The San Giorgio Group: Expanding Green, Low-Emissions Finance

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What is climate finance?

Definition

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

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

Broad definition which can be tailored to specific context
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.
Current climate finance flows (in USD billion)

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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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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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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 the lack of comprehensive information on all climate finance elements is an impediment to negotiation, analysis and improvement of climate finance.

- The complex nature of climate finance and lack of agreed-upon definitions hamper tracking efforts.
- The various objectives of climate tracking efforts complicate the analysis.
- While there is a wealth of data on elements of the climate finance landscape, there is limited coordination and some gaps in data gathering.
- Several information gaps impede a better understanding of what is needed to enhance the effectiveness of climate finance.
The San Giorgio Group: Expanding Green, Low-Emissions Finance
The Group

- Multilateral, regional and sub-regional IFIs
- Development assistance agencies
- National development banks
- Institutional investors
- Private banks and investment fund managers
- Insurance and guarantee funds
- Project developers
- Policy makers (GCF)
SGG focus

- The role(s) and reasons for **public finance**;
- The **best delivery mechanisms** (financial instruments and institutional channels) for public monies;
- The **alignment of international and national public investment flows** with each other and with private investments; and
- Ensuring learning.
SGG case studies planned for 2012

Q1

Dong Energy Wind Offshore – UK, Denmark
PROSOL – Tunisia
Ouarzazate I CSP Project – Morocco

Adaptation case study (China GEF Hai Basin Project)
IFC Climate Catalyst Fund
ADB India CSP Project – India
OPIC Finance
Uppington Park Eskom – South Africa
BNDES / Suez – Brazil

Q2-3

**Horizontal case studies (portfolios / instruments):**
Climate Policy Lending
CIF PPCR Experiences
Environmental Bonds

**Other potential**
SARI – South Africa
Ag Credits ABSA – Mozambique (greening REDD)
CLP Wind
EIB – GEEREF
Policy Impact Pathways

Duration of Revenue Support

- 10 Year reduced duration

Revenue Certainty

- Move from fixed tariff to fixed premium

Risk Perception

- High equity return req’d
- More debt security req’d

Completion Certainty

- 1 year construction delay

Cost Certainty

- 5 % Cost overrun

Risk Distribution

Development Risks

- US Wind
- Spanish Wind
- US PV
- Italian PV
- US Power Tower
Bottom line: analysis & outreach

• **Effective investment: systematic analysis of case studies**
  – Tracking case studies over time, along their life cycle
  – In close dialogue with stakeholders involved

• **Focus**
  – Emerging markets, projects analysis
  – Coordination across green finance system
  – Scalable & replicable / game changers?

• **Outreach**
  – Focused interaction and outreach strategy
  – Supporting networks of intermediaries
  – Donor countries, GCF
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

A better picture of climate finance & tracking the effectiveness of tracking Landscape 2.0

Systematic case study work
What role for public finance? What makes an investment successful, replicable and scalable?

Methodology:
What is effective climate finance? How to measure effectiveness?
…helping nations spend their money wisely
Further reading


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