Needs-based Climate Finance Project

CLIMATE FINANCE ACCESS AND MOBILIZATION STRATEGY FOR CENTRAL ASIA AND SOUTH CAUCASUS (2023–2030)

United Nations
Climate Change

Contents

I. Introduction

A. Background

1. The Central Asia and South Caucasus (CASC) region[1] represents a diverse group of countries with different economic structures, income levels, size and many other parameters. What all the countries in this region have in common is that their economies are in transition from a centrally planned economy to a market economy. However, the pace of transition varies significantly from country to country. Despite these differences the countries of this region face similar, and in some cases shared, challenges with regard to climate change.

2. The CASC region is one of the most at-risk regions in the world to the impacts of climate change and the countries in the region are already facing adverse effects (floods, droughts, invasive pests, etc.). The impacts of climate change are expected to intensify as the projected rise in mid- and end-century temperatures in CASC is likely to exceed the rise in global average temperatures. Changing water flow and precipitation patterns are expected to have a major impact on ecosystems and livelihoods. The economic sectors expected to be most severely impacted are agriculture, energy, irrigation and health systems.

3. Since 1990, this region has reduced its greenhouse gas emissions by much more than the rest of the world. Between 1990 and 2018, global greenhouse gas emissions increased by about 50% whereas emissions in CASC were below the 1990 level for nearly the entire time period. Nevertheless, the region still has the potential to further reduce its emissions. The energy, transportation and forestry sectors are among those with the greatest and most cost-effective opportunities.

4. The Climate Finance Access and Mobilization Strategy for Central Asia and South Caucasus has been informed by a detailed technical assessment[2] and developed under the leadership of national focal points.

B. Climate finance context

5. Between 2013 and 2018 international public climate finance totalled USD 9.1 billion, of which 76% was for mitigation, 19% for adaptation and 5% for cross-cutting. However, regional initiatives in CASC region amounted to only USD 150 million or less than 2% of finance reported during 2013–2018.[3] This is despite shared, and often interlinked, climate change related challenges facing the region.

6. A significant amount of new finance is needed to address climate change activities. International public climate finance in 2018 reached USD 1.7 billion, which is a fraction of the total finance needed. The additional climate-adjusted estimates of finance needs for infrastructure investment in CASC is about USD 5 billion per year, on top of USD 33 billion in baseline financing.

7. In addition to the resource gap, the countries face challenges in the alignment of international finance flows with their needs. The analysis undertaken to date indicates that there is opportunity to channel the limited climate finance flows to better match national and regional climate finance needs.

C. Key climate finance challenges in Central Asia and South Caucasus

1. Access to existing climate finance resources

8. Not all countries in the region have utilized the range of climate finance instruments and sources available. Insufficient capacity in developing and implementing climate change projects was noted as the main barrier with respect to access. Furthermore, capital costs are often significantly higher among CASC countries than among other developed countries, which disadvantages the region when implementing capital-intensive projects, such as renewable energy projects.

[1] The group of countries comprising Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan is collectively referred to as Central Asia and South Caucasus for the purposes of this project. It is not an internationally recognized grouping.

[2] UNFCCC. 2023. Technical Assessment of Climate Finance for Central Asia and South Caucasus. Available at https://unfccc.int/sites/default/files/resource/UNFCCC_NBF_TA_CASC_final.pdf.

[3] Since 2018, the regional response to the climate challenge has been strengthened but remains an area where there is significant opportunity to strengthen cooperation.

2. Mobilization of climate finance to bridge shortfall in finance

9. The estimated finance need of the region amounts to USD 38 billion per year up to 2030. Considerable effort is needed to bridge the gap between the climate finance needs of countries in CASC and the amounts received from providers of financial resources. There is considerable potential in tapping into alternative sources, such as sovereign wealth funds within the region, for supporting domestic and regional investments.

3. Alignment of international finance flows with national and regional priorities

10. International finance flows in the region amounted to USD 9.1 billion in 2013–2018, averaging USD 1.7 billion per year. This was channelled mainly to mitigation projects, in particular, the energy sector. This is in contrast with the needs communicated by Parties, which indicate that adaptation and mitigation needs are almost equally balanced (46% related to adaptation, 41% mitigation, and around 13% to cross-cutting measures).[4]

[4] See footnote 2.

II. Strategic framework

11. A three-pronged strategy has been developed in response to these challenges. First, institutional capacity must be supported at the national and regional level to ensure that the strategy is implemented and needs are prioritized appropriately. Second, there is an opportunity to enhance access to climate finance, especially in strengthening regional initiatives to address shared challenges and make the most of opportunities across the region. Third, there is a need to work across national, regional and international stakeholders to mobilize greater finance flows in support of climate-conscious development.

A. Strategic objective I: institutional capacity-building at the national and regional level (5 years)

12. It is important to ensure that the climate finance strategy continues to be implemented in line with the needs of CASC countries. To this end the CASC countries have designated a regional coordinating body to correct strategy coordination, subject to availability of funding. The role of the regional coordinating body will be to support coordination across CASC countries to ensure that the implementation of the strategy continues to be aligned with CASC needs. In addition, the regional coordinating body will support relevant stakeholder engagement in line with the stakeholder consultation mechanism that will be developed to support strategy implementation. The stakeholder consultation mechanism will include guidelines for consultation between CASC countries, development partners and other key climate finance related stakeholders.

13. With time, the capacity-building support will expand to include technical assistance for international climate negotiations as well as engagements with relevant institutions providing climate finance. Through such engagement CASC countries can better ensure that international support is aligned with their needs and priorities, particularly the needs of developing countries undergoing the process of transition from a centrally planned economy to a market-based economy. Furthermore, institutional capacity support will be needed to help to coordinate enhancing access to climate finance for regional initiatives and mobilization of additional climate finance resources.

Actions:

14. To implement this strategic objective the following actions are envisioned:

(a) Agree on a consultation mechanism between CASC countries, development partners and other key climate finance related stakeholders;

(b) Agree on the designated entity or entities that will support the coordination of institutional capacity strengthening activities;

(c) Mobilize resources to enable coordination and institutional capacity strengthening as necessary;

(d) Provide coordination support in the implementation of the climate finance strategy (provisioned by designated entities).

B. Strategic objective II: enhance access to existing climate finance resources (2–3 years)

15. Bilateral and multilateral financial resources are available to support regional initiatives, often in addition to any finance available to a country at the national level. In effect, by accessing resources for regional initiatives there is an opportunity to strengthen the climate response at the regional level while attracting more resources to the region. Resources for regional initiatives are available through the Green Climate Fund, the Adaptation Fund and the Global Environment Facility as well as through bilateral channels. Furthermore, through blending different sources of finance, multilateral development banks such as the Asian Development Bank and the World Bank can help to blend and package different sources of finance that could increase the overall resource envelope available to the region while at the same addressing national-level priorities.

16. Strengthening regional initiatives is an immediate priority for countries in the region and would greatly enhance the effectiveness and efficiency of the region's response to the climate change challenge.[5] The table below identifies the climate-related challenges that have a strong regional or cross-border dimension and are likely to benefit from regional cooperation.

[5] There is also a need to address constraints for accessing climate finance for country-level actions. However, the strategy discussed here is focused on measures related to enhancing regional synergies in responding to climate change related challenges.

	Climate-related challenges with cross-border dimensions		
	Adaptation	***Mitigation***	***Cross-cutting***
Regional	– Best practice and knowledge exchange on adaptation 'know how' – Development of climate-resilient agriculture	– Energy sector, best practice and knowledge exchange – Improved efficiency on logistics infrastructure	– Best practice and knowledge exchange
Subregional	– Pest control – Coordinated disaster response	– Improved electricity interconnectivity (also regional)	– Water resource management (energy and agriculture) – Forestry management

Source: UNFCCC. Based on aggregated data from biennial reports, NCs, NDCs, TAPs and TNAs.

Actions:

17. To implement this strategic objective the following actions are envisioned:

(a) Agree on priority sectors for addressing climate change related challenges;

(b) Identify possible development partners to implement regional projects and programmes;

(c) If appropriate, designate lead implementing entity for each identified priority regional project or programme;

(d) Develop joint regional projects and programmes and ensure that they are implemented.

C. Strategic objective III: climate finance mobilization (3–5 years)

18. Bridging the gap between climate finance needs and flows in CASC countries requires greater resource mobilization for climate investments at all levels. In this context, international climate finance from public and private sources could be further scaled up. Domestic sources of finance could also be channelled to support climate investments, particularly as efforts to broaden and deepen domestic capital markets intensify. National pension funds, with long-term time horizons, also have the potential to be providers of capital to support climate-conscious development. Similarly, the oil and gas exporting countries in the region with sizable sovereign wealth funds could be encouraged to channel their capital towards climate-conscious investments nationally and across the region. Yet another major source of capital in the region, particularly in oil and gas importing countries, comes from remittance inflows.

19. To tap into these vast pools of capital two key obstacles need be overcome. First, there is a need to improve awareness across stakeholders on how to incorporate climate-related considerations into investment decision-making. Second, the risk profile of investments needs to better match investor appetite. In practice for CASC countries, it means lowering the risk profile of investments. This can be done through various mechanisms, including public–private partnerships, that are supported through international public finance.

20. Deploying mechanisms to de-risk climate-related investments is a key priority for the region. One of the desired results is to unlock the potential of regional sovereign wealth funds and pension funds for financing climate investments in CASC countries.

Actions:

21. To implement this strategic objective the following actions are envisioned:

(a) Identify contact points in sovereign wealth funds and pension funds in the region involved in undertaking investments;

(b) Consult with sovereign wealth funds and pension funds to ensure that they have what they need to evaluate the physical and policy transition related climate risks for their investments;

(c) Facilitate consultations with identified sovereign wealth funds and pension funds as well as relevant public sector stakeholders (including, but not limited to, government finance officials, international public finance providers and development partners) on possible de-risking mechanisms for climate investments in the CASC region;

(d) Identify synergies between sources of climate finance (potentially through use of identified de-risking mechanisms) with the aim of maximizing overall climate finance mobilization while ensuring that national and regional needs are prioritized. This could include the following:

(i) Examine the role of recovery plans made following the coronavirus disease 2019 pandemic in supporting climate-related investment;

(ii) Utilize debt-for-environment swaps (i.e. exchanging current international public debt for future domestic public expenditure);

(iii) Assess options for channelling remittance flows towards climate investments;

(iv) Identify how financial instruments (such as green bonds) can be used to support climate-related investments.

(e) Pilot identified de-risking mechanisms, including pilots targeting cross-border investments within the region;

(f) Strengthen engagement with major climate funds, including possibility of working towards accrediting a regional entity or organization that can work in the region;

(g) Scale up mobilization for climate finance investments in CASC.

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Further information, related to the NBF Project
is available on the UNFCCC website

https://unfccc.int/NBF_Project

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