The Landscape of Climate Finance

First Workshop on Long-term Finance

9-11 July 2012, Bonn

Barbara K. Buchner

Director, CPI Europe

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

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

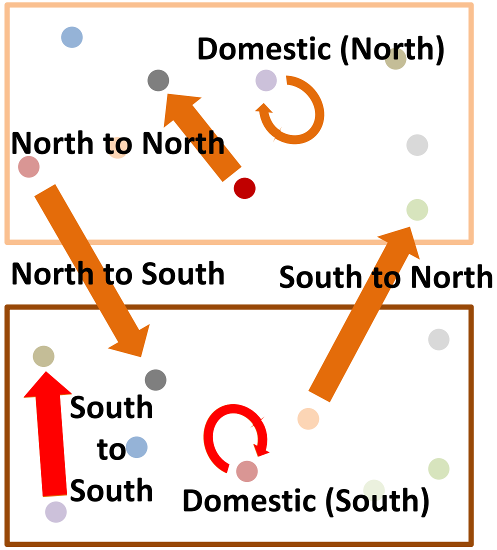
What is climate finance?

Definition

All financial flows covering financial support…

… for mitigation & adaptation…

… for various geographical configurations…



… for public, public-private & private flows…

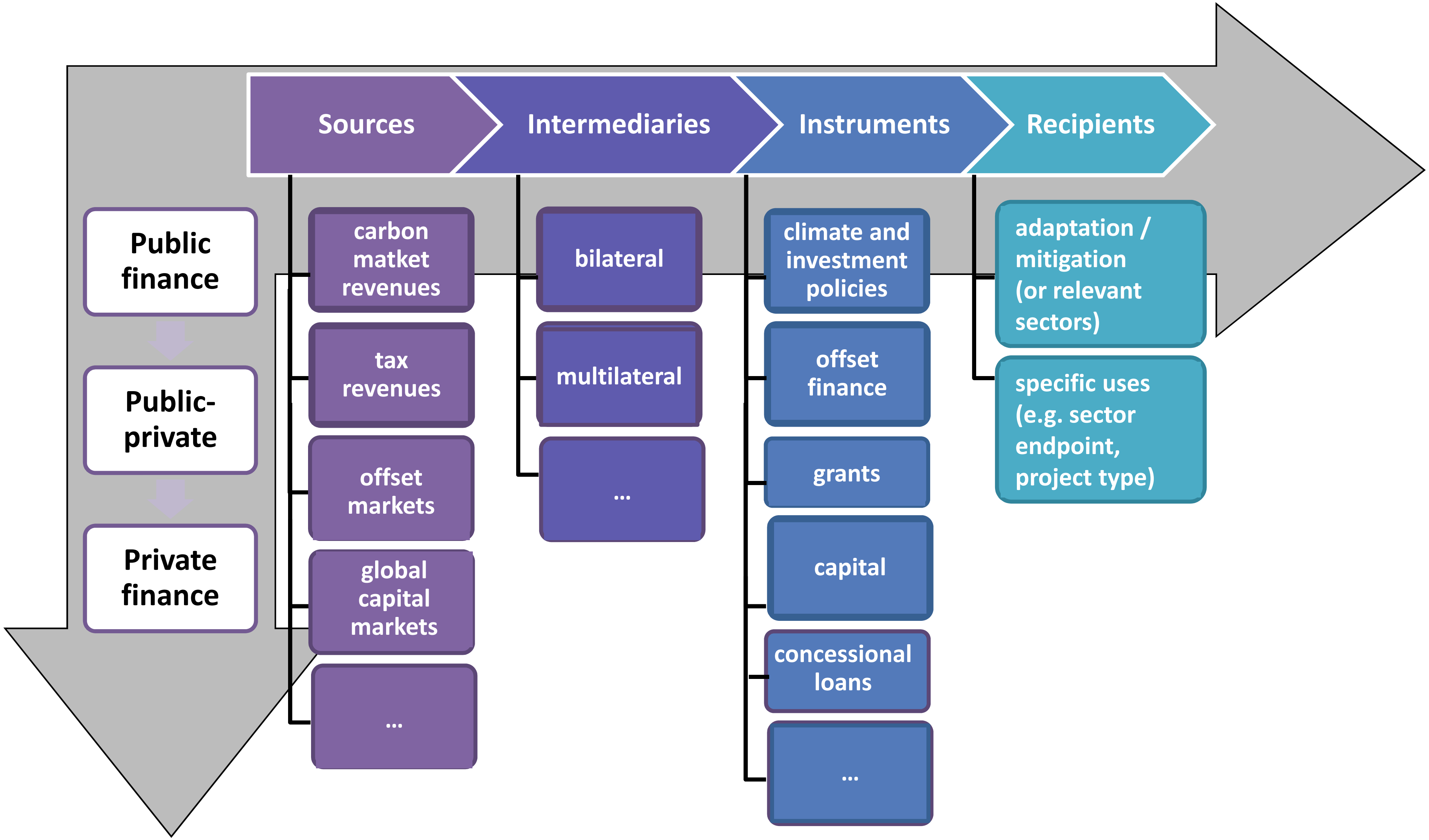
… for incremental cost & investment capital…

… counted as gross and net flows

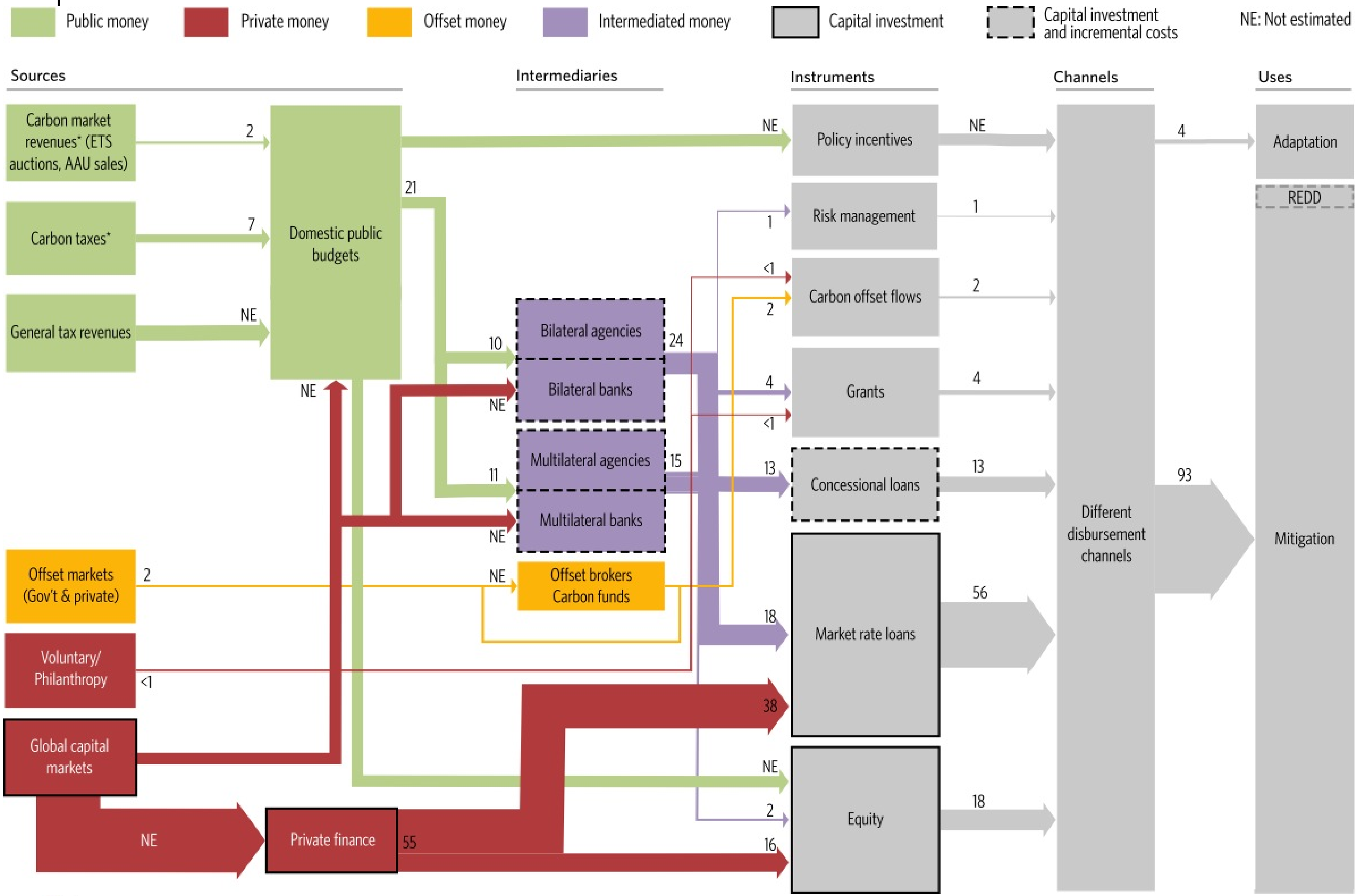
Comments

- 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

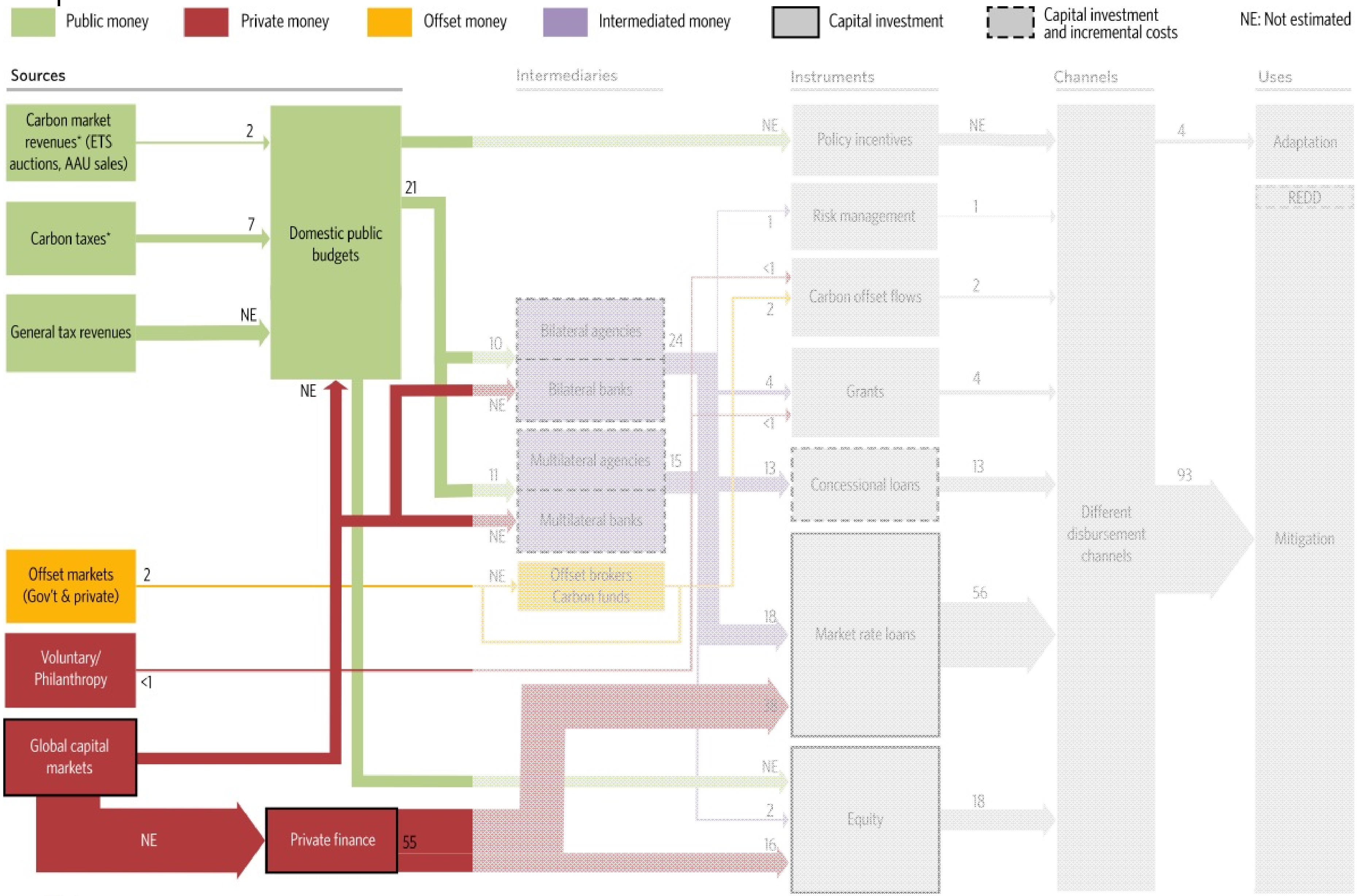


Current climate finance flows (in USD billion)



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.

Current climate finance flows (in USD billion)



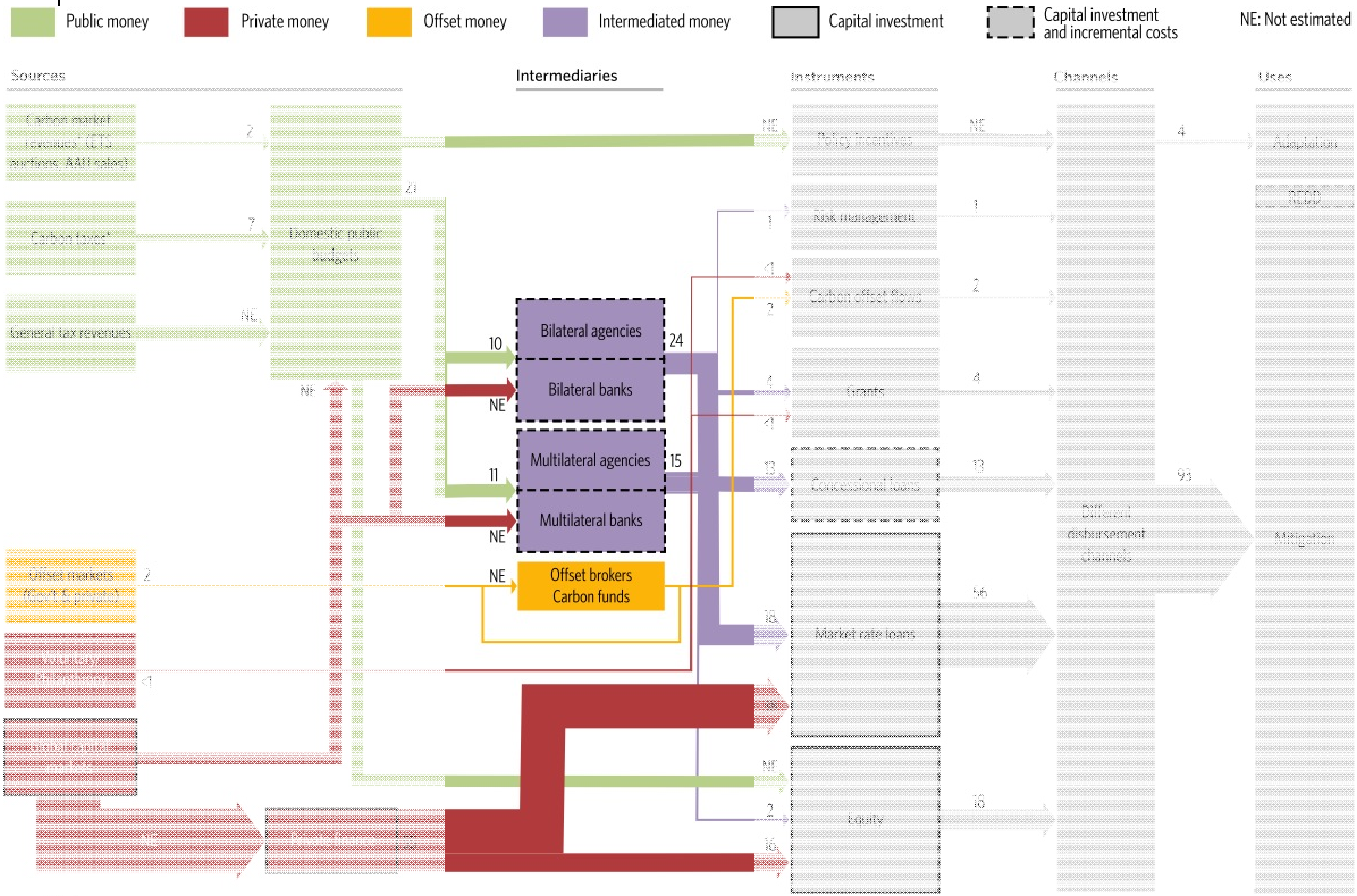
Notes: Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent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

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

Current climate finance flows (in USD billion)



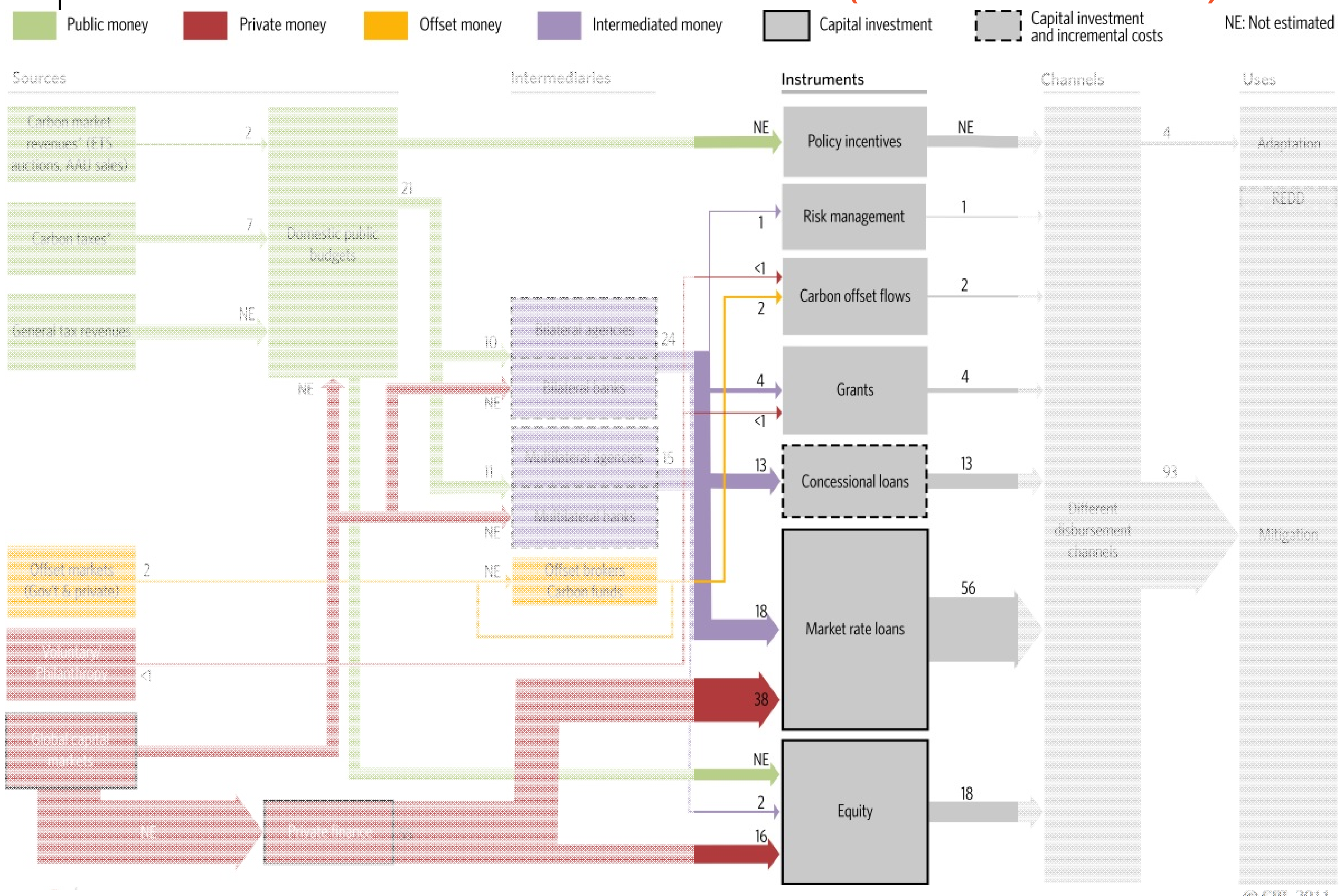
Notes: Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent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

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)

Current climate finance flows (in USD billion)



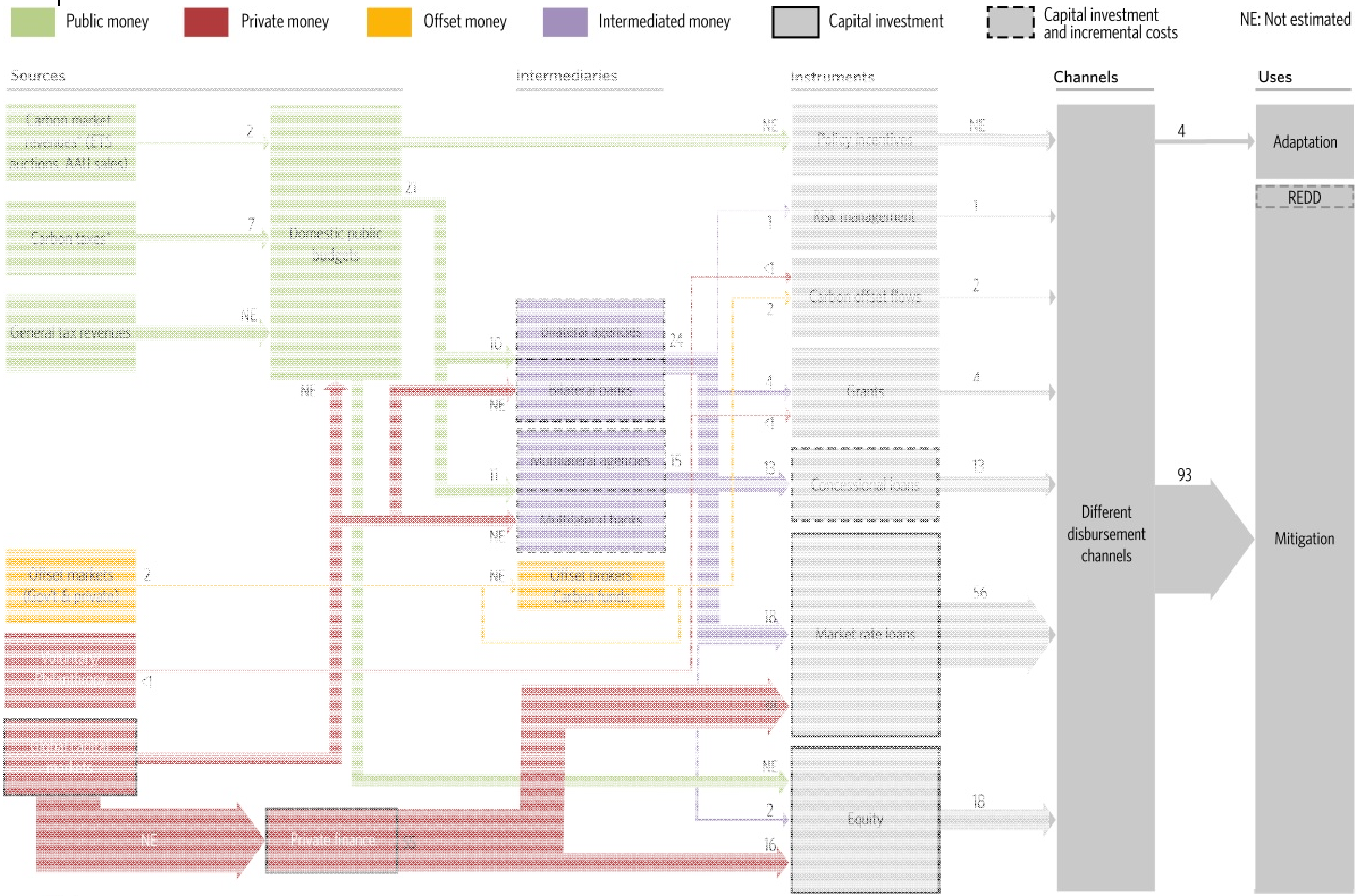
Notes: Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent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

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

Current climate finance flows (in USD billion)



© 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.

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

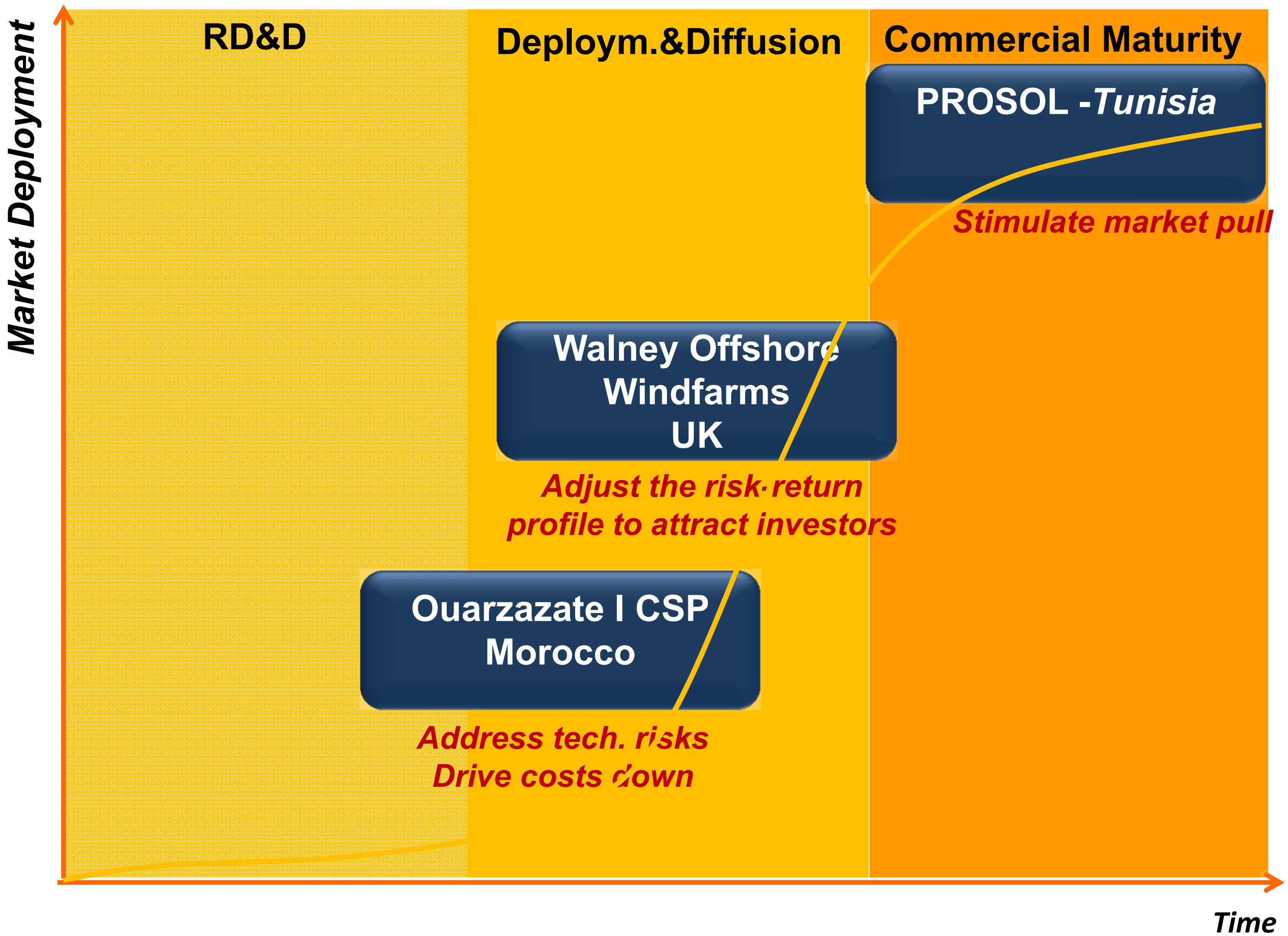
- **The complex nature of climate finance and lack of agreed-upon definitions hamper tracking efforts.**
- Several **information gaps** impede a better understanding of what is needed to **enhance climate finance effectiveness.**
- **There is no integrated international system for storing and accessing 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

San Giorgio Group

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



The case study Prosol Tunisia

Prosol is a **financing mechanism** supporting the penetration of **Solar Water Heaters** in the 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

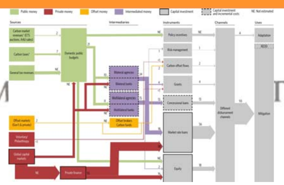
CPI Climate Finance Project:

- 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

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

Further reading

- **The Landscape of Climate Finance. A CPI Report. (2011)**
  Barbara Buchner, Angela Falconer, Morgan Hervé-Mignucci, Chiara Trabacchi and Marcel Brinkman. http://climatepolicyinitiative.org/publication/the-landscape-of-climate-finance/
- 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
  http://climatepolicyinitiative.org/venice/files/2012/06/Walney-Offshore-Windfarms4.pdf
- **Monitoring and Tracking Long-Term Finance to Support Climate Action. (2011)**
  Barbara Buchner (CPI), Jessica Brown (ODI) and Jan Corfee-Morlot (OECD)
  http://www.oecd.org/dataoecd/57/57/48073739.pdf