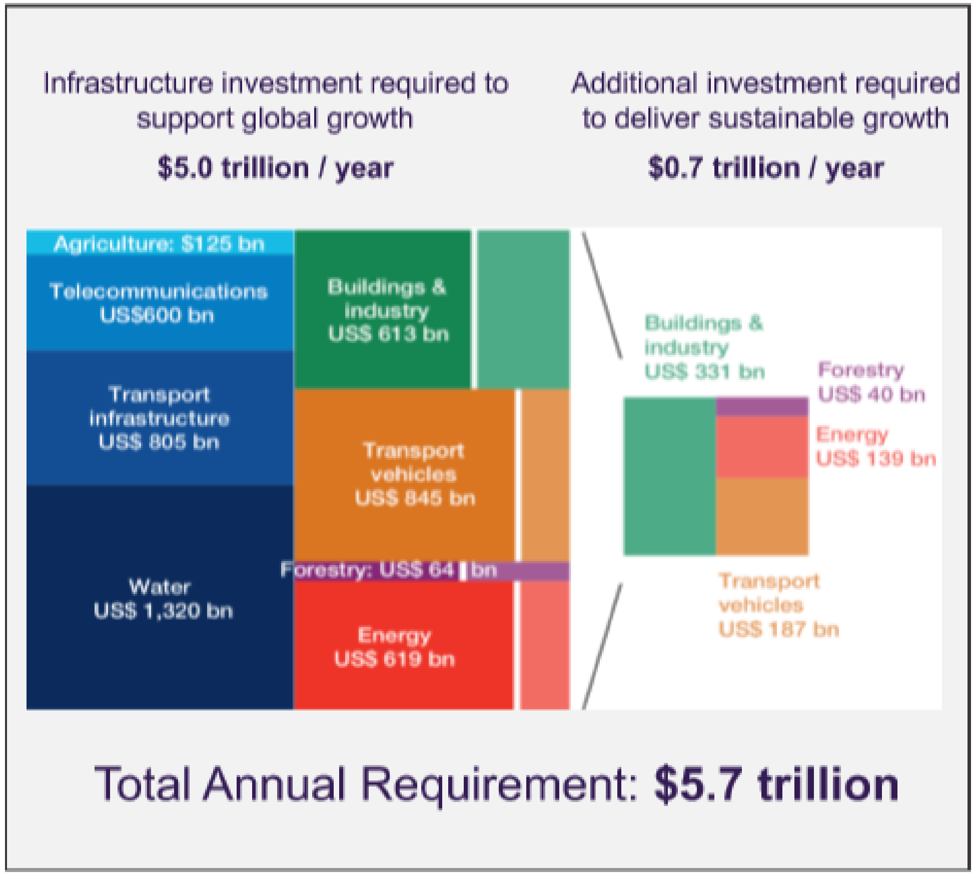
TIPPING OR TURNING POINT : SCALING UP CLIMATE FINANCE IN THE ERA OF COVID-19

Chaire de Modélisation Prospective, Paris, December 2020

FINANCING NEEDS AND GAPS



Global Funding Gap Arising by 2030 Across Scenarios Around Government Infrastructure Spend as a Constant % of GDP

	Base Case	Downside	Upside
Total need through 2030	$57 trillion	$57 trillion	$57 trillion
Government spending	3% of GDP	2% of GDP	4% of GDP
Total gap	$27 trillion	$37 trillion	$17 trillion
Annual gap	$2.7 trillion	$3.7 trillion	$1.7 trillion

Sources: World Bank, OECD McKinsey

Rational Expectation Hypothesis

- It postulate a progressive readjustment of choices in function of new information
- A progressive readjustment would not destabilize the financial system since financial actors, learning from experience, would disengage from assets under physical risks
- A delayed readjustment due to a cumulative underestimation of gradual risks would lead to portfolios hard to restructure in the presence of accelerated changes
- None of the two types of financial actors’ response will help society cope with climate change. The second would increase the probability of systemic risks.

Market Paradigms to align finance with Climate Action

	Market fixing	**Market shaping**
Justification for regulatory intervention	Market or coordination failures: Imperfect information, asymmetric information, adverse selection or competition (e.g. failure to disclose climate risk)	All markets and institutions are co-created or shaped by public, private and third sectors, including regulators. Regulation should ensure markets support public purposes or missions, including a zero-net carbon transition and financial stability.
Understanding of climate risks	Climate risks are exogenous shocks which can be subject to probabilistic estimation with sufficient disclosure of exposures using statistical techniques. Risk is invariant to policy intervention.	Climate risk is ‘uncertain’, better understood as being inherently endogenous, driven by policy action/inaction, technological change and interaction with market actors. Characterized by non-linear dynamics, feedback loops and complexity; risks are not invariant to policy itself
Policy emphasis	Encouraging disclosure of risk by market participants on a voluntary or compulsory basis to aid price discovery. Carbon pricing to internalize external costs of GCH emissions,	Removing both financing barriers (deepening financial systems; climate-risk disclosure and green taxonomy) and entrepreneurial barriers (conducive policy framework; fostering innovation, de-risking low carbon climate resilient investments)

Source: adapted from Josh Ryan-Collins (2019): Beyond voluntary disclosure: Why a “market-shaping” approach to financial regulation is needed to meet the challenge of climate change.

GCF: A FINANCIAL MECHANISM OF THE UNFCCC AND PARIS AGREEMENT

A QUICK HISTORY

GREEN CLIMATE FUND

- **2010** – Established at COP16
- **2011** – Governing Instrument
- **2012** – First Board Meeting
- **2014** – USD 7.2bn received for IRM
- **2015** – First Projects Approved
- **2020** – USD 10 bn pledged for GCF-1
  - 159 Projects – USD 7.2bn (23.2bn total with co-financing)
  - 111 under implementation
  - 103 Accredited Entities
  - 117 countries reached by approved projects

An **operating entity of the UNFCCC financial mechanism** fostering a **paradigm shift** to low-emission and climate-resilient development pathways in developing countries

FINANCING CLIMATE ACTION AT SCALE

GREEN

Goal

Fostering a Paradigm Shift Towards Low Emission Climate Resilient Development Pathways in Developing Countries

TOC Statement

__IF__ barriers on the supply side of finance for financiers and the demand side of finance for entrepreneurs are addressed
__THEN__ countries will shift towards LECR development pathways by 2030
__BECAUSE__ long-term affordable finance will be available at scale for an increasing flow of bankable green, climate resilient investments.

Barrier Removal Actions

Financing barriers

- Strengthening domestic financial systems and institutions
- Climate-related financial disclosures to mainstream climate risks
- Green taxonomies, valuation methodologies and financial products

Entrepreneurial barriers

- Enabling policy framework (integrated LTS/NDCs, carbon pricing, PPA, MEPS, etc.)
- Blended finance to de-risk market shaping investments
- Access to skills, technologies and infrastructure

GCF'S THEORY OF CHANGE

GREEN CLIMATE FUND

GOAL	**The GCF promotes paradigm shift in developing countries toward low-emission climate-resilient (LECR) development pathways, in line with the goals of the UNFCCC and Paris Agreement**
TOC STATEMENT	*IF barriers on the supply side of finance for financiers and the demand side of finance for entrepreneurs are addressed* *THEN countries will shift towards LECR development pathways by 2030* *BECAUSE long-term affordable finance will be available at scale for an increasing flow of bankable green, climate resilient investments.*

ADAPTATION / MITIGATION	Built environment	Energy & Industries	Human security, Livelihoods & wellbeing	Land-use, forests & ecosystems
	Resilient infrastructure and built environment Energy efficient buildings, cities and appliances; low emission transport	Low-emission energy access and power generation Low-emission industries	Resilient health and well-being, food and water security Resilient livelihoods of the most vulnerable people, communities, regions	Resilient ecosystems and ecosystem services Sustainable land use and forest management

OUTCOMES

Outcome 1: Transformational planning and programming: Strengthened developing country capacity to integrate climate and sustainable development policies and identify, design and implement transformational climate investment

Outcome 2: Catalysing climate innovation: Increased number of innovative and inclusive, high-potential business models, technologies or practices demonstrated and

Outcome 3: Mobilization of transformational investment at scale: Catalyse public and private finance to scale up inclusive, high-potential, climate innovations through blended and innovative finance and support to climate financing facilities & financial institutions

Outcome 4: Knowledge creation and sharing to shift finance flows: Dissemination and uptake of good practices, methodologies and standards to green domestic financial institutions and systems

AN OPEN, CAPITAL AGNOSTIC PARTNERSHIP

GREEN CLIMATE FUND

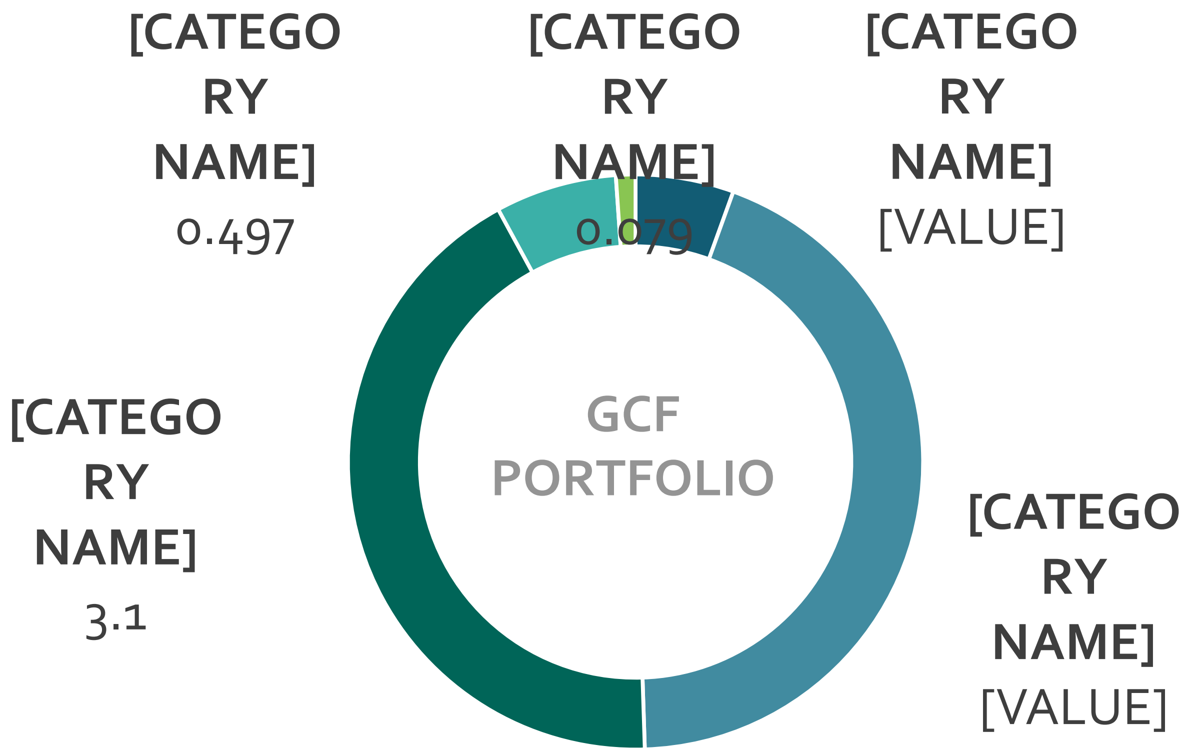
103
accredited entities

Direct Access

Private Sector

International Access

BY FINANCIAL INSTRUMENTS (billion USD)



THE IMPERATIVE OF A GREEN COVID-19 RECOVERY

GREEN CLIMATE FUND

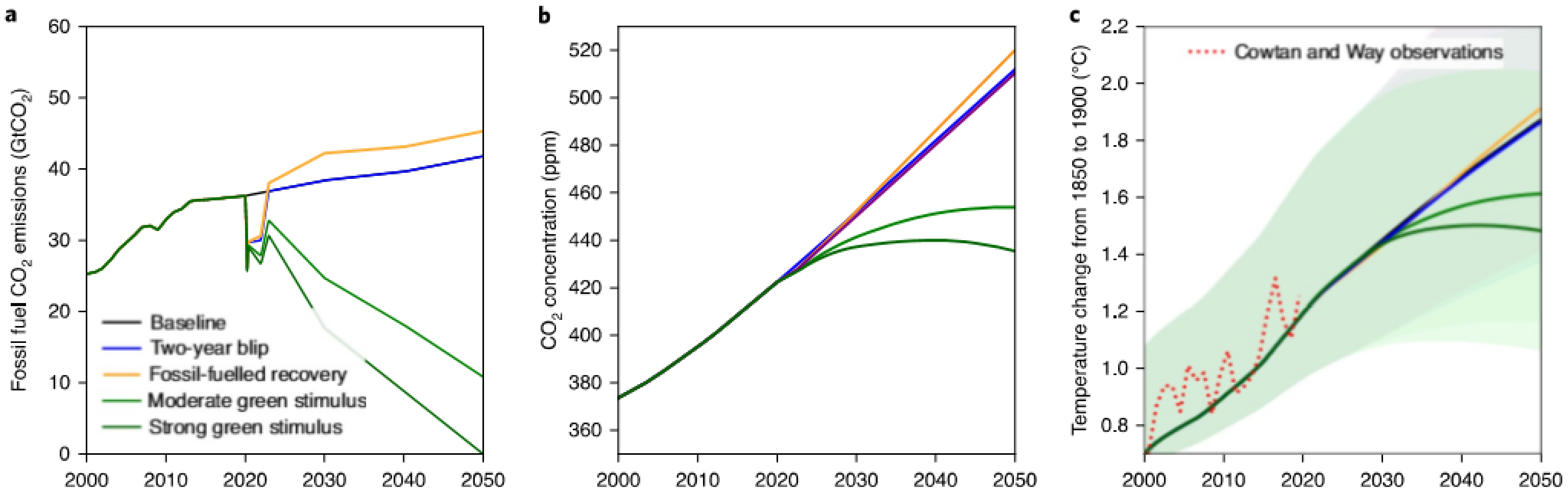


Fig. 5 | Longer term climate response. a–c, Emissions of CO_2 (**a**), CO_2 concentrations (**b**) and the global surface air temperature response (**c**) for the what-if pathways from Table 1, emulated by the FaIR v.1.5 model. The baseline pathway is also plotted but largely obscured by the two-year-blip pathway. The 5–95% Monte Carlo sampled uncertainties are shown and weighted according to their historical fit to observations (red dotted line)[32] shown in **c** (see Methods).

Source: Foster et al (2020): Current and future global climate impacts resulting from COVID-19, Nature Climate Change

FINANCIAL IMPLICATIONS OF COVID-19 IN DEVELOPING COUNTRIES

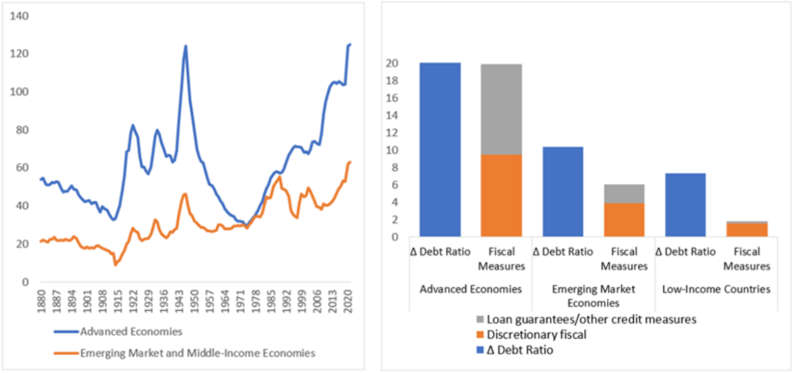
GREEN CLIMATE FUND

- Fall in domestic public revenue and downgrades in sovereign credit rating
- Decline in private external finance (portfolio & investment flows, FDI, remittances)
- Solvency and liquidly crisis for SMEs

Debt and deficits

Projections for 2019–21 show the COVID-19 pandemic has pushed debt to historically high levels.

(percent of GDP)



Sources: IMF Historical Public Debt Database, IMF World Economic Outlook, and IMF staff calculations.

Note: The left chart shows historical and projected 2020 debt for AEs and EMEs based on a constant sample of 25 and 27 countries, respectively, weighted by GDP in purchasing power parity terms. The right chart shows the projected increase in 2021 debt over 2019 debt for the AEs, EMEs and LICs as defined in the IMF's World Economic Outlook, as well as key fiscal measures governments announced or taken in selected economies in response to the COVID-19 pandemic as of September 2020.

INTERNATIONAL MONETARY FUND

GCF'S THEORY OF CHANGE IN THE ERA OF COVID-19

GREEN CLIMATE FUND

GOAL

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TOC STATEMENT

IF barriers on the supply side of finance for financiers and the demand side of finance for entrepreneurs are addressed

THEN countries will shift towards LECR development pathways by 2030

BECAUSE long-term affordable finance will be available at scale for an increasing flow of bankable green, climate resilient investments.

ADAPTATION

MITIGATION

Built environment	Energy & Industries	Human security, Livelihoods & wellbeing	Land-use, forests & ecosystems
Resilient infrastructure and built environment		Resilient health and well-being, food and water security	Resilient ecosystems and ecosystem services
	Low-emission energy access and power generation		
Energy efficient buildings, cities and appliances; low emission transport	Low-emission industries	Resilient livelihoods of the most vulnerable people, communities, regions	Sustainable land use and forest management

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GCF Working Paper 3
Scaling up climate action in the era of Covid-19

6 initiatives towards achieving the GCF and Art. II(1.c) theory of change

- NDCs to foster integrated policy integration
- Dedicated green financial products
- Innovative financing instruments
- Deepening blended finance
- Domestic financial institutions
- New valuation mechanisms to foster asset re-pricing

Readiness Initiative supporting developing countries to foster policy integration in their NDCs

GREEN CLIMATE FUND

What?
- Leveraging ongoing **NDC enhancement** efforts to foster policy integration between **climate action**, **economic recovery** and the **SDGs**

Who?
- Key stakeholders in developing countries (NDAs, including other line Ministries, sector agencies, civil society, and the private sector)

Why?
- Policy integration could almost halve investment requirements in key sectors to meet the SGDs and Paris Agreement **– USD 2.7 trillion per yr under fragmented policies** vs **USD 1.5 trillion per year with policy coordination** (Rozenberg & Fay 2019)

How?
- Deliver rapid support to craft climate resilient, integrated and inclusive economic stimulus measures and incorporate them into updated NDCs.
- Enhance and finance NDC ambitions by identifying, designing, and implementing transformational climate investments with high socio-economic co-benefits

When?
- Intake of rapid readiness requests up to Feb 2021
- NDC enhancement support up to COP 26

- Country Programme /Entity Work Programme to implement NDCs
- NDC implementation support
- Concept notes to implement NDCs
- NDC update and/or enhancement
- Sectoral strategies and integrated investment plans to implement NDCs
- Enabling environment for NDC implementation

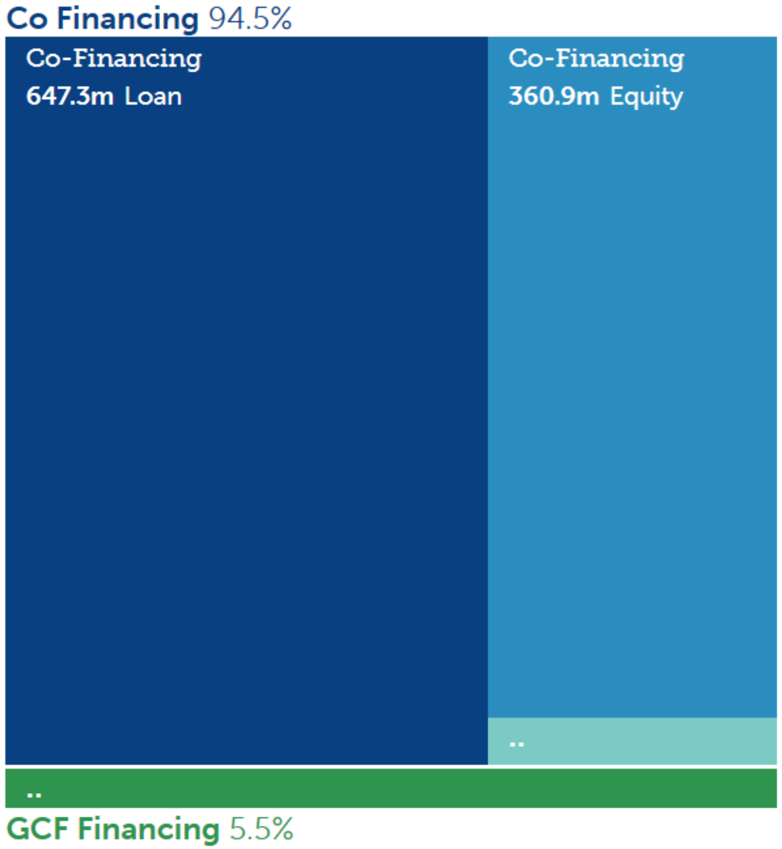
273 GCF's Readiness Grants covering 133 countries valued at USD 120 mil are supporting NDCs

EXAMPLES FROM THE GCF PROJECT PORTFOLIO

GREEN CLIMATE FUND

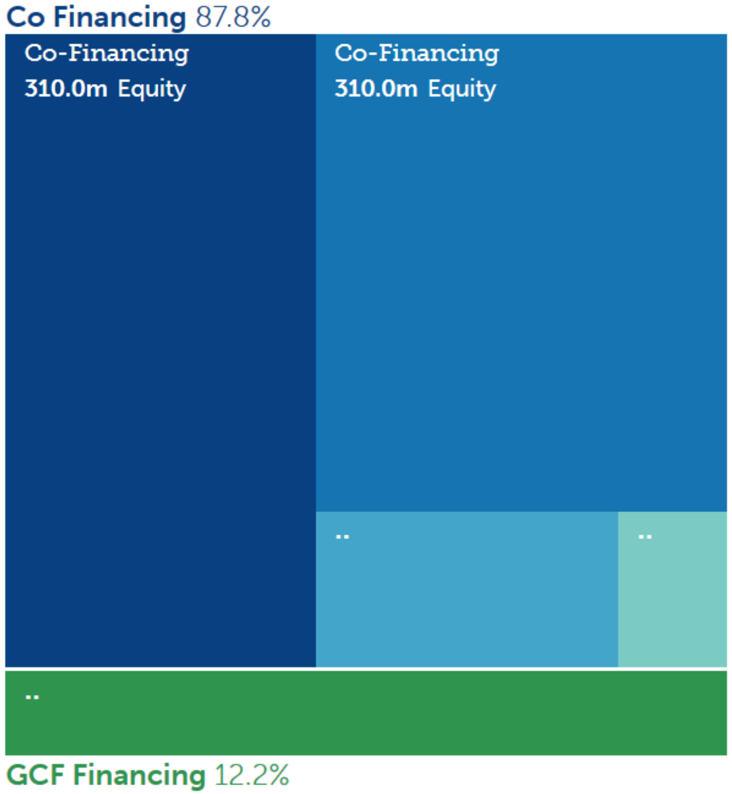
FP 115 : Espejo de Tarapaca-Chile

- **Total Project Value:** $1.1bn
- **Tonnes of emissions avoided:** 35.0 m
- **Financing structure:**



EXAMPLES FROM THE GCF PROJECT PORTFOLIO

Total Project Value: $821.5 m
Tonnes of emissions avoided: 53.7 m
Financing structure:



GCF-SUPPORTED PROJECTS: EXAMPLES

GREEN CLIMATE FUND

FP152 Global Subnational Climate Fund (SnCF Global) – Equity
Total project investment: **$750m**
GCF finance: **$150m in equity**
Project beneficiaries: **77.6m**
Accredited Entity: **Pegasus Capital Advisors**

FP151 Global Subnational Climate Fund (SnCF Global) – Technical Assistance (TA) Facility
Total project investment: **$28.0m**
GCF finance: **$18.5m grant**
Accredited Entity: **International Union for Conservation of Nature**

SnCF Global aims to catalyze long-term climate investment at the sub-national level and is designed to attract primarily private institutional investment to deliver certified climate and SDGs impacts and Nature-based solutions at global scale.

Mitigation 42 countries

FP078 Acumen Resilient Agriculture Fund (ARAF)

Total project investment: **$56.0m**
GCF finance: **$23.0m equity, $3m grant**
Project beneficiaries: **10.0m**
Accredited Entity: **Acumen**

ARAF is the first private sector agriculture fund for climate adaptation and offers a new model of how businesses can help smallholder farmers become more climate resilient.

Adaptation

Ghana, Kenya, Nigeria, Uganda