Climate Finance After COP21

Plugging in essential infrastructure

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Call to Action

This briefing paper is issued by the Carbon Tracker Initiative, SynTao Green Finance, the Climate Bonds Initiative, E3G, Track0 and Sindicatum Sustainable Resources. It urges all interested parties, in the period following the Paris COP, to engage in **3 essential actions**.

These actions are designed to maximise the availability of finance for countries to implement their planned contributions, and thus in turn to promote the ambition of achieving a "below-2-degree world" in the span of a generation.

Interested parties may include governments, global and local organisations, companies and finance providers of all kinds.

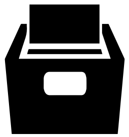
The actions we propose are practical, grounded in achieved experience and based on principles of equity and opportunity. They build on what is already being successfully executed, are open to participation by all and can be put in place well ahead of the implementation period for COP21, starting in 2020.

Greater ambition in target-setting will ultimately be needed than will likely be achieved in Paris. That greater ambition, in future iterations of national contributions, requires confidence that financing is achievable, from a full spectrum of sources. The three initiatives proposed will increase deal flow and build the confidence to achieve ambitious goals.

Scaling up Climate Finance after Paris: 3 Essentials

1

Create a uniform categorisation of climate actions, based on the INDCs, to provide a tool for reliable data gathering and thus accurate analysis and understanding of needs and opportunities at all levels



Uniform categorisation

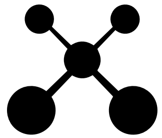
2

Create "Climate Investment Plans" at a country level, tied to INDC implementation processes and setting out investable funding needs and opportunities

Climate Investment Plans

3

Establish a climate investment network, housing some key sector infrastructure and bringing together all participants including market research, policy makers and intermediaries as well as sources of finance, in active partnerships to promote transaction flows



Climate Investment Network

> *The initiatives in the Call to Action create coherence in climate financing. They complement and go beyond many past approaches, in that they focus 100% on promoting transaction flows. And flows right across the spectrum, from grants to purely commercial transactions -* James Cameron, Chairman, ODI

Action 1: Uniform Categorisation

Using the INDCs as a basis, create a uniform categorisation of climate actions. The current set of INDCs, reflecting as they do the actions on climate change independently proposed by individual countries, provide an invaluable "bottom up" opportunity to build a vital piece of infrastructure for all parties interested in climate finance, namely a uniform categorisation of these actions.

With reference to work already done on typologies by several organisations, including the OECD, MDBs and others, this uniform categorisation will enable reliable analysis of finance requirements and opportunities at global and regional as well as national levels, and by sector. Such information and analysis will provide critical visibility for governments, policy makers and regulators, as well as making the needs accessible to sources of finance of all kinds. It could also provide the basis for further iterations of the INDCs to contain more precise information on actions and financing needs.

Reliable data will also facilitate the creation of bundled investment products which can reduce the cost of capital, generate more support from the markets and bring greater efficiency into processes, especially those supporting smaller projects.

Next Steps:

1

Establish a working group to commence the categorisation project, based on the existing INDCs.

"Ownership" and dissemination of end product as a common good.

Action 2: Climate Investment Plans

Based on current INDCs (or interim revisions of these) create "Climate Investment Plans" (CIPs) at country level, for those countries wishing to take this step. (As noted above, "Investment" in this context includes the full spectrum of finance, not just commercial finance.)

In its CIP, a country would set forth both the needs and the opportunities for financing created by implementation of its INDC, in terms of adaptation as well as mitigation actions, and linked to other development or economic goals. The objective of the CIPs will be to present to appropriate funding sources clear and concrete proposals that can immediately be taken forward for investment consideration.

Thus CIPs could feature, at one end of the spectrum, projects that require fully concessional finance and at the other end purely commercial opportunities for both domestic and external capital markets. Within this spectrum, there will be projects that require more complex financing arrangements involving different actors to provide different elements of the necessary investment package.

CIP proposals will ideally be based on the uniform categorisation recommended in Action 1, and will include amounts of finance and suggested financing instruments as well as other key terms for investment. CIPs could also build on work already underway in many countries, for example through Climate Public Expenditure and Institutional Reviews, or National Climate Finance Strategy processes.

Creating CIPs would therefore require cross-cutting teams that include personnel with appropriate experience in the origination of investable proposals, engaging with actors in national and international capital markets, as well as understanding national finance and legislative frameworks, regulation etc. In this way, the CIP approach would go beyond previous approaches by having the express goal of mobilising finance from a range of sources – public and private – and using the full range of tools and systems of the finance community to take climate financing to scale.

2

Next Steps:

Country volunteers for first set of pilot CIPs, covering different sizes / regions / development levels.

Financial and technical resources to assist preparation of pilots.

Action 3: Climate Investment Network

Create a voluntary network of parties interested in promoting climate finance. The purpose of this network will be to encourage the origination of investable transactions.

Such a network could complement and draw on several of the forums that have been established in recent years to take stock of and seize opportunities to scale up climate finance.

Membership of the network would be open to all parties with an interest in climate transaction flows. As well as commercial investors, these would include donor and philanthropic investors, governments, policy makers, regulators, intermediaries, and "think tank" and academic commentators.

The network would operate on two levels. The first would be to create a forum for a number of "soft" benefits, including effective information sharing, identifying and spreading best practice, and helping to create norms around project proposals, products and funding structures. The second could be through the "housing" of certain essential "infrastructure" for promoting transaction flows, for example maintenance of the uniform categorisation of climate actions and maintenance of a global transactions database, the latter extracted both from CIPs and from independently structured opportunities. It could also commission and house standards such as "green bond" criteria.

A model for such networking exists in the "impact investing" arena, in the Global Impact Investing Network (see page 9). This has membership from all kinds of market participant, creates regular reports on funding, and manages the accepted measurement framework for impact investing, as well as the "ImpactBase" transactions database. GIIN also provides capacity building services for the sector, for example via fund manager training in different regions, promoting the expansion of skilled intermediaries.

3

Next Step:

Project funding to commission research and develop proposals on next stages in building the network.

The Background

The Intended Nationally Determined Contributions (INDCs) – the statements made by countries of their contributions to combating climate change over the next 15 years – do not yet meet the below-2°C target. But with more than 160 countries making submissions, they have created real momentum in the lead-up to the Paris COP.

The INDCs have provided far greater clarity on both the actions that are needed and offered, and on the responsibility for implementing those actions, which is now in the hands of nations themselves, with support as needed.

As the report mentioned opposite explores, many INDCs also provide quite detailed insights into the types of climate actions countries envisage – down to specific project levels – and into the amounts of finance that will be needed to fulfill the plans they describe. For developing and emerging economies alone these amounts are in the region of USD 400-500 billion per annum, with a substantial proportion of that sum needed for adaptation actions.

Much is already being achieved in the financing of climate actions, with anything up to USD 650 billion being mobilised annually, but the vast majority of this finance is for the easiest-to-achieve actions, principally energy efficiency and renewable energy programmes and projects in the developed world. Meanwhile, despite significant progress due to the efforts of both official bodies such as the UNFCCC and OECD, and non-governmental actors such as the CPI, ODI and the WRI, major gaps remain in climate finance data and definitions.

To meet the needs of developing and emerging economies, the full spectrum of available finance will need to be tapped, from public to private and from concessional to hybrid to fully commercial sources. This will require the building of **finance "supply chains"** that will in turn require **robust data, clear plans, visibility of potential opportunity pipelines and the most precise possible targeting of resources.** At present, many opportunities are simply not seen by potential investors, or require too much work to bring to investment readiness.

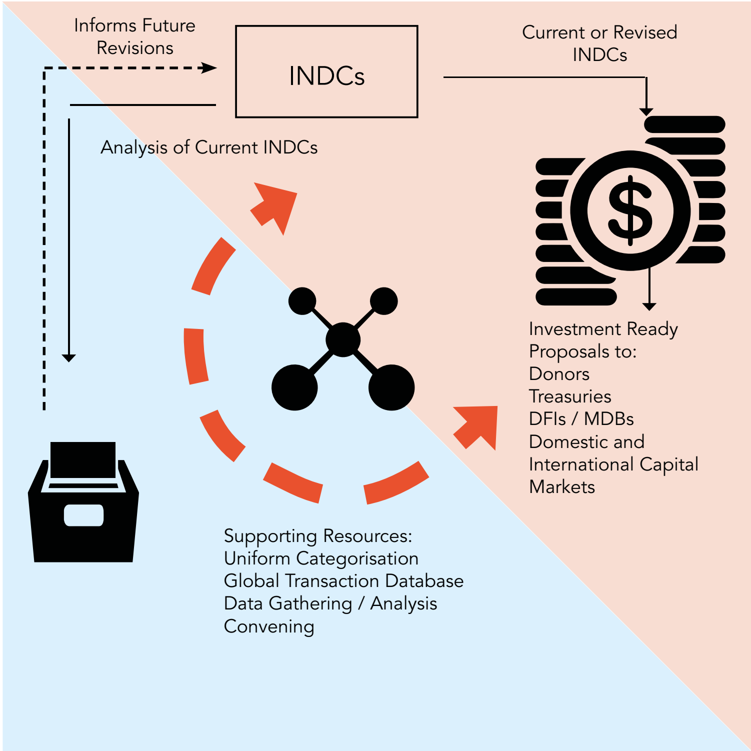
Whatever the details of the 2015 Paris agreement, attention now needs to turn to the creation of these finance supply chains.

To maintain the clarity and momentum created by the INDCs, actions arising out of the COP need to continue to be tied to the INDCs (and future revisions of them). Linkage to the INDC process can ensure the necessary combination of global scope and visibility, while also maintaining deal origination at the local and national level for effective implementation.

How this works, and the linkages between the 3 Essentials we call for, are set out in the diagram.

INDCs Report

"Climate Finance after COP21: *Creating a Pathway to the Effective Financing of Commitments and Needs*", by Ian Callaghan will be published by Investor Watch during the Paris COP. The report examines a sample of INDCs and explores the implications these have for the organisation of climate finance after COP21.



A Note on Definitions:

By "investment" in this paper, we mean provision of finance from all sources, not just private / commercial sources. By "markets" we similarly include donor and philanthropic sources of funding as well as commercial capital markets, and by "transaction" any financial arrangement with such sources, whether concessional or commercial.

Background on Action 1: Uniform Categorisation

The Investor Watch/Callaghan report (see Page 5) analysed a sample of 47 INDCs representing some 70% of global GHG emissions. A substantial majority of these submissions were from developing nations, with a good regional spread. From information on financing provided in a subset of these INDCs, the report estimates a need for climate finance among developing nations of around USD 400 billion p.a. The split between adaptation and mitigation suggested by the analysis was 1.4:1, but a split of 1:1 may be a better working assumption and needs to be further analysed.

Using the INDCs that included more detailed information on mitigation and adaptation actions, the report drew out a basic categorisation of such actions. This categorisation represents a "bottom up" means of collating and analysing actions based on actual intentions.

In mitigation, most INDCs used the IPCC sectoral division to group actions, but within these, Transport was cited frequently enough to be ranked as a main sector in its own right (normally this is part of the Energy sector). Using a methodology which counted the number of sub-sectors and frequency of citation, the 6 main sectors could be ranked as follows in terms of intended projects: Energy, Transport, Land Use/Land Use Change/Forestry, Waste, Agriculture and Industry. Looking at the subsectoral level, within the leading sector, Energy, some 14 categories of project could be identified, and at one level further down, some 45 sub-categories of project could be identified. For example, under solar, the following sub-categories were found in the INDCs: Household, Village/Mini-Grid, Solar Farms, Concentrated Solar, Water Heating, Irrigation. Across all 6 sectors, some 120 sub-categories of projects could be identified.

In adaptation, the same methodology was used, but without the frequency count as the data from the INDCs was less easy to assess. Here, a basic split was made between physical interventions (i.e. actions where infrastructure, construction, product, programme or other such "concrete" interventions would be undertaken) and capacity building interventions (for example technology transfer, risk management, civil society programmes).

12 categories of physical interventions were identified, and 101 sub-categories. In capacity building, 6 categories and 42 sub-categories were identified.

The categorisation approach in the Investor Watch/Callaghan report, along with other typologies, could form the model for the uniform categorisation proposed, built from the full set of existing INDCs.

How does this apply to the financing of actions?

The diagram on the next page, reproduced from the Investor Watch/Callaghan report, illustrates how the uniform categorisation approach could be used to assess financing options, using the example of the Renewables sub-sector within Energy. A similar approach could be used for all other sectors and for both mitigation and adaptation. Such analysis could form the basis of CIPs at a country level.

In the diagram, the various sub-sectors of the Energy mitigation sector are shown at the base. The size of circle reflects the frequency of citation within the INDCs, giving a rough ranking of importance. The sub-sectors are Solar, Wind, Hydro, Ocean, Waste and Biofuels. These are then further split into project categories, so that under Solar there are categories of Household (e.g. solar lanterns), Village Level / Mini-Grid systems, larger solar projects such as solar farms / concentrated solar power, and solar water heating.

At the top left of the diagram are set out the various actors that might typically be involved in investments, and below these the financing instruments that may be available.

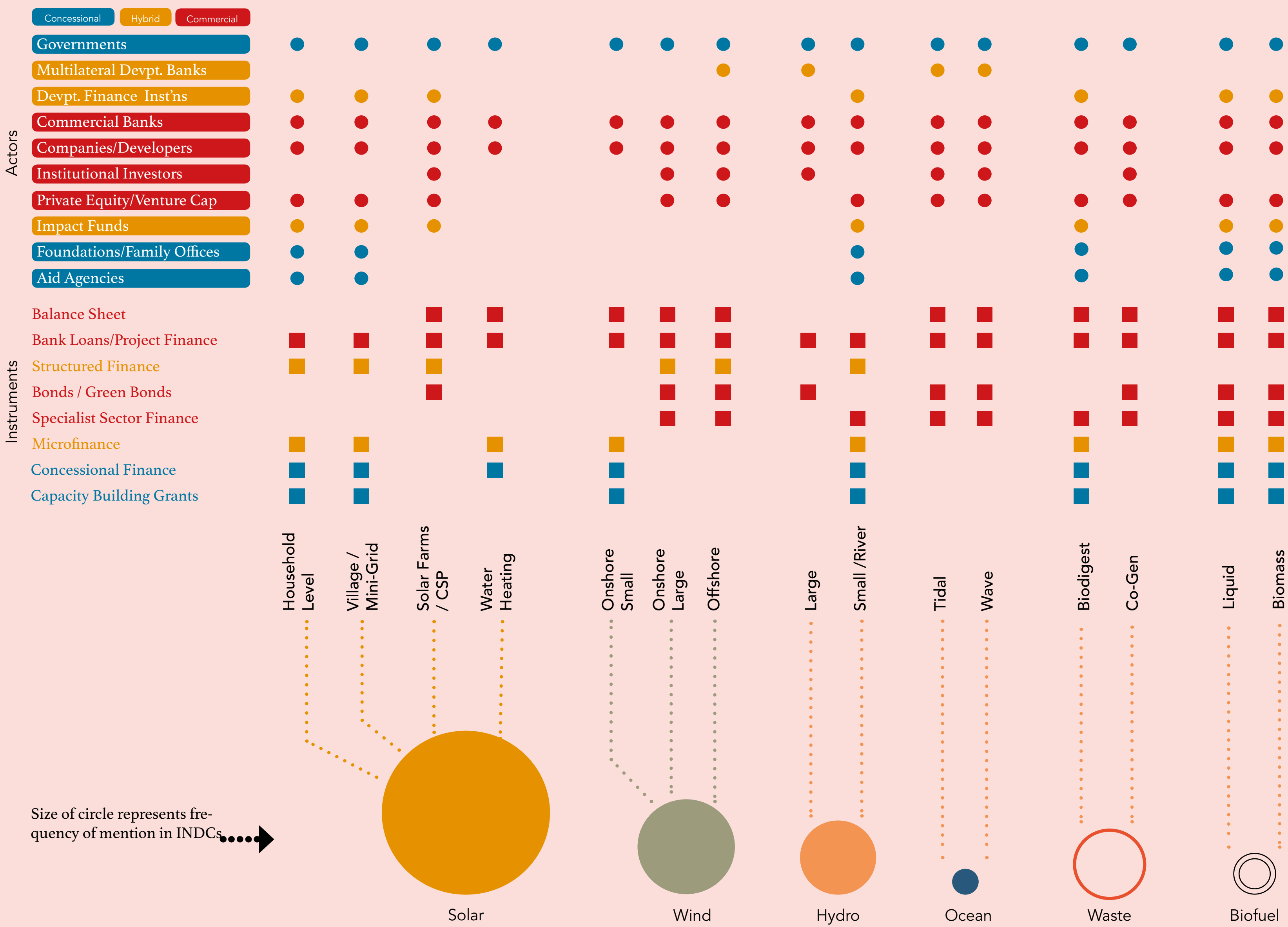
Both actors and instruments are colour-coded to reflect the basic nature of their risk / return alignment, on the spectrum from Concessional (expecting no or a below-"market" return) through Hybrid (investing both on a concessional and commercial basis depending on the particular project involved) to fully Commercial.

Analysing investment opportunities by means of a matrix such as this should then provide a basic understanding of the likely universe of potentially interested parties, to whom the investment opportunity will need to be made visible and / or whose presence will be needed in the transaction to make it work.

Note: The matrix as presented here reflects the report author's experience as a practitioner and is therefore intended to be illustrative only. Many other interpretations could be validly made, but the diagram shows how analysis of this kind enables the differentiation of projects that is vital if they are to be presented to the right investor universe and thus have the best chance of succeeding in being financed.

For example, very broadly speaking the more red that is present in an investment profile, the more it should appeal to purely commercial investors; while the more blue or orange that is present, the more it is likely to be dependent on actors with some kind of concessional alignment.

Figure 2: Uniform Categorisation Approach to Assessment of Financing Options



Background on Action 2: Climate Investment Plans

CIPs are the way for countries to communicate their climate financing needs and proposals to both internal and external markets. Assuming that in most cases they will be based on the relevant INDC, they will take the raw material of statements on contributions / commitments in the INDC — often presented with little detail — and build these into more complete plans featuring actionable funding transactions across the spectrum from grant-based proposals to fully commercial investment products and strategies. These transactions will need to be based on accurate costings and projections, and structured where it is necessary to combine multiple participants.

For smaller economies, or where there are natural economic groupings (e.g. certain island states), regional CIPs may be appropriate.

CIPs will need to be linked to the country's framework for INDC implementation, including the legislative framework and whatever administrative functions are charged with implementation delivery. They would also be linked to other economic development and growth plans in the country, including targets set relating to achieving Sustainable Development Goals.

Co-ordinated actions prototypical of CIPs – for example, Nationally Appropriate Mitigation Action plans (NAMAs) – are already being drawn up in a number of countries. Among other learnings these have demonstrated the need to have the support of and input from a range of participants, in government at all levels, in civil society and in the private sector. For CIPs these linkages will need to include:

- National treasuries or finance ministries, for example to deliver elements of government subsidy and to assist in negotiation of inward development assistance for relevant projects
- Local regulators, of financial markets or industry sectors
- Local capital markets intermediaries, for example stock exchanges, investment and commercial banks
- Local transaction and compliance advisory providers such as legal and accountancy firms
- Civil society actors

To bring together this support, CIPs will need to be produced by teams with cross-cutting expertise in the areas listed, among others. In particular, in order to present investable proposals, CIP teams will need to include personnel with expertise in structuring such proposals.

Where needed, potentially substantial technical assistance may be required, not only in the creation of CIPs but also in strengthening and deepening of local capital markets.

The Call to Action is already being welcomed by those actively involved in climate finance

"The Inter-American Development Bank (IDB) welcomes this call to action and its focus on mobilizing public and private sources of finance for implementation of countries INDCs. The Bank has worked closely with many LAC Governments in the design and development of the national climate strategies and plans that underpin these INDCs. Coming out of Paris it is essential that these commitments are translated into investment plans and we look forward to collaborating with others to mobilise the scale and scope of finance that will be required." - ***Amal-Lee Amin, Chief of the Climate Change and Sustainability Division, IDB***

Background on Action 3: Climate Investment Network

A "Global Climate Investment Network" would have the intended – and exclusively practical – objective of promoting the origination of investable transactions, whether these be commercial, concessional or hybrid and whether they arise out of CIPs or independently structured. It would build on, link to and be supportive of existing initiatives and those planned such as the Green Infrastructure Investment Coalition to be launched at COP21.

A suggested model could be the Global Impact Investing Network – see www.thegiin.org

GIIN
GLOBAL IMPACT INVESTING NETWORK

Formed in late 2009, the GIIN presently has over 200 members. These include not just those involved directly in investing – asset owners, asset managers and investment advisers – but also a range of other stakeholders including research centres, policy advocacy groups and policy makers, technical assistance providers, industry networks, consultants, law firms, universities, and rating agencies.

The Network undertakes and provides the following which could have direct or related relevance for a similar climate finance network:

- A Knowledge Center, including an annual survey of impact investing in partnership with JP Morgan Chase bank, as well as investment profiles and investor spotlights
- Houses and manages IRIS, the generally accepted measurement system for impact investments. (Climate finance analogies could be the uniform categorisation and standards for "green bonds")
- Houses and manages ImpactBase, a global transactions database
- Runs training courses for specialist fund managers, among other capacity building initiatives
- Publishes news and events updates featuring the work of members, including transactions and thought leadership
- Provides a "Career Center" for the sector, helping to create a growing network of sector-experienced finance practitioners

Specific investor issues are managed though an Investors Council featuring just these members.

With the necessary financial and institutional support, a network with basic functions could be established by 2017.

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Uniform Categorisation

Climate Investment Plans

Climate Investment Network

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