UNFCCC PERSPECTIVE ON CLIMATE FINANCE

Opportunities and challenges in the lead up to Cancun and beyond

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Agenda

I. Assessing climate finance needs
   1. Investment and financial flows
   2. NEEDS
   3. Copenhagen Accord

II. Status of the negotiations under the UNFCCC and expectations for Cancun
   1. AWG-LCA: enhanced action on finance
   2. SBI: Fourth review of the Financial Mechanism
   3. CMP: Review of the Adaptation Fund

III. Other important issues:
   1. Report of the AGF → perspectives for the AWG-LCA process
   2. Fast start finance

IV. Final thoughts and recommendations

1. **UNFCCC's Investment and Financial Flows report (2007):**
   a) **Mitigation:**
      - Global additional investment and financial flows of **USD 200–210 billion in 2030** to reduce global GHG emissions by 25 per cent below 2000 levels
      - Half of the additional global investment and financial flows would be needed in developing countries → estimated **USD 105 billion in 2030 for developing countries**.
   b) **Adaptation:**
      - Global adaptation costs likely to range between USD 50 to 86 billion (WB, Oxfam and UNDP/HDR).
      - Submitted NAPAs (LDCs) → over USD 800 million (in 2007).
2. **National Environment, Economic and Development Study (NEEDS) (2009/2010):**
   a) **Mitigation:**
      - Estimates for short (2020) - and long-term (2050) range from USD 45 million to USD 33.01 billion.

b) Adaptation:

- The range of estimated costs of short- and long-term adaptation measures reported by countries is from USD 161.5 million to USD 20.69 billion.

3. Copenhagen Accord → reality check

a) Introduces two time horizons for the mobilization of financial resources for climate change:

- Short/immediate term → Fast start finance for 2010 to 2012.
- Mid/long term? → $100 billion goal by 2020.

b) Suggests balanced(?) allocation between adaptation and mitigation, including REDD+.

c) Proposes to establish the Copenhagen Green Climate Change Fund, which would channel the majority of the resources.

1. **AWG-LCA: enhanced action on finance**
   a) Potential progress on new sources for mid/long term finance
   b) Potential progress on institutional arrangements – the [New] Fund
   c) Potential progress on MRV of support – new guidelines?
   d) Overarching condition and challenge: a balanced package
2. **SBI: Fourth review of the Financial Mechanism**
   a) Originally intended to provide policy guidance for GEF 5
   b) Majority of existing elements in current draft decision provide operational guidance to the GEF
   c) Text still bracketed → seems conditioned to progress in the LCA
3. **CMP: Review of the Adaptation Fund**
   a) Important precedents:
      - Direct access
      - Effectiveness of innovative sources of finance
   b) Potential for development of further policy guidance on financing adaptation on the basis of lessons learned → difficult issue: definition of levels of vulnerability
   c) Opportunity to review of adequacy of existing funding levels
   d) Contentious issue → scope of the review (part. Institutional arrangements)

1. **Report of the AGF** → perspectives for the AWG-LCA process
   - Acknowledging the $100 billion target
   - Identifying sources of finance
   - Role of multilateral development banks and financial institutions → report emphasises leveraging potential of multilateral development banks → clear opportunities for national/local development banks
2. **Fast start finance**
   - Intended to enhance mutual trust in the negotiations
   - Need for increased transparency in the information provided by donors about both:
     - Effective delivery
     - Difficulties and expected time lines for the mobilization public funding
   - Can Cancun produce:
     - Acknowledgement of fast start finance commitments by donor Parties?
     - Basic reporting guidelines?

- **Absorptive capacity**.
- **Innovation** → multilateral development institutions have the potential to build innovative capacity in national and domestic financial systems → customization of financial solutions through creative risk management techniques appropriate to national circumstances.
- Capacity building to determine **climate finance needs** at the national, municipal and community level, and to further refine existing national studies.
- **Fast start finance and multilateral institutions** → opportunities for:
    - Enhanced transparency
    - Increased visibility
    - Play ground for MRV of support?
- Key: further **strengthening of local and national financial institutions (public and private)** in their capacity to mobilize resources from inside and outside the country.

Aggregated estimated short- and long-term financial needs for mitigation

Countries	Short-term (2020) in USD	Long-term (2050) in USD	Additional information
Egypt	15 to 90 billion	45 to 270 million	Cost estimates depend on the specific or mix of mitigation measures adopted.
Ghana	340.6 million	422.7 million	Cost estimates cover energy, forestry and transportation sectors.
Jordan	8.5 billion	4.5 billion	Cost estimates for energy and waste sectors. Estimated incremental costs of 3.3 billion for 2020.
Maldives	1.1 billion		Government estimated that it will require USD 110 million annually to achieve its goal of carbon neutrality by 2020.
Mali	11.01 billion	33.01 billion	Cost estimates for forestry and agriculture sectors, including replacement of chemical fertilizers.
Nigeria	874 million	1.41 billion	Cost estimates for mitigation measures in the energy sector to meet the non-binding target of 25 per cent.

Other information on the cost of mitigation measures

Countries	Information on cost of mitigation measures
Costa Rica	Estimated investment requirements to support mitigation measures from 2010 to 2030 is USD 7.8 billion which is equivalent to 30 of the country's gross domestic product (GDP) in 2009.
Indonesia	The average annual abatement cost of all sectors (energy, transport, industrial processes, agriculture, waste and peat) until 2020 is about EUR 5.95 billion for the first mitigation scenario and about EUR 12.02 billion for the second mitigation scenario. These figures are about 1.4 per cent and 2.8 per cent of Indonesia's projected GDP in 2010. The abatement cost figures for both mitigation scenarios only contribute to 0.72 per cent and 1.45 per cent of Indonesia's projected GDP in
Lebanon	A cost-benefit analysis reveals that the mitigation scenario has a negative net present value of 2,436 million USD compared to the baseline scenario. The mitigation benefit is thus computed to be USD 270.6/t CO_2. The maximum scenario assumes a substantial shift in the electricity generation mix in 2030, which is expected to pose several
Nigeria	Projections for afforestation activities indicate that to sequester 578 megatonne of CO_2 (Mt CO_2) by 2020 and 958 Mt CO_2 by 2050, it will require total or cumulative investments over the years of 2.9 billion USD and 4.8 billion USD by 2020 and 2050 respectively in the afforestation sector. With regard to agroforestry it is estimated that to be able to sequester 233 Mt CO_2 in 2020 and 466 Mt CO_2 in 2050 will require total or cumulative investments over the years of 1.78 billion USD in 2020 and 2.98 billion USD in 2050. Establishing projected forest units is estimated to be able to
Philippines	The baseline scenario is that the country will require an estimated USD 28.74 billion between 2009 to 2030. The maximum scenario is for the country to require an estimated USD 30.51 billion to reduce per capita emissions from 8.4 to 4.3. The 2 billion difference is the calculated incremental cost for mitigating GHG emissions as it displaces fossil

Aggregated estimated short- and long-term financial needs for adaptation

Countries	Short-term (2020) in USD	Long-term (2050)in USD	Comments
Egypt	2.8 billion	4.007 billion	Cost estimates cover observation systems, agriculture, irrigation, costal zones, socio-economic studies and capacity building and training.
Ghana	697.2 million	701.7 million	Cost estimates only for health, and agriculture sectors and malaria control.
Jordan	5.4 billion	5 billion	Cost estimates only for water and agriculture
Maldives	279.5 million	161.5 million	Cost estimates for water, coastal protection, health, flood control, settlements and infrastructure.
Nigeria	11.45 billion (annual)	20.69 billion (annual)	Cost estimates cover water, agriculture, health and transportation. Information are from different sources and do not suggest intensive research was conducted to obtain them.

Other information provided by some countries

<table>
<tr><th>Countries</th><th>Additional information</th></tr>
<tr><td>Lebanon</td><td>The value added potential of developing a biotechnology industry can be moreover put into relationship to the 2050 food import bill due to climate change and the 2050 subsistence income gap due to climate change. The following table shows that developing a climate change adaptation research center in Lebanon would far outweigh the social costs from climate change:
<table>
<tr><th></th><th>2020 (million)</th><th>2050 (million)</th></tr>
<tr><td>Food Import Bill due to Climate Change*</td><td>~ 40.3*</td><td>~ 196*</td></tr>
<tr><td>Climate change induced subsistence income gap among agricultural workers*</td><td>~12.4*</td><td>~159.3*</td></tr>
<tr><td>Total climate change induced social costs*</td><td>~57.2*</td><td>~355.3*</td></tr>
<tr><td>Value added potential of a Lebanese Biotechnology Sector+</td><td>~806</td><td>~1,568</td></tr>
</table>
* $2005 PPP
+ $2000 PPP</td></tr>
<tr><td>Mali</td><td>The economy wide financial needs to implement all climate change measures identified through the NAPA, Social and Economic Development Program, and other policy documents was estimated to be 60 billion USD from 2008-2012.</td></tr>
<tr><td>Philippines</td><td>The existing financial flows for adaptation from external and internal fund sources provide information on the costs of particular climate change-related actions, the relative distribution of funds for particular activities or requirements, or the preferences of different fund sources. This may then be compared with the more desirable flow and allocation of funds. With the given or available activity costs, the total amount of desirable funds for CCA and mitigation can then be estimated.</td></tr>
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