The Landscape of Climate Finance

Climate Policy Initiative webinar
The Landscape of Climate Finance
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Morgan Hervé-Mignucci, Senior Analyst, and Angela Falconer, Analyst, CPI Venice
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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
    - Public-private
        - Private finance
            - Specific uses (e.g. sector endpoint, project type)
            - Adaptation / mitigation (or relevant sectors)
  - Public finance
    - Carbon market revenues
    - Tax revenues
    - Offset markets
    - Global capital markets
    - ... (e.g. sector endpoints)
  - Private finance
    - Climate and investment policies
    - Offset finance
    - Grants
    - Capital
    - Concessional loans
    - ... (e.g. sector endpoints)

- **Intermediaries**
  - Bilateral
  - Multilateral
  - ... (e.g. sector endpoints)

- **Recipients**
  - Carbon market revenues
  - Tax revenues
  - Offset markets
  - Global capital markets
  - ... (e.g. sector endpoints)
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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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
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
Systematic case study work
Methodology: What is effective climate finance?
Continued landscaping and effectiveness methodologies work

• Global climate finance landscape update and improving representation of:
  – Private flows
  – End uses
  – Intermediaries
  – South-South and domestic flows

• German climate finance landscape
  – a zoom in on domestic climate finance flows

• Effectiveness methodologies
  – surveying systems to monitor and evaluate effectiveness
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
Climate finance case studies

Walney Offshore Windfarms (UK)
World largest offshore windfarm whose risk-return profile was adjusted to attract institutional investors
=> Lessons on aligning public and private objectives

PROSOL (Tunisia)
Financing mechanism supporting the penetration of Solar Water Heaters in the Tunisian residential sector
=> Lessons on the role of public money

Ouarzazate I CSP (Morocco)
Large scale CSP plant in Morocco with CTF support (drive costs down / build up tech. portfolio)
=> Lessons on the role of public money

Forthcoming case studies
Political / Policy risk instruments
REDD
Onshore wind
Adaptation
Q&A
For any follow-up:

morgan@cpivenice.org
angela@cpivenice.org
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/)

• San Giorgio Group Case Study: Prosol Tunisia (2012) Chiara Trabacchi, Valerio Micale, and Gianleo Frisari [http://climatepolicyinitiative.org/venice/files/2012/06/Prosol-Tunisia-SSG-Case-Study2.pdf](http://climatepolicyinitiative.org/venice/files/2012/06/Prosol-Tunisia-SSG-Case-Study2.pdf)


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