

# CLIMATE FINANCE



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EUROPEAN UNION

Ephrat Yovel

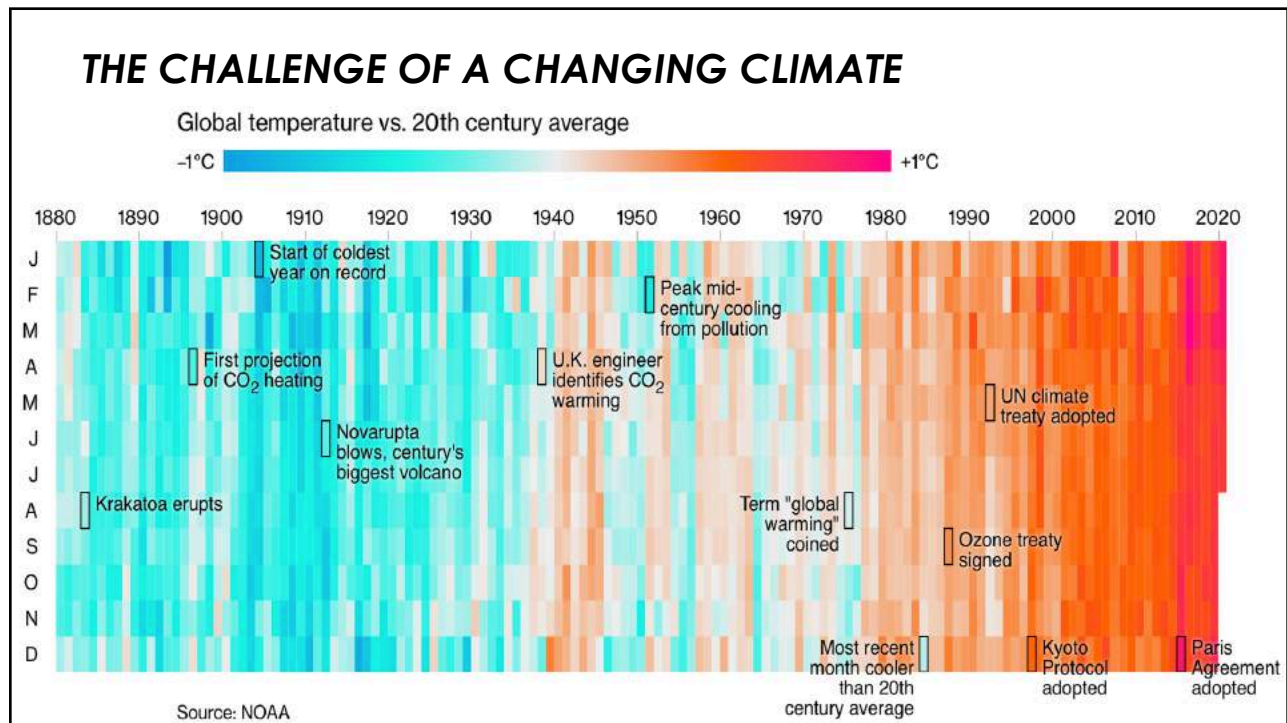
Workshop on Climate Adaptation  
23 Feb 2021

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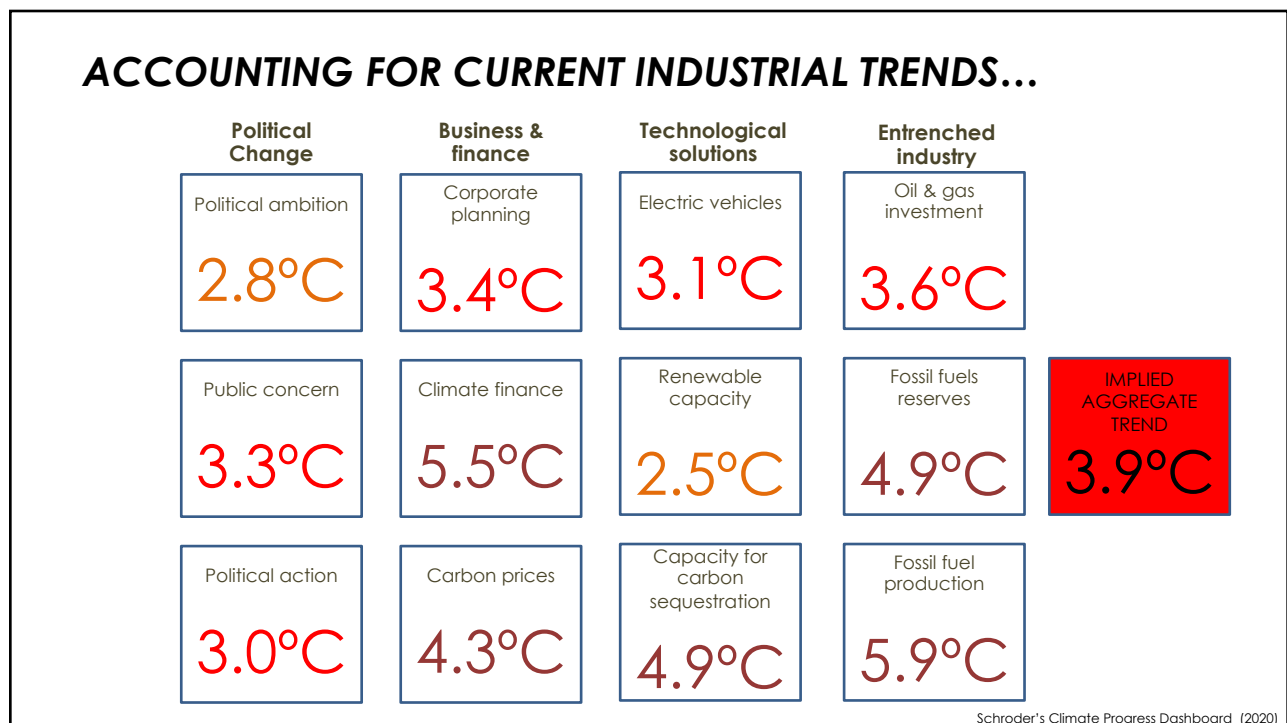
## **TOPICS**

- Context: implications of climate change
- International policy response to climate change
- Basics of climate change finance
- Climate finance landscape
- Climate finance flows
- Climate finance flows in Ukraine

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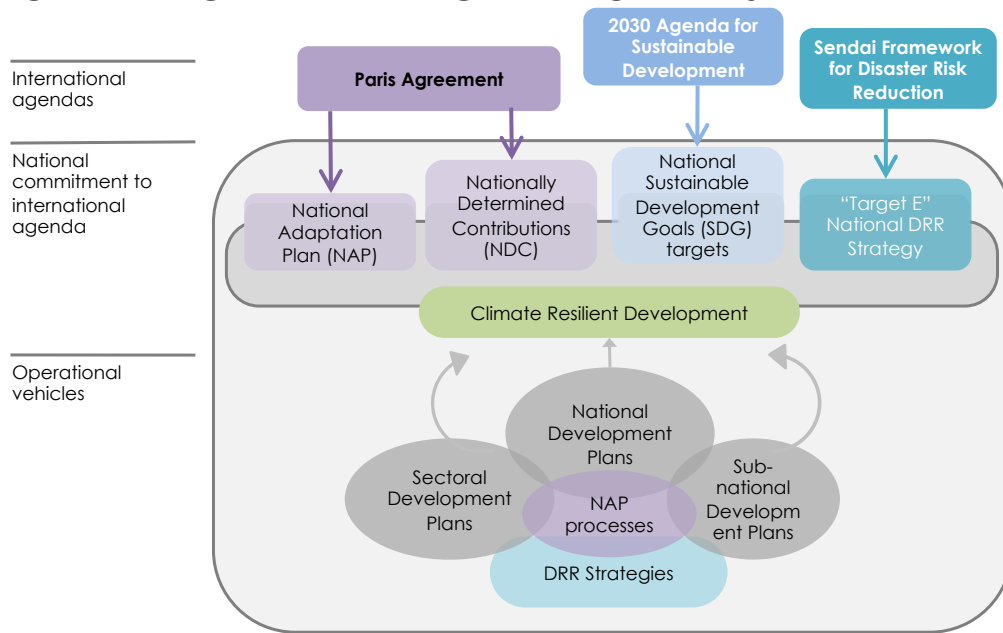
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# International Policy Response to Climate Change

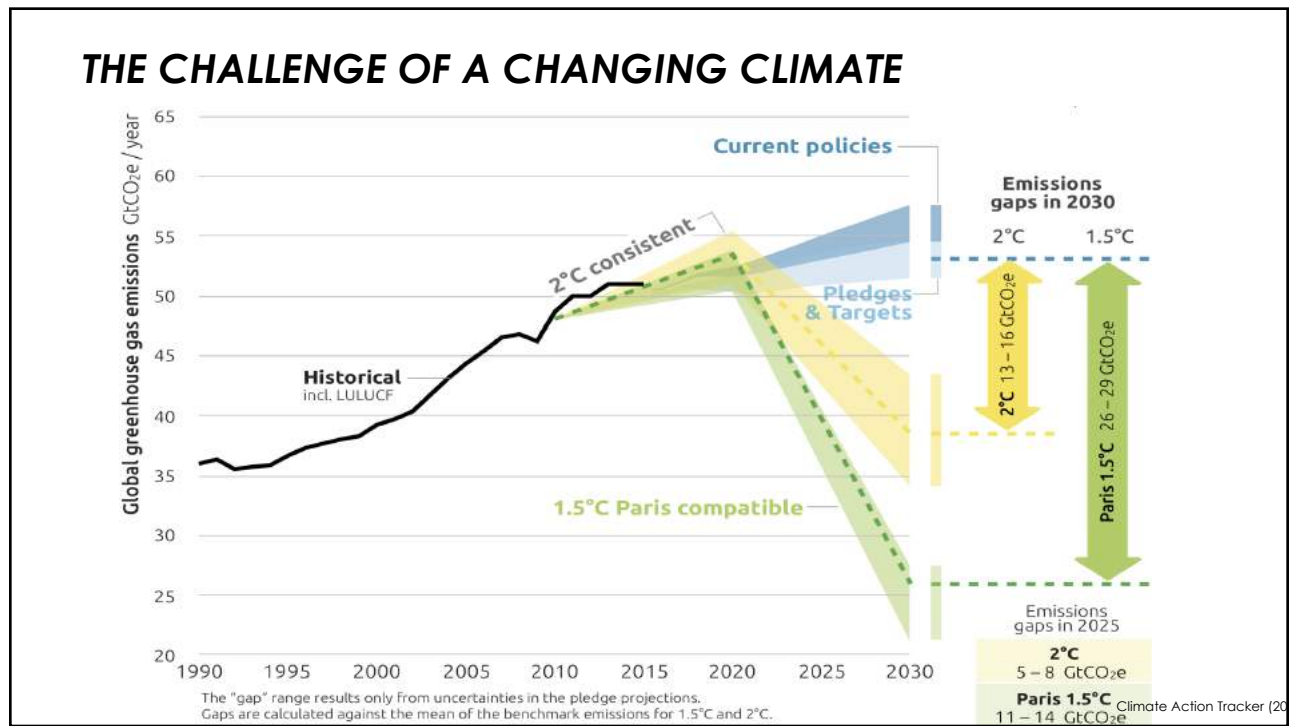


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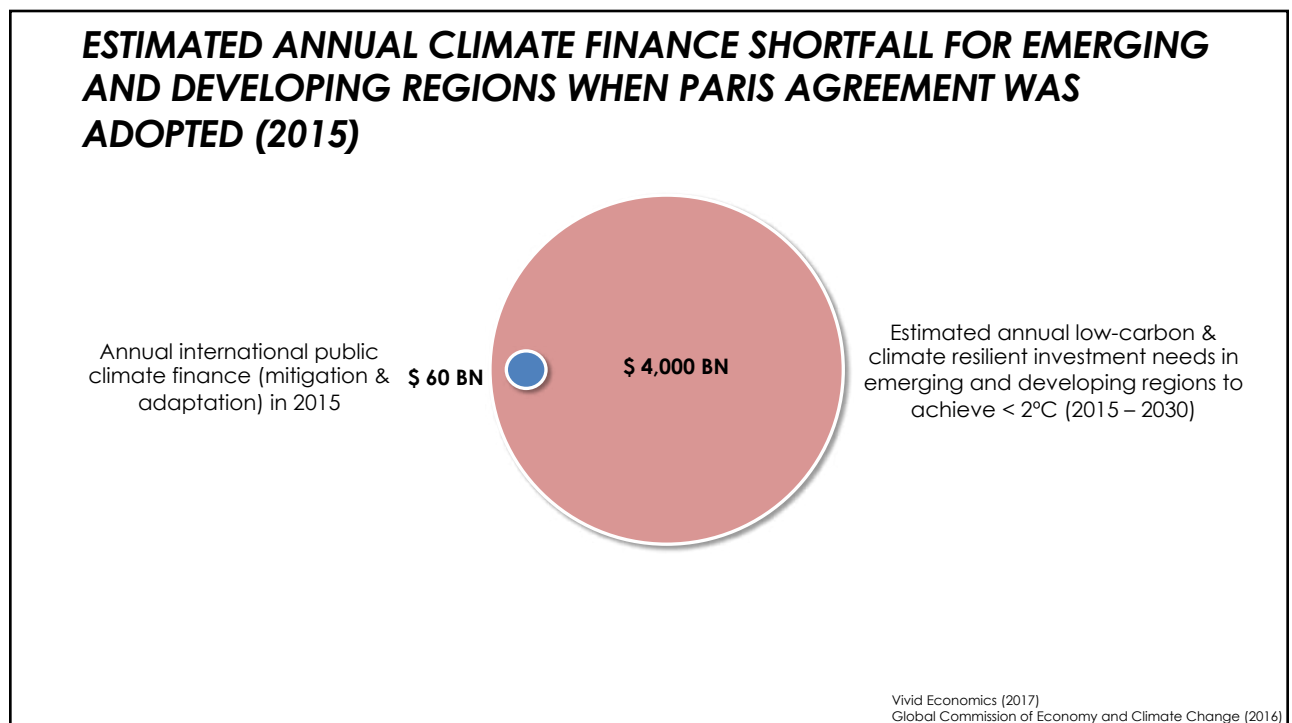
## ALIGNMENT OF INTERNATIONAL AGENDAS



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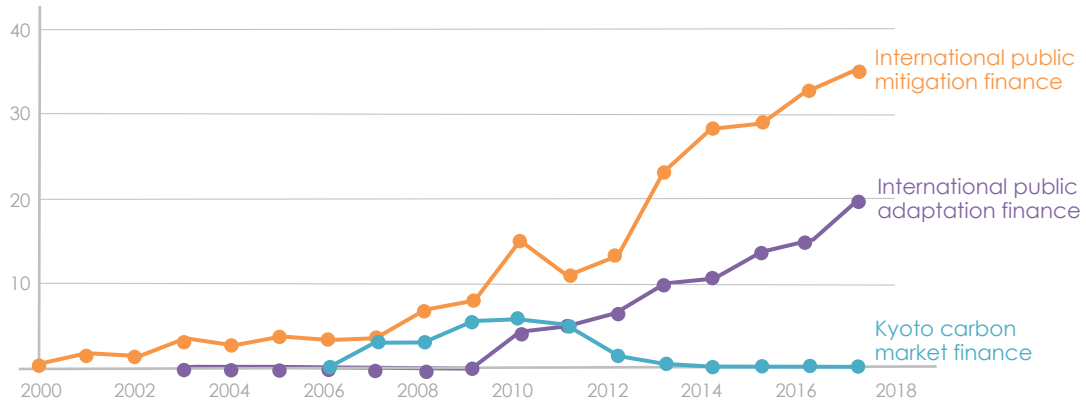


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## CLIMATE FINANCE AND CARBON MARKET FLOWS SINCE 2000

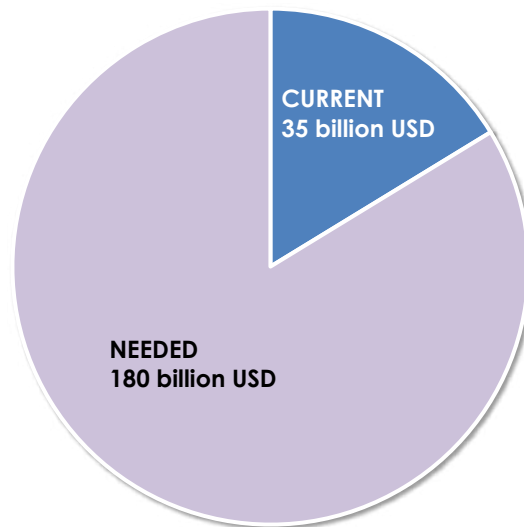


Note: MDB and bilateral international public climate finance apportioned to mitigation and adaptation objectives based on the total amount of the project and the relative value of mitigation and adaptation finance in that project. Finance from multilateral climate funds tagged as "multiple foci" is apportioned to adaptation and mitigation finance based on the relative value of climate finance of each type in a given year. The Kyoto Protocol introduced three market-based mechanisms for the purchase of emissions reductions or allotted emissions units. Kyoto carbon market finance includes financial flows to selected countries for emissions credits under the Clean development mechanism (CDM), Joint implementation (JI) and Emissions trading (ET).

Vivid Economics (2017)  
Global Commission of Economy and Climate Change

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## ESTIMATED ANNUAL INVESTMENT IN CLIMATE ADAPTATION (2019)

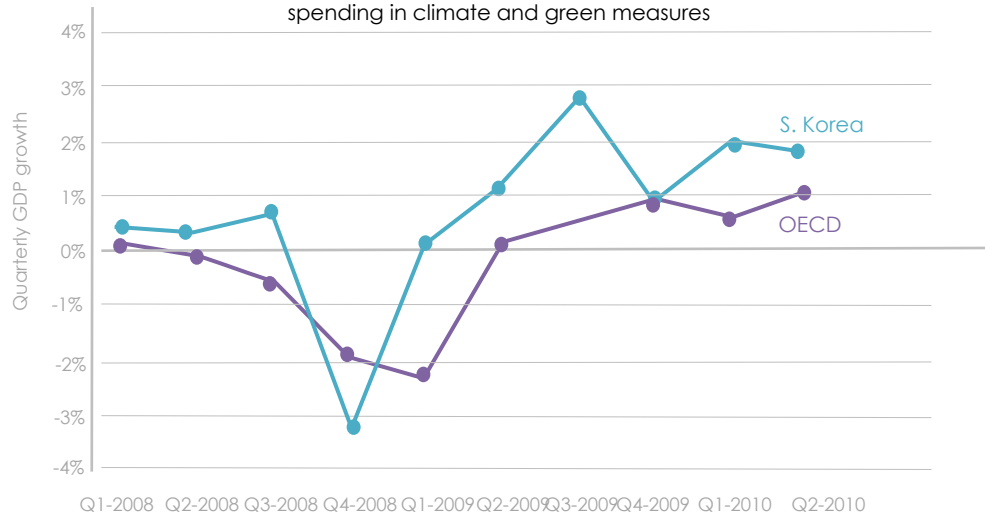


World Bank (2019)

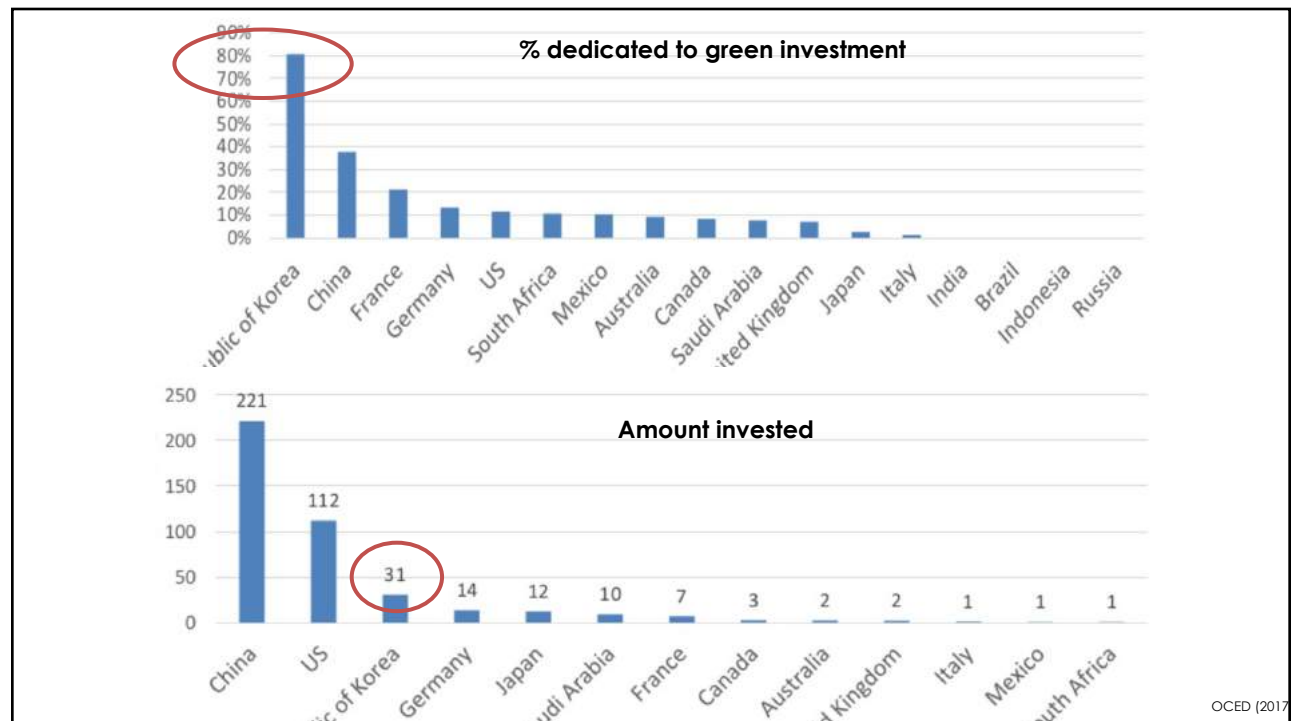
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## REASON TO INVEST TIME AND ENERGY IN ENSURING YOU RECEIVE CLIMATE FINANCING

Korea embraced sustainable economic stimulus during and after the 2009 global financial crisis, and since then has benefited from faster growth than any other OECD country, in part due to economic stimulus spending in climate and green measures



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# Basics of Climate Finance



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Climate finance” refers to money – from international and national public and private sources – which is used to help reduce emissions and increase resilience against the negative impacts of climate change



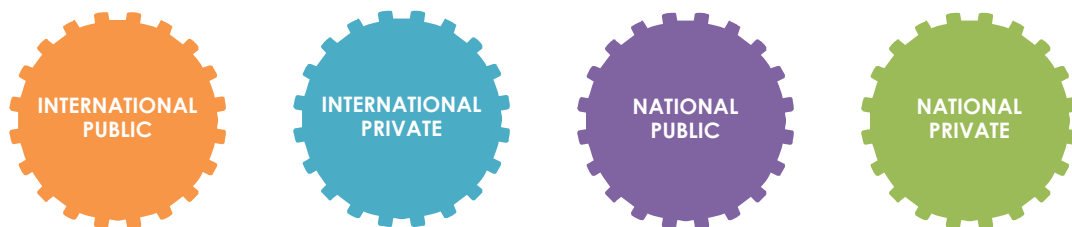
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## ***FUNDING VS FINANCING***

- **Funding** refers to the underlying financial resources or sources of income that pay for the programme or project, usually from taxation or user charges
- **Financing** refers to the financial resources or mechanisms that are used to provide the funding and cover the programme or project costs as they occur.

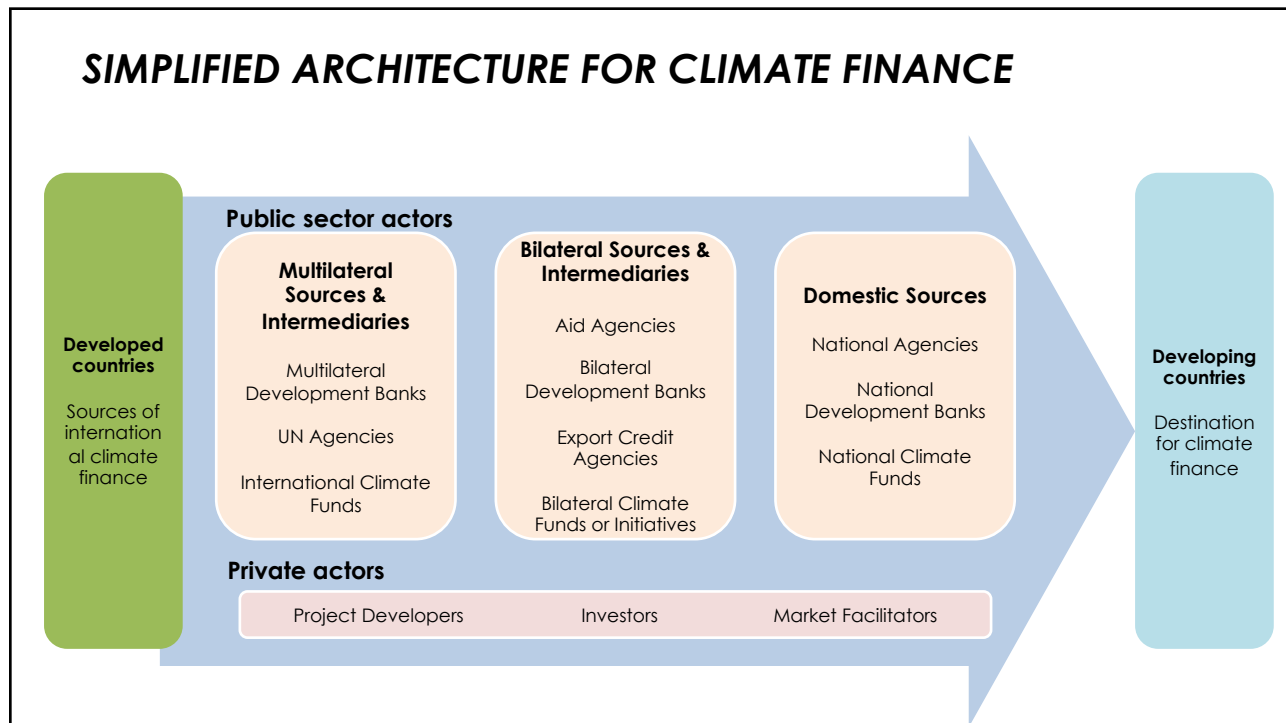
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## ***MAIN STREAMS OF CLIMATE FINANCE***

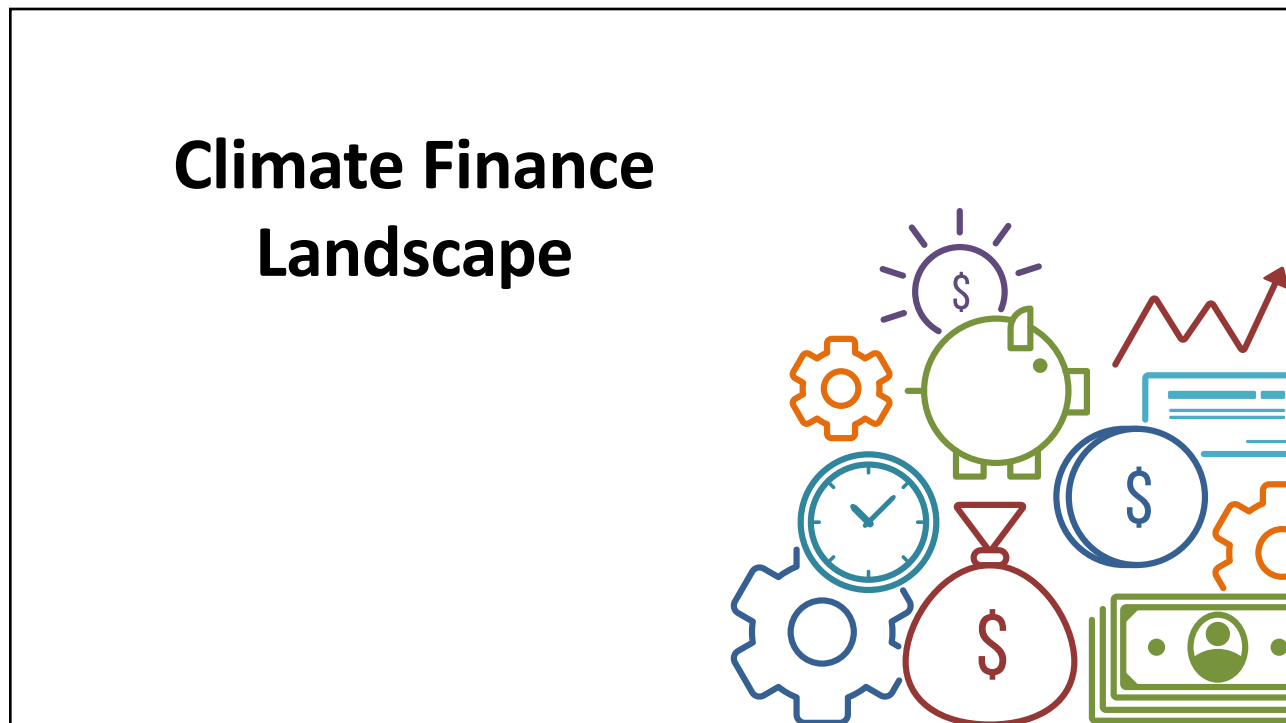


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## EXAMPLES OF CLIMATE FINANCE SOURCES



- Financing instruments have been created to stimulate action to address the growing risks associated with climate change



## **GLOBAL ARCHITECTURE OF CLIMATE FINANCE**

- Over 100 public funds, 45 carbon markets and 6,000 private equity funds
- Very complex, inflexible and risk averse system
- Each fund has its own rules and procedures to enable access to finance
- Considerable inefficiencies in the channeling and delivery of finance
- Contributor countries have a hard time deciding where to put their money for maximum impact
- Prospective recipients must spend scarce time and effort learning how to navigate this system to access financing

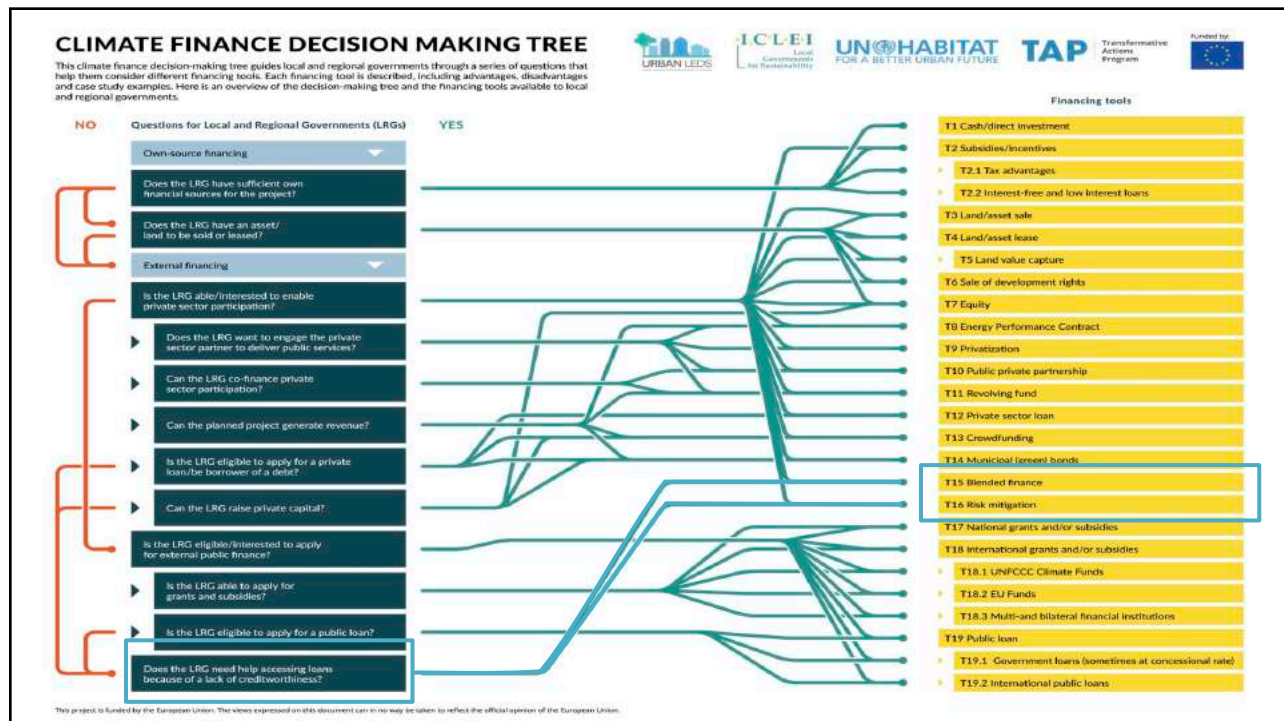
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Ukraine can only access 22 of the 100 public funds because it is an Annex 1 country

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## ADDITIONAL FUNDS AND PLATFORMS OF INTEREST (NOT SPECIFICALLY FOR CLIMATE FINANCE)

- **Women Entrepreneurs Finance Initiative (We-Fi)** addresses financial and non-financial constraints faced by women-owned/led small and medium firms in IDA and IBRD eligible countries and territories (access to debt, equity, venture capital, insurance products, capacity building, networks and mentors, and opportunities to link with domestic and global markets) and for governments to improve the financial institution finance for entities that provide women entrepreneurs with an enabling business environment
- **The Pilot Auction Facility for Methane and Climate Change Mitigation (PAF)** stimulates investment in projects that reduce greenhouse gas emissions while maximizing the impact of public funds and leveraging private sector financing. Its results-based payment mechanism will set a floor price for future carbon credits in the form of a traceable put option, which will be competitively allocated via auctions

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## PRIVATE FINANCING ADVISORY NETWORK (PFAN)

- The Private Financing Advisory Network (PFAN) is a multilateral public private partnership initiated by the Climate Technology Initiative and the UNFCCC
- PFAN mobilizes private sector's expertise in financing climate-friendly projects and technologies to screen business plans and select projects that are economically viable, as well as environmentally and socially beneficial
- For the selected entrepreneurs and businesses, PFAN provides guidance (e.g., economic feasibility, project structure, investment and financing, preparation of the business plan, and introductions to investors)

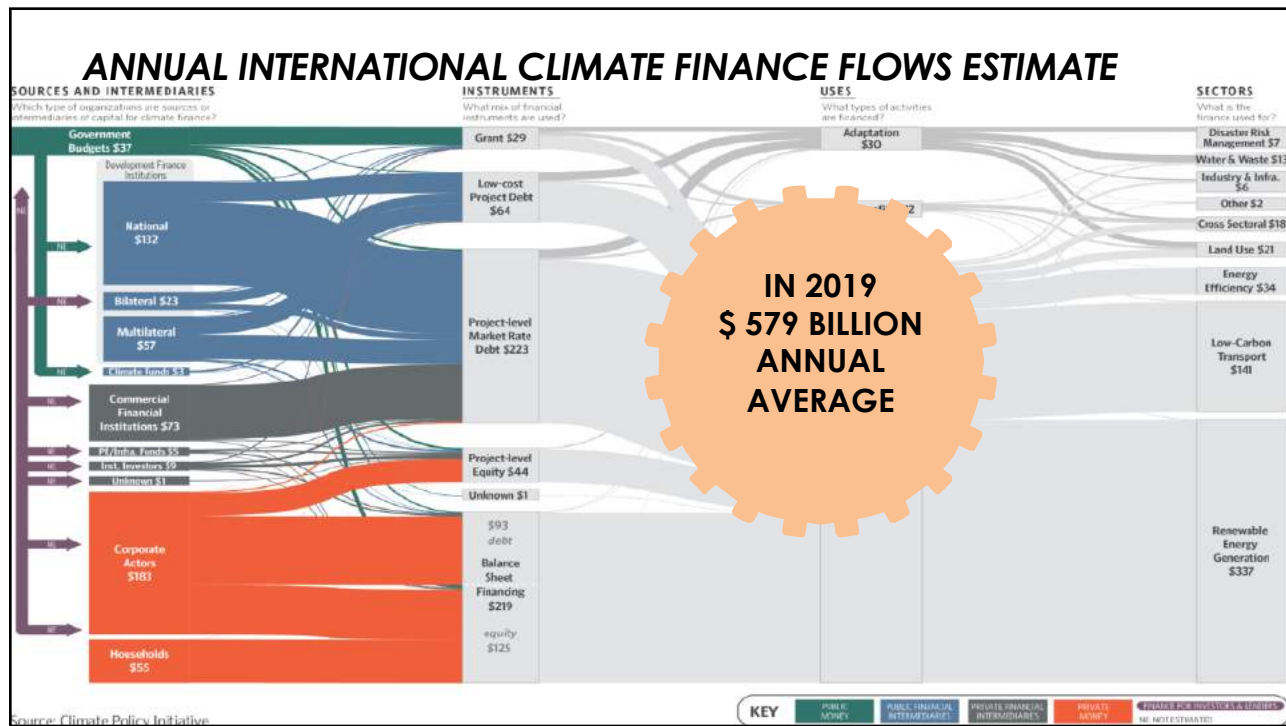


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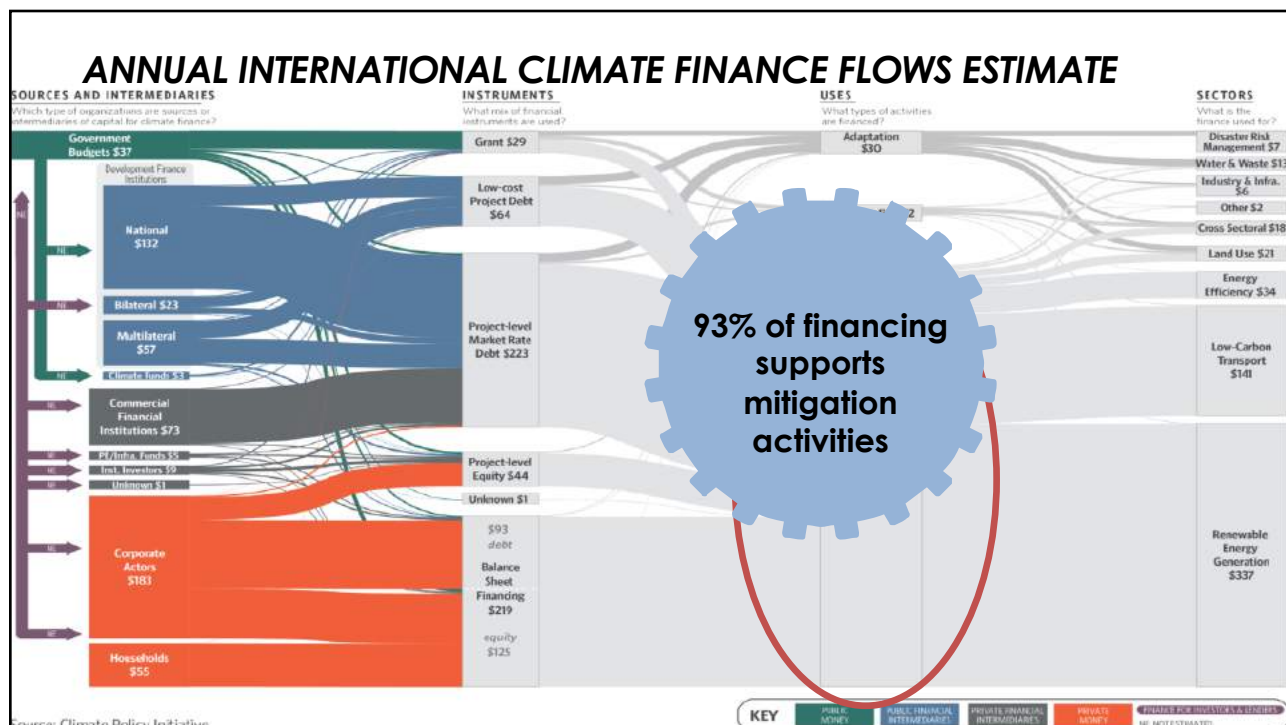
# Climate Finance Flows



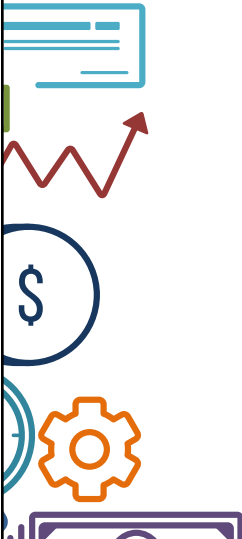
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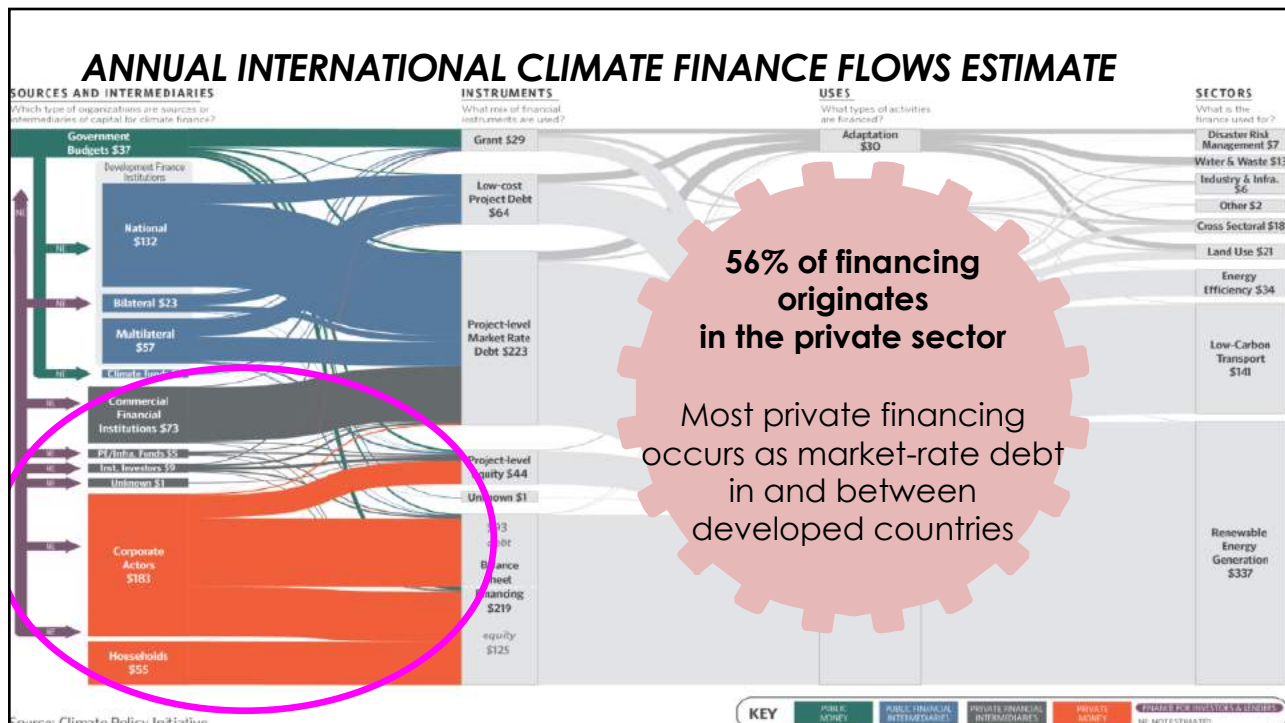


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### What makes adaptation hard to finance?

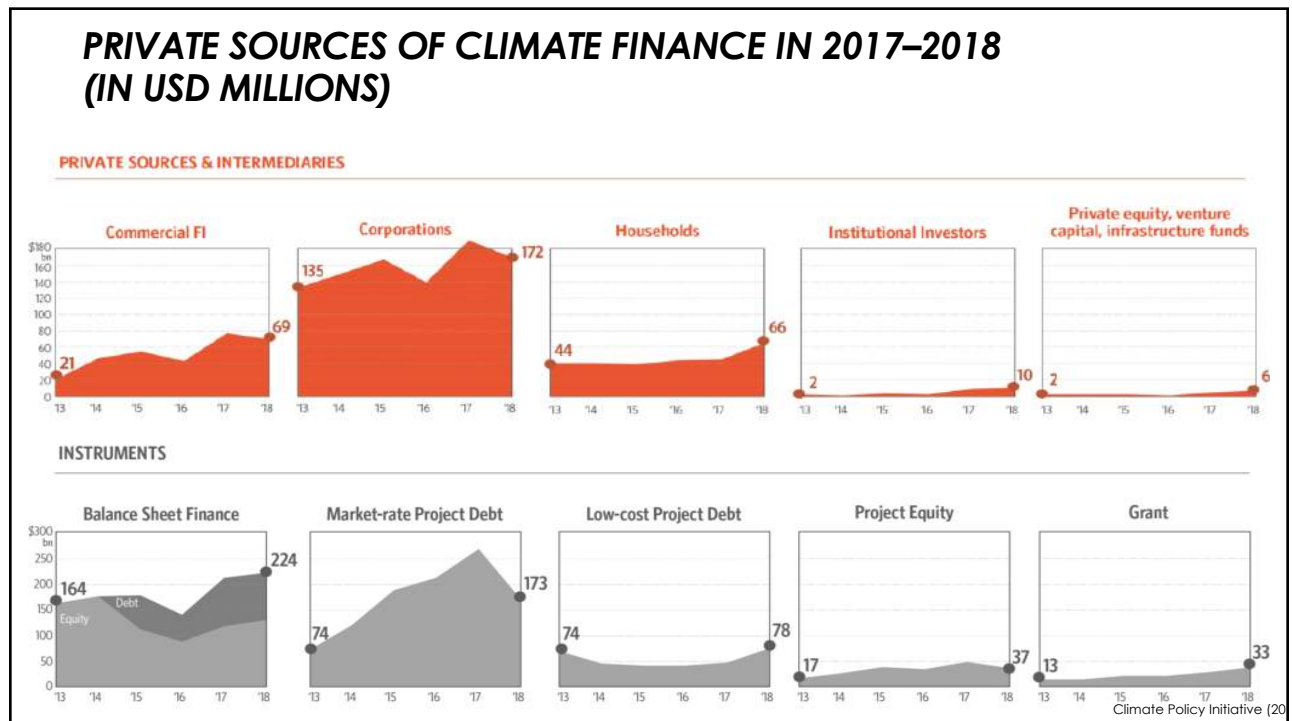
The common perception is that since adaptation activities generate public goods and services, many of which do not have a market value, they are less likely to generate financial returns, therefore, it is more difficult to make a strong business case

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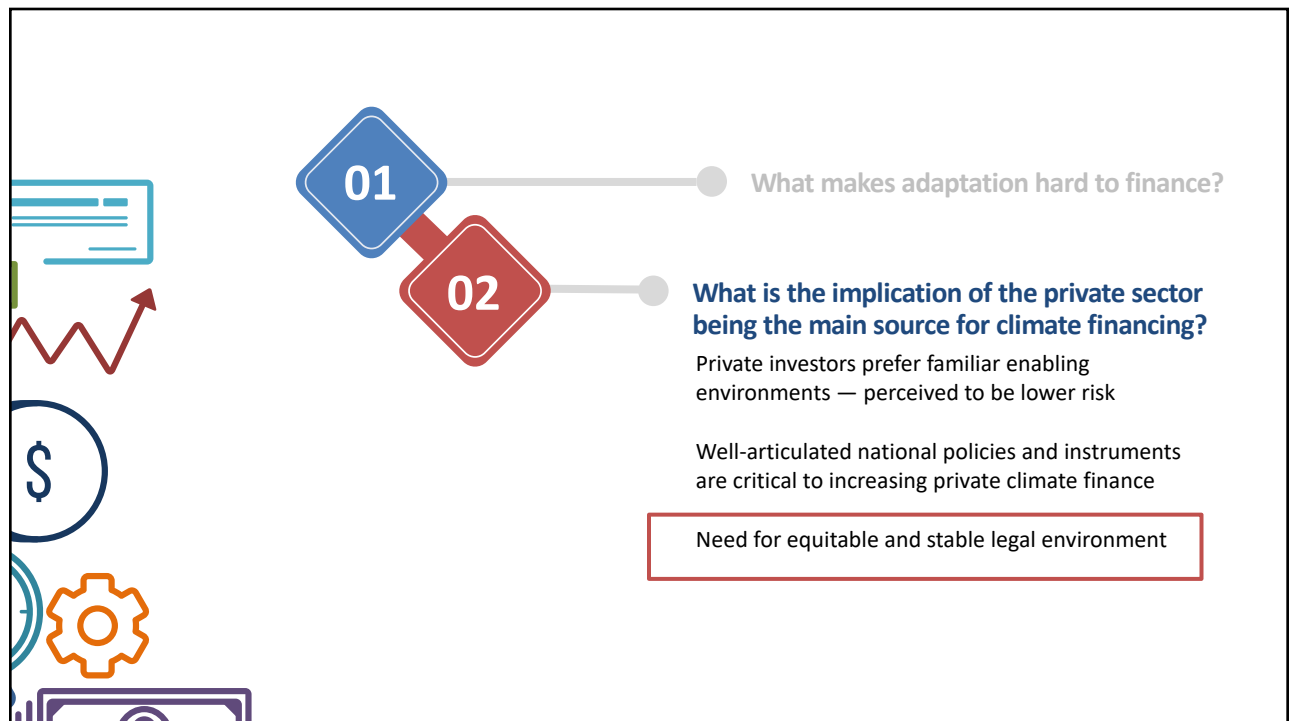


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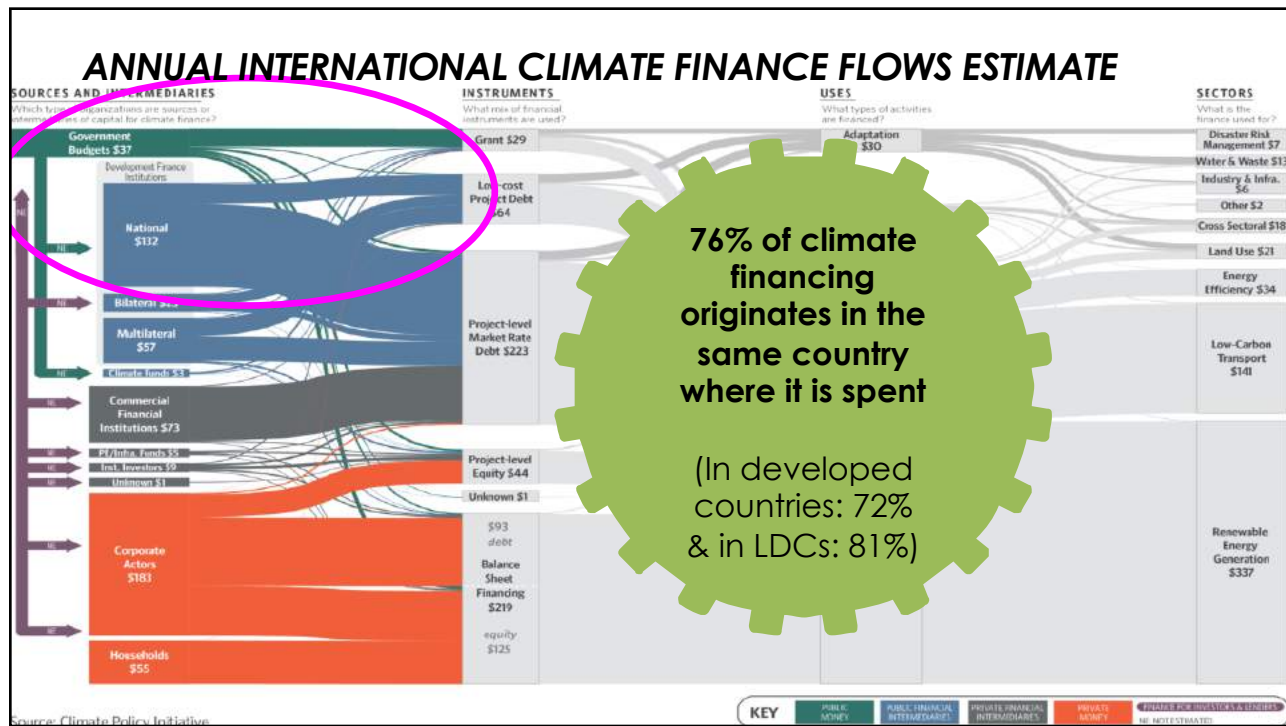


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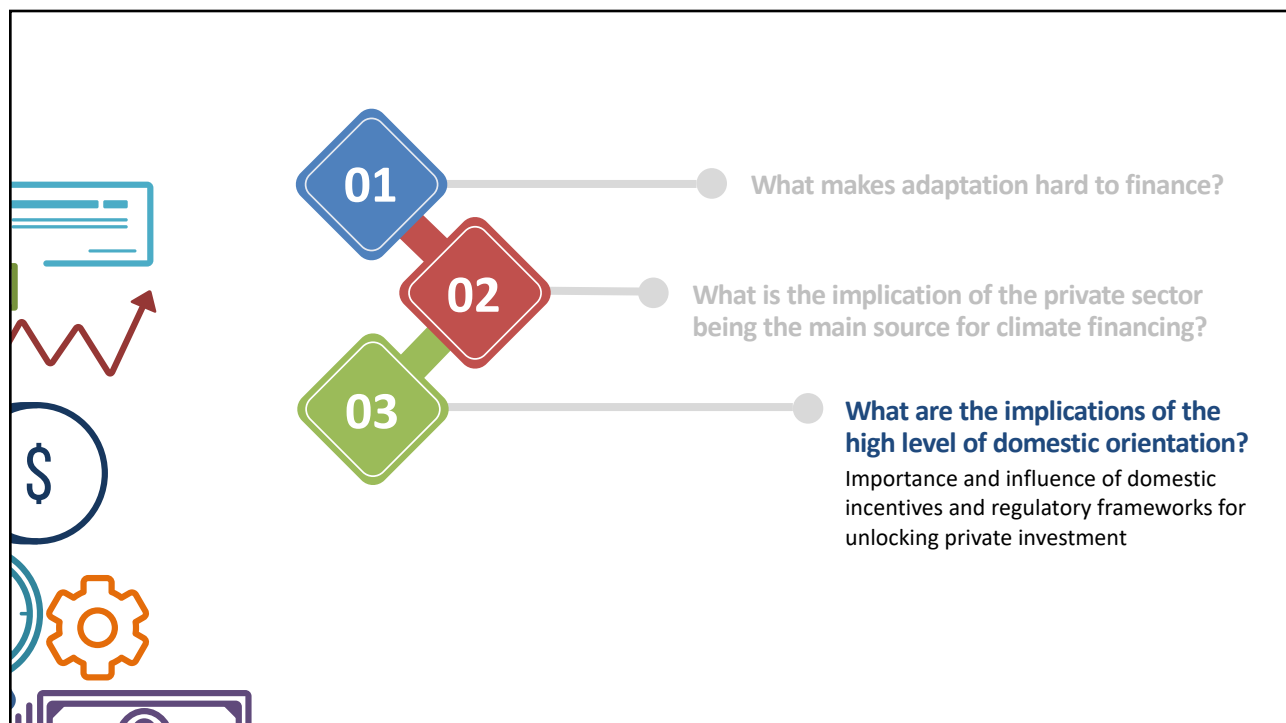


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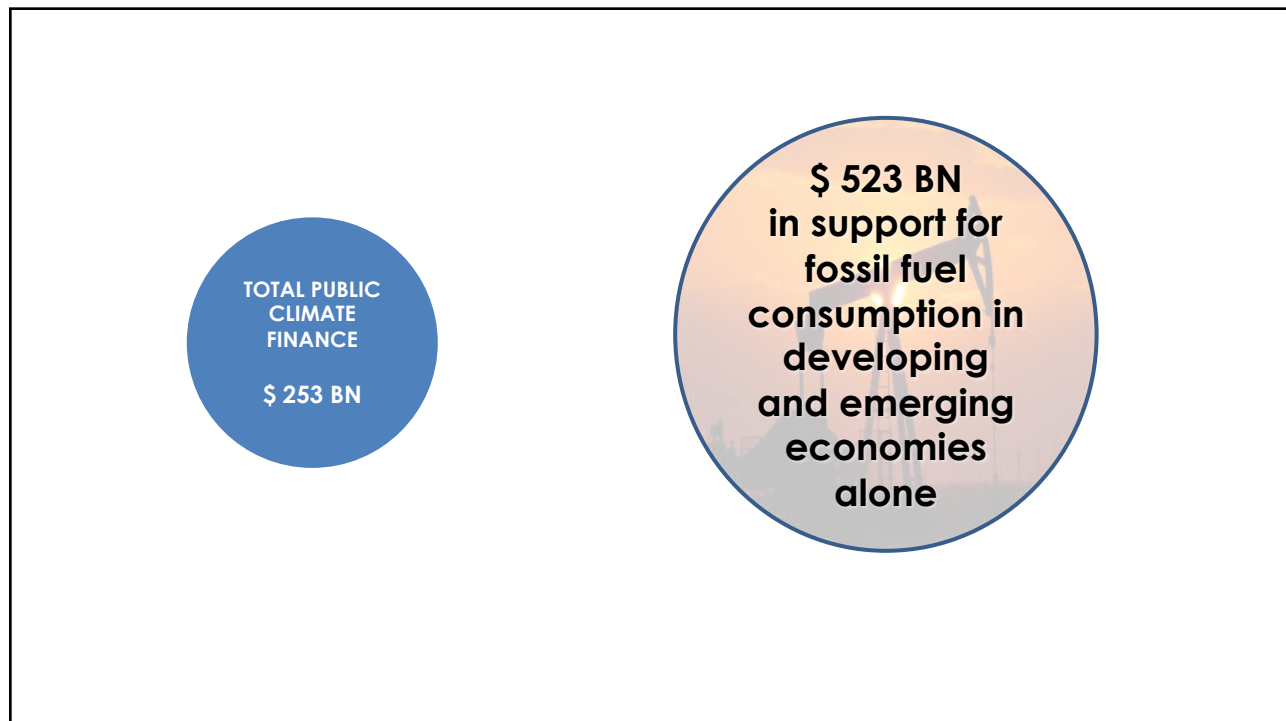




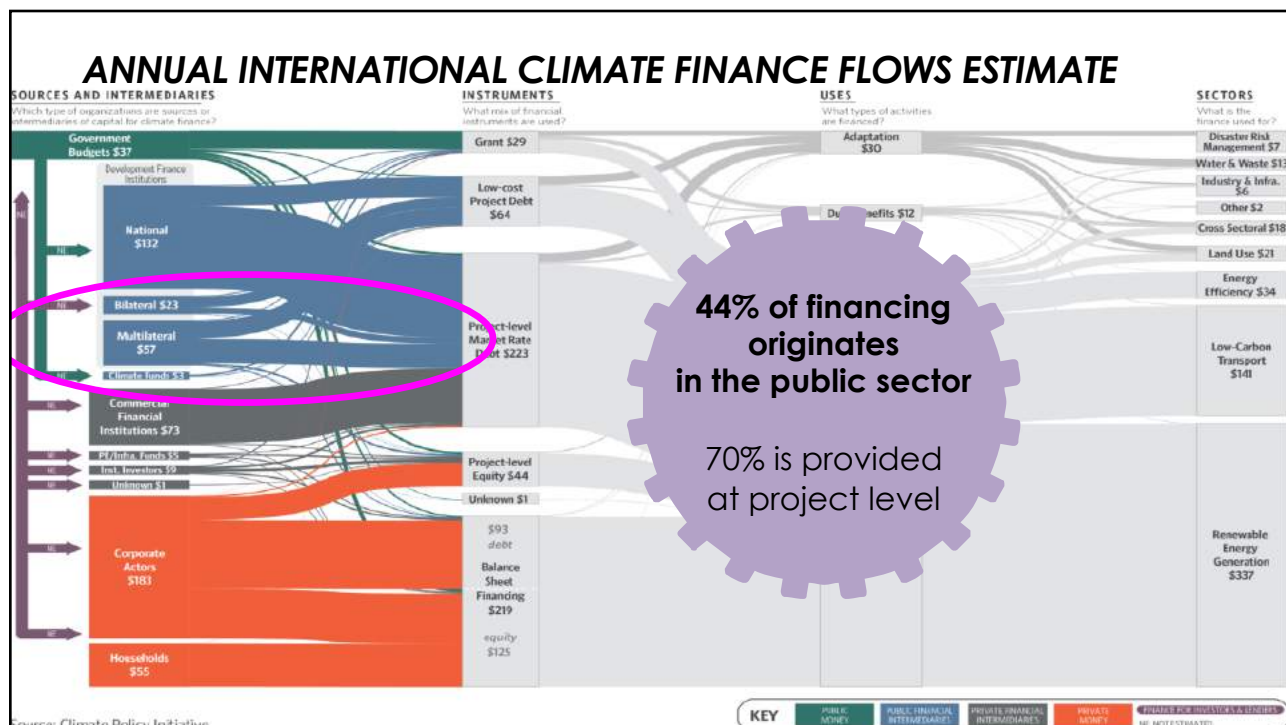
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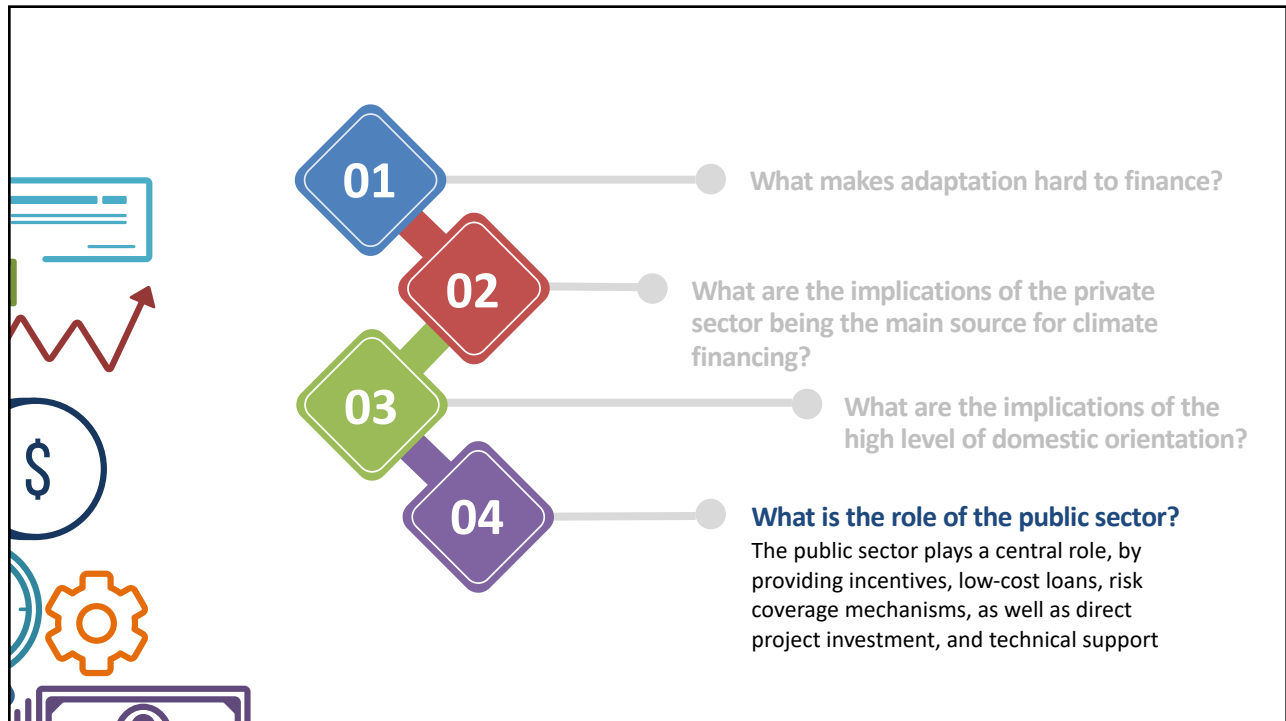
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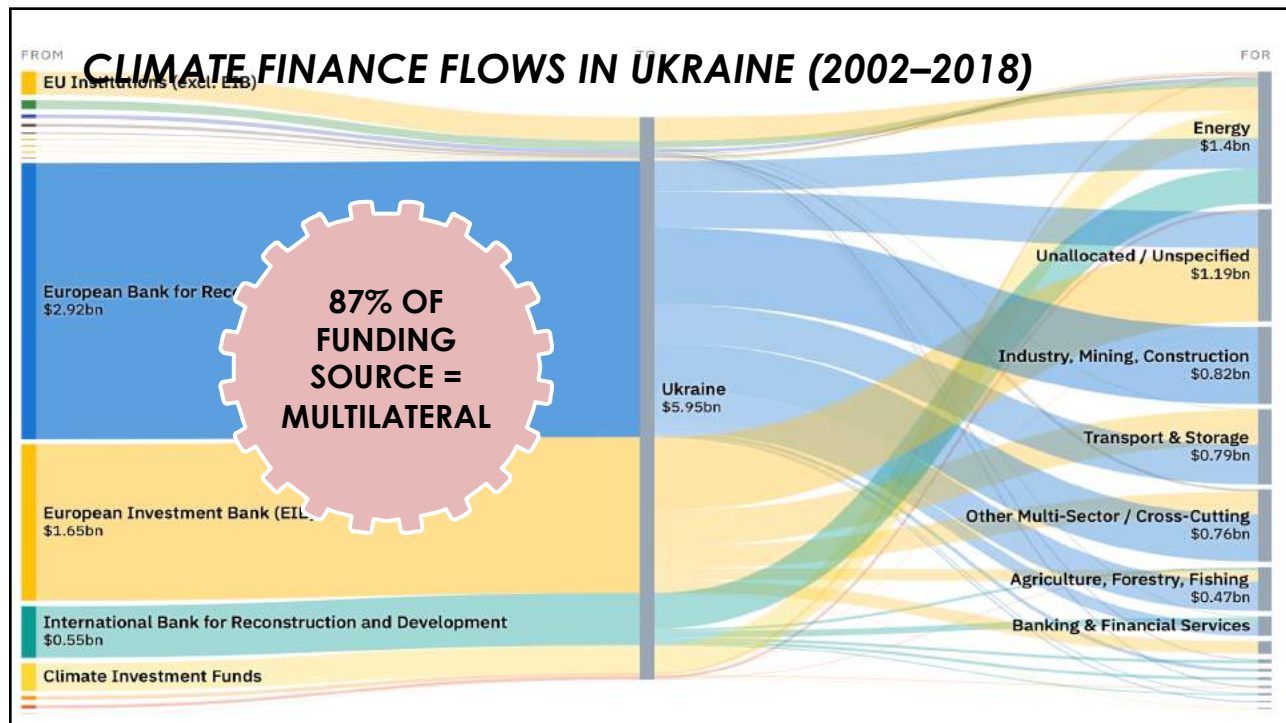


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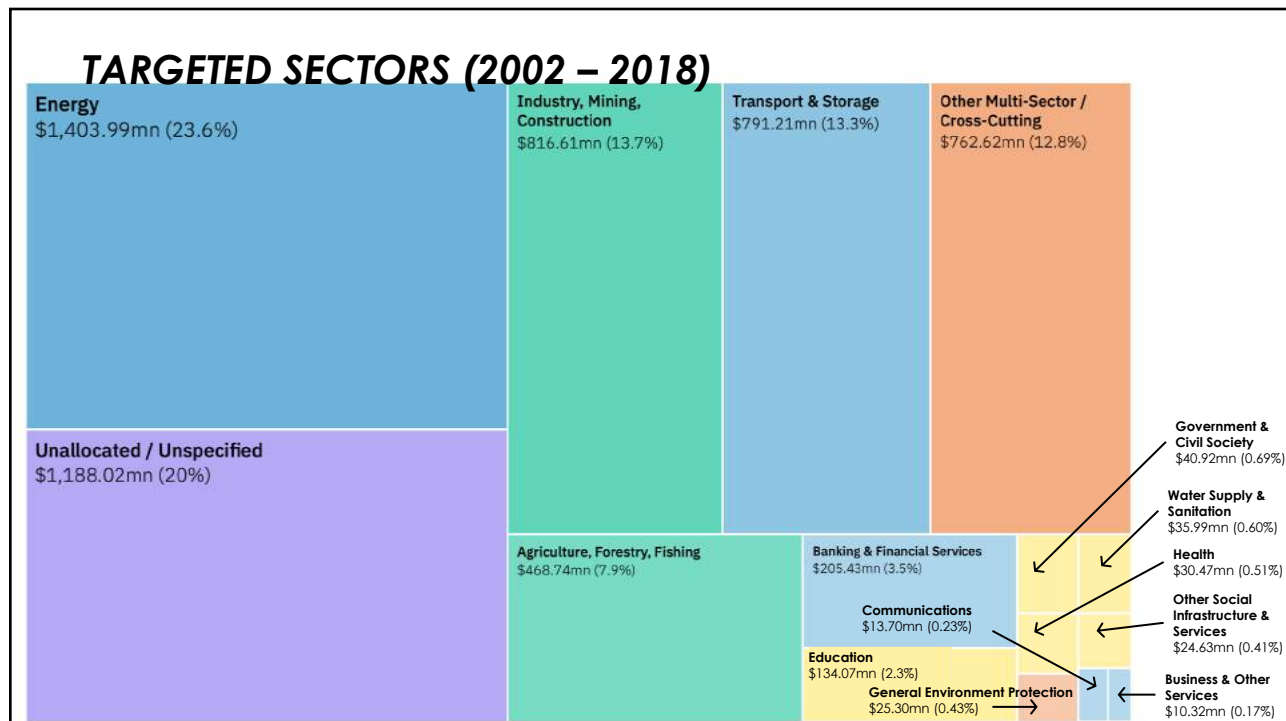
## Climate Finance Flows in Ukraine



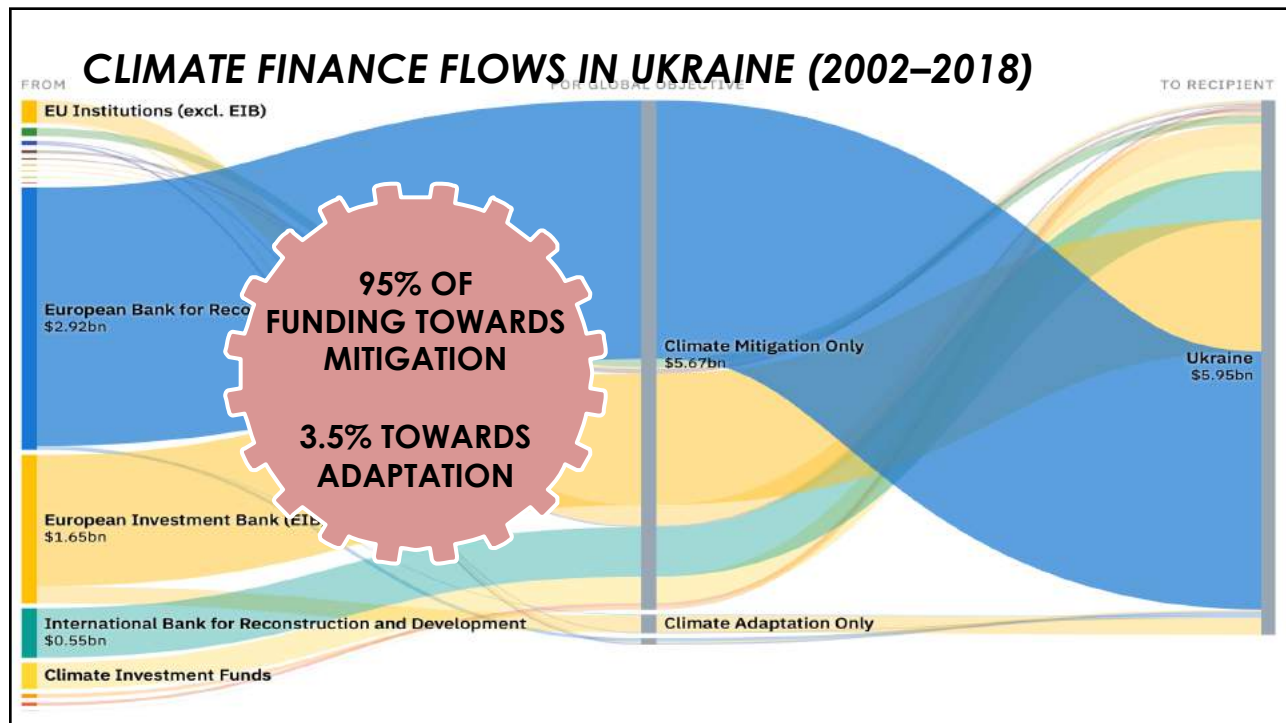
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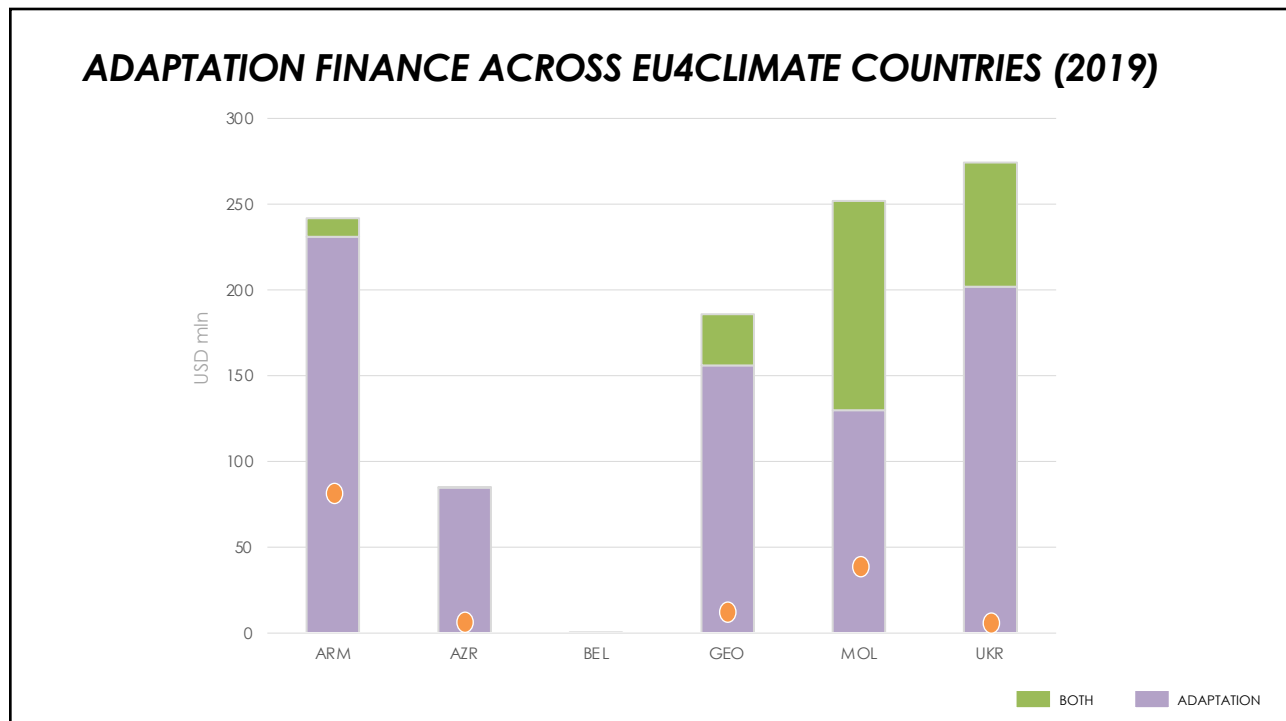
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## What are the key barriers to accessing climate finance?



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### ***FUNDER PERSPECTIVE – KEY (GLOBAL) BARRIERS TO ACCESSING CLIMATE FINANCE***

- A lack of viable project pipelines
  - Funders complain that they are not presented with viable and sufficiently mature project pipelines
  - Country lacks a track record (in project implementation)
- Matching projects with funding opportunities
  - Poor governance hinders investment processes and absorption capacities
  - The multiplicity of sources for climate finance means the process of securing funds is more complex

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### **FUNDER PERSPECTIVE – KEY (GLOBAL) BARRIERS TO ACCESSING CLIMATE FINANCE**

- Reducing the cost of capital of climate actions
  - The costs for low carbon technologies are falling but transaction costs remain high
  - Policy uncertainties (e.g., policy reversals) increase transaction costs
- A lack of long-term vision for climate action
  - Mobilizing finance only for small scale projects
  - Difficulties in scaling up
  - Lack of an economic business case for investments

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### **KEY UKRAINE CHALLENGES**

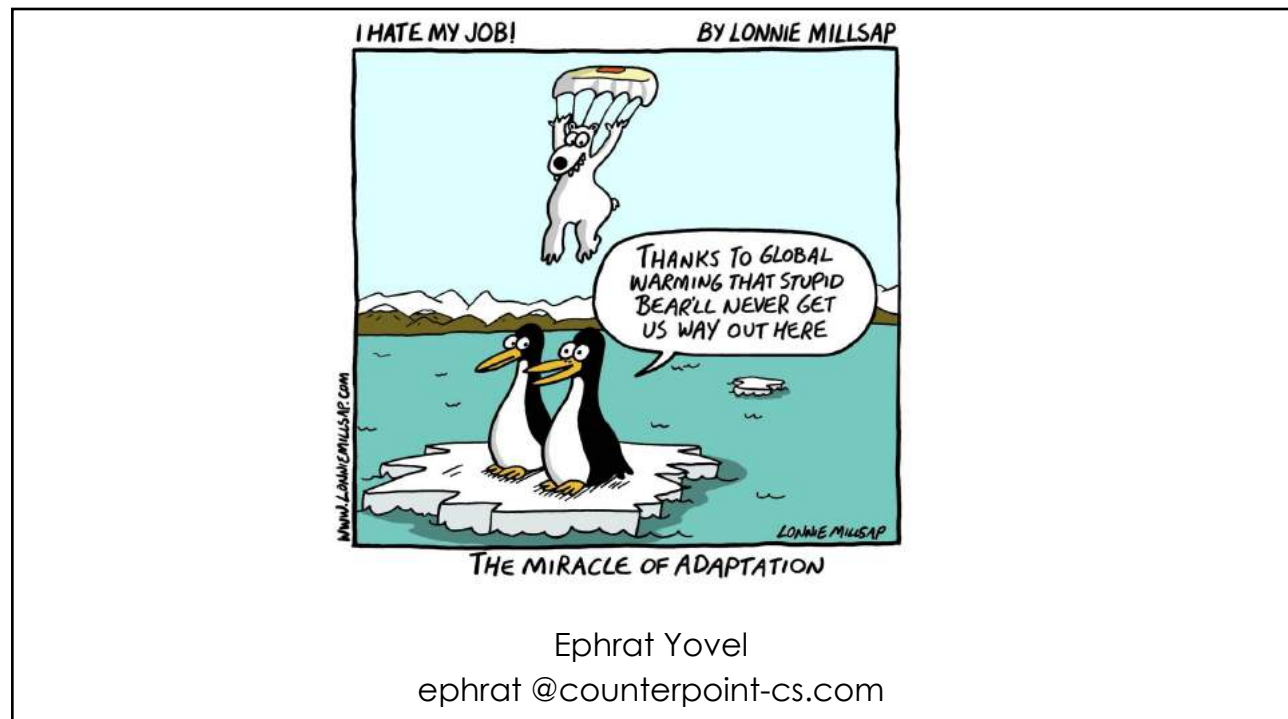
- Status as an Annex 1 country
  - Limits access to majority of low-cost and public finance options
- Limited interest to private sector
  - Geo-political risk limits ability to interest private funds
  - Governing environment (political, legal, etc.) is perceived as unstable and non-transparent
- Status as middle-income country reduces priority in access to funds
- Non-existent adaptation plans and project pipelines

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