Concept note on ‘Practitioner’s workshop on Climate Finance for low carbon development’

1. INTRODUCTION

Climate finance is a critical issue when it comes to investment in low emission approaches and it needs proper attention. Climate finance is essential in several ways, first, to achieve the implementation of mitigation actions as mentioned in respective countries INDCs; and secondly, to make the transition to low emission and climate resilient approaches. The transition to low-carbon development can be achieved through public and private investment and through policy reforms in sectors such as renewable energy, energy efficiency, agriculture, forestry, industry and transport, which emit large quantities of greenhouse gases. Large-scale investment is required in these sectors to introduce low emitting technology, to reduce emissions. This can be achieved through Climate finance1 mode. The term ‘Climate Finance' has also been used in a narrow sense to refer to transfers of public resources from developed to developing countries, and in a wider sense to refer to all financial flows relating to climate change mitigation and adaptation.

Climate finance can be channeled through various public and private sources including national, regional and international entities. Examples of entities though which climate finance can be directed include, Bi-lateral financial institutes (BFIs), Multi-lateral financial institutes (MFIs), development cooperation agencies, various funds including those managed by the Global Environment Facility (GEF) and Green Climate Fund (GCF) an operating entity of the UNFCCC’s financial mechanism, and the private sector. The GCF has a target to raise funding of $100 billion a year by 2020 for climate finance. Under the GCF, recipient countries have direct access to funds through accredited sub-national, national, multilateral and regional implementing entities. For climate funds under GCF, financing can be obtained through grants, loans, equity, and other financial instruments as stipulated by the fund managers. The World Bank Group currently provides an average of $10.3 billion a year in direct financing for climate action with a likely increase in financing from the current 21% of its portfolio to 28% by 2020 (WBG, 2016). Furthermore, the leading development financial institutions agreed in 2015, prior to COP21, on

[1] The United Nations Framework Convention on Climate Change (UNFCCC) for purposes of financing climate change mitigation and adaptation actions defines Climate finance as *local, national or transnational financing, which may be drawn from public, private and alternative sources of financing*.

common principles for tracking mitigation and adaptation finance, an agreement that will help boost trust about finance flows, and transparency about climate finance.

During the first Kyoto commitment period (i.e. since 2008-2012) significant climate finance had been leveraged through Clean Development Mechanism (CDM). The CDM has emerged as widely recognized carbon crediting mechanism in the world, leveraging private investment 10 times the public funds invested. The CDM continues to evolve with the development of emissions reduction projects or programmes which generate certified emission reduction units (CERs) that are traded in emissions trading platforms for compliance or voluntary purposes and increasingly as a results-based finance instrument for pre-2020 climate action. New and innovative avenues for climate finance are on the rise with diverse conditions and eligibility requirements, key examples include, the pilot auction facility which provides a tradable price guarantee for mitigation action (e.g. from the World Bank), finance for N2O mitigation as proven by the CER (i.e. German govt.) and use of the CDM in domestic carbon tax schemes (e.g. Mexico and South Africa Carbon tax) and aviation for achieving climate neutrality. A recent in-session workshop on climate finance on and the CDM during the Bonn climate negotiations in May showcased several other unique financing opportunities, including the use of green or more specifically climate related bonds, which aim to leverage private capital.

In order to reach the Paris commitment to limit warming to 2 degree C ideally 1.5 degree C, projections show that about USD 5.7 trillion will need to be invested on an annual basis in green infrastructure by the year 2020 (World Economic Forum, 2013). Given the scale of investment required, existing resources such as Global Environment Facility, the Climate Investment Funds, and the Green Climate Fund among others are inadequate to finance the change needed. Creating the right conditions and opportunities for private-sector investment is essential to unlock the trillions. Hence the role of risk mitigation and structured finance sets out a global action agenda to scale up investment in low carbon and resilience over the coming years.

There are areas of expertise in both financial and environmental risk, so combining these to offer policymakers, financial institutions and project developers a toolkit which enables them to contribute to that agenda is essential. Presenting the financial instruments and policy tools available to overcome constraints that currently prevent investment from getting to scale and the investment opportunities already available under CDM and NAMAs, the linkages to NDCs and the GST process under the UNFCCC are essential for capital market interest in developing country climate friendly investment.

Challenges exist for developing and least developed countries including expertise to develop bankable opportunities, creation of climate risk free favorable structures that attract capital markets and awareness raising to make these opportunities available – showing real mitigation and resilience towards country NDCs. There is therefore need for engagement in constructive dialogue.

To initiate dialogue these challenges, UNFCCC's regional collaboration center at Kampala together with East African Development Bank is organizing a one day practitioner's workshop on 29 August on Climate Finance for low carbon development at Kampala. Please refer to following agenda for the program. Kindly confirm your participation to Ms. Brenda Rwamahe at brwamahe@unfccc.int by Friday, 19 August 2016.

2. OBJECTIVES

- Identify the appropriate capacity building needs for financial institutions involved in funding climate friendly projects to secure climate finance and leverage greater lending;
- Understand what the private sector project developers need to tap into innovative financing mechanisms to implement mitigation actions e.g. how CDM PoAs can benefit from climate finance opportunities emerging out of the Kyoto compliance period with CDM;
- Identify the financial intermediation needs in the existing lending models and recommend the solutions that can improve investments in climate friendly technologies;
- Assessment of the fiscal incentives such as guarantee's and first loss facilities that could encourage capital market investment in clean energy at international, national, and sub-national levels.

3. TARGET GROUP

The workshop will bring together experts from regional development banks and commercial banks active in financing mitigation actions. Representatives from private sector bodies within Uganda such as private sector foundation of Uganda will also be invited. A total of 10 to 15 participants are expected to attend the workshop.

Agenda

Venue – EADB Conference room on ground floor, EADB Office, Kampala

29 August 2016

Time	Agenda	Responsible
8:15-8:30	Registration of Participants	All
8:30-8:45	Opening remarks from EADB	DG, EADB
	Session 1	
8:45-9:45	International climate finance landscape • Climate finance needs • Climate finance opportunities • Climate finance instruments • Galvanizing action under the Paris Decision & Agreement	Grant Kirkman, UNFCCC
9:45-10:15	Question and Answer session	All
10:15-10:45	Refreshment Break	All
10:45-11:15	Financing mitigation actions through • Linking the mitigation actions and finance requirements • Ensuring credibility of mitigation outcomes via the CDM and others	Vikrant Badve, RCC Kampala
11:15-11:30	Role of the private sector in mitigation and adaptation actions	GIZ
11:30-11:45	Policy backing for private sector investment in climate change actions	Uganda private sector forum
11:45-12:30	Question and Answer session	All
12:30-13:45	Lunch break	All
Session 2		
13:45-15:30	Moderator: UNFCCC Panel discussion: What is needed from public resource to unlock private finance? Finance risks & opportunities Environmental mitigation risks & opportunities • The financier's perspectives • The project developer perspective • Financial regulator perspective	All the participants

15:30 to 15:45	Refreshment Break	All
15:45-16:45	Moderator: EADB Way forward and how can the EADB help? Participant discussion on ways to broaden the dialogue, involve other partners, develop a programme of work to involve innovative finance solutions needed to support and scale-up climate mitigation and adaptation activities	All the participants
16:45-17:00	Closing remarks	Bella Musima, EADB / Vikrant Badve, RCC Kampala