Financiamiento climático, instrumentos financieros y la arquitectura institucional como catalizador de transformación

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What do we mean for climate finance?

- ✓ “Climate finance” refers to financing channeled by national, regional and international entities for climate change mitigation and adaptation projects and programs (Wikipedia)

It looks simple but it is not.

- ✓ The UN Framework Convention on Climate Change commits Annex II countries to provide ‘new and additional financial resources’ for the ‘full incremental costs’ of addressing climate change

How strict are we in considering the link between finance flows and direct and indirect reduction of GHG and increased climate resilience?

Open question, no formal definition.

Why we need Climate Finance

- ✓ From a *climate justice* perspective, it refers to the transfer of public resources from North to South to cover the costs of dealing with the long-term impacts of climate change. This interpretation refers also to *climate debt* to help Southern countries to *leapfrog* towards low-emissions paths (Climate Finance and Markets, December 2013)

- ✓ To cover the *incremental* cost of using new low carbon technologies and/or increase their climate resilience

- ✓ To acquire capacity in terms of institutional setting and technical skills that will ensure the sustainability of investments

- ✓ To test innovative models of sustainable production/consumption patterns and prove that they are economically sound

Who and how much?

- ✓ According to CPI 2013 Global Landscape of Climate Finance, in 2012 annual global climate finance reached approximately USD 359 billion (range of 356-363 billion). The private sector contributed for 62% and the public sector for around 38%. This is below what IEA (IEA, 2013) estimated as USD 5 trillion required by 2020.

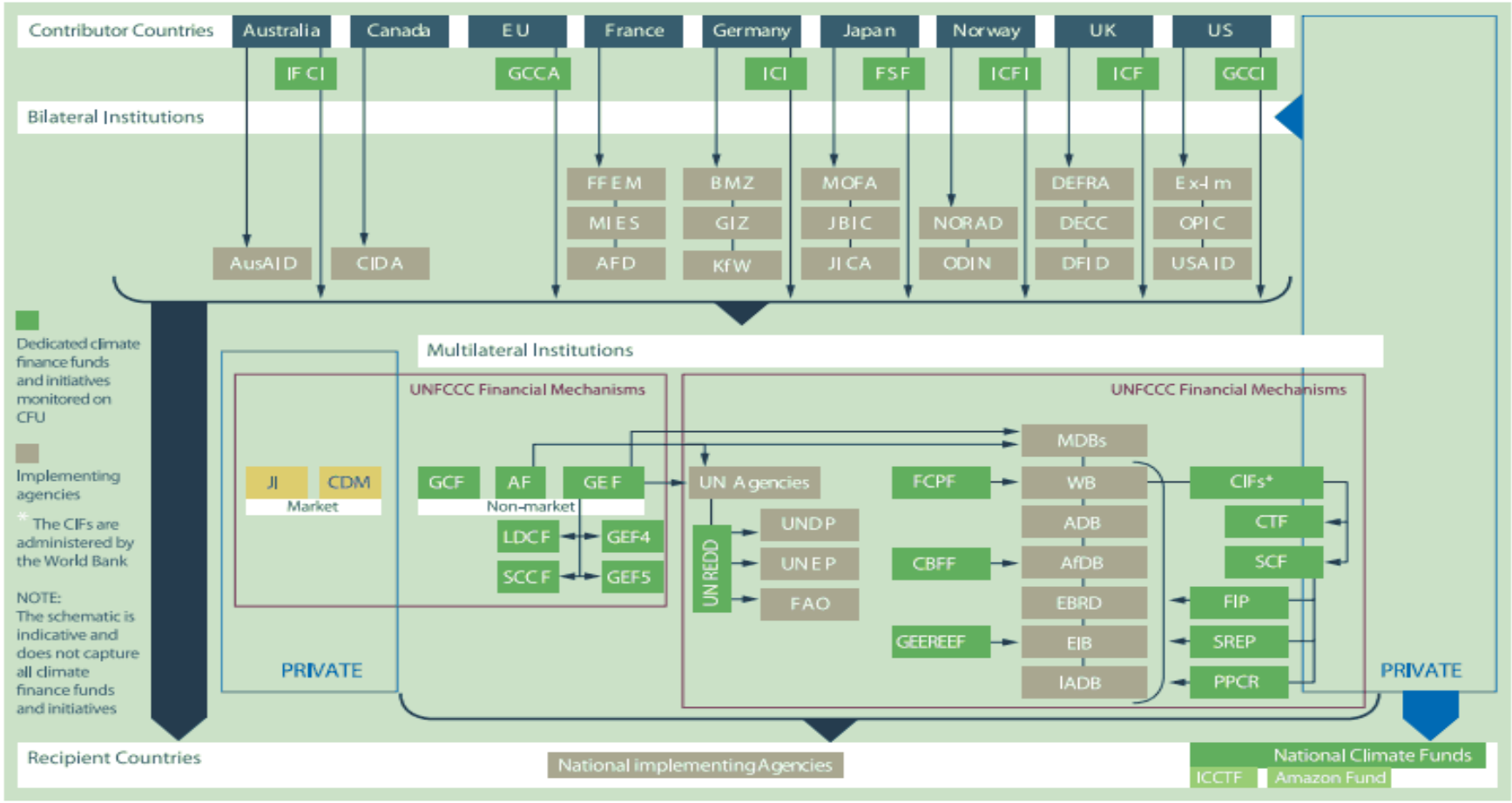
- ✓ In 2012, USD 337 billion out of the total USD 359 billion was invested in mitigation, while USD 20-24 billion, or USD 22 billion on average, went toward adaptation interventions.

- ✓ National Development Banks (NDBs) and Bilateral Finance Institutions (BFIs) distributed about 69% of intermediated climate finance. Multilateral Development Banks (MDBs) contributed the remaining 31% of the total.

	SOURCES & INTERMEDIARIES	MITIGATION (USD BILLION)	ADAPTATION (USD BILLION)	TOTAL
PRIVATE FLOWS	Project developers	102	NE	**102**
	Corporate actors	66	NE	**66**
	Households	33	NE	**33**
	Institutional investors	0.4	NE	**0.4**
	Commercial financial institutions	21	NE	**21**
	VC, PE, and infrastructure funds	1.2	NE	**1.2**
PUBLIC FLOWS	Governments budgets	9	3	**12**
	National Development Banks	61	8	**69**
	Multilateral Development Banks	31	7	**38**
	Bilateral Finance Institutions	12	3	**15**
	Climate Funds	1.0	0.6	**1.6**
	TOTAL	**337**	**22**	**359**

Source: CPI, 2013

The Architecture of the Funds



Source:http://www.climatefundsupdate.org/listing

Financial instruments

- ✓ **Concessional loans**: to low the cost debt when high initial capital investments is required for renewable technologies;

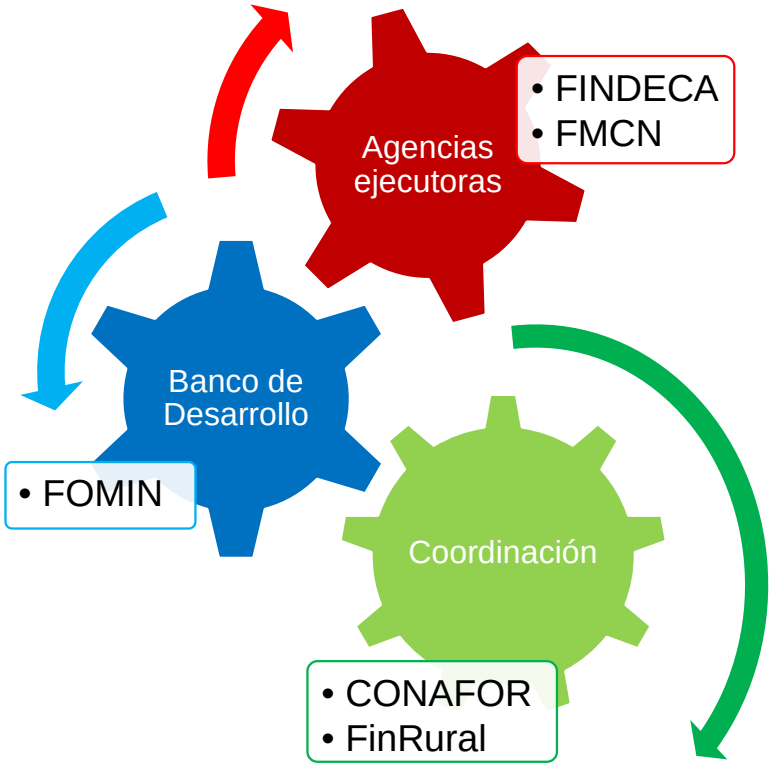
- ✓ **Credit, Performance and Regulatory Guarantees:** to assume resource, regulatory, off-taker credit, or perceived technology risks that prevent private sector investment at affordable rates;

- ✓ **Grants** for project identification and feasibility analysis in order to demonstrate the financial viability of the projects

Unos ejemplos: The Forest Investment Program (FIP) private sector project inMéxico

Goal:

Improve the business and the financial and social sustainability of communities forest enterprises in ejidos and communities, together with the decrease of GHG emissions.



ECOCASA: Program Structure and Financing

ECOCASA is supported with concessional loans and grants from the following partner institutions :

	USD Million	
BMZ / KFW	105.55	Financing for housing developers
CLEAN TECHNOLOGY FUND / IDB	49.5	Financing for housing developers
IDB	2.1	Technical Assistance
IDB	50	Ordinary Capital for Green Mortgages
EU	9.3	Subsidy for Passive Houses
Department of Energy & Climate Change / Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit	13.3*	Financial Cooperation for a sector wide NAMA implementation

* In approval phase

The Problem:

Housing sector represents 17% of total energy usage and 4.9% of CO_2 emissions in Mexico

Program Objective:

- Reduction of greenhouse emissions from the housing sector.
- Improvement of living conditions for low income families.

Expected results

- 26,000 sustainable houses for 2020 (houses with greenhouse gas emission reductions from at least 20%)
- 600 passive houses (reductions from 70% to 90% from CO_2e)
- 1,700 Green Mortgages
- Expected Mitigations Impact: 1 million tCO_2e
- Improvement of comfort for households (20-25 ˚C average)

BID

Key elements for attracting international funds

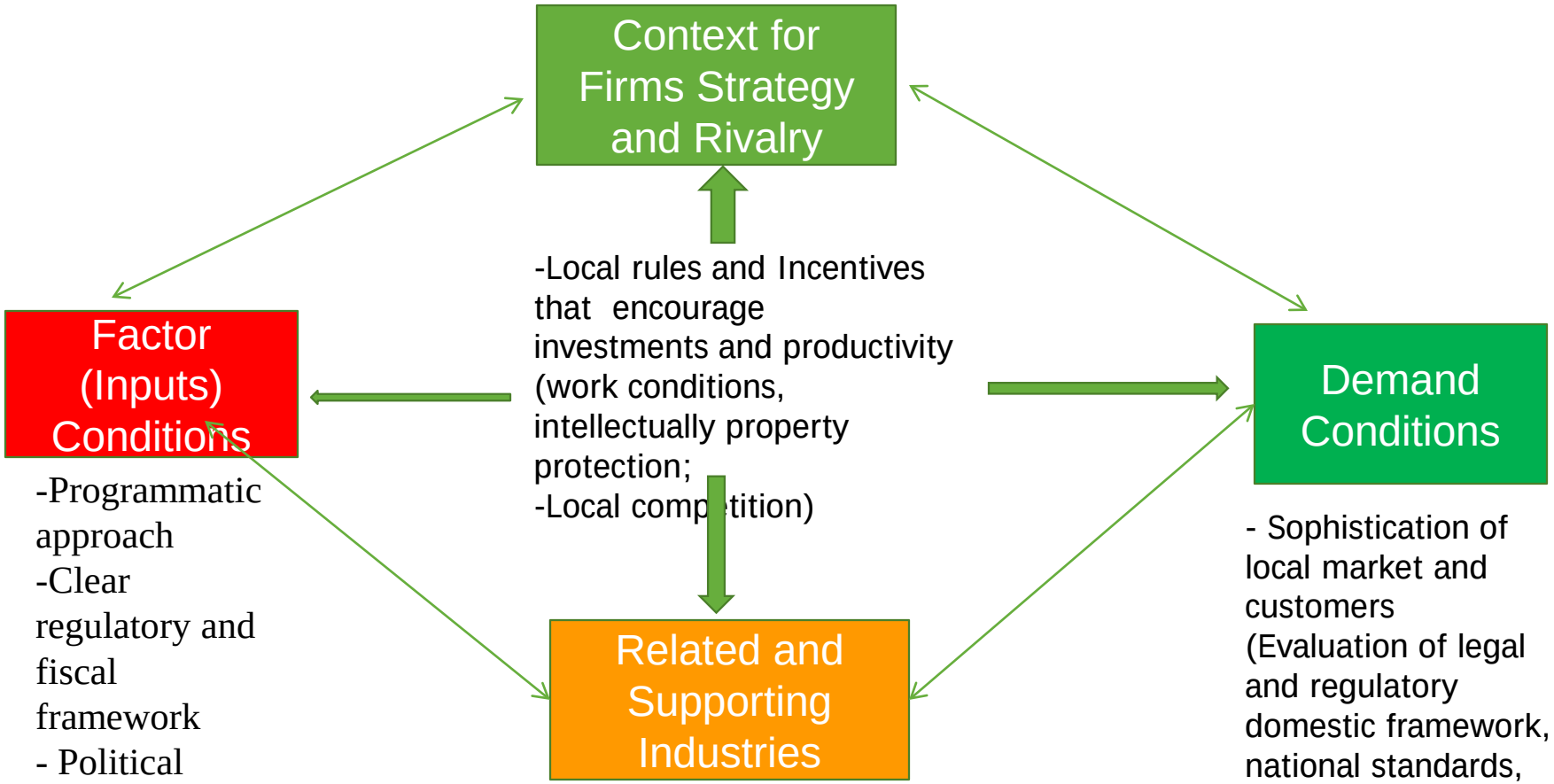
- ✓ Programmatic approach within a low carbon strategy of medium-long term
- ✓ Regulatory and fiscal policies that constitute a positive enabling environment
- ✓ Strengthen institutional capacity, defining the chain of responsibilities clearly. Functional governance architecture is key. Executing capacity.
- ✓ Strict involvement of the Ministries of Finance.
- ✓ Engagement of the civil society as a sustainability factor for any investment in the country.

Key element for private sector investments: the need for a public private partnership

- ✓ Real or perceived **risk** is one of the most important factor that drive investors for low-carbon, climate-resilient projects
  - ➢ policy risks (i.e., retroactive changes to support systems for climate-friendly technologies)
  - ➢ financing risks (including access to capital)
  - ➢ technical risks for unproven technologies

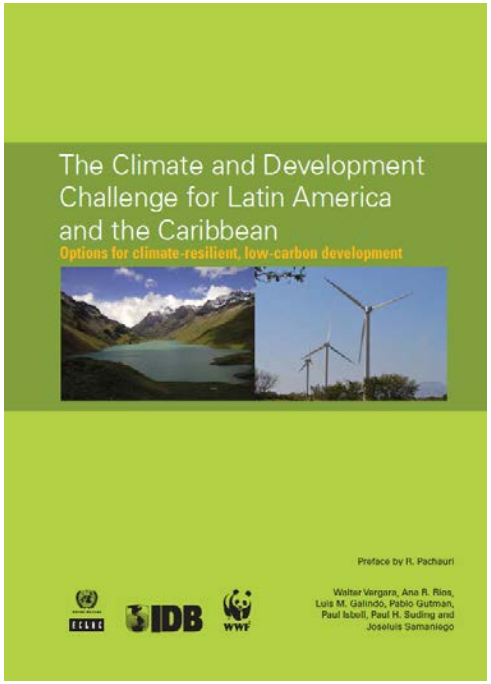
- ✓ **Ho to address it:**
  - ➢ Long term policies and clear phase out of subsidies. Public sector investment injection of capital to help to reassure foreign investors about alignment of interests.
  - ➢ Strengthen of national development banks that can establish dedicated credit line
  - ➢ Knowledge sharing among similar implementation initiatives.

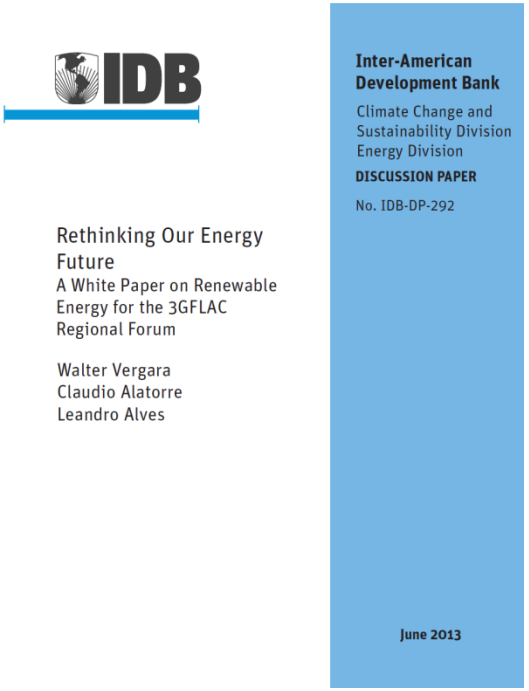
Elements to increase competitiveness through PPP



Source: Adaptation from Prof. Michael Porter

Latest IDB Knowledge Products





FOMIN
Multilateral Investment Fund
Member of the IDB Group

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Gracias!

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