Investment and financial flows to address climate change

Presented to:

31 October 2007
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 with private sector and civil society?