



CLIMATE
POLICY
INITIATIVE

The Landscape of Climate Finance

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What is climate finance?

Definition

Climate finance is all financial flows ...
... from developed to developing countries...(North-South)
... from developing to developing countries...(South-South)
... from developed to developed countries...(North-North)
... including domestic climate finance flows in developed and developing countries...
... covering climate-relevant and climate-specific support for mitigation, adaptation, capacity building, technological R&D, and potentially furthering economic development...
... including public and private flows...

... including incremental cost and investment capital...

... counted as gross flows

Comments

- Data difficulties for domestic and South-South flows)

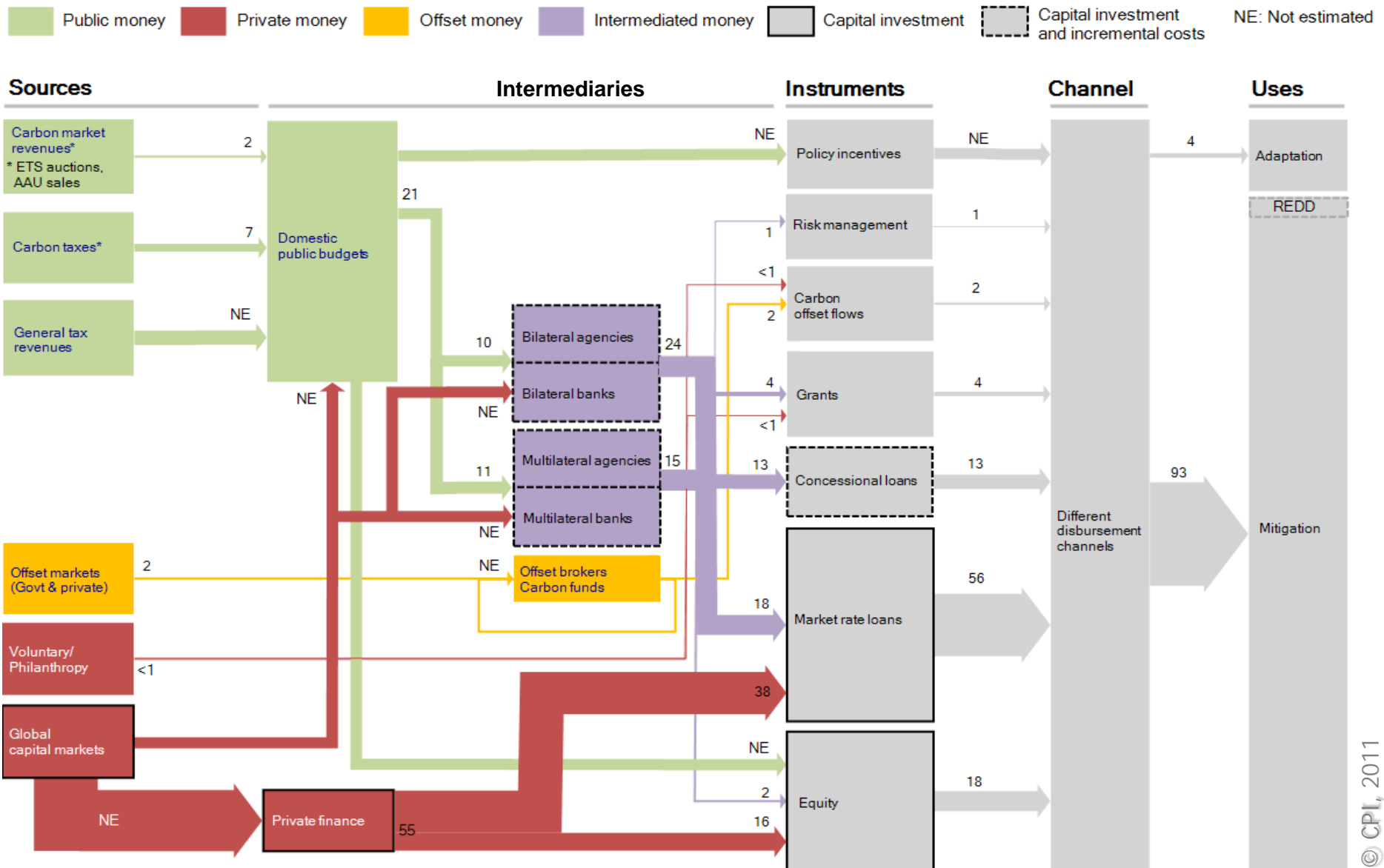
We aim for a broad definition which can be shaped based on the specific context

- Public flows covering e.g. MDB grants and most adaptation efforts
- Private flows covering e.g. private MDB co-financing, investments in renewable energy production, or parts of the carbon offset markets
- Distinction between the two concepts should be made clear wherever possible
- Net flows are an important 'lens' on climate finance and can be calculated where appropriate



Current climate finance flows (US\$ bn)

ROUGH ESTIMATES



Notes: Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent estimates. Where ranges of estimates are available, the mid-point is presented. All flows are incremental except for those identified as full or partial 'capital investment'. Most data presented relate to commitments in a given year, due to limited availability of disbursement data. *Estimated carbon pricing revenues indicated are not necessarily wholly hypothecated for climate finance.

Climate finance: sources

The amount of private finance is almost three times greater than public finance – capital investment is crucial.

- **Out of \$ 97 bn, on average \$ 55 bn is provided by the private sector, while at least \$ 21 bn is provided by public budgets**
 - **Private funding:** direct equity and debt investments; bilateral and multilateral agencies and banks contribute \$ 20 bn by leveraging the public funding they receive
 - **Carbon markets, voluntary / philanthropic contributions:** < \$ 3 bn
 - **Public finance:** raised through carbon market revenues, carbon taxes, general tax revenues
- **Carbon finance plays only a small role in climate finance**
 - Relatively small role of carbon finance (\$ 2 bn out of \$ 97 bn) stands in contrast with the high ambitions for carbon markets when the Kyoto Protocol came into force.



Climate finance: intermediaries

Intermediaries such as bilateral and multilateral financial institutions play a key role in distributing climate finance.

- **Intermediaries distribute around \$39 bn a year (40% of total)**
 - Most climate finance is not distributed directly by governments to end-users, but is distributed through government agencies and development banks.
- **Bilateral institutions distribute a greater share of finance than multilateral agencies**
 - Most of public climate finance (\$24 bn) is currently provided by bilateral institutions rather than multilateral institutions (\$15 bn)
 - The remainder either flows directly through the capital markets, or is provided directly by governments.
- **Dedicated climate funds, typically managed by bilateral and multilateral institutions, channel a small but growing portion of finance (\$1.1-3.2 bn)**



Climate finance: instruments

Most climate finance can be classified as investment / ownership rather than policy incentives, carbon offsets and grants.

- **\$ 74-87 bn out of \$ 97 bn can be classified as investment or more generally including ownership interests**
 - \$ 56 bn is in the form of market rate loans (\$18 bn through bilateral and multilateral institutions, \$ 38 bn through the private sector)
 - \$ 18 bn as equity, of which \$ 16 billion comes from the private sector
 - The remainder, between \$ 8 and 21 bn, is comprised of instruments such as policy incentives, risk management facilities (\$ 1 bn), carbon offset flows (\$ 2 bn) and grants (\$ 4 bn)
 - \$ 13 bn of concessional loans, provided by bilateral and multilateral banks



The large majority of climate finance is used for mitigation measures – rationales beyond climate change?

- **\$ 93 bn out of \$ 97 bn is used for mitigation measures; only a very small share goes to adaptation efforts (\$ 4.4 bn)**
 - **Adaptation:** financed through bilateral institutions (\$ 3.6 bn), multilateral institutions (\$ 475 m), voluntary / philanthropy (\$ 210 m), dedicated funds (\$ 65 m)
 - **Mitigation:** financed through the private sector in form of capital investment (\$ 55 bn), bilateral institutions (\$ 19 bn), multilateral institutions (\$ 14 bn), dedicated funds (\$ 2.4 bn), the offset market (\$ 2.2 bn), voluntary / philanthropic contributions (\$ 240 m)



Key climate finance issues

Our research suggests that at least \$ 97 bn per annum of climate finance is currently being provided to support low-carbon, climate-resilient development activities. Yet...

- The complex nature of climate finance and lack of agreed-upon definitions hamper tracking efforts.
- The various objectives of climate tracking efforts complicate the analysis.
- While there is a wealth of data on elements of the climate finance landscape, there is limited coordination and some gaps in data gathering.
- Several information gaps impede a better understanding of what is needed to enhance the effectiveness of climate finance.



The picture of climate finance remains patchy and the lack of comprehensive information on all climate finance elements is an impediment to negotiation, analysis and improvement of climate finance

The main gap – understanding how to effectively finance a transition to a low-emissions future

There is a very limited understanding of

- the effectiveness of climate finance efforts
- the effective balance of public and private capital
- how to trigger a transformation



This is due to open questions regarding

- How to define climate / green, low-emissions finance?
- What role for public money?
- How to deliver public money best?
- How to ensure alignment of international and national public investment flows with each other and with private investments?
- How to ensure learning?



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...helping nations spend their money wisely

