The Landscape of Climate Finance

Climate Policy Initiative Webinar

21 February 2013

Morgan Hervé-Mignucci (Senior Analyst and Manager)
Angela Falconer (Fellow)
Chiara Trabacchi (Fellow)

CLIMATE
POLICY
INITIATIVE

BEIJING
BERLIN
RIO DE JANEIRO
SAN FRANCISCO
VENICE

+39 041 2700 426
Island of San Giorgio Maggiore 8
30126 Venice
Italy
climatepolicyinitiative.org

CPI's Climate Finance Project's Goal

CPI aims to provide evidence-based **analysis on climate finance to policymakers and the private sector, to help them make the best decisions in support of low-carbon growth.**

CPI Climate Finance

- **Climate Finance Landscape**
  - **Global**
  - **National**
- **In-depth case studies**
  - **Projects**
  - **Instruments / portfolios**
- **Other related work**

Key messages

In 2011 **USD 364 billion** on average

Money is flowing but falls short of investment required

Circa **USD 1 trillion** per year

Private capital is essential to scale up

Well-targeted **public capital** can catalyze private capital

What is climate finance?

Definitional issues are a major challenge to understanding the scale of financial flows

- All financial flows covering financial support…

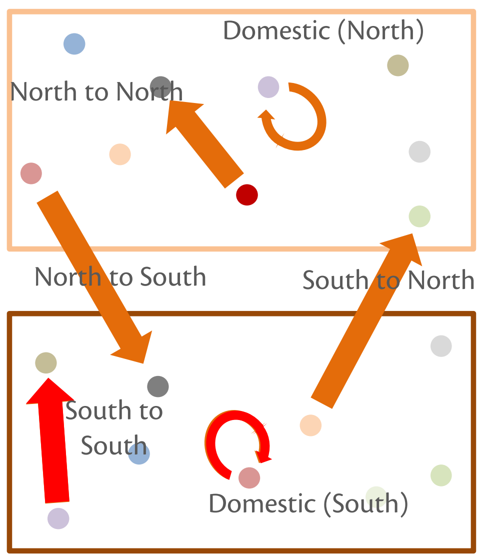
… for **mitigation & adaptation…**

… for **various geographical** configurations…

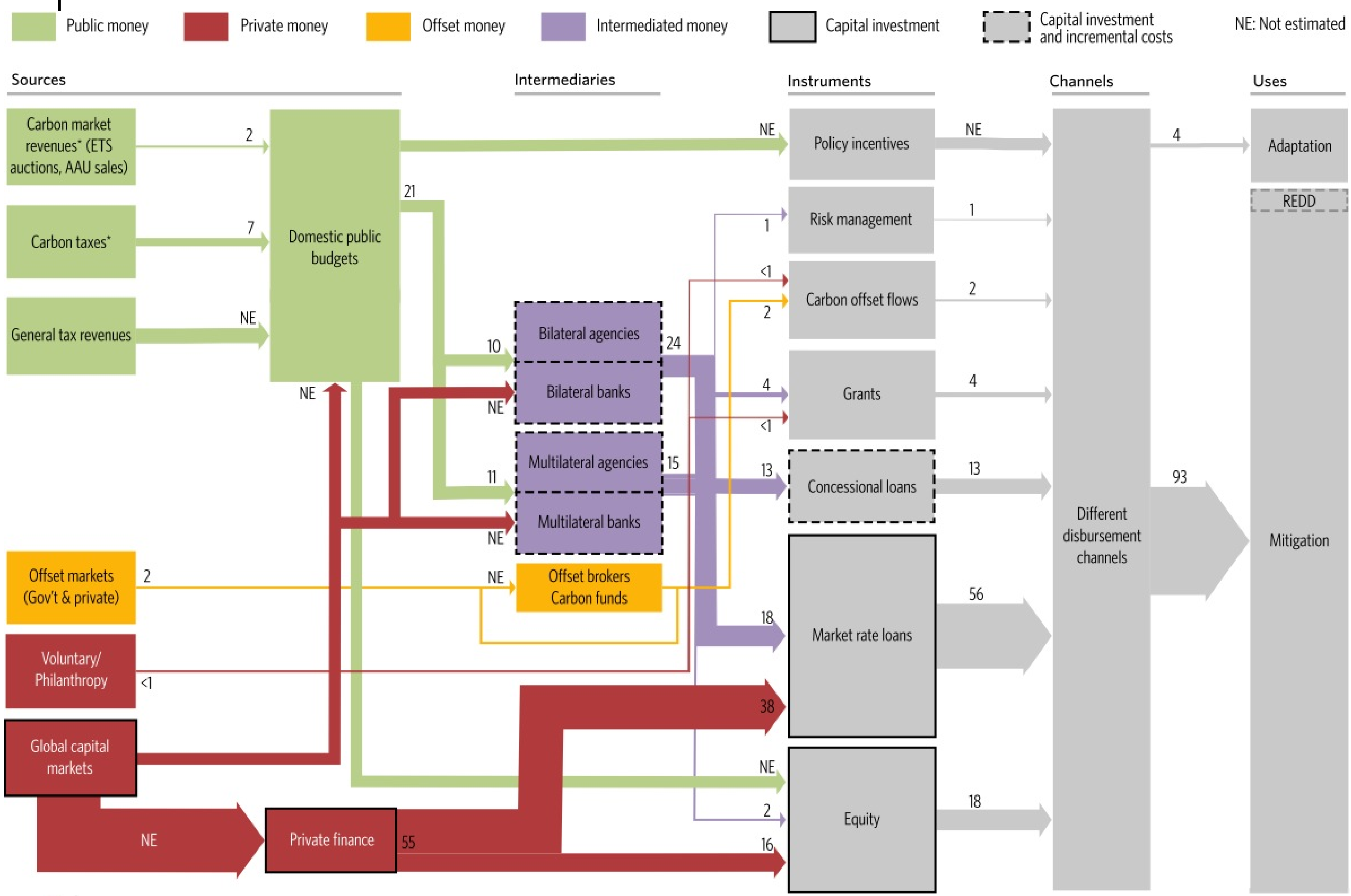
… for **public, public-private & private** flows…

… for **incremental cost & investment capital…**

… counted as **gross & net** flows



2009/10 climate finance flows (in USD billions)



© CPI, 2011

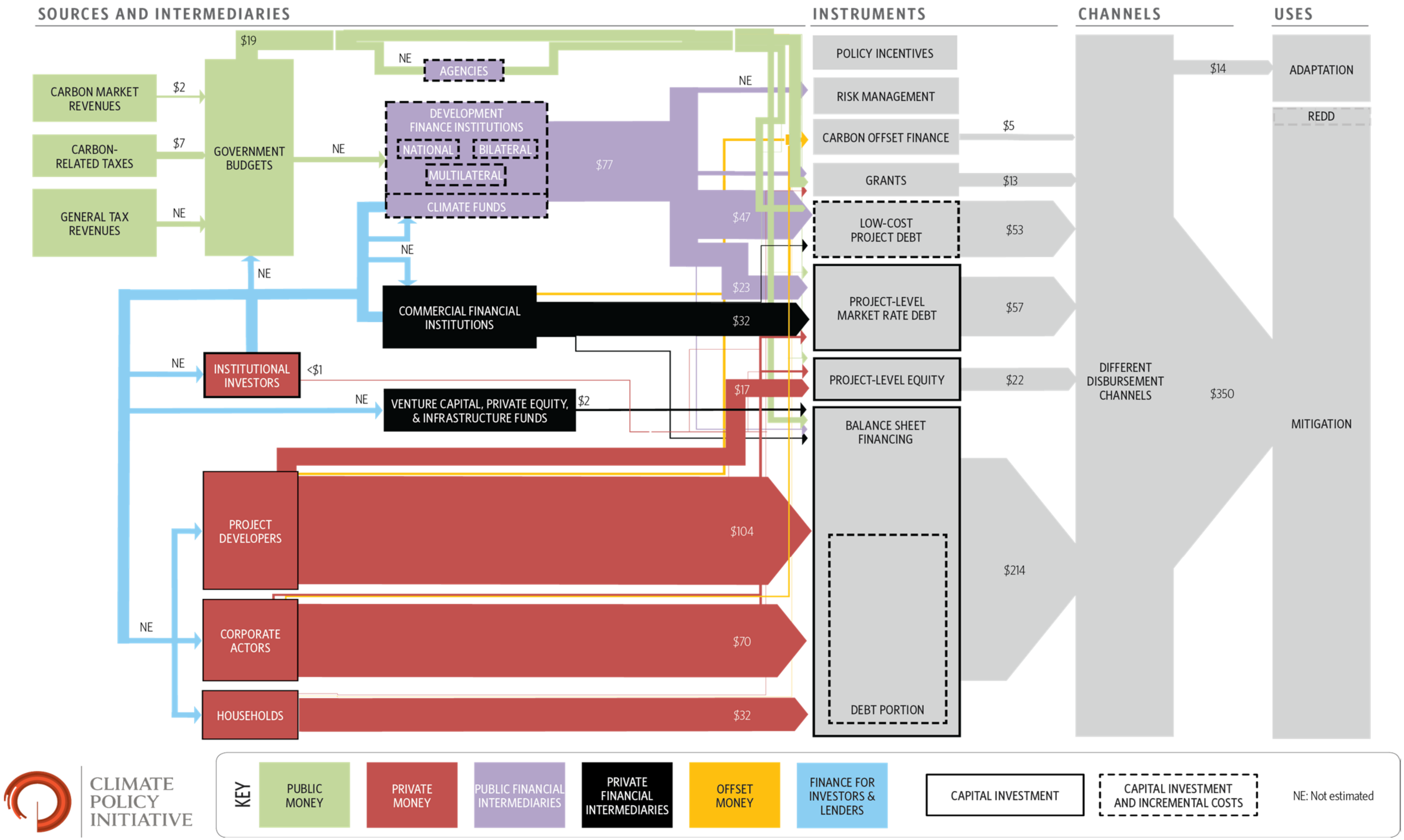
Notes: Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent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

Landscape 2012: increased coverage

Better coverage of magnitude and nature of climate finance flowing between and within countries.

- Expanded geographic scope
- Expanded coverage of private and public players
- More detailed representation of private sector climate finance flows
- Improved representation of sectors and countries receiving finance

2010/11 climate finance flows (in USD billions)



CLIMATE POLICY INITIATIVE

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.

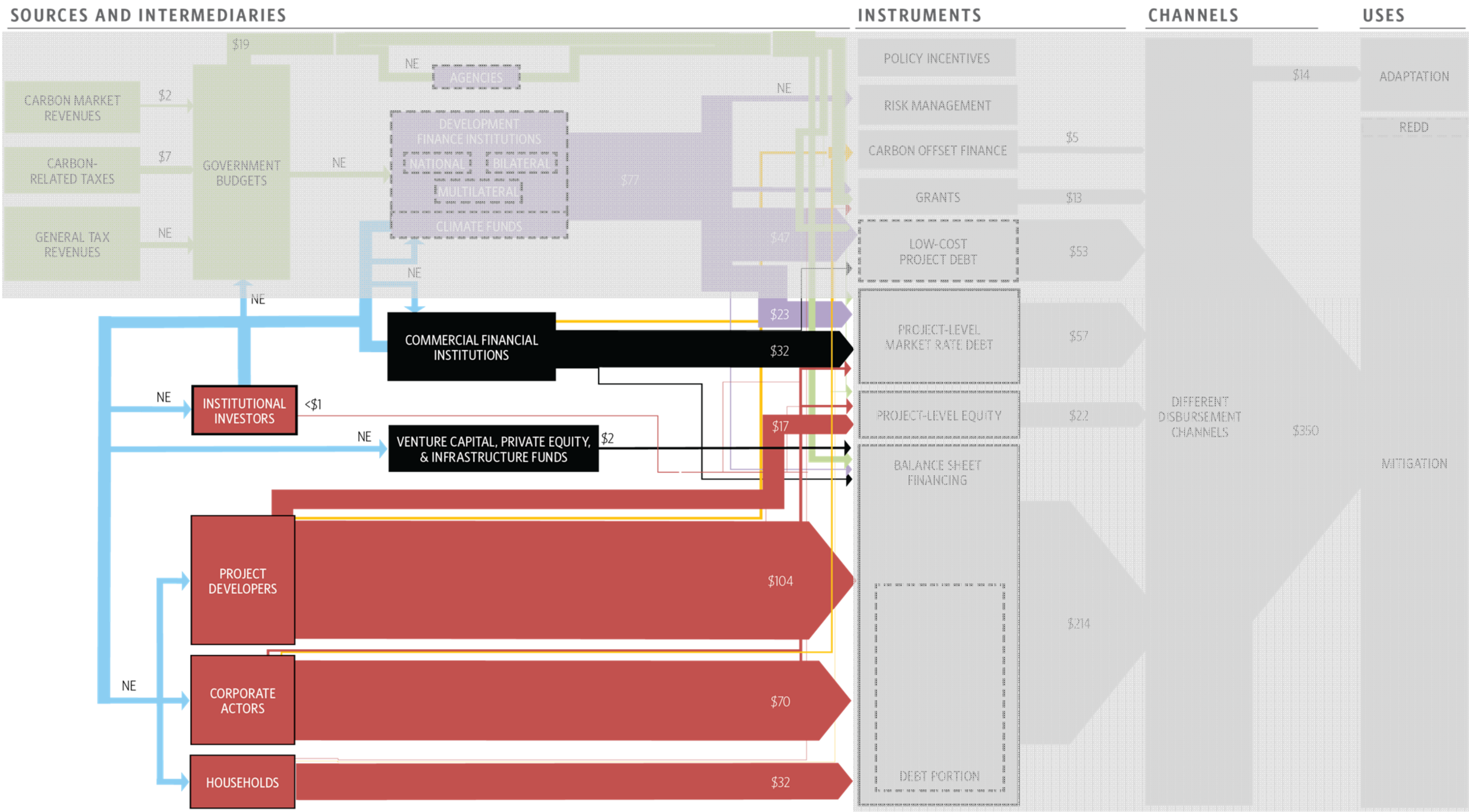
Global climate finance flows

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

- **Public sources: USD 16-23 bn**
  - ODA more than doubled compared to last year
  - USD 11 bn domestic renewable projects (U.S. stimulus)
- **Private finance: USD 217-243 bn**
  - The inclusion of **small-scale renewable energy finance** highlights the significant contribution of households and corporate actors (USD 83 bn).
  - **Public money standing behind private money**:

    USD 51 bn could be classified as governments' direct and indirect shareholdings and lending to private investment structures

2010/11 Private Finance (in USD billions)



CLIMATE POLICY INITIATIVE

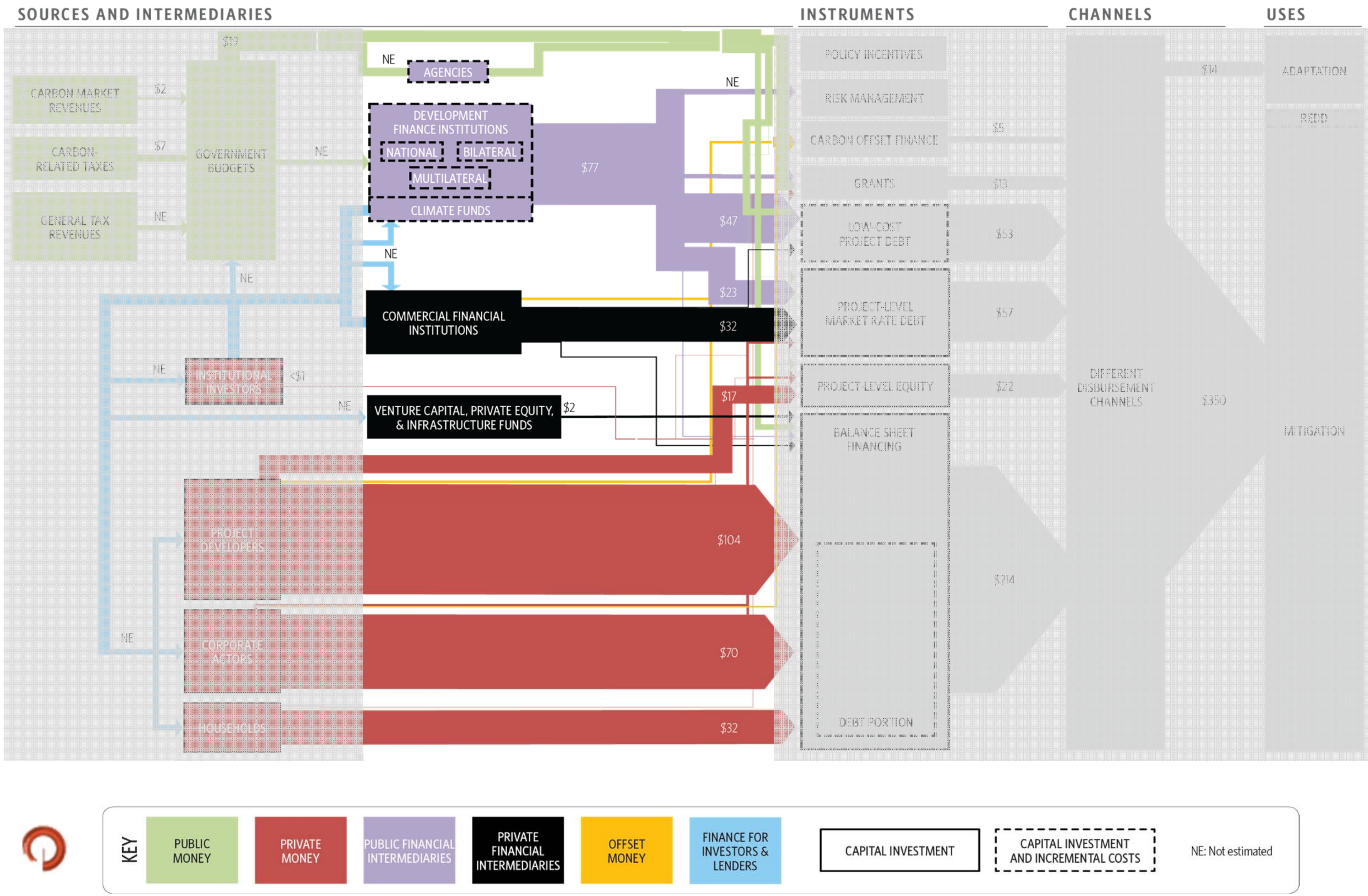
Notes: Figures are indicative estimates of annual flows for the latest year available, 2010 or 2011 (variable according to the data source). Flows are expressed in USD billions and rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent estimates. 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.

Private sources

Close to **two-thirds of private finance came from developed 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
  - 4/5 of projects financed on balance sheet basis,
  - 84% of private finance came from domestic actors
- **In both cases, the sources of private finance were predominantly domestic.**

2010/11 Intermediaries (in USD billions)

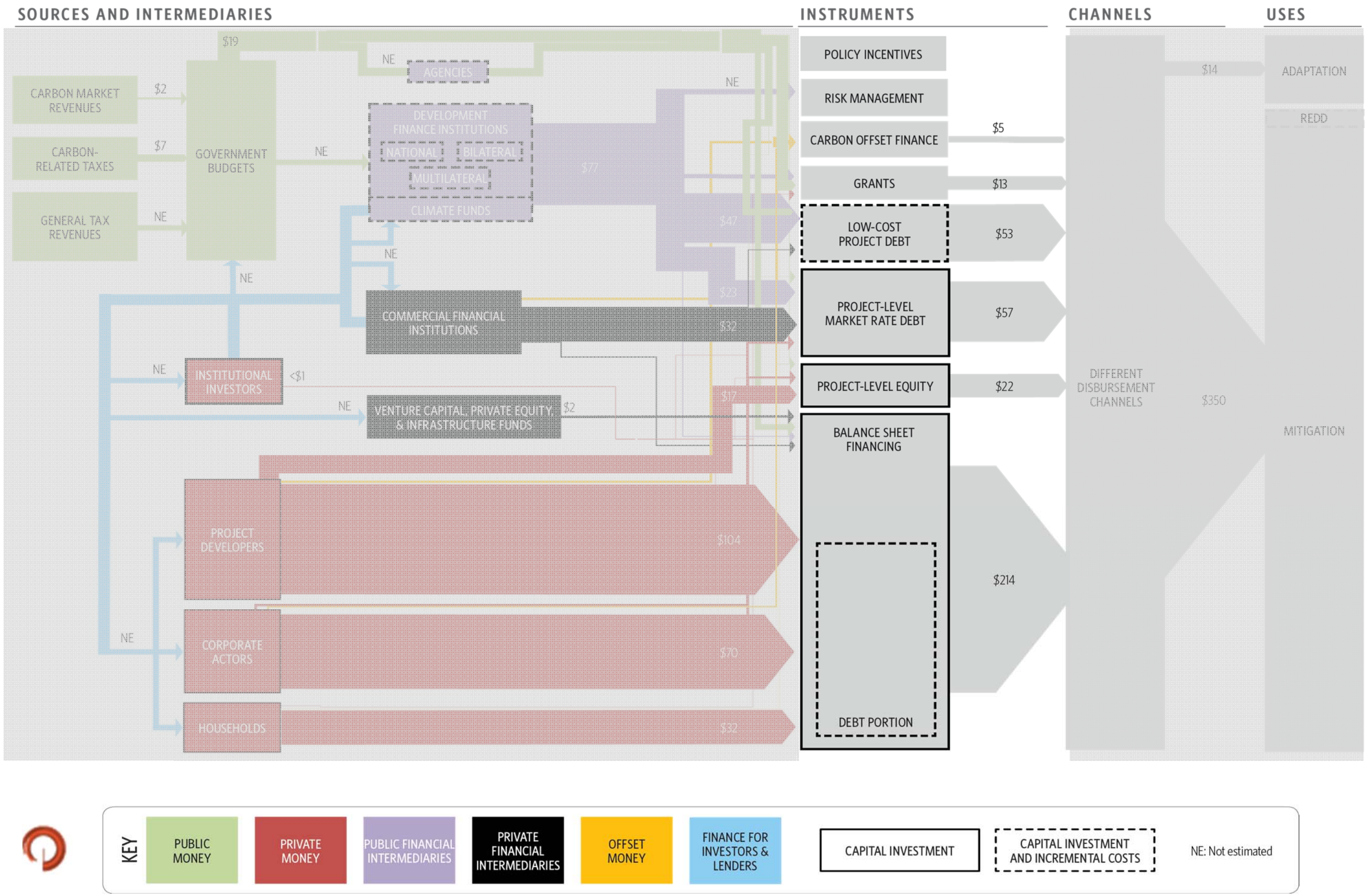


Climate finance: the intermediaries

Public & private financial institutions intermediated $ 110-120 bn

- **Public intermediaries**, critical to bridge funding gaps, channeled about **two thirds**
  - **Climate Funds**, a small ($ 1.5 bn) but growing portion of finance
- **Private commercial banks** and **infrastructure funds** intermediated **~$ 38 bn**, including project finance debt and direct investments

2010/11 Instruments (in USD billions)

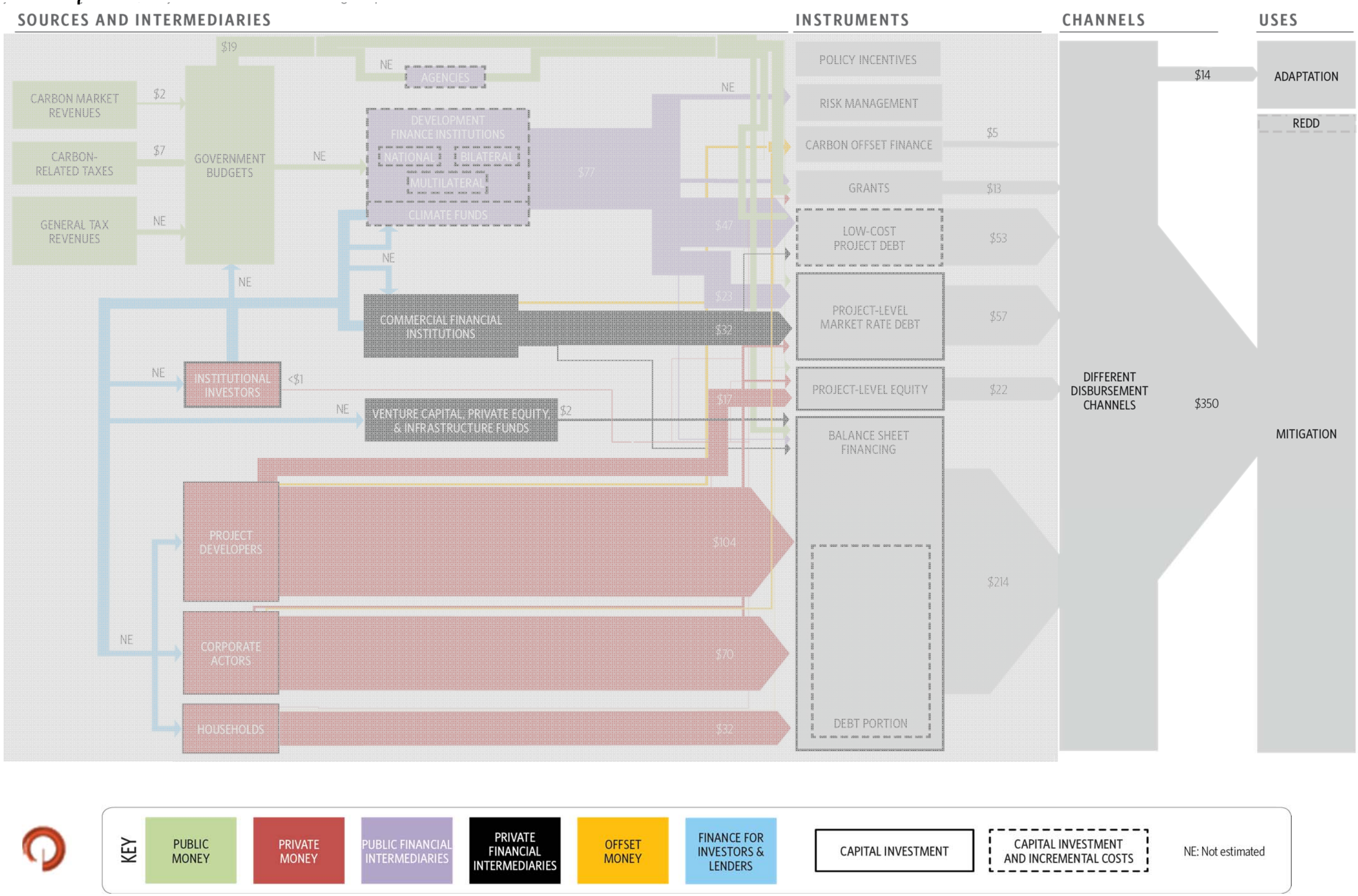


Climate finance: the instruments

Most climate finance has to be paid back.
$293-347 bn
are investments with ownership interests or claims

- **$293 billon in market rate loans and equity** mainly from private actors
- Public actors provision of **concessional loans and grants enabled** otherwise unviable **projects**
- **Filling risk gaps is key to unlock finance!**

2010/11 Uses & Recipients (in USD billions)



Climate finance: the uses & recipients

$ 350 bn in mitigation measures

Emerging economies were key recipients

- **Renewable energy** (85%) **and energy efficiency** (4%) attracted the bulk of finance
- **Investments were made where needed the most.** With ~33% of tot mitigation finance to developing countries, **China, Brazil, and India were the largest recipients**
- Understanding on adaptation finance is improving!

Bottom line

- **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

Next steps

- **Comprehensiveness. Filling gaps** and building a more **granular** understanding
- **The real money.** Clarify **net climate finance flows**
- **The impact.** Increase understanding of climate finance **effectiveness**
- **The benchmark.** Explore **business-as-usual** (‘brown’) finance flows

Further Reading

- The Landscape of Climate Finance 2012 http://climatepolicyinitiative.org/venice/publication/global-landscape-of-climate-finance-2012/
- The German Landscape of Climate Finance http://climatepolicyinitiative.org/berlin/publication/german-landscape-of-climate-finance/
- Information about the San Giorgio Group http://climatepolicyinitiative.org/venice/san-giorgio-group/
- SGG case studies http://climatepolicyinitiative.org/publication/san-giorgio-group-case-studies/

Q&A

CLIMATE
POLICY
INITIATIVE

BEIJING
BERLIN
RIO DE JANEIRO
SAN FRANCISCO
VENICE

+39 041 2700 426
Island of San Giorgio Maggiore 8
30126 Venice
Italy
climatepolicyinitiative.org