The Landscape of Climate Finance

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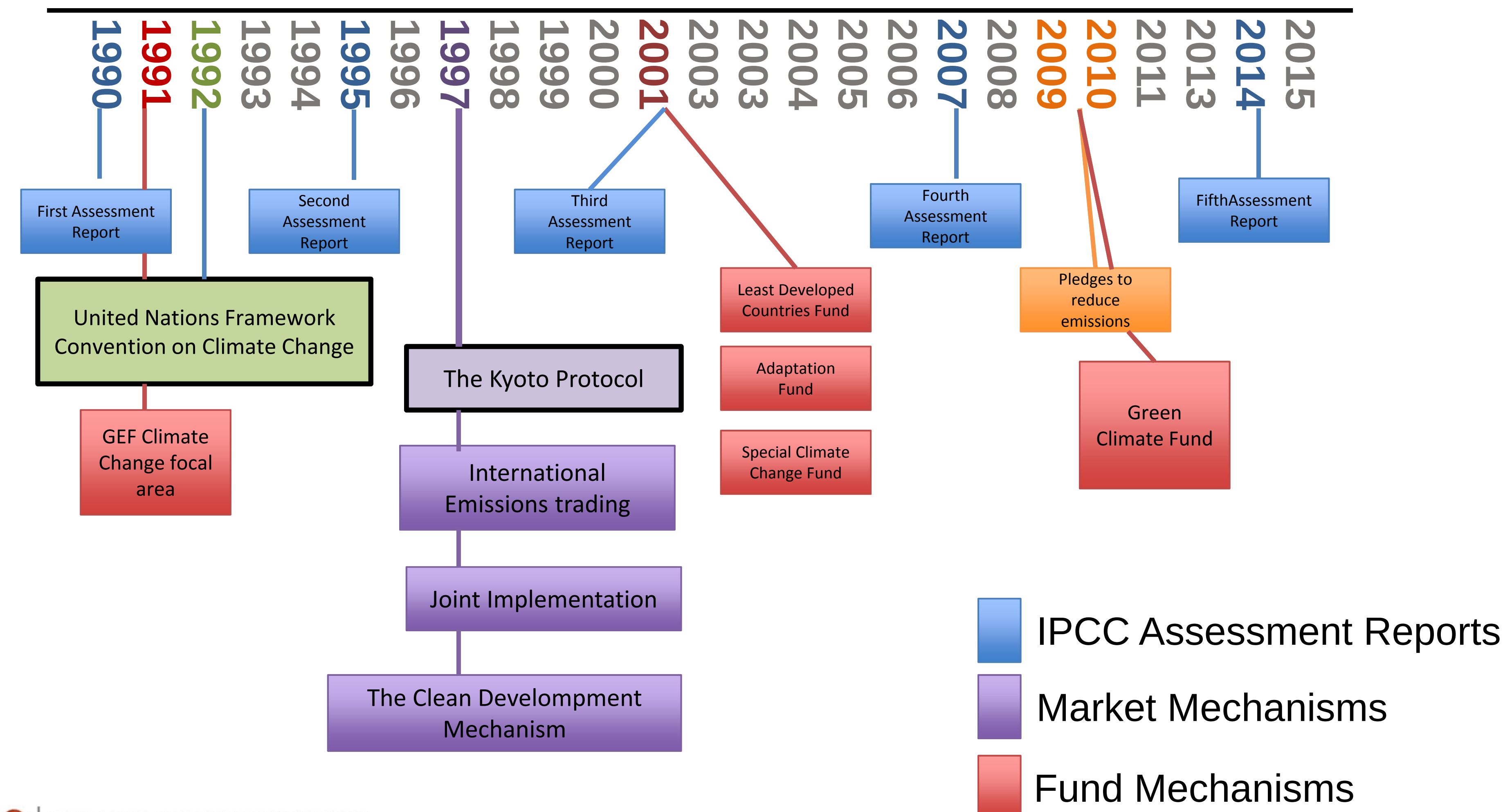
Goals of this presentation

- Outline the context for international action on climate financing
- Summarize CPI's latest report on the global climate finance landscape
- Consider what key findings imply for international progress toward an effective response to climate change

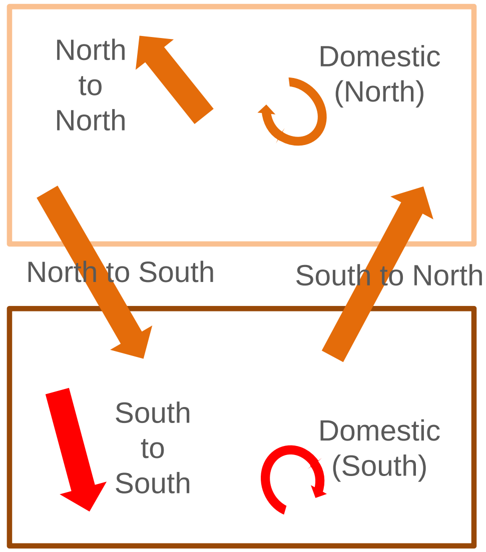
International Climate Negotiations – Where is the money?



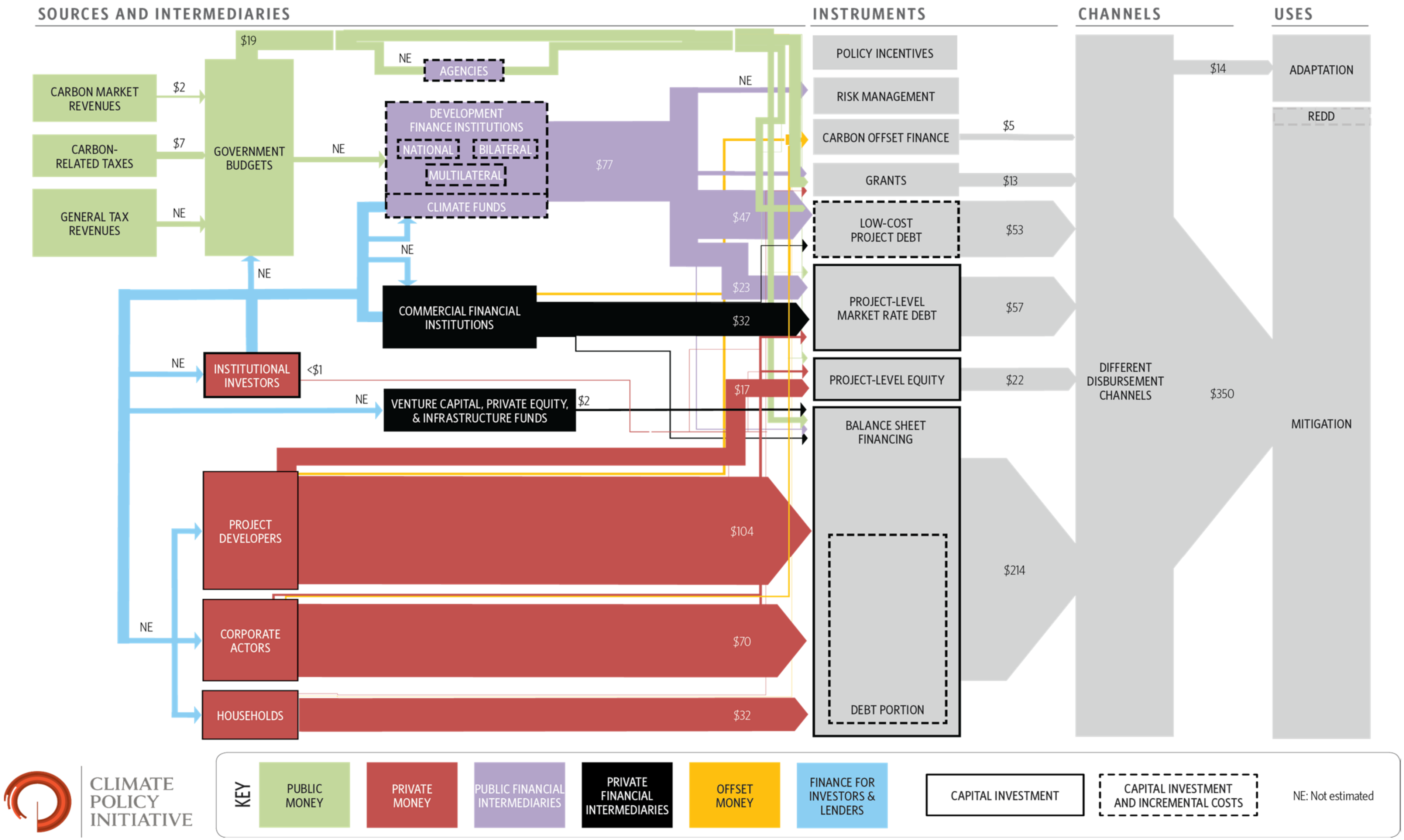
What is climate finance?

Definitional issues are a major challenge to understanding the scale of financial flows

- 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 & net flows**



2010/11 climate finance flows (in USD billions)



Notes: Figures are indicative estimates of annual flows for the latest year available, 2010 or 2011 (variable according to the data source). Flows are expressed in USD billions and 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. The diagram distinguishes between 'incremental costs,' that is, financial resources that cover the price difference between a cheaper, more polluting options and costlier, climate-friendly ones and do not need to be paid back — and 'capital investment,' which are tangible investments in mitigation or adaptation projects that need to be paid back. Categories not representing capital investment, or a mix of capital investment and incremental costs, are incremental costs only. The group of National Finance Institutions includes Sub-regional entities. Most data presented relates to commitments in a given year due to limited availability of disbursement data.

The global picture

In 2010/2011 annual global climate finance flows reached **~USD 343-385 billion, on average USD 364 billion**

- **Private finance: USD 217-243 bn**
  - Households and corporates contributed USD 83 bn toward **small-scale renewable energy finance**
- **Public sources: USD 16-23 bn**
  - ODA more than double compared to 2009/10
  - USD 11 bn domestic renewable projects (U.S. stimulus)
- **Significant public money standing behind private money**: USD 51 bn in governments' direct and indirect shareholdings and lending to private investment structures

The role of financial intermediaries

Public & private financial institutions raised and channeled USD 110-120 bn. of climate finance

- **Public intermediaries channeled about two-thirds**
  - National, sub-regional and bilateral financial institutions alone delivered USD 54 bn.
- **Private commercial banks and infrastructure funds intermediated ~USD 38 bn.**, including project finance debt and direct investments
  - These contribute financial instruments needed to unlock innovative green investment
- **Dedicated climate funds** contributed a small but growing portion of finance (USD 1.5 bn.), and are proving critical in enabling frameworks for investment.

What are the main instruments?

Most climate finance can be classified as **investment / ownership rather than contributions to incremental costs**.

- **USD 293-347 bn. can be classified as investment with an ownership interest** rather than policy incentives, carbon pricing mechanisms and grants
- **Public intermediaries enable investment by providing low cost debt and grants**
- **A variety of risk management instruments are critical** to overcome real and perceived risks barriers, and deliver green investments at large scale.

What are the uses & who are the recipients?

The large **majority of climate finance** captured was **invested in mitigation** measures. **Emerging economies** were key recipients.

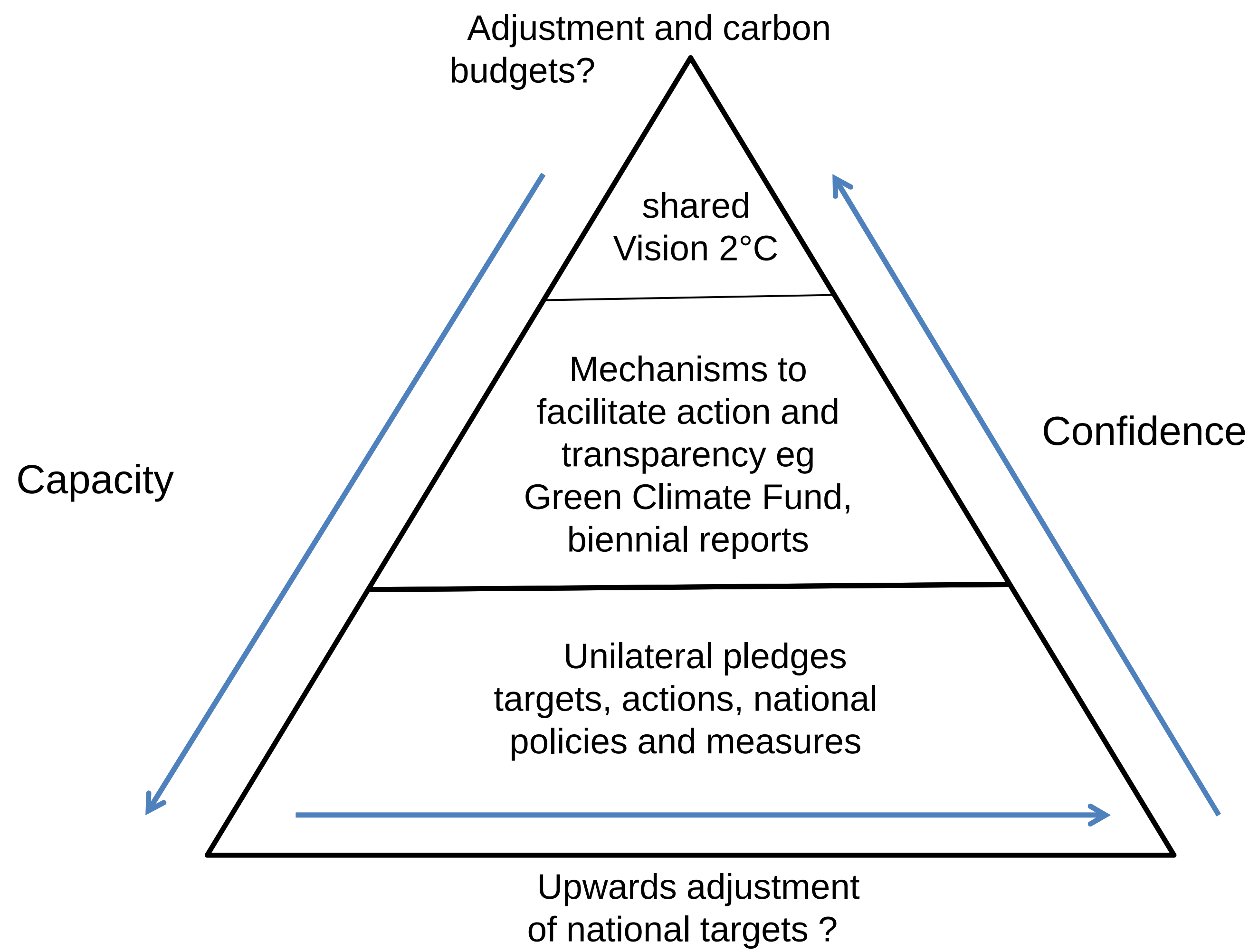
- **Sectors. Mitigation vs. adaptation.**
  - **Renewable energy generation projects** (85%) **and energy efficiency** (4%) attracted the bulk of finance
  - Data on **REDD+ finance** are poor but suggest that flows could be around USD 11.8 billion per year (predominantly domestic)
- **Recipients. Developed vs. developing countries.**
  - **China, Brazil, and India were the largest recipients of mitigation finance directed to** developing countries, receiving close to 33%
  - A significant share of this was raised domestically and disbursed by state-owned entities.

Bottom line

The financing gap is huge

- **Money is flowing – but still falls far short of what is needed to finance a low-emissions transition**
  - Private capital is essential to scale up
  - Well-targeted public capital can catalyze private capital
- **The landscape of climate finance is complex**
  - Variety of actors with distinctive roles and responsibilities
  - Climate finance archetypes differ by country and circumstance
- **Information about finance flows is growing, but...**
  - Gaps and lack of definition continue to hamper the understanding of what is effective climate finance

The decentralisation of climate negoations – where to next?



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Further Reading

- *The Landscape of Climate Finance 2012* may be found at: http://climatepolicyinitiative.org/venice/publication/global-landscape-of-climate-finance-2012/
- *The German Landscape of Climate Finance* may be found at: http://climatepolicyinitiative.org/berlin/publication/german-landscape-of-climate-finance/
- SGG case studies may be found at: http://climatepolicyinitiative.org/publication/san-giorgio-group-case-studies/
- Information about the San Giorgio Group may be found at: http://climatepolicyinitiative.org/venice/san-giorgio-group/
- The *Risk Gaps* publications may be found at http://climatepolicyinitiative.org/publication/risk-gaps/

Private finance flows

The domestic private sector is a cornerstone of climate finance in both developed and developing countries.

- **Developed countries -** USD 143 billion
  - 55% of projects financed on balance sheet basis, 84% of which came from domestic actors
  - Project level debt predominantly from commercial banks (77%). Governments (17%) and corporate players (6%).
- **Developing countries** - USD 85 billion
  - 80% of projects financed on balance sheet basis,
  - 84% of private finance came from domestic actors
- Close to **two-thirds of private finance flows originated in developed countries**