

# Integrated climate finance

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# Agenda

- **Introduction Axel Michaelowa and Perspectives**
- **(I)NDCs, NAMAs and climate finance**
- **Integration of climate finance**
  - Grants and loans by multi- and bilateral donors
  - Market mechanisms
  - Domestic policy instruments
- **Key lessons from 20 years of climate change mitigation**
- **Adaptation finance**





## Perspectives' profile



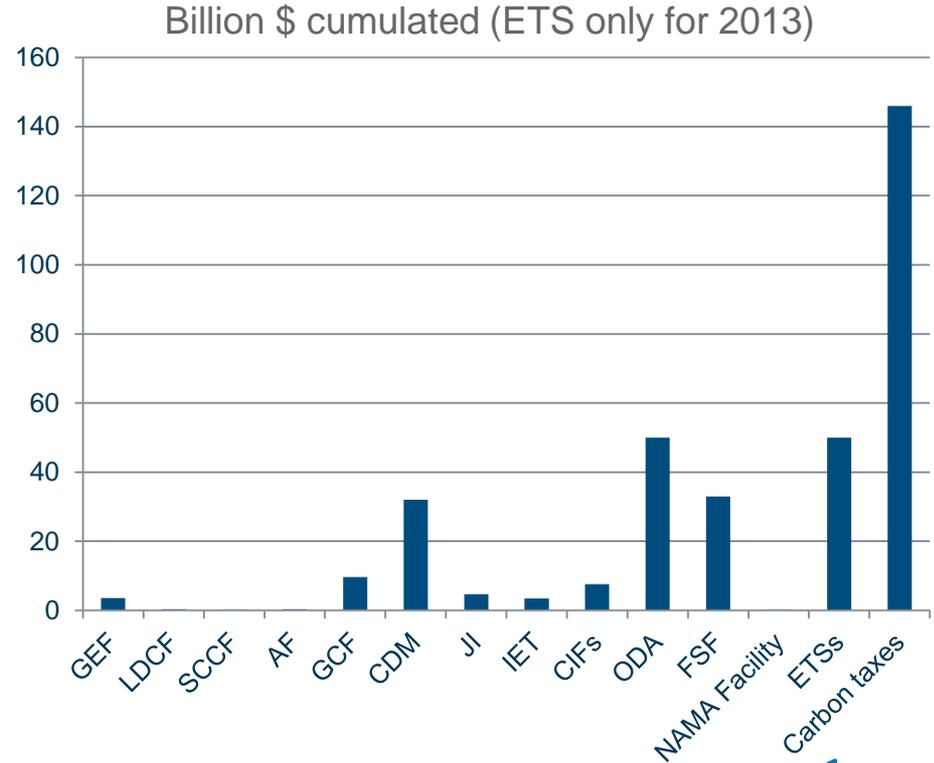
### Dr. Axel Michaelowa

- PhD in Economics
  - Managing Director Perspectives
- Works on international climate policy instruments & UNFCCC process since 1994
  - Lead Author of IPCC 4<sup>th</sup> and 5<sup>th</sup> Assessment Reports for chapters on climate policy instruments
  - Experience in over 30 developing countries
  - Numerous climate policy related articles in peer-reviewed journals

- Leading expertise in international climate policy, market mechanisms like the Clean Development Mechanism (CDM), NAMAs and other climate policy instruments
- High-quality, tailor-made consultancy services
  - NAMA design
  - Negotiation support
  - Climate finance proposals (GCF)
  - Conceptual studies on policy instruments
- More than 100 clients and projects in over 60 countries
- Offices in Freiburg, Alicante and Zurich

# Status of (I)NDCs and public climate financing

- **79% of INDCs have expectations for international support**
  - Annual financing needs ~**USD 350 billion**
  - **3.5x promised level of “mobilized” North-South climate finance flows**
- **Historic public climate finance flows are an order of magnitude below INDC requests!**
- **48% of INDCs consider market mechanisms for mitigation**



## NAMAs as the pillars of NDC implementation

- Often, INDCs were developed “top down”
  - Theoretically based on an economically ideal mitigation path
- Practically, NDC implementation should be built on the sum of NAMAs
  - Barriers are known
  - Baselines have been assessed
  - Financing needs and policy instruments have been discussed
- Key question: Who is willing to finance NAMAs?



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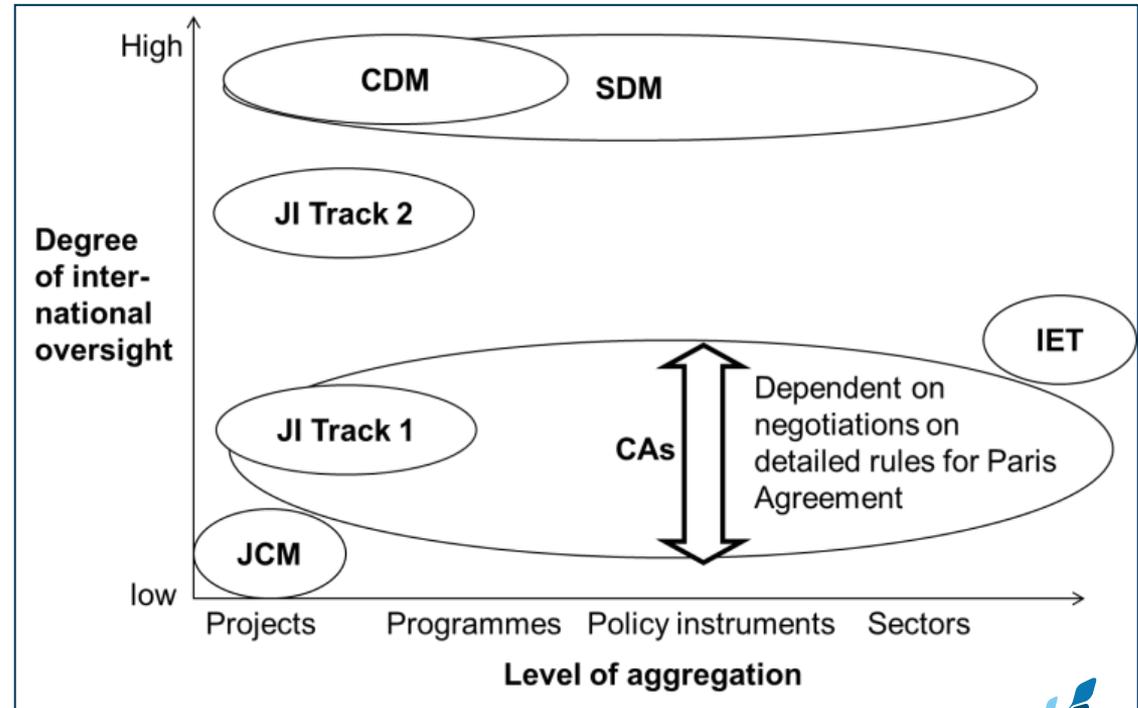
## CDM achievements and mitigation potential

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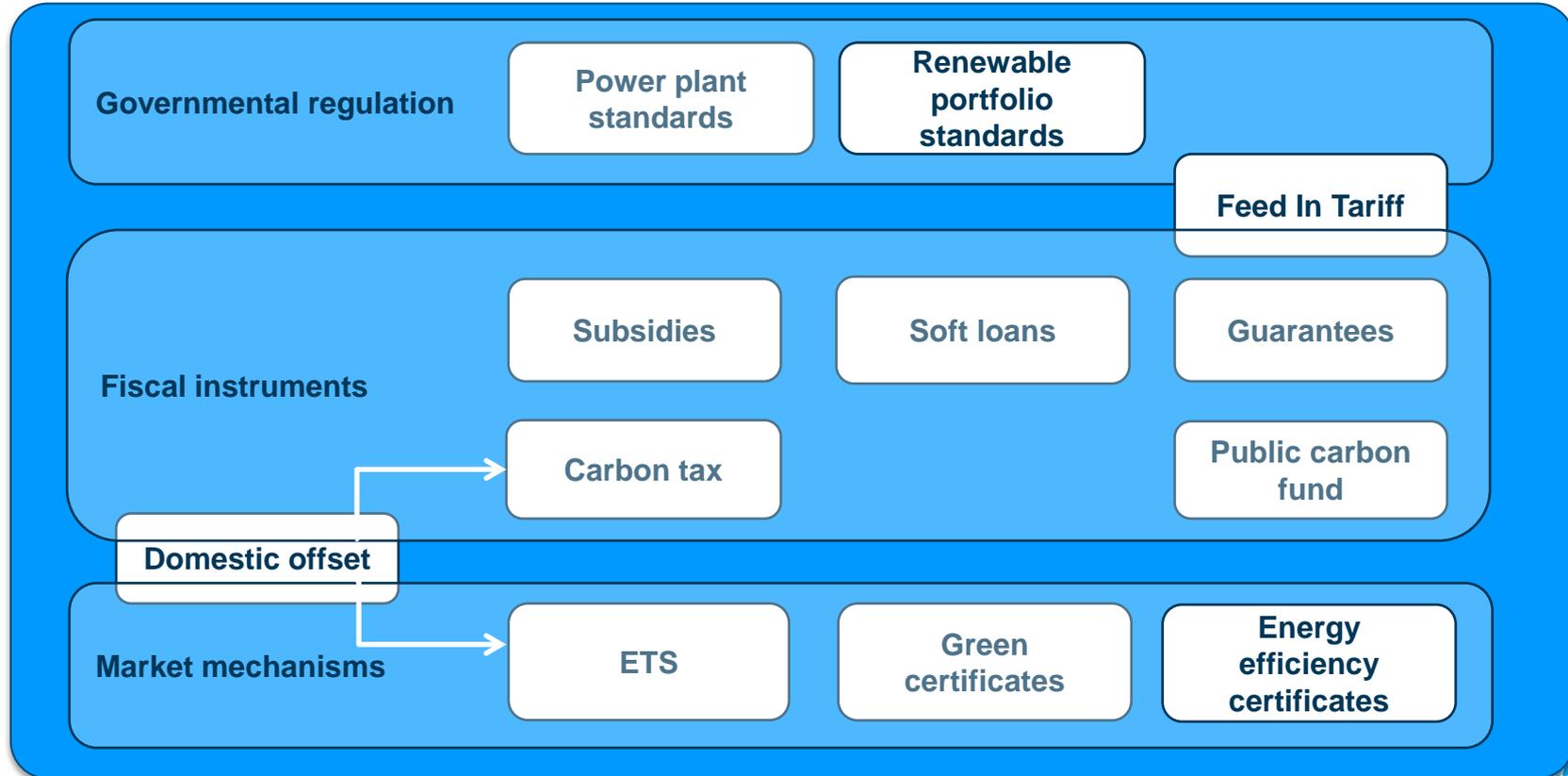
- CDM pipeline holds **substantial mitigation potential**
  - **1.8 billion credits issued, 10 billion in pipeline by 2020**
  - **300 registered Programmes of Activities (PoA) with >2000 component projects**
  - **Significant untapped mitigation potential at risk of being stranded!**
- CDM reforms and diversification of credit use
  - **Simplified baseline and monitoring methodologies**
  - **All (sub)national carbon pricing systems use the CDM directly as a flexibility mechanism or build on its experience**
  - **CDM is used for results-based climate financing. CDM methodologies enable harmonized MRV of mitigation according to UNFCCC-approved standards**

# Characteristics of the Paris Mechanisms

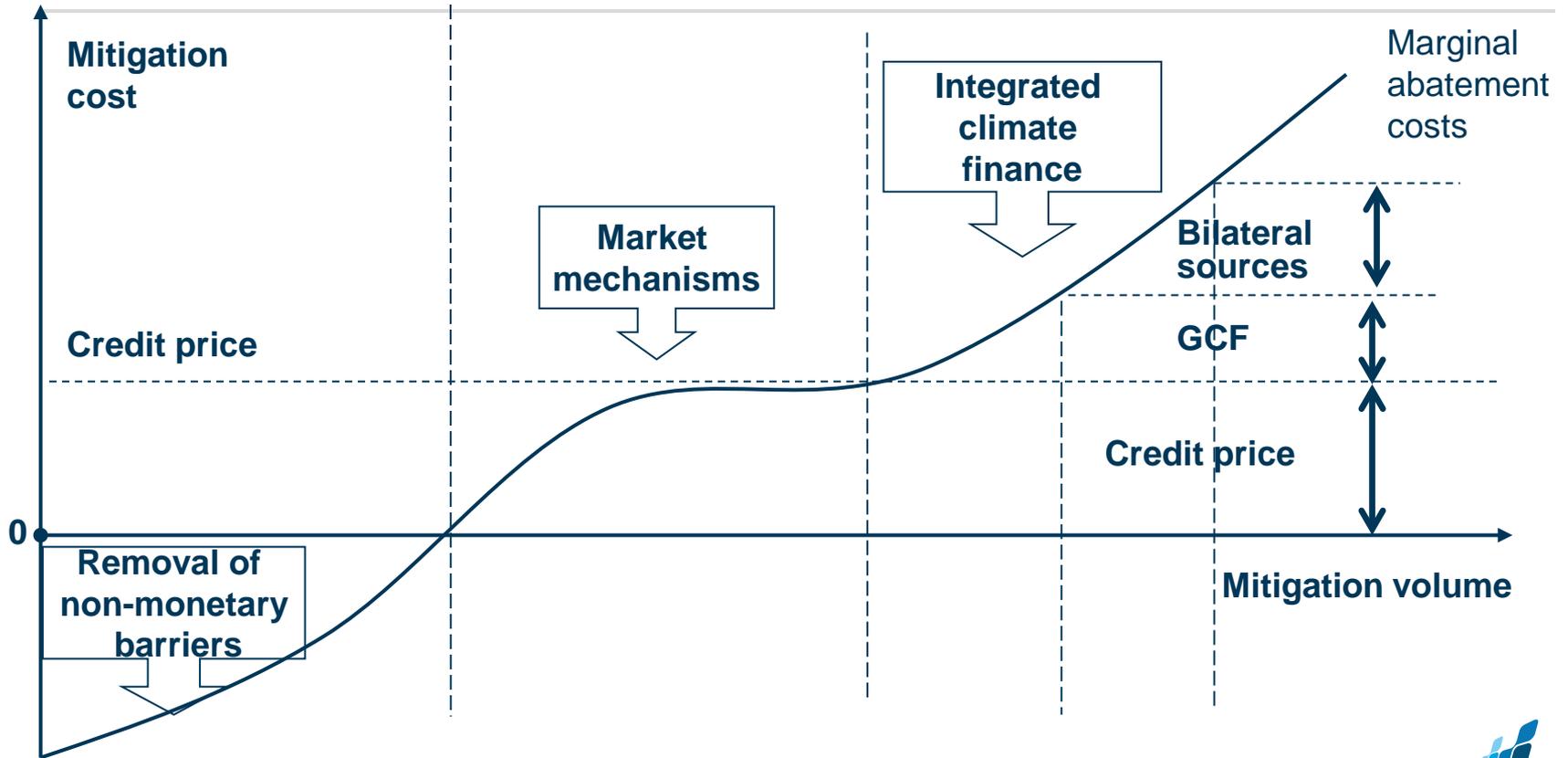
- Risk of fragmentation under Art. 6.2
- Can the CDM survive as part of Art. 6.4?
- How can we prevent a race to the bottom?



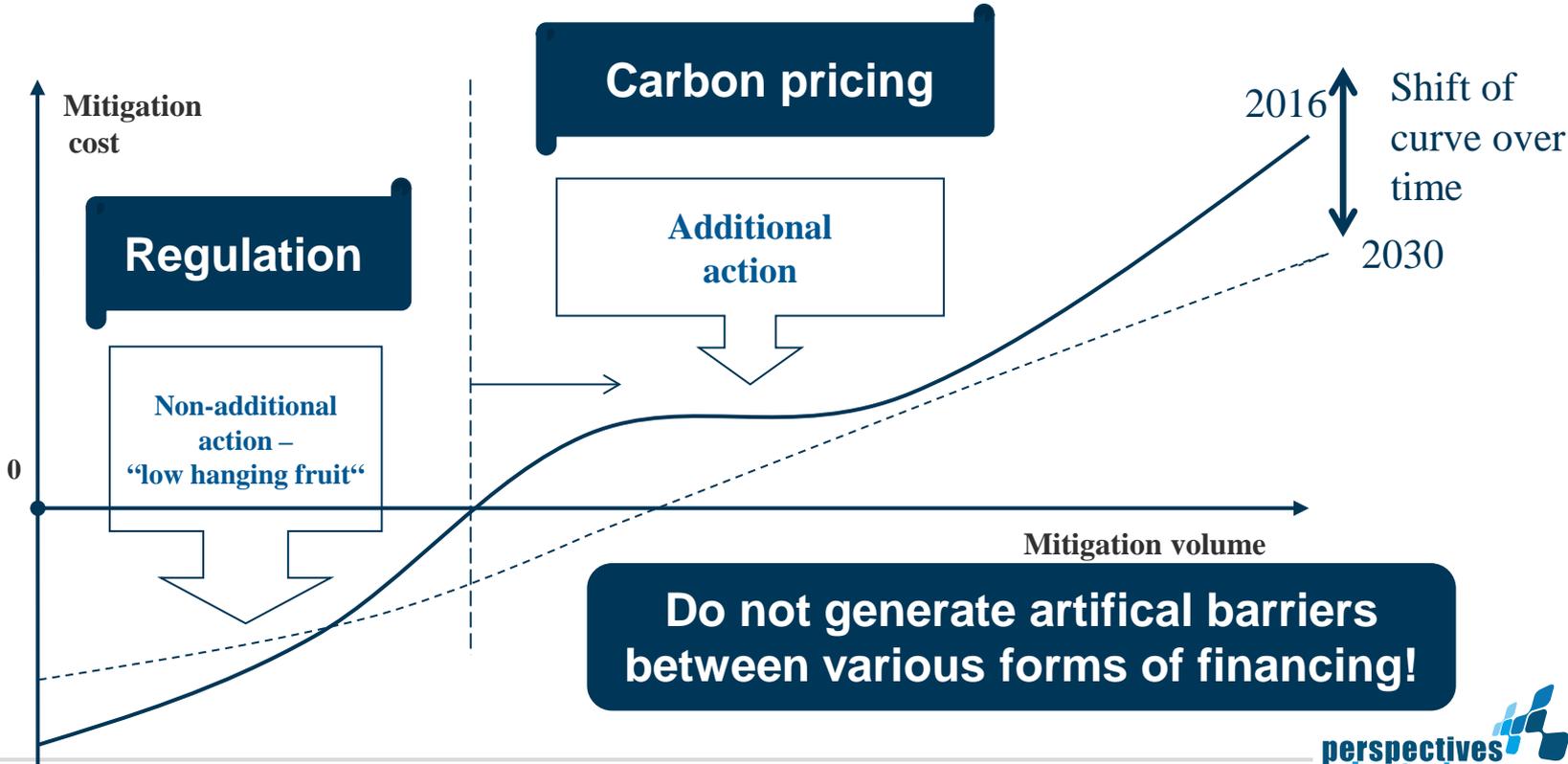
# Potential domestic policy instruments to drive mitigation



# Integrating mitigation finance



# Driving private sector mitigation through policies



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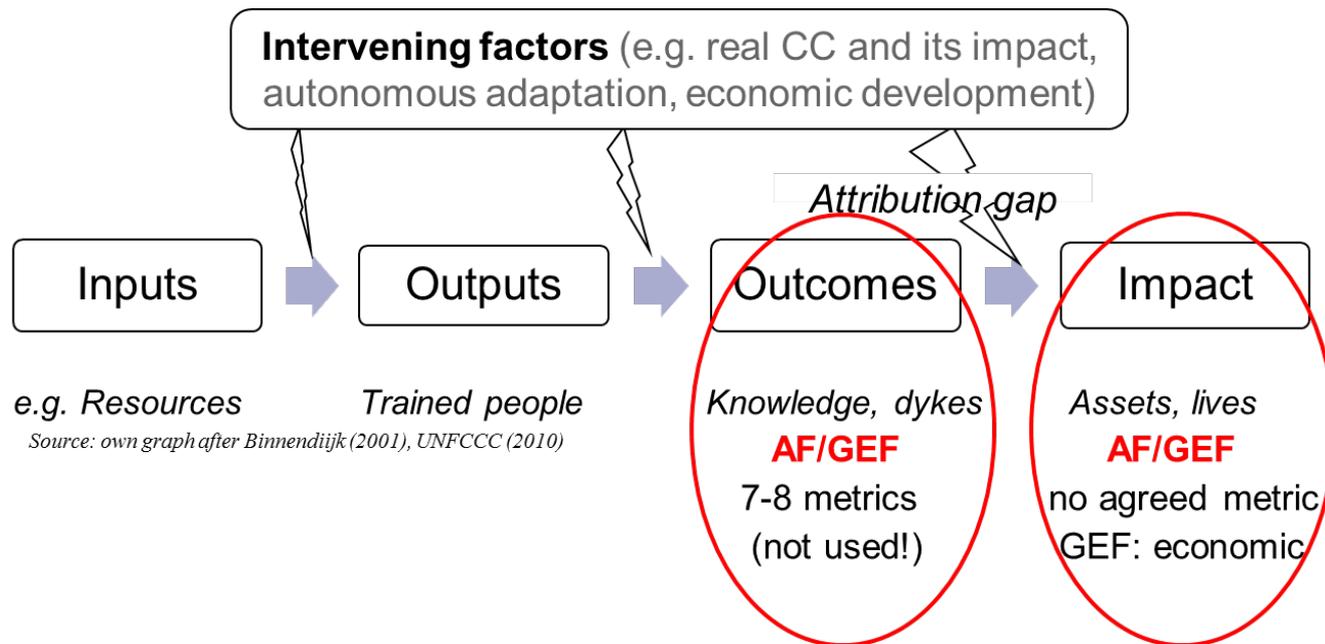
## Recommendations for mitigation finance in developing countries

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- **Bending the emissions trend in developing countries cannot be achieved without introduction of serious mitigation policies**
  - The need for stringent policies increases with ratcheting up of **NDCs**
- **These mitigation policies are best designed as NAMAs**
- **NAMAs require international support, technically and financially**
  - **How to reach the required scale? Elephant in the room!!**
- **Depending on mitigation costs, a mix of funding for NAMAs should be harnessed: market mechanisms as well as public climate finance**
  - **The higher the credit price, the stronger the role of markets**

# Complications for adaptation finance

## ■ Lack of universally accepted metrics for adaptation



## ■ Proposed solution: Saved health/saved wealth approach

# How does saved wealth/saved health work?

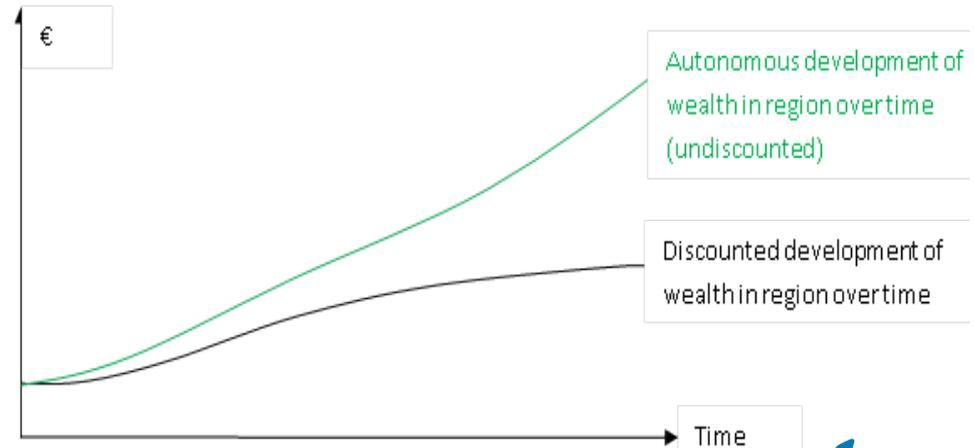
## ■ Saved wealth

- Assess projected damage from climate change driven extreme events

Figure I: Frequency of impacts



Figure II: Change of wealth over time



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## How does saved wealth/saved health work? II

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### ■ Saved health

- Look at projected impacts from climate change driven extreme events
- Denomination in Disability-adjusted Life Years (as used by the WHO)

$$DALY = N \cdot L + \sum_i I_i \cdot DW_i \cdot D_i$$

Where:

- N      Number of deaths
- L      Standard life expectancy at age of death (in years).
- $I_i$     Cases of disease / injury i
- $DW_i$    Disability weight of disease / injury i.
- $D_i$     Average duration of disease / injury i (years)

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# Recommendations for adaptation finance in developing countries

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- **Coordinate efforts to enhance results-based orientation of public adaptation finance**
  - **Test universal metrics** for adaptation such as SW/SH for **different kinds** of adaptation interventions and develop methodologies
  - **Apply metrics in GCF and other public climate finance vehicles**
- **Consider new approaches to adaptation finance**
  - **Current proposal under Art. 6.8 as non-market mechanism supported by Uganda/AfDB: Adaptation Benefit Mechanism**
  - **Define global goal for adaptation under Art. 7 Paris Agreement in common adaptation metrics and allocate it to GHG emitters**
- **Prevent that adaptation finance is criticized by media/populist movements as diversion of development finance**



- Thank you!
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