Toward a Transformative Fast-Start Finance Package

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- Low-carbon transformation imperative
- Transformative climate finance
- Implications for fast-start package

The low-carbon transformation imperative

- Low carbon transition is underway but **efforts do not meet the <2C imperative**

- New models of low-carbon development are needed, **the faster countries experiment, the better**

- A priority for 2010-12 is to **demonstrate the feasibility** of low-carbon strategies in developing countries

The low-carbon transformation imperative

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- Finance approach needs to **beyond incremental policies**
- Hybrid system of public and private finance is required to **mobilise capital at scale**
- Reduce risk of **lock-in** high carbon infrastructure

"Incremental approach" underestimates the scale of the <2C challenge

The scale of the low-carbon investment challenge

- **Massive mobilisation of capital required**
  - $525 billion/ year in additon to BAU investments (~$1 trillion per year) to meet global energy demand by 2030 + 2C target.
- **De-risking low-carbon investment is key to unlock capital going in to high-carbon economy**
  - Upfront payments
  - Confidence gap
  - Aggregation challenge
  - Operational and country risks
- Need to develop **new financial mechanisms**

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Current climate finance model creates four core gaps

Adaptation finance

- Very small funds meeting adaptation needs
- Shortage of know-how in adaptation finance

Private capital leverage

- Bias against private-sector in climate-finance politics
- Private capital is available, but no ‘bankable’ projects

Middle-income economies

- Insufficiently large to be a mitigation finance priority
- Insufficiently poor to be a adaptation finance priority

Clean transport

- Sector remains outside scope of Kyoto Protocol
- CDM/climate aid unable to finance transport NAMAs

Elements of a new climate finance model

- **Innovative financing (new sources)**
  - New context: ‘globalisation in the context of austerity’
  - Most drastic budget cuts in post-war era

- **New and better institutions (scale up)**
  - e.g. UK Green Investment Bank, Amazon Fund

- **Cooperation for transformation (new diplomacy)**
  - Better cooperative model underpin a successful low-carbon financing strategies
    - Norway-Guyana
    - Delta Alliance

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Implications for contributing governments

Secure funds for pioneering countries

- Secure allocation of funds for **diverse set of countries** with transformative plans
  - low-carbon plans at national, sectoral or city-level
- Adopt a **portfolio approach** to delivering funds
  - Increase a ‘race to quality’ among climate funds providers
- Balance need of ‘quick wins’ with **longer-term benefits**
  - Avoid ‘one-off’ projects with little transformative potential
- Move **beyond stiff donor-recipient formulas**
  - Pioneer models of low-carbon cooperation and diplomacy

Implications for recipient governments

Demonstrate feasibility of transformative pipeline

- Invest in low-carbon transition <u>plans</u> to at least 2020
  - Time-bound priorities, financing route, public accountability
- Design projects that leverage private capital in longer term
  - Connected to long-term strategy, not one-off shots
- New mechanisms to leverage private capital
  - Including companies and banks at home

Implications for development banks

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Speed the mainstreaming low-carbon focus in lending

- Use fast-start period to test mechanisms to de-risk low-carbon investing
  - Banks still favour high-carbon infrastructure
- Rapid learning from national banks in leveraging private capital in dv'ping countries
  - Public good from know-how from infrastructure funds (KfW, BNDES)
  - Accelerate/ increase lending going into low-carbon finance
- World Bank's CIFs are frontrunners but learning needs to be mainstreamed in overall World Bank strategy
  - Risk of it becoming a one-off effort
  - Bank still geared toward high-carbon infrastructure

Implications for private investors

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Engagement beyond ‘carbon finance’ and feed-in tariffs

- Help design investment vehicles (e.g. green bonds)
  - to increase the learning of what works where
- leverage private capital in longer term
  - Connected to long-term strategy, not one-off shots

Innovative Finance

Link to negotiations on long-term climate finance

- Lessons from innovative sources finance must be linked to finance negotiations
- Fast-start package will be in vain, if no long-term flows agreed
- Special Group (AGF) is at risk of not delivering – no political incentives to agree, no ownership by AGF members on innovative sources
  - Limited pressure from recipients on AGF members

Key messages

A case for a higher value proposition for both contributing and recipient countries.

- Fast-start finance is very small—in the broader global investment landscape—but it is crucial to **demonstrate the feasibility of transformative low-carbon strategies**

- We need to encourage a **race to quality** among contributors, recipients, development banks and private investors.

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