

*Session 2*

*Climate Finance Terms and  
Patterns*

Workshop on Corruption Risks and Anti-  
Corruption Strategies in Climate Finance

Manila, Philippines

25 to 27 May 2015

## Session objective and outline

**Objective:** establish a common understanding of terminology and the global & regional scope of climate finance

### **Outline and Presentations:**

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# *Key Terms & Global and Regional Scope of Climate Finance*

Workshop on Corruption Risks and Anti-  
Corruption Strategies in Climate Finance

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# Outline

- Define climate finance
- History and motivations for climate finance
- Climate finance sources, channels, amounts, and uses
- Global and regional trends in climate finance
- Connection between climate finance and natural resource management
- Sum-up of the morning's high-level event – key highlights

# Definition: Climate finance

- Elements of UNFCCC definition:
  - Local, national or transnational financing, drawn from public, private, and alternative sources of financing
  - Designed to lower emissions, fund adaptation, reduce impact
  - Flow of money from developed to developing countries
- No internationally agreed-upon definition
  - Which activities and which financial flows should count?
  - Additional finance vs. ODA flows used for climate activities
- No centralized system for tracking all climate finance flows
  - No common tracking methodology or measurement system

## International agreement about climate finance

- Integral part of international climate change discussions, from the beginning in the mid-1990s – “polluter pays”
- 2009 Copenhagen Accord: developed countries commit to mobilizing \$100 billion per year by 2020 to address needs of developing countries
  - From public & private, and bi- & multilateral funding sources
- 2010 Cancun COP: re-affirmation of Copenhagen \$100b commitment, and creation of Green Climate Fund
  - Calls for funding to be prioritized for developing countries
  - Predictable and adequate funding for developing countries

# Motivations for climate finance

- Large investments required to reduce emissions and adapt
- Finance is key to helping poor countries to reduce emissions, decarbonize, adapt to & mitigate effects
  - Poorest will be hit hardest by climate change – threatens to deepen poverty
  - Fewer resources and less capacity to adapt, adopt policies
- Enables poor countries to manage trade-offs between economic growth needed for poverty alleviation and reducing greenhouse gas emissions
  - Mitigation, adaptation, AND economic development

# Sources, channels, types of climate finance

- Public finance: governments, bilateral & multilateral financial institutions, climate funds
  - Tax revenues: ODA in the form of bilateral aid flows and funding channeled through multilateral institutions and climate funds
  - In-country public revenues
- Private and market sources
  - Voluntary and philanthropic contributions; carbon market revenues & carbon-related mechanisms (i.e. carbon taxes)
- International and domestic sources and flows
- Distributed as grants, (non-)concessional loans (debt), project-level equity, technical assistance, etc.



# LANDSCAPE OF CLIMATE FINANCE 2014 USD 331 BN TOTAL

Landscape of Climate Finance 2014 illustrates climate finance flows along their life cycle for the latest year available, mostly 2013

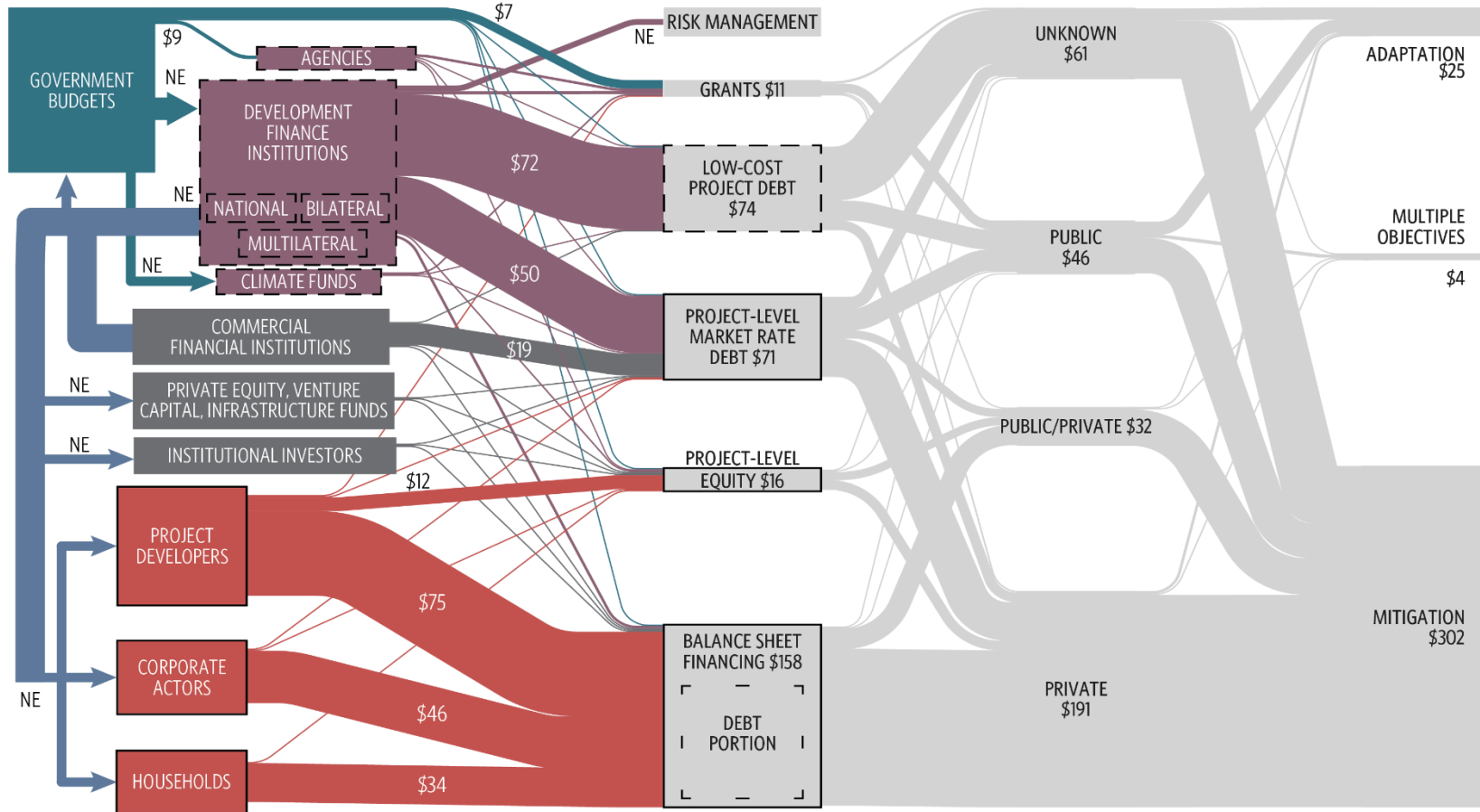


## SOURCES AND INTERMEDIARIES

## INSTRUMENTS

## RECIPIENTS

## USES



### KEY

PUBLIC MONEY

PRIVATE MONEY

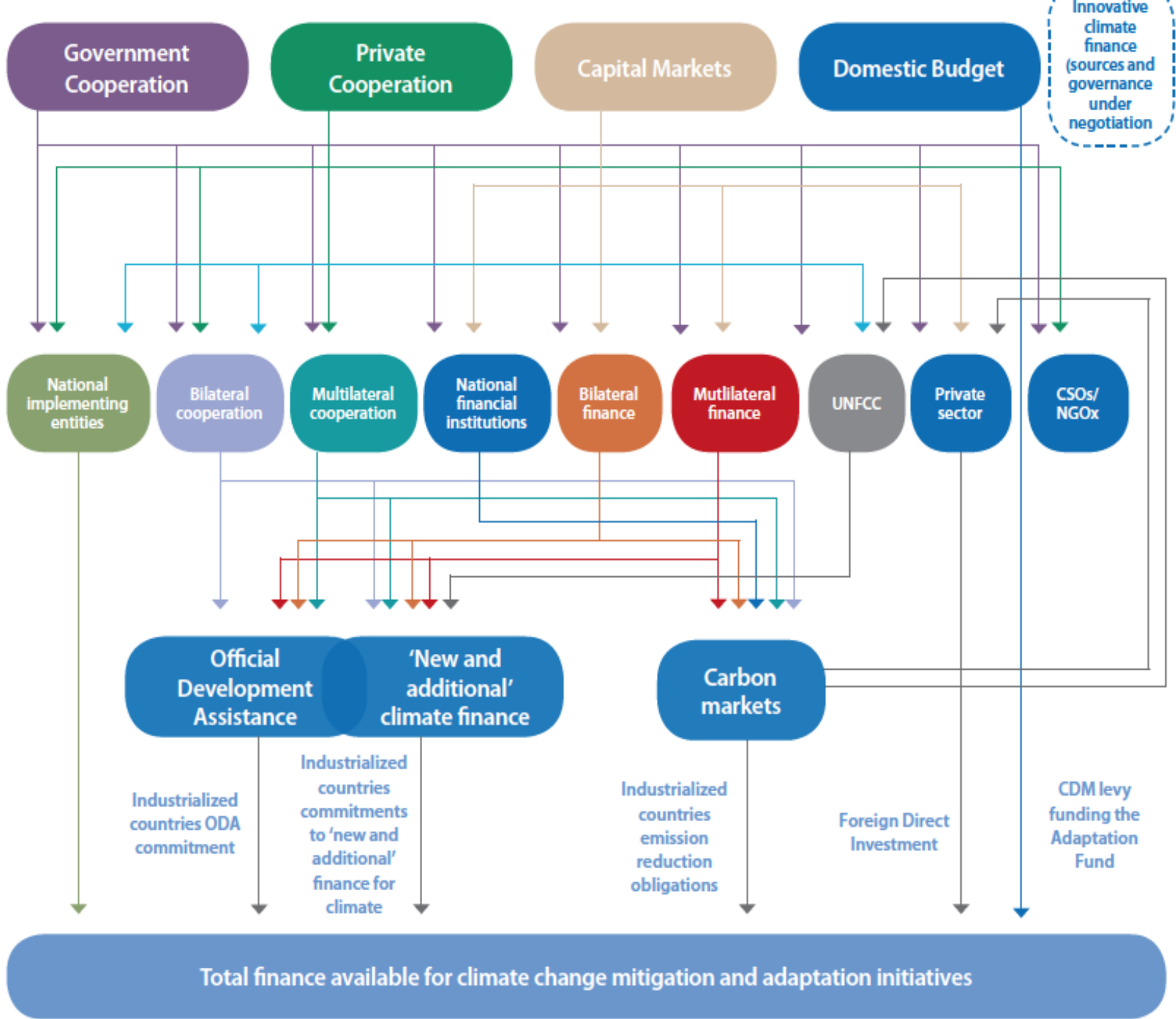
PUBLIC FINANCIAL INTERMEDIARIES

PRIVATE FINANCIAL INTERMEDIARIES

CAPITAL INVESTMENT

CAPITAL INVESTMENT AND INCREMENTAL COSTS

FINANCE FOR INVESTORS & LENDERS  
NE: NOT ESTIMATED



Government Cooperation

Private Cooperation

Capital Markets

Domestic Budget

Innovative climate finance (sources and governance under negotiation)

National implementing entities

Bilateral cooperation

Multilateral cooperation

National financial institutions

Bilateral finance

Multilateral finance

UNFCC

Private sector

CSOs/NGOs

Official Development Assistance

'New and additional' climate finance

Carbon markets

Industrialized countries ODA commitment

Industrialized countries commitments to 'new and additional' finance for climate

Industrialized countries emission reduction obligations

Foreign Direct Investment

CDM levy funding the Adaptation Fund

Total finance available for climate change mitigation and adaptation initiatives

# Scale of climate finance

1. What were the estimated total global climate finance flows in 2013?
2. Of this amount, how much climate finance is estimated to have come from private versus public sources?
3. What world region is the largest destination of climate finance flows? What is the smallest destination?

# Total flows

- Total global climate finance flows totaled approximately USD 331 billion in 2013 (estimate)
  - USD 137 billion from public sources
- Over 50 international public funds, 60 carbon markets, and 6000 private equity funds providing “green finance”
- Different estimates for total climate finance flows from developed to developing countries:
  - USD 34 billion (Climate Policy Initiative 2014 report)
  - USD 70 to 120 billion (OECD 2012 report)

# Private sources of climate finance

- Private investment in renewable energies totaled USD 193 billion in 2013
  - 58% of total climate finance flows in 2013 – largest source
- Consists of investments by:
  - Corporate actors, including manufacturers, invested USD 47 billion (24%) of total private finance
  - Household investments in water and solar heaters invested USD 34 billion (18%) of total private finance
  - Commercial financial institutions invested USD 21 billion (11%) of total private finance
  - Private equity: USD 1.6 billion (1%) of private finance

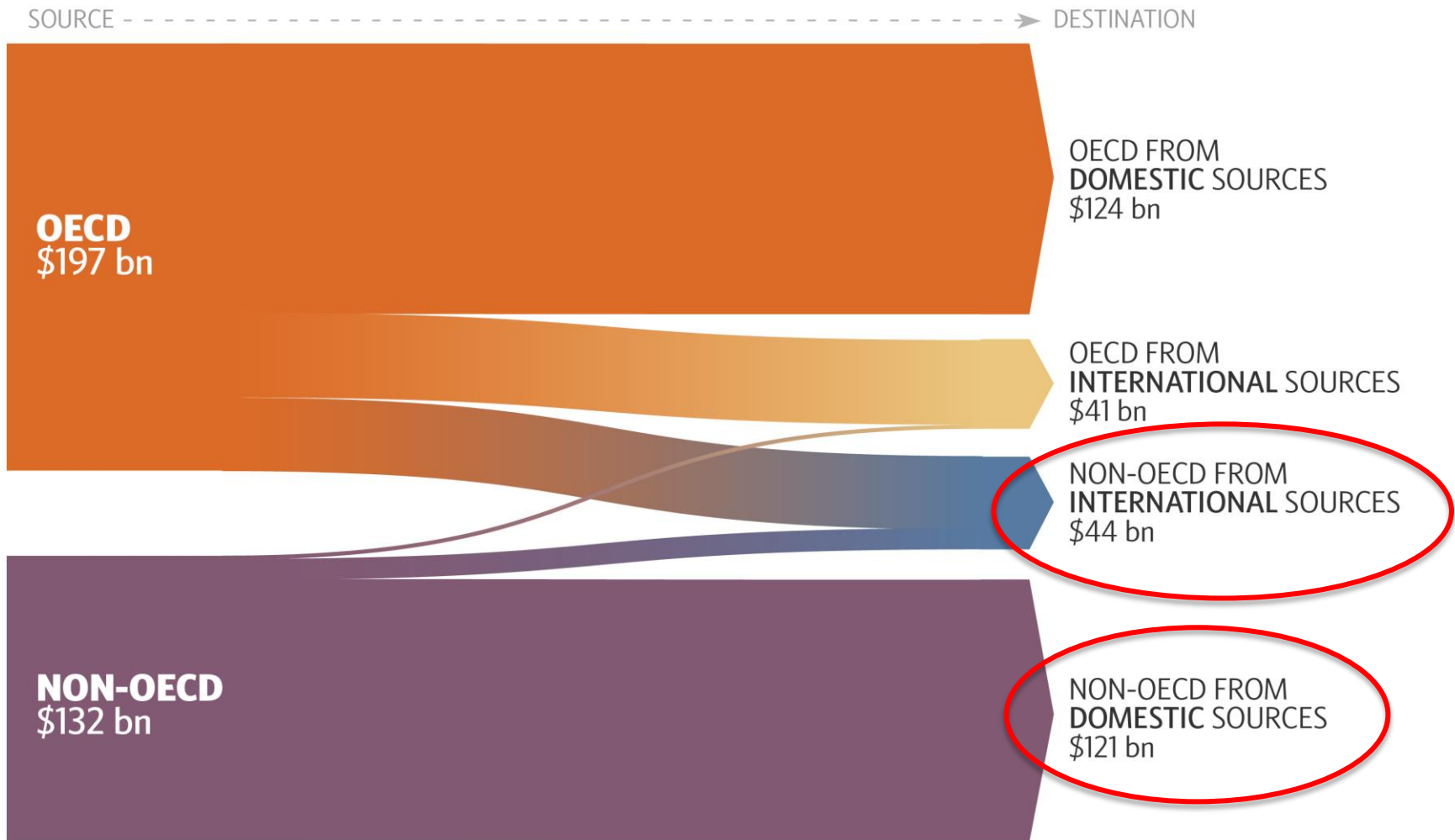
# Public sources of climate finance

- Public actors and intermediaries contributed USD 137 billion – 42% of total climate finance flows in 2013
- Consists of contributions from:
  - National and multilateral development financial institutions and development cooperation agencies: USD 126 billion (38% of public flows)
  - National and multilateral climate funds: USD 2.2 billion
  - Governments and agencies: USD 9 billion (to developing countries)

# Flows to and in developing countries

- Developed to developing country flows are primarily public money
  - Channelled via bilateral and multilateral aid agencies, international and national climate funds
  - Implementing agencies: UN agencies, development partners (GIZ), World Bank, ADB
- But most climate finance (75%) originates from, and is invested in, the same country
  - More familiar and less risky/costly investment environments at home
  - International flows are relatively small part of the picture

## GEOGRAPHICAL FLOWS





# Multilateral climate funds

- Billions of dollars have been committed in the past decade to multilateral climate funds
  - \$1 billion approved annually on average (2008-2013)
- Examples
  - Adaptation Fund
  - Clean Technology Fund
  - Forest Investment Program
  - Forest Carbon Partnership Facility
  - Global Environment Facility (and related funds it administers)
  - Green Climate Fund
  - UN-REDD

# Climate finance uses

- **Mitigation**

- Human intervention to reduce the sources, or enhance the sinks of, greenhouse gases
- Policies and technological change and substitution that reduce resource inputs and emissions per unit of output (i.e. switch to solar power, expand forests and sinks to remove CO<sub>2</sub>)

- **Adaptation**

- Initiatives and measures to reduce the vulnerability of natural and human systems against actual or expected climate change effects (i.e. raise coastal dikes)

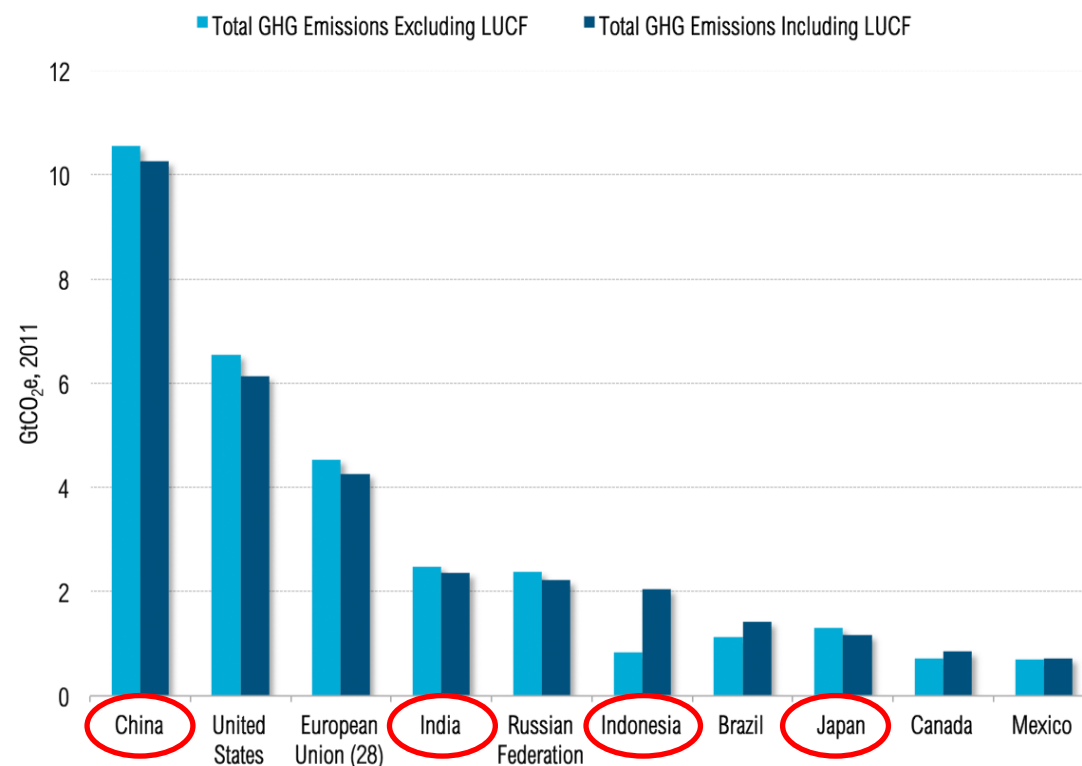
# Climate finance uses

- Most climate finance (91%) globally for mitigation activities
  - Both public and private finance
  - Most climate finance in developed countries used for mitigation
  - Renewable energy, energy efficiency, sustainable transport
- Adaptation activities
  - Mostly public finance
  - Higher share of finance to adaptation in developing countries
  - Water supply and management, climate-resilient infrastructure, coastal protection, disaster risk management, forestry

# Asian region

- Several Asian countries are major greenhouse gas emitters
- World's most populous region
- High rates of economic growth, yet many still poor

Top 10 Emitters



<http://bit.ly/11SMpjA>

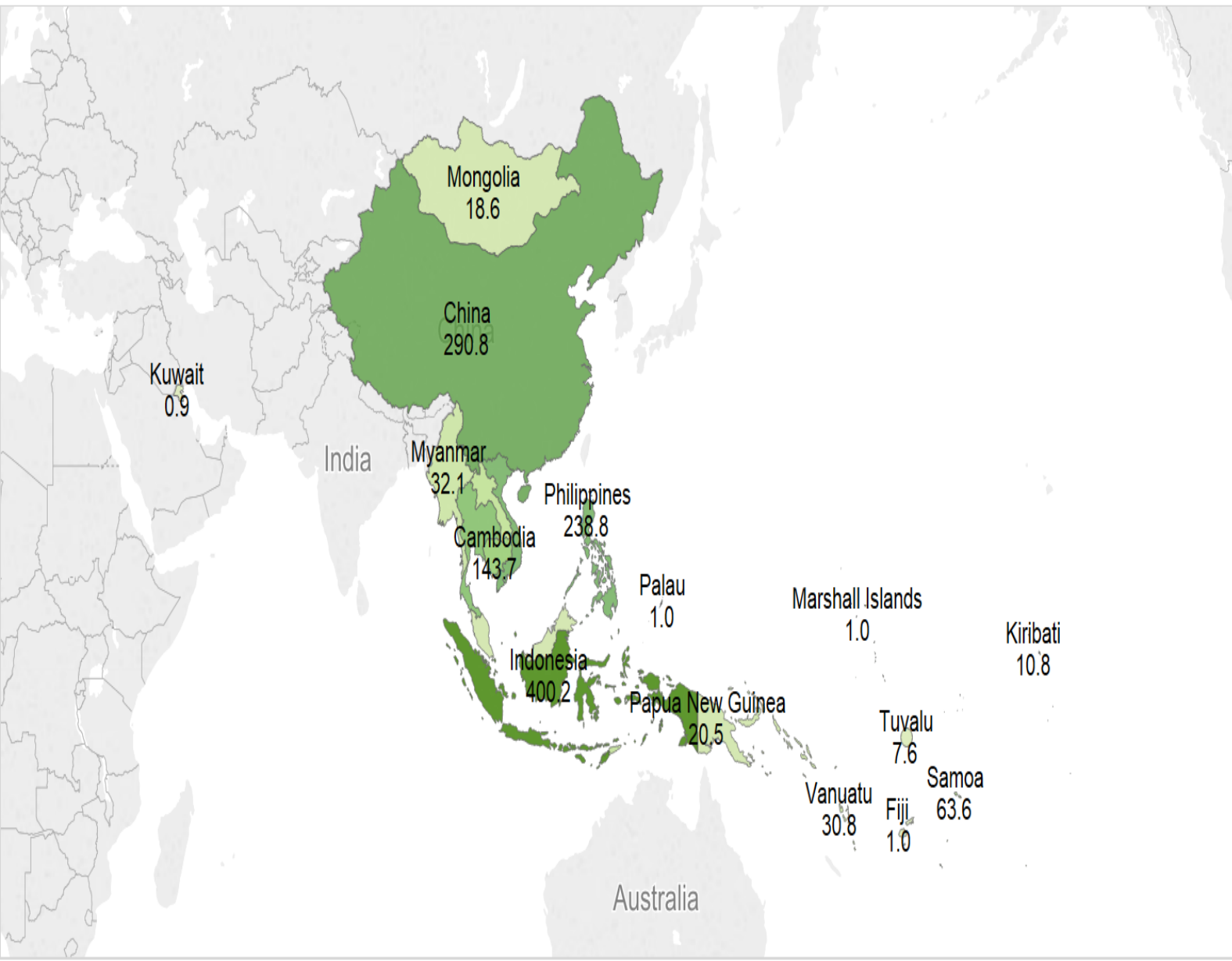
# Climate finance flows to Asian region

- East Asia and the Pacific is now estimated to be the largest global destination of climate finance flows
  - USD 98 billion in 2013
  - 30% of total global climate finance flows (public & private sources)
- South Asia receives relatively little in comparison
  - USD 13 billion in 2013, or 4% of all climate finance flows
- World regions that receive the smallest amounts of climate finance (estimated 1% of flows)
  - Middle East/North Africa and Australia/New Zealand

# Climate finance flows to Asian region

- India and China have received and spent the largest volume of public climate finance so far in Asian region
- 21 climate funds and initiatives in the region
  - Multilateral, bilateral, and national funds
- Majority of the funding supports mitigation activities
  - Most of this funding comes from the Clean Technology Fund and Global Environmental Facility
  - REDD+ programs also a large focus of funding

## Recipients in East Asia and Pacific



Amount of Funding Appr..



# Connecting climate finance and NRM

- Natural resources are impacted by climate change
  - Fish and wildlife populations, animal migration patterns
  - Water supply and quality, flooding patterns and trends
  - Plant species diversity, forest growth and productivity, fires
- Resource use can aggravate climate vulnerability
  - Mindanao mining + deforestation → flooding, higher emissions



# Climate change and natural resources

- Use of natural resources to respond to climate change
  - Forests and oceans reduce, absorb greenhouse emissions
  - REDD+: land-based climate-change mitigation activity that aims to preserve forests to reduce emissions)
  - Biofuels – source of alternative energy
  - Water supply and management, coastal protection

# Resources, climate change, development

- Smart resource use can lead to good development outcomes
  - Energy efficiency and renewable energy contributes to energy security, lowered energy costs, increased competitiveness
  - Adaptation activities conserve water, improve soil management, and alleviate food insecurity
  - Improved land use and adaptation activities can increase employment in agriculture and infrastructure

# Natural resources & corruption

- Natural resource sectors are in many developing countries characterized by high levels of corruption
- Key areas of corruption in NRM:
  - Resource access via contracts, permits, plans, concessions, licensing, land rights
  - Enforcement of existing regulations and undue influence over the creation of new regulations
  - Benefit sharing distribution and community relations
  - Revenues from resources – taxes, royalties
  - Monitoring, reporting, and evaluation



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