

International Climate Finance Current Funding - the Landscape of Climate Finance

Seminar on International Climate Finance

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Objective of CPI's Climate Finance landscape work

To gain a comprehensive picture of the landscape of climate finance, including:

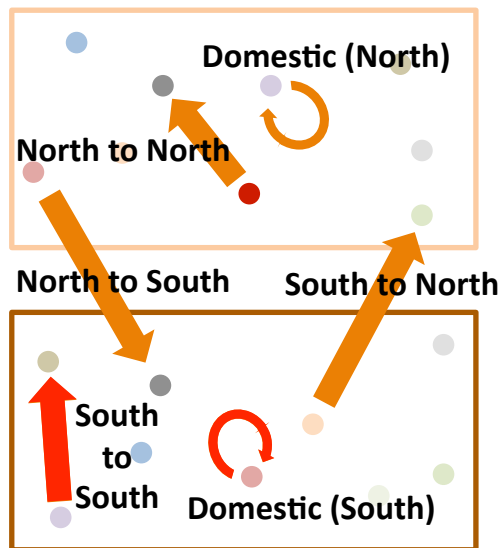
- key actors
- the nature and volume of current flows and
- key issues warranting further analysis.

Empirical work

What is climate finance?

Definition

All financial flows covering financial support...
... for mitigation & adaptation...
... for various geographical configurations...

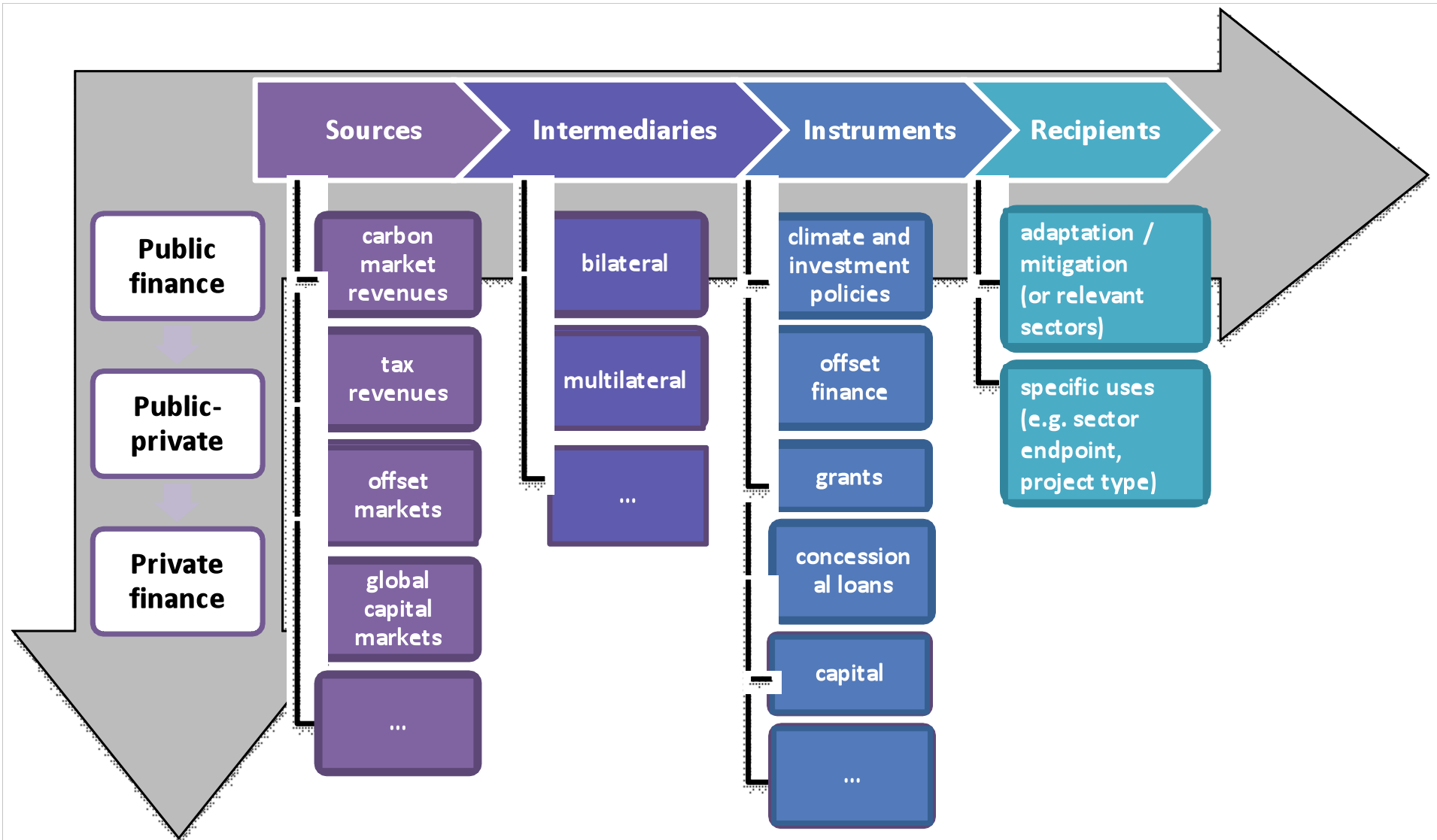


... for public, public-private & private flows...
... for incremental cost & investment capital...
... counted as gross and net flows

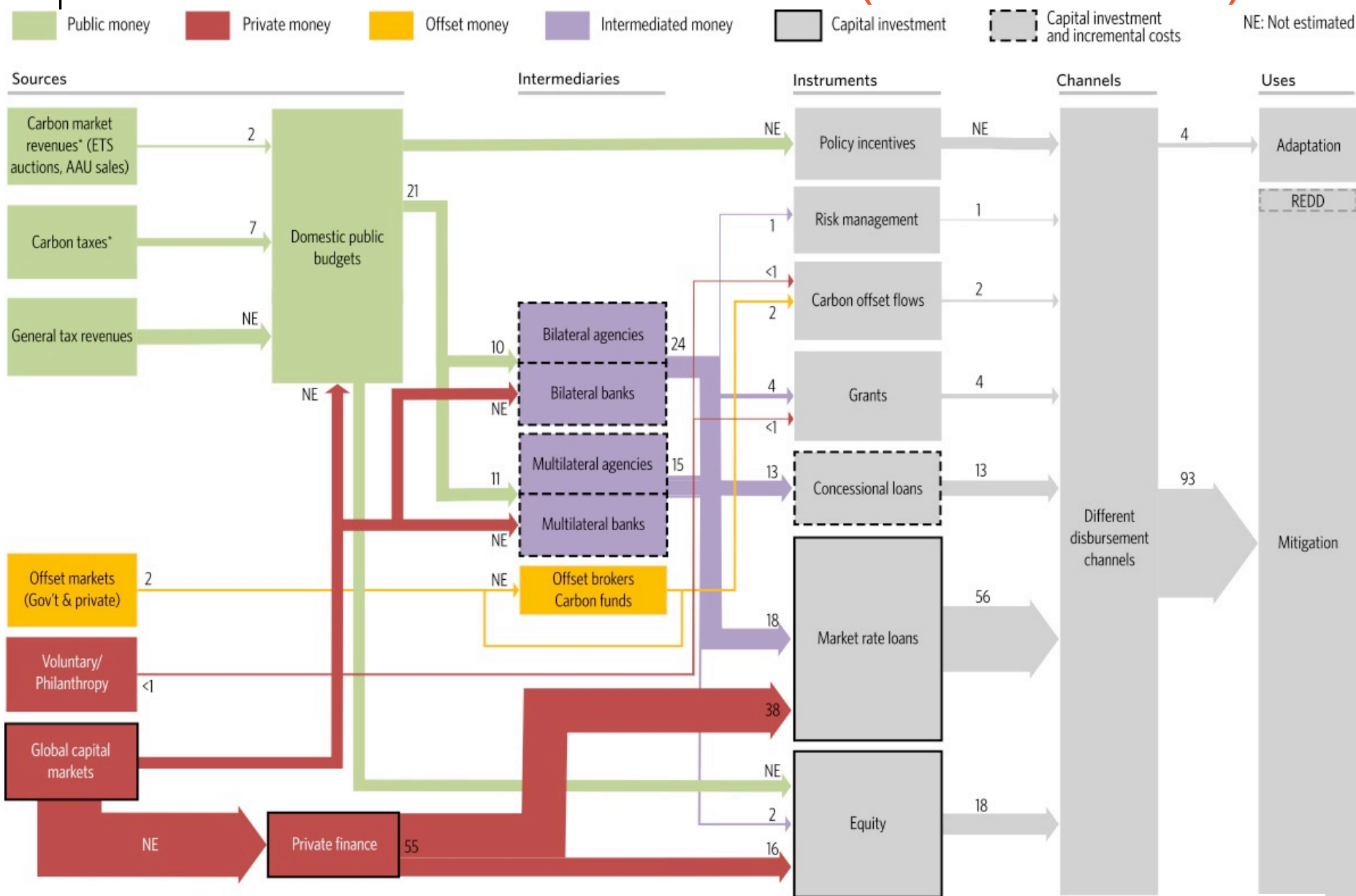
Comments

- 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 Dimension of Climate Finance

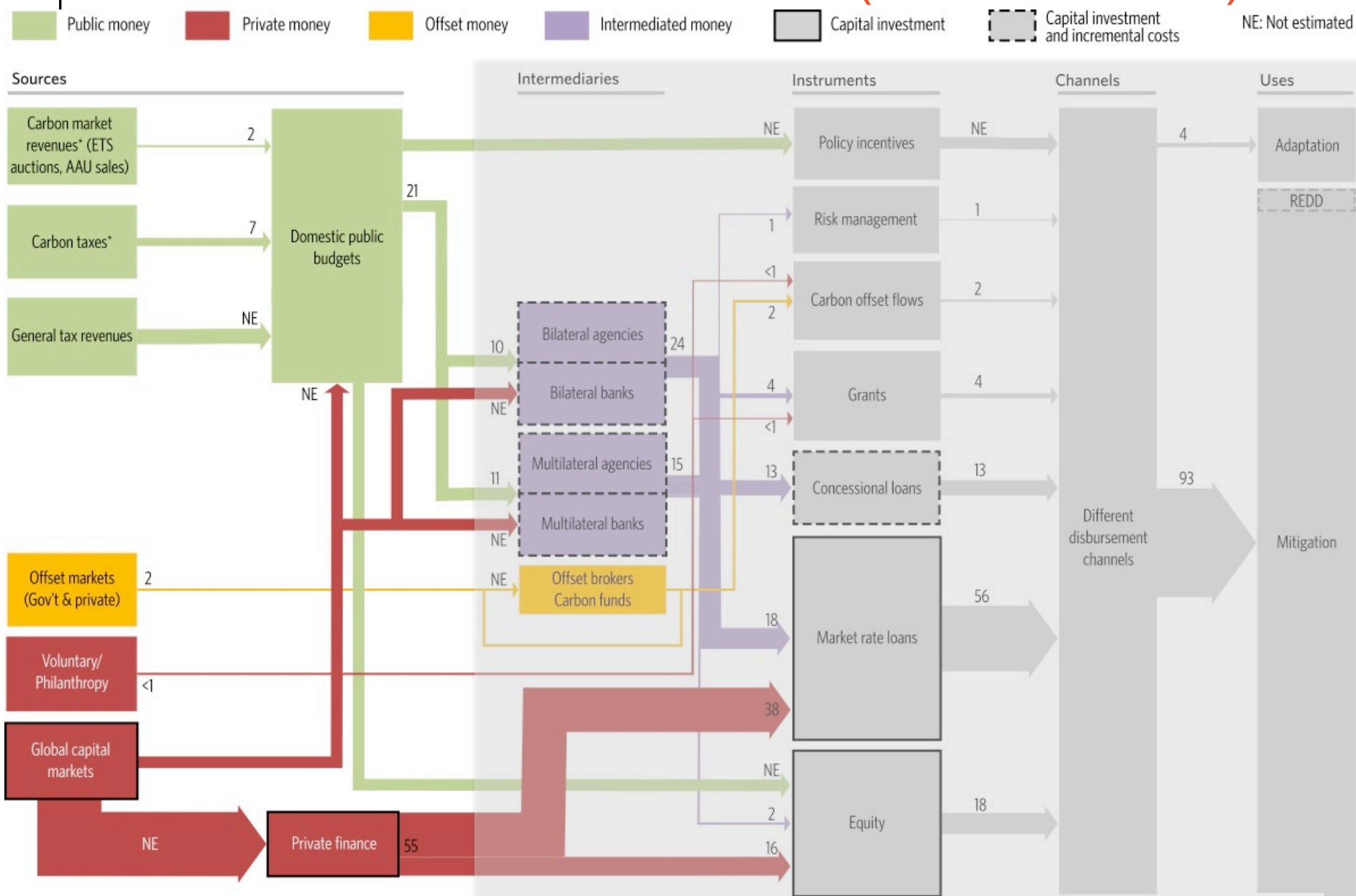


Current climate finance flows (in USD billion)



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.

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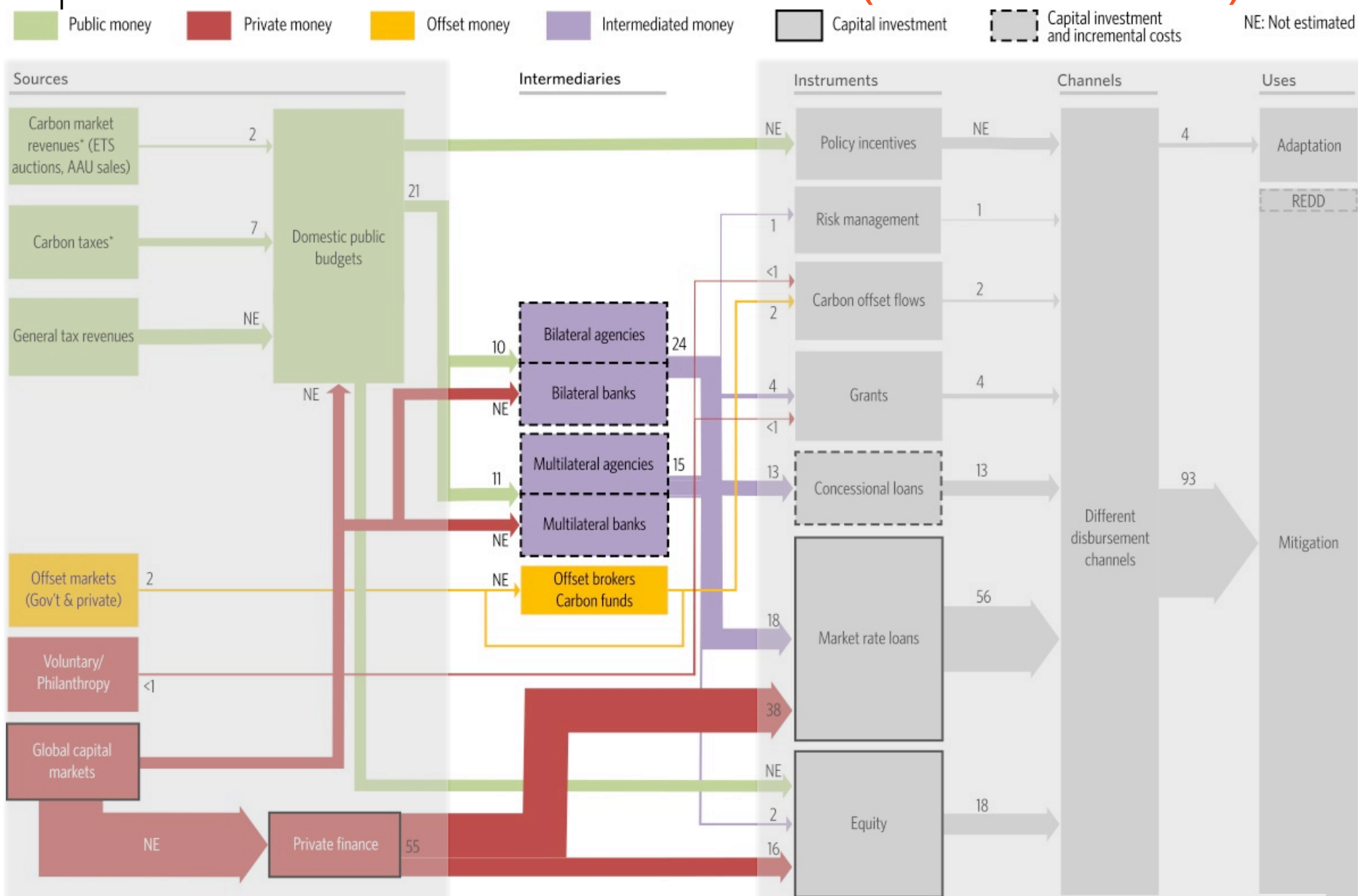
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Climate finance: the sources

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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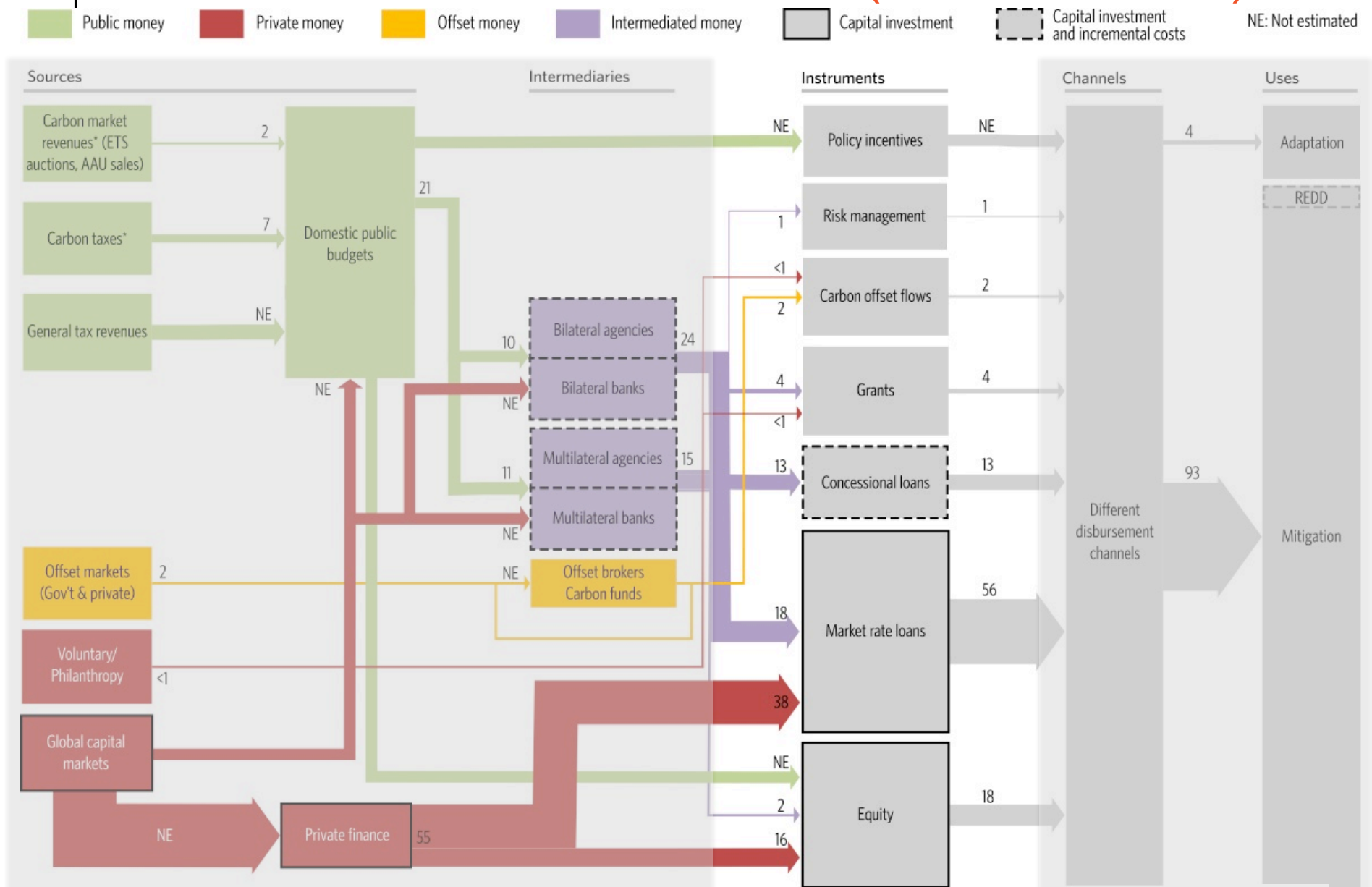
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Climate finance: the intermediaries

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)**

Current climate finance flows (in USD billion)



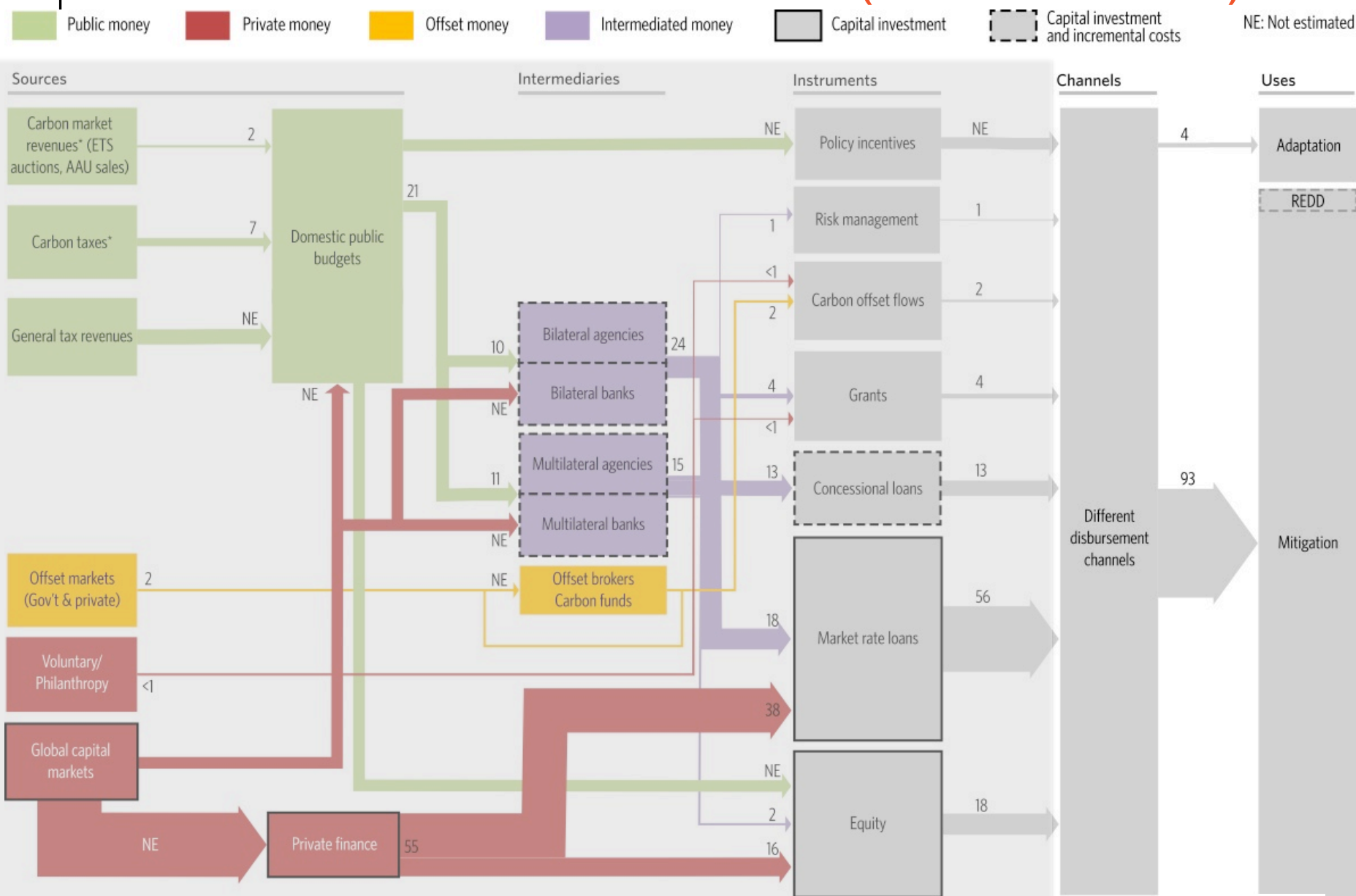
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Climate finance: the instruments

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). **REDD+** flows estimated at between \$0.7-1.9 billion per annum.

CPI's Climate Finance work – next steps

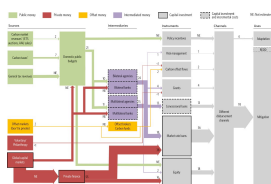
CPI Climate Finance Project:

- 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

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?



Further readings

- **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/>
- **The Impacts of Policy on the Financing of Renewable Projects: A Case Study Analysis. (2011)**
Uday Varadarajan, David Nelson, Brendan Pierpont and Morgan Hervé-Mignucci
<http://climatepolicyinitiative.org/publication/the-impacts-of-policy-on-the-financing-of-renewable-projects-a-case-study-analysis/>
- **Improving the Effectiveness of Climate Finance: Key Lessons (2011)**. A joint study by Environmental Defense Fund, Climate Policy Initiative, Brookings Institution, and Overseas Development Institute
<http://climatepolicyinitiative.org/venice/publication/improving-the-effectiveness-of-climate-finance-key-lessons-2/>