Towards a Sustainable Future: The Role of Finance

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Barbara Buchner | Executive Director | CPI Climate Finance

@bbuchner13
Key challenges of the 21st century

Climate Change
→ Meeting the Paris Agreement goals for Mitigation & Adaptation

Sustainable Development
→ Meeting Sustainable Development Goals
LANDSCAPE OF CLIMATE FINANCE IN 2015/2016

Global climate finance flows along their life cycle in 2015 and 2016. Values are average of two years’ data, in USD billions.

**Sources and Intermediaries**
Which type of organizations are sources or intermediaries of capital for climate finance?

- Government Budgets $11
- Agencies $3
- Development Finance Institutions
- National $58
- Bilateral $19
- Multilateral $46
- Climate Funds $2
- Commercial Financial Institutions $62
- Institutional Investors $2
- Private Equity, Venture Capital, Infra. Funds $1
- Corporate Actors $37
- Households $31
- Project Developers $137

**Instruments**
What mix of financial instruments are used?

- Grants $14
- Unknown $5
- Low-cost Project Debt $42
- Project-level Market Rate Debt $142
- Project-level Equity $38
- (equity) Balance Sheet Financing $167
- (debt)

**Recipients**
Does climate finance go through public or private channels?

- Public $52
- Private NGOs and Foundations $2
- Unknown $63
- Public/Private $4
- Private $288

**Uses**
What types of activities are financed?

- Adaptation $22
- Dual benefits $5
- REDD $5
- Mitigation $382

**Key**
- PUBLIC MONEY
- PRIVATE MONEY
- PUBLIC FINANCIAL INTERMEDIARIES
- PRIVATE FINANCIAL INTERMEDIARIES
- FINANCE FOR INVESTORS & LENDERS
- NE: NOT ESTIMATED
Where do we stand?

Global climate finance flows surged to **$437 billion** in 2015, before falling 12% to **$383 billion** in 2016.
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The private sector is doing more than ever, while the overall share of public investment remains steady.
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Project developers consistently drive the largest volume of private finance.

**Private actors**

- **Project Developers**
- **Corporate Actors**
- **Households**
- **Commercial Fin’l Institutions**
- **PE, VC, Infrastr. Funds**
- **Institutional Investors**

**Development Finance Institutions**

- **National**
- **Multilateral**
- **Bilateral**

**Governments & Agencies**

**Climate Funds**

CLIMATE POLICY INITIATIVE
On the public side, **development finance institutions** made up the majority of public flows, 89% of the total public finance.
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**410 BN USD ANNUAL AVERAGE**

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- Private Money
- Public Financial Intermediaries
- Private Financial Intermediaries
- Finance for Investors & Lenders
  - NE: Not Estimated
Renewable energy is on track

**Solar PV**
- +41% average annual growth
- Global Cumulative Installed Generation Capacity (GW)
- Levelized Cost of Electricity (USD/MWh)
- 303
- 40
- 365
- 120

**Onshore Wind**
- +16% average annual growth
- Global Cumulative Installed Generation Capacity (GW)
- Levelized Cost of Electricity (USD/MWh)
- 473
- 195
- 120
- 65

-17% average annual decrease
- -8% average annual decrease
Public finance for energy efficiency has overtaken public funding for renewable energy for the first time.

- Energy efficiency: 39
- Renewable energy generation: 33
- Sustainable transport: 22
- Others / cross-sectoral: 7
- Transmission & distribution systems: 5
- Agriculture, forestry, land-use, and natural resource management: 3
However, fossil fuel investment still dwarfs climate-related investment.

**Fossil fuel investments**

$825 \text{ bn (2016)}$

**Climate projects**

$410 \text{ bn (2015/16 average)}$

$1 \text{ trillion/year through 2050 needed (just for energy)}$

**Underfunded sectors:**
- Industrial energy efficiency
- Transport
- Agriculture
- Water
- Buildings
- Curbing deforestation
- Adaptation
Public funding for adaptation projects remains a challenge.
Is this enough?

$300bn

hurricane damage in the US in 2017 alone

Image from Daily Express
Adaptation tracking is a piece of the challenge

PRIVATE

Renewable Energy: 270
Energy Efficiency: 231*
Transport: NA
Land Use: NA
Adaptation: NA
Other: NA

PUBLIC

(DFIs & Int’l Finance)

Tracked: 33
Not tracked: 39
Tracked: 22
Not tracked: 3
Tracked: 22
Not tracked: 21

PUBLIC

(Domestic Finance)

Tracked: 33
Not tracked: 39
Tracked: 22
Not tracked: 3
Tracked: 22
Not tracked: 21

* Source: IEA WEIO 2017
South Asia, and East Asia and Pacific see the largest increase in climate finance
The majority of finance was raised and spent in the same country

Because domestic investment dominates, it is vital to get national policies right

- Total finance spent domestically: 79%
- Private finance spent domestically: 92%

*Over 2015/2016*
How to scale up?
The problem is not lack of capital

Around **US$90 trillion** is likely to be invested in infrastructure in the world’s urban, land use and energy systems in the next 15 years.
Several barriers affect investors’ incentives and ability to invest in climate action

**Policy gaps**
- Inadequate regulatory frameworks

**Knowledge gaps**
- Investment opportunities
- Pricing of climate risks

**Risk, viability & funding gaps**
- Inadequate access to finance
- Return uncertainty
- Perceived risks

Barriers vary by type of private actor, region, sector, technology & level of climate exposure
Founded in 2014, the Lab identifies, develops, and launches sustainable finance instruments that can drive billions to a low-carbon economy.
A public-private partnership to promote innovation
Since its launch in 2014, Lab instruments have mobilized $978 million for adaptation and mitigation projects around the world.
What next?
Four promising investment and policy trends signal a better outlook in climate finance

1. The Paris agreement means the majority of nations are working to **implement NDC plans**, many of which also include investment pathways.

2. A number of **initiatives engage broader capital markets, the financial system, and large corporations** to align with low-carbon and climate-resilient development.

3. Efforts to **green existing public financial flows** are beginning to take root (though more work remains).

4. **New and innovative investment vehicles** are on the rise and many of these target institutional investors that manage mostly untapped but significant portion of global capital.
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EXPLORE THE LAB:
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Thank you