CLIMATE POLICY INITIATIVE

Key Takeaways from the Workshop on

The State of International Climate Finance: Is It Adequate and Is It Productive?

Venice, 14 October 2010

The success of low-carbon development depends on how much and what type of finance is going to be made available to support these efforts. On the 14th of October 2010, Climate Policy Initiative (CPI) and the International Center for Climate Governance (IGCC) in collaboration with the Euro-Mediterranean Centre for Climate Change (CMCC) hosted a workshop to convene key players in climate finance. The workshop provided a platform for policymakers and experts from research organizations and finance institutions active along the spectrum of public and private finance issues to initiate a concrete dialogue on climate finance. Four important insights emerged from the workshop:

1. The international community has a very limited understanding of the effectiveness of climate finance efforts
2. Climate finance flows in many directions; domestic and "South-South" flows must be considered alongside the traditional "North-South" flows
3. Climate finance from private sources is larger than from public sources, but linking policy to private flows is difficult since the private flows are difficult to measure, track and allocate
4. The lack of comprehensive information on all climate finance sources is an impediment to negotiation, analysis and improvement of climate finance

The biggest gap: information on climate finance effectiveness

At the workshop, a session that included panelists from international financial institutions, an NGO and academia, was dedicated to the question of the effectiveness of finance. The panel cited a lack of adequate and consistent data, particularly on **disbursed finance flows** and the projects that have been undertaken with this finance. As a consequence, efforts to track and evaluate **climate finance effectiveness** have been limited and fragmented. During the debate the lack of a baseline for climate finance emerged, which makes evaluations of countries' climate funding even more complicated. A particularly important issue in this context is the controversy around the interface between Official Development Assistance (ODA) and climate finance in setting the baseline, i.e. whether financial flows should be considered "additional" climate finance until a country's ODA commitments have been met. The question whether finance counts for development or for climate change seems to be obsolete in light of the green growth paradigm, asking for a re-conceptualization of ODA.

To address this problem, there is a need to

- develop **common methodologies** for calculating disbursement data at the recipient end of climate finance and for assessing the effectiveness of finance;
- encourage organizations to broaden their tracking initiatives to systematically embrace **disbursement data**;

- build up an **evidence-based database of success and failure stories related to climate finance;**
- define **baselines** for climate finance, particularly in light of the difficulties of separating Fast Start Finance and ODA, keeping in mind the need for a new meaning of ODA.

Rigorous monitoring and reporting can aid learning and drive effectiveness improvements. REDD+ could be an immediate test case for tracking of climate finance and evaluating its effectiveness.

Importance of domestic flows and South-South flows

Another session focused on defining and calculating flows. The tracking of North-South flows is important to ensure that commitments of developed countries to developing countries are met. Equally, a theme that was apparent in several of the discussions was that domestic and South-South flows also need to be tracked, to assess the overall adequacy of finance against the challenge of long-term decarbonization. This idea was supported by panelists from the OECD, the U.S. State Department, European Climate Foundation, World Resources Institute and McKinsey. According to the panelists, most of the costs of moving towards green growth will be borne by individual developing nations, many of whom are already directing national public funds to climate issues primarily for economic development reasons. This is also evidenced by the recent proliferation of national public funds related to climate issues.

To ensure progress towards a low-carbon growth future, there is a need to

- include **domestic** and **South-South flows** in the definition, tracking, calculation and evaluation of climate finance;
- explore ways of designing **public funds** that are effective and ensure integration across international and national flows.

Role of private finance

Several commentators, including the OECD, KfW, Deutsche Bank and McKinsey, stressed that in the overall climate finance picture, private capital far outweighs public finance and that the weight of private finance has significance to many climate issues including measurement of flows and the evaluation of policy effectiveness. However, the lack of consistent climate finance data on **private finance flows**, often due to confidentiality requirements, makes it particularly difficult to measure these flows.

To help understand the role of private finance, there is a need to

- develop **proxies** to measure the scale of private finance;
- improve the representation of private flows in **tracking** initiatives, at least by tracking carbon market flows in more granularity and by labelling 'green' (i.e., mitigation-specific) FDI flows.

To unlock private finance for the transition towards a low-carbon future, there is a need to

- identify those **risks** that should reside with the public and those which the private sector is well suited to take on;
- develop ways of **risk-sharing**, including innovative public policies and mechanisms such as export credits, government-funded green investment banks, national development banks, public-private partnerships and other types of insurances or guarantees.

Dialogue to address the degree of complexity

Large uncertainties surround the estimates of the magnitude of existing climate finance flows. The OECD noted that there is not a centralized system even for public finance, and that data is not consistent, nor regularly reported. The World Bank supported this point, stressing the role of better monitoring systems. A comprehensive picture of climate finance may not be possible unless the entire spectrum of climate finance is included in reporting and information systems, going beyond the current focus on public finance to also cover private sector finance and better capture the many details of bilateral contributions. Currently there is no integrated comprehensive system for storing and accessing financial data, although individual components reside in several sources, including the UNFCCC, OECD, the World Bank, other MDBs, research organizations and the private sector.

To help improve the understanding of the climate finance landscape, there is a need to

- **track finance flows from source to final use** to enhance traceability and transparency;
- develop **straw man proposals** on how organizations active in this area could join forces to improve the consistency, comprehensiveness and overall quality of data;
- provide a **platform** to bring existing tracking initiatives together in order to cover the whole spectrum of climate finance.

The role of CPI: helping decision-makers spend their money wisely

The workshop in October 2010 marked the beginning of the **CPI Climate Finance Project**, based in Venice. As climate finance issues will not be solved at the technical level alone, the project's goal is to provide analysis on climate finance for policymakers and the private sector, to help them make the best decisions in support of low-carbon growth.

The project will address the issues raised at the workshop: the lack of comprehensive information on climate finance sources and effectiveness, including North-South, domestic and South-South flows, as well as private sources. The CPI Climate Finance Project, with assistance from partners, will:

- establish a **platform** for comprehensive tracking and discussions of international climate finance, by continuing to **convene** the dialogue between policymakers and experts from finance institutions and research organizations active in climate finance and helping through its analytical work to **set the agenda** for other organizations to improve existing and emerging information systems;
- analyze the **effectiveness of climate finance**, filling the major gap in the existing climate finance landscape; and
- develop a **methodology/evaluation framework to assess the productivity of climate finance**, with appropriate criteria, definitions and indicators that could be applied to evaluate effectiveness.

The project will consist of two phases. The first phase, which represents a scoping exercise to both establish the definition and framework of the flows that should be included and identifying organizations and partnerships for this project, is largely complete.

The second phase of the project has two dimensions, which complement each other to fulfill the overall goal of increasing the transparency, accountability and productivity of climate finance. The first element involves establishing a platform for organizations managing finance databases, which has already begun, extending existing databases and filling in gaps to build a comprehensive clearinghouse of climate finance information. The second element is the analysis, which will be undertaken once a sound database of climate finance is available, allowing us to evaluate whether financial flows are additional to funds that are already provided for such purposes and how productively they are used when implemented.

About CPI

Climate Policy Initiative (CPI), www.climatepolicyinitiative.org, is a policy effectiveness research and advisory organization whose mission is to assess, diagnose and support nations' efforts to achieve low-carbon growth. CPI focuses on the effectiveness of national policies and programs, helping public and private decision-makers make the best decisions for low-carbon growth. An independent, not-for-profit organization with long-term support from George Soros, CPI is headquartered in San Francisco and has offices in Berlin, Beijing and Venice.

For further information on the CPI Climate Finance Project please contact: Barbara Buchner, Director, *Venice Office*, Climate Policy Initiative, Italy, barbara.buchner@CPIVenice.org

Workshop attendees

Silvia ALBRIZIO, Researcher, PhD Candidate, European University Institute, Italy
Julia BENN, Manager, Development Co-operation, Directorate, OECD, France
Paul BODNAR, Foreign Affairs Officer, U.S. Department of State, USA
Roberta BOWMAN, Senior Vice President and, Chief Sustainability Officer, Duke Energy, USA
Andrew BRANDLER, CEO, CLP Holdings Limited, Hong Kong
Marcel BRINKMAN, Associate Principle, McKinsey & Company, UK
Paul BREST, President, William and Flora Hewlett Foundation, USA
Keven BROUGH, Chief Operating Officer, Climate Policy Initiative, USA
Jessica BROWN, Research Officer, Overseas Development Institute, UK
Barbara BUCHNER, Director, Climate Policy Initiative Venice, Italy
Chris CANAVAN, Director of Global Policy Development, Soros Fund Management LLC, USA
Carlo CARRARO, President, University of Venice and, Chairman, Scientific Advisory Board, Fondazione Eni Enrico Mattei, Italy
Kenneth CHOMITZ, Senior Advisor, Independent Evaluation Group, World Bank, USA
Jan CORFEE−MORLOT, Senior Policy Analyst, Environment Directorate, OECD, France
Caterina CRUCIANI, Junior Researcher, Fondazione Eni Enrico Mattei, Italy
Marinella DAVIDE, Junior Researcher, Fondazione Eni Enrico Mattei, Italy
Ramzi ELIAS, Associate, European Climate Foundation, Belgium
Leif K. ERVIK, Director General, Ministry of Finance, Norway
Delphine EYRAUD, Senior Policy Adviser, Climate Change, Negotiations team, Ministry of Ecology, Energy, Sustainable, Development and the Sea, France
Emmanuel FAGES, Head of Market Research, orbeo, France
Angela FALCONER, Research Analyst, Climate Policy Initiative Venice, Italy
Alice FAVERO, Junior Researcher, Fondazione Eni Enrico Mattei, Italy
Brindusa FIDANZA, Associate Director, Environmental Initiatives, World Economic Forum, Switzerland
Liz GALLAGHER, Senior Researcher, E3G, UK
Caterina GENNAIOLI, Junior Researcher, Fondazione Eni Enrico Mattei, Italy
Alessandra GORIA, Communication Officer, Sustainable Development Programme, Fondazione Eni Enrico Mattei, Italy
Joerg HAAS, Programme Director Climate Diplomacy, European Climate Foundation, Germany
Jochen HARNISCH, Climate Change Policy Coordinator, KfW Development Bank, Germany
Tom HELLER, Executive Director, Climate Policy Initiative, USA
Victor HENNY, Co-Founder and Chief Executive Officer, Global Solutions Initiative, UK
Morgan HERVE−MIGNUCCI, Senior Research Analyst, Climate Policy Initiative Venice, Italy
Niklas H□ EHNE, Director, Energy and Climate Policy, ECOFYS, Germany
Kevin HOGAN, Consultant, Office of the President, Guyana
Ari HUHTALA, Senior Environmental Specialist, Environment Department, World Bank, USA
Michael JACOBS, Visiting Senior Fellow, London School of Economics, UK
His Excellency Bharrat JAGDEO, President of the Republic of Guyana, Guyana
Abyd KARMALI, Global Head of Carbon Markets, Merril Lynch Bank of America, UK
Clarisse KEHLER−SIEBERT, Research Fellow, Stockholm Environment Institute, Sweden
Caio KOCH−WESER, Vice Chairman, Deutsche Bank, UK
Maritta KOCH−WESER, Consultant, Asian Development Bank, Germany
Ambassador Bo LIDEGAARD, Permanent Under-Secretary of State, Prime Minister's Office, Denmark
Emanuele MASSETTI, Senior Researcher, Fondazione Eni Enrico Mattei and, Euro-Mediterranean Centre for Climate Change, Italy

Bert METZ, Fellow, European Climate Foundation, Netherlands
David NELSON, Senior Policy Director, Climate Policy Initiative, USA
Karsten NEUHOFF, Director, Climate Policy Initiative Berlin, Germany
John−O NILES, Director, Tropical Forest Group, USA
Stewart PAPERIN, Executive Vice President, Open Society Institute, USA
John PARSONS, Executive Director, MIT Joint Program on the Science & Policy of, Global Change, USA
George POLK, CEO, Catalyst Project, UK
Elisa PORTALE, Junior Researcher, Fondazione Eni Enrico Mattei, Italy
J. Timmons ROBERTS, Director, Center for Environmental Studies, Brown University, USA *(via Skype)*
Chiara ROGATE, Junior Researcher, Fondazione Eni Enrico Mattei, Italy
Mattia ROMANI, Senior Visiting Fellow, LSE and Senior Advisor, McKinsey & Company, UK
Maria Athena RONQUILLO−BALLESTEROS, Senior Associate, World Resources Institute, USA
Julie ROZENBERG, Research Fellow, CIRED, France
Orville SCHELL, Arthur Ross Director, Center on US-China Relations, Asia Society, USA
Christian SCHUMER, McKinsey & Company, UK
Domenico SINISCALCO, Country Head of Italy, Morgan Stanley, Italy
George SOROS, Chair Soros Fund Management LLC and, Founder Open Society Foundations, USA
Martin STADELMANN, Researcher, University of Zurich, Switzerland
Graham STEGMANN, Special Advisor to the President, African Development Bank, Tunisia
Daniela STOYCHEVA, Climate Change Policy Advisor, UNDP, Slovakia
Josu� TANAKA, Corporate Director, Energy Efficiency and Climate Change, EBRD, UK
Massimo TAVONI, Senior Researcher, Fondazione Eni Enrico Mattei,, Euro-Mediterranean Centre for Climate, Change and Princeton University, Italy, **Chiara TRABACCHI,** PhD Student - CPI, University of Venice, Italy
Peter WEHRHEIM, Head of Unit, Climate Change Finance and Deforestation, European Commission, Belgium
Matias WIBOWO, Risk Manager, EcoSecurities Ltd, UK
David WILLIS, International Climate Change, Department of Energy and Climate Change, UK
Nancy YOUMAN, Director, Open Society Initiative on Climate Change, Open Society Foundations, USA