WORLD SUSTAINABLE DEVELOPMENT SUMMIT
BEYOND 2015: PEOPLE, PLANET & PROGRESS

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

giz

teri

Thematic Track:

Challenges & Strategies to Mobilize Climate Finance for Climate-resilient Development

October 7, 2016 | 4:15 to 6:15 pm
Amaltas Hall, India Habitat Centre

International efforts to tackle climate change are at a critical juncture. Several countries have announced ambitious climate change mitigation and adaptation plans in their Intended Nationally Determined Contributions (INDCs). However, the achievement of these targets is heavily dependent on the provision of international climate finance to support government action. According to the International Energy Agency, the magnitude of financial resources consistent with low emission transitions is in the range of US$1 trillion a year up to 2050, against an estimated investment of US$391 billion in low-carbon growth in 2014. Therefore, there is a need for a huge increase in the volume of climate finance, and improved and easy access to such finance.

The international community has been working to help developing countries address climate change through multilateral climate funds for over a decade. During 2011-14, multilateral development banks collectively committed over US$100 billion towards climate change mitigation and adaptation projects in developing countries. In 2014, development finance institutions accounted for 33% of total climate finance flows. These contributions have a significant impact: for example, the World Bank's carbon funds and initiatives reduced CO_2 emissions by an amount equivalent to 196 million tons since 2000. This indicates that the financial institutions can play a pivotal role in bringing about low emission transition through their financing decisions and initiatives. Climate finance also represents a growing share of total investments by multilateral development banks, indicating its increasing importance.

Similarly, bilateral financing mechanisms focusing on climate change have also played a pivotal role in capacity building in developing and least developed countries for policy making and implementation, financial planning, project development, and stakeholder coordination for climate action. The experience with projects supported by funding initiatives such as the NAMA Facility and International Climate Initiatives are good examples. These projects have demonstrated that low carbon investment can lead to high quality growth, and that the challenges of climate change and economic development can be addressed simultaneously.

The Paris Agreement explicitly includes 'finance flows' as one of its goals, with Article 2 recognizing consistency between finance flows and a low carbon development pathway as one of its objectives. Furthermore, the Paris Agreement requires that the "mobilization of climate finance represent a progression beyond previous efforts," indicating the need for greater cooperation from financial actors not governed by the UNFCCC. The Agreement guides financial institutions to "aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties" (Article 9 para 9). The Agreement also notes the role of public funds in climate finance.

Commitments to deliver climate finance to developing and least developed countries long predate the Paris Agreement. Under the Copenhagen Accord of 2009, developed countries pledged to deliver nearly US$30 billion between 2010 and 2012, and mobilize US$100 billion each year from public and private sources by 2020. This commitment was affirmed in the Cancun Agreements of 2010. The Green Climate Fund was established in 2010 towards achieving this goal, and is expected to become one of the main delivery channels for climate finance in the future.

Public sector actors are increasingly recognizing the role of climate finance in achieving national goals and priorities. However, given the cost and effort associated with the low-emissions transition, it is clear that the public sector alone cannot meet climate finance needs, and the private sector has a critical role to play. It is also important to recognize the role of other agencies and channels that serve not only as sources of finance, but to facilitate access through project development, capacity building, and mediating between the public and the private sector. Such organizations can also play a key role in strengthening the climate finance architecture to improve efficacy by supporting innovation, securing stakeholder buy-in for new projects, strengthening institutional capacity, and creating incentives for various market participants.

A number of developments indicate that the private sector is rapidly emerging as a partner in tackling the climate challenge. The private sector accounts for 62% of global climate finance flows. An increasing number of financial institutions are taking strategic decisions to invest in portfolios which are more climate friendly. A range of private financial institutions committed hundreds of billions of dollars in additional finance to support low carbon development following the 2014 Climate Summit. The green bond market has grown rapidly, with over US$40 billion over labelled green bonds issued across the world in 2015. The Global 100 Index and other sustainability indices point to the rising importance of the environment and climate change in business and investment decisions. An increasing number of companies are also adopting internal carbon prices.

As the landscape of climate finance changes, and the demand for such investment grows, it is important to acknowledge the need for innovations in financing mechanisms for climate action to facilitate investment in the sector. Several institutions are working to develop customized financial terms and instruments for green growth projects that take account of the risks and opportunities unique to such projects. However, thus far, little funding has come from innovative sources. The role of facilitative agencies bringing together this increasing diversity of actors and initiatives through innovations in climate financing, therefore, will play a very important role in achieving the objectives of the Paris Agreement.

Over the last decade there has been a notable increase in the availability of finance to support climate actions, albeit skewed in favor of mitigation actions. Climate finance flows have grown by about 18% in the past year, driven by supportive government policies, technology cost reductions, and innovative finance and business models. Lessons drawn from existing climate finance initiatives suggest that climate finance is most effective when it promotes clear objectives shared by key stakeholders, supports projects that have a strong demonstration effect, balances public and private capital, and uses a results-based approach that prioritizes cost-effectiveness and alignment with national priorities.

While adaptation efforts are currently driven primarily through public funding, the role of the private sector will be significant to provide both necessary services to understand climate risks in a better manner and the technologies and business models that will make current and future investments in climate sensitive sectors, such as agriculture climate resilient. Several actions are essential for the private sector to become more fully engaged, however, the most important one is to engage the private sector in developing products and services that can reduce the cost and effects of climate change. This will catalyse greater and more frequent investments, which could lower the costs and accelerate the replication of climate-resilient technologies and approaches. Risk transfer instruments, such as insurance, are increasingly contributing to the efforts of governments and households to reduce the immediate and long-term losses associated with weather variance and extreme events. However, this has to be coupled with other risk management and risk reduction strategies, including better weather forecasting, education, infrastructure strengthening, and land-use regulations.

Yet, the required scale of finance for low carbon transition is massive and requires more effort. Given the slow progress on the pledges by the countries to replenish GCF, and the continued constrained public funding due to the economic slow-down, expectations to increase the volume of available finance to the desired levels are cautious as best. The aggregate amount invested in climate actions on an annual basis is far below the required levels. Continued growth of climate finance flows requires engagement and coordination among public and private financiers, financial regulators, policymakers, and development finance institutions. The proposed session will focus on taking stock of global experiences and initiatives to support climate change action, and build on these lessons to develop a coordinated strategy to ensure timely availability of scaled up climate finance.

This thematic track explores the facilitative dimension of climate finance by bringing together perspectives from different actors involved in the mobilization and utilization of climate finance. The panelists will discuss challenges, opportunities, and strategies to continuously improve long-term cooperation among financial actors, governments and the private sector. In particular, they will share their experiences with channelizing international climate finance flows, challenges faced by the private sector in mobilizing climate finance, and how lessons from these diverse work programs can be applied in the Indian context to improve institutional capacity, increase access, and ensure the development of bankable project pipelines.