

# Driving Climate Results with Effective Climate Finance

*September 2023*



**INSTIGLIO**  
TYING FUNDING TO IMPACT



**1**

**The need for effective climate finance**

**2**

**The practice and potential of paying for climate results**

**3**

**Pull finance: a promising means of paying for climate results**

# While more is needed, billions are being spent on climate finance

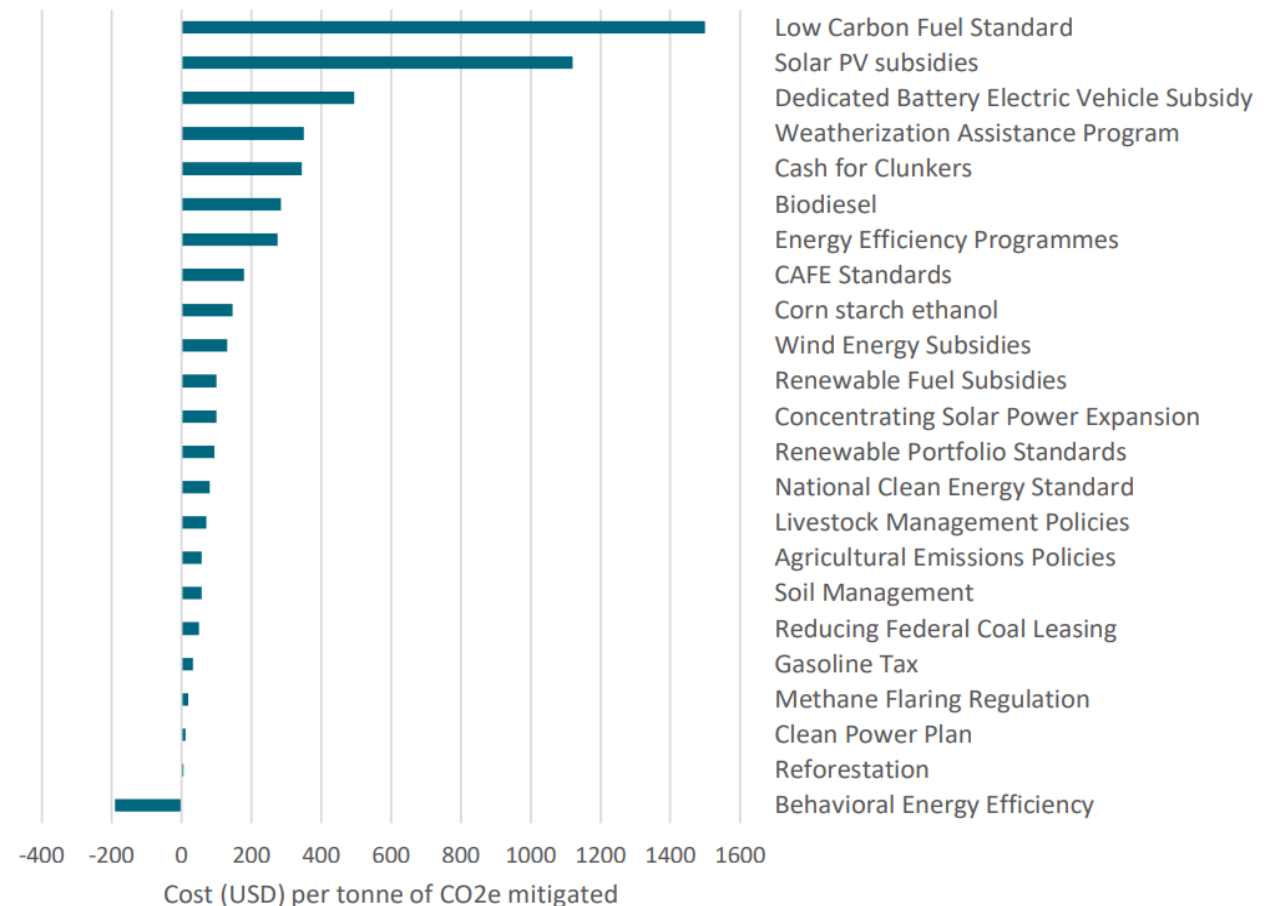
But are these billions being used as effectively as possible to produce climate results?



At COP21 in 2015, high-income countries committed to providing **\$100 billion** in climate finance to developing countries and have provided **over \$80 billion** annually since 2019

**But, while more funding is needed, questions remain on how to use this spending as effectively as possible...**

*...evidence shows widely varying climate spending effectiveness across interventions\**



\*Juden, M, Mitchell, I (2021) *Cost-Effectiveness and Synergies for Emissions Mitigation Projects in Developing Countries*.

# Donors are exploring effective finance in pursuit of climate results

Adapting tools used to produce social outcomes to achieve climate results in diverse sectors



Supports countries to achieve climate outcome with a range of tools, including Results-Based Financing (RBF)

**\$215 million in capital**



'One-stop' shop for Bank administered RBF programs

**\$1 billion 2023 target**  
**\$5 billion in the medium term**



Pays-for-Results with prize competitions to incentivize progress on agriculture results

**\$152 million**



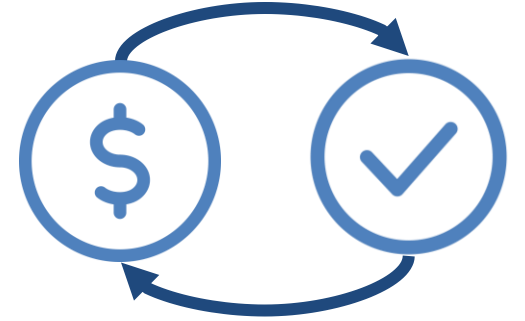
Paying for climate and other benefits from forestry

**\$1 billion**

# Pull finance is one promising example of paying for climate results

Creating incentives and spurring innovation to solve pressing challenges in diverse contexts

Pull finance ties payments to outcomes to incentivise innovation, development and deployment of technologies and solutions limited by market failures



A \$1.5 billion pull finance mechanism was used for the **development and distribution of a pneumococcal vaccine, successfully saving an estimated 700,000 lives**

When the pandemic hit, pull finance was used to create incentives **to develop a COVID vaccine, enabling the quickest medical breakthrough in history**



# We now must 'pull' new clean climate technologies into the market

Providing incentives for clean technologies is needed to limited climate change and save lives

Responding to this need, key actors are exploring pull finance mechanisms:



**UK Government developing a £170m pull finance facility for clean climate tech in developing countries**



**University of Chicago developing proposals for pull finance to address global challenges including climate change**

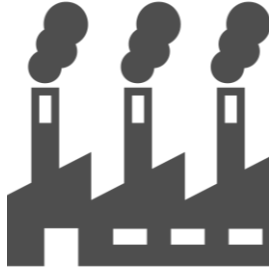


**CGD has established a substantial research program on the role of pull finance to address climate change and deliver development results**

# An example: could pull finance enable the decarbonisation of cement?



How to escape a market trap maintaining a high-emissions status quo?



Cement production is one of the leading contributors to climate, representing 7-8% of global CO<sub>2</sub> emissions, a figure expected to double by 2050



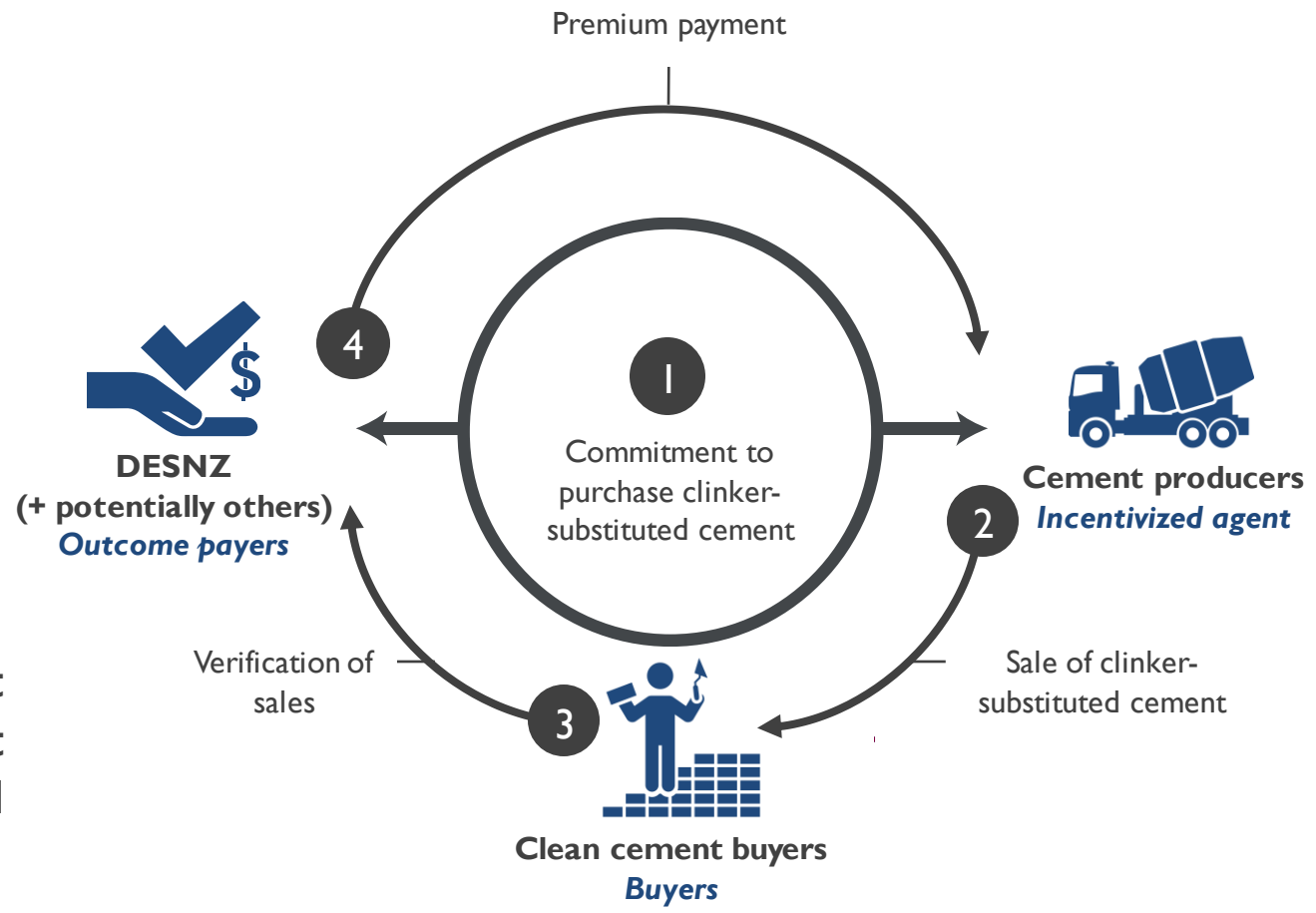
Alternative cement production using "clinker-substituted" could reduce emissions by almost 50% (e.g. using fly ash or kaolin clays)

Clean cement alternatives are be affordable to produce but the market is trapped in high-emissions status quo due to the one-off transition costs and the lack of financial incentives to bear these costs

# Using pull finance to decarbonise cement in Nigeria

A one-off pull finance investment would provide the incentives to escape the market trap

- ✓ Pull finance could pay a 5% premium for clean cement to incentivize a shift to cleaner alternatives
- ✓ ~£60m could incentivize 11 million tonnes of clean cement over 3 years, reaching a domestic market share of 10%
- ✓ The mechanism would mitigate almost 2 million tonnes of emissions at a cost of ~£32 per tonne and drive a sustained market shift





# Where to from here?

## What is the role of the Social Outcomes community in combating climate change?



How can those experienced and active in producing social outcomes help advance climate outcomes?



How can donors be supported effectively to adopt these tools?



How can we develop evidence on what works where and when for climate finance?

How can we unlock  
greater impact together?

**Ben Stephens**

Associate Partner

[benjamin.stephens@instiglio.org](mailto:benjamin.stephens@instiglio.org)

Visit

[www.Instiglio.org](http://www.Instiglio.org)



Thanks!