The Landscape of Climate Finance

First Workshop on Long-term Finance
9-11 July 2012, Bonn

Barbara K. Buchner
Director, CPI Europe
Preamble

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

- **Sources**
  - Public finance
    - Carbon market revenues
    - Tax revenues
    - Offset markets
    - Global capital markets
  - Public-private
    - Bilateral
    - Multilateral
    - Specific uses (e.g., sector endpoint, project type)
  - Private finance
    - Concessional loans
    - Capital
    - Grants
    - Offset finance
    - Climate and investment policies

- **Intermediaries**

- **Recipients**
  - Adaptation / mitigation (or relevant sectors)
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 hypothecated for climate finance.
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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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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)**
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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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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
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
Case studies on Technology Continuum

- **Ouarzazate I CSP, Morocco**: Address tech. risks. Drive costs down.
- **Walney Offshore Windfarms, UK**: Adjust the risk-return profile to attract investors.
- **PROSOL, Tunisia**: Stimulate market pull.
The case study Prosol Tunisia

Prosol is a financing mechanism supporting the penetration of Solar Water Heaters in the Tunisian residential sector.

Lessons: the role of public money

- Provided a stable and credible policy framework
- Supported pervasive and tailored capacity building activities
- Managed risks the private sector was not willing to bear
The case study Walney

Walney Offshore Windfarms is the largest offshore windfarms commissioned as of 2012.

Lessons: aligning public and private objectives

• **Policy environment**: attractive government policy incentives, and the smart use of these by the project developers

• **Careful allocation of risk**: managing investors’ concerns about construction, operations, maintenance cost risks

• **Non-traditional investors**: minimizing future revenue uncertainty can attract investors of the pension fund market

• **Conducive investment environment**: considering also (re)financing aspects of projects within policy frameworks
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 German Landscape

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 Landscape of Climate Finance. A CPI Report. (2011)

• 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

• Monitoring and Tracking Long-Term Finance to Support Climate Action. (2011)
  Barbara Buchner (CPI), Jessica Brown (ODI) and Jan Corfee-Morlot (OECD)