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**Electronic version**

URL: <https://journals.openedition.org/factsreports/6983>

ISSN: 1867-8521

**Publisher**

Institut Veolia

**Printed version**

Date of publication: 7 October 2022

Number of pages: 82-85

ISSN: 1867-139X

**Electronic reference**

Priscilla Negreiros, "Catalyzing climate finance to support a low-carbon transition", *Field Actions Science Reports* [Online], Special Issue 24 | 2022, Online since 07 October 2022, connection on 10 November 2022. URL: <http://journals.openedition.org/factsreports/6983>

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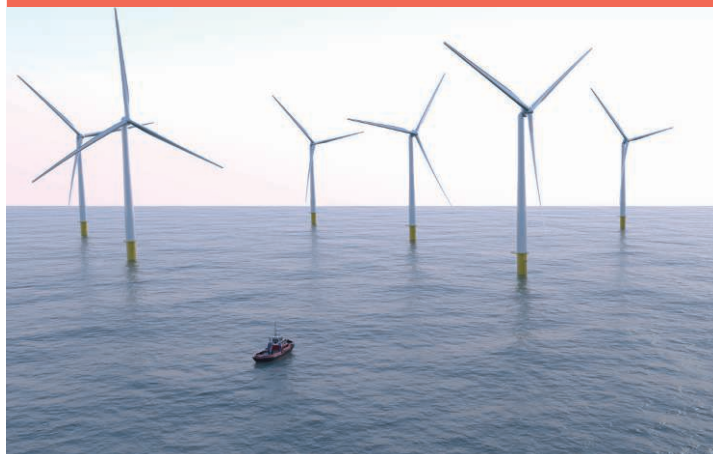
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# CATALYZING CLIMATE FINANCE TO SUPPORT A LOW-CARBON TRANSITION

**Priscilla Negreiros**

Manager of the Cities Climate Finance Alliance at Climate Policy Initiative



Priscilla Negreiros is a Manager at Climate Policy Initiative (CPI), based in London. At CPI, she leads the Cities Climate Finance Alliance (the Alliance), which is a coalition of leaders committed to deploying finance for city level climate action at scale by 2030.<sup>1</sup> Before CPI, Priscilla worked for the Brazilian government at Apex-Brasil as the Head of the Market Access Unit. She has also served as a consultant to the UK Foreign and Commonwealth Office, and World Trade Organization, among others. Priscilla holds a Master's Degree from SciencesPo Paris in International Public Management and a double B.A. degree from Pontifícia Universidade Católica de São Paulo and SciencesPo Paris in International Affairs and Political Science.

Financing climate action is a key condition to achieve the transition towards a low-carbon world, and climate finance stands as a key pillar of the Paris Agreement. It raises multiple debates, involving not only private and public actors but civil society organizations as well. Despite some progress, today's climate finance landscape is mostly directed at financing mitigation projects, and largely insufficient to meet our climate objectives. Cities face specific barriers when trying to access climate finance funds. Several innovative finance tools, enhanced by CPI's Global Innovation Lab for Climate Finance, aim at lifting those obstacles.

<sup>1</sup> The Alliance works to ensure that finance will be deployed at scale for city-level climate action by 2030, by focusing on establishing a bridge between demand and supply for city-level climate-related finance with cities, national governments, DFIs, and private investors.

## Financing climate action is a key condition to achieve the transition towards a low-carbon world. When did the issue of climate finance become such a priority?

**Priscilla Negreiros:** First let me introduce what we mean by climate finance. The most agreed-upon definition, which is based on the Paris Agreement, defines climate finance as local, national, or transnational financial resources – drawn from public, private and/or alternative sources of financing – seeking to support activities limiting GHG emissions or aiming to address climate-related risks and to contribute to resilience and low-carbon development.<sup>2</sup>

The issue of financing climate action can be traced back to the “Earth Summit” held in Rio de Janeiro in 1992, which marked a turning point regarding international action on environmental issues. The Summit had many achievements, and contributed to divide environmental issues into several sub-topics: climate – through the adoption of the United Nations Framework Convention on Climate Change (UNFCCC) –; biodiversity – Convention on Biological Diversity –; forest management – Declaration on the principles of forest management –; etc.

From this landmark, the question of financing climate action really gained visibility, and became the topic of specific international negotiations and forums, with particular interest within the Climate COPs. The principle of “common but differentiated responsibility and respective capabilities” lay down by the Convention tried to answer the question that lies at the roots of climate finance debates: Who should pay for all the changes required in infrastructure, energy, transport, to move towards a sustainable low-carbon world?

Indeed, developing economies early argued that their responsibility should not equal those of developed countries. Although this principle remains relevant, the Paris Agreement, which is the main international framework regarding climate finance, grants both developed and developing countries legally binding commitments related to climate finance. The 193 countries which ratified the agreement committed to make finance flows consistent with a low-emissions and climate-resilient pathway, in order to limit global temperature increase in this century to 1.5 degrees. Developed countries committed to providing USD 100 billion annually for supporting mitigation and adaptation needs of developing countries – a promise which has been vividly discussed during the most recent COP’s negotiations. Indeed, there is no doubt that long term finance is a key pillar of the Paris Agreement.

Yet, one should bear in mind that nowadays, climate finance is a much larger debate, which no longer only concerns national bodies and governments, but rather flows through all levels of society, beyond national public actors. Cities, NGOs, private

actors and even citizens themselves are increasingly involved in discussing and, more importantly, financing climate-related issues. Since climate action is now considered as requiring systemic changes, consequently, a lot more actors start tackling the issue of financing.

## What are the main features of the climate finance landscape today and how have they evolved over the years?

**P. N.:** For a decade, Climate Policy Initiative has been providing one of the most comprehensive overviews of global climate-related primary investment. Indeed, we believe it is crucial to map precisely the reality and sources of climate finance. The 2021 edition,<sup>3</sup> based on two-year averages data (2019 and 2020), shows that total climate finance steadily increased over the last decade, reaching USD 632 billion in 2019/2020 (+10% compared to previous periods), even though flows have slowed in the last few years.

Several key findings deserve to be highlighted in terms of sources of financing, instruments and uses and sectors.

- **Financial sources.** Public climate finance increased by 7% from 2017/2018, remaining largely stable at 51% (USD 321 billion) of the total. Development finance institutions (multilateral banks, international development banks, etc.) continued to deliver the majority of public finance (68%). In regards, private climate investments increased by 13% from 2017/2018, to USD 310 billion. Interestingly, while corporations accounted for the largest share (40%) of private climate finance, commercial financial institutions made the biggest stride in growth, increasing their share from 18% to 39% (USD 122 billion). Clearly, those figures show that both public and private financing are needed. Indeed, to achieve the transition to a sustainable, net zero emissions and resilient world this decade, climate investment must increase drastically (to USD 4.5 – 5 trillion annually): reaching this goal without the private sector won’t be nearly as possible. Public actors can play a key role to help catalyse the money, but most of the investment will need to come from the private sector.
- **Financial instruments.** The majority of climate finance was raised through traditional financial instruments – debt (61%) and equity investments (33%).
- **Uses and sectors.** Most climate finance keeps being directed towards mitigation projects. As highlighted widely during the last COP, adaptation finance continues to lag, while the cost of climate warning’s consequences keeps rising sharply. Renewable energy finance continues to be the main recipient of mitigation finance (58%) – partly because they require higher early-stage capital investment.

*Based on the CPI’s estimation, climate finance should increase by at least 590% to meet our climate objectives*

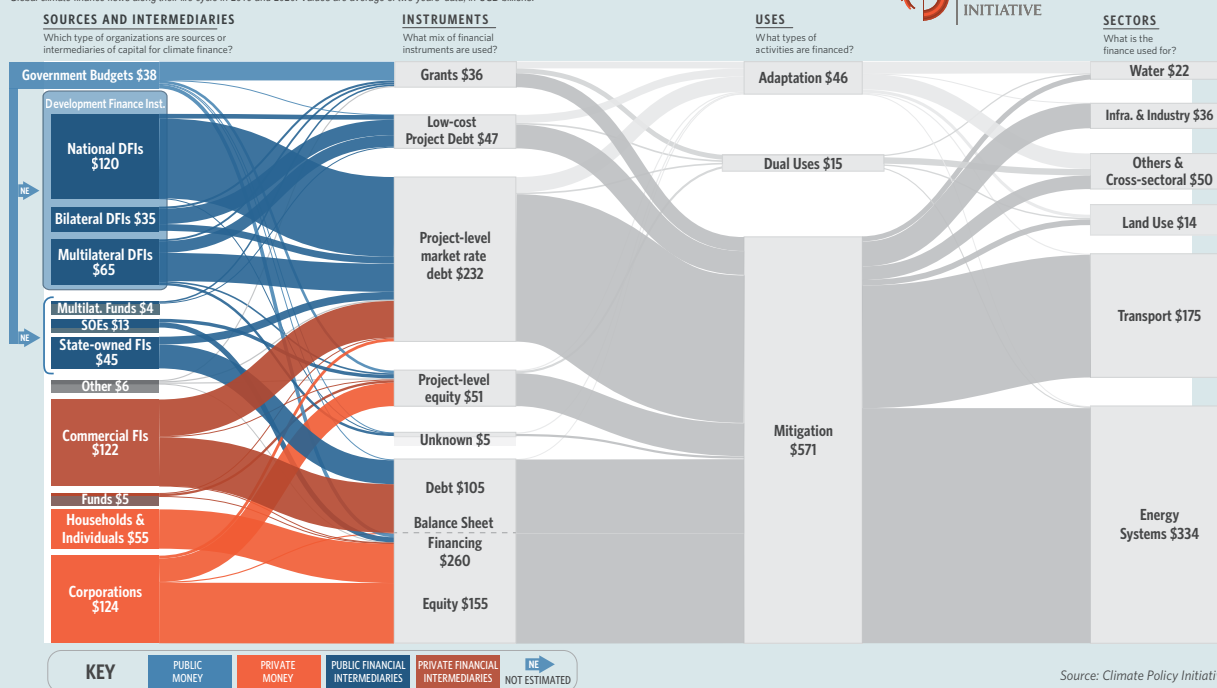
<sup>2</sup> UNFCCC, “Introduction to Climate Finance” (“Climate finance refers to local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation actions that will address climate change.”).

<sup>3</sup> CPI, *Global Landscape of Climate Finance 2021*.

## Landscape of climate finance in 2019/2020<sup>4</sup>

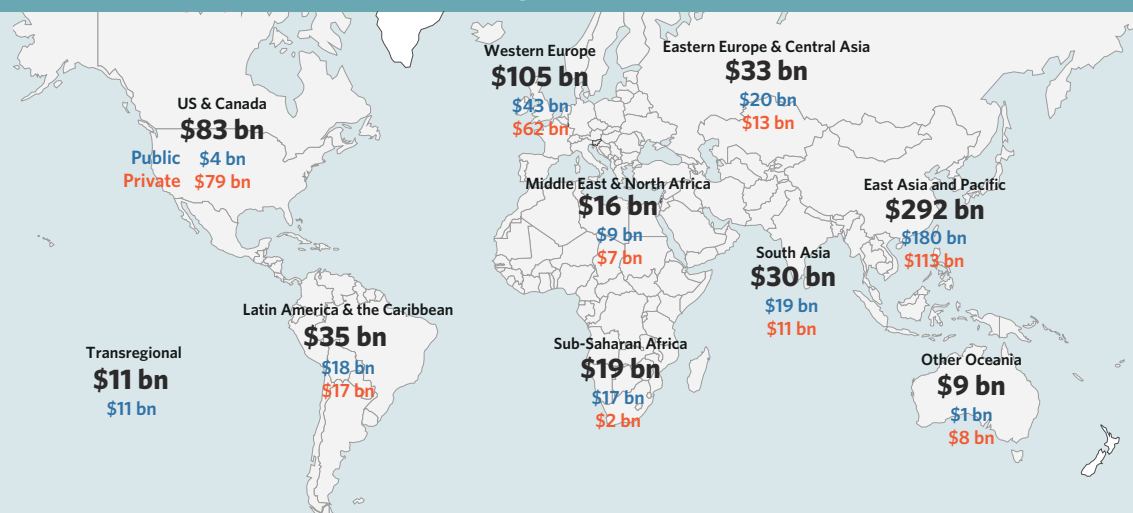
### LANDSCAPE OF CLIMATE FINANCE IN 2019/2020

Global climate finance flows along their life cycle in 2019 and 2020. Values are average of two years' data, in USD billions.



4 CPI, Global Landscape of Climate Finance 2021.

## Destination region of climate finance, by public/private (USD billion, 2019/2020 annual average)



Even though some progresses have been made, based on the CPI's estimation, climate finance should increase by at least 590% to meet our climate objectives. At least three elements could help bridge this gap. First, huge finance streams keep flowing towards high-emissions investments – investments directed at fossil fuels exceed USD 850 billion annually. Second, public and private actors need to work on aligning their investment goals, to fill the adaptation gap mentioned earlier. Public and private actors can

complement each other, for instance regarding some specific industries where it is less viable for private actors to invest and where public actors could help de-risk the investment. Finally, definitions, methodologies and data access need to be improved and standardized. Currently available disclosure initiatives fall short of providing standardized information on climate investments – even though some recent initiatives move in the right direction, such as the EU taxonomy.

## Do cities face specific barriers when trying to access climate finance funds?

**P. N.:** Absolutely. If national governments and public actors face challenges to access those funds, cities inevitably face an additional layer of challenges, regardless of their specificities. When looking to access and attract climate finance funds, I can mention two specific challenges municipality authorities face:

The first one is to turn ideas into actual bankable and investable projects. In many cases, cities lack the human, financial and technical resources to take this step – and face difficulties when trying to identify and even more develop financially viable low-carbon and climate resilient infrastructure for instance. This requires strong technical knowledge and financial engineering capabilities, which cities do not necessarily have – particularly small and intermediary cities. Supporting early-stage project preparation is a key priority – if not the main one.

Another difficulty is that cities vary a lot on their enabling environment – to mobilize urban climate finance, there is no ‘one size fits all’. For instance, many cities cannot raise money in private markets, because they are not allowed to by national regulations. Institutional and inter-governmental cycles, such as political cycles, do not necessarily align with cities planning and budgeting cycles – e.g. a climate-smart waste management facility might need more than a 4-5 year political cycle to be planned, executed and finalized. Additionally, municipalities sometimes have limited authority to plan and regulate urban spaces – some cities have autonomy on the water management, some don’t for instance. And needless to say that tackling an issue you are not responsible for is quite difficult. The issue of cities’ creditworthiness is also central – even tough cities have their own financial resources, they are usually insufficient to cover the risks.

Removing the barriers preventing cities from accessing climate finance funds is an urgent issue as they are responsible for most GHG emissions, are home to most of the world’s population, and, fortunately, are increasingly willing to act.

## Which innovations do you find particularly promising in the field of climate finance?

**P. N.:** Fortunately, there are a lot of interesting ideas and initiatives. At CPI, we encompass a broad definition of innovation – beyond purely technical innovation. Bringing a solution to a market which has a failure is innovative. Using this definition, it is fair to say that more and more innovative financial instruments appear.

To foster these initiatives, at CPI, we lead the Global Innovation Lab for Climate Finance, an incubator conceived to help identify, develop and support transformative sustainable finance ideas and cutting-edge climate finance instruments. Since it started, the Lab launched 55 instruments, which mobilize \$3.2 billion.

I can mention two of them which are particularly interesting and promising. The first one, quite known already, is the Climate Resilience and Adaptation Finance & Technology Transfer Facility (CRAFT),<sup>5</sup> an answer to the huge adaptation finance gap mentioned before, and that CPI helped develop. Investing in adaptation is a harsh challenge for private actors, as it does not necessarily raise sufficient returns. CRAFT, which is one of the first commercial investment vehicle focusing on expanding the viability of technology and solutions for climate adaptation, has invested in 20 companies, located mostly in developing countries already experiencing substantial economic losses from climate change, which have proven technologies and solutions for climate resilience and have demonstrated market demand and revenue. The goal is to prove that viable investments in adaption do exist.

More recently, the Lab developed the Sub-National Climate Finance Initiative (SCF), expected to be the first equity fund to feature a Technical Assistance Facility that provides local

government capacity building and certifies all projects for SDG impact prior to investment.<sup>6</sup> Some specific tools dedicated to removing the barriers encountered by cities are needed. In this perspective, SCF seeks to remove barriers to the sourcing, financing and sustainability certification of mid-sized sub-national infrastructure projects by de-risking projects through concessional finance and technical assistance.

Two additional elements, among many others, are worth highlighting. The first is the role of national development banks (NDBs). With more than USD 5 trillion in assets, and several comparative advantages relative to other financiers – they have a strong knowledge of investment opportunities, have access to international public funding, are backed by

national governments, etc. –, NDBs are very well-positioned to support the acceleration of climate-smart urban infrastructure investment. At CPI, we believe enhancing their role is a key priority.<sup>7</sup>

As mentioned before, helping cities preparing and designing viable projects is crucial. Today, a lot of different actors offer this kind of support: multilateral development banks, major donors, NGOs... To go beyond and increase the impact, we need to scale those kinds of supporting initiatives. The City Climate Finance Gap Fund, jointly established in 2020 by the World Bank and the European Investment Bank in partnership with GIZ and several other partners, works to this objective. It seeks to address those shortfalls by providing the technical assistance needed to turn climate-focused ideas into concrete urban project proposals. Networks of cities such as C40, ICLEI, and GCOM also play an important role to enhance capabilities and knowledge sharing within local actors themselves.

<sup>5</sup> See further detail: <https://www.climatefinancelab.org/project/climate-resilience-adaptation-finance-transfer-facility-craft/>.

<sup>6</sup> See further detail: <https://www.climatefinancelab.org/project/sub-national-climate-finance-initiative/>.

<sup>7</sup> To go further, see Sarah Conway, Priscilla Negreiros, Bella Tonkonogy, Kristilla Yang, *Enhancing the Role of National Development Banks in Supporting Climate-Smart Urban Infrastructure. A Policy Brief for the Cities Climate Finance Leadership Alliance*, August 2020.