits to the system**
- Volatile EU Allowance prices (weather, coal & gas prices, allocations) reflected in Kyoto Market prices





## Current Scenario

- Key decisions to be taken in industrialized countries and also in multilateral negotiations on a successor agreement to the Kyoto Protocol, which expires in 2012
- The "Bali Action Plan", agreed by the UNFCCC Parties during the last Meeting of the Parties back in December 2007, has among other important takeaways the following:
  - Specified intent to complete negotiations on post-2012 plan by the end of 2009 during the Meeting of the Parties to take place in Copenhagen.
  - All developed countries are expected to undertake mitigation commitments or actions, including quantified emission targets.
  - Developing countries, for the first time, offered to include "mitigation actions" in the next international agreement.





# Outline of the Presentation

- Initiatives of the World Bank
  - **Strategic Framework on Climate Change and Development**
  - Carbon Partnership Facility
  - Forest Carbon Partnership





## How we will develop a comprehensive Strategic Framework on Climate Change and Development (SFCCD)

- ✓ Neutrality to UNFCCC Negotiations
- ✓ Flexibility to accommodate new developments
- ✓ Working with Multiple Partners
- ✓ Inclusive and Consultative Process





## Key message: Scaling up!

- Huge financing gap for developing countries, much beyond current funding under UNFCCC
  - mitigation: up to US\$ 100 bln per year by 2030
  - adaptation: up to US\$ 30-70 bln per year 2030
  - private sector to account for 80% at least of financial and investment flows
- The challenges ahead in mobilizing financing at scale
- Massive technology, capacity and knowledge needs





## Integrating climate action in development

- **Country-driven approach**
  - Customized to adaptation needs and low carbon growth opportunities in a country-specific context
- **Multi-sector engagement based on demand**
- **Tailor to the needs of both public sector (WB) and private sector (IFC) clients**
- **Focus on *multiple benefits* and development opportunities of climate action**
- **Attention to social dimensions: understanding the needs of vulnerable groups, indigenous communities, e.g. support for recognition of ownership rights**
- **Support to local institutions**





## 6 Action Areas

- 1) Enhance Development Outcomes of Country-led Efforts by Integrating Climate Considerations
- 2) Mobilize Concessional and Innovative Finance
- 3) Facilitate the Development of Innovative Market Mechanisms
- 4) Leverage Private Sector Finance
- 5) Accelerate Technology Development and Deployment
- 6) Stepping Up Policy Research, Knowledge, and Capacity Building



# Consultations

- Consultations ongoing through September 15 on the draft document
- Please provide comments online
- Please spread the word in your country



# Additional Funding

## Climate Investment Funds

- **Clean Technology Fund**
- **Strategic Climate Fund**

More information [www.worldbank.org/cif](http://www.worldbank.org/cif)





# Climate Investment Funds (CIF) Objectives

- Provide incentives for scaled-up, transformational actions
- Promote international cooperation on climate change to support future progress under the Bali Action Plan
- Provide experience and lessons through learning-by-doing





# Clean Technology Fund

- Finance transformational actions by:
  - (a) Providing positive incentives for the demonstration of low carbon development and mitigation of greenhouse gases;
  - (b) Promoting scaled- up deployment, diffusion and transfer of clean technologies; and;
  - (c) Promoting realization of environmental and social co-benefits. Thus demonstrating the potential for low-carbon technologies to contribute to sustainable development and achievement of MDGs
- Finances cost-effective mitigation of greenhouse gas emissions
  - As country circumstances differ, investment programs will be developed on a country specific basis
  - Speed and nimbleness essential, given urgency
  - Engages public and private sector
- Complements existing financing
- Utilizes blend/suite of instruments (grants, concessional loans, guarantees)





# Strategic Climate Fund

## Goals:

- Promote collaboration, synergies and learning among MDBs in area of climate change
- Promote and channel financing for targeted programs
- Provide opportunity for sharing and disseminating lessons learned
- Provide incentives for scaled-up and transformational action and for solutions to the climate change challenge and poverty reduction in developing countries
- Provide incentives to maintain , restore and enhance carbon- rich natural ecosystems and to enhance all the services they provide





# Strategic Climate Fund

## Programs:

- Targeted programs with dedicated funding to provide financing to pilot new approaches with potential for scaling up
- Approval of program financing delegated to Trust Fund Sub-Committees
- First SCF program is the Pilot Program for Climate Resilience (PPCR)
- Other potential programs include greening energy access and sustainable forest management





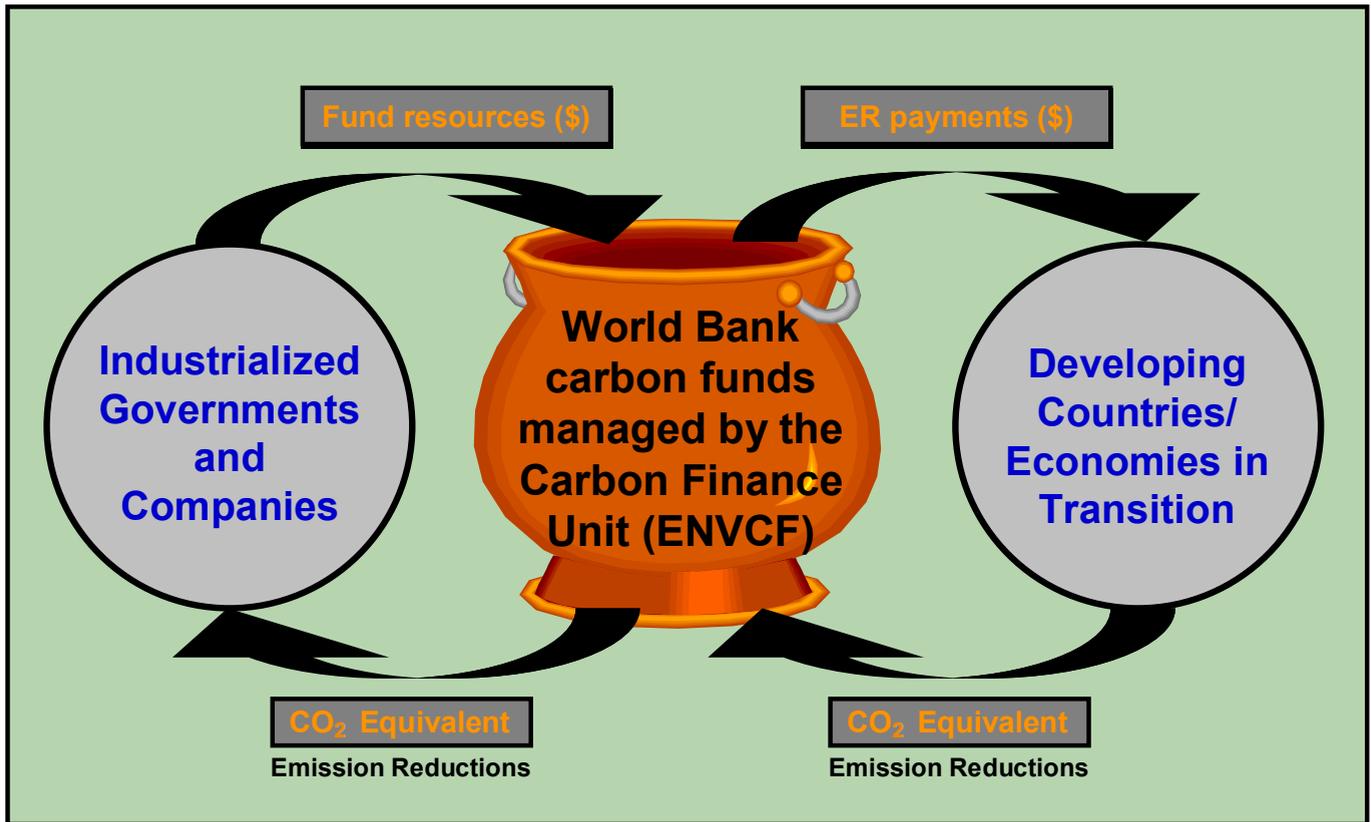
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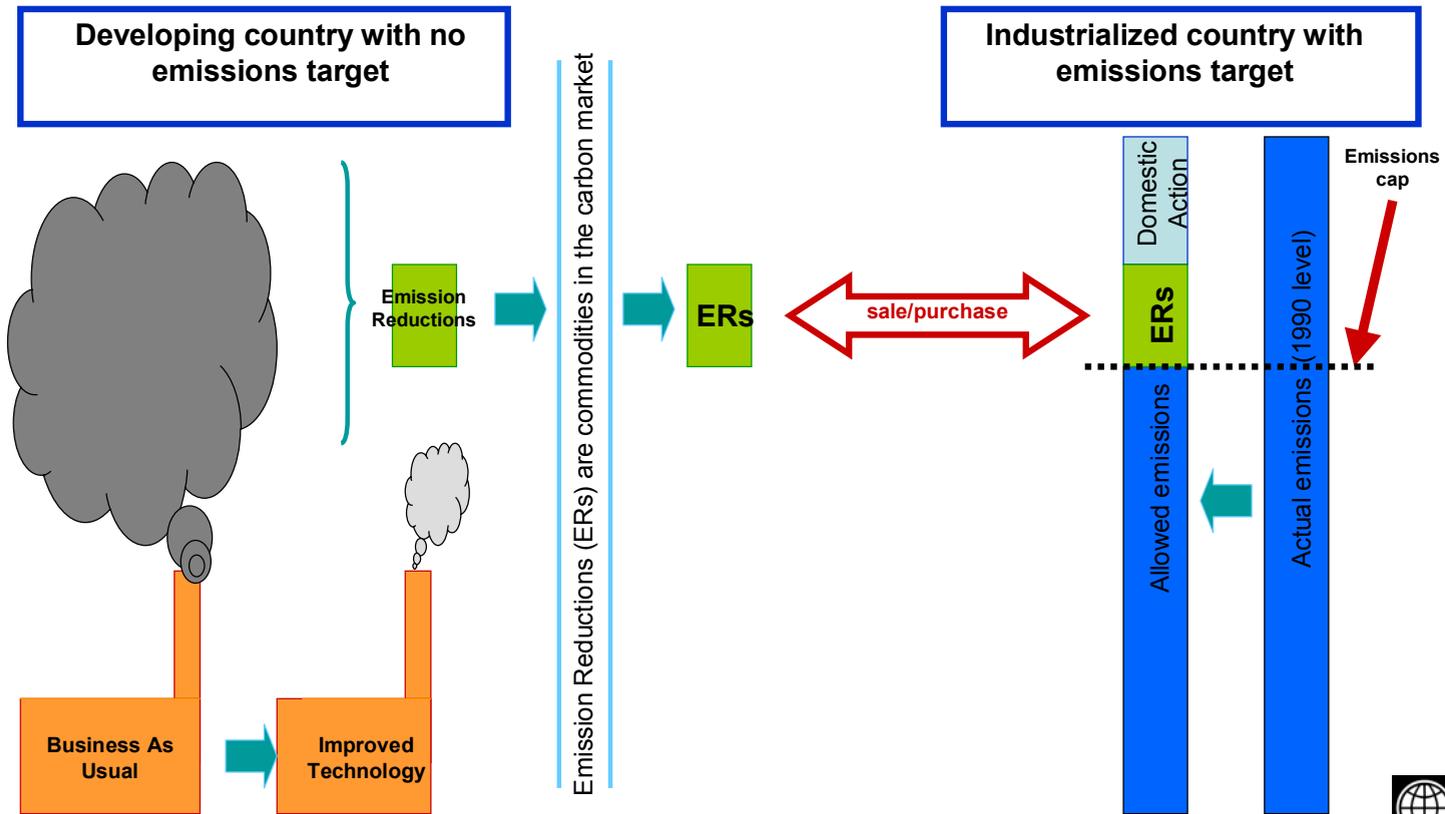


## How carbon funds work





# Carbon Trade





# Actions taken by the Carbon Finance Unit

- The Carbon Partnership Facility (CPF)
- The Forest Carbon Partnership Facility





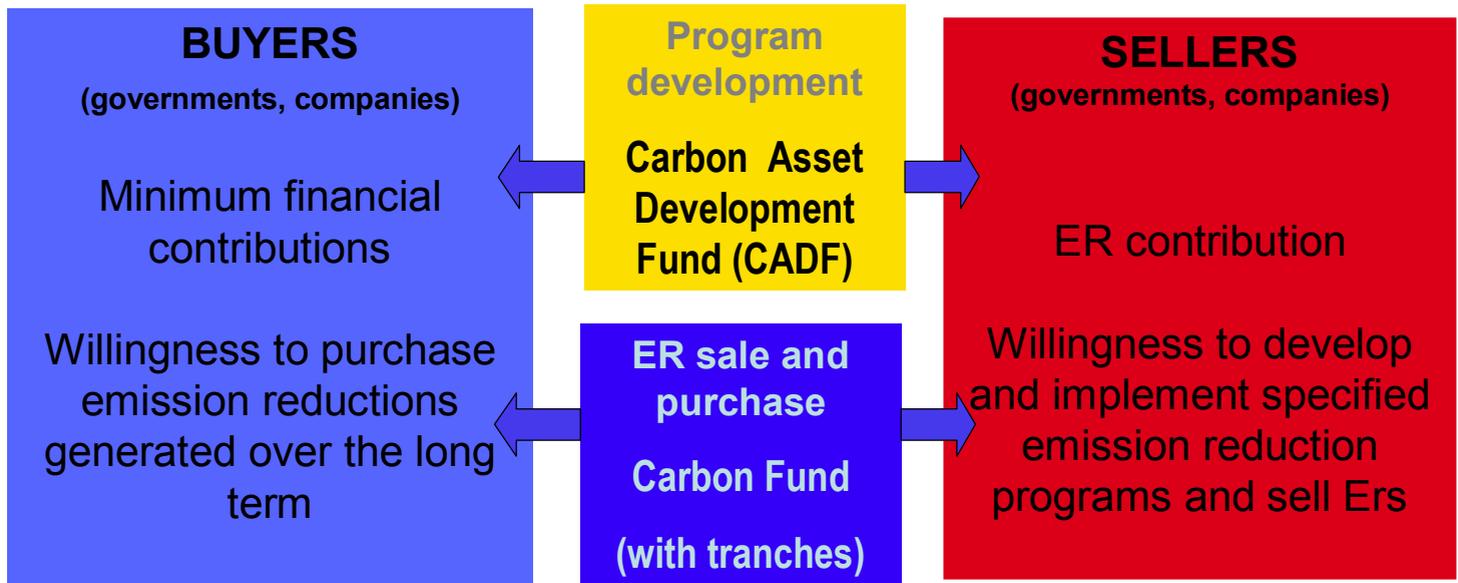
# Objectives and Features

- Objectives
  - Target long-term emissions
  - Scaling up
  - Strategic, transformational interventions in sectors
- Features
  - Programs, away from individual projects
  - Partnership between buyers and sellers
  - Fostering both demand and supply in uncertain market





# CPF - Buyers and Sellers in a Partnership



**Partners (advisory role):  
Host Governments, Donors, other**





# Carbon Fund

- Target size €5 billion over 5 years
- First tranche will become operational at €[350]m and kept open for [6] months or until reaches €[700]m
- €35m minimum contribution:
  - Buyers allowed to pool their resources to reach the minimum contribution limit
- Withdrawal by each individual Buyer Participant will be possible if no International Agreement is reached by a date tbd





## Carbon Asset Development Fund (CADF)

- Provides Sellers and host country resources/grants for ER program development and methodology work
- Also covers:
  - the management costs of the Facility
  - World Bank due diligence, appraisal and on-going supervision
  - ER program/ERPA maintenance costs (verification, any modifications to methodology etc.)
- Funded by
  - Buyers: an upfront signing and program preparation charge plus an annual management charge
  - Sellers: Contribution from ERPA payments
    - Note: Sellers would also be responsible for any UNFCCC fees
  - Donors





# Participation

- Buyer Participants
  - Public or private entities
  - Commitment of contribution to the Carbon Fund €35 million for public entities and €35 million for private entities
  - Buyers may also pool their resources (e.g. by forming a consortium); the legal entity (or representative of the legal entity) would be the participant in the CPF
- Seller Participants
  - Public or private entities
  - Commitment to develop ER Program and sell ERs to the Carbon Fund
  - Acceptable by the Bank in accordance with established criteria
- Partners
  - Donors (contribution at least €2million to CADF)
  - Host country governments of countries where programs are being, or expected, to be developed





## Actions taken by the Carbon Finance Unit

- The Carbon Partnership Facility (CPF)
- The Forest Carbon Partnership Facility (FCPF)





# Context

- Urgency of global climate change concerns
- Tropical forests continue to disappear (+/- 14 million hectares per year)
- Loss of forest accounts for 20% of greenhouse gas emissions → can it be 20% of the solution?
- Carbon finance can contribute a new source of recurrent revenues for forest protection and sustainable forest management





# Basics

- Capital: US\$ 300 million
- Geography: Tropical and subtropical nations
- 2 Mechanisms:
  - Readiness (capacity building) ~ 20 countries **US\$ 100 million**
    - Reference scenario
    - REDD Strategy
    - Monitoring system
  - Carbon Finance (demonstration project transactions) ~ 5 countries **US\$ 200 million**
- Governed by a Participants Committee (main decision making body), a broader Participants Assembly, and the assistance of independent Technical Advisory Panel(s)





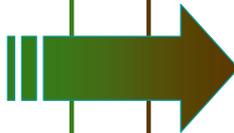
# Two Mechanisms

## • Readiness

### • **READINESS FUND**

- *Capacity*
- *Building*

• \$ 100 million



## • Carbon Finance

### • **CARBON FUND**

- *Payments for  
Emission  
Reductions*

• \$ 200 million





# Guiding Principles

- Partnership
  - Developing countries on par with industrialized countries in governance structure
- Voluntary participation
- Neutral to climate change negotiations
  - All kind of performance based financial approaches will be tested
- Catalyst
  - \$300 million will not save the world's forests
  - Private sector is needed for scaling up
- Test, learn and disseminate
  - National strategies for Reducing Emissions from Deforestation and Degradation” (REDD)
  - National reference scenarios
  - Incentive payments
  - Projects within national accounting approach



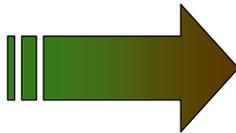


## Two Mechanisms

Readiness  
Mechanism

READINESS  
FUND

*Capacity  
Building*



Carbon  
Finance  
Mechanism

CARBON  
FUND

*Payments for  
Emission  
Reductions*



### South America (8):

- Argentina
- Bolivia
- Colombia
- Ecuador
- Guyana
- Paraguay
- Peru
- Suriname

### Meso America (7):

- Costa Rica
- El Salvador
- Guatemala
- Honduras
- Mexico
- Nicaragua
- Panama

### SE Asia & Pacific (8):

- Indonesia
- Lao PDR
- Malaysia
- Papua New Guinea
- Philippines
- Thailand
- Vanuatu
- Vietnam

### Africa (16):

- Cameroon
- Central African Republic
- Dem. Republic of Congo
- Equatorial Guinea
- Ethiopia
- Gabon
- Ghana
- Kenya
- Liberia
- Madagascar
- Republic of Congo
- Senegal
- Sierra Leone
- Sudan
- Tanzania
- Uganda

### South Asia (2):

- Nepal
- Pakistan

PARTICIPANT COUNTRIES





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