Financing the LAC NDCs

From actions to investments: financing needs and investment opportunities

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Dr. Amal-Lee Amin
Inter-American Development Bank
Infrastructure and Environment Sector
Climate Change and Sustainability Division
Paris COP21 Outcomes

• 187 countries agreed (98.6% of global GHG emissions, 86% global population); legally-binding for all

Objectives:

• To limit temp. rise well below 2°C and aim 1.5°C (by end of century) implies achieving net zero emissions by 2050

• Global adaptation goal with emphasis on planning and adaptive capacity to manage climate risk

• Calls for aligning all financial flows to a pathway for low-carbon and climate-resilient development (implications for public finance and long-term signal to investors)

• Establishes transparency and accountability system to increase ambition gradually
Climate Action Plans in LAC

- NDCs submitted to UNFCCC by: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Suriname, Trinidad & Tobago, Uruguay, Venezuela

- Economy-wide targets to 2025, 2030
- Adaptation addressed in various ways
- Some include cities as an actor.
- Unconditional actions plus actions conditional on international support
Delivering low carbon and climate resilient economic growth

2015 was also a milestone on financing for Sustainable Development: Addis conference on financing for development and UN SDGs Summit

Reconciling the following three challenges:

• How to reignite global growth? (Slowdown in global trade, decline in commodity markets, rise in market volatility, sharp deceleration in major emerging markets)
• How to deliver on the SDGs -- elimination of poverty and securing a better life for all attainable but more challenging in the current global environment
• How to align towards pathway for low carbon and climate resilient development?

Key focus on Sustainable Infrastructure: move from the billions to trillions for investment in infrastructure for low carbon and climate resilient development pathways
UNDERSTANDING FINANCING NEEDS OF INDCS
INDCs

Targets
- Business as Usual
- Base Year
- Intensity
- Actions Only
- No target

Conditionality
- Unconditional
- Conditional

Preparation
- Institutional Frameworks
- Governments Departments
- Private Sector
- Civil Society
- Ministry of Environment

Implementation
- Identify Lead Department or Agency
- Define Level of Government
- Include Mitigation and Adaptation planning
- Involve Finance Ministries
- Involve Finance Sector
With the exceptions of Trinidad and Tobago and Belize all INDCs cover adaptation as well as mitigation actions

(Except for a few) Target year for reductions was 2030, so that the effective implementation NDC period for most countries is 2020-30

- 16 countries provided a target expressed as a reduction against a “Business as Usual” (BAU) scenario
- Brazil and the Dominican Republic provided Base Year (absolute) targets
- Chile and Uruguay presented intensity targets
- The remainder either provided no targets or cited specific actions only

The combination of mainly BAU targets and the conditionality of many NDCs (see next page) have important possible implications for meeting the Paris targets

- The INDCs submitted to Paris imply an outcome of ~2.7°C warming (vs the 1.5°C ambition) and this outcome is dependent on conditional targets being met
- If the 1.5°C ambition is to be met then all conditional actions and significant further actions would need to be realized
# INDCs

**Conditionality**

- **Unconditional**
- **Conditional**

**Percentage Reductions vs BAU**

<table>
<thead>
<tr>
<th>Country</th>
<th>Unconditional</th>
<th>Additional Conditional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>15</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Chile</td>
<td>30</td>
<td>15</td>
<td>45</td>
</tr>
<tr>
<td>Colombia</td>
<td>20</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Ecuador</td>
<td>20</td>
<td>18</td>
<td>38</td>
</tr>
<tr>
<td>Guatemala</td>
<td>11</td>
<td>11</td>
<td>22</td>
</tr>
<tr>
<td>Jamaica</td>
<td>8</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Mexico</td>
<td>25</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Paraguay</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Peru</td>
<td>20</td>
<td>10</td>
<td>30</td>
</tr>
</tbody>
</table>

- In 9 cases, specific additional targets are presented.
- These additional targets imply a roughly 60/40 split of unconditional vs conditional contributions.

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INDCs are linked to wider legal or policy frameworks relating Climate Change

- National Climate Change Policies
- National Development plans
- Low Carbon Development Plans
INDCs

Implementation

- Identify Lead Department or Agency
- Define Level of Government
- Include Mitigation and Adaptation planning
- Involve Finance Ministries
- Involve Finance Sector

High Preparedness factors

- Low Preparedness factors

Silo mentality

- Technical/Environmental departments done little to integrate finance ministries
- Low understanding of how to cost contributions
National Funds and Development Banks

- Only 4 INDCs specifically mention national funds which may be available to support or direct investment into NDC implementation
  - A number of countries do have such funds (or pilots), often seeded by the CIF and similar global funds

- Larger economies also often have development banks for sectors such as agriculture, infrastructure, financial services and housing
  - None of these appear to be specifically “green” development banks, but they could provide intermediation for climate related investment
  - In some cases (e.g. NAFIN in Mexico) one institution appears to be de facto “majoring” in environment-related finance
  - Levels of capacity and innovation appear to vary quite considerably within these institutions

- Such funds and national intermediaries will clearly need extensive further development in order to provide partners / entry points for private sector engagement and investment
Use of Market Mechanisms

- 15 countries specify the possible use of market mechanisms

- Country approaches highly diverse: reflect negotiation perspective, lack of experience and in some cases skepticism:
  - E.g. when stating consideration of using market mechanisms a number of countries refer to need to “guarantee… the principles of transparency and environmental integrity, which result in real, permanent, additional, verified mitigation outcomes and prevent double counting”
  - Other state that they will be seeking to tighten regulation of compensation units sold outside their country

- It is therefore unclear from the INDCs:
  - What role such market mechanisms could play in financing contributions as part of “international support”?
  - How the trading of emissions might affect accounting of contributions when NDCs are monitored?
Size of Financing Requirement

- Very little specific financial information is provided in the INDCs
- Only 5 countries, all small, provide estimates
- These total USD 56.4 billion. However:
  - Of the Mitigation total of USD 33 bn, USD 17 bn is for the Dominican Republic alone
  - Of the Adaptation total of USD 24 bn, some USD 17 bn is for Haiti alone
- Estimated total financing requirement for LAC clients of some USD 78 bn p.a.
- Around 1.6% of the region’s GDP
- Compares to USD 28 bn reported by CPI 2014
- Mitigation / Adaptation split is some 60/40

<table>
<thead>
<tr>
<th>Country</th>
<th>Mitigation</th>
<th>Adaptation</th>
<th>Combined (USD BN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic</td>
<td>17.0</td>
<td>4.8</td>
<td>21.0</td>
</tr>
<tr>
<td>Guyana</td>
<td>2.9</td>
<td>1.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Haiti</td>
<td>8.8</td>
<td>16.6</td>
<td>25.4</td>
</tr>
<tr>
<td>Suriname</td>
<td>2.5</td>
<td>1.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>2.0</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>33.2</td>
<td>24.0</td>
<td>57.2</td>
</tr>
<tr>
<td>Average per Country</td>
<td>6.6</td>
<td>6.0</td>
<td>11.4</td>
</tr>
<tr>
<td>Per country p.a.</td>
<td>0.7</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Mix of Spend</td>
<td>58%</td>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>
### Summary of challenges

- **Challenges related to the NDCs fall into a number of categories, generally these mean that**
  - Region-wide programs may be difficult to achieve
  - A great deal of research and capacity-building groundwork will be needed in many cases

#### Regional Challenges
- Wide variations in size and levels of development of clients
- Quite wide variations in levels and types of vulnerability to climate change

#### Identifying Needs
- Low level of detail in current INDCs
- Lack of financing information
- Lack of understanding to cost projects

#### Investment Climate
- Wide variations in levels of development and maturity of private financial sector
- Wide variations in transparency and ease of doing business
- Few countries with “investment grade” ratings

#### Implementation
- “Breakout” from environment departments / integration with finance departments
- Understanding of and linkages to private sector
- Project planning, definition and costing
- Project implementation
- Monitoring, reporting and evaluating
MOVING FROM COMMITMENTS TO IMPLEMENTATION
News Releases
Apr 10, 2016

IDB Group sets goal to increase financing for climate change to 30 percent of approvals by 2020

Volume of climate change-related operations to increase to approximately $4 billion per year
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Aim towards investment grade policy (Utopia)

National governments have active programmes of public/domestic climate finance to support, underpin and develop investment grade projects that mobilise private capital.

Early and on-going managed dialogue with institutional investors and local and international private sector.

Underpinning economic drivers realigned to support sustainable growth.

Price signals in the market including subsidies and carbon price supporting the deployment of low carbon alternatives.

Clear, long term and coherent policy and regulatory framework.
Focus now on mutually reinforcing focus on policy and finance

• Assist economic decision-makers – integrate INDCs into national budgets

• Strengthen investment frameworks (or enabling environments) to mobilize private sector – policy, regulation and planning

• Align pricing signals: reduce fossil fuel subsidies and price carbon (to generate revenues to enable climate related investments)

• Facilities for project preparation - reduce high development and transaction costs of sustainable infrastructure

• Catalyze availability and affordability of long-term finance (upfront/construction and operating phases)

• Strengthen cooperation on technology development and deployment
Instruments to attract and combine different international sources finance

Key characteristics

- Diverse business models and specificities
- Public and private
- Can be reimbursable and/or non reimbursable
Put simply...

- Translate iNDs into Investment Plans & Bankable Projects
- Investment Grade Policy & Institutions
- Innovative use of Instruments for risk sharing
Let’s talk about climate change and sustainability

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