

Role of IFIs in supporting Green Investments

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Introduction

- Average temperatures in 2011-2020 were 1.09°C higher than in 1850-1900 (pre-industrial baseline)
- Consequences: increased frequency and intensity of heatwaves, droughts, floods, extreme weather, sea level rise etc.
- UN Framework Convention on Climate Change (UNFCCC) as main framework for joint actions by governments
- Current efforts to address climate finance fall short

Climate Change Impacts

- Most vulnerable people & systems disproportionately affected
- Differing vulnerability of ecosystems and people
- Near-term actions (e.g. limiting global warming to close to 1.5°) would reduce, but not eliminate, projected losses and damages
- Magnitude and rate of climate change - and associated risks - depend strongly on near-term mitigation and adaptation actions
- Overshoot of 1.5°C may cause release of additional greenhouse gases, some of which will be irreversible

Emissions Gap

- Global carbon dioxide emissions back to pre-COVID levels
- Rising concentrations of GHGs in the atmosphere
- Emissions gap remains large
- Global warming at the end of the century estimated at 2.7°C (unconditional), 2.6°C (conditional), 2.2°C (net-zero emissions)
- Current mitigation efforts consistent with exceeding 2°C

Climate Change – The Investment Challenge

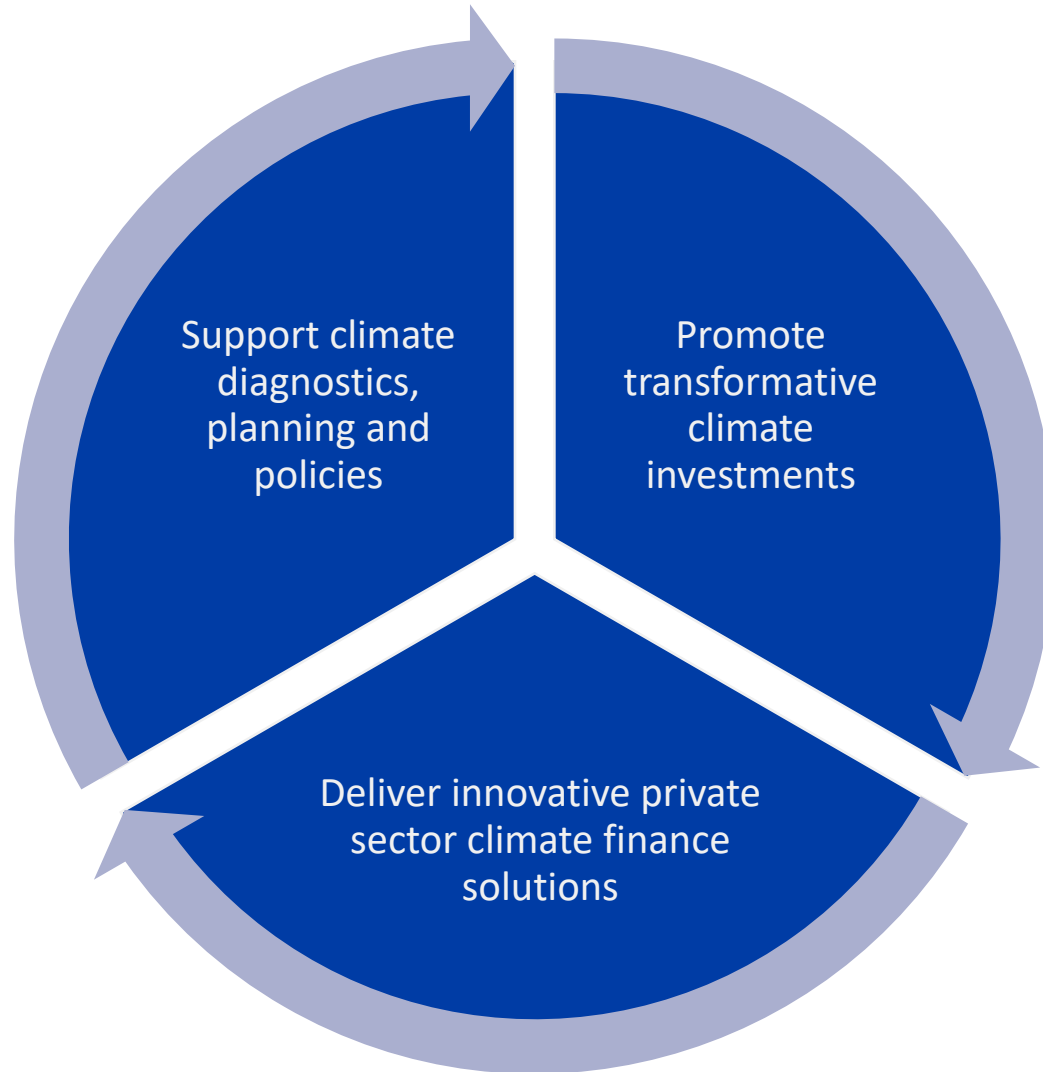
- Annual climate finance estimated in 2019/2020 was US\$632 billion/year.
- Of this, public spending was 51% and private sector spending was 49%.
- To put this in perspective, the private sector globally accounts for about 70% of the economy and the public sector for about 30%.
- Climate change is a major driver of biodiversity loss, with an estimated one million plant and animal species facing extinction.
- Therefore, the scope for increased private sector investments in adaptation and mitigation is considerable.

Climate Action Plan 2023-2030

The OPEC Fund

- will adopt targets of 25% climate finance by 2025 and 40% climate finance by 2030 (% of total financing)
 - To be achieved through proactive exploration of climate financing opportunities and strong reorientation
- aims to join international climate finance initiatives
- commits from 2023 onwards to measure climate finance, GHG emissions and its reductions on agreed methodologies
- Will strengthen partnerships with MDBs, other banks, financial institutions and other partners

Climate Action Plan 2023-2030: Three key areas



1. Support climate diagnostics, planning & policies



- Support partner countries in their national diagnostics, planning and policies
 - Support formulation of climate risk profiles and priority climate measures and plans to finance them (through grant-funded technical assistance)
 - Support the formulation of climate policies and other rules and regulations (through grant-funded technical assistance)
 - Include climate change consideration in the formulation of all country partnership strategies from 2025 onwards
 - Discuss with selected beneficiary countries how OPEC Fund could support the implementation of updated NDCs

2. Promote transformative climate investments

- Expand the share of energy, water and agriculture & livelihood sectors
- Expand relative focus on renewable energy and energy efficiency (energy sector)
- Strengthen rationale and detail measures to address climate change induced water shortages (water sector)
- Refocus on climate-smart agriculture, including value chains and food security (agriculture and livelihood sector)
- Promote modal shifts towards low-carbon transport systems (transport sector)
- Promote compact cities, use of green and blue spaces to increase resilience against increased heat and flooding, and promote efficient and low-carbon heating and cooling



3. Deliver innovative climate finance solutions

- Lending for low-carbon and climate resilient projects implemented by the private sector
- Facilities for on-lending to low-carbon and climate resilient projects implemented by MSMEs
- Promote preparation of climate risk assessments covering physical risks and possible losses
- Use trade finance facilities to support climate action
- Providing financial support to climate technology companies (e.g. equity participations)
- Invest in climate bonds issued by the private sector
- The establishment of trust funds will provide more flexibility to support private sector investments (e.g. results based payments tied to realized mitigation or adaptation achievements)



Key Development Initiatives

In 2022, the OPEC Fund launched its Climate Change Action Plan to enhance its climate financing from 20% to 25% by 2025 and to 40% by 2030.

SCOPE	FOCUS: THREE PRIORITY AREAS	MOBILIZATION	
<p><u>Sectoral scope:</u></p> <ul style="list-style-type: none"> • Adaptation finance dominated by agriculture and livelihoods, transport and water. • Mitigation finance with strong focus on energy sector. <p><u>Regional scope:</u></p> <ul style="list-style-type: none"> • Climate change adaptation finance: Africa, Asia & LAC. • Climate Change Mitigation Finance dominated in both Asia Pacific Region (excluding Central Asia) and Rest of Africa (excluding North Africa), followed by LAC. 		<ul style="list-style-type: none"> • The OPEC Fund engaged with the Arab Coordination Group to agree a US\$24 billion financing goal for climate action up to 2030 (OPEC Fund's share is \$5 billion). 	<ul style="list-style-type: none"> • Approved: US\$ 515 million (33% total approvals). <ul style="list-style-type: none"> ➢ Adaptation: US\$ 146 million ➢ Mitigation: US\$369 million ➢ Sovereign: US\$ 410 million (80%) ➢ Non-Sovereign: US\$ 105 million (20%) • 24 projects across 19 countries and 1 regional project in Africa. Highlights include; <ul style="list-style-type: none"> ➢ Panama: US\$ 120 million program to support climate policy development. ➢ Uzbekistan: US\$ 75 million across four projects - two wind farms, one program and one agriculture project. ➢ Pakistan: US\$ 72 million for the construction of a hydropower plant. • Sectors include energy, transport, agriculture, health and cross-cutting programs.

Climate Action Plan to be aligned with Paris agreement and OPEC Fund to join MDB/DFI community and contribute to the global agenda for climate financing.

Roadmap for the Future

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Climate Change

IFIs support for Policy Enhancement

Policy Support

- Enhancements and updating of NDC Reports.
- Enhancement of Environmental regulations
- Enhancement of social development and social protection policies to cope with adverse effects of climate change
- Natural hazard and emergency preparedness policies and capacity building modules
- Policies and programmes to engage women and youth in the fight against climate change

Climate Change

IFIs support for Technology Solutions & Innovations

Climate Change Mitigation

- Enhancements in efficiency of renewable energy technologies, such as solar, wind, and geothermal power.
- Promote Hydrogen fuel and zero carbon aviation fuel
- Energy storage technologies, such as advanced batteries, facilitate the integration of intermittent renewable energy sources, enhancing grid stability and reliability.
- Smart grid systems and demand-side management technologies optimize energy use, reducing wastage and increasing overall energy efficiency.
- Innovative transportation technologies, including electric vehicles and alternative fuels, help reduce emissions from the transportation sector.

Climate Change

IFIs support for Technology Solutions & Innovations

Climate Change Adaptation and Resilience

- Climate monitoring and early warning systems, leverage advanced sensors, satellite data, and modeling techniques to improve forecasting, preparedness, and response to climate-related events
- Climate-smart agriculture technologies, such as precision farming, remote sensing, and digital agriculture tools, help optimize resource use, increase crop yields, and improve resilience to changing climatic conditions.
- Nature-based solutions, like green infrastructure and ecosystem restoration, utilize innovative approaches to enhance natural resilience, protect ecosystems, and reduce vulnerability to climate impacts.
- Innovative water management technologies, such as desalination, rainwater harvesting, and efficient irrigation systems, contribute to water security and climate resilience.

Climate Change

Role of IFIs in mobilizing private capital

Risk Mitigation Instruments

IFIs provide guarantees, insurance, and risk-sharing mechanisms including first-loss coverage that reduce the perceived risks associated with climate-related investments or redistribute it away from the private sector. These instruments provide a level of security to private investors.

Policy or Regulatory Support

Stable and credible policy frameworks are needed to ensure that public benefits from green investments by the private sector can be monetized and contribute to an adequate return for private investors. Capacity building for the formulation and implementation of such policy and regulatory frameworks can be a key focus of IFI support.

Climate Change

Role of IFIs in mobilizing private capital

Knowledge Sharing and Best Practices

Knowledge exchange helps investors understand the potential risks and rewards associated with low-carbon and climate-resilient investments and promotes informed decision-making and helps the formulation of programs and policies by the government that can promote green investments.

Resource Mobilisation

Issuance of green bonds or climate bonds and by assisting in the development of green finance policies that promote resource mobilization for investment in green projects.

Explore and promote value capture for the benefit of private sector investors in adaptation.

Explore and promote the use of tax credits for the benefit of private sector investors in adaptation.

Thank you

