Enabling Environments for Climate Finance

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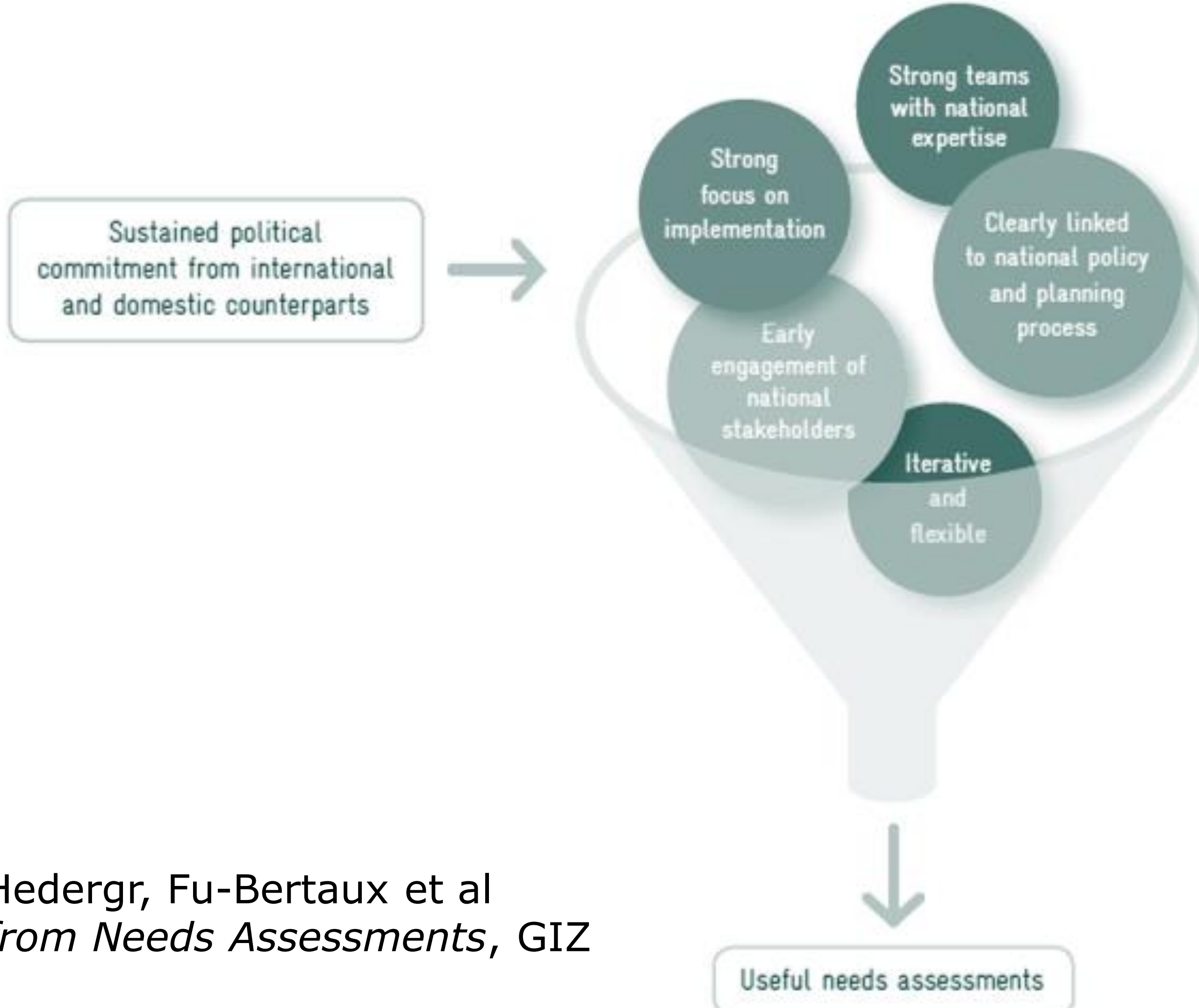
What have we learned from needs assessments?

A growing body of experience with climate finance needs assessments

UNFCCC NEEDS assessments	- Estimates for countries ranged from USD 45 million to USD 33.01 billion - Better information on emissions and vulnerability was necessary to allow robust assessment - Scope and methods inconsistent
UNDP Needs Project	- Invested in detailed guidance on methodologies from the outset - Sought to partner with local institutions, including national think tanks or consultants, where possible
TNAs	- Often didn’t have detailed costing - Need for deeper linkages with national processes - Lack of prioritisation

Elements of successful needs assessments



Source: Hedergr, Fu-Bertaux et al *Lessons from Needs Assessments*, GIZ 2013

Enabling environments for climate finance

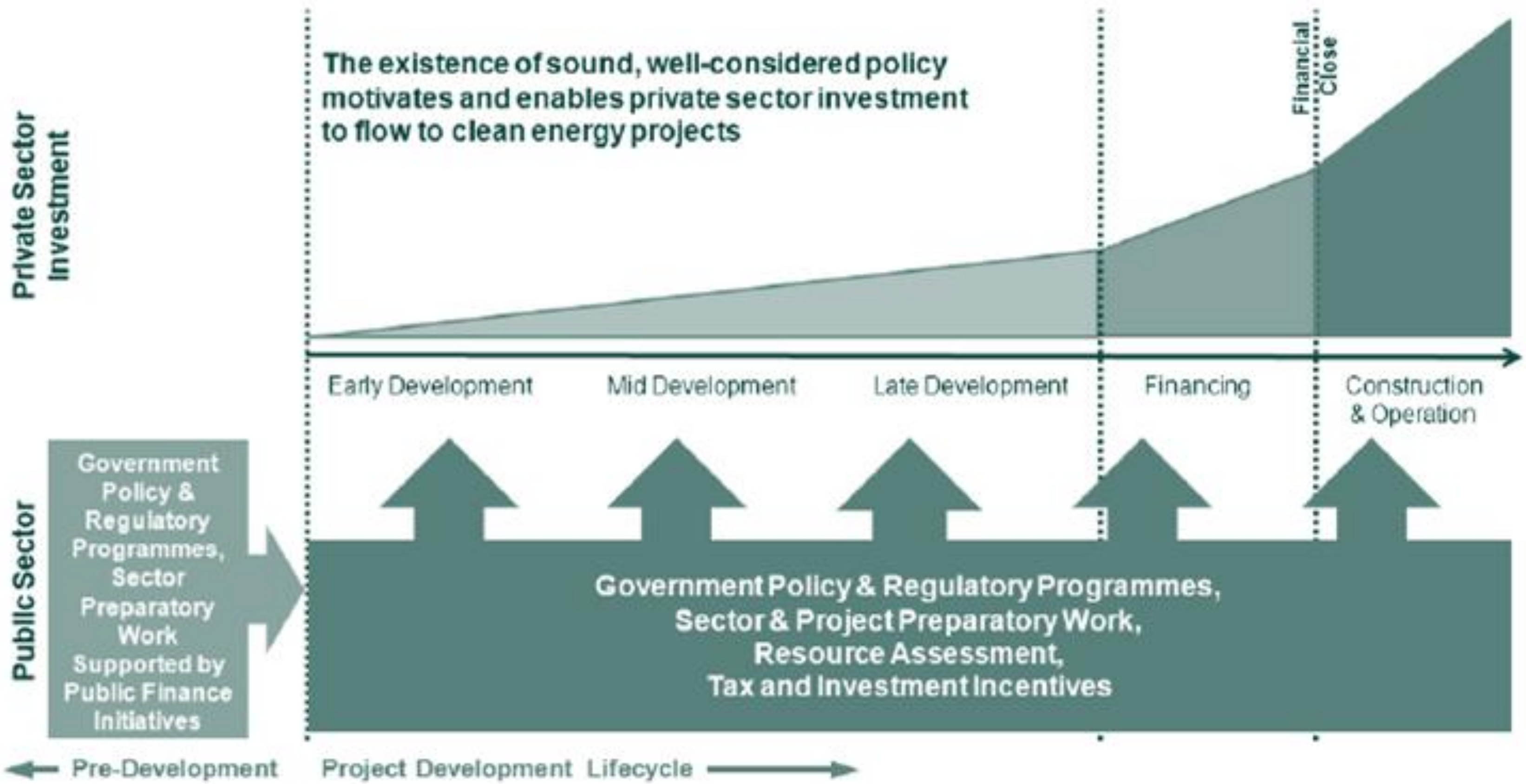
Why focus on enabling environments?

- Recognition that enabling environments i.e. policy, regulatory and governance frameworks fundamentally affect the viability of investment in low carbon and climate resilient approaches
- Shape various risks and barriers that stakeholders (particularly private sector actors) face in *scaling up* investment in solutions to climate change, and *scaling back* investment business as usual
- Increases the likelihood of lasting impact through a strategic approach to national circumstances and institutions

Central to adaptation

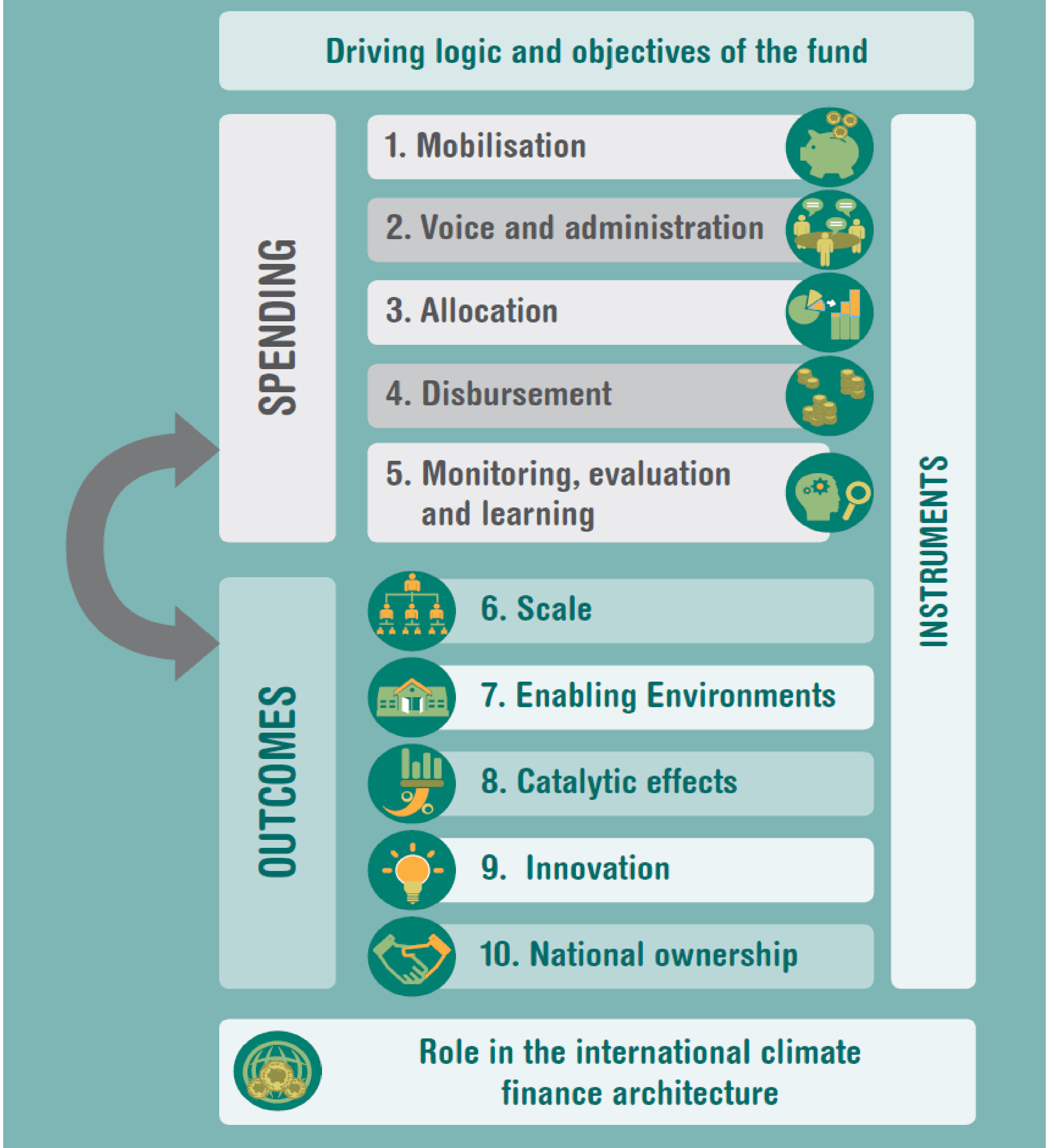
- A need for better information on climate impact and risk – closely linked to efforts to reduce disaster risk
- Need for institutions that can use information and respond to changing circumstances (at from national to local)
- Policies and regulations that identify priorities, support risk management, and support resilience
- Economic incentives
- Communication, technology and knowledge
- Closely linked to development

And key to successful mitigation



Source: UNEP, Aequero

Understanding the Effectiveness of Climate Finance



- Many countries are creating new climate finance institutions
- Closely linked to ownership and rooting in national stakeholders needs and priorities. Many of the issues at hand are inherently political
- Involvement of stakeholders – particularly private sector and technical expert groups – can help
- Support lasting capacity at local and national level within the institutions that ultimately need to deal with climate change. Requires long term engagement.

- A lack of emphasis from the outset can delay and disrupt implementation, and reduce effectiveness
- Different sources and forms of finance and support need to be used together
- Need to link interventions that target institutions, policy and regulation with larger scale investments in low carbon and climate
- Some case for longer-term and larger scale programmatic approaches that work through national systems, alongside technical assistance and capacity building programs

What new opportunities does a focus on readiness offer?

Support for readiness

- Express provisions for support for such activities in the design of the Green Climate Fund, as an intrinsic element of the fund
- Investing in readiness should help maximise effectiveness and reduce risks. It is a bridge to good delivery, lowering possibilities that funding is not well suited to country contexts and needs, and increasing likelihood of effectiveness
- Many actors are already involved in activities related to readiness. Several tools and frameworks to support diagnostics have also been developed, including from an investor perspective. New activities need to add new value. A question of coordination.

GCF Readiness Priorities

http://www.climatefundsupdate.org

Comprehensive information on the objectives and scope of dedicated public climate finance:

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Enabling environments are key to catalysing investment in mitigation

Sector / Source of capital[1]	Debt (OTC and market traded etc.)		Equity (listed and unlisted – including balance sheet finance)		Guarantees / loan insurance		Insurance (including export credit insurance)		Grants (including philanthropy and corporate social responsibility)	
Investors	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private
Mature renewable projects (onshore wind, solar PV)	Established	Established	Emerging	Established	Established	Limited	Limited	Established	Established	Established
Maturing renewable projects (geothermal and biomass power)	Emerging	Emerging	Emerging	Established	Established	Limited	Limited	Established	Established	Established
Developing renewable projects (offshore wind or CSP)	Emerging	Limited	Limited	Established	Emerging	Limited	Limited	Established	Emerging	Emerging
Industrial efficiency / Efficient FF generation projects	Emerging	Emerging	Emerging	Emerging	Emerging	Limited	Limited	Established	Emerging	Limited
Sustainable buildings	Emerging	Emerging	Limited	Emerging	Emerging	Limited	Limited	Established	Emerging	Emerging
RE / EE equipment	Limited	Established	Limited	Established	Emerging	Limited	Established	Established	Emerging	Emerging
Sustainable transport solutions (BRT, Rail)[2]	Emerging	Limited	Limited	Limited	Established	Limited	Limited	Established	Established	Limited
Waste and water management	Emerging	Limited	Limited	Limited	Established	Limited	Limited	Established	Established	Limited
Sustainable agriculture and forestry	Emerging	Emerging	Limited	Limited	Limited	Limited	Limited	Established	Emerging	Established
Climate proofing (of infrastructure)[3]	Limited	Limited	Limited	Emerging	Limited	Limited	Limited	Emerging	Emerging	Limited

Key: Established[4] Emerging Limited

Sources: IFC 2011, Nakhooda, Watson and Whitley 2012, and authors' additional analysis

1 The table could be expanded by breaking out debt and equity in more detailed sub-categories, and include levels of concessionality
2 Transport and waste/water management are often last to be privatized; public private partnerships may be elusive, and private sector participation is not always possible
3 It may be useful to look at this in terms of specific infrastructure types (roads, buildings, power plants etc.)
4 Specific levels of investment under each category and thresholds for ongoing monitoring need to be refined, and undoubtedly vary across countries.

Barriers identified in past LTF reports

	POLICY AND REGULATORY	MARKET AND TECHNOLOGY	GENERAL FINANCIAL
Barriers	Uncertainty and complexity; Enforcement of policy and pricing incentives; Transaction costs; Terms for public and private sector participation in relevant sectors (e.g. energy, water, agriculture, transport); Land allocation, access and security of ownership; Subsidies and policy support for high carbon solutions; New or weak institutions entrusted with climate change policy and a lack of coordination; A lack of information, transparency and inclusion	Relatively high upfront costs; Information barriers and asymmetries; Human and operational risks (lack of trained people); Limitations of support infrastructure (e.g. grid connectivity); Immature supply chains; Context for grid; Lack of track record and high perceptions of risk (whereas risks of high carbon options are not well recognized)	Country risk e.g. defaults; inflation; Currency risk; Transaction costs; Complexity of climate change relevant investments; Financial viability of proposed investments; Compounded by concerns about financial viability of state owned entities in key sectors (especially energy and water utilities, public transport)

Principles for GCF Readiness Support

- **Flexible**, to accommodate the diverse needs and characteristics (socio economic and geopolitical) of different countries
- **Responsive** to changes in circumstance, and offered at appropriate scale (to national needs)
- Purposeful and collaborative, aimed at building **lasting institutional capacity within** recipient **countries** rather than relying excessively on external expertise and international institutions
- **Sustained**, and available on an **on-going basis** (if needed)
- **Integrated into core investments in mitigation and adaptation**
- **Inclusive** of relevant stakeholders, targeting both the public and private sectors
- Foster **continuous improvement and learning** from different approaches to
- Delivered with **transparency and accountability**

Support for readiness activities should **avoid**

- creating unwarranted new obstacles to accessing finance
- placing unwarranted burdens on recipients