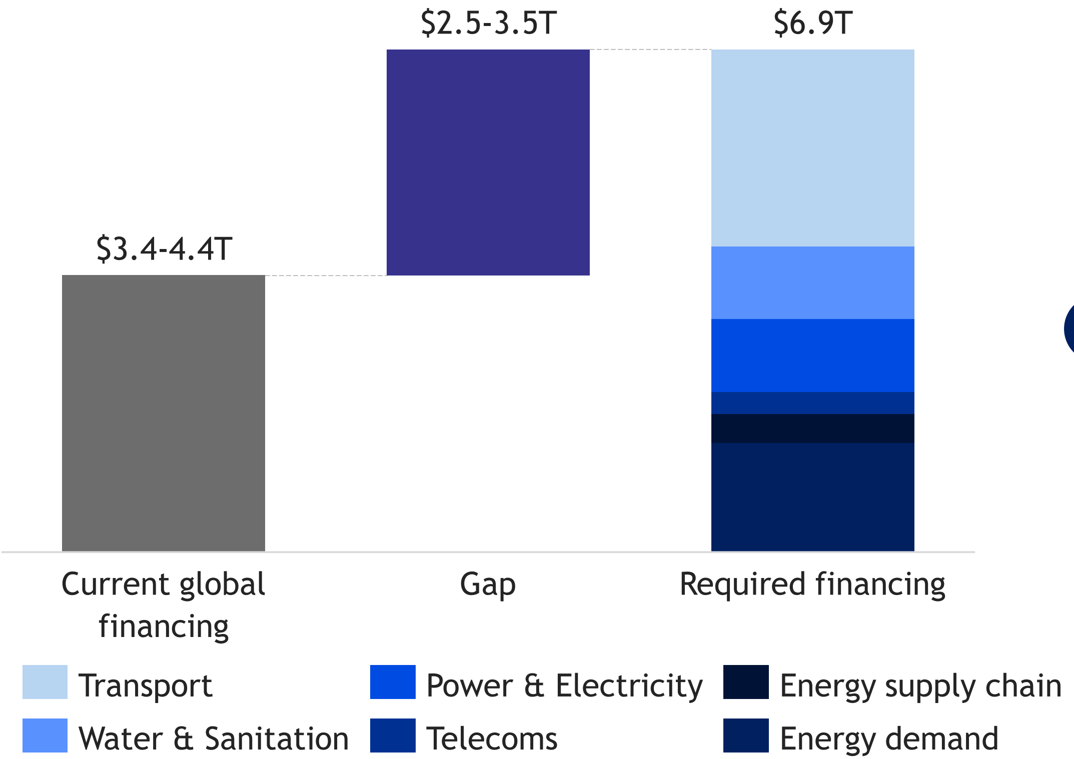
Finance at COP26

JULY 2020

UN CLIMATE CHANGE CONFERENCE UK2020

Finance will play a crucial role in the transition to net zero, but there is a vast gap, and too much money still flows to carbon-intensive activity

Estimated infrastructure investment per year required to meet Paris is $6.9 trillion per year



$295bn
Renewables investments

$742bn
Fossil Fuel Investments

$150bn
Renewables subsidies

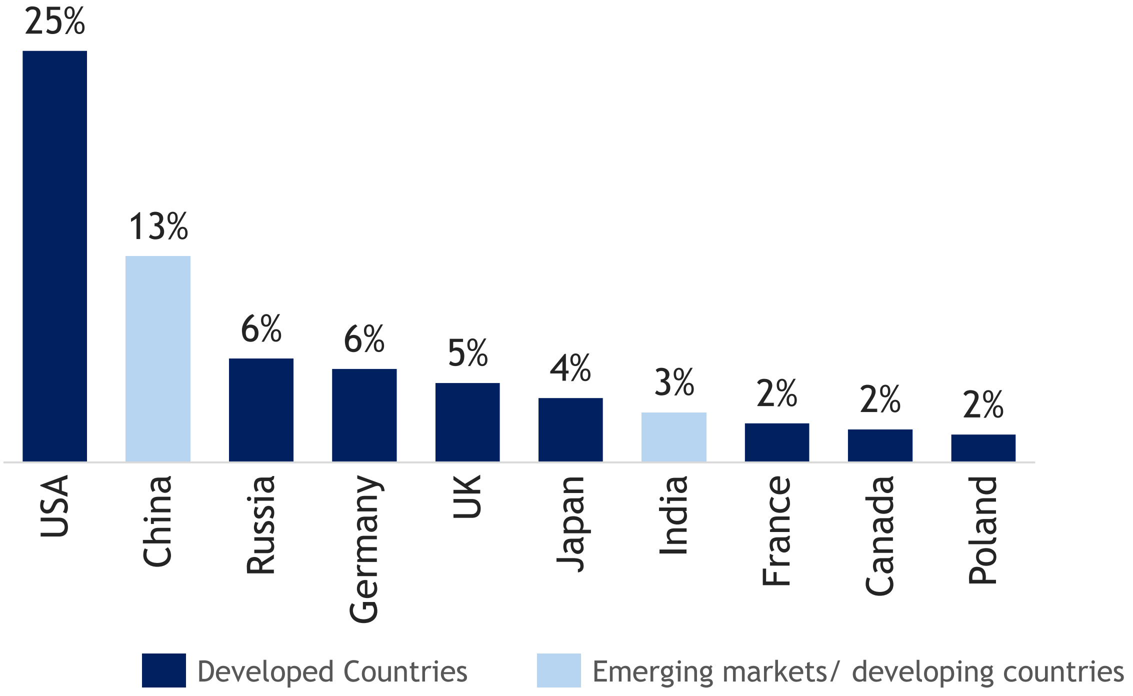
$373bn
Fossil Fuel Subsidies

Source: OECD—Financing Climate Futures 2018, UNFCCC Standing Committee on Finance, 2018 Biennial report

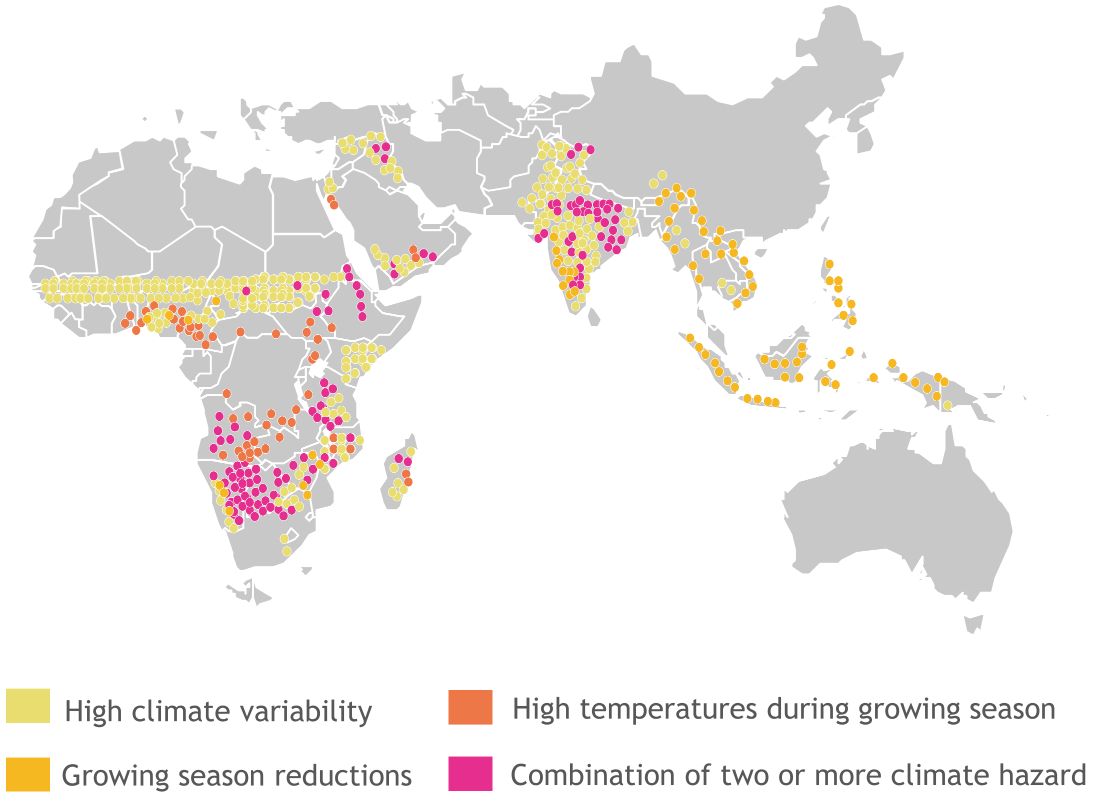
Developed countries have contributed most to climate change but the impacts will be felt disproportionately by developing countries

Developed world represents largest historical contributions to global emissions

Cumulative CO_2 emissions, 1750 -2014



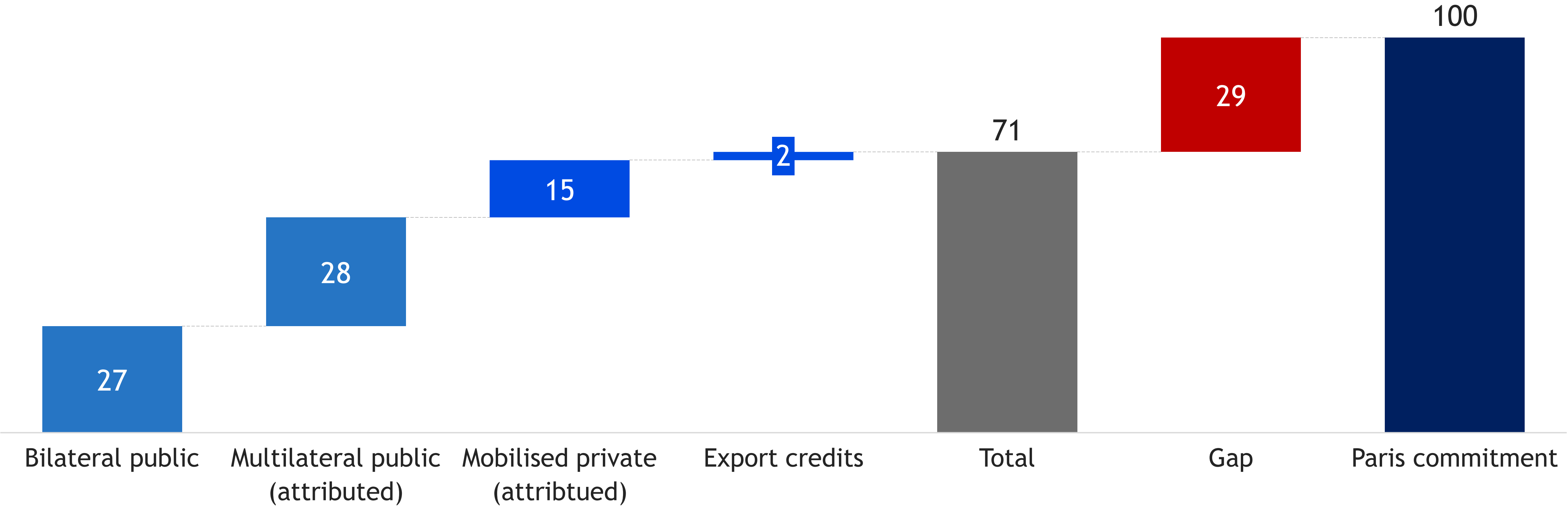
Climate change will massively impact agriculture, principally in developing countries



Source: Carbon Dioxide Information Analysis Center ,Prepared by Philip Thornton, CCAFS, for the Global commission on Adaptation

Developed countries have committed to providing $100bn per year of climate finance by 2020; demonstrating momentum is essential for sustaining developing countries' confidence in the UNFCCC process

Total progress towards $100bn/year of climate finance ($bn)



Source: OECD

Bilateral donors and existing funds will need to scale their investments and facilitate fund access to meet Paris commitments

Top 10 multilateral DFIs[1] & institutions

	($B)
World Bank Group	10.50
EU institutions[2]	5.50
Asian DB	4.60
Inter-American DB	3.80
Int. Finance Corp.	3.50
EB for Restr. & Dev.	3.40
European Inv. Bank	2.90
Asian Infr. Inv. Bank	1.60
African Dev. Bank	1.30
GGGI	0.02

Top 10 bilateral donors[3]

	($B)
Japan	7.2
Germany	6.7
France	4.3
United Kingdom	1.5
USA	1.3
Norway	0.8
Netherlands	0.7
Sweden	0.6
Switzerland	0.5
Canada	0.4

UK to increase to $3.5bn PA by 2025

Key Climate Funds

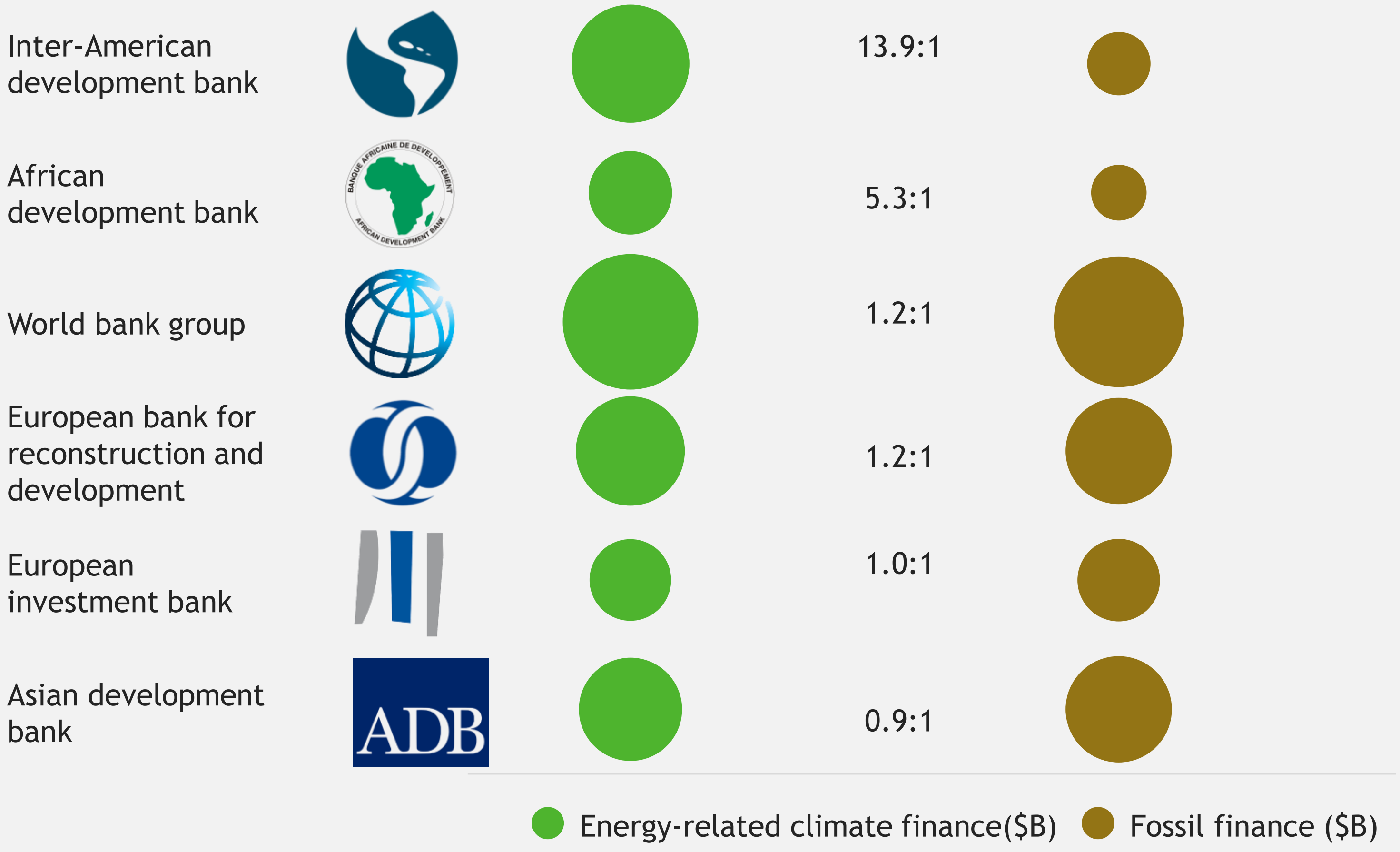
	($B)
Green Climate Fund	1.2
Global Env. Facility	1.0
GEF general	0.9
Least Dev Count. Fund	0.1
Climate Inv. Funds	0.6
Clean Technology Fund	0.3
Strategic Climate Fund	0.3
Int. Fund for Agr. Dev.	0.5
Adaptation fund	0.1
Nordic Dev. Fund	0.1

1. Development Finance Institutions 2. Commission of the European Communities and the European Development Fund
3. Japan Climate commitments include financing for "Clean Coal" and headline funding does not account for differing qualities of finance (e.g. grants vs loans)
Sources: OECD 2016-2017 Climate related development finance database

MDBs have committed to aligning finance with Paris, but have not laid out clear plans to this end

Green/brown energy ratios for MDBs

Energy related climate finance vs. fossil finance (2015-16 average) in MDBs

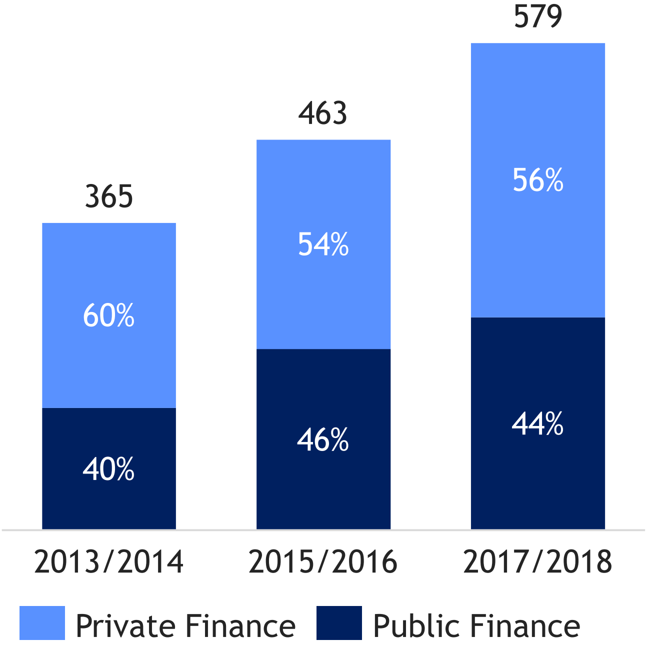


Source: E3G—Aligning Development Banks with the Paris Climate Agreement

Finance for the transition is currently evenly split between public and private, and flows predominantly to mitigation; increased private finance mobilisation is essential to meet goals

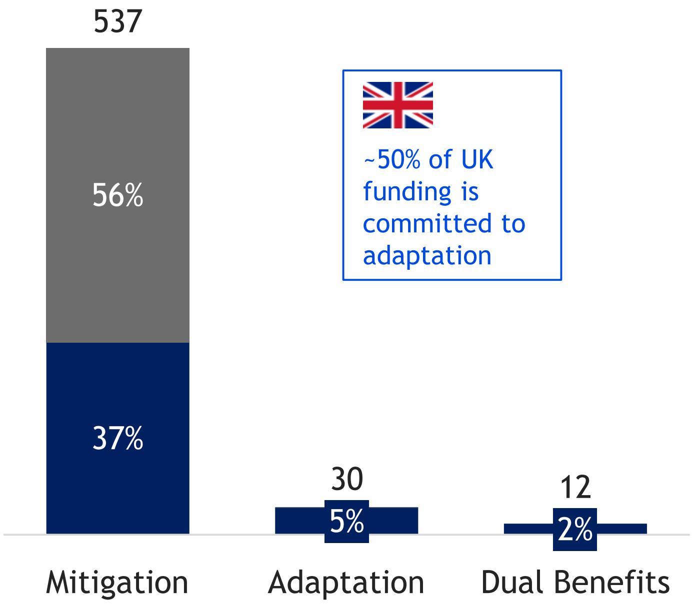
Private Finance needs to represent greater proportion of total finance

Total global climate finance, two-year averages 2013-2018 ($bn)



Vast majority of finance flows to mitigation rather than adaptation

Recipient sector, Ø 2017-2018 ($B)



Public finance is essential but not sufficient to meet climate needs

Scope for further public finance commitments more limited than private finance

To meet the trillions of funding gap to decarbonize the economy, public finance will need to be used effectively to mobilise additional private finance

Rebalancing of adaptation/mitigation finance flows essential for negotiations

Source: The Climate Policy Initiative (CPI)—Global Landscape of Climate Finance 2019

Capital allocators are increasingly aware of the financial risks posed by climate change, thanks in part to initiatives such as the *Task Force on Climate-related Financial Disclosures (TCFD)*

TCFD currently has more than 1000 supporters of TCFD from 54 countries

Representing a market cap of $16.7T

Includes 473 financial firms responsible for $138T in assets under management

TCFD mandates reporting across four areas:

Governance

Disclose the organization's governance around climate-related risks and opportunities

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material

Risk management

Disclose how the organization identifies, assesses, and manages climate-related risks

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Source: TCFD, Recommendations of the Task-Force on Climate-related Financial Disclosures, 2017

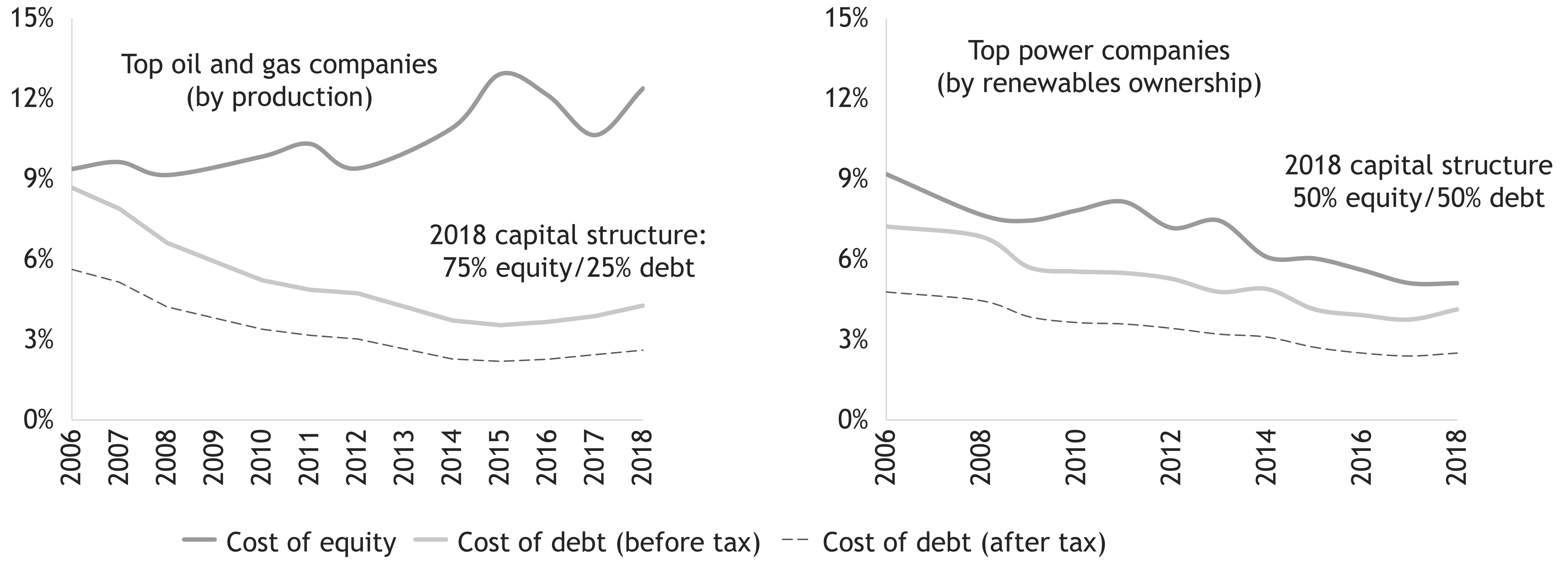
At a macro level, Central Banks can help speed the transition by including climate scenarios in Bank's stress tests

- The Prudential Regulation Authority in April released a supervisory statement noting that few firms today are taking a strategic approach considering how actions today affect future financial risks
- The Bank of England will be the first regulator to stress test its major firms against different climate pathways, including early action, late action and the disastrous Business-as-usual scenario
- The test will show how major financial firms expect to adjust their business models, and the impact of these responses on the wider economy.
- It will expose those that have prepared, and those that have not, and results will be share in the second half of 2021
- The Bank of England will share its experiences, and create best practice to facilitate the refinement of methodologies as other central banks conduct future stress test
- 15 other authorities have committed to run stress tests, with further expansion of this coalition a key ambition for finance at COP 26

Awareness of climate risks are changing underlying private finance incentives, with capital costs for renewables projects decreasing steadily

Changing cost of capital for oil and gas vs. clean energy, %

Drivers of weighted average cost of capital (WACC) for listed energy company



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