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

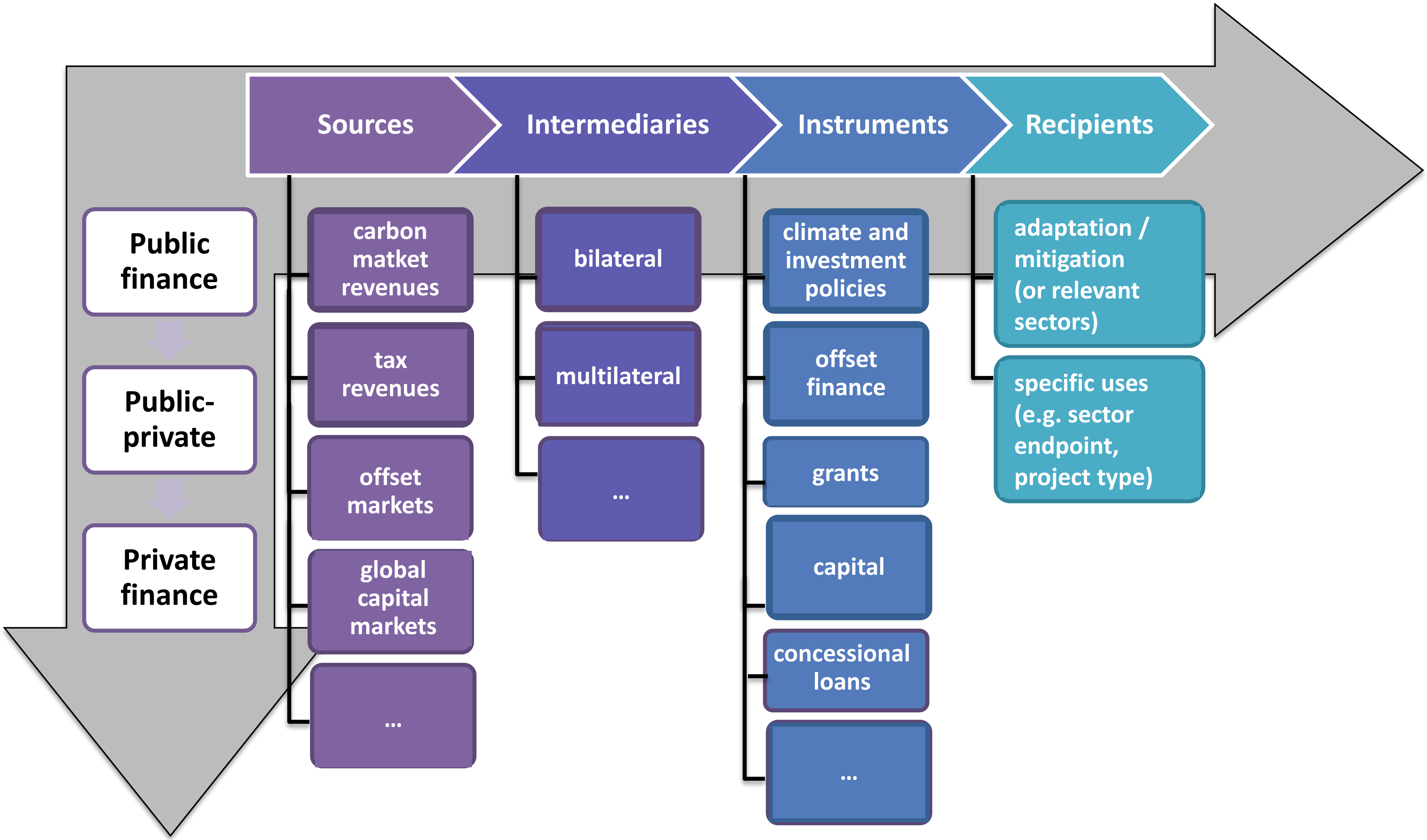
Comments

- Data difficulties for domestic and South-South flows)

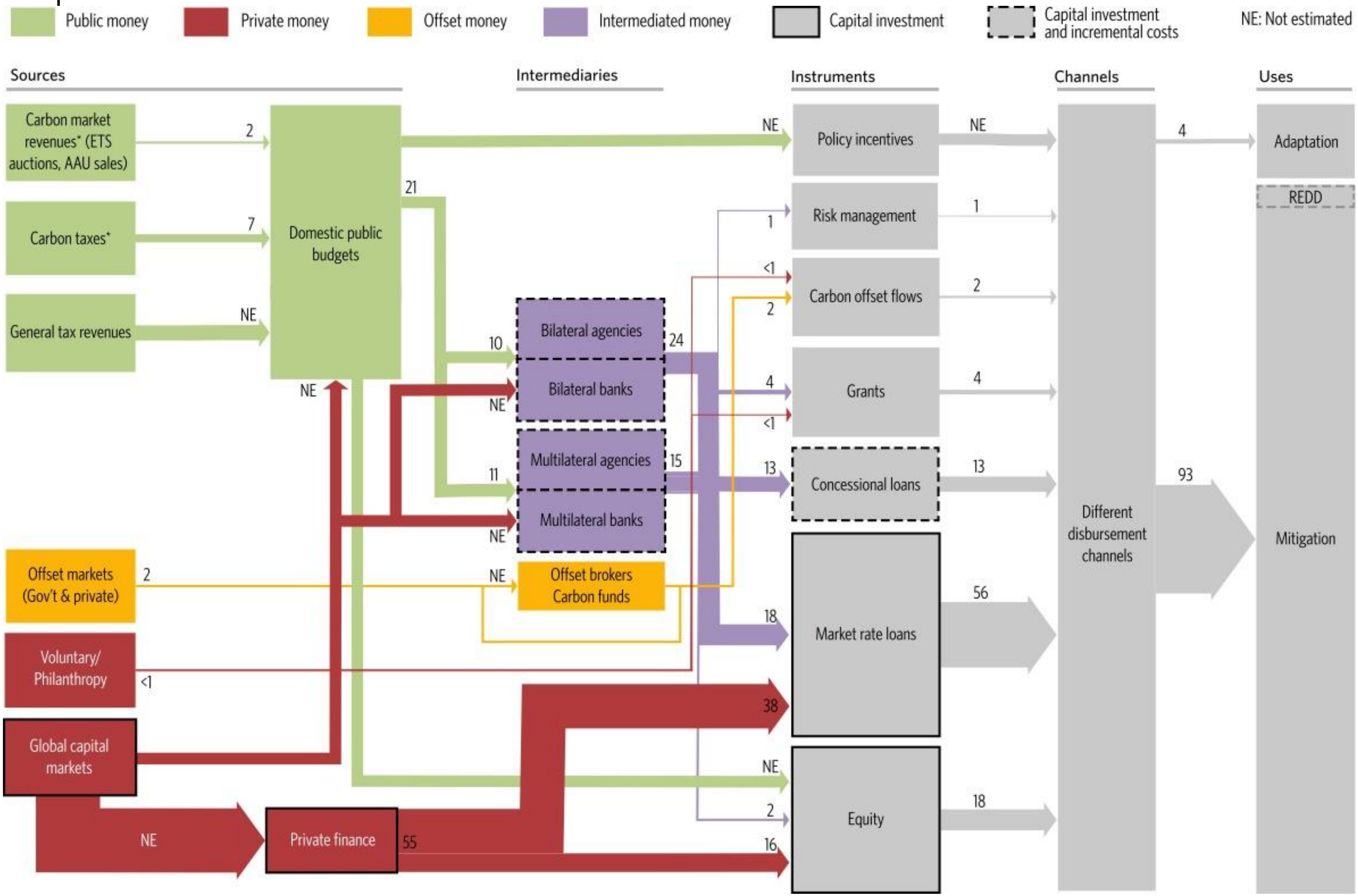
We aim for a broad definition which can be shaped based on the specific context

- 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



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, 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)

Key climate finance issues

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

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