Financing Climate Change Mitigation

Towards a Framework for Measurement, Reporting & Verification

Jan Corfee-Morlot, Barcelona, 3 November 2009

Presentation of paper co-authored by B. Guay & K. M. Larsen

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Main questions & answers

Questions

• What are the main ways to support GHG mitigation in developing countries?
• What flows of money are we talking about?
• How much money in absolute and relative terms are flowing to mitigation and mitigation relevant sectors?
• What do we know about the GHG performance of these flows?

Answers

• Financial, capacity building and technological support – paper focuses on financial
• Financial support for mitigation flows through multiple channels: public, private and public-private. Also North-South, South-South and domestic
• Private flows exist at much higher volumes than public flows
• Not much is known about the GHG performance of the largest flows of “support”
Main messages

- Challenges for developing countries:
  - How to use *limited public* financial flows to *leverage private flows* to support low-carbon development
  - How to build capacity and develop institutional framework so that existing flows are “clean” rather than “dirty”

- To improve effectiveness of mitigation support, Parties need to:
  - Establish a more comprehensive system of MRV – with 5 main data parameters:
    - Origin/source, type, recipient, purpose, endpoint/sector
  - MRV of support should include private flows (e.g. at least CDM if not other flows)
  - Reporting by recipient countries is desirable
  - Help developing countries build capacity for tracking
Relevant pathways for mitigation support

Origins

SOUTH-SOUTH FLOWS

Developing country context:
Enabling environment for investment, policy frameworks & domestic resource flows.

NORTH-SOUTH FLOWS

Types

TOTAL MITIGATION SUPPORT

CDM INVESTMENT

PUBLIC MITIGATION-RELEVANT (ODA)

PRIVATE MITIGATION-RELEVANT (FDI&DEBT)

PUBLIC & PRIVATE

Source: Corfee-Morlot, Guay & Larsen 2009
Two kinds of financial support

<table>
<thead>
<tr>
<th>Mitigation specific</th>
<th>Definition</th>
<th>Other mitigation relevant</th>
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</thead>
<tbody>
<tr>
<td>Financial support that targets GHG mitigation in developing countries</td>
<td>General financing for development that shapes mitigation potential, pace and amount of future emissions</td>
<td></td>
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<tr>
<td>Roughly USD10-50 billion</td>
<td>Amount</td>
<td>300 billion USD</td>
</tr>
<tr>
<td>Public or Public-Private</td>
<td>Type /</td>
<td>Private (mainly), Public-private</td>
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<tr>
<td>Multilateral: GEF, Climate change funds; Bilateral: ODA, official export credit; CDM</td>
<td>Examples</td>
<td>ODA (multilateral &amp; bilateral FDI, International private loans, etc. in carbon-intensive sectors</td>
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<tr>
<td>Lacks consistency, and/or regularity of reporting; large share of public money but no centralised, comprehensive system</td>
<td>Monitoring</td>
<td>Lacks GHG mitigation markers; no institution in charge of monitoring &amp; reporting</td>
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</tbody>
</table>
Volume of relevant investment flows - upward trend is driven by FDI

Source: Corfee-Morlot, Guay & Larsen 2009
Support for developing country action – the domestic framework is central to driving mitigation outcomes

A central goal of international (North-South) public finance is to work in partnership with developing countries to build capacity and momentum to integrate climate change considerations into domestic policy frameworks.

Source: Corfee-Morlot, Guay & Larsen 2009
Rio Markers allow Parties to track and monitor ODA aiming to achieve mitigation

Rio Markers system:  2 (mitigation as “principal objective”); 1 (“significant objective”); 0 (mitigation “not targeted”)

June 2008: Rio Markers became mandatory for DAC members

Export credit agencies play a major role in carbon-intensive sectors

ECs provided officially by OECD members to developing countries
Long term repayment: 5 years or more
Statistics with same level of disaggregation as ODA

Official Long Term Export Credits by Sector (2002-2008)
31.2 billion USD/year (average)

Source: OECD statistics on export credits, 2009 as cited in Corfee-Morlot, Guay & Larsen 2009
Clean Development Mechanism: two different ways to account for total CDM investment flows over time

Differs from the “value of CERs” approach which is better understood as return on investment. Note that these investments may not be fully attributable to CDM & also do not account for unilateral projects.

Source: Seres and Haites 2008 - revised estimates based on personal communication with authors.
Foreign direct investment by sector to developing countries (2003-2005): 259 billion USD/year (average)

- Industry: 32%
- Mining, quarrying and petroleum: 6%
- Transport and storage: 4%
- Electricity, gas and water: 2%
- Agriculture, forestry and fishing: 1%
- Construction: 1%
- Not mitigation relevant: 54%

Source: Corfee-Morlot, Guay & Larsen 2009

FDI: most relevant flows are focused on two sectors
Investments in infrastructure: foreign and domestic (public, private) – domestic public financing is the largest share.

Source: UNCTAD secretariat calculations, based on data from the World Bank’s PPI Database; UNCTAD 2007
The vast majority of relevant support is not properly monitored or tracked for GHG performance

Mitigation specific support: 19 billion USD out of 314 billion (8-53 billion range)
Other mitigation relevant: 295 billion USD

Source: Corfee-Morlot, Guay and Larsen 2009
A large share of export credits and FDI are mitigation relevant – a few hundred billions of USD per year