Investment and financial flows to address climate change

Presented to:

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Introduction

- Project launched in 2007 in response to **COP 12 mandates**: **assessment of investment flows needed in 2030** that will be necessary to meet worldwide mitigation and adaptation requirements

- **Consultations** with IFIs,UN agencies,IGOs, NGOs, private sector and civil society

- Analysis was **based on existing work**

- The **results should be seen as indicative** only

- To be used as **instrument panel** for developing options to improve I&F flows

Methodology

- Analysis for I&F flows in 2030 (Annual data for year indicated, 2005 USD)
- As much disaggregated data as possible:
  - Regional detail
  - Sectors (economic sectors may not always match mitigation and adaptation sectors)
- Reliance on existing models/scenarios and data sets
- Analysis by sectors
- Not an assessment of “total costs” of adaptation and mitigation
- Investment is the initial (capital) cost of a new physical asset with a life greater than 1 year. Excludes purchases of existing physical assets and financial assets
- Financial flow is an ongoing expenditure related to climate change mitigation or adaptation that does not involve investment in physical assets.

Many challenges

- First time ever a comprehensive analysis of global I&F flows to address CC was undertaken
- Current data cover investment flows for aggregated sectors. Identifying role of different sources of funding for specific sectors is not easy.
- Specific needs from countries were difficult to assess based on inputs to the Convention process only (e.g. national communications)
- Lack of expert knowledge of climate change implications and finance for individual sectors – only few studies and material available for some sectors (particularly adaptation)
- Difficulty to define adaptation
- No common scenarios available for all sectors. Some sectors (e.g. forestry) had no reference scenarios available.

Findings

Key findings

- The **additional estimated I&F flows needed in 2030** is large compared with the funding currently available under the Convention and its KP, but small in relation to estimated GDP (0.3 to 0.5%) and global investment (1.1 to 1.7%) in 2030:
  - **Mitigation measures** needed to return global GHG emissions to current levels in 2030, require additional I&F flows between USD 200-210 billion in 2030.
  - **Adaptation** additional I&F flows needed for in 2030 amount to several tens of billions of USD.

Key findings

- Incentives and a large share of investment and financial flows will need to be directed to **developing countries** where most of the cost effective opportunities for reducing emissions will happen and because they will be particularly vulnerable to climate change impacts.

- When considering means to enhance investment and financial flows to address climate change in the future, it is important to focus on the role of **private-sector investments** as they constitute the largest share of investment and financial flows (86 %).

Instrument panel

- Creating climate change safe future will require:
  - **Shifts in investment patterns,**
  - **Scaling up** funding,
  - **Optimising the allocation** of existing funds.

- With **appropriate policies and/or incentives**, a substantial part of the additional I&F flows needed could be covered by available sources.

- **Additional external public funding** for climate change mitigation and adaptation will be needed particularly for sectors in developing countries that depend on government I&F flows.

Instrument panel

- How can the Climate Change Convention and its Kyoto Protocol influence future I&F flows?
  - Expanded carbon markets
  - Adaptation Fund
  - Financial mechanism / ODA

- What other options should be considered to address I&F flows in a future regime?
  - New sources
  - National Policies
  - Int'l coordination

Next Steps

- Possible next steps by other institutions
  - Maintaining and updating data collected for Investment Paper?
  - Identification and completion of additional analyses (areas needing clarification, gaps to be filled)?
  - Further analyses to support future negotiations?
  - Possible role to be played by IFIs/MDBs?
  - Mechanisms for consultations wit private sector and civil society?