

# **FAIR AND EFFECTIVE CLIMATE FINANCE**

## **An assessment of finance in global climate negotiations**

**When developed countries signed the UN Climate Convention in 1992 they recognized their responsibility for emitting the vast majority of planet-warming greenhouse gases. Consequently, in recognition of this “climate debt” the Convention requires them to take a lead in cutting pollution, and to provide the finance and technology needed by less industrialized countries to overcome the adverse impacts of climate change, and to chart a more sustainable pathway than that set by industrialized countries. It's time to meet these responsibilities.**

### **Finance: the keystone to climate negotiations**

The nations of the world affirmed their roles and responsibilities for tackling climate change in the Bali Roadmap agreed at the 2007 UN climate talks. The Roadmap established a “two-track” approach – one track to set the next phase of greenhouse gas emission reductions by developed countries under the Kyoto Protocol, and another to enhance efforts to implement commitments on adaptation, mitigation, finance and technology transfer under the Convention.

Despite the deal in Bali, the current financing model being advanced by developed countries runs counter to their commitments under the Convention to provide new, additional resources to developing countries. Developed country financing proposals, which rely on carbon markets and financial institutions outside the authority of the UNFCCC, are ineffective at meeting the needs of developing countries to address climate change now – let alone in the face of increased warming. Ensuring that climate finance is raised and managed in fair and effective ways is the key to advancing together down the path defined by the Convention and the Bali Roadmap and securing an equitable and effective global climate agreement.

### **Polluters pay**

The provision of finance by the industrialized, Annex 1 countries, is intimately linked to their historical emissions and their failure to adopt and implement sufficient mitigation action. It is a simple equation – the historical emissions of the developed countries have led to the majority of current and committed warming. Going forward, the weaker the emission reductions in Annex 1 countries, the more harm climate change will cause, and the deeper the cuts those countries who are least responsible for the problem will have to make. A lack of vision and leadership by the countries, corporations, financial interests, and people who have most benefited from the prevailing but perversely unsustainable economic paradigm is causing the cost of climate change to rise to what may soon become unpayable levels for all of humanity.

Existing pledges from developed countries to reduce emissions, add up to a mere 17-25% cut in emissions from 1990 levels by 2020 – a scenario that is inconsistent with any fair contribution to their own 2 degree goal, and that experts say will contribute to warming the planet between 3 and 4 degrees C.

Worse still, Annex 1 countries intend to emit considerably more pollution domestically through the use of loopholes in current rules and proposed carbon markets. These would allow them to make cuts on paper but not in practice and to claim they are providing climate finance by buying carbon offsets while shifting the climate change burden further to developing countries.

### **Bait and switch?**

At the Copenhagen climate conference in December 2009, developed countries pledged to provide “new and additional” short-term financing approaching \$30 billion between 2010-2012. It now seems, however, that little will be new and less will be additional.

Developed countries are recycling old pledges made before Copenhagen as new financing under the Convention. They are re-labeling other funds, such as those for agriculture and water, as “climate-related”. Many countries intend to double-count climate finance and Overseas Development Assistance, inflating their support on paper, but leaving adaptation, mitigation and other urgent priorities for development, such as health, education and sanitation, underfunded.

Through these and other sleights of hand, discussions of climate finance are beginning to resemble a shell game in which the industrialized countries of the North offer money, then shift their pledges rapidly from one container to another, only to leave the purported recipients short changed. This seems an unlikely strategy for securing trust and reaching the agreement we all need to combat climate change.

On the road to Cancun, countries now have only a few more opportunities to discuss the generation and oversight

## **The current financing model being advanced by developed countries, which centers on carbon markets and financial institutions outside the authority of the UNFCCC, runs counter to their commitments under the Convention**

of climate finance, and the role of a new climate fund under the UNFCCC. Building trust, and getting the scale, sources and governance of financial resources right, are key objectives for upcoming negotiations.

### **Scale of the need**

The G77 and China have called for an annual financial transfer from North to South equivalent to at least 1.5% of Annex I GDP by 2020, with other countries estimating that developing nations will need the equivalent of up to 6% of Annex I GDP to keep the world safe. These figures are based on the ambitious efforts needed to keep warming within safe levels, the spiraling costs of climate-related damage, as well as compensation for the over-consumption of atmospheric space by the industrialized countries. The latter figure represents less than what is spent worldwide on armed conflicts each year -- a reasonable investment to stabilize the Earth's life support system.

Limiting the discussion on financial needs to only \$100 billion per year by 2020 – a number established in the Copenhagen Accord – will have dire implications for developing countries and indeed, the entire world. This amount falls astonishingly short of all reasonable estimates of adaptation and mitigation costs in developing countries. The amount is even more inadequate when measured against developed countries' weak emission reduction pledges -- which would shift an even larger burden of mitigation and adaptation costs to developing countries.

### **Sources of finance that are fair**

To meet developed countries' commitments, climate finance must be public, grant-based so as not to further indebt developing countries, new and additional (not recycled ODA) and flow through institutions under the UNFCCC.

Civil society and developing countries have called on developed countries to provide financing from public sources – to implement their commitment and to ensure that the costs of mitigation and adaptation actions are covered, particularly for initiatives that are not likely to be profitable such as adaptation measures and those currently at a market disadvantage like clean, renewable energy.

Developed countries, however, have emphasized the role of the private sector in meeting their obligations to cover the costs of developing countries' responses to the climate emergency. They envision whole sectors of developing countries' mitigation potential being sold off to private interests through an expanded Clean Development Mechanism (CDM), REDD, or a new global carbon market.

Developed countries must not be allowed to use offsets to justify business as usual in their own economies, while outsourcing the difficult task of lowering emissions to developing countries.

Carbon offsets must not be used to fulfill developed countries' climate finance obligations because their financing is explicitly dedicated to meet the emission targets of the developed countries. Furthermore, most carbon offsets are sold as derivatives, and as such are poorly regulated. As carbon markets become dominated by financial speculators, the risk of shoddy offsets that fail to deliver promised reductions, as well as fraud and corruption, increases. Conflating this with public sources is inconsistent with the climate convention, unfair and ineffective.

### **Equitable and effective governance**

Climate finance will only be as equitable and effective as the institutions through which it is channeled. Developing countries and social movements worldwide are calling for a new global climate fund under the authority of the UNFCCC with equitable and balanced representation, effective participation in all decision-making, direct access to funding and an absence of economic or other policy conditionality.

The new global climate fund should have: 1) a board with equitable representation among the United Nations regions with additional seats for countries most vulnerable to climate change, civil society, and affected community members; 2) an independent trustee selected through a process of open bidding; 3) an independent secretariat to support the work of the fund board; and 4) a set of technical panels and funding windows to enable effective mitigation, adaptation and technology transfer, and support for activities in specific sectors such as forest conservation. The UNFCCC should also establish systems to track delivery of contributions from developed countries, and evaluate the source, additionality, and nature (grants vs. loans) of contributions, among other activities.

The World Bank – an institution often championed by developed countries to be the world's new climate banker – has a history marred by environmental degradation and human rights violations and lacks adequate developing country representation. It continues to be among the world's chief proponents of an unsustainable development model and largest public fossil fuel financiers. Funds at the Global Environment Facility, an operating entity of the UNFCCC financial mechanism that is linked to the Bank, have proven difficult to access and ineffective in raising and

channeling funds. Therefore, these institutions are not appropriate to manage global climate finance.

### The road to success in Cancun

Addressing the legitimate interests and concerns of developing countries on climate finance is a keystone to a successful climate agreement. In Cancun, Parties must work together to clarify the scale – both short- and long-term – of financing, as well as its sources and governance.

Industrialized, Annex 1 countries can build trust by ensuring transparency and accountability in their short-term financial commitments. They should, at a minimum, clarify: 1) the proportion of funds they pledged before Copenhagen and the proportion that is genuinely “new;” 2) the proportion that is above their current commitments for Overseas Development Assistance (both 0.7% of GNI and current levels) and so is genuinely “additional;” 3) the proportion that is to be provided through grants (as opposed to loans that are to be repaid by developing countries); 4) the proportion of funding going to adaptation versus mitigation; and 5) the proportion of funding going through UNFCCC channels. Transparency of short-term finance is a first step towards more effective and accountable governance of climate finance over the longer-term.

For the longer term, developed countries should agree to the following:

- Climate finance discussions should be held within the UNFCCC to ensure inclusivity of all perspectives and knowledge about the needs and demands of those most impacted by climate change.
- The scale of financial resources committed by developed countries to developing countries must match the scale of the need. The G77 and China have called for longer-term financing equivalent to at least 1.5% of Annex I GNP. Many governments and much of civil society have called for higher amounts, such as those proposed by the African Group and Bolivia, based on the need for truly ambitious action to stabilize the Earth’s climate system.

- Climate finance must be conducted in a manner that is consistent with the obligation of Annex 1 countries to settle their climate debt. It must be consistent with the need, both North and South, to advance toward new modes of production and consumption that are respectful of the rights of people and of the planet. It must not be used as a vehicle for shifting the burden of mitigation or adaptation to developing countries, or shifting funding from other development priorities. Climate finance must therefore be sourced from public money, must be in grant form, and it must be new and additional to ODA; income from the purchase of carbon offsets must not count toward developed countries’ commitments.
- Through a COP decision, establish a new democratically and equitably governed global climate fund under the authority of the UNFCCC on terms consistent with the proposals of developing countries and civil society.

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