

The Landscape of Climate Finance

Climate Policy Initiative webinar
The Landscape of Climate Finance
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Contents

- Definitions of climate finance
- 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

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

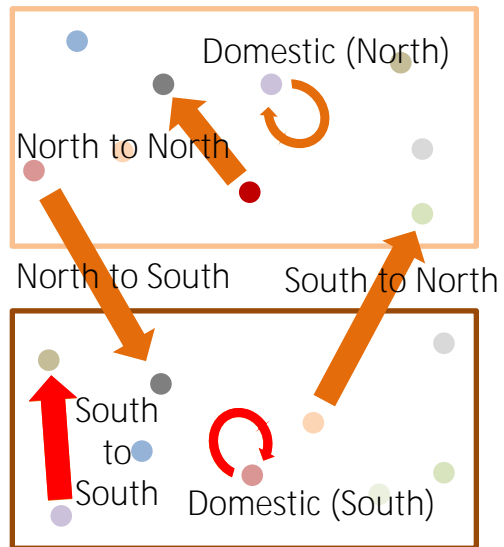
What is climate finance?

Definition

All financial flows **covering financial support...**

... for mitigation & adaptation...

... for various geographical configurations...



... for public, public-private & private flows...

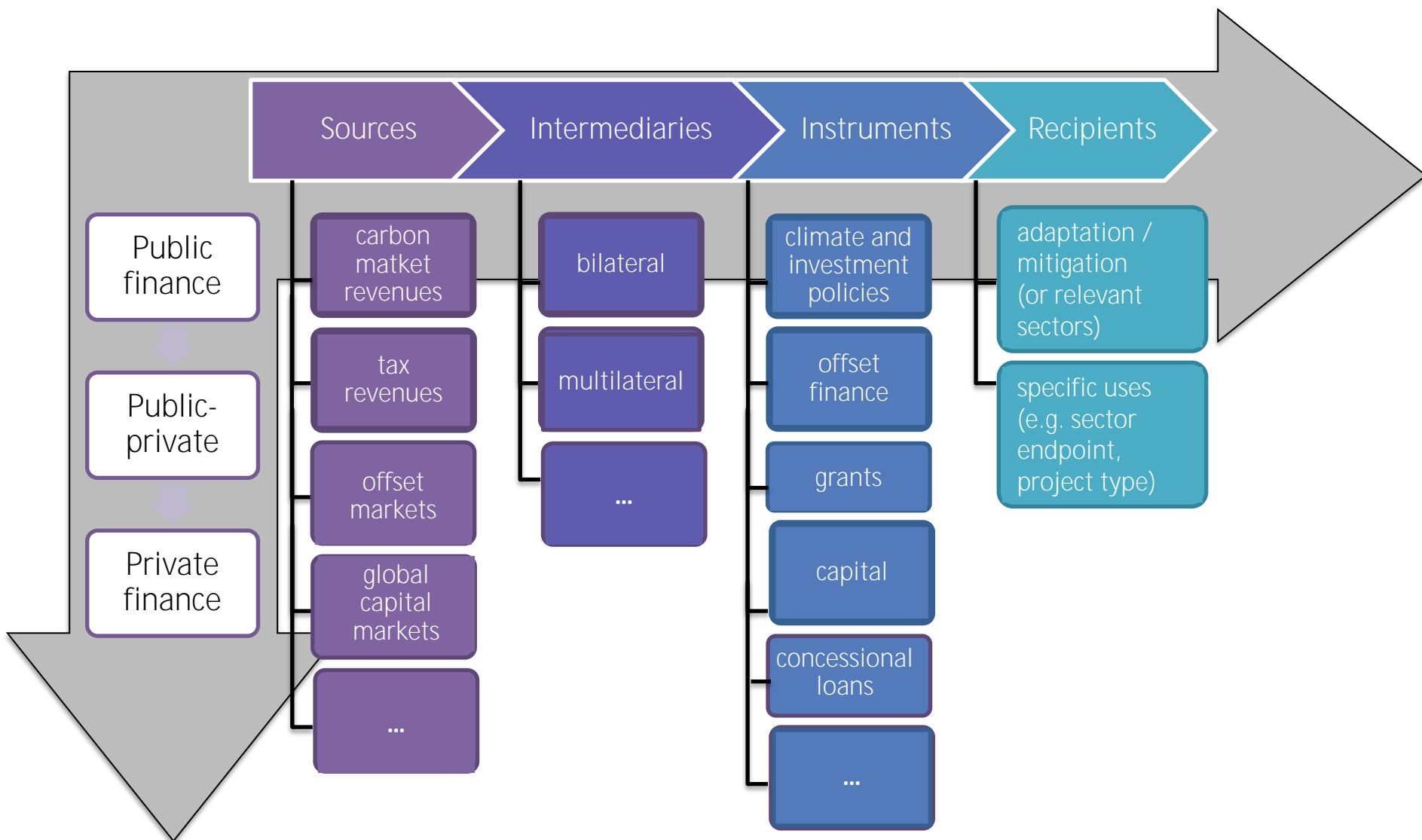
... for incremental cost & investment capital...

... counted as gross and net flows

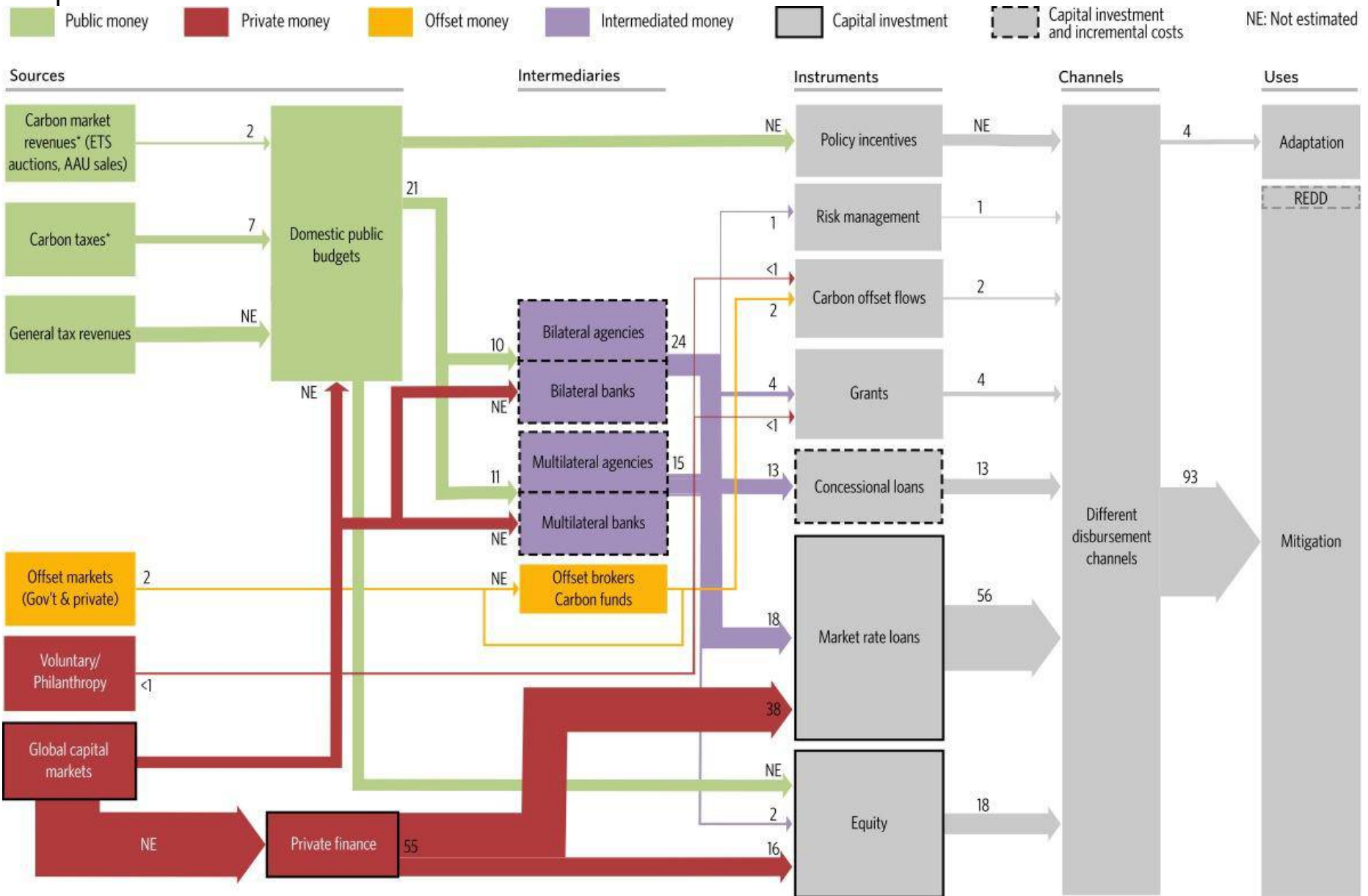
Comments

- 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

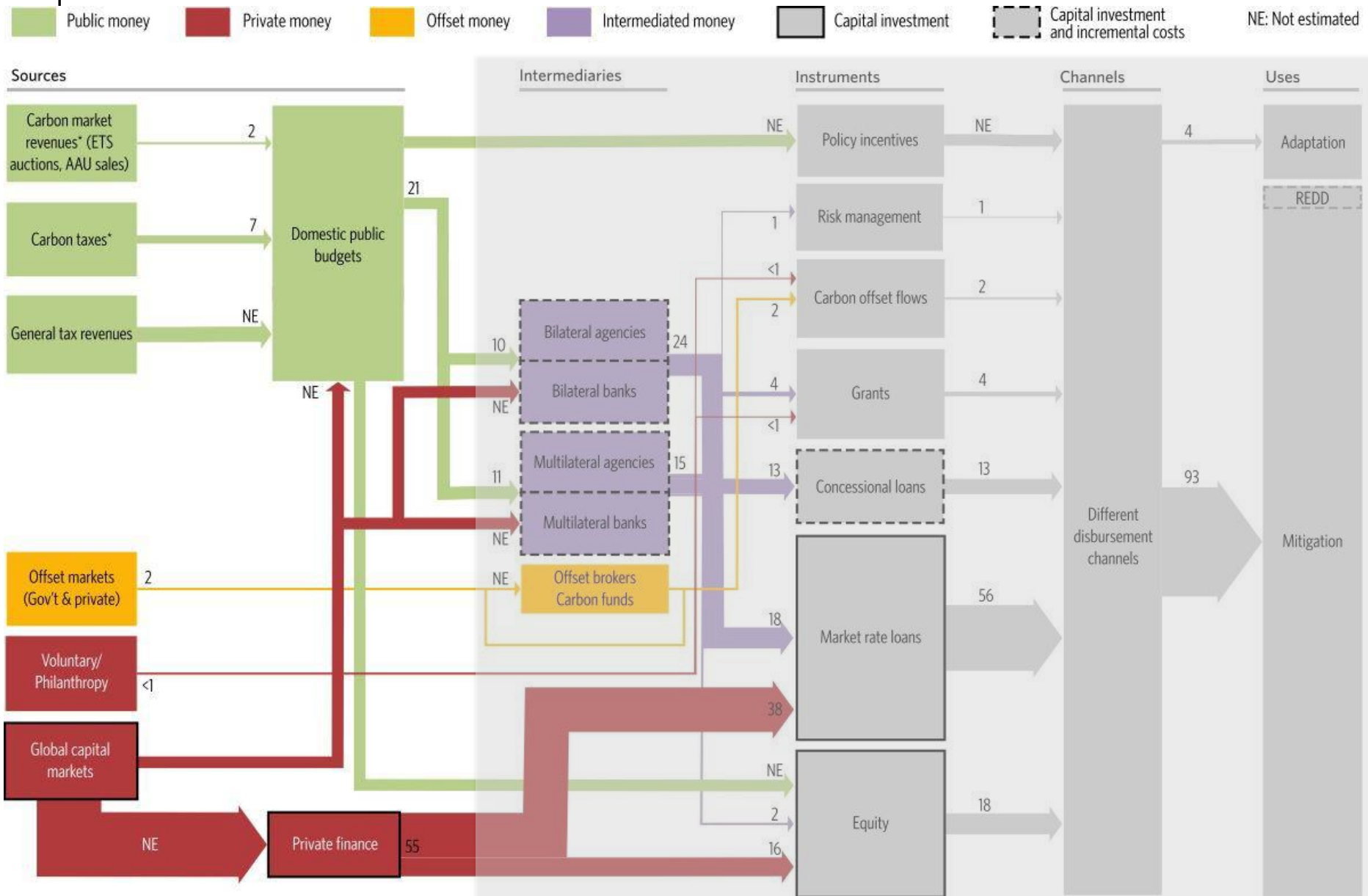


Current climate finance flows (in USD billion)



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 hypothesised for climate finance.

Current climate finance flows (in USD billion)

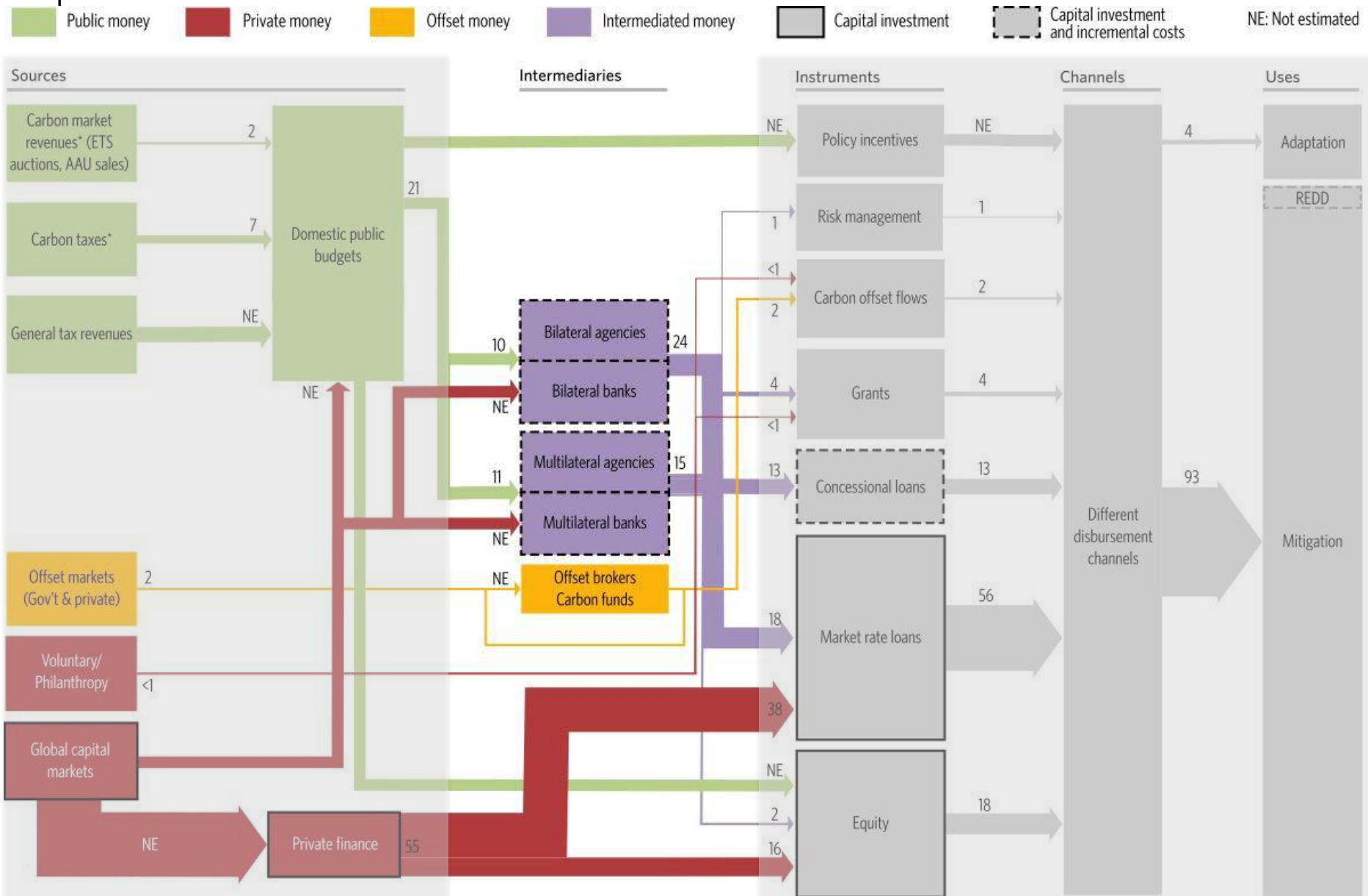


Climate finance: the sources

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

Current climate finance flows (in USD billion)



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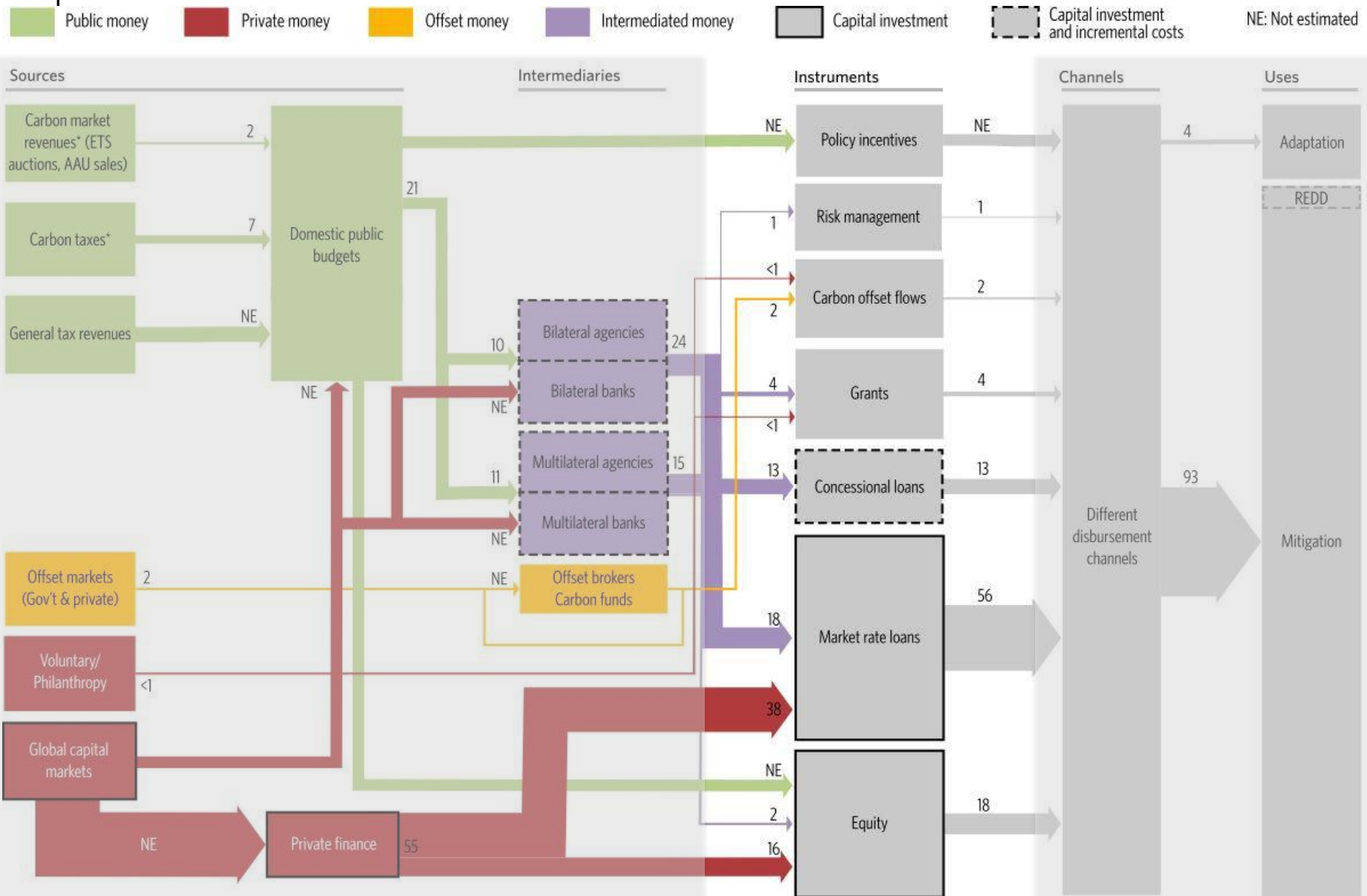
Climate finance: the intermediaries

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)**

Current climate finance flows (in USD billion)



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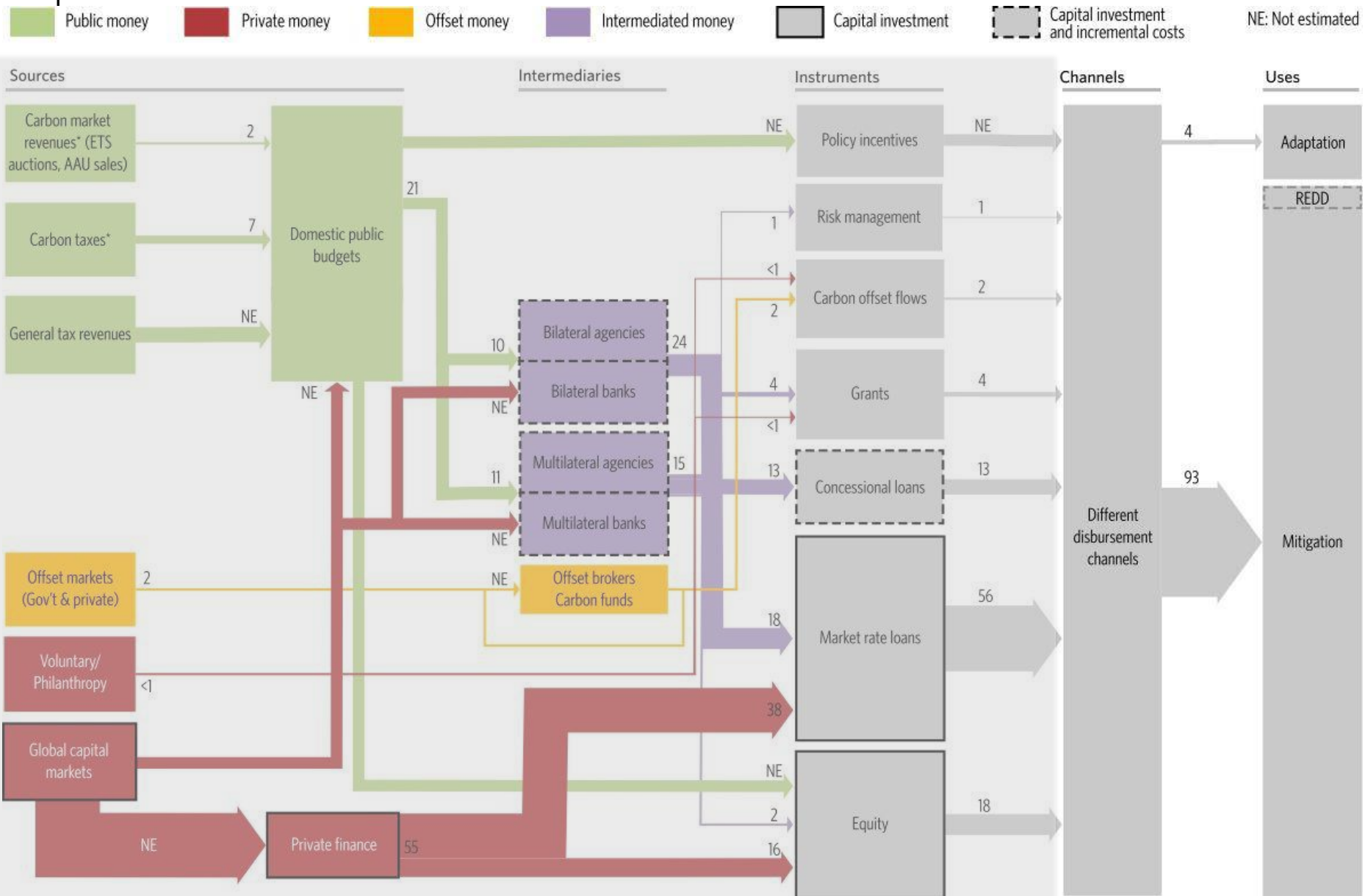
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Climate finance: the instruments

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

Current climate finance flows (in USD billion)



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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

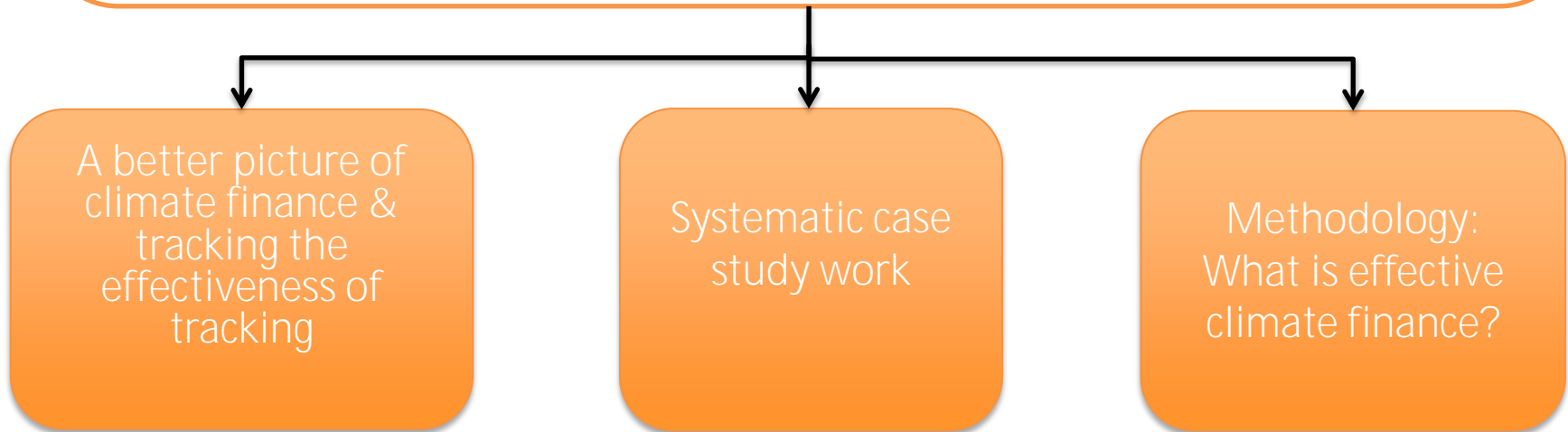
The **picture of climate finance remains patchy** and requires improvements to support the negotiation, analysis and improvement of climate finance

- 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's Climate Finance work – next steps

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



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

Q&A



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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-SGG-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)
<http://www.oecd.org/dataoecd/57/57/48073739.pdf>

...helping nations spend their money wisely



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