Session 5
Climate Financing

1 Session objective

The countries in the Asia-Pacific region are taking concrete national action to address the negative economic-social-environmental impact of climate. It is necessary to take appropriate mitigation and adoption actions. However, steps to improve climate conditions are often focused on more climate-friendly infrastructure, requiring a large scaling up of existing climate finance flows. In the Paris Agreement on Climate Change, which was adopted in December 2015, the importance of making available new and additional financial resources to support the implementation of policies, strategies, regulations and action plans for climate change mitigation and adaptation was further emphasized. It was recognized earlier in the 2030 Agenda for Sustainable Development and in the Addis Agenda on financing for development. The Paris Agreement aims to enable the paradigm shift towards low-carbon and climate-resilient development by making all financial flows consistent with these goals. In this session, the discussion is focused on the opportunities and challenges of climate finance in Asia and the Pacific and other green finance options, such as cleaner production investments and resource management financing options, and their combining effect on sustainable development.

2 Background

Asia and the Pacific is the most vulnerable region to the impacts of climate change. In the past decade, about three million people were affected by natural disasters and almost 900,000 lost their lives. Natural disasters affected livelihoods associated with water and agriculture, and resulted in diseases. The total estimated losses attributed to natural disasters in the Asia-Pacific region during the period 2003-2013 amounted to $750 billion, representing 49.5 per cent of the global economic losses resulting from to natural disasters during that period. Additionally, if current climate change and development patterns continue, by 2100, hundreds of millions of people, most of them in the coastal areas in different parts of the region, could be displaced unless adaptation measures are appropriately managed. At the same time the Asia-Pacific region is responsible for more than half of global greenhouse gasses emissions; this contribution is projected to increase over the next decade.

There is urgent need to increase climate finance for both adaptation and mitigation and diversify its sources in Asia and the Pacific. Global climate finance flows are still lagging below the levels needed to limit warming to two degrees Celsius.

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Despite an estimated $391 billion in climate finance international flows in 2014, the gap between available climate finance funds and the financing needs to adapt to unavoidable impacts of climate change is growing. In 2014, East Asia and the Pacific remained the largest destination of climate finance flows, accounting for 31 per cent of the total or $119 billion; and South Asia received a 33 per cent increase in climate finance investments from 2013, amounting to $17 billion. East Asia and the Pacific subregion also attracted $12 billion, accounting for 46 per cent of total adaptation finance, to address climate change vulnerabilities in 2014.

The state and sources of climate finance in Asia and the Pacific are complicated and varied across countries. The Paris Agreement recognized the importance to increase the mobilization of resources by $100 billion per year, taking into account the needs and priorities of developing countries. Furthermore, the new and additional sources of funds have to be identified from regional mechanisms, including through public and private, bilateral and multilateral, such as the Green Climate Fund, development banks and other regional and subregional programmes to delivery of and direct access to existing and pledged climate finance. The public sector has contributed $148 billion, while the private sector has provided $243 billion towards climate finance, with more than 93 percent of it directed to mitigation.

The recent growth of private sector investment is expected to enhance commercial returns. In particular, multilateral development banks have reaffirmed their shared commitment to take the lead in further developing climate financing, and the Asian Development Bank (ADB) has announced that it plans to more than double its annual climate finance, to $6 billion by 2020, to assist developing countries in the region. Since 2010, the existing climate funds, such as the Global Environment Facility (GEF), the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), as well as the Climate Investment Funds (CIFs) of the World Bank, have provided more $7 billion in financing for climate change by promoting projects that have the potential to reduce emissions and increase resilience to climate change. In particular, the process of climate adaptation also needs funding to support greater resilience, especially to carry out climate smart business practices and create infrastructure arrangements. There is also a strong need to pool and transfer climate risks by building mechanisms for appropriate calibration of insurance-based risk management.

3 Policy issues for discussion

Aligning climate finance and financing for sustainable development is one of the critical features of the Paris Agreement on Climate Change. The new and additional mobilization of financial resources extended to developing countries should enhance the implementation of their policies, strategies, regulations and climate change actions with respect to both mitigation and adaptation to contribute to the achievement of sustainable development goals.

Redirecting national public finance towards climate-resilient and sustainable development through low-carbon development strategies should be mainstreamed into national development plans. Governments must work towards mobilizing resources for climate financing by facilitating frameworks for climate action and investment through the development of appropriate national policy and institutional frameworks, which is critically important for the countries with special needs. This can be achieved by redirecting the investments made by the financial sector through green banking policies, and incentivizing the private sector for making low-carbon investments in infrastructure and industry. In the region, countries should facilitate a transition to low-carbon and greener economies based on national policy frameworks by developing innovative incentives and reorienting existing public resources to greener activities, including, among others, through the development of green bonds.

Engaging the private sector is critical for scaling up climate finance, and creating a stable and transparent enabling environment is the key to mobilizing the private sector in the region. With the availability of non-government funding, the sources for climate finance for mitigation and adaptation efforts are being shaped. Hence, to develop such sources, governments need to provide incentives and mitigate risks for private equity funds to invest more robustly in climate friendly low-carbon development initiatives.

It is necessary to note that even though the one-size-fits-all policy prescription is applicable to all parts of the world, common key areas must be addressed, including the development of effective policies to create investment-grade environments or to compensate for market failures, and secure predictability and policy-certainty for investors. Policymakers need to recognize that stable and transparent business practices associated with climate finance are not only important for overcoming the negative impacts caused by climate change, but also significant for responding to the commercial opportunities created by climate-resilient development.

Possible Questions

- In what ways will the Paris Agreement engage the finance sector in scaling up climate finance in Asia and the Pacific?
- What approaches should governments take to mainstream climate change policy into their national development plans? What leverage points exist for governments?
- In which areas should governments strengthen capacity to maximize climate finance opportunities?
- What business opportunities can be generated by a low-carbon economy and from other green finance options?

HIGH-LEVEL SPEAKERS

The Chair will introduce the panelists, explain the structure and objectives of the session and moderate the discussions. The speakers in the panel discussions will be kindly requested to limit their interventions to seven minutes

Aiyaz Sayed-Khaiyum
Attorney-General and
Minister for Finance
Fiji

Ruslan Beketayev
Deputy Minister of Finance
Kazakhstan

Heng Sok Kung
Vice Minister
Ministry of Industry
and Handicraft
Cambodia

Choi Jai-chul
Ambassador
for Climate Change
Republic of Korea

Simeon Athy
Governor
Reserve Bank of Vanuatu

Syurkani Ishak Kasim
Vice Chairman, CCFPA
Ministry of Finance
Indonesia

Héla Cheikhrouhou
Executive Director
Green Climate Fund

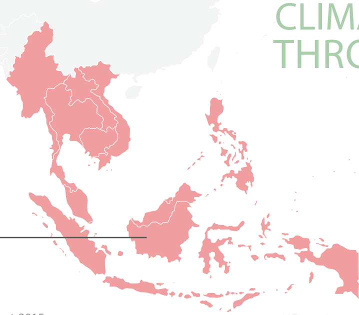
Yvo de Boer
Director-General
Global Green Growth Institute

Tom Heller
Executive Director
Climate Policy Initiative

Taking Action on Climate Finance

BETWEEN 2005 AND 2014
1,625 REPORTED DISASTER EVENTS
500,000 PEOPLE LOST THEIR LIVES
$523 BILLION WORTH OF ECONOMIC DAMAGE

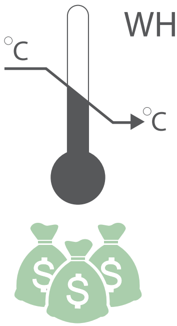
REGION NEEDS $10 TRILLION IN CLIMATE FINANCING THROUGH TO 2030

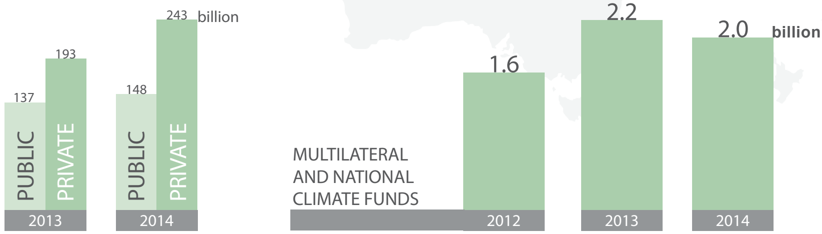


512 REPORTED DISASTER EVENTS
177,000 DEATHS:
3 PER 100,000 PEOPLE

Source: ESCAP (2015) Disasters without Borders Regional Resilience for Sustainable Development. Available from: http://www.unescap.org/resources/asia-pacific-disaster-report-2015

WHO IS CLOSING THE CLIMATE FINANCING GAP?





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