The Landscape of Climate Finance in Germany

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Overview

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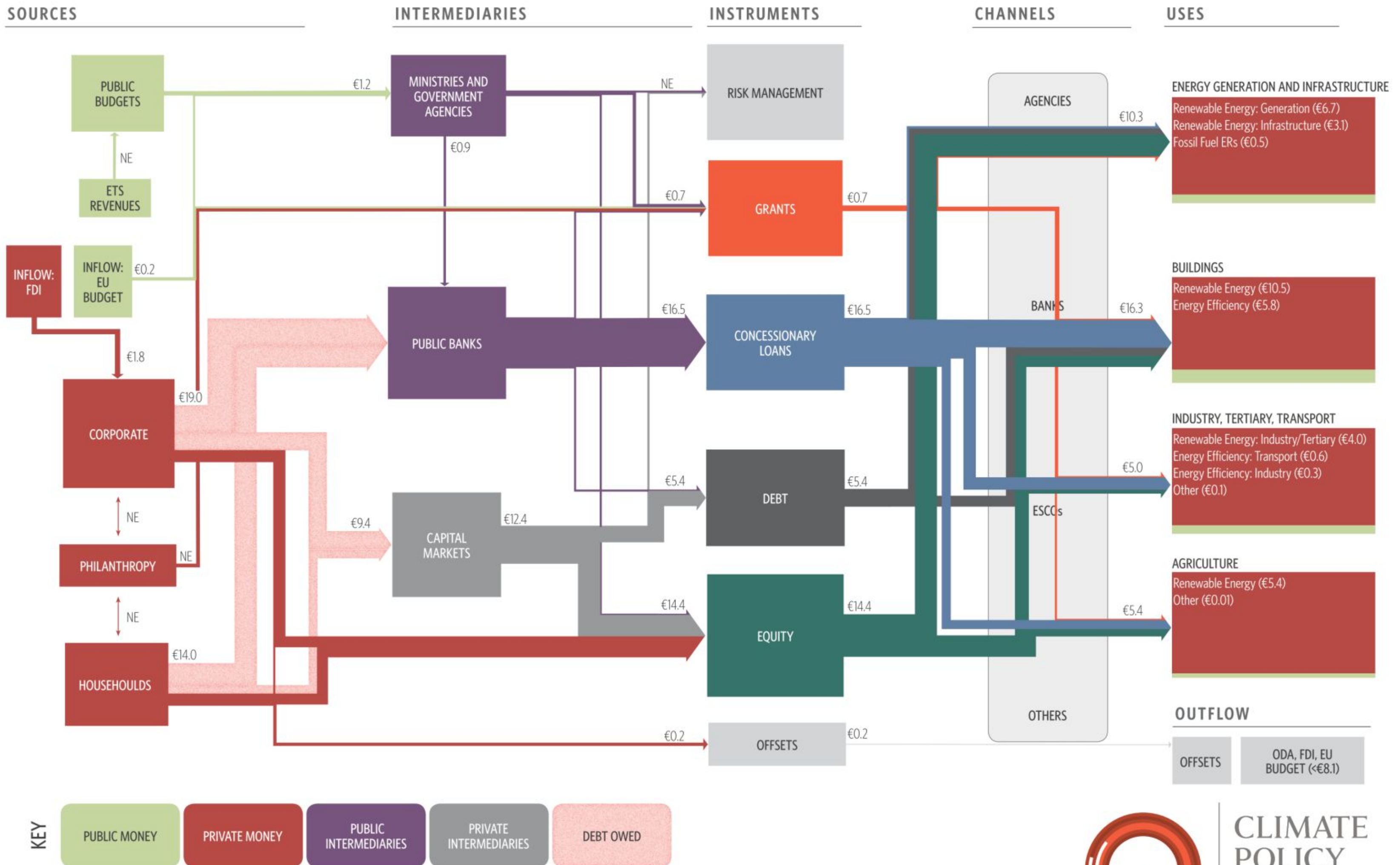
Summary

1. Climate-specific tangible investment (mixed incremental and full capital investment) in Germany in 2010 amounted to EUR 37 billion or 1.5% of GDP (2010)
2. The private sector provided most investments, supported significantly by concessionary loans (i.e. low-interest debt) from public banks
3. Climate finance is not systematically tracked. There is also not any systematic assessment of the effectiveness of public climate finance (regarding both EU and Germany)
4. There is no clear understanding of whether current investments are sufficient to achieve Germany's goals

Methodology

1. Focused on investments in climate-specific tangible assets
   - Not on intangible programs (e.g. R&D)
   - Not on climate-related investments (e.g. rail)
   - Not on adaptation
2. We worked with a wide range of sources to track investment flows sector by sector.
3. Consistent within but not comparable between the two main investment categories
   - Efficiency and non-energy related investments: incremental cost
   - Renewable energy: total capital cost
4. Partial in terms of coverage of data regarding state and municipal level investments
5. Partial due to data gaps for certain sectors

The German Climate Finance Landscape: climate specific investments in 2010 (EUR billions)



Notes: Figures for Renewable Energy (RE) represent total capital investment, and figures for Energy Efficiency (EE) and Other represent incremental cost. Budget includes federal budget disbursement for the year 2010 for tangible climate-specific investment, but does not include public procurement, or administrative costs. Data about state- and municipality-level investments are not covered, except when reported at the national level. In 2010, the government also supported private actors that made investments prior to 2010. This is the main reason why disbursements from the government "at the source side" (above shown EUR 1.2. billion) differ from public spending "at the use side" (EUR 0.8 billion). Debt owed does not represent the actual finance flows (e.g. debt repayment), but is shown to highlight the original investors or asset owners who make use of Public Banks or Capital Markets as financial intermediaries. Buildings only include investment in residential buildings. Tertiary includes investment in renewable energy generation only. Shading on Use boxes represent the split of private (red) to public (green), but are not to scale.

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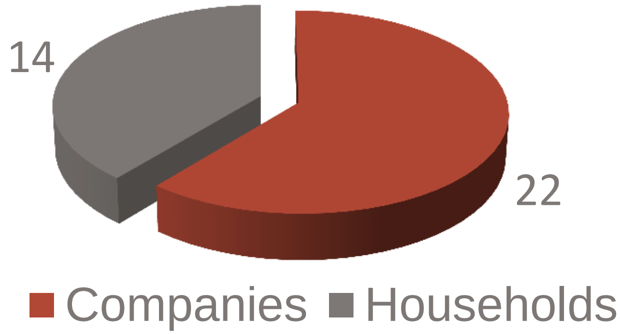
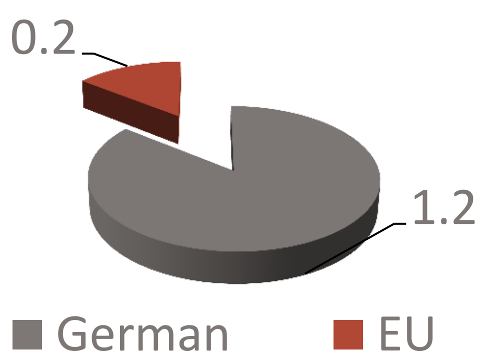
Who was investing (and how much)?

Private climate-specific investment [EUR billion]



Public climate-specific investment [EUR billion]



Private sector was the most important investor:
EUR 36 billion or more than 95% of total

Public expenditures amounted to:
EUR 1 (to 1.4) billion

How was it invested? The role of the public banks.

- Public banks (Förderbanken), such as *KfW* and the agricultural *Rentenbank,* provided at least EUR 16.5 billion (or 45%) in concessionary loans for climate measures in 2010
- The main beneficiaries were private households (through KfW) and farmers (through the *Rentenbank*)
- Public banks received state guarantees (not quantified) and direct public support for particular policies (quantified)

What was the money invested in?

Renewable Energy (total capital investment): EUR 26.6 billion
Small-scale installations account for around 75% of renewable energy investments.
KfW loans financed 43% of total renewables investment.

Investor	Share	Scale*
Households	37%	Small
Farmers	20%	Small
Industry and Commerce	16%	Small
Public sector	2%	Small/Large
Utilities, banks, and other financial investors	25%	Large

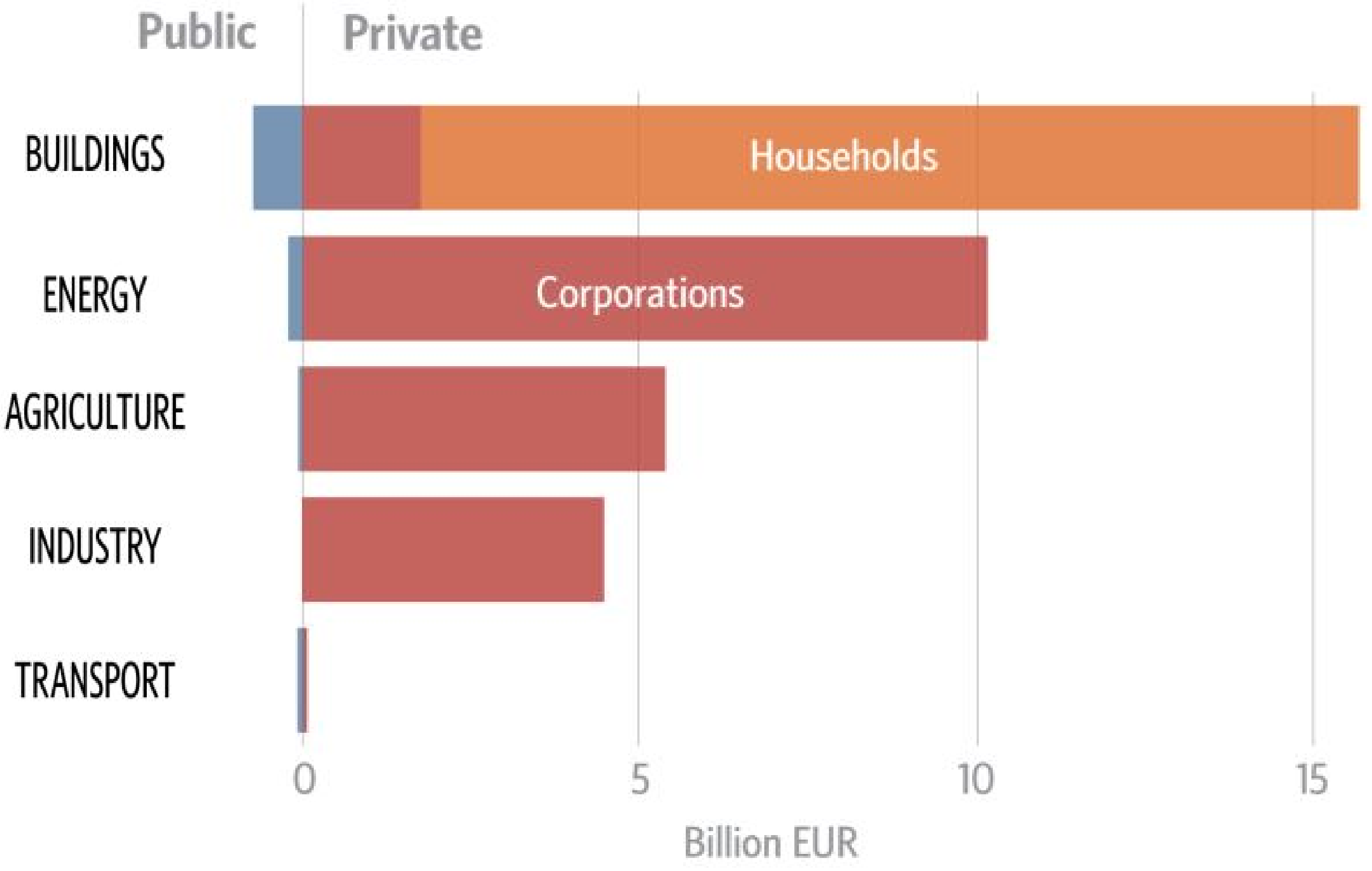
*Scale according to size-threshold

What was the money invested in?

Energy efficiency (incremental investment): EUR 7.2 billion

- Households invested the major share (EUR 4.1 billion), followed by corporate (2.6 billion) and public (0.5 billion) actors
- Majority (EUR 5.8 billion) was invested in buildings
- KfW played a key role as finance provider, supporting 72% of total energy efficiency investments, mainly in buildings

Summary of climate-specific investment



Conclusions (1)

- Money is flowing…
  - Strong role of renewable energy coincided with significant incentives such as concessionary loans and the feed-in tariff, and with ambitious policy targets
  - Role of private sector (non-energy) and particularly households, suggests that Germany approaches the climate change challenge also from the demand side
- …however, there is no clear understanding of whether the investments are in line with the financing needs of Germany's targets.

Our findings can serve as a point of reference for estimating the additional efforts required and help to focus subsequent, more in-depth analysis

Conclusions (2)

- No established process or framework for monitoring, reporting, or verification of climate-related expenditures
  - notable exceptions are *KfW* programs, or the Environment Ministry's *Nationale Klimaschutzinitiative*
- No established definition of climate finance (or a clear differentiation between climate-specific, climate-related, etc.)

To improve our understanding of climate finance, there is a need to compile and report comprehensive (yet comparative) investment data, and to analyze the results systematically and on a regular basis.

Recommendations

- **General / EU**
  - Launch process for establishing definitions
  - Set up a central registry and annual reporting of public climate finance (EU, national and sub-national)
  - Improve the processes for measuring and reporting the impact of EU Funds
- **Germany**
  - Refine and improve transparency of the official statistics
  - Set up a system to track climate-specific private investment by households and the commercial sector
  - Reflect climate-specific policy objectives in reporting of private and public financial intermediaries
  - Conduct more robust analysis on which policy effectively facilitates private climate finance

Next steps

Now this understanding must be…

- **…consolidated** through a second edition of the German Climate Finance Landscape for early 2014
- **…expanded** together with our partners in research, policy, industry, and civil society; and then
- **…focused** on the core aspects of financing climate change mitigation and the *Energiewende* in Germany (and beyond)

Thank you for your attention!

We look forward to your questions

Please type questions into the webinar module

…helping nations spend their money wisely

The full report can be found at:
http://climatepolicyinitiative.org/publication/german-landscape-of-climate-finance

Please feel free to contact us with any additional questions:

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