

Key Takeaways from the Workshop on

The State of International Climate Finance: Is It Adequate and Is It Productive?

Venice, 14 October 2010

The success of low-carbon development depends on how much and what type of finance is going to be made available to support these efforts. On the 14th of October 2010, Climate Policy Initiative (CPI) and the International Center for Climate Governance (IGCC) in collaboration with the Euro-Mediterranean Centre for Climate Change (CMCC) hosted a workshop to convene key players in climate finance. The workshop provided a platform for policymakers and experts from research organizations and finance institutions active along the spectrum of public and private finance issues to initiate a concrete dialogue on climate finance. Four important insights emerged from the workshop:

1. The international community has a very limited understanding of the effectiveness of climate finance efforts
2. Climate finance flows in many directions; domestic and “South-South” flows must be considered alongside the traditional “North-South” flows
3. Climate finance from private sources is larger than from public sources, but linking policy to private flows is difficult since the private flows are difficult to measure, track and allocate
4. The lack of comprehensive information on all climate finance sources is an impediment to negotiation, analysis and improvement of climate finance

The biggest gap: information on climate finance effectiveness

At the workshop, a session that included panelists from international financial institutions, an NGO and academia, was dedicated to the question of the effectiveness of finance. The panel cited a lack of adequate and consistent data, particularly on **disbursed finance flows** and the projects that have been undertaken with this finance. As a consequence, efforts to track and evaluate **climate finance effectiveness** have been limited and fragmented. During the debate the lack of a baseline for climate finance emerged, which makes evaluations of countries’ climate funding even more complicated. A particularly important issue in this context is the controversy around the interface between Official Development Assistance (ODA) and climate finance in setting the baseline, i.e. whether financial flows should be considered “additional” climate finance until a country’s ODA commitments have been met. The question whether finance counts for development or for climate change seems to be obsolete in light of the green growth paradigm, asking for a re-conceptualization of ODA.

To address this problem, there is a need to

- develop **common methodologies** for calculating disbursement data at the recipient end of climate finance and for assessing the effectiveness of finance;
- encourage organizations to broaden their tracking initiatives to systematically embrace **disbursement data**;

- build up an **evidence-based database of success and failure stories related to climate finance**;
- define **baselines** for climate finance, particularly in light of the difficulties of separating Fast Start Finance and ODA, keeping in mind the need for a new meaning of ODA.

Rigorous monitoring and reporting can aid learning and drive effectiveness improvements. REDD+ could be an immediate test case for tracking of climate finance and evaluating its effectiveness.

Importance of domestic flows and South-South flows

Another session focused on defining and calculating flows. The tracking of North-South flows is important to ensure that commitments of developed countries to developing countries are met. Equally, a theme that was apparent in several of the discussions was that domestic and South-South flows also need to be tracked, to assess the overall adequacy of finance against the challenge of long-term decarbonization. This idea was supported by panelists from the OECD, the U.S. State Department, European Climate Foundation, World Resources Institute and McKinsey. According to the panelists, most of the costs of moving towards green growth will be borne by individual developing nations, many of whom are already directing national public funds to climate issues primarily for economic development reasons. This is also evidenced by the recent proliferation of national public funds related to climate issues.

To ensure progress towards a low-carbon growth future, there is a need to

- include **domestic** and **South-South flows** in the definition, tracking, calculation and evaluation of climate finance;
- explore ways of designing **public funds** that are effective and ensure integration across international and national flows.

Role of private finance

Several commentators, including the OECD, KfW, Deutsche Bank and McKinsey, stressed that in the overall climate finance picture, private capital far outweighs public finance and that the weight of private finance has significance to many climate issues including measurement of flows and the evaluation of policy effectiveness. However, the lack of consistent climate finance data on **private finance flows**, often due to confidentiality requirements, makes it particularly difficult to measure these flows.

To help understand the role of private finance, there is a need to

- develop **proxies** to measure the scale of private finance;
- improve the representation of private flows in **tracking** initiatives, at least by tracking carbon market flows in more granularity and by labelling 'green' (i.e., mitigation-specific) FDI flows.

To unlock private finance for the transition towards a low-carbon future, there is a need to

- identify those **risks** that should reside with the public and those which the private sector is well suited to take on;
- develop ways of **risk-sharing**, including innovative public policies and mechanisms such as export credits, government-funded green investment banks, national development banks, public-private partnerships and other types of insurances or guarantees.

Dialogue to address the degree of complexity

Large uncertainties surround the estimates of the magnitude of existing climate finance flows. The OECD noted that there is not a centralized system even for public finance, and that data is not consistent, nor regularly reported. The World Bank supported this point, stressing the role of better monitoring systems. A comprehensive picture of climate finance may not be possible unless the entire spectrum of climate finance is included in reporting and information systems, going beyond the current focus on public finance to also cover private sector finance and better capture the many details of bilateral contributions. Currently there is no integrated comprehensive system for storing and accessing financial data, although individual components reside in several sources, including the UNFCCC, OECD, the World Bank, other MDBs, research organizations and the private sector.

To help improve the understanding of the climate finance landscape, there is a need to

- **track finance flows from source to final use** to enhance traceability and transparency;
- develop **straw man proposals** on how organizations active in this area could join forces to improve the consistency, comprehensiveness and overall quality of data;
- provide a **platform** to bring existing tracking initiatives together in order to cover the whole spectrum of climate finance.

The role of CPI: helping decision-makers spend their money wisely

The workshop in October 2010 marked the beginning of the **CPI Climate Finance Project**, based in Venice. As climate finance issues will not be solved at the technical level alone, the project's goal is to provide analysis on climate finance for policymakers and the private sector, to help them make the best decisions in support of low-carbon growth.

The project will address the issues raised at the workshop: the lack of comprehensive information on climate finance sources and effectiveness, including North-South, domestic and South-South flows, as well as private sources. The CPI Climate Finance Project, with assistance from partners, will:

- establish a **platform** for comprehensive tracking and discussions of international climate finance, by continuing to **convene** the dialogue between policymakers and experts from finance institutions and research organizations active in climate finance and helping through its analytical work to **set the agenda** for other organizations to improve existing and emerging information systems;
- analyze the **effectiveness of climate finance**, filling the major gap in the existing climate finance landscape; and
- develop a **methodology/evaluation framework to assess the productivity of climate finance**, with appropriate criteria, definitions and indicators that could be applied to evaluate effectiveness.

The project will consist of two phases. The first phase, which represents a scoping exercise to both establish the definition and framework of the flows that should be included and identifying organizations and partnerships for this project, is largely complete.

The second phase of the project has two dimensions, which complement each other to fulfill the overall goal of increasing the transparency, accountability and productivity of climate finance. The first element involves establishing a platform for organizations managing finance databases, which has already begun, extending existing databases and filling in gaps to build a comprehensive clearinghouse of climate finance information. The second element is the analysis, which will be

undertaken once a sound database of climate finance is available, allowing us to evaluate whether financial flows are additional to funds that are already provided for such purposes and how productively they are used when implemented.

About CPI

Climate Policy Initiative (CPI), www.climatepolicyinitiative.org, is a policy effectiveness analysis and advisory organization whose mission is to assess, diagnose and support nations' efforts to achieve low-carbon growth. CPI focuses on the effectiveness of national policies and programs, helping public and private decision-makers make the best decisions for low-carbon growth. An independent, not-for-profit organization with long-term support from George Soros, CPI is headquartered in San Francisco and has offices in Berlin, Beijing and Venice.

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