

Low-carbon Development and Carbon Finance at the IDB



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Context for IDB Support

- Work with both private and public sectors
- Market uncertainties and fragmentation
- Differences within the region:
 - Investment opportunities and capital liquidity
 - Voluntary commitments
 - GHG emissions reductions opportunities
 - Type of clients that can potentially play stronger role
 - Comparative advantage of IDB
- Different opportunities for different sectors

Carbon markets trends in LAC

- LAC new projects mainly not considered in EU ETS 3
- Demand from California still uncertain and limited to REDD(+)
- Bilateral agreements = competitiveness and transactional costs
- Increasing role of voluntary schemes (in particular for REDD)
- Other incentives = national and sub-national voluntary commitments, corporate responsibility, export commodities, carbon labeling and foot printing, co-benefits.
- Variation on national capacity and regulatory frameworks
- Initial work in piloting NAMAs – uncertainty on fwk

IDB and Carbon Finance

- Focus in supporting carbon finance to **clients** stakeholders(public/private) : e.g. finance and planning ministries, financial intermediates, sectorial decision makers and corporations.
- Leverage support through **lending operations** (technical capacity for project development and commercialization)
 - obligation to demonstrate footprinting and 25 % increased capital on climate change and environment
- Support for **information sharing and outreach** to key players – events and a knowledge platform with communities of practices

Blending finance

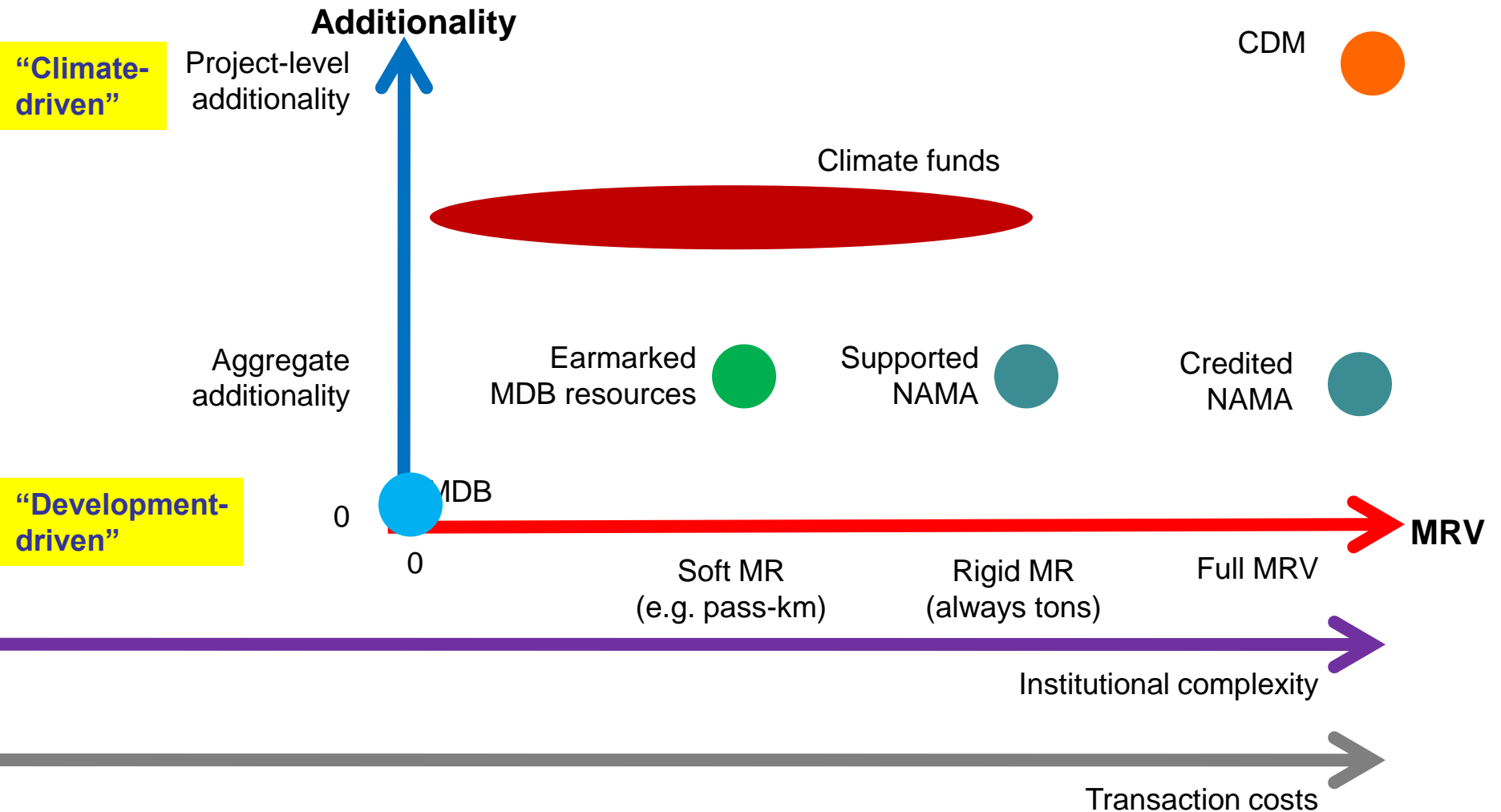
- Ordinary Multilateral Development Banks' (MDBs) resources



- Earmarked MDB resources
- MDBs dedicated financial instruments
- Carbon markets
- Climate funds
- NAMAs

Climate
finance

Climate finance chart*



* Schematic, non-official!

IDB REDD(+) related activities

FIP LOAN
TC

FCPF LOAN
GRIF TC

TC Loan
FCPF

LOAN FIP
FCPF TC

LOAN FIP
TC

LOAN Public and private lending
TC Technical cooperation (grant)
FIP Forest Investment Program
GRIF Guyana REDD+ Inv. Fund
FCPF Forest Carbon Partnership Facility

Benefit multiple markets

- Support **governments in setting standards**, developing emission factors, promoting benchmarking, budgeting and planning for mitigation actions, promoting financial incentives (e.g. Colombia, Mexico, Barbados, Honduras, etc)
- Support to **stock markets** in promoting carbon price, auctioning and piloting trading



Corporate responsibility

- Standard setting and development of GHG inventories
- Dialogue and registries
- Promotion of corporate responsibility measures



Financial Intermediaries

- Development of **green products** through local development banks and commercial banks
- Support **up front capital** finance needs
- Higher “reach” to **private sector** and SMEs



Fomentamos inversión y desarrollo
para el Perú y su gente

Piloting NAMAs

- Piloting NAMAs and MRV in sectors where IDB has an **active portfolio** (i.e. Sustainable Transport, Waste Management)
- NAMAs **design**
- Definition of **MRV requirements**
- Availability of **tools and data**
- **Institutional arrangements**
- Channeling of **international climate finance resources**





FINANZAS CARBONO

PLATAFORMA SOBRE FINANCIAMIENTO DE CARBONO PARA AMÉRICA LATINA

- Easily accessible, **free & on-line platform**.
- Allows **direct interactions** among registered users.
- Provides specific and **up-to-date information in Spanish**, on topics related to carbon finance, state of the carbon markets (regulatory and voluntary), new mechanisms (NAMAs) and available expertise and services.
- Creates conditions which **facilitate the creation, dissemination and exchange of knowledge** on carbon markets.
- Serves as a first point of access or **meeting place** for carbon market practitioners from LAC and other regions

Conclusions

- IDB comparative advantage relies on blending climate finance with its ordinary capital – scale up effect
- It is important to seek for balance between development and climate change goals – depending on the sectors and countries different climate finance instruments may work better
- Carbon finance is one of various instruments for a MDB to support mitigation – the potential of its return depends also on the complexity of the MRV system

Conclusions (2)

- Support to carbon finance in LAC needs to focus on **innovation and benefit access to multiple markets** .
- Many **new areas** need attention:
 - Voluntary carbon markets in Latin America
 - National and subnational commitments
 - CSR and corporate GHG accounting
 - Development of standardized methodologies for baselines
 - Crediting under NAMAs, national low-carbon development plans, and/or POAs
 - Emerging areas with economic implications in international trade (ej. carbon labeling, low-carbon footprint)
 - Financial instruments (guarantees, funds, green bonds, etc.)

Conclusions (3)

- Developing carbon markets and low emissions growth in LAC needs strong capacity and participation of actors such as financial institutions, stock markets and private sector.
- National governments play a key role in supporting markets through regulations, standards and commitments.
- NAMAs may imply higher institutional capacity from local governments (and hence more reliance on these)
- Practitioners experience and the CDM framework need to be considered in the setting of NAMAs crediting fwk in UNFCCC – risk of uncertainty and even higher transactional costs.



Thank you!

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