The Landscape of Climate Finance

“Why DFIs have an important role to play in the international climate finance architecture”

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What is climate finance?

**Definition**
Climate finance is all financial flows ... ... covering financial support for mitigation and adaptation, including capacity building and R&D, and broader efforts towards a transition... ... from developed to developing countries...(North-South) ... from developing to developing countries...(South-South) ... from developed to developed countries...(North-North) ... including domestic climate finance flows in developed and developing countries...

... including public, public-private and private flows...

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

... counted as gross and net flows

**Comments**
- Data difficulties for domestic and South-South flows)

**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 parts of the 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
The dimensions of climate finance

- **Sources**
  - Public finance
    - carbon market revenues
    - tax revenues
    - offset markets
    - global capital markets
  - Public-private
    - ... (other sources)
  - Private finance
    - ... (other sources)

- **Intermediaries**
  - Bilateral
  - Multilateral
  - ... (other intermediaries)

- **Instruments**
  - Climate and investment policies
  - Offset finance
  - Grants
  - Capital
  - Concessional loans
  - ... (other instruments)

- **Recipients**
  - Adaptation / mitigation (or relevant sectors)
  - Specific uses (e.g., sector endpoint, project type)

The diagram illustrates the various dimensions of climate finance, including sources, intermediaries, instruments, and recipients.
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, on average $55bn is provided by the private sector, while at least $21bn is provided by public budgets
  - **Private funding**: direct equity and 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 plays only a small role in climate finance**
  - Relatively small role of carbon finance ($2bn out of $97bn) stands in contrast with the high ambitions for carbon markets when the Kyoto Protocol came into force
Climate finance: the intermediaries

Intermediaries such as bilateral and multilateral financial institutions play a key role in distributing climate finance.

- **Intermediaries distribute around $39bn a year (40% of total)**
  - Most climate finance is not distributed directly by governments to end-users, but is distributed through government agencies and development banks.

- **Bilateral institutions distribute a greater share of finance than multilateral agencies**
  - Most of public climate finance ($24bn) is currently provided by bilateral institutions 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)**
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 is in the form of market rate loans ($18bn through bilateral and multilateral institutions, $38bn through the private sector)
  – $18bn as equity, of which $16 billion comes from the private sector
  – 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
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 in form of capital investment ($55bn), bilateral institutions ($19bn), multilateral institutions ($14bn), dedicated funds ($2.4bn), the offset market ($2.2bn), voluntary / philanthropic contributions ($240m)
The picture of climate finance remains patchy and the lack of comprehensive information on all climate finance elements is an impediment to negotiation, analysis and improvement of climate finance.

- The complex nature of climate finance and lack of agreed-upon definitions hamper tracking efforts.
- The various objectives of climate tracking efforts complicate the analysis.
- While there is a wealth of data on elements of the climate finance landscape, there is limited coordination and some gaps in data gathering.
- Several information gaps impede a better understanding of what is needed to enhance the effectiveness of climate finance.
What do the numbers tell us?

Our research suggests that at least $97bn per annum of climate finance is currently being provided to support low-carbon, climate-resilient development activities. Yet...

- Don’t confuse the $97bn with being close to the $100bn promised by developed countries in the Copenhagen Accord
  - Not all of the $97bn is necessarily additional to climate finance prior to the Copenhagen Accord
  - The $97bn includes some developing countries and domestic sources, although to a limited extent
  - The $97bn includes public and private sources, while the $100bn has sometimes been interpreted to originate from public sources (although the CA mention private sources)
  - The $97bn includes incremental costs and capital investment, while some argue that the $100bn should cover incremental costs rather than capital investment

- The $97bn needs to be put in perspective of what is needed to finance a transition to a low-emissions future
The main gap – how to effectively finance a transition to a low-emissions future

There is a very limited understanding of

- the effectiveness of climate finance efforts
- the effective balance of public and private capital
- how to trigger a transformation

This is due to open questions regarding

- How to define climate / green, low-emissions finance?
- What role for public money?
- How to deliver public money best?
- How to ensure alignment of international and national public investment flows with each other and with private investments?
- How to ensure learning?
…helping nations spend their money wisely