

# Road Through Paris Briefing Series

*Climate Finance and Carbon Pricing*

July 22, 2015



# Road Through Paris

## Briefing #2: Climate Finance and Carbon Pricing



**Edward  
Cameron**

Managing  
Director,  
Partnership  
Development and  
Research, BSR



**Michael  
Westphal**

Senior Associate,  
Sustainable  
Finance, WRI



**Paula Pelaez**

Manager,  
Advisory  
Services, BSR

**Sebastian  
Wienges**

Senior Climate  
Change  
Specialist,  
Climate Change  
Policy Team,  
World Bank

# Recap

On the Road Through Paris

# Potential outcomes from Paris

## Agreement

- A new global climate agreement, the first concluded in nearly two decades
- Will set direction of travel, potentially including through global long-term goal

## Universal

- Unlike previous agreements, will be “applicable to all”
- Will likely include commitments from all of the major economies

## Future political cycles

- Could determine pace of future government commitments for decades to come
- 5 year cycle vs. 10 year cycle

# Four pillars of the ‘Paris Climate Alliance’

Agreement

- Short international legal instrument
- Global goal and political cycles will send high-level political signal to decarbonize

National Policies (INDCs)

- Targets for 2025 or 2030
- Fiscal and regulatory policies will reduce projected warming, but not to 2 degrees Celsius

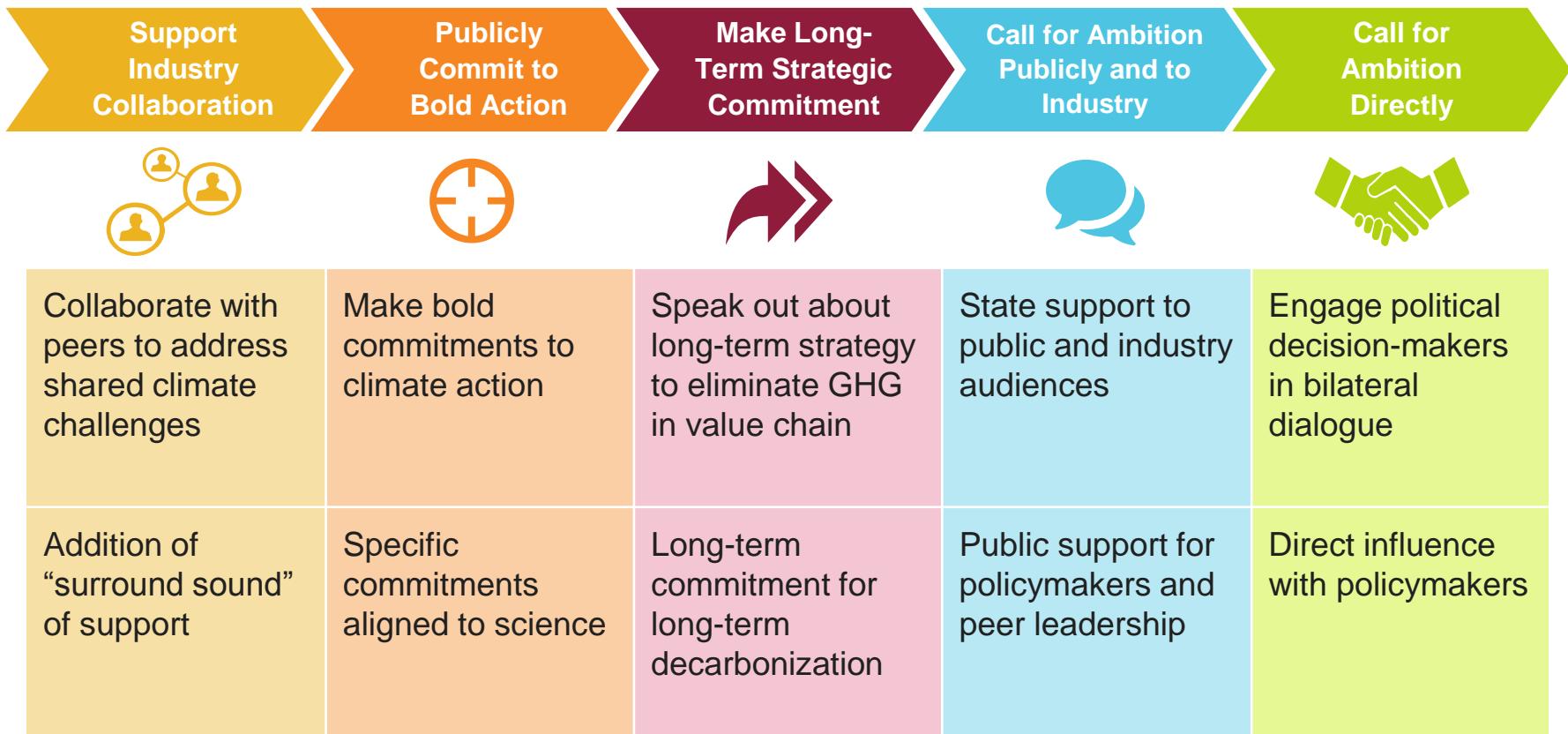
Climate Finance

- \$10 billion pledged to Green Climate Fund last year, part of mobilizing \$100 billion/year by 2020, need to shift trillions
- Carbon pricing (government and shadow) as market signal

(Non-state) Action Agenda

- Showcase climate action taken by businesses and sub-national governments
- Future of non-state action in the UN system

# Road Through Paris – Strategic Engagement



Higher commitment, higher impact



WORLD  
RESOURCES  
INSTITUTE

# Getting to \$100 Billion: Climate Finance Scenarios and Projections to 2020

Michael I. Westphal, PhD

# What is the \$100 billion?

- At UNFCCC COP 15 in Copenhagen, developed countries committed to a goal of mobilizing \$100 billion a year by 2020 to address the needs of developing countries.
- Would come from a “wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.”
- To date, little progress from developed countries on specifying a pathway to \$100 billion.



# What is the \$100 billion?

- Many definitional issues remain unresolved:
  - What is climate finance? No universally accepted definition.
  - What instruments should be considered?
  - Gross vs. net flows (e.g. grant equivalent)?
  - New and additional (e.g. above the 0.7% of GNI)?



# Importance of the \$100 billion

- Politically important for the post-2020 Paris Agreement to build trust and confidence.
- Predictable and adequate finance integral to the Agreement.
- **But, not enough to keep warming to 2 °C. Trillions in climate finance needed, not billions.**
  - New Climate Economy report - \$89 trillion for infrastructure for 2015 – 2030. Additional \$4 trillion needed to make it low carbon.



# WRI Analysis

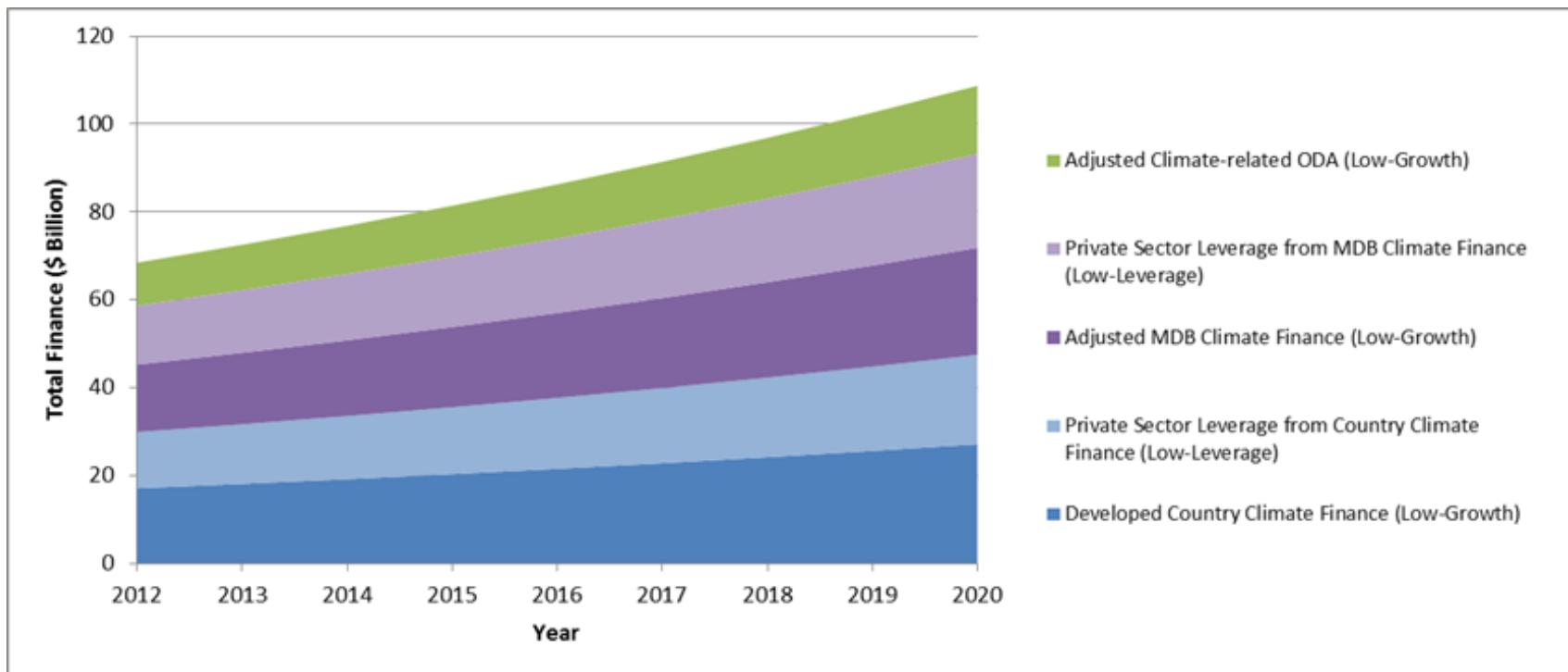
- Goal – to examine whether the inclusion of various sources could make the \$100 billion achievable and under what projections.
- Analyzed four scenarios, taking care to remove any overlap among them:
  - **Scenario 1:** Developed country climate finance only (UNFCCC reports).
  - **Scenario 2:** Developed country climate finance plus leveraged private sector investment.
  - **Scenario 3:** Developed country climate finance, multilateral development bank (MDB) climate finance (weighted by developed countries' capital share), and the combined leveraged private sector investment for both sources of public finance.
  - **Scenario 4:** The previous sources, plus (**all**) climate-related official development assistance (ODA) (OECD database).
- Project from 2012 to 2020, using 3 historical growth rates and 3 leverage factors for private sector investments.

# Results

- Scenario 1 - \$100 billion would not be met under any growth projection. Growth rate of 25% would be necessary to reach goal.
- With private sector leverage, \$100 billion reached under high-leverage projection.
- The inclusion of all sources would exceed \$100 billion under low-growth, low-leverage projection. **Reaching the \$100 billion is feasible.**
- Still deficit in adaptation finance (unless countries greater emphasis going forward).



# Scenario 4: The Low-Growth, Low-Leverage Projection Meets the \$100 Billion Goal by 2020



# Discussion

- A politically feasible path to reach \$100 billion is possible by including a larger set of climate finance sources and scaling up all public finance.
  - More sources counted, but in a balanced way (not all private sector investment, only leveraged investment).



# Recommendations

- Developed nations should commit to increasing all public funding flows to 2020.
- Developed countries should consider using new and innovative sources of finance toward the 2020 goal including redirected fossil fuel subsidies, carbon market revenues, financial transaction taxes, export credits, and debt relief – many of which have been little used to mobilize climate finance.
- More work needed to clarify the definition of climate finance and development of methodologies, including those for calculating and attributing leveraged private sector investment, to improve accounting and reporting.



Available at:

<http://www.wri.org/publication/getting-100-billion-climate-finance-scenarios-and-projections-2020>



WORLD RESOURCES INSTITUTE

# Thank you!

**Michael I. Westphal**

[mwestphal@wri.org](mailto:mwestphal@wri.org)

*WRI is a global research organization  
that works closely with leaders to turn  
big ideas into action to sustain a healthy  
environment—the foundation of  
economic opportunity and human well-  
being.*



# Climate Finance Conditions for Scale

BSR Webinar

July, 2015



**Climate Finance requires  
mobilizing capital at scale  
from billions to trillions**

# Investment is flowing to climate action

Low GHG development requires mobilizing finance at scale from billions to trillions through blended public and private finance



**Meeting the needs of a growing population in an increasingly resource-constrained world offers investment opportunities but requires a significant capital deployment**

# Low-carbon economy: business growth and investment opportunities requiring trillions of dollars in investments

## Investment Opportunities

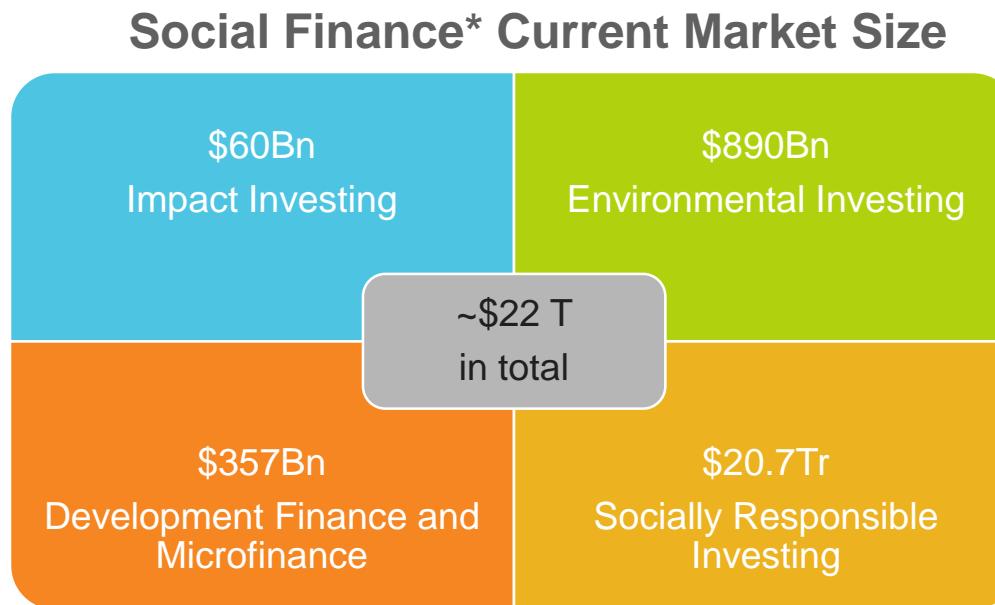
- The global market for low-carbon and environmental goods and services was estimated at US\$5.5 trillion in 2011–12, and is growing at over 3% per year (New Economy Report)
- There is significant opportunity to invest in sustainable and resilient infrastructure – transport, energy, water and sanitation
- Renewable energy adoption in the world's emerging economies is growing nearly twice as fast than in industrialized nations (Bloomberg)
- Opportunity for businesses to develop new skills and new technologies, to gain experience in the deployment of new technologies and to access new markets

## Capital Needs

- Around US\$90 trillion in infrastructure investment is needed by 2030 to achieve global growth expectations (US\$6 trillion per year, but current annual global investment is estimated at only around US\$1.7 trillion) (NCE).
- About 60% of the investment needed is in emerging and developing countries (NCE)
- It will cost China over \$6.6 trillion to meet the greenhouse gas reduction goals
- Companies increasingly recognize the need to transition to a low-carbon economy but some lack the financial capital and vehicles to do so.

**Increasing  
pressure/incentives from  
investors and governments  
on companies to reduce  
emissions**

# A growing number of investors are adjusting their investment management strategies seeking socio-ecological benefits



*\*Social Finance defined broadly as any investment activity that generates financial returns and considers social and environmental impact*

# Governments are taking action



## Policies

- 96 countries have already implemented climate policies to reduce GHG emissions, deviate from business as usual and/ or reduce carbon intensity
- Almost 40 countries and more than 20 cities, states and provinces already use carbon pricing mechanisms or are planning to implement them
- 196 countries are currently negotiating an international climate agreement expected to be adopted in Paris in December. 43 countries covering 56% of territorial emissions have already submitted their climate action plans (INDC)

## Commitments

- The United States has committed to reduce GHG emissions by 26 to 28% below the 2005 level
- Within the United States, California is committed to reducing GHGs by 40% below 1990 levels by 2030 and by 80% by 2050
- China has agreed to peak the country's carbon-dioxide emissions around 2030 and increase its non-fossil-fuel share of energy to around 20% by 2030
- The European Union has committed to at least 40% domestic reductions in GHG emissions by 2030 compared to 1990 levels.

*Companies will have to invest to address government's new policies and commitments*

# Companies are increasingly integrating climate change into their business and investment strategies



- This represents a small snapshot of the volume of business action on both GHG reductions and on climate resilience.
- 22 companies have committed to 100% renewable energy sourcing through [RE100](#). This particular campaign aims to include 100 companies by the end of 2015.
- 119 companies with a market capitalization of \$2.6tn have made 240 commitments through the [We Mean Business](#) Campaign
- About 75% of BSR member companies are proactively managing and reporting on greenhouse gas emissions.

# BSR identified 5 conditions to scale investment

# Conditions for Scale

Translating growing investor interest in social finance into significant capital allocation will require fundamental changes to the current market system.

## Accessibility

- Simplifying frameworks, definitions, and products and improving technical capabilities to facilitate easier engagement

## Measurement

- Building the track record necessary to generate investor confidence and a verifiable evidence base

## Transparency

- Institutionalizing the sharing of information to identify best practices and promote efficient use of capital

## Collaboration

- Pursuing innovation and mitigating risk by leveraging multi-stakeholder expertise through partnerships

## Systemic Change

- Creating incentives that shift traditional thinking around value creation and support good governance and positive policy frameworks

BSR is a global nonprofit organization that works with its network of more than 250 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration.



**BSR**<sup>®</sup>

The Business of a Better World

[www.bsr.org](http://www.bsr.org)



# Sebastian Wienges

Senior Climate Change Specialist

Climate Change Policy Team

World Bank

# Discussion

The Road Through Paris

# Overview of Climate Leadership Action

**1.**

Acknowledge climate science

*Understand earth is headed for 1.5°-4.5°C by 2100 and know what it means for the business*

**2.**

Act to limit to 2C° and build adaptive capacity

*Establish ambitious, holistic plans for global operations and value chain*

**3.**

Advocate for a low-carbon future

*Support international and national public policies to stabilize climate change*

## Key leadership practices

- Set a science-based emissions reduction target
- Establish an internal price on carbon
- Source % renewable electricity
- Adopt principles for responsible climate policy engagement
- Report climate information in mainstream reports
- Eliminate deforestation in supply chains
- Identify and minimize non-CO<sub>2</sub> (“short-lived”) climate pollutants



## Future Road Through Paris Briefings

- Climate Finance and Carbon Pricing (Jul 22)
- Business Leadership Commitments and Quick Wins (Sep 9)
- National Climate Commitments (Oct 28)
- The Text of the Paris Agreement (Nov 18)
- First Results from COP21 (Dec 16)
- Moving the Needle, What's Next? (Jan 20)

Register: [www.bsr.org](http://www.bsr.org)

# Contact

**Edward Cameron**

Managing Director,  
Partnership Development  
and Research

[ecameron@bsr.org](mailto:ecameron@bsr.org)

**Paula Pelaez**

Manager, Advisory  
Services

[ppelaez@bsr.org](mailto:ppelaez@bsr.org)