

Financing INDCs and Climate Action

Richard Sherman
SouthSouthNorth

Focus

- Global financial needs to achieve the 2°C
- Financial needs by developing countries
- Relevant financial flows and how can they be shifted to low carbon and resilient technologies
- International and domestic financial flows
- Private sector financing

The World Today

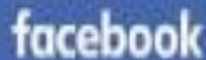
What will it take to make climate people think differently?



The world's largest taxi company owns no vehicles



The largest accommodation provider owns no real estate



The most popular media provider creates no content



The most valuable photo company sells no cameras



The fastest growing television network lays no cables



The most valuable retailer has no inventory

None of these six companies existed twenty years ago

Financing below 2/1.5 degrees

- World Economic Forum (2014) concluded that requirements of approximately USD 0.7 trillion per year is needed for clean-energy infrastructure, sustainable and low-carbon transport, energy efficiency in buildings and industry, and for forestry. Estimated investment requirements beyond current spending for adapting to climate change are US\$ 0.1 trillion per year.
- IEA (2011) suggested to meet the 450ppm incremental world energy investments would be in the range of US\$ 1 trillion per year till 2030, approximately 2% of world GDP.
- These two assessments are consistent with the 1.5% of developed country collective GDP as proposed by AMCEN in 2010.

Financing Needs

- There has yet to be a rigorous assessment of the aggregate *costs* to implement the INDCs.
- If one looks at the numbers, the debate is rather parralysing, particularly in the sense of the numbers but also the conditionality of action based on support.

Africa-snapshot

- **DRC**: US\$21.622 billion for implementation of INDC activities. Financing for mitigation is requested at US\$12.54 billion and financing for adaptation is requested at US\$9.082 billion
- **Ethiopia**: US\$150 billion for the full implementation of mitigation goals
- **Ghana**: Intends to mobilize US\$6.3 billion domestically and US\$16.3 billion from the international community. 45% of funds (US\$9.81 billion) are intended for mitigation, 55% of funds (US\$12.79 billion) for adaptation.
- **Kenya**: Estimates that its mitigation and adaptation goals with cost US\$40 billion for complete implementation
- **Malawi**: National Climate Change Investment Plan (NCCIP) specifies a financing need of US\$954.4 million over six-years (equivalent to US \$159.1million, or 2% of Malawi's GDP).
- **South Africa**: Adaptation estimates conditional on mitigation scenarios ranging from US\$0.2 to US\$50 billion. Estimates for mitigation actions total US \$1.36 trillion.

Current flows 2dg lens

- The New Climate Economy assessment that over the next 15 years the world needs to build approximately US\$89 trillion in new infrastructure
- A doubling of the existing capital stock in areas such as energy, transport, water, and cities..
- Given that approximately 50 percent of greenhouse gas emissions come from infrastructure, failure to build infrastructure that is sustainable will lock the world into a high-carbon pathway inconsistent with achieving the 2 degree climate goal.

Paris Objectives

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Key Initiatives

- The **Principles for Responsible Investment** advance economic, social and governance (ESG) standards for investment processes across 1,500 signatories with more than \$60 trillion in assets under management.
- The **Equator Principles** offer an approach for more than 80 financial institutions to manage and assess risk in project finance, corporate lending, and advisory services.
- The **Sustainable Stock Exchanges** initiative offers a peer learning platform for 48 exchanges from 52 countries to advance ESG reporting among listed companies.
- A **European Union directive** requires ESG disclosures by large companies, beginning in 2017.
- The **Sustainability Accounting Standards Board** has issued provisional accounting standards for 79 industries, aiming to inform the future work of the U.S. Securities and Exchange Commission.
- **CDP** (formerly Carbon Disclosure Project) works with more than 800 investors to help identify risks embedded in their portfolios.
- The **Carbon Pricing Leadership Coalition** convenes more than 100 major companies and other stakeholders to advance global carbon pricing efforts.
- The **Portfolio Decarbonization Coalition** convenes 25 major investors overseeing the gradual decarbonization of \$600 billion in assets under management.

Paris Baseline

- By implication the Paris Agreement sets the baseline between 2020 and 2025, there will be an annual US\$100 billion floor to finance projects for climate change adaptation and GHG reduction measures.
- Developed countries are obligated to provide climate finance for developing countries while developing nations can voluntarily contribute.
- In 2025, parties will further quantify the commitments regarding support to developing countries.

Making it work

- **We will need to re-align our institutions and make them work-** what role for IDA, AFD, ADF? How does the GCF contribute to this, and how do we utilize the current resources and first replenishment to align more with Paris implementation. What does the GCF do that other wont/cant/don't do?
- **It will take advocacy:** Ongoing action such as the recent G20 approach from 130 investors with more than US\$13 trillion in combined assets under management. Other activities such as the Montreal Pledge Montreal Pledge aims to secure over US\$3 trillion in portfolio decarbonisation commitments .
- **It will take leadership and delivery:** The G20 pledged to phase out 'inefficient' fossil fuel subsidies in 2009, yet new research finds that governments are spending US\$88 billion every year supporting exploration – more than double what the oil and gas companies are investing. Total amounts of capex unneeded above the IEA 450 scenario, we see around US\$2.2 trillion of capex over the next decade – US\$1.9 trillion of that associated with new projects. Wood Mackenzie Ltd identified US\$200 billion of oil and gas capex cancelled in 2015.
- **It will take sticks and carrots:** We need to targets investments to certain activities and technologies, and as such what role is there for global targets for renewable energy, such as the African Union targets of 10gigawatts for 2020 and 300g for 2030.

Making it Work

- **It will take a listening and action approach:** Leaders will need to listen and act. There could be nominal amount of US\$28 trillion of stranded assets over the next two decades (Kepler Cheuvreux). The Financial Stability Board's Task Force on Climate Change phase I report will be released at the end of 2016, it should not just be a tool for self-reflection without action- be that regulated or voluntary
- **We will need a process to track innovation, scale-up and replicate:** South Africa's REIPPP process generated a total of ZAR193 billion of private sector investments. Round 1-115c/kWh, Round 2-100c/kWh, Round 3 - 74c/kWh, Round 4- 62c/kWh. The same process caused solar power to be bid down from 275c/kWh in round one to 79c/kWh in round four.
- **We need to dig deeper:** The green bonds market almost quadrupled between 2013 and 2015, reaching \$42.4bn in 2015. The Climate Bond Initiative estimates that labelled green bonds issued globally in 2015 represented less than 1 per cent of total US dollar bond issuance and less than 0.2 per cent of debt securities issued globally.
- **It will take political courage:** If we are to generate resources, we may need to rethink some proposals particularly those related to taxes and revenue generation, but also in relation to core IP matters. Is there a GAVI/IFFM approach waiting to be found?
- **We will need to address systemic issues:** It will require an overall approach to systemic issues that related to the broader global financial system, such as dealing with illicit financial flows or unfair terms of trade.

**What will it take to make climate people
think differently?**