Climate finance landscape overview
Presentation October 14
Topics of this presentation

• What is climate finance?

• What are the elements of the climate finance landscape?

• What are the current climate finance flows? What is the relative order of magnitude of current flows?

• What is the potential development of flows in the short term (2010-12) and the long term (2020)?

• What are the issues in tracking climate finance? What to track and who is tracking what?

• What are the key questions to be addressed?
### What is climate finance?

<table>
<thead>
<tr>
<th>Definition</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate finance is all financial flows ...</td>
<td>• Excluding all domestic flows</td>
</tr>
<tr>
<td>... from developed to developing countries...</td>
<td>• Excluding flows between developed countries only</td>
</tr>
<tr>
<td>... covering climate-specific support for mitigation, adaptation, capability building, and technological R&amp;D, potentially furthering economic development...</td>
<td>• We aim for a broad definition which can be shaped based on the specific context</td>
</tr>
<tr>
<td>... including public and private flows...</td>
<td>• Public flows covering e.g. MDB grants and most adaptation efforts</td>
</tr>
<tr>
<td>... including incremental cost and investment capital...</td>
<td>• Private flows covering e.g. private MDB co-financing, investments in renewable energy production, or carbon offset markets</td>
</tr>
<tr>
<td>... counted as gross flows</td>
<td>• Distinction between the two concepts should be made clear wherever possible</td>
</tr>
<tr>
<td></td>
<td>• Net flows are an important ‘lens’ on climate finance and can be calculated where appropriate</td>
</tr>
</tbody>
</table>
What are elements of the climate finance system?

<table>
<thead>
<tr>
<th>Sources</th>
<th>Intermediaries</th>
<th>Instruments</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon market revenues (ETS auctions)</td>
<td>Domestic Public budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovative finance mechanisms</td>
<td></td>
<td></td>
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<tr>
<td>General tax revenues (incl. ODA)</td>
<td></td>
<td></td>
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<tr>
<td>International transport fuels</td>
<td></td>
<td></td>
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</tr>
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</table>
What are elements of the climate finance system?

**Sources**
- Carbon market revenues (ETS auctions)
- Innovative finance mechanisms
- General tax revenues (incl. ODA)
- International transport fuels

**Intermediaries**
- Domestic Public budget

**Instruments**
- Bilateral development agencies
- International agencies/funds

**Uses**

---

**Public finance**

SOURCE: McKinsey analysis
What are elements of the climate finance system?

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**Instruments**
- Grant instruments
  - Market based
    - Income enhancing (e.g. FIT, AMC)
    - Risk reduction mechanisms
    - Finance enhancing mechanisms
    - Payment for ecosystem services

**Uses**

**Public finance**

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**Intermediaries**
- Domestic
  - Public budget
- Bilateral development agencies
- International agencies/funds

**Instruments**
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**Uses**
- Adaptation
- Mitigation

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  - Risk reduction mechanisms
  - Finance enhancing mechanisms
  - Payment for ecosystem services

**Uses**
- Adaptation
- Mitigation

**Carbon offset finance**

SOURCE: McKinsey analysis
What are elements of the climate finance system?

**Sources**
- Carbon market revenues (ETS auctions)
- Innovative finance mechanisms
- General tax revenues (incl. ODA)
- International transport fuels
- Carbon offset markets

**Intermediaries**
- Domestic Public budget
  - Bilateral development agencies
  - International agencies/funds

**Instruments**
- Grant instruments
  - Market based
    - Income enhancing (e.g. FIT, AMC)
    - Risk reduction mechanisms
    - Finance enhancing mechanisms
    - Payment for ecosystem services

**Uses**
- Carbon offset finance
- MDBs (leverage effect)
- Capital
  - Debt
  - Equity

**Mitigation**
- Incremental cost
- Capital investment

**Adaptation**

SOURCE: McKinsey analysis
What are elements of the climate finance system?

Sources
- Carbon market revenues (ETS auctions)
- Innovative finance mechanisms
- General tax revenues (incl. ODA)
- International transport fuels
- Carbon offset markets

Intermediaries
- Domestic Public budget
- Bilateral development agencies
- International agencies/funds
- MDBs (leverage effect)

Instruments
- Grant instruments
- Market based
  - Income enhancing (e.g. FIT, AMC)
  - Risk reduction mechanisms
  - Finance enhancing mechanisms
  - Payment for eco-system services
- Carbon offset finance

Channel
- Different disbursement channels
  - Adaptation
  - Mitigation

Uses
- Capital
  - Debt
  - Equity

Private finance

SOURCE: McKinsey analysis
**What are current flows?**

### Sources
- Carbon market revenues (ETS auctions)
- Innovative finance mechanisms
- General tax revenues (incl. ODA)
- International transport fuels
- Carbon offset markets
- Private finance (incl. FDI)

### Intermediaries
- Domestic Public budget
- Bilateral development agencies
- International agencies/funds
- MDBs (leverage effect)

### Instruments
- Grant instruments
- Market based
  - Income enhancing (e.g. FIT, AMC)
  - Risk reduction mechanisms
  - Finance enhancing mechanisms
  - Payment for ecosystem services
- Carbon offset finance

### Channel
- 3-4
- 8-10
- <0.5
- 1-3
- 56
- 52
- 57

### Uses
- Mitigation
- Adaptation

**Source:** McKinsey analysis
What are current flows?

SOURCE: McKinsey analysis
What are future flows?

Finance flows required; developing countries; USD bn p.a.

<table>
<thead>
<tr>
<th>Current</th>
<th>Copenhagen Accord pledges (2020)</th>
<th>Technical potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental cost (mitigation &amp; adaptation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>80</td>
<td>120</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>80</td>
<td>120</td>
<td>150</td>
<td>240</td>
<td>90</td>
<td>130</td>
<td>170</td>
<td>280</td>
<td>100</td>
<td>170</td>
<td>280</td>
</tr>
</tbody>
</table>

Note: 1. For Low and High cases, the investment capital in year 2016-2020 corresponds to abatement from actual country pledges. Data for other years are extrapolated using a linear percent reduction in full technical potential scenario.
2. Transport Air and Transport Sea are excluded.

Source: McKinsey Global Abatement Cost Curve v2.1
What are the issues in tracking climate finance?

- Rapidly developing landscape of tracking functions – covering current and prospective emissions and finance

- Rapidly developing emissions tracking
  - Fast developing methodologies for tracking current emissions
  - Some promising initiatives to develop perspectives on expected future emissions based on pledge tracking

- Rapidly developing finance tracking
  - Well developed systems for tracking current government spending (ODA), but relatively immature tracking of government spending on climate related causes
  - Good tracking of current carbon market flows
  - Fragmented tracking of current (private) investment capital flows
  - Multiple efforts to ‘predict’ future capital flows, but not one that is comprehensive in its scope

- No consistent methodology to calculate finance flows
  - Differences in what types of finance count for specific categories of finance

- No current tracking of effectiveness of climate finance spent
<table>
<thead>
<tr>
<th>What to track and who is tracking what?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Track commitments</strong> (GT, degree)</td>
</tr>
<tr>
<td><strong>Countries</strong></td>
</tr>
<tr>
<td>UNDP, UNEP</td>
</tr>
<tr>
<td><strong>International institutions</strong></td>
</tr>
<tr>
<td>OECD, UNFCCC, UNDP, UNEP-Risoe, UNEP-SEFI</td>
</tr>
<tr>
<td><strong>MDBs</strong></td>
</tr>
<tr>
<td>WB, ADB, AfDB, EBRD, IDB, IFC</td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
</tr>
<tr>
<td>WRI, Project Catalyst</td>
</tr>
<tr>
<td><strong>Academics</strong></td>
</tr>
<tr>
<td>✓</td>
</tr>
<tr>
<td><strong>Private</strong></td>
</tr>
<tr>
<td>Ecofys</td>
</tr>
</tbody>
</table>

| Track finance sources – public ($)     |
| **Countries**                          |
| OECD, UNFCCC, UNDP, UNEP-Risoe, UNEP-SEFI |
| **International institutions**         |
| OECD, UNFCCC, UNDP, UNEP-Risoe, UNEP-SEFI |
| **MDBs**                              |
| WB, ADB, AfDB, EBRD, IDB, IFC         |
| **NGOs**                              |
| WRI, ODI/ HBF, Climate Analytics, AidData, Ecosystem Marketplace Project Catalyst |
| **Academics**                         |
| ✓                                      |

| Track finance sources – private ($)    |
| **Countries**                          |
| UNEP-SEFI, UNEP-Risoe, UNFCCC, OECD    |
| **International institutions**         |
| UNEP-SEFI, UNEP-Risoe, UNFCCC, OECD    |
| **MDBs**                              |
| Sustainability reports of MDBs        |
| **NGOs**                              |
| REN21                                 |
| **Academics**                         |
| ✓                                      |
| **Private**                           |
| Commercial data providers (e.g. Dealogic, DB, Bloomberg NEF, PointCarbon) |

| Track finance effectiveness (GT, $)  |
| **International institutions**       |
| Sustainability reports of MDBs       |
| **NGOs**                             |
| WRI, IIED, AidData...                |
| **Academics**                        |
| ✓                                      |

| MRV methodology                      |
| **International institutions**       |
| OECD, IEA                            |
| **MDBs**                             |
| WB                                    |
| **NGOs**                             |
| WRI, IIED, AidData...                |
| **Academics**                        |
| ✓                                      |


### Key questions to be addressed

#### Panel 2 – How to define and calculate finance flows?
- What is a reasonably broad and mutually agreeable definition of climate finance flows?
- How can these climate finance flows be calculated?
- What flows count for which categories of finance?

#### Panel 3 – How to evaluate the effectiveness of finance flows?
- How can effective and efficient spending of climate finance money be prepared ex ante?
- How can the effectiveness and the efficiency of spending be measured and evaluated ex post?

#### Panel 4 – How to reduce the risk of investing into climate finance?
- What are the most relevant risks around investments in climate finance?
- How can the risks of investing in climate finance be mitigated (e.g. risk-sharing mechanisms)?

#### Concluding panel – What is needed to make climate finance successful?
- How do we define and measure success of climate finance?
- What does it take to achieve successful climate finance?
APPENDIX
What are future flows?

USD bn, Annual average for 2010-12

<table>
<thead>
<tr>
<th>Category</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral funding</td>
<td>7</td>
</tr>
<tr>
<td>Climate Funds²</td>
<td>4</td>
</tr>
<tr>
<td>Total public finance</td>
<td>11</td>
</tr>
<tr>
<td>Carbon offset finance³</td>
<td>3-5</td>
</tr>
<tr>
<td>Total incremental cost finance</td>
<td>14-16</td>
</tr>
<tr>
<td>Capital investment⁴</td>
<td>50</td>
</tr>
</tbody>
</table>

1 Includes climate finance pledges of Australia, Canada, EU (EU commission and member states), Japan, Norway, and US; numbers may not sum to total due to rounding. Exchange rate from April 26, 2010 used ($1.33 to €1)
2 Multilateral funds include the World Bank climate funds, GEF, and other funds providing concessional climate-related financing; excludes general funding for the World Bank and other development bodies; share for some donor countries based on historical allocation of multi- and bilateral funding
3 Expected CDMs issued from 2010-2012 at an assumed price of EUR 10-15 per tonne CO2
4 Based on 2009 extrapolation

SOURCE: Climatefundsupdate.org; press search; interviews; McKinsey analysis