



# CLIMATE FINANCE AN OVERVIEW

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AIT, 21 March 2023



# SESSION OUTLINE – 3 Questions

1. What does the global CC financial architecture look like?
2. What are the key observations on global climate financing during the past decade, 2011-2020?
3. What should happen this decade to improve global CC finance?

# PRIMARY DATA SOURCE

*Climate Policy Initiative.  
2022. “Global Landscape  
of Climate Finance, A  
Decade of Data: 2011-  
2020”*

*Climate Policy Initiative.  
2021. “Global Landscape of  
Climate Finance 2021.”*



## Global Landscape of Climate Finance 2021

December 2021



<https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Global-Landscape-of-Climate-Finance-2021.pdf>

<https://www.climatepolicyinitiative.org/wp-content/uploads/2022/10/Global-Landscape-of-Climate-Finance-A-Decade-of-Data.pdf>

**What does the climate finance  
architecture look like?**

# LANDSCAPE OF CLIMATE FINANCE IN 2019/2020

Global climate finance flows along their life cycle in 2019 and 2020. Values are average of two years' data, in USD billions.

**653** BN USD ANNUAL AVERAGE



CLIMATE POLICY INITIATIVE

## SOURCES AND INTERMEDIARIES

Which type of organizations are sources or intermediaries of capital for climate finance?

**PUBLIC** **PRIVATE**

## INSTRUMENTS

What mix of financial instruments are used?

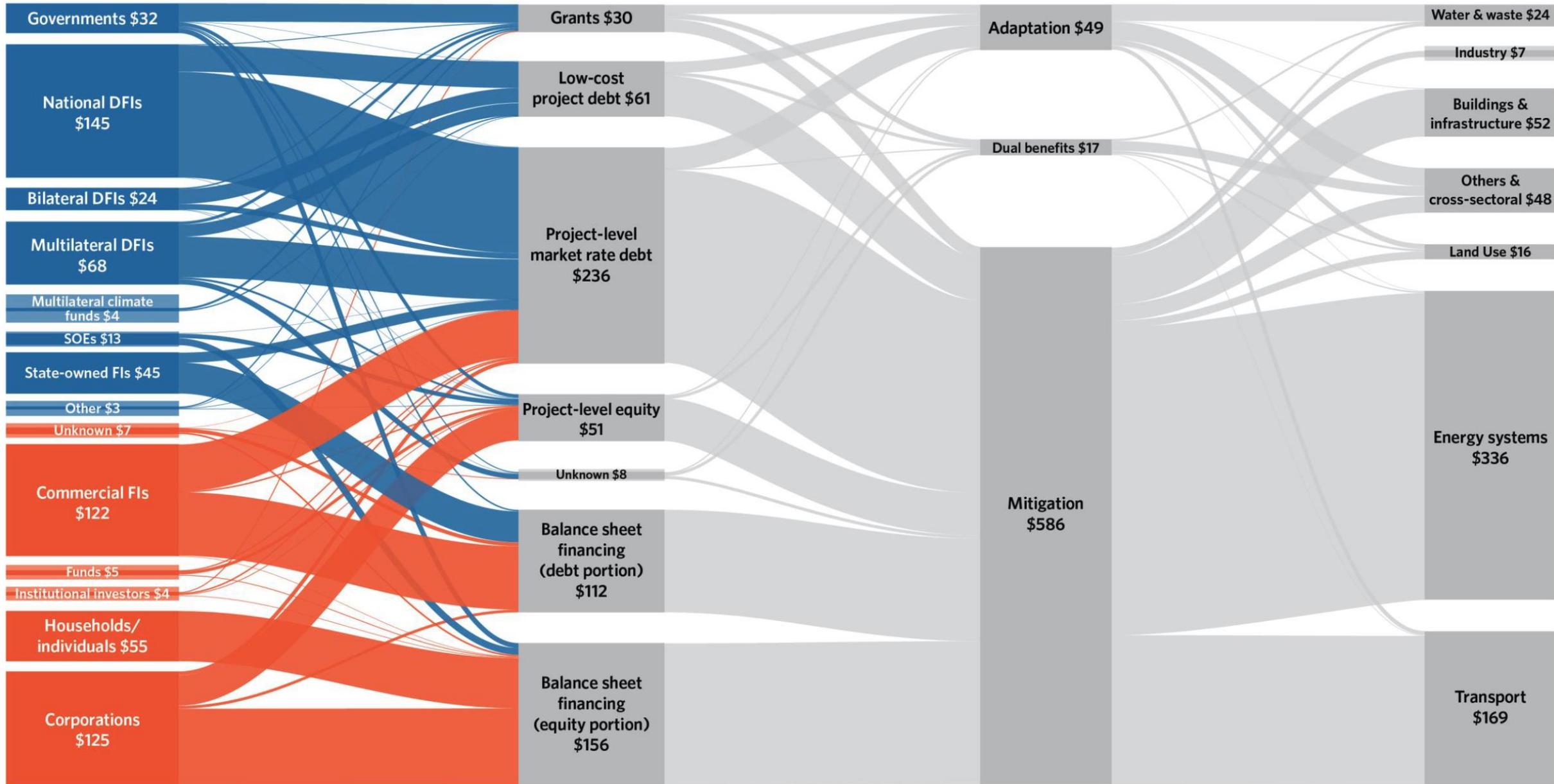
Government funds to other public sources are not estimated

## USES

What types of activities are financed?

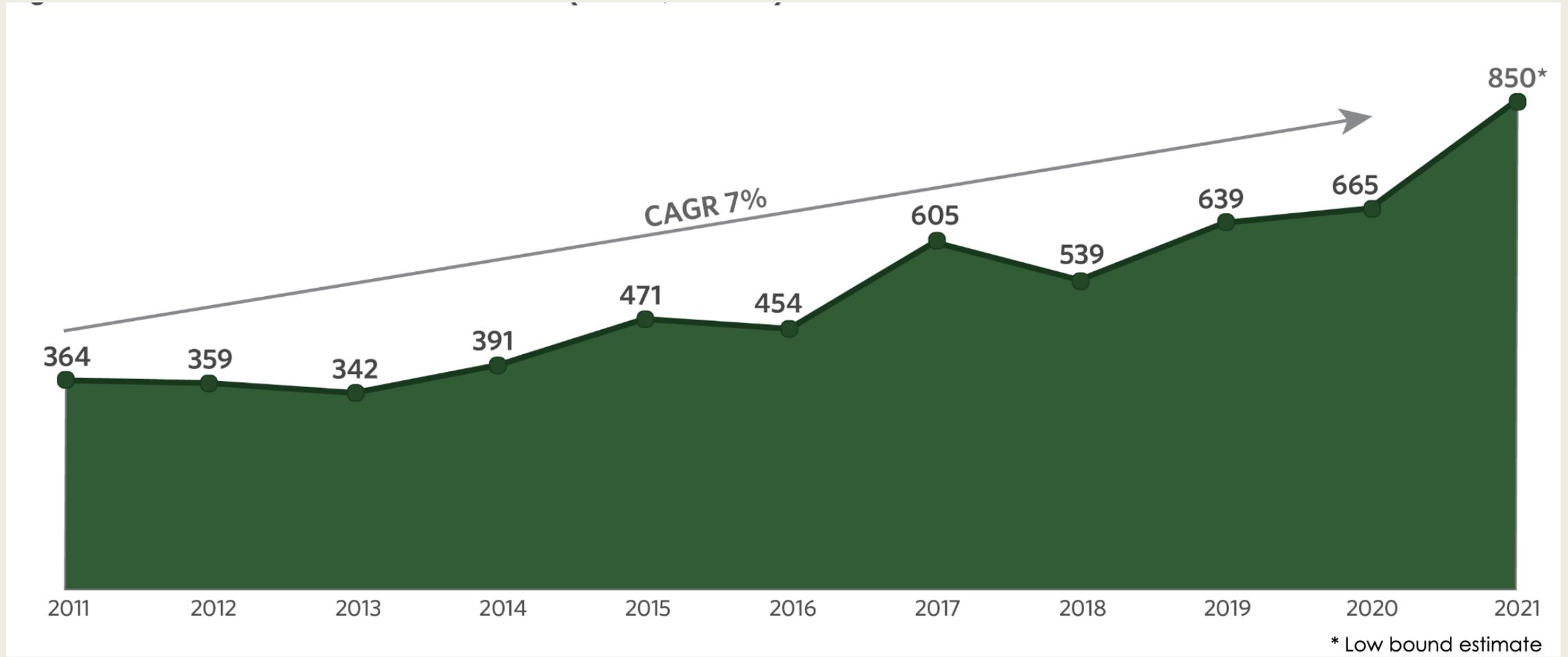
## SECTORS

What is the finance used for?



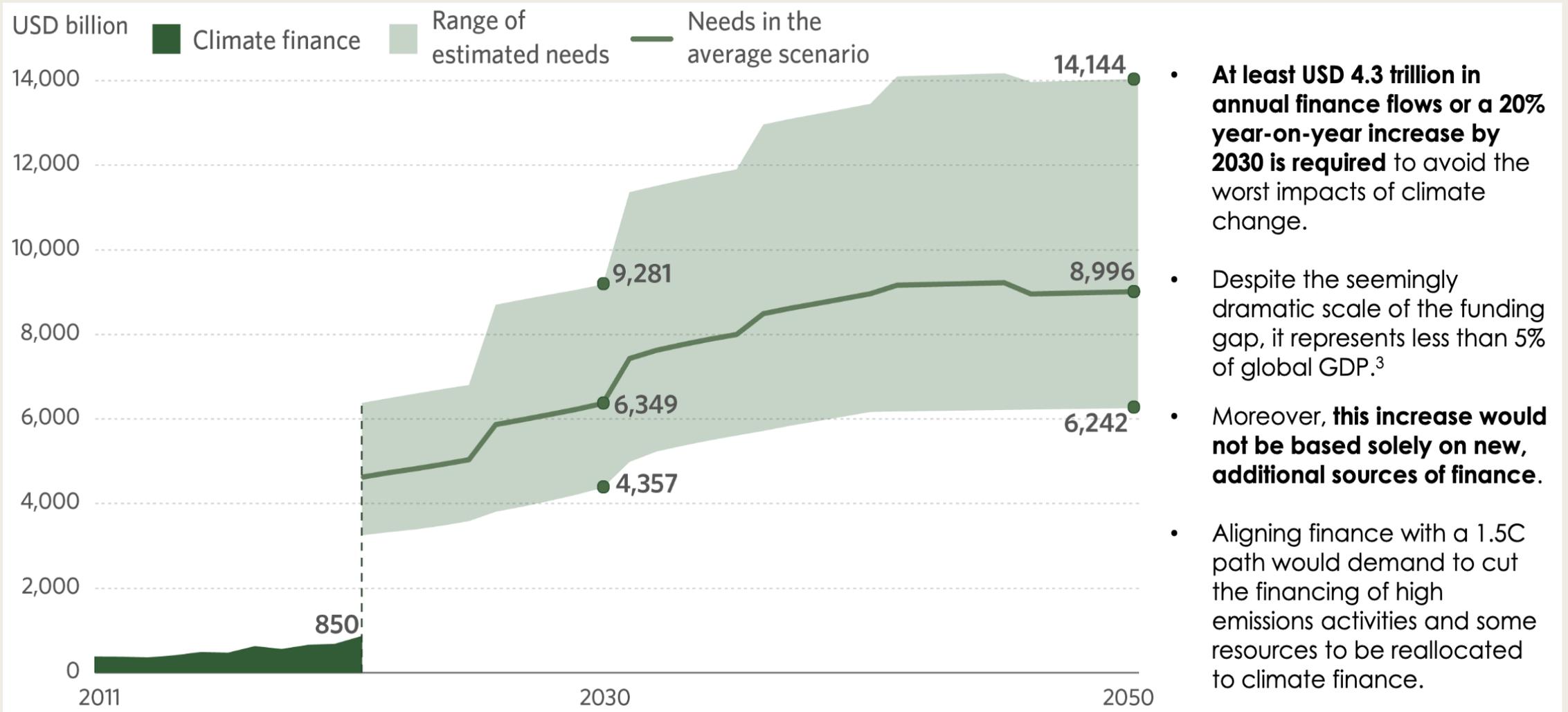
**What are the key observations on  
global climate financing during the past  
decade, 2011-2020?**

# 1. Almost a doubling of finance flows (US\$ bn) (1/3)



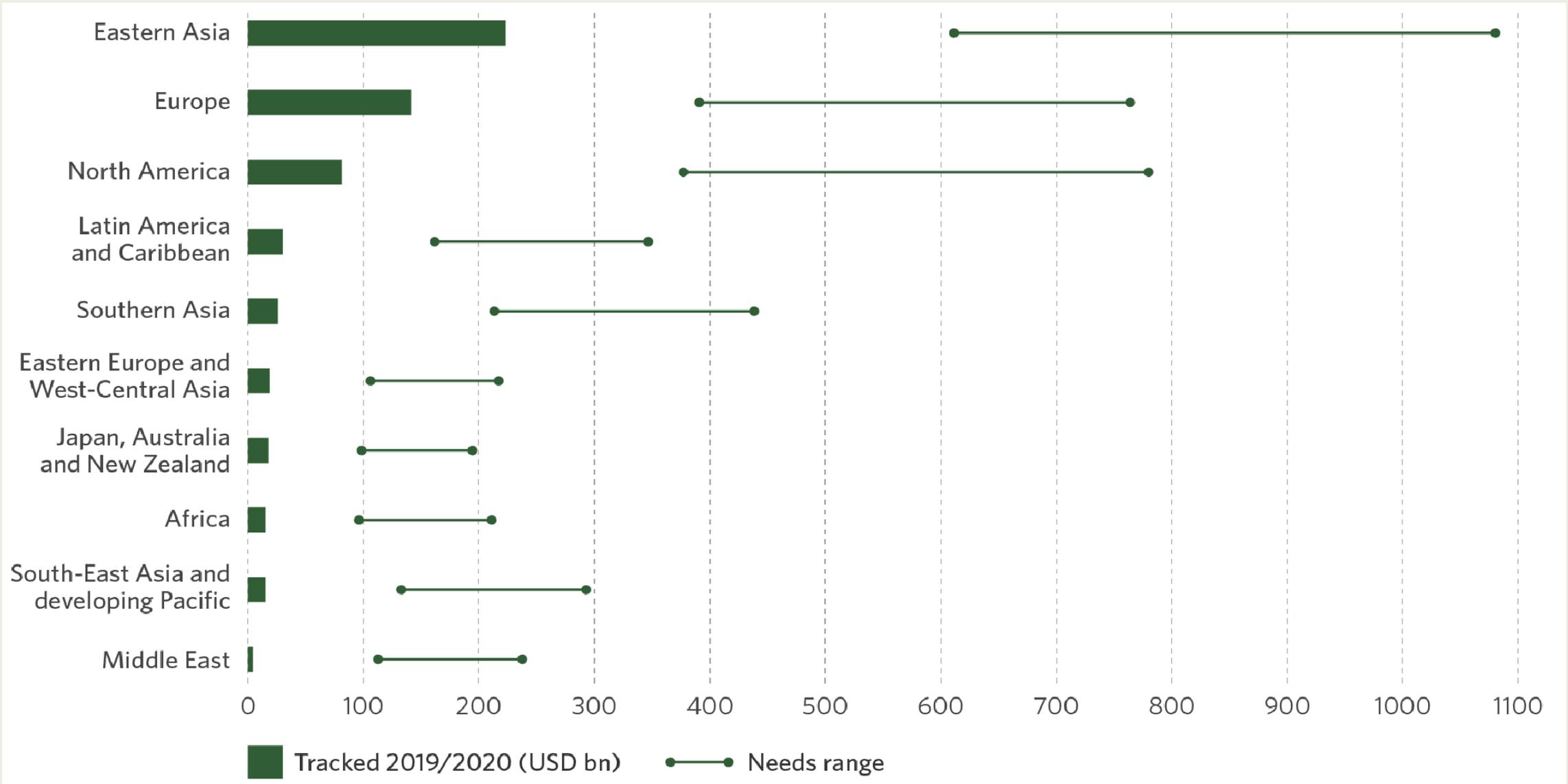
# 1. Almost a doubling of finance flows (US\$ bn) (2/3)

But here is the need

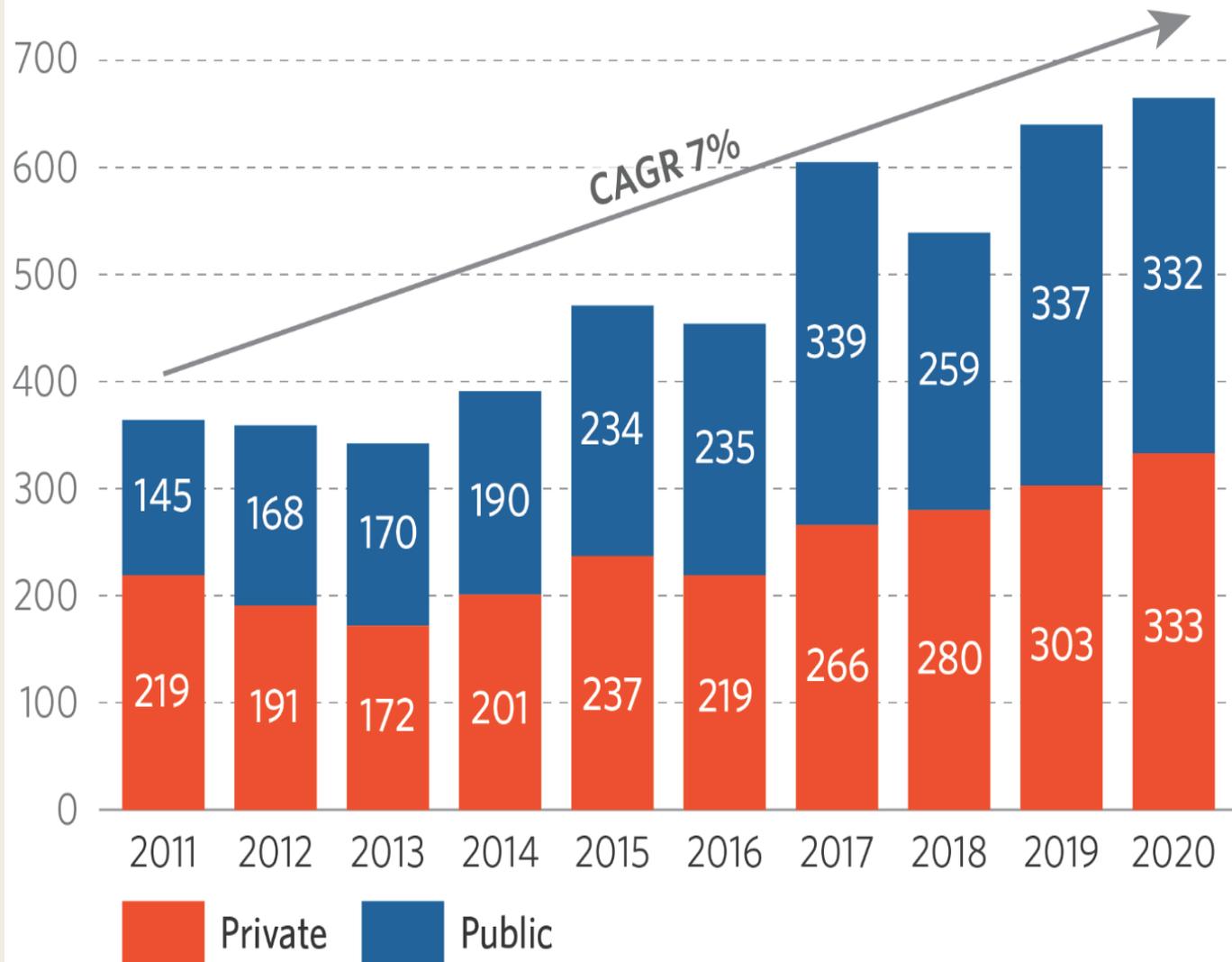


# 1. Almost a doubling of finance flows (US\$ bn) (3/3)

Annual investment needs through 2030 to decarbonize economies



## 2. Private finance vs public finance (1/4)



Cumulative 2011 - 2020 USD 4.8 trillion

The public and private sectors provided USD 4.8 trillion in climate finance in total between 2011 - 2020, with the private sector responsible for about half.

These represent joint efforts of about 20,000 public and private investors, worldwide, which have accumulated knowledge, capacity, and capabilities in channelling climate finance.

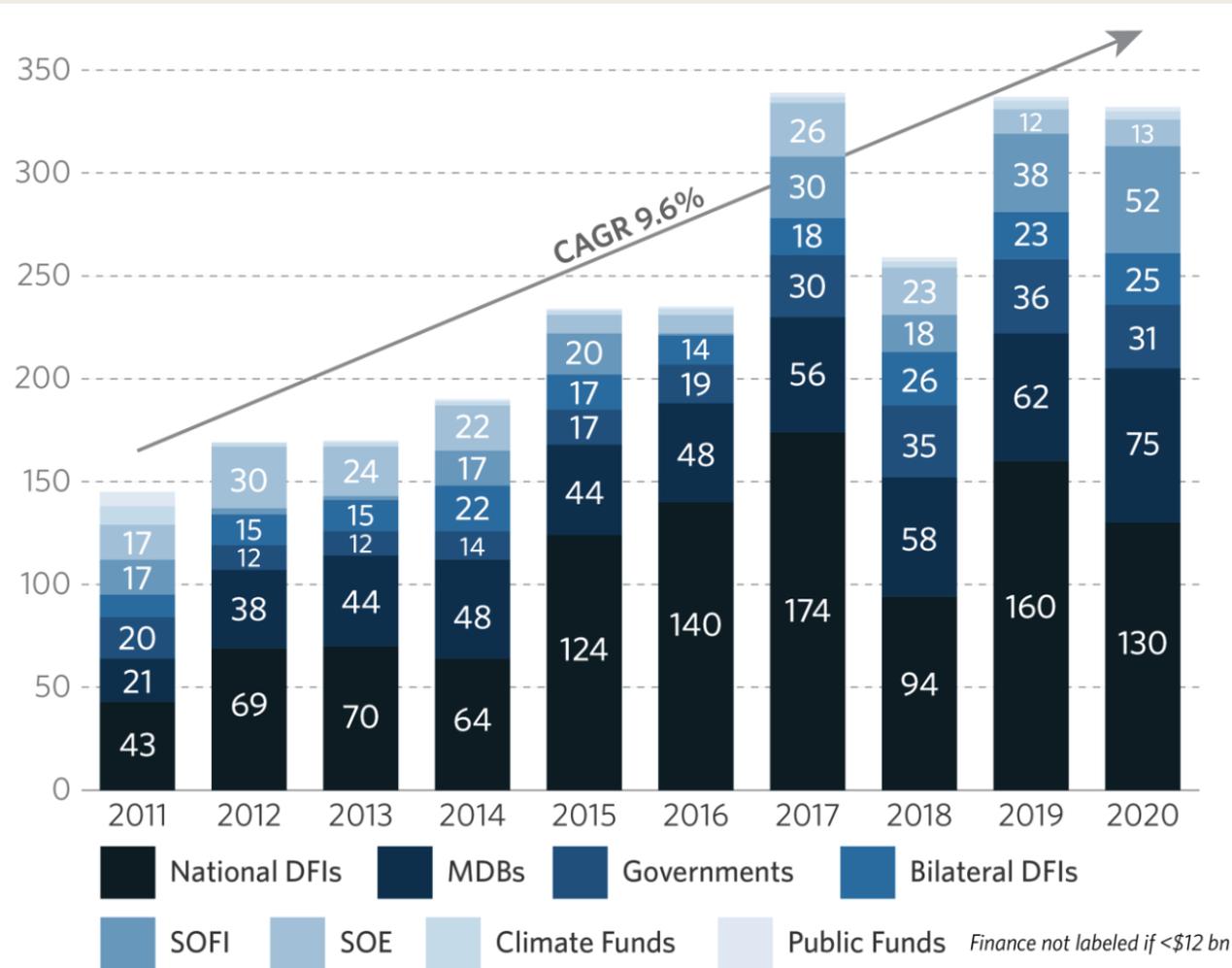
Although private sector contributions are increasing, their CAGR was only 4.3% compared to 9.1% by the public sector between 2011-2020.

Public actors have most recently (2019/20) provided the majority of climate finance.

We anticipate that investment will continue to play a pivotal role going forward, with efforts to pursue decarbonization, climate resilience, and alignment of all finance flows with the Paris Agreement.

## 2. Private finance vs public finance (2/4)

### Climate finance from sources in the public sector (US\$ bn)

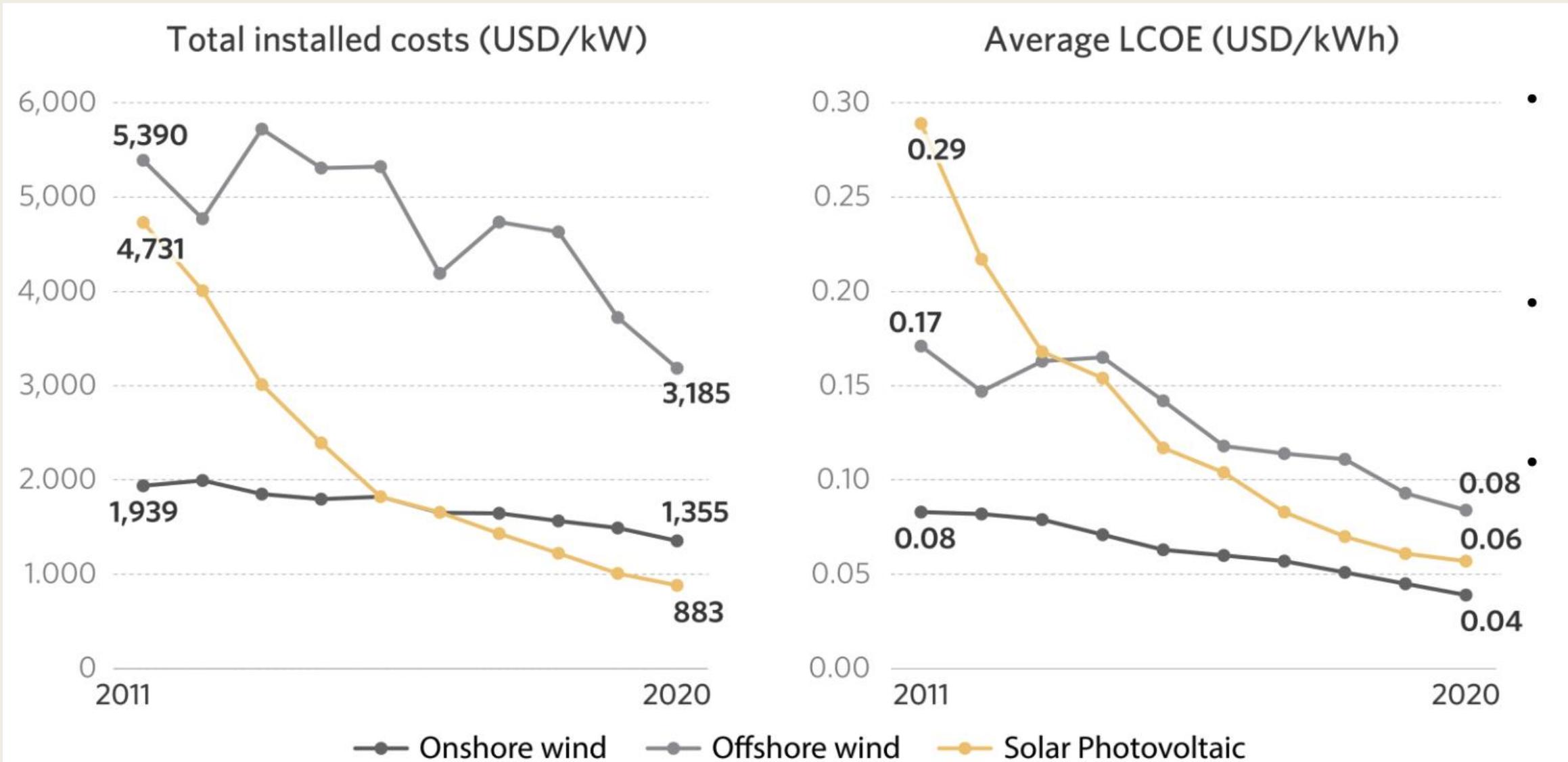


- About 65% of National Development Bank funding went to renewable energy and energy efficiency at the beginning of the 2010s. While they continue to support domestic energy sector projects, the majority is going to transport sector in most recent years.
- Bilateral DFIs and Multilateral Climate Funds have more focus on cross-sectoral projects recently, instead of renewable energy.
- Governments have played a prominent role in the transport sector. In recent years they have been providing grants and subsidies to increase the market uptake of lower emission vehicles.
- Climate Funds channeled about USD 2.5 billion on average. They play important roles in catalyzing and coordinating resources for co-financing, including at national levels.
- 54% of total finance by public sector was provided through project-level debt and 31% was concessional finance in the form of grants and low cost debt.

Cumulative 2011-2020 USD 2.4 trillion

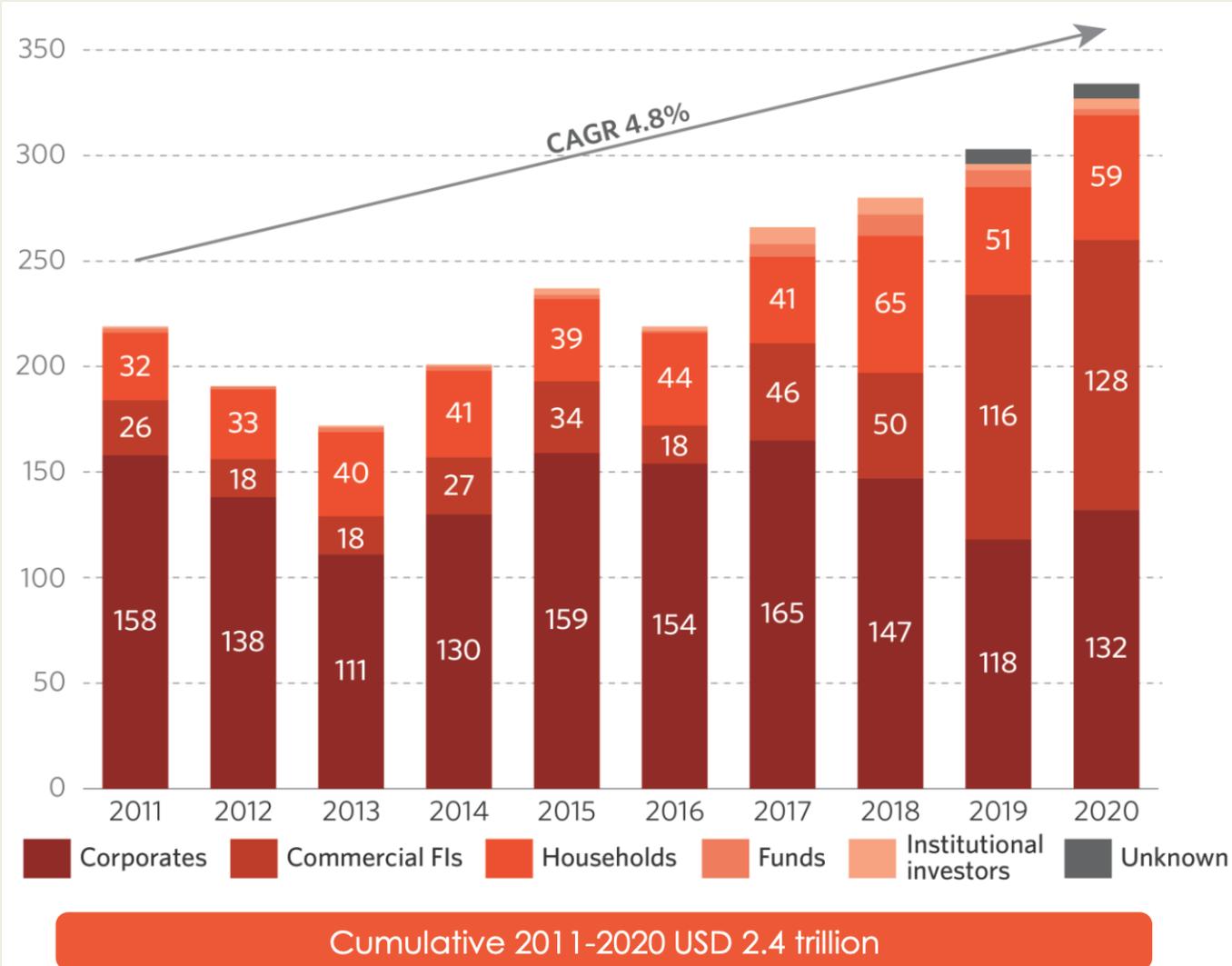
## 2. Private finance vs public finance (3/4)

Aggressive public policy drove down RE costs



## 2. Private finance vs public finance (4/4)

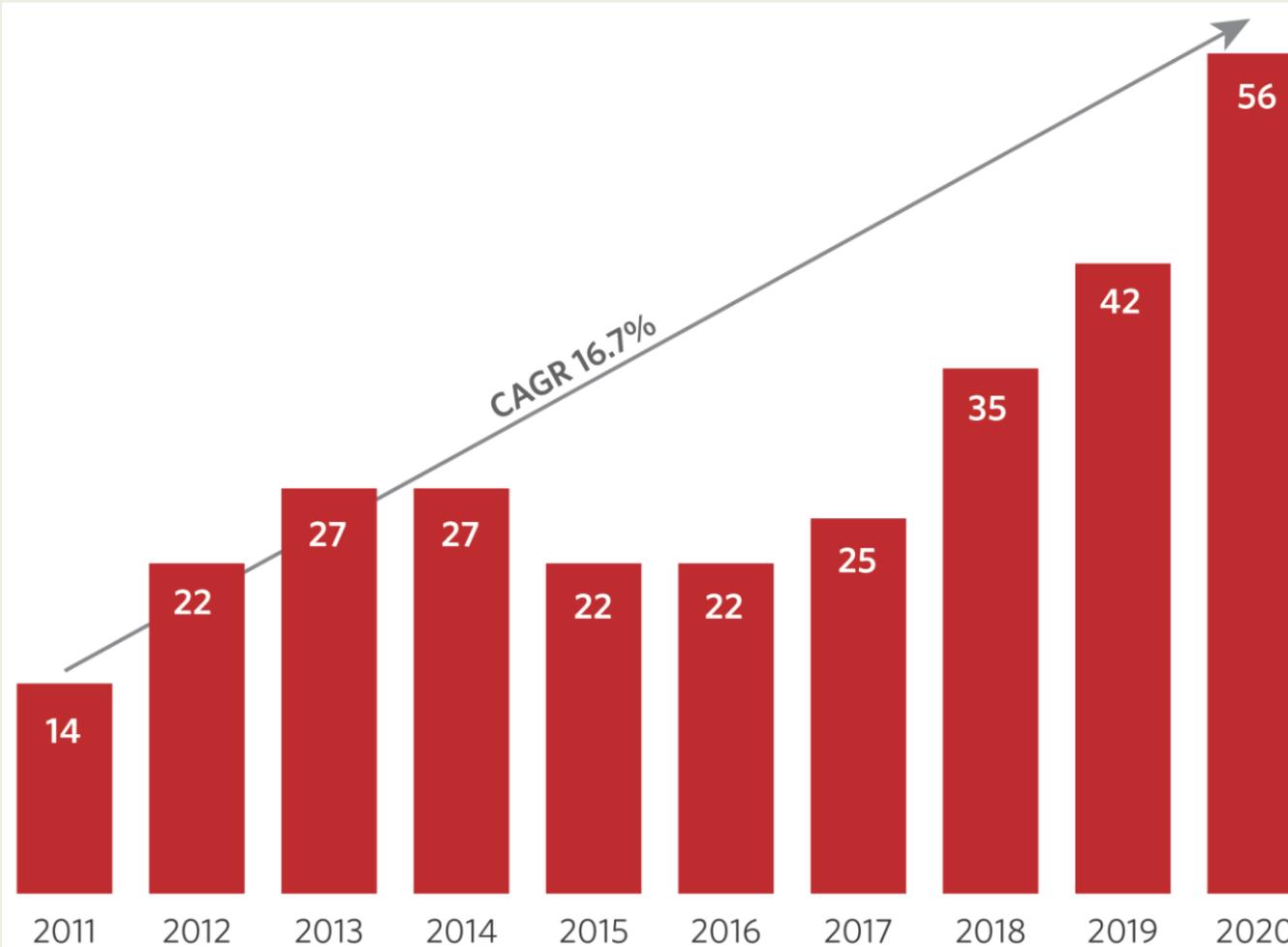
96% of private finance is driven by corporates, commercial financial institutions and households



- Corporates representing established energy utilities, independent power producers, and project developers specializing in renewable energy represented the largest single class of investors historically.
- Their composition is now gradually diversifying whereby non-energy related corporates and commercial financial institutions are joining the efforts to combat climate change.
- Households have been contributing to climate finance by purchasing low carbon equipment such as solar water heaters or low carbon vehicles.
- Direct investment by institutional investors was USD 3.2 billion annually. Institutional investors make indirect investments to corporates, financial institutions, or funds that then invest in climate action. These may appear as balance sheet investments by corporates or other private finance institutions which are not captured by this analysis.

# 3. Adaptation vs mitigation finance (1/2)

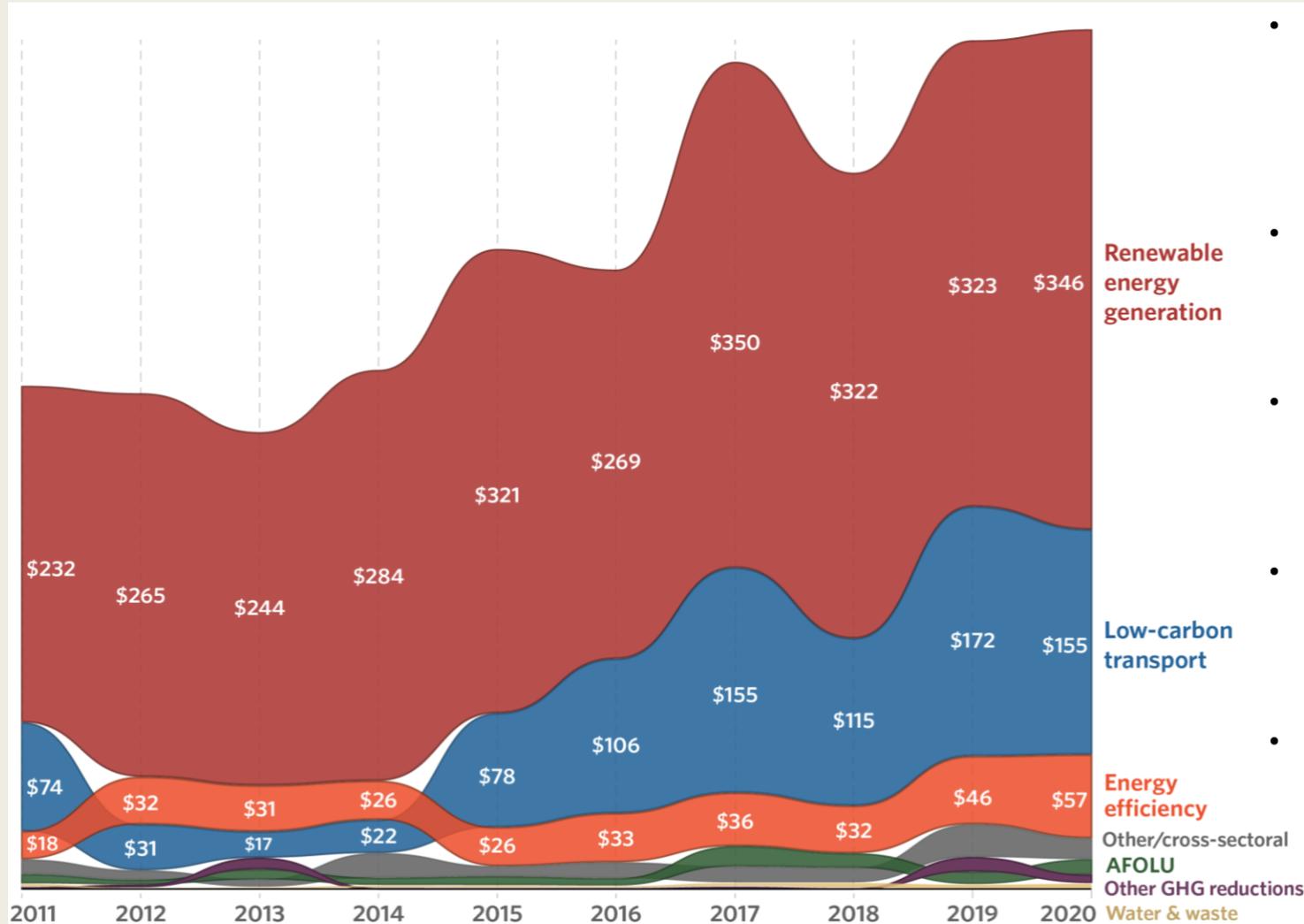
Adaptation finance is increasing but greatly underfunded



- Adaptation finance has been growing faster, with an overall 16.7% CAGR compared to a 6% CAGR in mitigation finance. However, it remains severely underfunded.
- Most adaptation finance was channelled via public actors such as multilateral and national development finance institutions.
- Top sectors included water and waste water management, AFOLU and other cross sectors.
- It should be noted that the concept of adaptation finance and the methodologies of its tracking are less developed than mitigation finance.
- Adaptation finance is usually tracked as an incremental investment over business as usual. Therefore, adaptation finance is less directly comparable to mitigation finance.
- There are significant data gaps on adaptation finance, particularly from the private sector.

# 3. Adaptation vs mitigation finance (2/2)

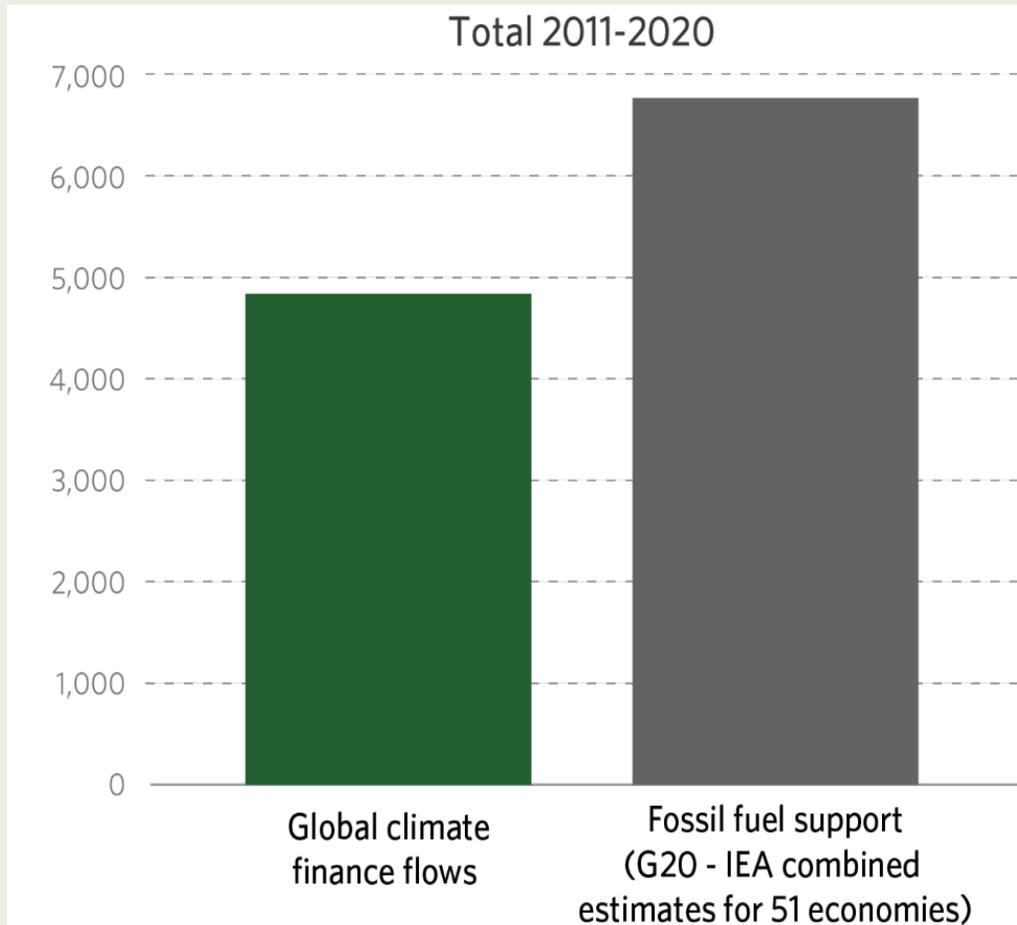
RE accounted for almost 70% of mitigation finance



- Low carbon transport is now the fastest growing climate mitigation solution in the most recent five years. Transport attracts funding from a variety of actors due to investment size and commercial viability.
- Other solutions, such as energy efficiency, agriculture, and other industry-related investment lack progress due to various sectoral barriers (examples are in Annex 3).
- Less than 2% of climate finance tackles methane emissions, although it is responsible for half of net global warming to date (CPI, 2022a).
- The agriculture, forestry, other land use and fisheries (AFOLU) sector attracts considerably low levels of climate finance, although it is responsible for almost 20% of emissions.
- More importantly, there is a lack of climate investment data on these critical sectors from the private sector, making it hard to track progress against climate objectives.

# 4. Fossil fuel remains king

## Fossil fuel subsidies vs climate finance (US\$ bn)

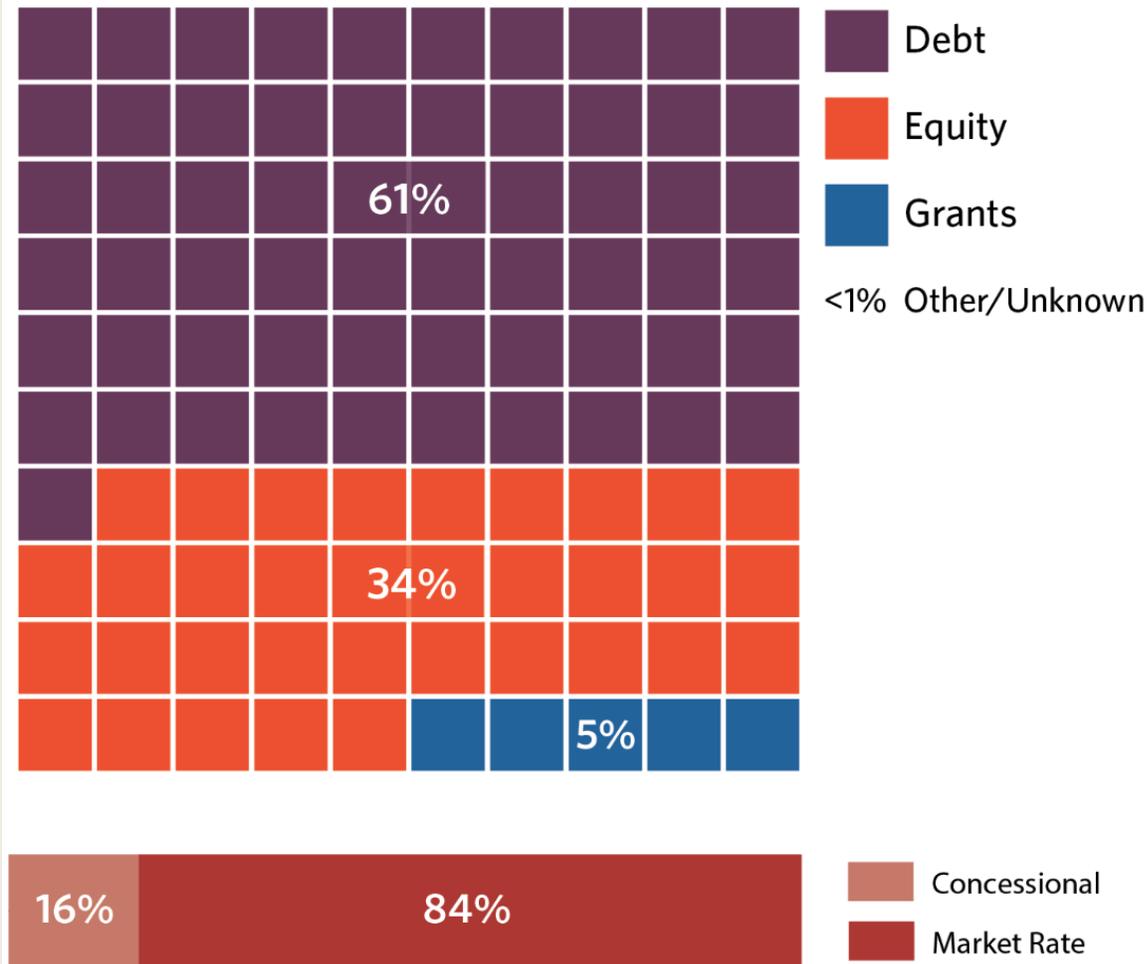


Source: Fossil fuel subsidies data by OECD Inventory of Support Measures for Fossil Fuels; global climate finance data is by CPI

- Fossil fuel subsidies only represent a partial picture of all financial flows supporting high emissions and business-as-usual finance flows.
- Even then, subsidies for 51 major economies<sup>4</sup> amounted to USD 6.8 trillion between 2011-2020, according to OECD and IEA (2022) – 40% more than climate finance.
- Global fossil fuel subsidies are projected to climb from USD 5.9 trillion (or 6.8% of global GDP in 2020) to 7.4% of global GDP in 2025 (IMF, 2022a), partly due to the current energy crisis.
- Although short term interventions are understandable (i.e. providing energy security for the most vulnerable), they delay the energy transition.
- Subsidies contribute to climate change by reducing the price of fossil fuels, thereby supporting greater production and consumption.
- The current energy crisis reinforces the need for a longer term just transition strategy to decouple dependence on fossil fuel based energy systems exposed to high price volatility.

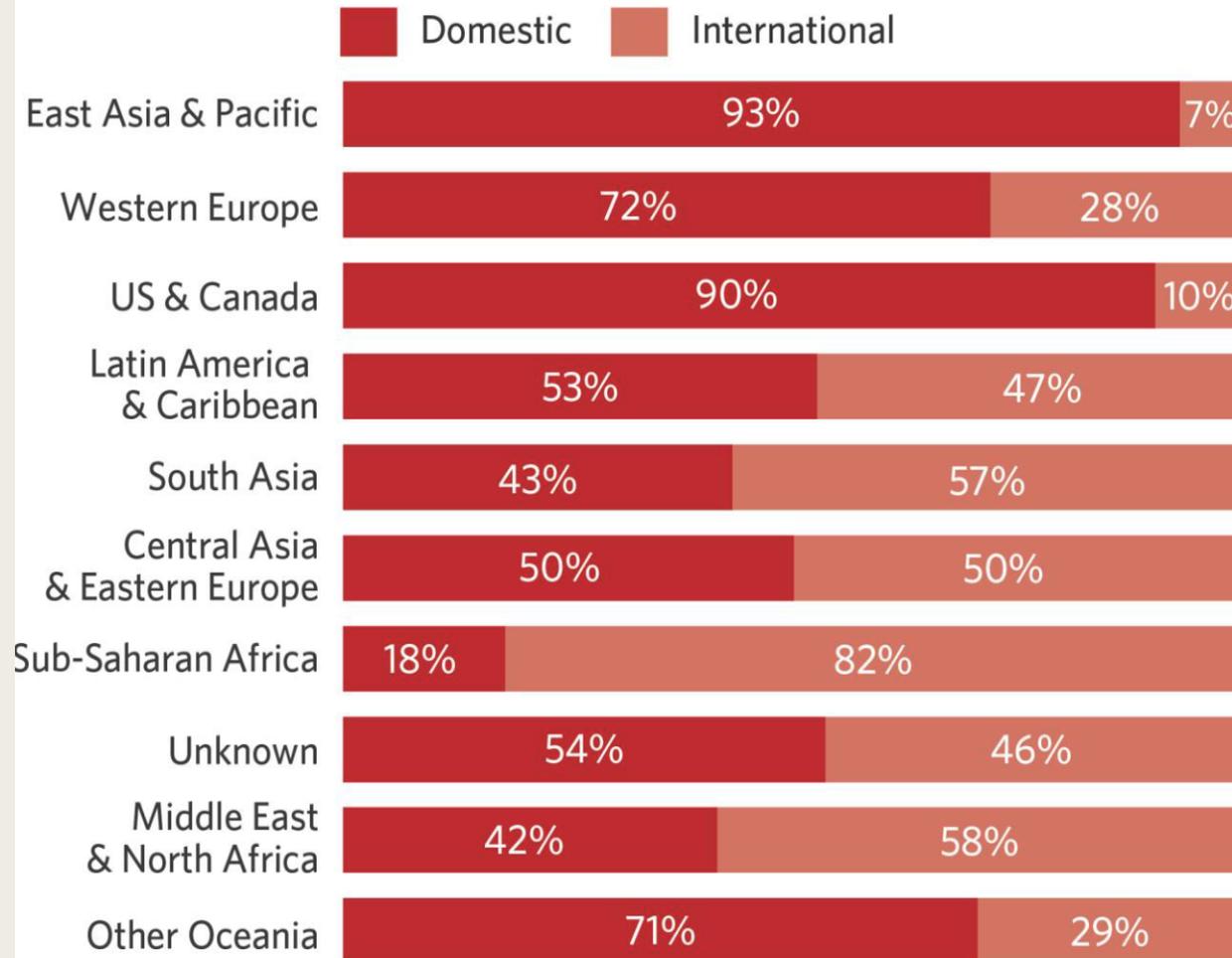
# 5. Concessional Funding is Crucial

## Climate finance by instrument in US\$, 2011-2020



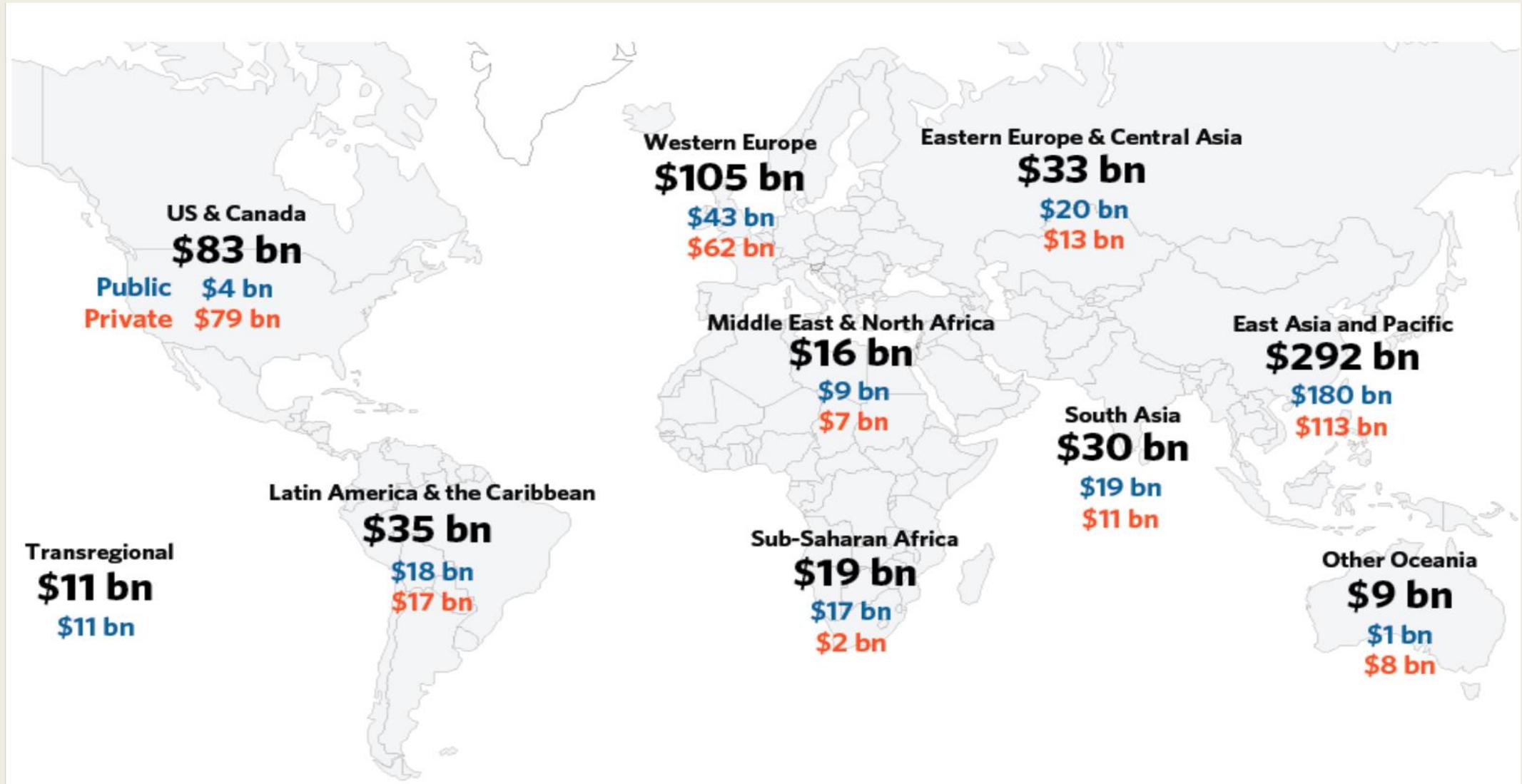
- Concessional financing is crucial in managing risks and uncertainties related to nascent technologies and markets.
- Concessional funding was primarily led by National and Bilateral DFIs and governments provided in the forms of debt or grant. For example, Western Europe received 24% of the concessional funding through domestic finance in energy efficiency and transport sectors, whereas Latin America and Caribbean and Sub-Saharan Africa received 14% each of total concessional funding through international climate finance.
- Grant financing has been low but picking up gradually reaching almost USD 30 billion most recently. Most grant funding is sourced by governments for agriculture, cross-sectoral, and transport sector projects.
- According to Convergence (2021), the use of blended finance as a tool by investors remained limited despite its potential. Approximately USD 39.1 billion of blended finance from 2015-2020 was directed towards climate-focused opportunities.
- 80% of climate finance was provided in the form of debt or equity expecting market-rate returns on investment. These were mainly driven by corporates, National DFIs, and households investing in renewable energy and transport sectors in Western Europe, North America, and East Asia Pacific.

# 6. Finance is Concentrated in a Few Regions & is Mostly Domestically Sourced (1/2)



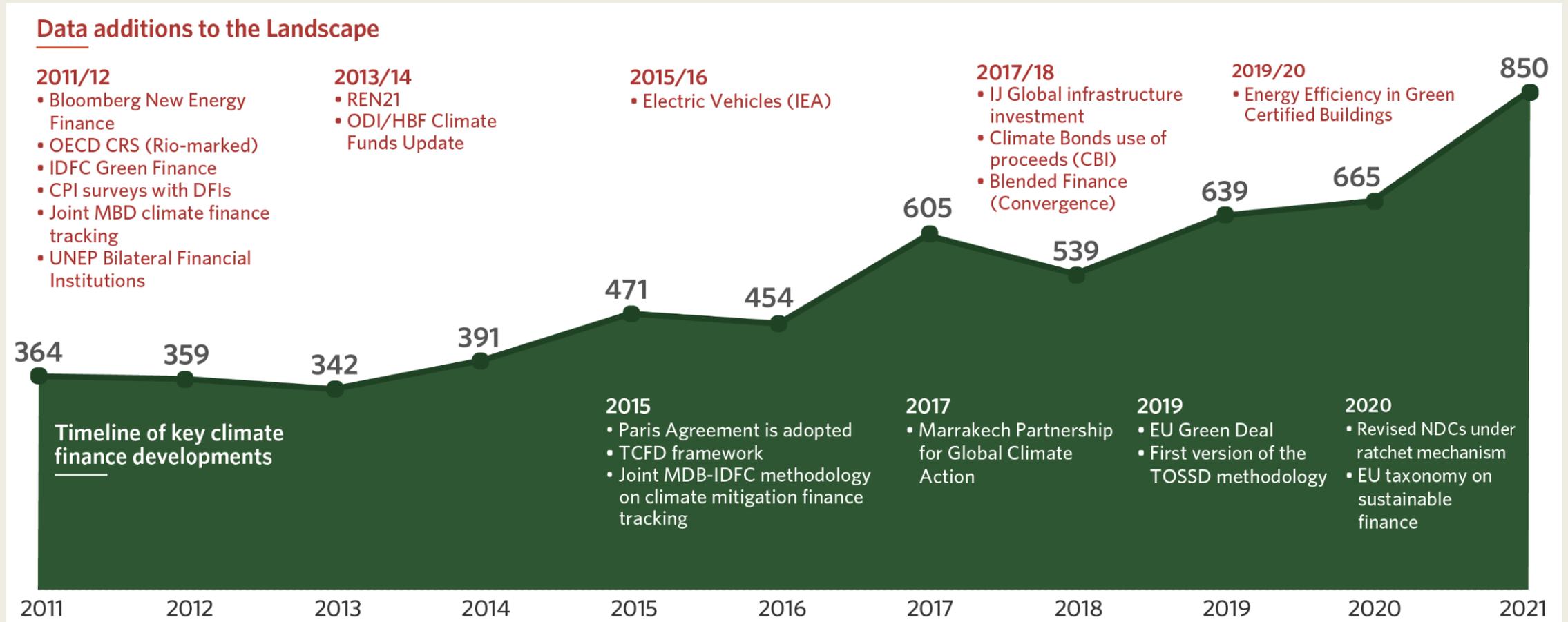
- 75% of all climate finance was concentrated in North America, Western Europe, and East Asia & Pacific (primarily led by China). Also, 76% of all climate finance flows were raised and spent domestically.
- Voluntary actions and domestic policies to reduce emissions in Western Europe, North America, and East Asia Pacific provided a significant push for the advancement of climate finance in those regions.
- For example, China set mandatory targets to reduce its national energy intensity. The identification of solar as a 'strategic industry' has led to immense government investment in manufacturing capability. China's own Feed-in Tariff policies have led to a 70x increase of installed solar capacity there since the beginning of the decade.
- Regions where the majority of low- and middle-income countries are located received less than 25% of climate finance flows.
- Across all regions, there is a lack of consistently collected data on domestic climate finance suggesting that countries do not systematically monitor climate expenditure against policy objectives.

# 6. Finance is Concentrated in a Few Regions & is Mostly Domestically Sourced (2/2)



# 7. Climate Finance Data are Still Problematic

Global landscape of climate finance data and methodology improvements



Data gaps persist and there's little standardized data on finance impacts and outcomes

**What should happen this decade to  
improve global CC finance?**

# 1. Adopt Holistic Sectoral Strategies

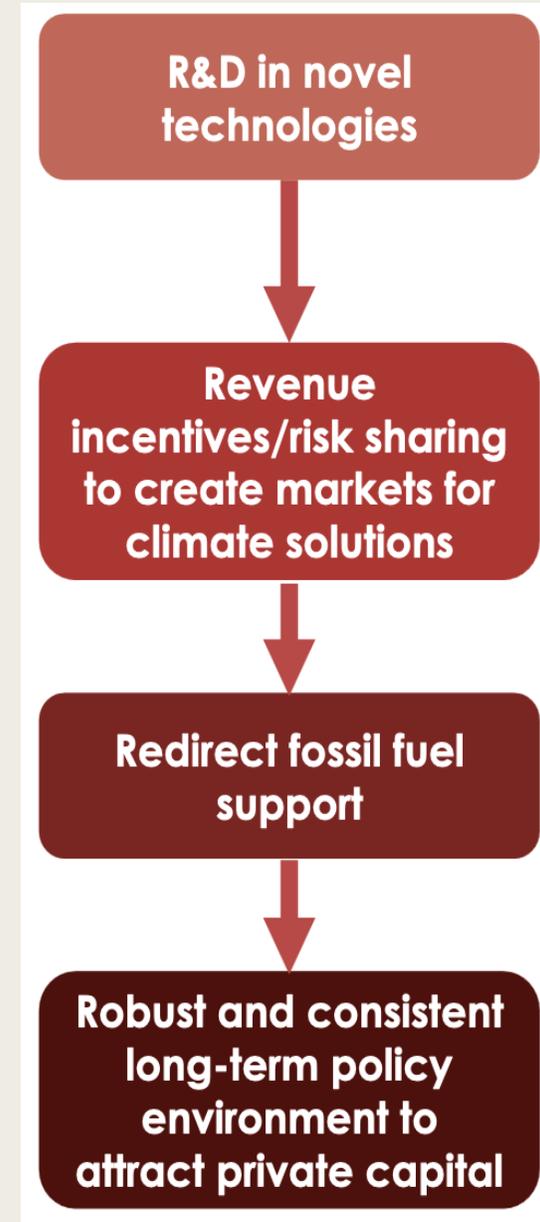
- Build sector-wide decarbonization and resilience strategies, which need:
  - Cradle-to-grave assessments
  - Integrated solutions
- Leave no sector behind - AFOLU, buildings and industry need more attention and can provide:
  - Greater resilience to external shocks
  - Broad impacts, e.g., biodiversity conservation, job creation, health benefits
  - A more just transition if a people-centred approach is employed

## 2. Adopt a New Finance Paradigm, Including Public-Private Coordination in Innovative Finance

- To gain scale, all actors should know their part and their partners:
  - Funders/investors build coherent, complementary portfolios
  - Provide concessional financing and other risk-addressing methods for high-tech segments that spur innovation and cover upfront costs
  - Everyone must work to phase out fossil fuels
- Investors must look beyond short-term financial returns:
  - Adopt longer-term multi-factor investment strategies using modern ways of estimating costs (e.g., societal like health) and benefits (e.g., biodiversity)
  - Develop large-scale financial innovation mechanisms and platforms like Global Innovation Lab for Climate Finance – supports replication of successful business models to unlock investments

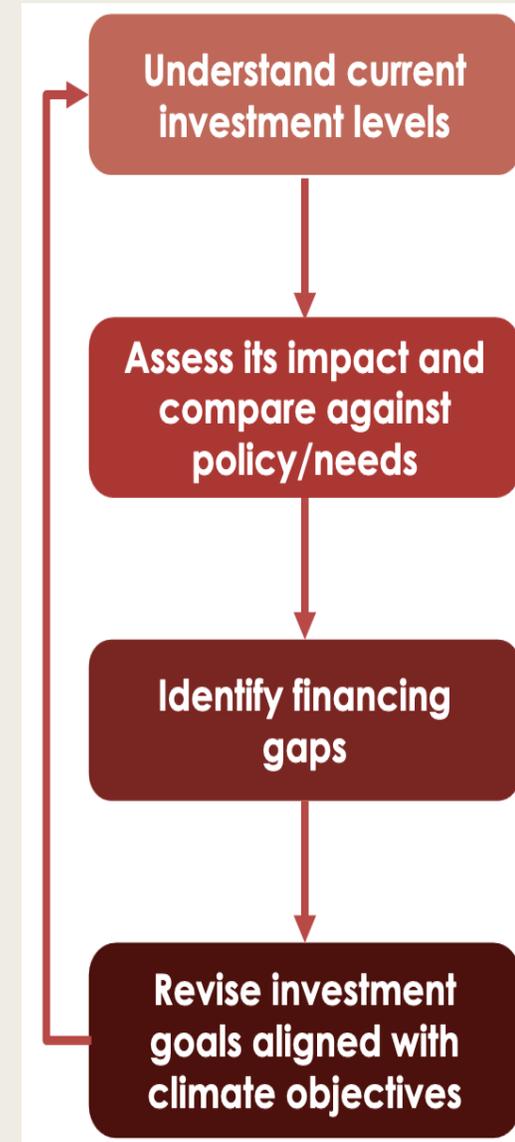
### 3. Expand Enabling Environments through Policies that Mobilize Private Finance

- Provide grant funding in new technologies: aviation, steel, cement
- Provide subsidies and public investment to proven technologies that need scaling
- Reduce cost of finance through risk distribution: guarantees, blended finance, carbon markets
- Provide capacity building where needed
- Redirect support for fossil fuels
- Create regulatory targets and a predictable investment environment: binding national emission targets, sectoral policies, carbon intensive technology phase-out



## 4. Make Decision-Critical Data on Climate Finance Flows Available

- Public-private collaboration on a common definition of climate investment. Building on existing and emerging best practice and taxonomies:
  - **International public climate finance providers** (including DFIs, MDBs, governments) can develop and consolidate common methods/standards on impact and outcome of finance (quality of finance); encourage reporting and common norms
  - **Public domestic actors** (various levels of government) and regularly monitor CC flows and compare against CC objectives; adjust flows based on findings
  - Private sector will increasingly be asked to detail their climate investment reporting; they need to build their capacity for this



# UNFCCC FINANCIAL MECHANISM

- Global Environment Facility & Green Climate Fund are operating entities
- Special Climate Change Fund (SCCF) & Least Developed Countries Fund (LDCF)
  - *GEF managed*
- Adaptation Fund
  - *2% of certified emission reductions (CERs) from CDM projects & contributions*
- (Standing Committee on Finance)

# Special Climate Change Fund (SCCF)

- Created 2001 (along with LDCF)
- Window A: Adaptation in non-LDC SIDS. \$3-6.5m/country. Food security & fisheries; integrated water resources; climate-resilient infrastructure; NbS; early warning systems & DRR; and climate-resilient tourism.
- Window B: Enhancing technology transfer, private sector engagement and innovation for all. With LDCF. Adaptation in all developing countries; micro-finance for farmers and micro-enterprises. \$103.5-198.5m total.
- 94 projects, \$366m grant, 9m beneficiaries, 5m ha of land, mainstream climate resilience in 462 policies and plans
- New strategy for 2022-2026

# Least Developed Countries Fund (LDCF)

- Four themes: (i) agriculture, food security, health; (ii) integrated water resource management; (iii) NbS; (iv) early warning and climate information systems
- Enhance partnership with vulnerable groups and communities
- \$20m/country
- So far 400 projects, 51 countries, \$1.7bn grants, 60m beneficiaries, 9.6m ha of land
- Two financial scenarios for 2022-26 (with SCCF): \$1.0bn floor and \$1.3bn.
- Must go through “GEF Agencies” (also SCCF)

# Adaptation Fund

- Direct Access through “Implementing Entities”; INO and BAN NGOs are IEs. Total of 57 IEs to date.
- \$20m/country
- Small Grants Window
- Readiness Grant Funds
- \$1.5bn, 139 projects and 100 countries since 2010

# GREEN CLIMATE FUND

- Est 2010; 1<sup>st</sup> project 2015; 216 total projects
- 38% adaptation; 174 projects for LDCs, SIDS and Africa
- \$12 bn in financing committed; 42% grants, 44% loans
- New Global Subnational Climate Fund – LDCs, SIDS, private sector
- 76 fully Accredited Entities (private, public, CSO, sub-national, national, regional, international). 44% micro or small. Work with National Designated Authority (NDA)
- E-learning course on Simplified Approval Process at <https://ilearn.greenclimate.fund/thematicarea/category?id=2>

<https://www.greenclimate.fund/>

<https://www.wri.org/blog/2020/02/insider-four-ways-green-climate-fund-can-strengthen-its-next-strategic-plan>

<https://www.greenclimate.fund/news/gcf-signs-public-private-partnership-agreements-launch-global-subnational-climate-fund>

<https://www.wri.org/blog/2020/02/insider-four-ways-green-climate-fund-can-strengthen-its-next-strategic-plan>