Investment and financial flows to address climate change

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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

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

Carbon markets - current

- **The carbon market is already playing an important role in shifting investment flows**. This is indicative of how quickly investment flows can respond to changes in policies and incentives.

- **CDM shows already a significant potential to leverage domestic and international investments**.

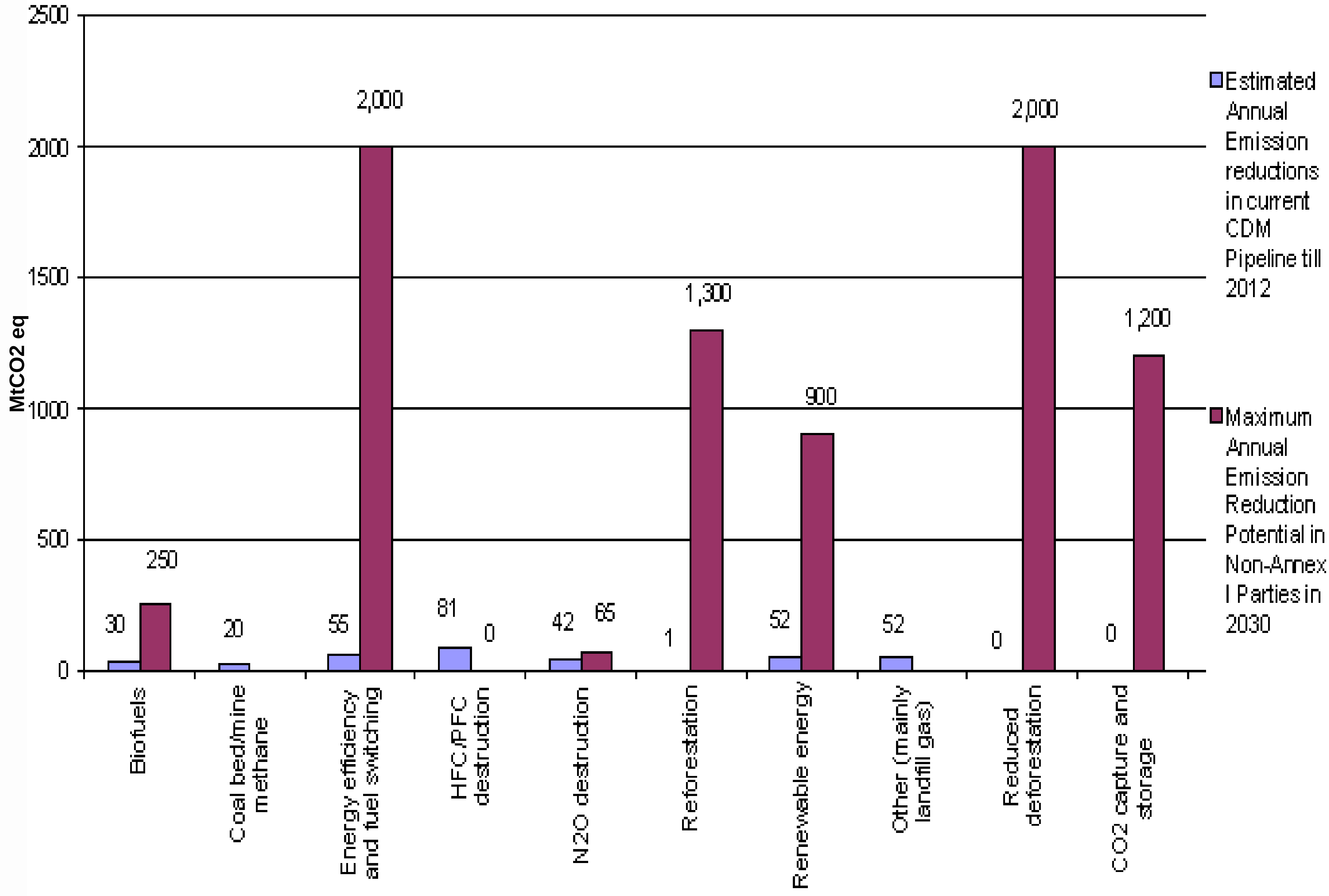
- The **supply of Kyoto units will be abundant compared with to the level of compliance demand for the period 2008–2012**.

Carbon markets - potential

- Under a **low estimate** of compliance demand by Annex I Parties in 2030 (market of USD 5–25 billion per year), **the current flow of CDM and JI projects would sufficient** to provide supply.

- **A high post-2012 demand** for emission reduction credits **could allow the expansion of existing market mechanisms**.

- **Policy certainty is important for investors**. A longer-term international agreement on climate change broadens the range of mitigation measures that are attractive investments.



MtCO2 eq
2500
2000
1500
1000
500
0
30
250
20
55
2,000
81
0
42
65
1
1,300
52
900
52
0
2,000
0
1,200
Biofuels
Coal bed/mine methane
Energy efficiency and fuel switching
HFC/PFC destruction
N2O destruction
Reforestation
Renewable energy
Other (mainly landfill gas)
Reduced deforestation
CO2 capture and storage
Estimated Annual Emission reductions in current CDM Pipeline till 2012
Maximum Annual Emission Reduction Potential in Non-Annex I Parties in 2030

Adaptation Fund

- Funding for the Adaptation Fund between 2008 and 2012 is estimated at about **USD 80-300 million**.

- **For post 2012** the Fund depends on the continuation of the CDM. The level of funding could be:
  - **USD 100–500 million** for **low demand** by Annex I Parties in 2030 for credits from non-Annex I Parties; OR
  - **USD 1–5 billion** in 2030 **for high demand**.

- The Adaptation Fund could be further expanded with **additional sources of funding**.

ODA and Financial Mechanism

- Although **ODA** funds are currently less than 1 per cent of investment globally, LDCs and smaller developing countries will continue to rely on ODA and soft loans from IFIs.

- If the funding available under the **financial mechanism** remains at its current level and continues to rely mainly on voluntary contributions, it will not be sufficient to address financial flows estimated to be needed for mitigation and adaptation.

Options for other sources of funding

- Several options have been suggested in the study. Some of these options could generate revenues commensurate with the additional investment and financial flow needs.

- Any of these options would require further analysis and agreement at the intergovernmental level.

National policies

- **Governments set the rules** for the markets in which investors seek profits. Relevant policies are needed both in developed and developing countries.

- **Incentives and support** for development and implementation of policies in developing countries is needed.

- **International coordination of policies** by Parties in an appropriate forum will be most effective for areas such as technology R&D and deployment, and energy efficiency standards for internationally traded appliances and equipment.