United Nations Framework Convention on Climate Change

INVESTMENT AND FINANCIAL FLOWS

TO ADDRESS CLIMATE CHANGE

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FOREWORD

The spectre of climate change that is unfolding now is undeniably a cumulative impact of anthropogenic interference in the climate system over the last two centuries. The science is clear and the policy community is being increasingly convinced and galvanised into action to address this emergent challenge in light of the associated economic and human dimensions.

The impacts of climate change ranging from sea level rise, melting ice caps and glaciers, severe weather events, drought, flooding, warming, subtle changes in ecosystems – will impinge on every aspect of society and economic life. The costs of inaction will more than outweigh the costs of action. There is only a narrow window of opportunity to redress the situation. The Intergovernmental Panel on Climate Change (IPCC) in its Fourth Assessment Report has underscored that mitigation efforts in the next 15 – 20 years will have a large impact on opportunities to achieve lower stabilization levels and have the potential to minimize major climate change impacts.

Failure to mitigate now through modifications in development pathways will lock the world into scenarios of emissions, implying more adverse climate change impacts, thereby leading to higher costs for adaptation. Underpinning this urgent need to modify development and emission pathways is the role of technology and additional financing and investment.

In recognition of the relevance and importance of the financing and investment dimension, the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), requested the Secretariat to analyse and assess investment flows that will be necessary to address climate change mitigation and adaptation in an effective and meaningful way, with a special focus on developing countries' needs. This publication is the culmination of the assessment undertaken by the Secretariat.

The analysis indicates that additional investments required to bring the emissions to current levels are small in relation to estimated global gross domestic product (GDP) (0.3 – 0.5 per cent) and global investment (1.1 – 1.7 per cent) in 2030. A conscious effort will have to be made to redirect traditional investment flows to climate-friendly alternatives. With appropriate policies and/or incentives, part of the additional investment and financial flows needed could be covered by the currently available sources. A judicious interplay of tools at our disposal including carbon markets, the financial mechanism of the Convention, ODA, national policies and, in some cases, new and additional resources, will be needed to mobilize the necessary investment and financial flows to address climate change.

The mechanisms in the Convention and Kyoto Protocol need to be expanded and other solutions considered for meeting future mitigation, adaptation and technology needs. While it is important to acknowledge that solutions for improving investment and financial flows are complex, it is critical that some widely supported, relatively simple and actionable themes be developed around which the structure of the post-2012 agreement can be shaped.

While undertaking this assessment, it also became apparent that costs of and investments for adaptation is still poorly understood, and there exists a crying need to step up efforts in this regard. This inadequacy, however, does not undermine the urgent need to invest in climate proofing and enhancing adaptive capacities of sectors, communities, regions and nations.

In many ways, this publication provides an initial assessment of the financial architecture required for developing a post 2012 regime and presents an overview of what level of resources and measures would be needed for successfully financing the international response to climate change, for making future climate change policies a success and ultimately, for crafting a climate-secure world for all.

As the first ever effort to collect and present data on projected, climate-related investments under reference and mitigation scenarios, the preparation of this paper was possible only due to the collaboration and support extended by different international financial institutions, UN agencies, intergovernmental organizations and non-governmental organizations, other relevant agencies, and representatives of the private sector and civil society.

I would also like to thank all the experts who provided invaluable comments during the conceptualization phase of the project, and on the various technical papers prepared as a part of this exercise. This extensive network of experts and institutions created, to my mind, represents an important resource for the Parties for any further work on investment and financial flows to address climate change.

Finally, I would like to place on record the generous contributions made by the Governments of Norway, Denmark and the Netherlands, which allowed this paper become a reality.

Yvo de Boer, *Executive Secretary*
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