Mobilizing Climate Finance

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G-20 Mandate: Deepening the AGF Analysis

"We tasked the World Bank, working with Regional Development Banks, and the IMF, in coordination with other relevant organizations, to ***conduct the analysis on mobilizing sources of climate change financing, including public and private bilateral and multilateral as well as innovative sources****, drawing inter alia on the AGF report consistent with the objective, provisions and principles of the UN Framework Convention on Climate Change."*

Communiqué of G-20 Finance Ministers and Central Bank Governors, Washington D.C., 14-15 April, 2011

Public and Private Flows are Complements

Public Sources

- Comprehensive carbon pricing policies
- Market-based instruments (MBIs) for international aviation and maritime fuels
- Fossil-fuel subsidy reforms

Leveraging Private & Multilateral Flows

- Other policies and instruments to engage private finance
- Carbon markets to catalyze private flows
- Strengthening MDB leverage and pooled arrangements

1. Public Sources
2. Leveraging Private & Multilateral Flows
3. Monitoring Climate Finance Flows
4. In Summary

Comprehensive Carbon Pricing (1/2)

- More effective: exploits mitigation opportunities economy-wide
- More efficient: pursues least-cost options
- Substantial revenue potential
  - \$25 per ton CO_2 => \$250 billion in 2020 in developed countries
  - for efficiency, fiscal consolidation and support to low-carbon growth (domestically and abroad)

Comprehensive Carbon Pricing (2/2)

- Choice between carbon taxes and emissions trading less important than doing something and getting the design right
- Economic costs expected to remain modest, if revenues applied productively (e.g., used to scale-back inefficient taxes)
- Several options to improve acceptability (e.g., reduce other taxes/use transfer system) but reduce revenue

International Aviation and Maritime Fuels

- A sizeable and growing source of emissions, under-taxed from both an environmental and broader fiscal perspective
- Global approach to charging needed (esp. for maritime), due to mobility of vessels; so need to compensate developing countries
- Compensation and implementation need further study—but appear feasible
- Revenue potential of about \$40 billion (\$25 per ton CO_2 charge on fuels); \$22 billion net of compensation for climate finance and other uses

Reform of Fossil Fuel Subsidies

- US$10 billion p.a. **<u>if</u>** reforms in developed countries led to 20% of subsidies being directed to international climate finance
- Scope for reforms in developing countries (> $300 billion p.a.)
- Progress in several countries on reform, for efficiency, fiscal consolidation and low-carbon growth
- Well-targeted, transparent and timebound programs required to assist poor households and energy workers

New OECD inventory of fossil-fuel support in developed economies

- US$40-60 billion p.a. (2005-10) for Annex II (OECD: $45-75 billion p.a.)
- half for oil; two-thirds for consumption
- over 250 support mechanisms, mostly budgetary transfer and tax expenditures
- not all are inefficient and lead to wasteful consumption
- estimates must be interpreted and aggregated with caution, since majority are tax expenditures (in reference to country-specific benchmark)

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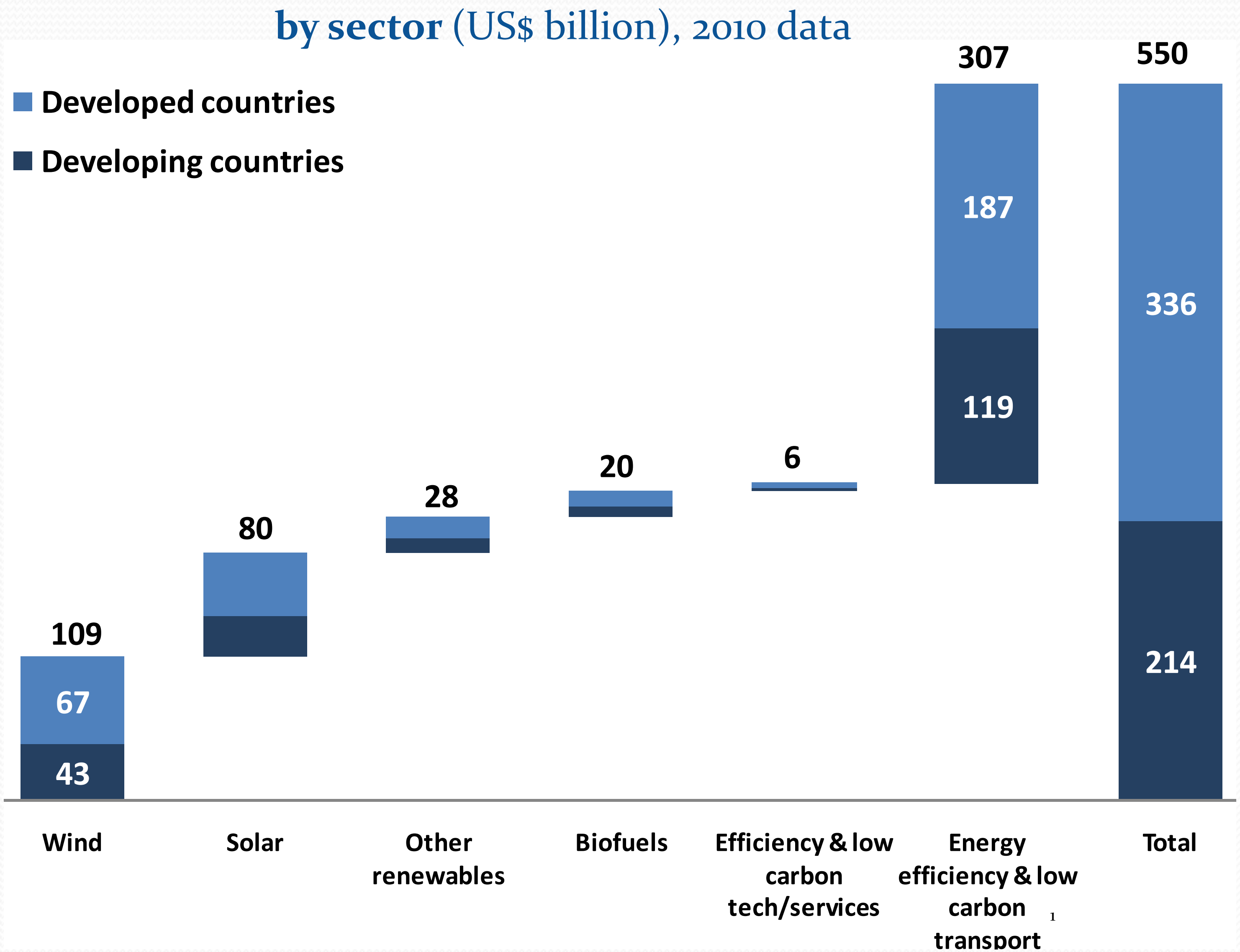
Climate investment has grown fast and has more potential if market failures and barriers can be tackled

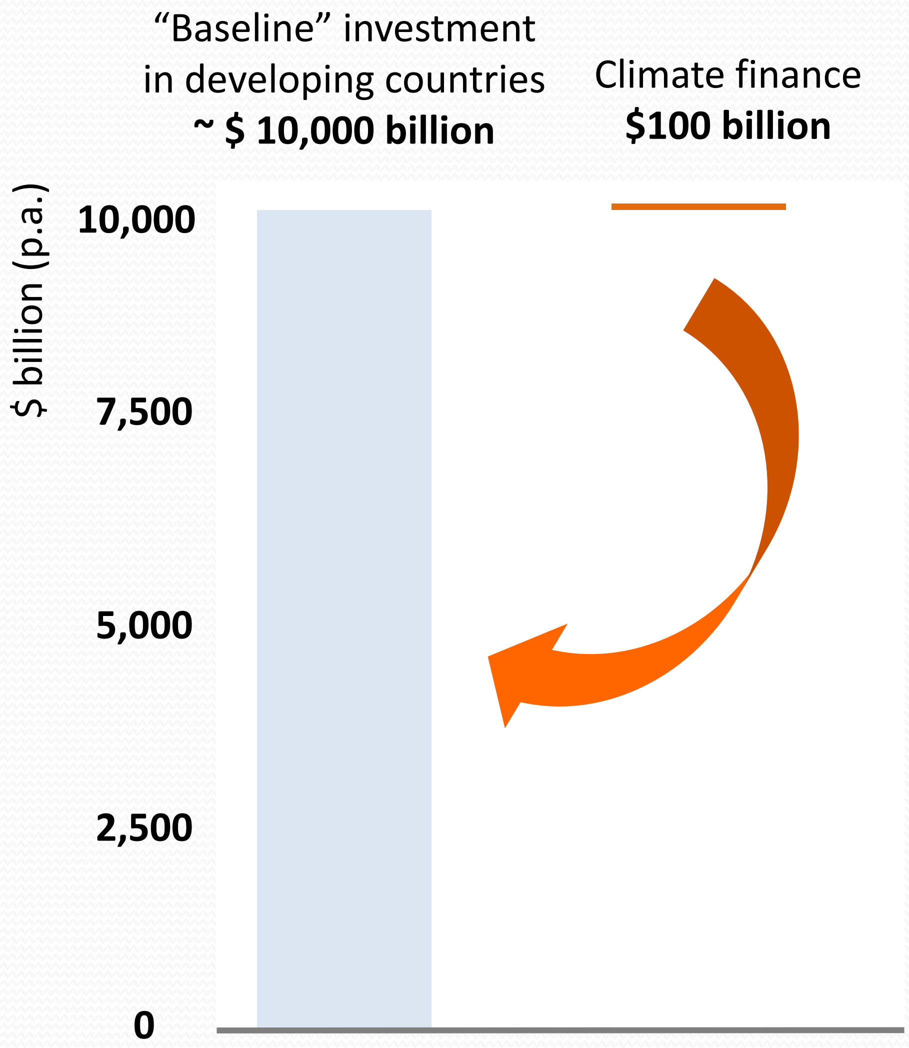


[1]: Pro-rated split between developed and developing countries

Source: Bloomberg New Energy Finance, HSBC, staff estimates

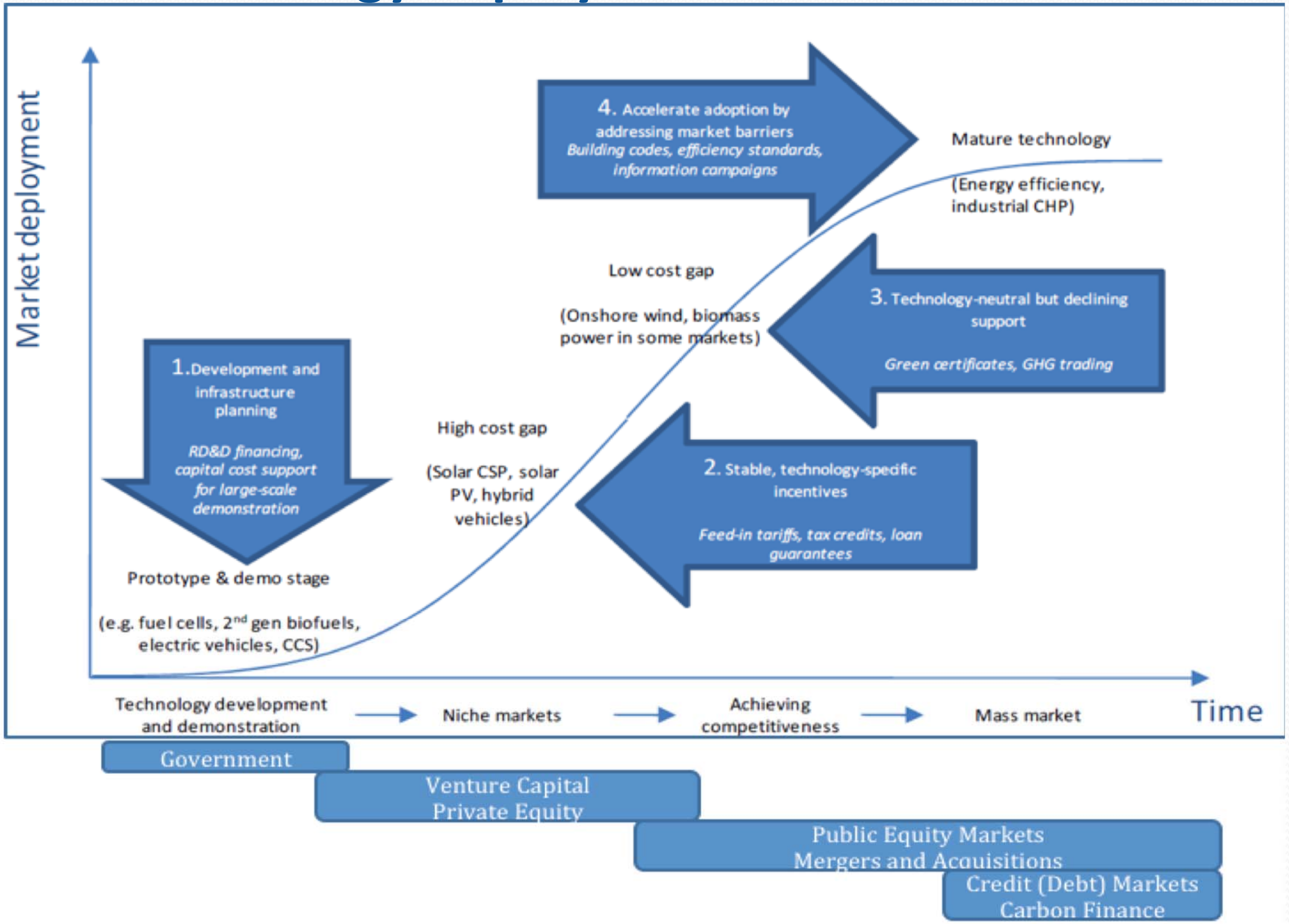
The Need to Leverage

Climate Finance as a catalyst (illustrative scenario)



Climate finance covers additional costs and serves as a catalyst to leverage development investments & enhance development policy and finance

Financial instruments and support mechanisms can facilitate clean energy deployment



Source: Adapted from OECD (2011) and Bloomberg New Energy Finance (2011)

Public and Private Flows are Complements

Scaling-up financing & transformation with the Climate Investment Funds

Transforming clean technology markets

$750 million to catalyze $4.8 billion for deployment of 1GW in concentrated solar power (3 x current global capacity) in 5 Mediterranean countries.

Piloting index-based agricultural insurance

contingency funding to farmers in Niger to cope with climate shocks (with Global Index Insurance Facility, private sector, other partners).

Opening domestic capital markets for clean energy

$50 million in cofinancing for concessional debt and technical assistance to incentivize commercial banks in Turkey to establish new lines of business.

Carbon markets: alive despite very low prices

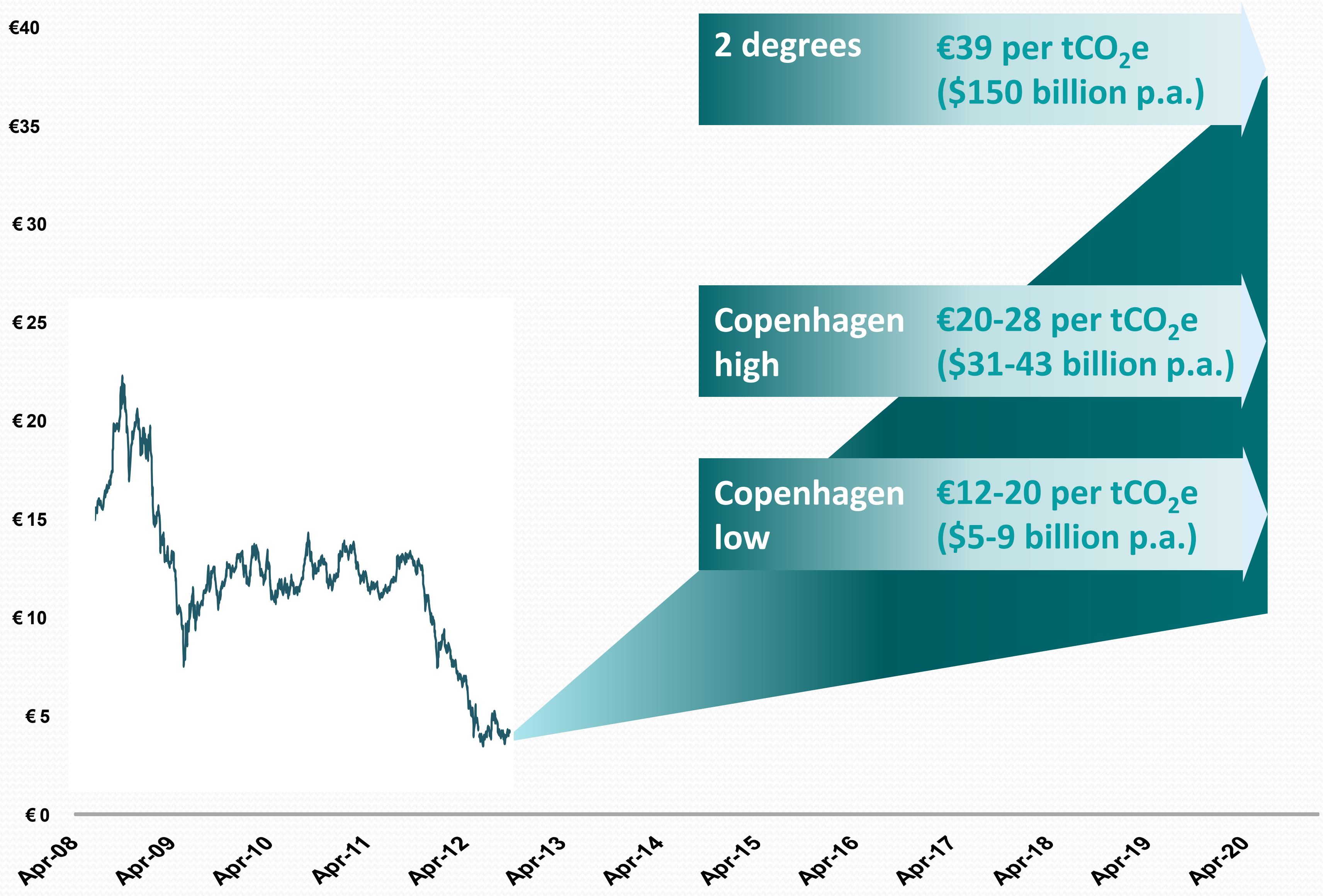
- A viable, cost-effective means to reduce emissions and to catalyze low-carbon investment
- Joining EU and NZ, 6 jurisdictions passed climate bills, including market initiatives
  - Australia, California, China, Quebec, Republic of Korea, Mexico
- Durban decisions increased the regulatory clarity on existing market and advanced on new market instruments

Partnership for Market Readiness (PMR)

A $100 mln global partnership for carbon market innovation:
- Build market readiness
- Pilot new concepts for market instruments
- Foster technical discussions and exchange on lessons and best practices
- Connect countries and collectively foster a global carbon market.

25 countries (15 implementing)

Where Next for Carbon Markets ?



Options to keep momentum in carbon markets

Demand: Bridge the gap

- Manage transition post 2012
- Adopt ambitious targets, aligned with 2°C, with greater scope for market mechanisms
- Bring long-term policy clarity on future frameworks and work towards their harmonization

Supply: Build a pipeline

- Support readiness to design eligible projects and programs
- Innovate to turn carbon into finance (frontloading mechanisms, risk-mitigation tools, revolving funds)

Harmonize rules and institutions

- Scale-up from projects to programs
- Harness untapped opportunities, e.g., sustainable energy, forestry and agriculture in Africa, cities, policies
- Harmonize market framework, for efficiency, greater access and environmental integrity

Role of MDBs:

Mobilizing and leveraging finance and markets

Facilitating access to climate finance

$19 bln for mitigation in 2011

Climate Investment Funds

Green Bonds

Catastrophe risk financing

Pioneering carbon finance

Role of MDBs:
Mobilizing and Leveraging Finance and Markets

A. Pooling flows to support targeted concessional lending	B. Leveraging shareholder capital with private market borrowing

• **New ways to contribute**, e.g., long-term concessional loans with Clean Technology Fund
• **New sources**, e.g., private foundations and emerging donors
• More **flexibility in structuring**
• **Learning opportunities** from health sector (AMC, IFFIm)
	• **Limited current headroom for additional climate financing**
	• A climate-focused capital increase could be considered in the longer term
	  ◦ **Leverage factor of 3 to 4 for new climate loans**
	  ◦ Solutions needed to **accommodate climate capital increase with shareholder structure**

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Monitoring a Complex Web of Flows to build trust and understand performance

- Clear definitions of public and private climate finance
- Tracking of international flows, at both ends
- For public flows, draw on existing systems (Rio Markers) and on-going efforts (e.g., by MDBs)
- For private flows, track leverage ratio of public instruments and carbon market flows

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Taking forward revenue options

- Fossil-fuel subsidies: expand inventories of support; implement commitments through well-designed and durable reforms
- Carbon markets: implement targets under the Copenhagen Accord and Cancun Agreements; continue reform and innovation
- Expand MDB pooled financing arrangements to build momentum and gain experience
- Build in-country policy and institutional readiness to facilitate access and increase impact
- Generate knowledge and share experience through new networks and partnerships (e.g., SGG, B-20 Platform)
- Improve monitoring and tracking of flows for building trust and learning

Thank you