



CLIMATE
POLICY
INITIATIVE



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?

Definition

Climate finance is all financial flows ...

... from developed to developing countries...

... covering climate-specific support for mitigation, adaptation, capability building, and technological R&D, potentially furthering economic development...

... including public and private flows...

... including incremental cost and investment capital...

... counted as gross flows

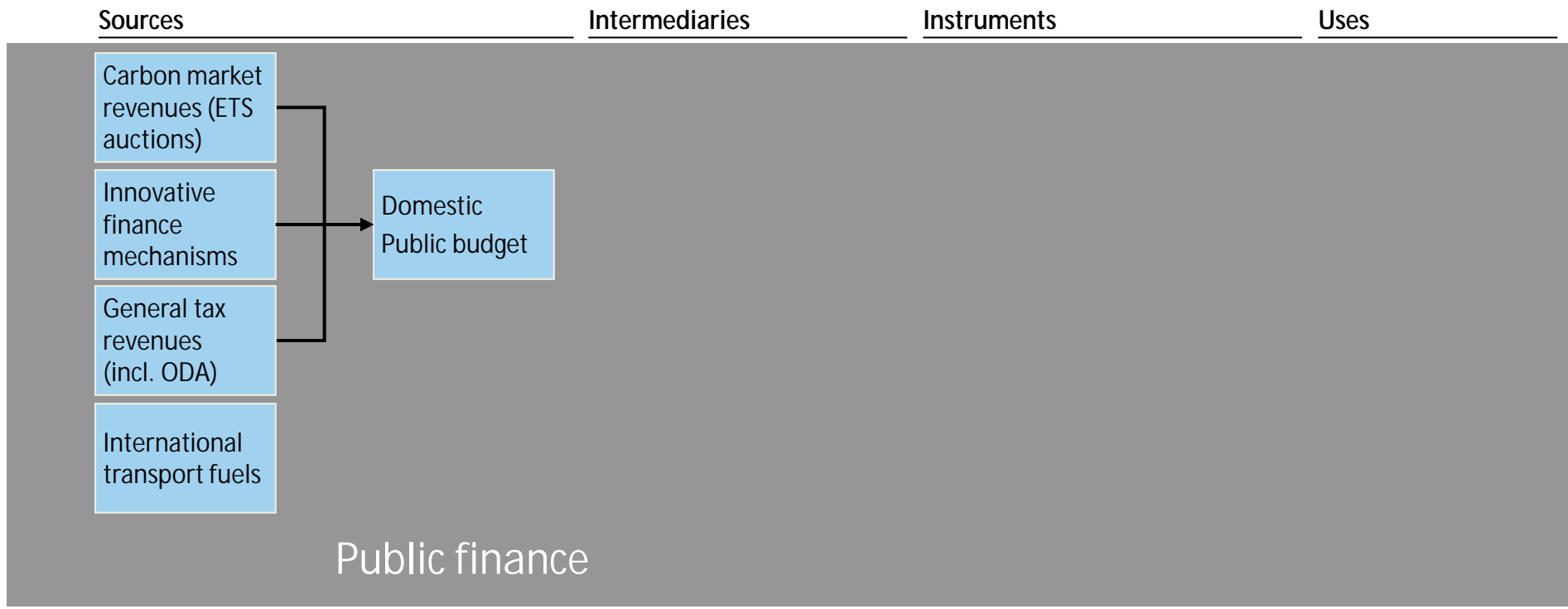
Comments

- Excluding all domestic flows
- Excluding flows between developed countries only
- We aim for a broad definition which can be shaped based on the specific context
- Public flows covering e.g. MDB grants and most adaptation efforts
- Private flows covering e.g. private MDB co-financing, investments in renewable energy production, or carbon offset markets
- Distinction between the two concepts should be made clear wherever possible
- Net flows are an important 'lens' on climate finance and can be calculated where appropriate



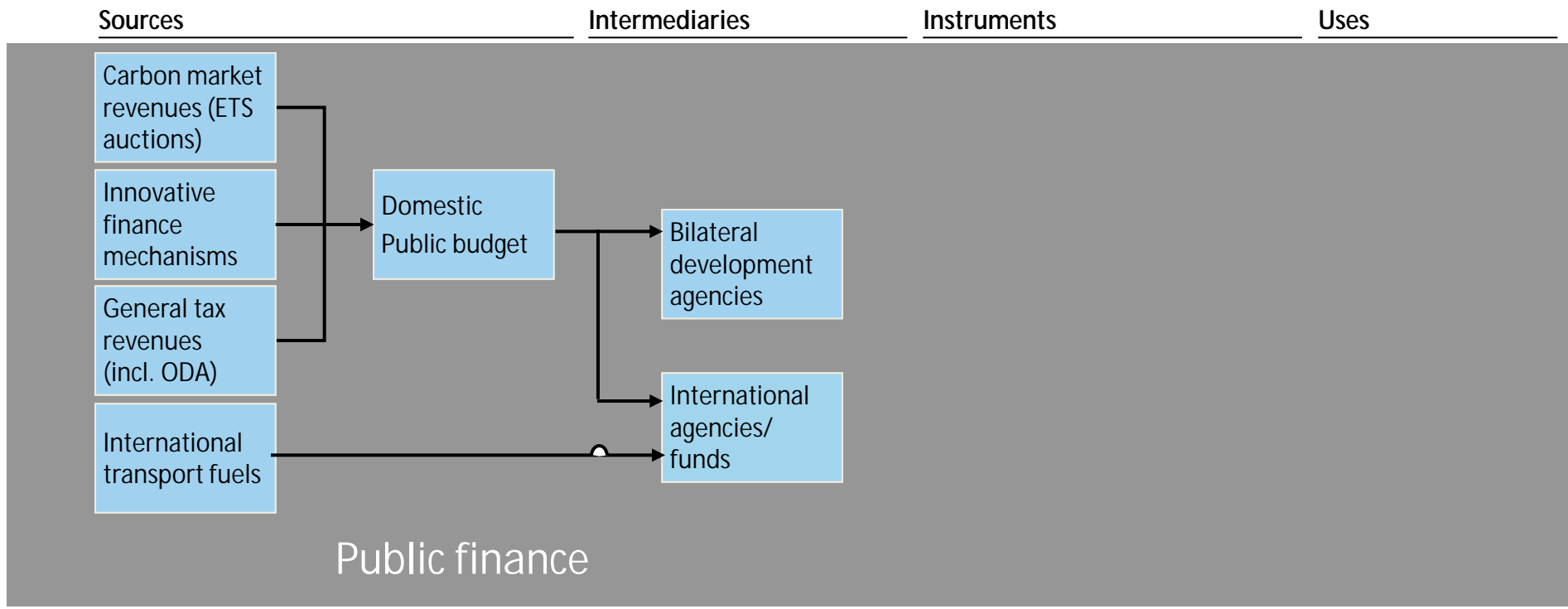
What are elements of the climate finance system?

- Incremental cost
- Capital investment



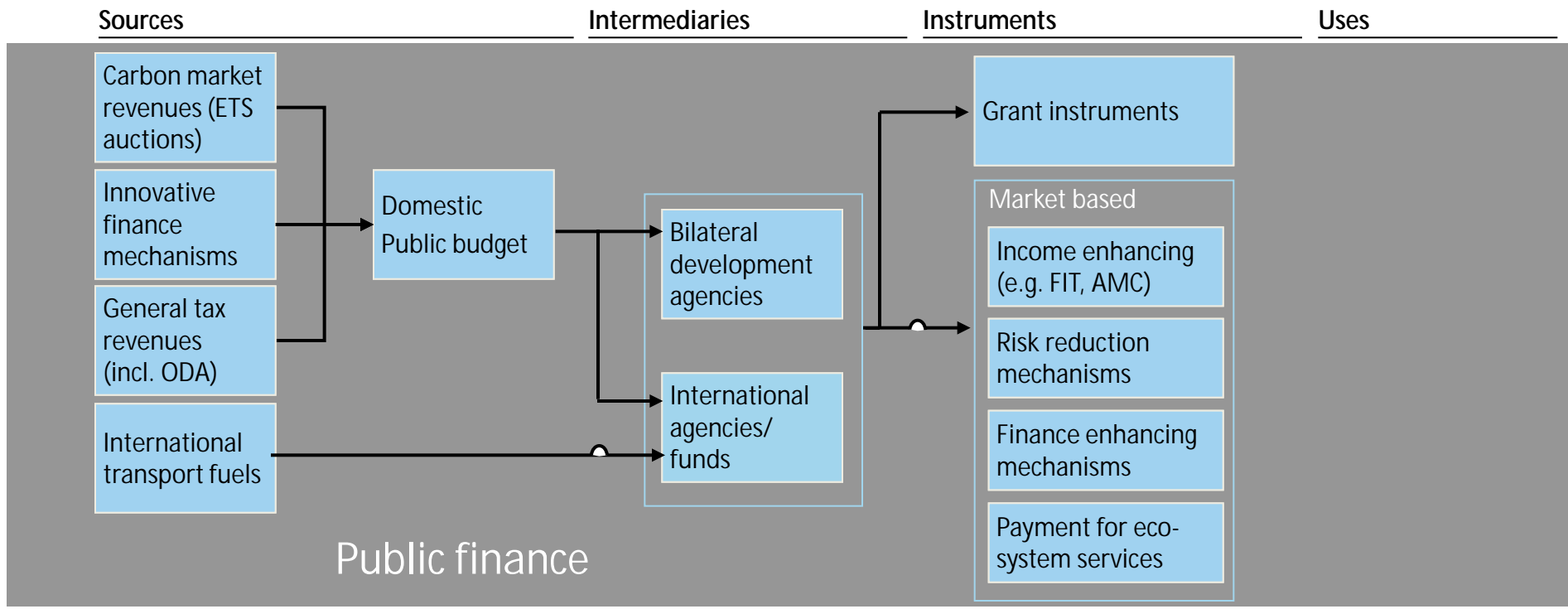
What are elements of the climate finance system?

- Incremental cost
- Capital investment



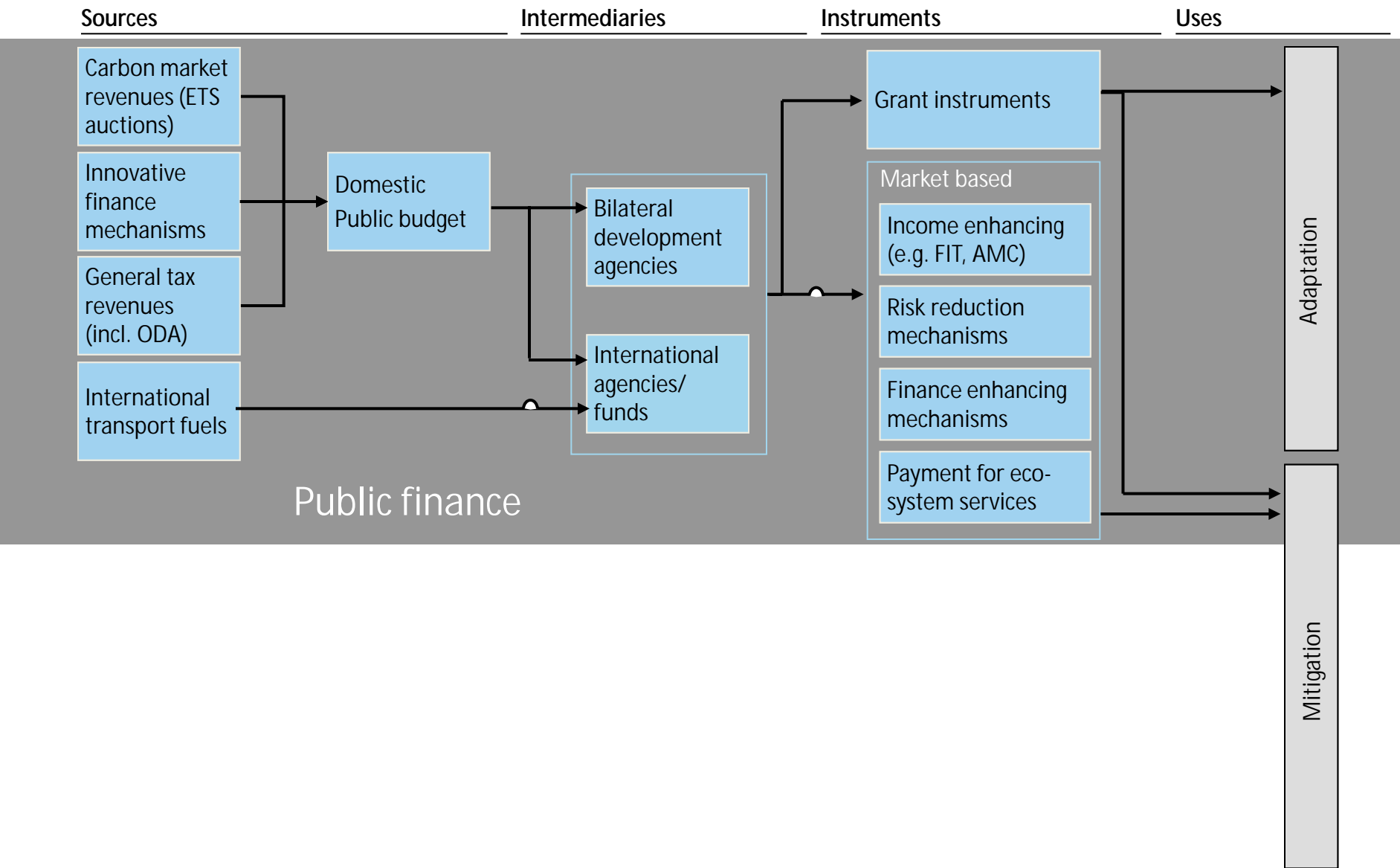
What are elements of the climate finance system?

Incremental cost
Capital investment



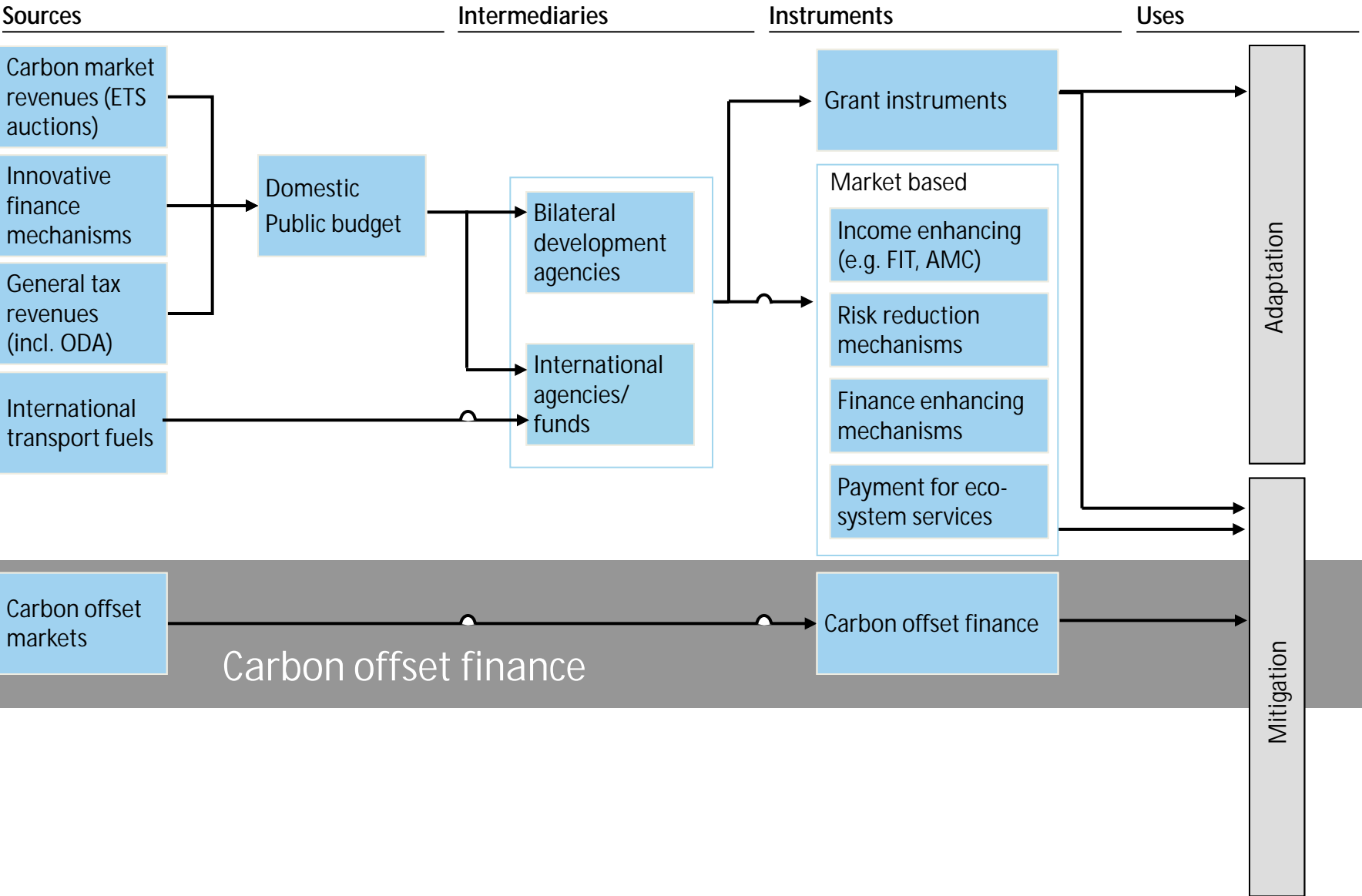
What are elements of the climate finance system?

■ Incremental cost
■ Capital investment



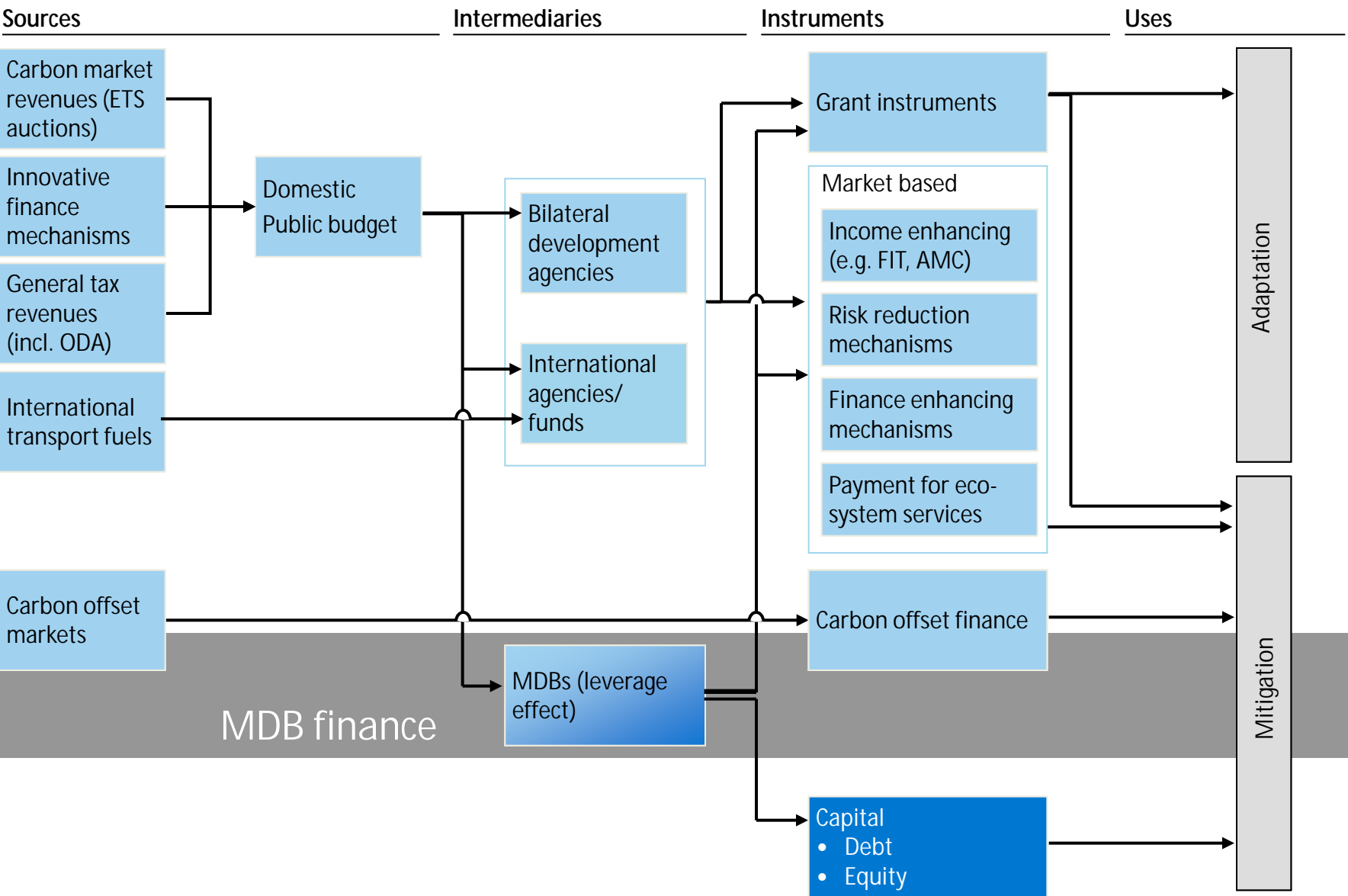
What are elements of the climate finance system?

■ Incremental cost
■ Capital investment



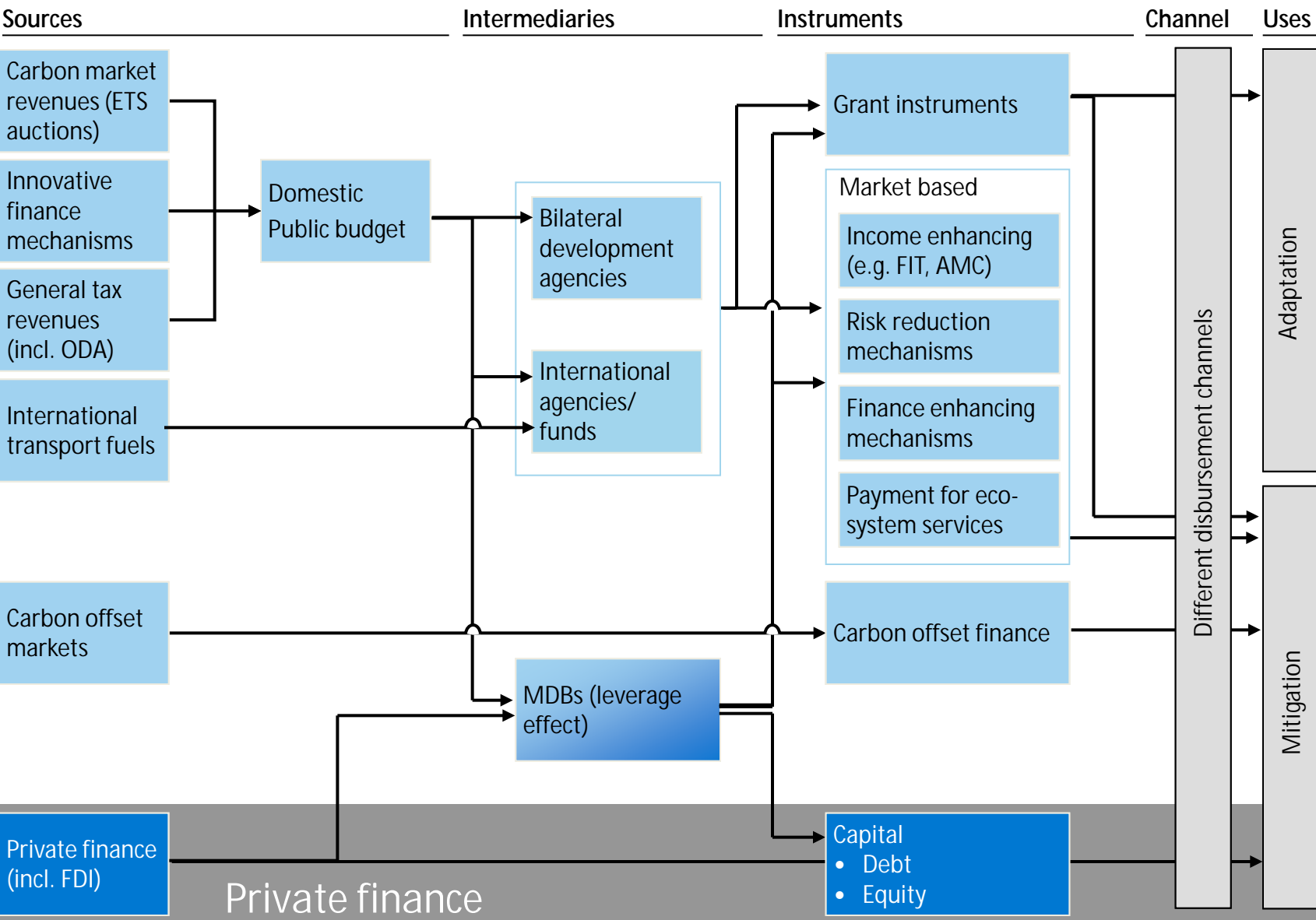
What are elements of the climate finance system?

■ Incremental cost
■ Capital investment



What are elements of the climate finance system?

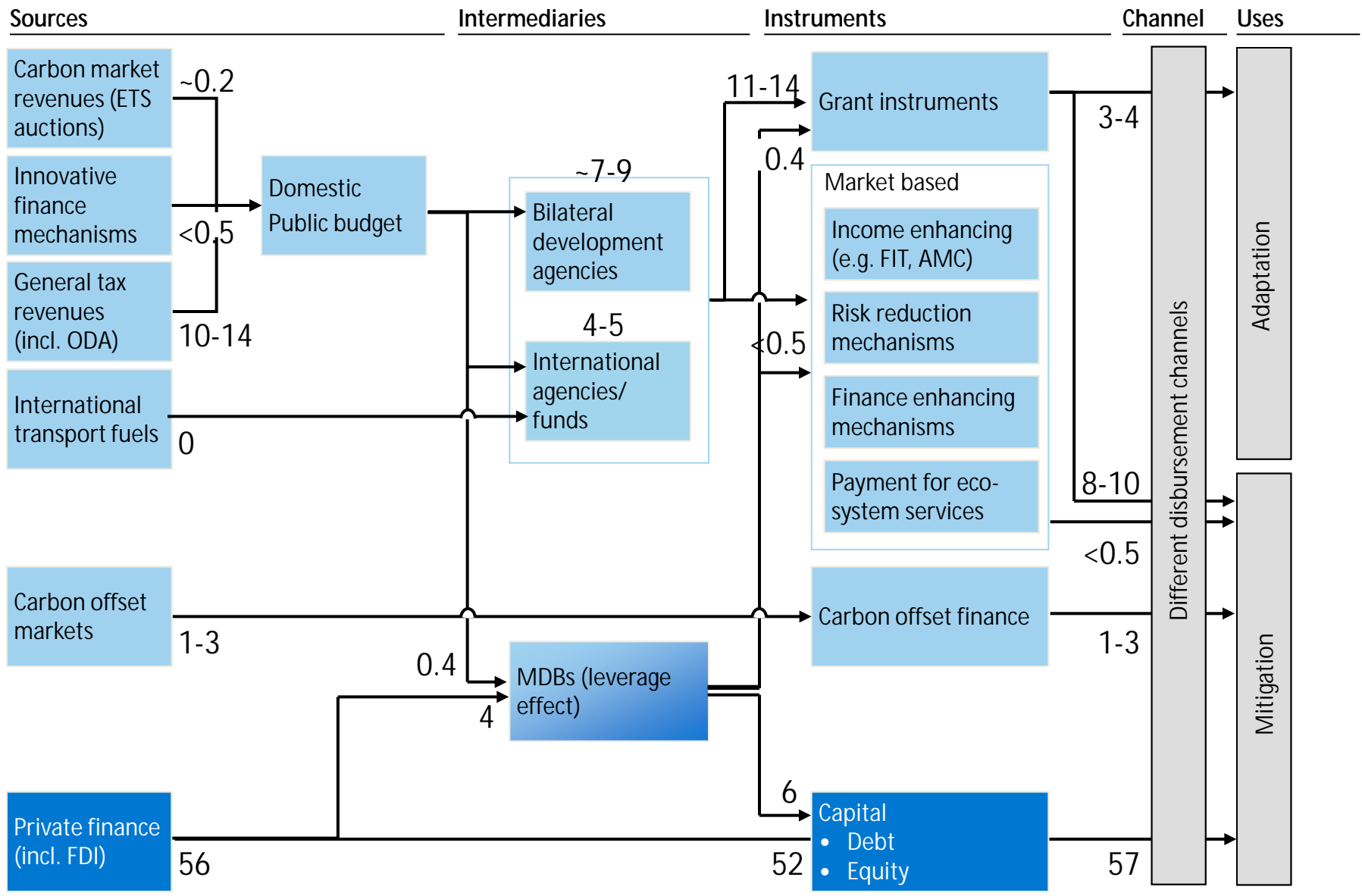
■ Incremental cost
■ Capital investment



What are current flows?

ROUGH ESTIMATES

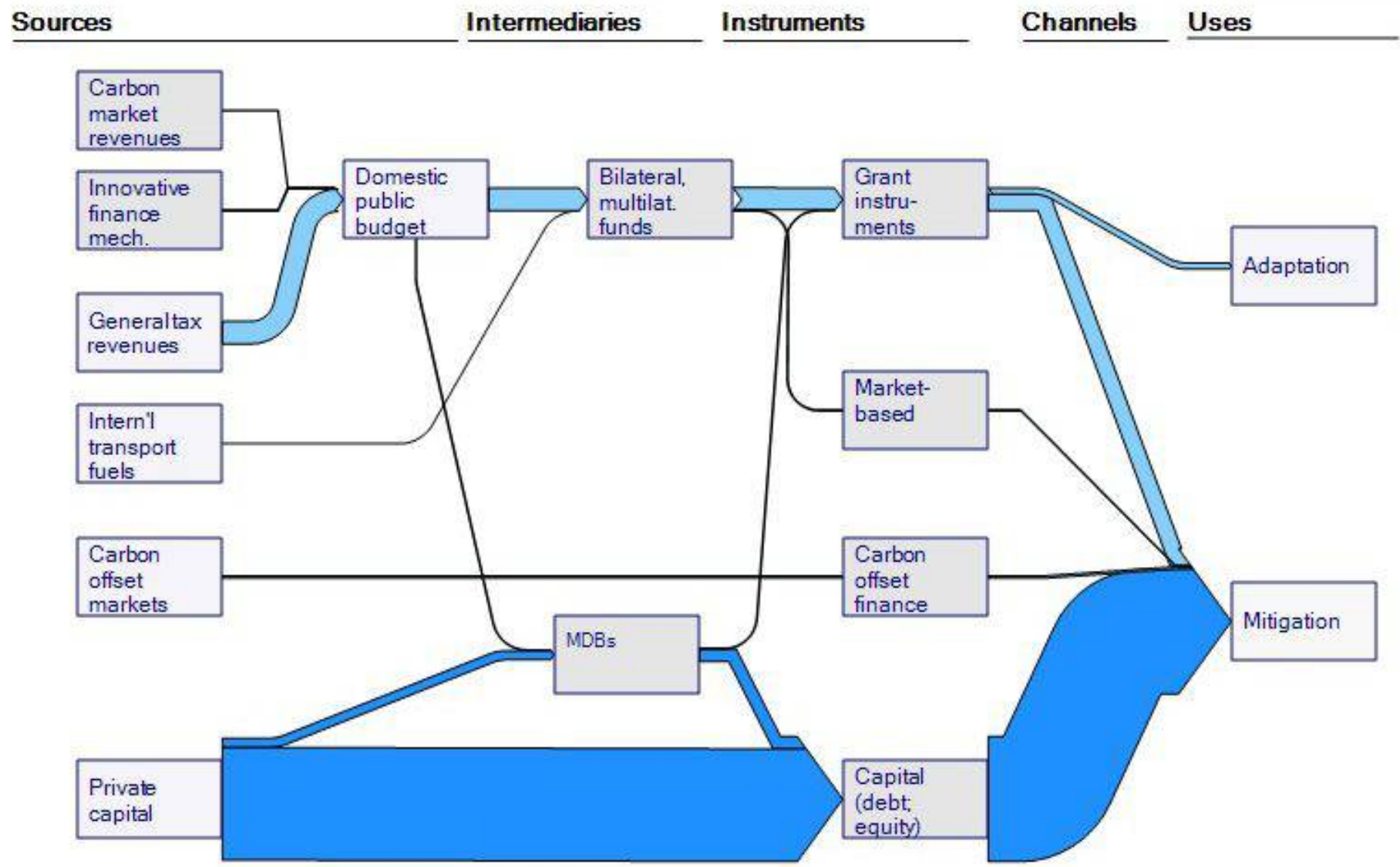
■ Incremental cost
■ Capital investment



What are current flows?

ROUGH ESTIMATES

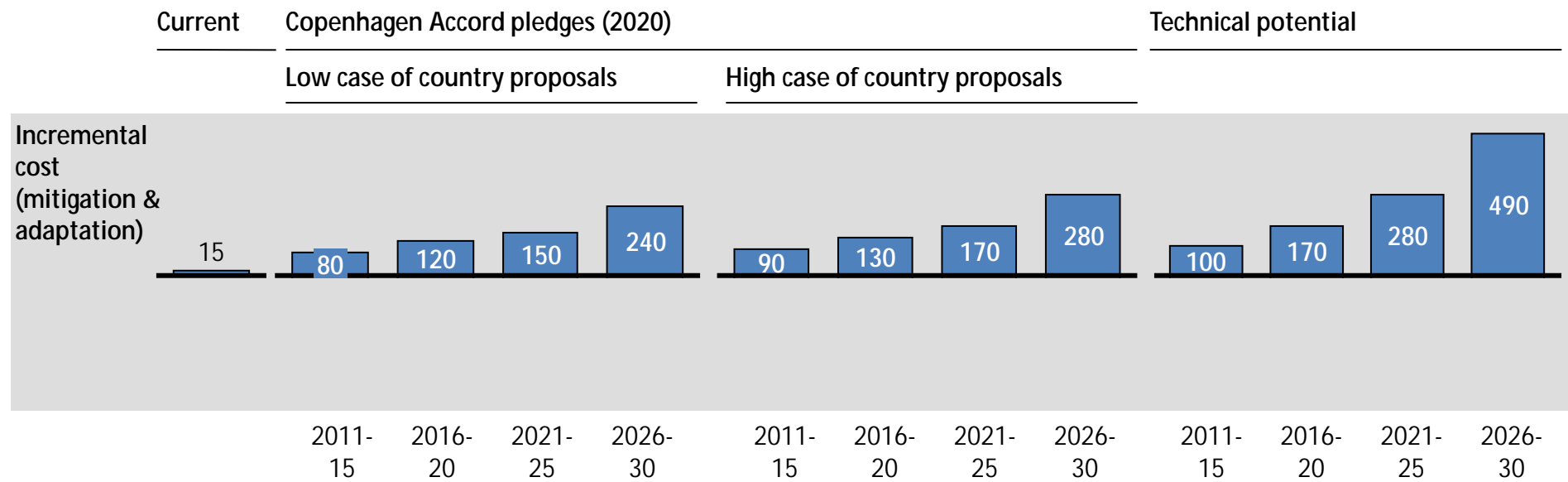
█ Incremental cost
█ Capital investment



What are future flows?

VERY PRELIMINARY

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



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



What to track and who is tracking what?

| | Countries | International institutions | MDBs | NGOs | Academics | Private |
|--------------------------------------|---------------------|-------------------------------------------|--------------------------------|------------------------------------------------------------------------------------|-----------|---------------------------------------------------------------------------|
| Track commitments (GT, degree) | | UNDP, UNEP | | WRI, Project Catalyst | ✓ | Ecofys |
| Track finance sources – public (\$) | Country governments | OECD, UNFCCC, UNDP, UNEP-Risoe, UNEP-SEFI | WB, ADB, AfDB, EBRD, IDB, IFC | WRI, ODI/ HBF, Climate Analytics, AidData, Ecosystem Marketplace, Project Catalyst | ✓ | |
| Track finance sources – private (\$) | | UNEP-SEFI, UNEP-Risoe, UNFCCC, OECD | | REN21 | ✓ | Commercial data providers (e.g. Dealogic, DB, Bloomberg NEF, PointCarbon) |
| Track finance effectiveness (GT, \$) | | | Sustainability reports of MDBs | | ✓ | |
| MRV methodology | | OECD, IEA | WB | WRI, IIED, AidData... | ✓ | |



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

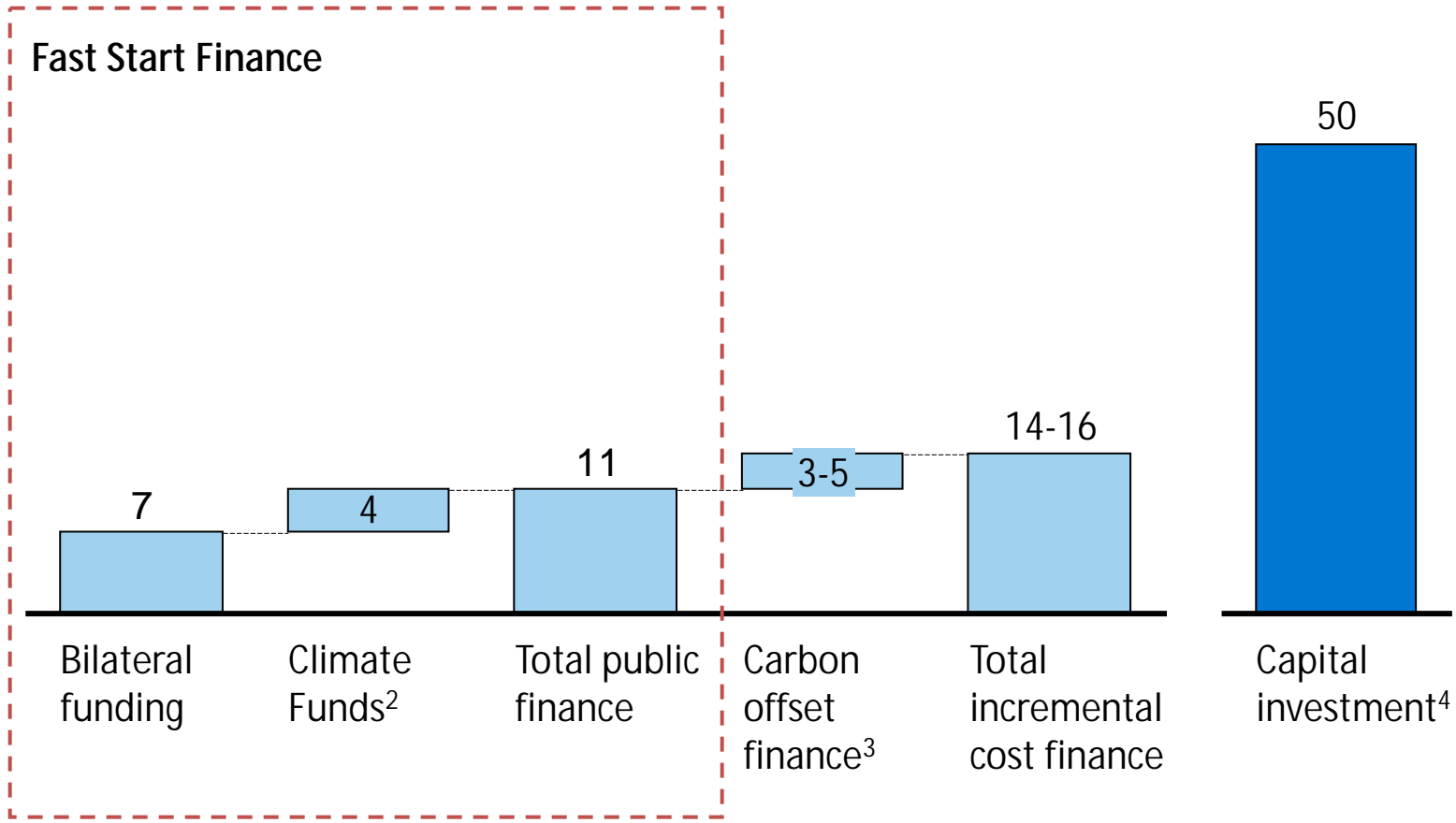


What are future flows?

ESTIMATE

USD bn, Annual average for 2010-12¹

Incremental finance



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