The Landscape of Climate Finance

Climate Policy Initiative webinar
The Landscape of Climate Finance
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• Landscape framework
• Headline findings: sources, intermediaries, instruments, uses
• What do the numbers tell us?
• Tracking issues
• CPI Venice work program: Landscape, San Giorgio Group and Effectiveness
Preamble

No internationally agreed definition of what constitutes ‘climate finance’

Some definitions to start with

• **Climate finance** (‘climate-specific finance’):
  - capital flows that target low-carbon or climate resilient development
  - both international public or private financing flows, in practice also domestic.

• **Climate-relevant finance**:
  - a much broader set of capital flows (public or private) that will influence (positively or negatively) emissions and/or vulnerability to climate change in developing countries
What is climate finance?

**Definition**

All financial flows covering financial support...
... for mitigation & adaptation...
... for various geographical configurations...

... for public, public-private & private flows...
... for incremental cost & investment capital...
... counted as gross and net flows

**Comments**

- Including capacity building, R&D, and broader efforts towards transition

- Data difficulties for domestic and South-South flows

- Public flows for e.g.:
  - MDB grants
  - Most adaptation efforts

- Private flows for e.g.:
  - Private MDB co-financing
  - Investments in renewables

- Net flows, an important ‘lens’ on climate finance
The dimensions of climate finance

**Sources**
- Public finance
  - carbon market revenues
  - tax revenues
  - offset markets
  - global capital markets
- Public-private
- Private finance
  - ... (continues)

**Intermediaries**
- bilateral
- multilateral
- ... (continues)

**Instruments**
- climate and investment policies
- offset finance
- grants
- capital
- concessional loans
- ... (continues)

**Recipients**
- adaptation / mitigation (or relevant sectors)
- specific uses (e.g. sector endpoint, project type)
Current climate finance flows (in USD billion)

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.
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Climate finance: the sources

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

- **Out of $97bn, the private sector provides on average $55bn, public budgets at least $21bn**
  - *Private funding*: direct equity & debt investments; bilateral and multilateral agencies and banks contribute $20bn by leveraging the public funding they receive
  - *Carbon markets, voluntary / philanthropic contributions*: < $3bn
  - *Public finance*: raised through carbon market revenues, carbon taxes, general tax revenues

- **Carbon finance: only a small role in climate finance**
  - Relatively small role ($2bn): in contrast with high ambitions for carbon markets when Kyoto Protocol came into force
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Climate finance: the intermediaries

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

- Intermediaries distribute ~ $39bn / year (40% of total)
  - Most finance is distributed through government agencies and development banks, not directly by governments to end-users

- Bilateral institutions distribute a greater share of finance than multilateral agencies
  - Most of public climate finance ($24bn) is currently provided by bilateral rather than multilateral institutions ($15bn)
  - 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 ($1.1-3.2bn)
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Climate finance: the instruments

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

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

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 ($4.4bn)
  – Adaptation: financed through bilateral institutions ($3.6bn), multilateral institutions ($475m), voluntary / philanthropy ($210m), dedicated funds ($65m)
  – Mitigation: financed through the private sector ($55bn), bilateral institutions ($19bn), multilateral institutions ($14bn), dedicated funds ($2.4bn), the offset market ($2.2bn), voluntary / philanthropic contributions ($240m)
What do the numbers tell us?

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

• Don’t confuse the $97bn with the $100bn of the Copenhagen Accord
  – Not all of the $97bn is necessarily additional
  – The $97bn includes some developing countries and domestic money
  – The $97bn includes public and private sources
  – The $97bn includes incremental costs and capital investment

• The $97bn needs to be put in perspective of what is needed to finance a transition to a low-emissions future
Key issues around tracking climate finance

The **picture of climate finance remains patchy** and requires improvements to support the negotiation, analysis and improvement of climate finance.

- The complex nature of climate finance and lack of agreed-upon definitions hamper tracking efforts.
- Several **information gaps** impede a better understanding of what is needed to **enhance climate finance effectiveness**.
- There is no integrated international system for storing and accessing financial data
  - Wealth of data, but limited coordination & gaps in data gathering
  - Individual components of a system reside in UN agencies and several non-UNFCCC sources, including the OECD, IFIs, non-profit research organizations and the private sector
CPI Climate Finance Project:
- critical role of private finance
- need to address limited understanding of
  - the effectiveness of climate finance efforts
  - the effective balance of public and private capital
  - how to trigger a transformation

A better picture of climate finance & tracking the effectiveness of tracking
Systematic case study work
Methodology: What is effective climate finance?
Continued landscaping and effectiveness methodologies work

- Global climate finance landscape update and improving representation of:
  - Private flows
  - End uses
  - Intermediaries
  - South-South and domestic flows
- German climate finance landscape
  - a zoom in on domestic climate finance flows
- Effectiveness methodologies
  - surveying systems to monitor and evaluate effectiveness
The **San Giorgio Group** assembles financial intermediaries and institutions actively engaged in green, low-emissions finance

- **Goals and strategy**
  - **Effective investment**: systematic analysis of case studies and tracking of existing green investments
  - **Ensuring learning**: distil lessons from the evolving financing practices
  - **Scaling up**: provide insights on how public resources can be spent wisely to mobilize private finance
Climate finance case studies

Walney Offshore Windfarms (UK)
World largest offshore windfarm whose risk-return profile was adjusted to attract institutional investors
=> Lessons on aligning public and private objectives

PROSOL (Tunisia)
Financing mechanism supporting the penetration of Solar Water Heaters in the Tunisian residential sector
=> Lessons on the role of public money

Ouarzazate I CSP (Morocco)
Large scale CSP plant in Morocco with CTF support (drive costs down / build up tech. portfolio)
=> Lessons on the role of public money

Forthcoming case studies
Political / Policy risk instruments
REDD
Onshore wind
Adaptation
For any follow-up:

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Further reading

• The Landscape of Climate Finance. A CPI Report. (2011)
  Barbara Buchner, Angela Falconer, Morgan Hervé-Mignucci, Chiara Trabacchi and
  Marcel Brinkman. http://climatepolicyinitiative.org/publication/the-landscape-of-
  climate-finance/

• The Inaugural San Giorgio Group event: agenda, presentations, analytical program
  going forward http://climatepolicyinitiative.org/event/inaugural-meeting-of-the-san-
  giorgio-group/

• San Giorgio Group Case Study: Prosol Tunisia (2012)
  Chiara Trabacchi, Valerio Micale, and Gianleo Frisari
  http://climatepolicyinitiative.org/venice/files/2012/06/Prosol-Tunisia-SSG-Case-
  Study2.pdf

• San Giorgio Group Case Study: Walney Offshore Windfarms (2012)
  Morgan Hervé-Mignucci
  http://climatepolicyinitiative.org/venice/files/2012/06/Walney-Offshore-
  Windfarms4.pdf

• Monitoring and Tracking Long-Term Finance to Support Climate Action. (2011)
  Barbara Buchner (CPI), Jessica Brown (ODI) and Jan Corfee-Morlot (OECD)
...helping nations spend their money wisely