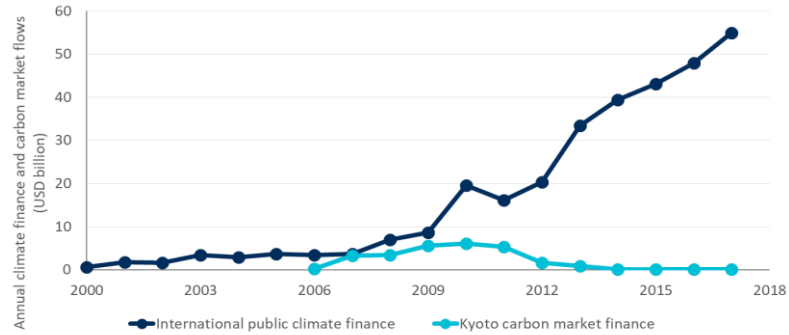


Transformative Climate Finance

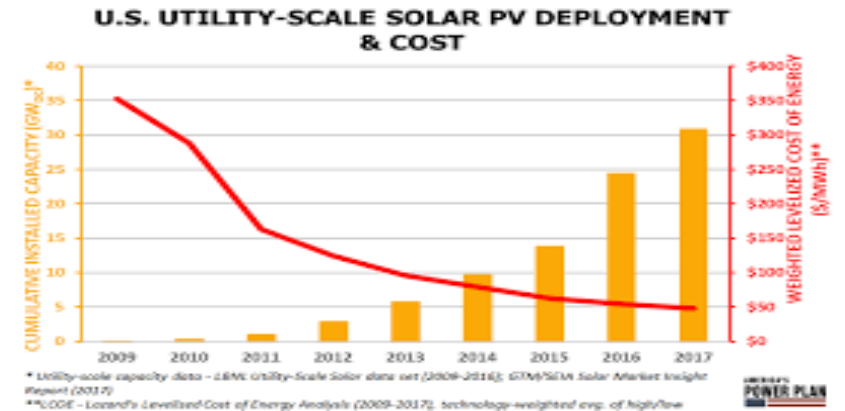
G24 Technical Session on
"Delivering on Climate Finance to Support
Better Recovery and Climate Goals"

March 2021

Changed Landscape for Climate Finance



Two Decades of Progress (and Lessons)



Dynamic Technology Improvement



Economic and Financial Benefits of Clean Development



COVID-19 Economic Recovery

Taxonomy of Climate Finance Types

Type of Climate Finance	Description	Examples	Volumes
Dedicated Climate Finance	Concessional/grant funds to drive climate action 1) Technical Assistance 2) Activity-based financing 3) Result-based financing	<ul style="list-style-type: none"> • ASA identifying adaption projects in agriculture • Concessional loan for share of energy efficiency project • Results-based payments for solar energy generation 	\$3.1 billion for all MDBs in 2019, of which WBG was \$971 million
Development Finance with Climate Co-Benefits (CCB)	WBG balance sheet investment tagged as having climate impacts Only finance that counts as CCB	<ul style="list-style-type: none"> • Share of IBRD loan for a road project with improved drainage to withstand climate impacts • IFC investment in solar plant 	\$58.4 billion for all MDBs in 2019, of which WBG was \$17.8 billion WBG committed to 35% of total portfolio

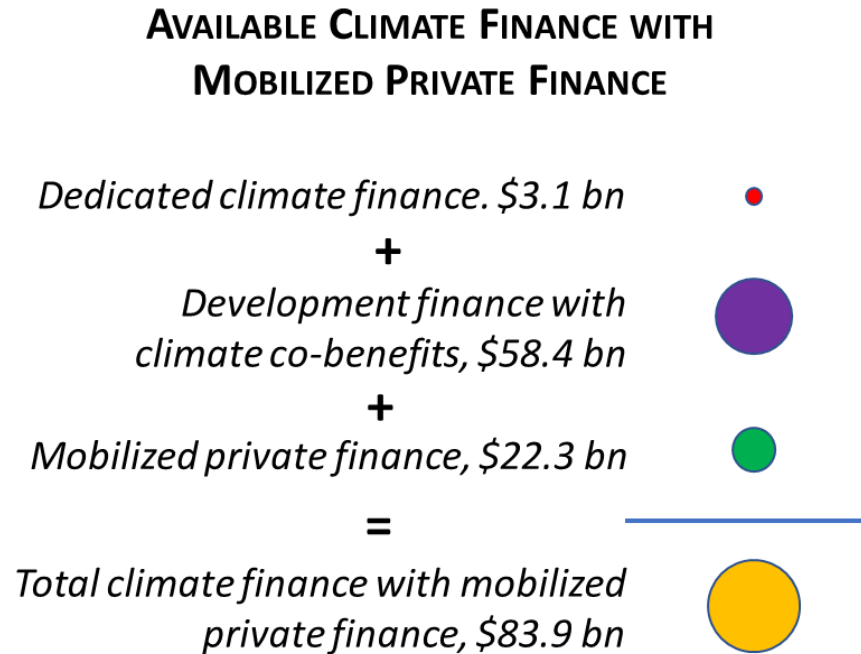
INTERNATIONAL PUBLIC CLIMATE FINANCE PRIMARILY CHANNELS THROUGH DFIS

International public climate finance leverages additional funds

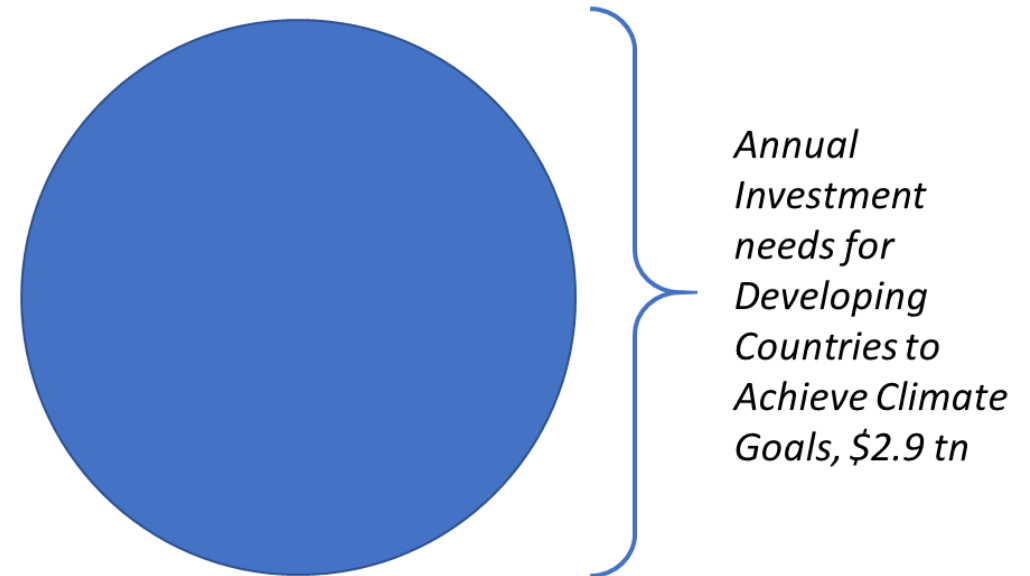
Funds and Financing Mobilized by Int'l Public Climate Finance	<ul style="list-style-type: none"> • Private finance • WBG investment not tagged with CCBs • Carbon finance • Local government 	<ul style="list-style-type: none"> • Commercial investment in offshore wind plant • Green buildings • Carbon trading/offsets • Government green budgeting 	Private finance available is many times more than public finance
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ADD'L RESOURCES CATALYZED

The size of the financing challenge

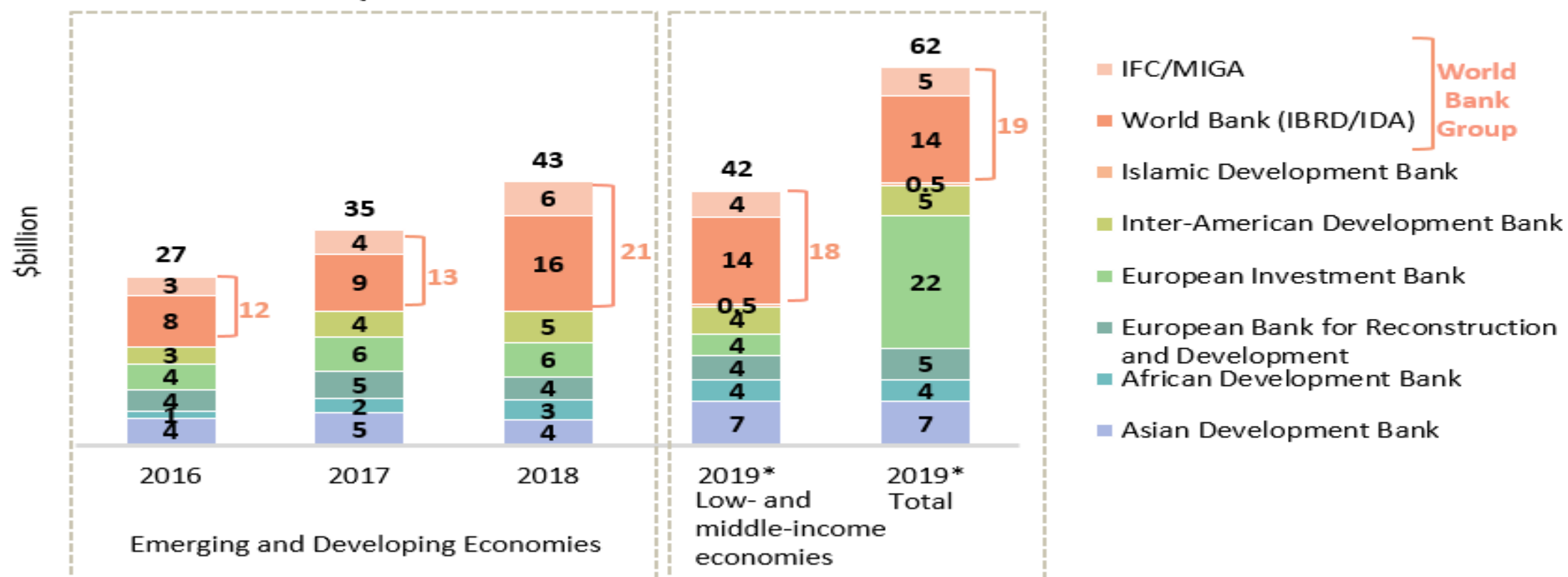


ESTIMATES OF INVESTMENT NEEDS TO MEET DEVELOPING COUNTRY CLIMATE GOALS



INCREASED WBG CONTRIBUTION TO CLIMATE FINANCE

Total reported MDB Climate Finance Commitments, 2016-2019



Note: WBG Fiscal Year is July to June; Fiscal Year for all other MDBs follows the calendar year (January to December).

Numbers in the data labels may not add up to totals shown, due to rounding.

*Preliminary data, source: "2019 Joint Report on Multilateral Development Banks' Climate Finance," forthcoming August 2020. In 2019, MDBs agreed to report climate financing to all countries of operation (including high-income economies) for the first time, grouped in accordance with the World Bank's classification of June 2019.

How Climate Finance Achieves Transformation

Transformation occurs when spillover effects beyond the boundaries of the original project induce follow-on action—with catalyzed financing—even after the public finance is exhausted.

Technology tipping points

Reducing costs of clean tech substantially to reach parity or below costs for incumbent, less climate-friendly technology options

Policy development or implementation

Supporting development, introduction and/or execution of effective climate policies

Institutional or technical capacity

Enhancing skills and/or knowledge of public and/or private actors to pursue future climate action

Knowledge creation and dissemination

Creating and disseminating knowledge that supports climate action

Demonstration effects

Proving the effectiveness of a novel policy, climate technology or business model

Eight Sets of Climate Levers for Transformative Action



1. Project-Based Financing

Finance or project support to enable climate investments
e.g. wind plant, climate-resilient roads



5. Trade Policy

Trade policies to encourage exchange of LCCR products
e.g. carbon border tax adjustment, trade liberalization for LCCR products



2. Financial Sector Reform

Financial sector regulations that catalyze green investment
e.g. regulations for green bonds, climate risks in portfolio assessments



6. Innovation and Tech Transfer

Development of new, more effective and cheaper green technologies
e.g. demonstration plants, R&O, SME support, early/discounted financing



3. Fiscal Policy

Setting taxes and adjusting spending priorities to support climate action
e.g. green taxes, improved subsidy targeting, green procurement



7. Carbon Markets

System to define and trade mitigation outcomes for cost efficient mitigation
e.g. emission trading systems, baseline and crediting mechanisms



4. Sector Priorities

Regulatory standards or information provision policies
e.g. energy efficiency standards, building codes



8. Climate Intelligence and Data

Knowing and planning tools to support policy and investment decisions
e.g. 2050 low-carbon resilience trajectories, NDC implementation plans

Primary Findings

1

Plan for the long term

- Align financing decisions with **long-term strategies** for low-carbon resilient development
- **Avoid spending that prioritizes short-term goals** inconsistent with long-term strategies
- Revise **results-frameworks** for long-term transformative impact indicators.

2

Balance allocation among levers

- Complement project-based financing with **more finance to other levers** for systemic, often policy-based, changes
- Strive for a **coordinated approach** with multiple levers

3

Use a range of financial instruments

- **Expand use of instruments** such as policy-based finance, results-based finance, equity finance, and guarantees
- **Combine and coordinate** different financial instruments based on needs of the lever(s)

5

Leverage on a systemic basis

- Allocate public climate finance to **leverage the most additional funds** from other sources.
- Develop and apply methodology **to measure beyond project boundaries** to consider impacts across the economy.

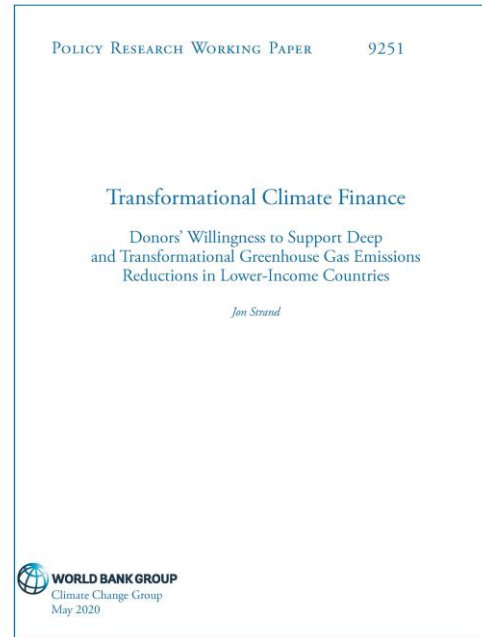
Climate Finance Reports

Synthesis report

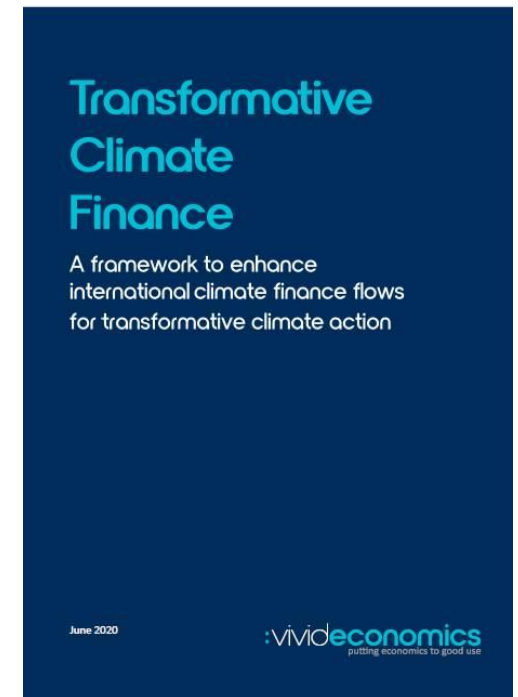


<https://openknowledge.worldbank.org/handle/10986/33917>

Background reports



<https://openknowledge.worldbank.org/handle/10986/33798>

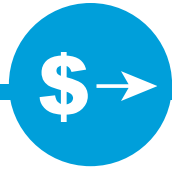


<https://tinyurl.com/transformativedefinance>),

Annex



Overview of Climate Levers



Project-Based Financing

Main Interventions

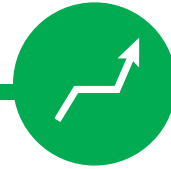
- Invest in projects
- Blended finance
- Manage risks and returns to enable private finance opportunities

Barriers to Action

- Capital constraints
- Limited capacity to deliver effectively

Key Climate Finance Instruments

- Investment financing for de-risking and crowding in other funding
- Technical assistance for enabling investment



Financial Sector Reform

Main Interventions

- Report and manage of climate risk
- Regulate green assets
- Deploy incentives for green investment

Barriers to Action

- Public finance and capital constraints
- Limited institutional and technical capacity
- Perceived conflict w/ development

Key Climate Finance Instruments

- Technical assistance for improving governance, capacity and expertise
- Investment financing for catalyzing green investment support



Fiscal Policy

Main Interventions

- Implement carbon taxes
- Reform subsidies and taxes to incentivize climate action
- Adjust government procurement
- Climate impacts in fiscal planning

Barriers to Action

- Concerns on reducing international competitiveness and distributional consequences
- Capital constraints

Key Climate Finance Instruments

- Policy-based financing
- Technical assistance for addressing knowledge and capacity gaps

Overview of Climate Levers



Sector Priorities

Main Interventions

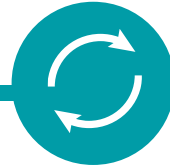
- Implement regulations conducive to LCCR alternatives
- Enforce of green technology standards

Barriers to Action

- Information gaps on policies
- Limited resources and institutional capacity to enforce regulation
- Concerns on reducing international competitiveness

Key Climate Finance Instruments

- Policy-based financing to create incentives
- Technical assistance for knowledge sharing on policy development



Trade Policy

Main Interventions

- Consider trade liberalization
- Apply border carbon adjustments
- Co-ordinate through climate clubs

Barriers to Action

- Tariff revenue reduction
- Insufficient infrastructure
- Technical and political challenges to policy design

Key Climate Finance Instruments

- Trade finance for LCCR goods and services
- Technical assistance for developing climate-friendly trade policy



Innovation and Tech Transfer

Main Interventions

- Public funding for basic research
- Implement R&D tax credits
- Technology transfer policy
- Intellectual property rights
- Green procurement

Barriers to Action

- Limited resources
- Uncertain payoffs
- Limited capacity to develop broader innovation ecosystem

Key Climate Finance Instruments

- Investment financing for high-risk innovation
- Technical assistance for early-stage innovation

Overview of Climate Levers



Carbon Markets

Main Interventions

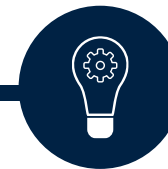
- Establish domestic carbon markets
- Link markets internationally

Barriers to Action

- Concerns on reducing international competitiveness and distributional consequences
- Uncertainty on carbon prices
- Limited capacity and knowledge

Key Climate Finance Instruments

- Results-based financing for supporting market development
- Technical assistance for establishing and linking markets



Climate Intelligence and Data

Main Interventions

- Long-term planning tools
- Provide policy risk information
- Disaster risk management tools
- Localized climate impacts and opportunities data

Barriers to Action

- Challenges to collect data and develop intelligence
- Limited confidence in accuracy
- Uncertain policy response

Key Climate Finance Instruments

- Technical assistance for building capacity in measuring and using climate data

Methodology to Assess Transformative Impact of Levers

How does it work?

How the lever can drive and scale widespread climate transformation?

- Steps government can take
- Direct impacts
- Potential for transformation

Barriers

What barriers impede these interventions

- Lack of capital
- Lack of knowledge
- Public and private capacity constraints
- Political economy pushback:
 - Industrial competitiveness
 - Social consequences
 - Losing incumbent sectors

Climate Finance Deployment

How climate finance can address barriers and motivate interventions

- Investment financing:
 - Debt and equity
 - Guarantees
 - Intermediated financing
- Policy-based financing
- Results-based financing
- Trade finance
- Technical assistance

Conclusions

How can climate finance be used most effectively to best address barriers to transformative action?