

The Global Landscape of Climate Finance: What Role for Multilaterals, Bilaterals and National Development Banks?

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Aims of this presentation

- The global landscape of climate finance
- Role of multilateral, bilateral and national development financing institutions
- The risk gap
- Implications for Asia

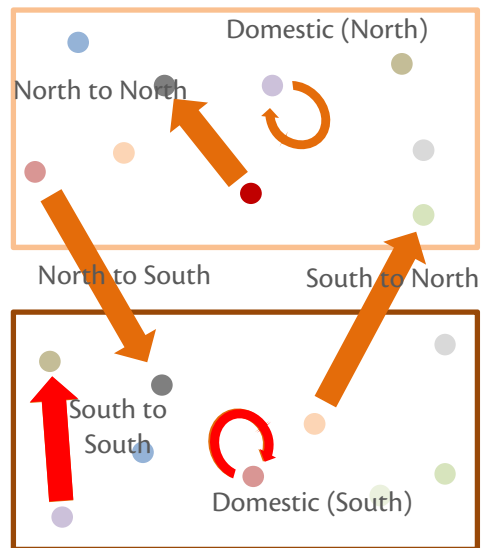
What is climate finance?

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.:

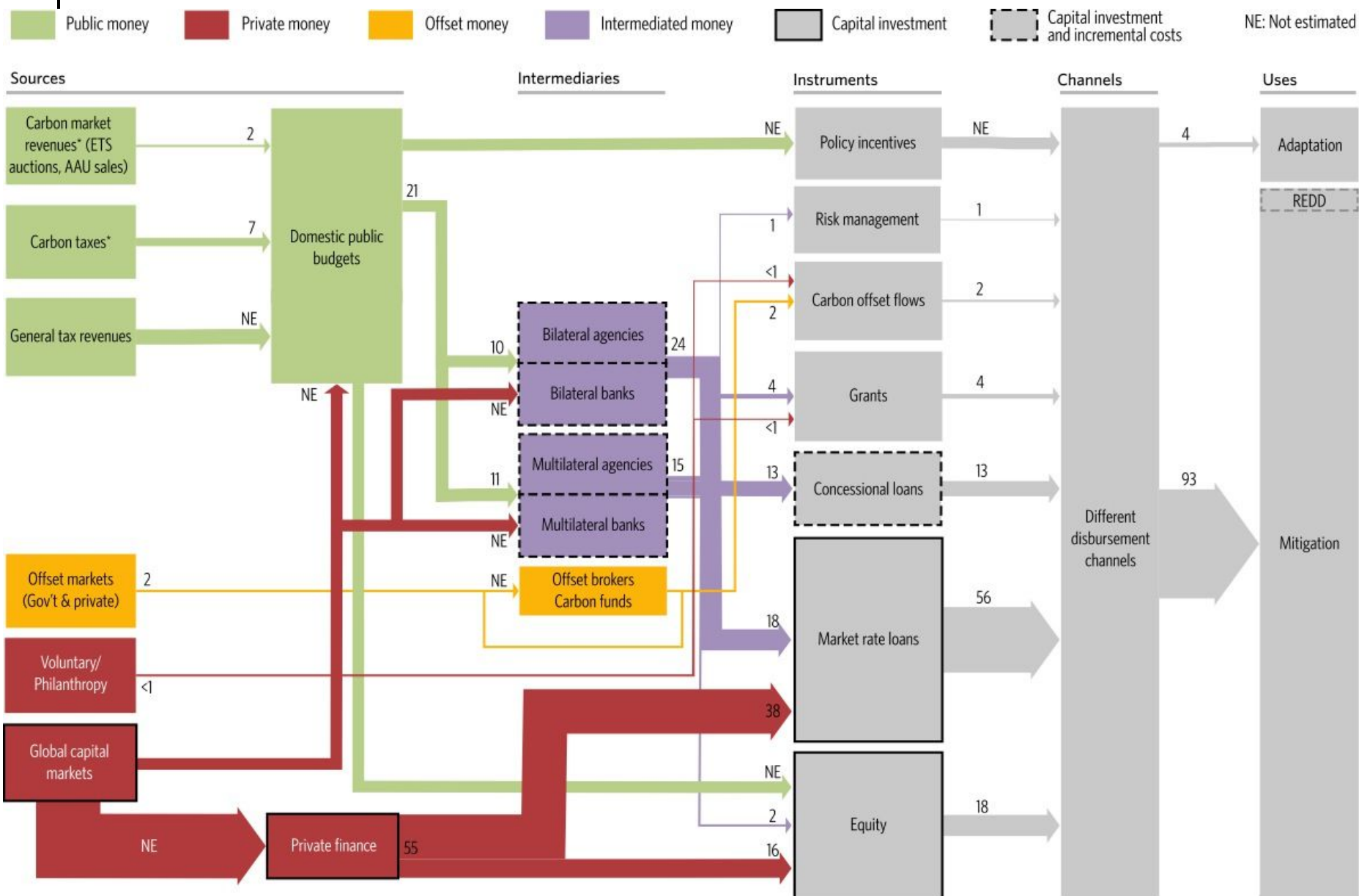
- *MDB grants*
- *Most adaptation efforts*

- Private flows for e.g.:

- *Private MDB co-financing*
- *Investments in renewables*

- Net flows, an important 'lens' on climate finance

2009/10 climate finance flows (in USD billions)

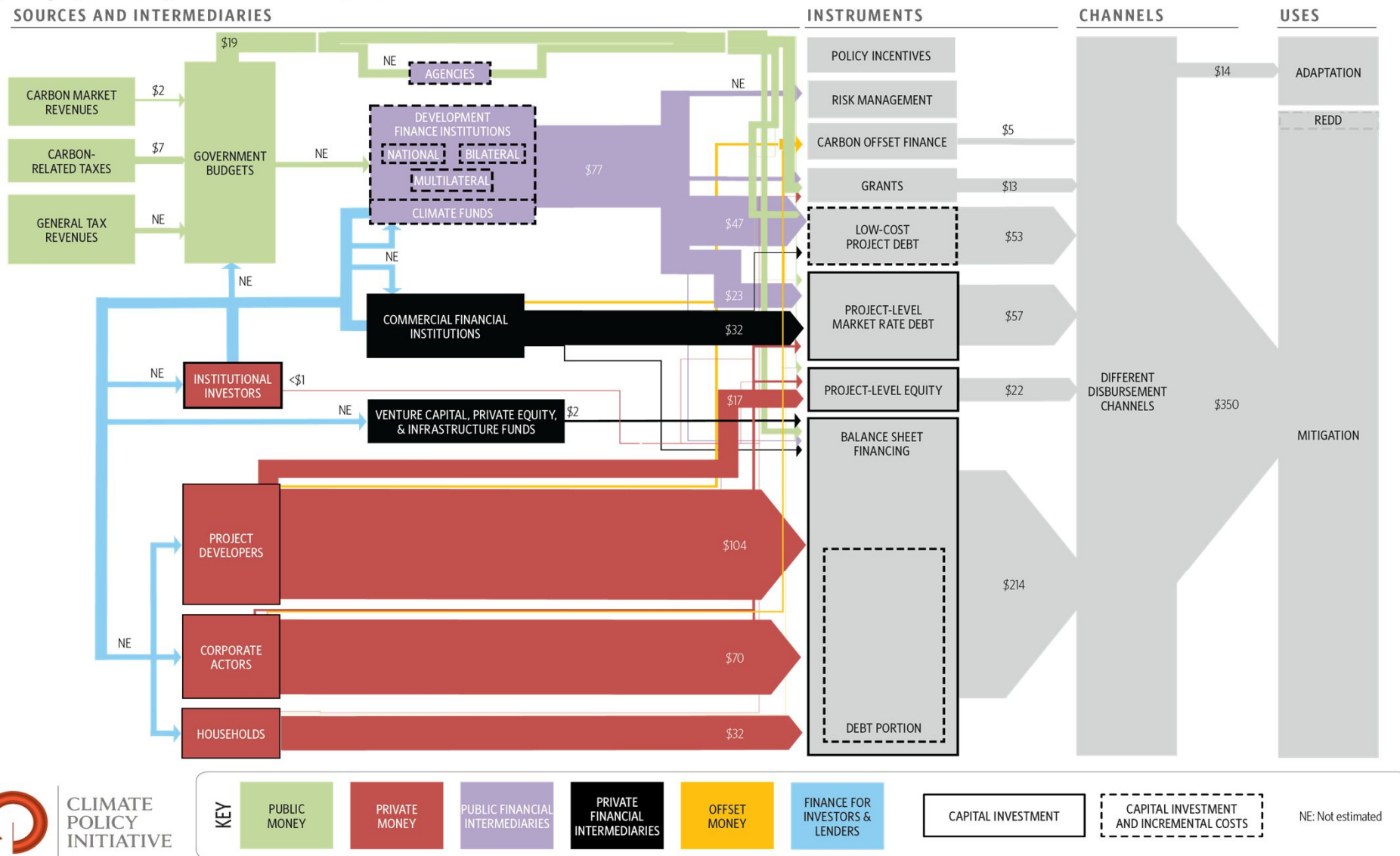


Notes: Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent 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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Landscape 2012 – Better Estimates, Deeper Insights

2010/11 climate finance flows (in USD billions)



Notes: Figures are indicative estimates of annual flows for the latest year available, 2010 or 2011 (variable according to the data source). Flows are expressed in USD billions and 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. The diagram distinguishes between 'incremental costs,' that is, financial resources that cover the price difference between a cheaper, more polluting options and costlier, climate-friendly ones and do not need to be paid back — and 'capital investment,' which are tangible investments in mitigation or adaptation projects that need to be paid back. Categories not representing capital investment, or a mix of capital investment and incremental costs, are incremental costs only. The group of National Finance Institutions includes Sub-regional entities. Most data presented relates to commitments in a given year due to limited availability of disbursement data.

Landscape 2012 – The Facts

The global picture

In 2010/2011 annual global climate finance flows reached
~USD 343-385 billion,
on average USD 364 billion

- **Private finance: USD 217-243 bn**
 - Households and corporates contributed USD 83 bn toward small-scale renewable energy finance
- **Public sources: USD 16-23 bn**
 - ODA more than double compared to 2009/10
 - USD 11 bn domestic renewable projects (U.S. stimulus)
- **Significant public money standing behind private money: USD 51 bn** in governments' direct and indirect shareholdings and lending to private investment structures

Private finance flows

The domestic private sector is a cornerstone of climate finance in both developed and developing countries.

- **Developed countries - USD 143 billion**
 - 55% of projects financed on balance sheet basis, 84% of which came from domestic actors
 - Project level debt predominantly from commercial banks (77%). Governments (17%) and corporate players (6%).
- **Developing countries - USD 85 billion**
 - 80% of projects financed on balance sheet basis,
 - 84% of private finance came from domestic actors
- **Close to two-thirds of private finance flows originated in developed countries**

The role of financial intermediaries

Public & private financial institutions raised and channeled USD 110-120 bn. of climate finance

- **Public intermediaries channeled about two-thirds**
 - National, sub-regional and bilateral financial institutions alone delivered USD 54 bn.
- **Private commercial banks and infrastructure funds intermediated ~USD 38 bn., including project finance debt and direct investments**
 - These contribute financial instruments needed to unlock innovative green investment
- **Dedicated climate funds** contributed a small but growing portion of finance (USD 1.5 bn.), and are proving critical in enabling frameworks for investment.

What are the main instruments?

Most climate finance can be classified as investment / ownership rather than contributions to incremental costs.

- USD 293-347 bn. can be classified as investment with an ownership interest rather than policy incentives, carbon pricing mechanisms and grants
- Public intermediaries enable investment by providing low cost debt and grants
- A variety of risk management instruments are critical to overcome real and perceived risks barriers, and deliver green investments at large scale.

What are the uses & who are the recipients?

The large majority of climate finance (USD 350 bn), was invested in mitigation. Emerging economies were key recipients.

- Renewable energy generation projects (85%) and energy efficiency (4%) attracted the bulk of finance
- Data on REDD+ finance is poor but suggest that flows could be around USD 11.8 billion per year (predominantly domestic)
- China, Brazil, and India were the largest recipients of mitigation finance directed to developing countries, receiving close to 33% of this total
 - A significant share of this was raised domestically and disbursed by state-owned entities.

Bottom line

Figures not only correspond to scale up,
but reflect better data and increased coverage

- **Money is flowing – but still falls far short of what is needed to finance a low-emissions transition**
 - Private capital is essential to scale up
 - Well-targeted public capital can catalyze private capital
- **The landscape of climate finance is complex**
 - Variety of actors with distinctive roles and responsibilities
 - Climate finance archetypes differ by country and circumstance
- **Information about finance flows is growing, but...**
 - Gaps and lack of definition continue to hamper the understanding of what is effective climate finance

A Word about Risk

The risk gap

Risk, whether real or perceived, is the single most important factor impeding investment in renewable energy projects

- There are gaps in risk coverage in developing and developed markets, particularly for policy risk and financing risks
- New risk mitigation instruments are needed to address financing and policy risks. They need to:
 - have sufficient scope to have transformative impact
 - be investor specific
- Development financing institutions and the public sector have significant opportunities to fill these gaps.

So what does this imply for Asia?

Asia has an important opportunity to lead the green investment revolution

- High demand = high opportunity
- New policies are emerging
- New risk mitigation instruments will be needed
- Financial intermediaries with public sector backing, and particular knowledge of local markets, private investors and political economies are critical.

Some final questions

- Are multilaterals, bilaterals and NDBs doing enough to ensure that lessons are learned?
- What more can be done so that we push past business as usual and actually deliver the innovative mechanisms needed to unlock green investment?
- Are multilaterals and bilaterals fully harnessing the particular knowledge of national intermediaries?

...helping nations spend their money wisely



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Further Reading

- *The Landscape of Climate Finance 2012* may be found at:
<http://climatepolicyinitiative.org/venice/publication/global-landscape-of-climate-finance-2012/>
- *The German Landscape of Climate Finance* may be found at:
<http://climatepolicyinitiative.org/berlin/publication/german-landscape-of-climate-finance/>
- SGG case studies may be found at:
<http://climatepolicyinitiative.org/publication/san-giorgio-group-case-studies/>
- Information about the San Giorgio Group may be found at:
<http://climatepolicyinitiative.org/venice/san-giorgio-group/>
- The *Risk Gaps* publications may be found at
<http://climatepolicyinitiative.org/publication/risk-gaps/>