Climate Investment Funds

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Agenda Item 4

ACCELERATING LOW-CARBON, CLIMATE-RESILIENT TRANSITION IN INDUSTRY PROGRAM (SUMMARY)

1. *Overview*

1. **The Accelerating Low-Carbon, Climate-Resilient Transition in Industry program** seeks to catalyze deep behavioral change and sustained impact in high-emitting industries in middle-income countries whose industrial sector constitutes a major and growing share of their overall GHG emissions. It would intervene at multiple levels—industrial facility/technology, corporate, sectoral and national — to tackle through the target use of CIF's concessional finance the system-wide barriers and challenges hindering investment in low-carbon, climate-resilient industry business models and technologies.

2. *The Challenge*

2. Industry is one of the leading sources of increases in GHG emissions and may become the single biggest source of GHG emissions in less than a decade, with the greatest growth expected to come from non-OECD countries. It is estimated to account for around 23 percent of global GHG emissions, nearly one-quarter (8 $GtCO_2$) of direct CO_2 emissions in 2017. If indirect emissions are also taken into account, the industrial sector is responsible for about 40% of CO_2 emissions. According to the IEA, industry is the second-largest source of CO_2 emissions (along with transport and after power sector emissions) and by 2030 the projection is that industrial GHG emissions will represent the biggest share of GHG emissions. Iron and steel, cement, chemicals and petrochemicals, aluminum, pulp and paper are among the high-emitting industries.

3. Many opportunities exist to reduce emissions from key heavy-emitting industries by improving manufacturing efficiency, maximizing the use of locally available resources, and optimizing materials use. However, industry faces challenges that prevented it from shifting investments towards low-carbon, climate-resilient alternatives. These challenges include policy, institutional and market failures, as well as technical and financial challenges. Highly competitive, low-margin commodity markets for key industrial products can provide limited room for industrial facilities to invest in innovation or low-carbon production routes where this increases costs. Inadequate access to finance, inflated risk perceptions, inadequate price signals and technology cost mark-ups can be key inhibitors of investments in low-emission technologies.

4. Accelerating the decarbonization of industrial systems to achieve internationally agreed climate goal requires significantly and rapidly scaling-up collaborative efforts and investments to understand and tackle the context-specific challenges that 'tough-to-crack' high-emitting sectors face. It implies avoiding carbon and vulnerability lock-in in developing- middle-income countries undergoing industrialization.

3. *The Accelerating Low-Carbon, Climate-Resilient Transition in Industry program seeks to provide a Solution*

5. Against this backdrop, the Climate Investment Funds and its implementing partners[1] propose the establishment of the *Accelerating Low-Carbon, Climate-Resilient Transition in Industry* program to target the use of scaled and flexible concessional finance to address the system-wide barriers and challenges hindering the transition.

6. To this end, the program shall support an integrated package of interventions at multiple levels – national, sectoral, corporate and industrial facility/technology levels – informed by an overarching country programming strategy. At the national and sectoral levels, the solution resides in fostering dialogue and policy- making on low-emissions and climate-resilient pathways. At the corporate and industrial

[1] Working through six Multilateral Development Banks (AfDB, ADB, EBRD, IDB Group, IFC and World Bank), the US$8.3 billion Climate Investment Funds (CIF) provides developing countries with a needed jump-start toward achieving low-carbon and climate-resilient development pathways: https://www.climateinvestmentfunds.org/

facility/technology levels, the solution lies in building corporates' knowledge and capacity to assess, manage and report on GHG emissions, and on the physical climate risks, and invest in low-carbon and climate-resilient solutions.

7. Utilizing CIF's tried and tested business model, which is founded on a country-led, multi-MDB, programmatic, and participatory approach, that is coupled with flexible, predictable and large-scale concessional finance, the program would seek to deploy a portfolio of existing and innovative technologies – depending on context-specific circumstances – and support country-driven policy-related actions so that to deliver maximum emissions reductions at lowest marginal cost.

8. Noting CIF's ten-year track record of delivering transformational change across challenging sectors and geographies[2], CIF is uniquely well-placed to drive the deployment of a coherent and transformational strategy for addressing GHG emissions in the industrial sector, a challenge area not yet targeted strategically by any constituents of the climate finance architecture.

9. The program's programmatic and participatory approach would catalyze the private-public cooperation that is required to develop and implement decarbonization roadmaps and generate demonstration effects that go beyond the direct impacts of piecemeal or project-by-project interventions.

10. The CIF-MDBs partnership offered by this program would help overcome institutional inertia, foster multi-stakeholders' dialogues, drive deep behavioral changes and generate demonstration effects that go beyond the direct impacts of each MDB's individual investments.

4. *Expected Outcomes*

11. The *Accelerating Low Carbon Industry Transition in Industry* program has the potential to significantly contribute to driving the industrial transition needed to rapidly bend the GHG emissions curve. It also has the potential of generating a demonstration effect encouraging others to replicate the program's approach in similar contexts elsewhere.

12. The main expected outcomes include: (i) strengthened enabling environment for industry decarbonization; (ii) greater integration of climate considerations into corporates' management frameworks and operations; (iii) increased uptake of low-carbon and climate-resilient technologies; (iv) improved energy and resource efficiency; (v) increased access to capital markets for green/climate-resilient investments; (vi) mobilized private and public capital and (vii) fostered innovation.

[2] ITAD et al., (2019), *Final Evaluation Report - Evaluation of Transformational Change in the Climate Investment Funds*.