

# Financing the Transition to Net Zero, Climate Resilient Societies

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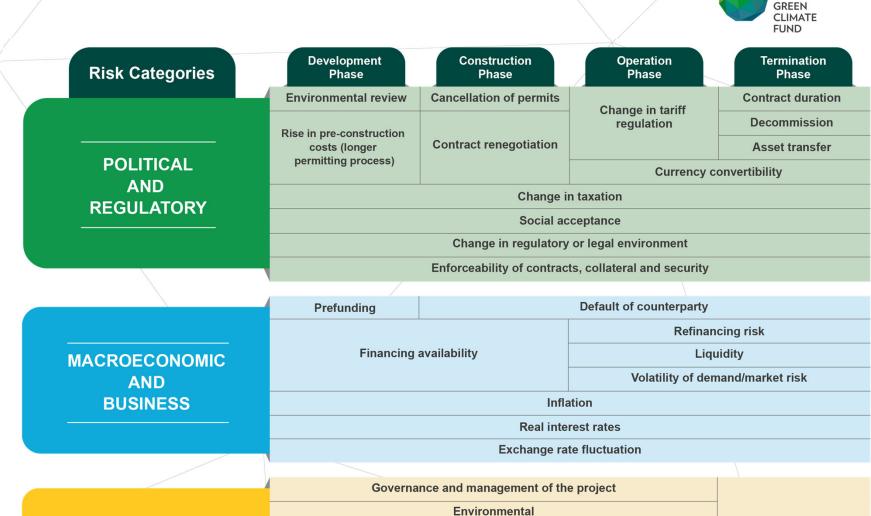
LCS-Rnet 12<sup>th</sup> Annual Meeting 16 December 2021



## THE CLIMATE FINANCE PARADOX



#### BARRIERS TO LOW EMISSION, CLIMATE RESILIENT INVESTMENTS



**Construction delays** 

and cost overruns

Technology and obsolescence

Project feasibility

Archaeological

**TECHNICAL** 

**Termination value** 

different from

expected

Qualitative deficit

of the physical

structure/ service

Force majeure

#### GREEN MARKET TRANSFORMATION



Information and empowerment instruments

Control and regulatory instruments

Economic and market instruments

Institutional instruments

Financial instruments

**MARKET FIXING** 

Demand-side instruments

- Information disclosure and green taxonomies (climate risks, carbon liabilities, etc.)
- Macro-prudential regulations (climate stress tests for banks and insurers, etc.)
- Carbon taxes, phase out of fossil fuel subsidies
- Development of new asset classes
- Fossil fuel divestment by public financial institutions
- Green finance regulatory networks, asset managers coalition and central bank coordination mechanisms

**MARKET** SHAPING Demand-side instruments

- Long-term policy commitment and targets Valuation methodologies
- Public awareness and persuasion
- Zoning Building codes
  - Norms and minimum performance standards

Mandates

Ban

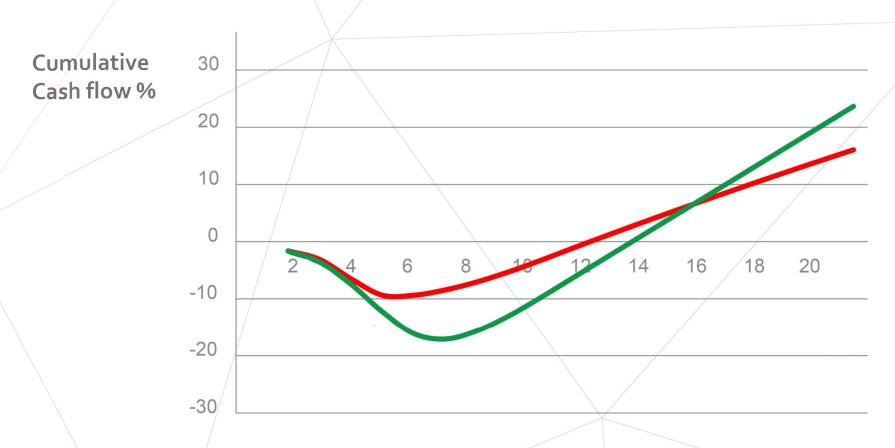
- Standards and labels
- Taxes/tax breaks (e.g., carbon taxes)
- Charges and penalties
- Favourable tariffs
- Green procurement
- Advanced market commitment
- Tradable permits and quotas
- Establishment / restructuring of environmental institutions
- Development of R&D networks and ecosystems

Supply-side instruments

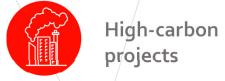
- Investment in education and research
- Technical and vocational training and retooling
- Streamlining licensing processes
- Power purchase agreements
- R&D commissioning
- Property rights agreements
- Dedicated financial institutions (green banks, green guarantee companies, green bond platforms, etc.)
- Public sector-led R&D
- Project concessional finance (grant and loans)
- Incubation grants/venture capital
- Guarantees
- Equity investment

## BASE CASES IN LOW FINANCING COST ENVIRONMENT





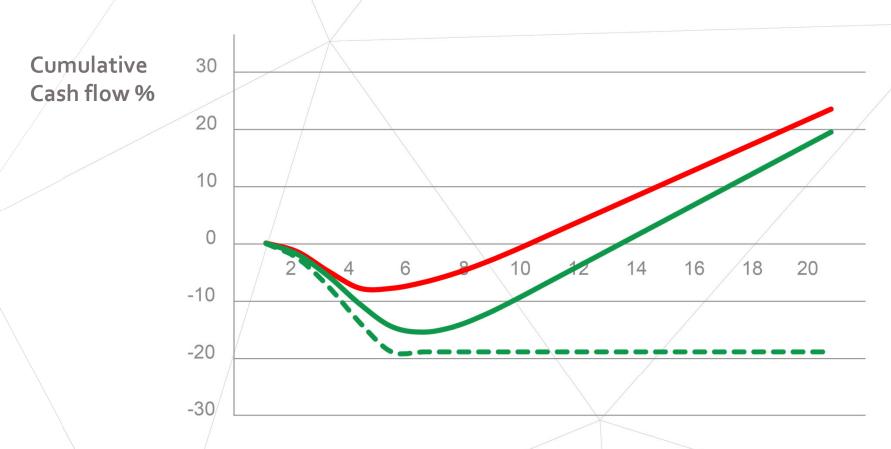
Time (Months)





## BASE CASES IN HIGH FINANCING COST ENVIRONMENT





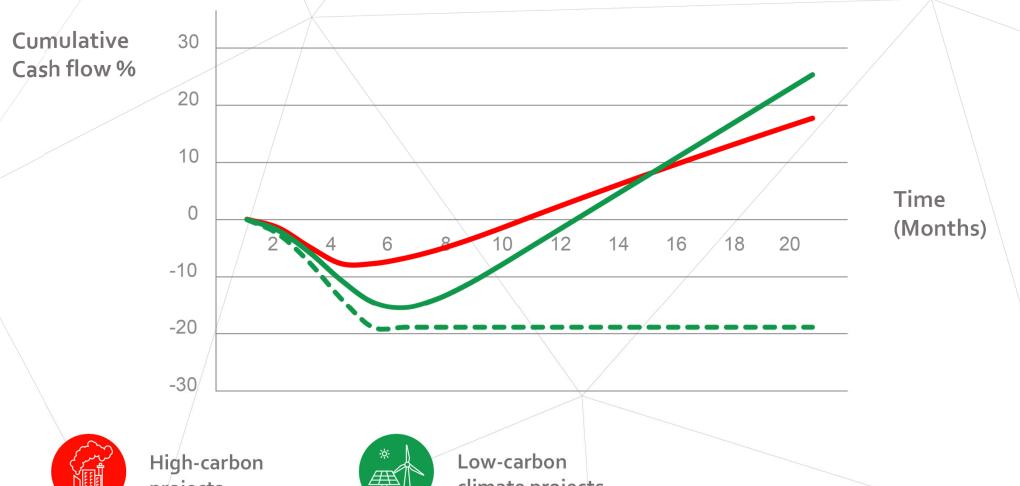
Time (Months)





#### CARBON TAXES +LOWER INTEREST RATES





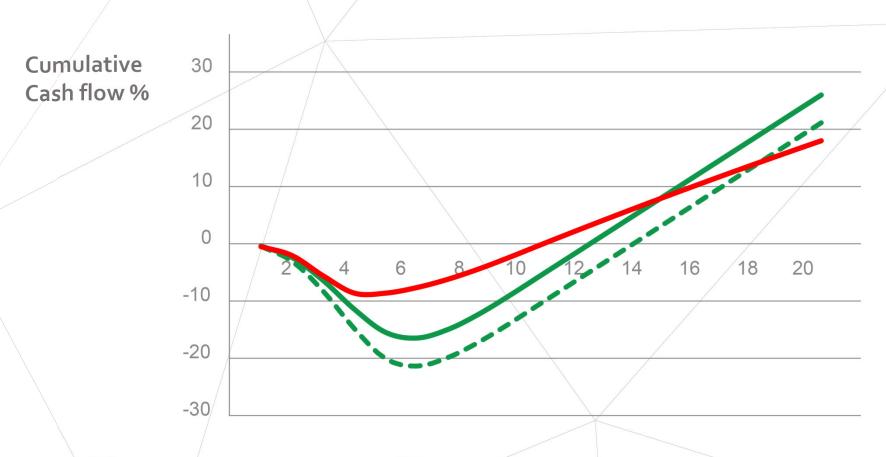




climate projects

## CARBON TAXES +LOWER INTEREST RATES + UP-FRONT DE-RISKING





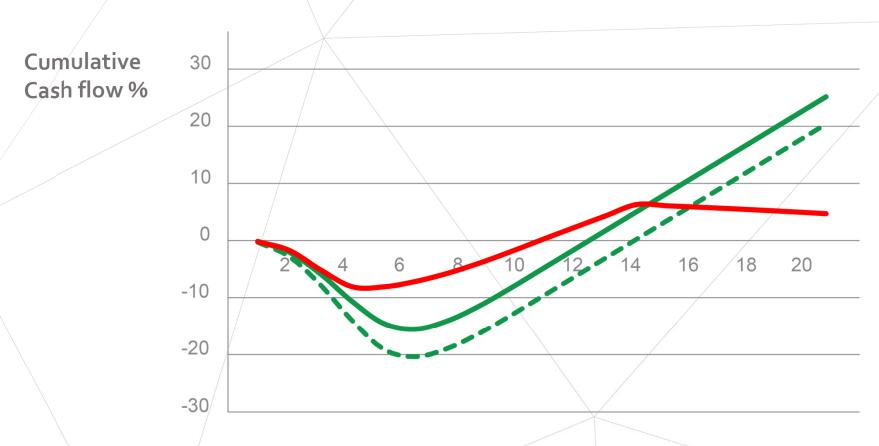
Time (Months)





### WHEN PHYSICAL AND TRANSITION RISKS COME INTO PLAY





Time (Months)







#### ABOUT THE GREEN CLIMATE FUND

01

Enabling policy environment for climate action



02

**Catalysing** innovation



03

De-risking the deployment of new climate solutions



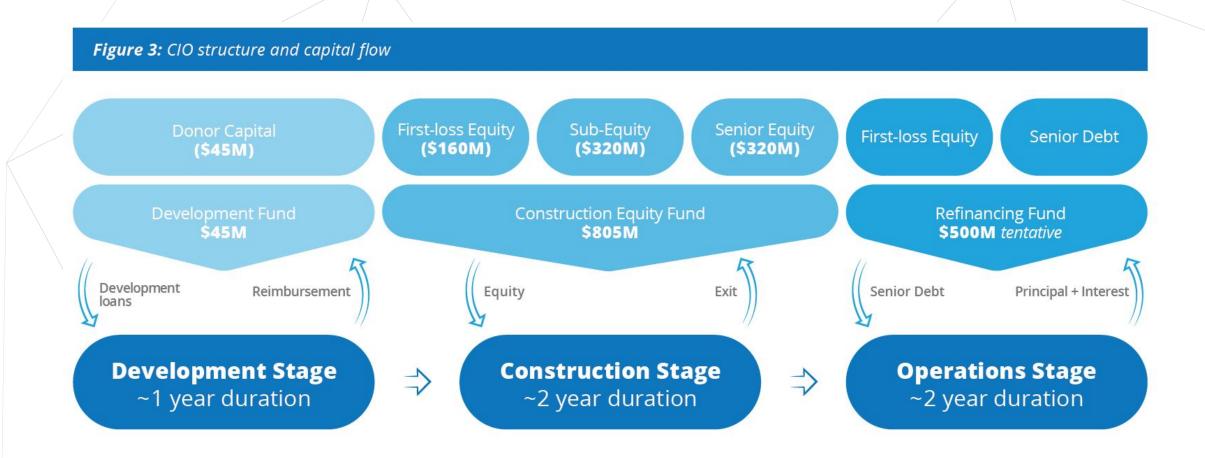
04

Financing the widespread diffusion of new climate solutions



#### **CLIMATE INVESTOR ONE**





Source: Convergence/CIO, 2021



Scan the QR codes for more information



Green Climate Fund working paper No.4

#### Accelerating and scaling up climate innovation

How the Green Climate Fund's approach can deliver new climate solutions for developing countries



Working

November 2021