Policy Briefing

Climate Finance

PARIS CLIMATE JUSTICE BRIEFS

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Climate finance is the transfer of public funds from developed countries to developing countries to support action on climate change – both to reduce or avoid greenhouse gas emissions (mitigation) and to deal with the climate impacts that are already happening or unavoidable (adaptation).

Underpinning this is the principle – affirmed by the United Nations Framework Convention on Climate Change (UNFCCC) – that rich countries have a responsibility to lead on climate action because it is their historical emissions that have overwhelmingly caused the climate crisis. Meanwhile, poor countries that have done little to nothing to cause climate change are those most vulnerable to climate impacts and are being hit first and worst. The provision of climate finance, based on the "polluter pays" principle, is thus an obligation of rich countries, sometimes referred to as "climate debt." It is not aid or charity; it is a moral and legal responsibility.

Climate finance should not be used to support projects that exacerbate climate change or that violate human rights. This should be self-evident, but there are numerous cases to the contrary, such as Japan counting coal-fired power plants in Indonesia, Bangladesh and India towards its "climate finance" contribution, which is completely unacceptable.[1]

HOW MUCH MONEY IS NEEDED, AND IN WHAT FORM?

Floods, droughts, sea-level rise, heat waves and other forms of extreme weather are likely to cost developing countries hundreds of billions of dollars every year. And it will take hundreds of billions more to ensure that they industrialize more cleanly than their counterparts did in North America, Europe, Japan and Australia. Though estimates vary, the bottom line is the less we do now, the more it will cost later.

The Copenhagen Accord – a political document championed by the United States and agreed to by some countries in Copenhagen in December

[1] Karl Ritter and Margie Mason, "Climate funds for coal highlight lack of UN rules," Associated Press. http://apne.ws/12fkrPe

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2009 – stated that "developed countries commit to a goal of mobilizing jointly US$100 billion dollars a year by 2020 to address the needs of developing countries." But $100 billion is an arbitrary, political figure that is based neither on need nor on equity. Magnitudes more have been spent to bail out Big Banks and to pay for wars every year.

Climate finance must be driven by need, not politics. For example, experts on globally funded feed- in tariffs to promote renewable energy in developing countries estimate that $50-100 billion per year will be needed to effect a transition away from fossil fuels. As for adaptation, estimates have generally been at the scale of at least $100 billion per year to cover needs in all developing counties. A recent UNEP report estimated that Africa alone will require $67 billion per year for adaptation, in a 2-degree Celsius temperature rise scenario – with the costs increasing rapidly with higher temperature rises. And none of this accounts for the many billions of dollars of loss and damage. Loss and damage to property, territory, lives and livelihoods are effects that would not have happened without climate change, which have not been mitigated, and which cannot be or have not been adapted to, such as the devastation resulting from Typhoon Haiyan in the Philippines.

Climate finance must be public money, additional to existing Official Development Assistance (i.e. aid), adequate to the needs of developing countries and provided in a predictable manner. It should come in the form of grants, not loans. Dealing with a climate crisis not of their making must not add to the debt burden of countries of the South. Furthermore, climate finance must not be subject to the whims of markets and investors. Adaptation in particular is an area that is unlikely to turn a profit for the private sector, and should receive public financing.

WHAT COUNTS AS CLIMATE FINANCE?

Counting any money, private or public, directed toward climate-friendly activities as "climate finance" waters down the definition of climate finance to the point of meaninglessness – a tactic pursued by rich countries as a means of minimizing the amount of public finance they contribute and thus avoiding their obligations.

This is exactly what a report by the OECD released in October of this year attempted to do. The majority of what the OECD study counted as climate finance ultimately benefits developed countries and their investors, banks, and corporations. The OECD counted:

All financial instruments at face value.

This includes loans (and interest) which are lent to poor countries but ultimately end up back in the pockets of developed countries. It also includes money that does not get spent when a guarantee is provided but default does not occur. Only grants and the grant-equivalent of other financial instruments should actually count as climate finance.

Export credit financing

Export credits mean loans or loan guarantees, which again require repayment. In addition, export credit agencies are by design meant to benefit home country corporations – they are not driven by developing countries' climate priorities.

Private investment

While greening private investment is vital, private investments are motivated by profit, not by the desire to offer relief or justice for impacted people. Private investors leave unprofitable ventures, including most adaptation projects, by the wayside, so they cannot be a substitute for direct public support. Further, as the OECD Research Collaborative of Tracking Private Climate Finance acknowledges, there are inherent difficulties in ascribing causality in relation to private finance flows (e.g. did a climate finance "leveraging" instrument really cause a financier to invest, or would they have invested anyway?) as well as practical difficulties in accessing information transparently.

Further, the OECD study paid little attention to whether funds were "new and additional" to Overseas Development Assistance accounts, a key principle of climate finance to make sure, for example, that health budgets are not raided to pay for climate activities.

It even counted some activities where climate was a “significant” but not the “principal” objective, in effect counting activities that were going to happen anyway.

That the OECD would cast as wide a net as possible is an unsurprising act of self-service. After all, the OECD is a rich countries’ club. But to be credible and effective, climate finance estimates must rely on methodologies set by the UN Framework Convention on Climate Change, a forum that is fully inclusive of all countries. Such methodologies should be unambiguous and based on a robust system of measurement, reporting, and verification of finance under the UNFCCC.

Solving the problem of global climate change is impossible without huge shifts in private sector investments, since this sector represents trillions of dollars and the vast majority of economic activity around the world. But achieving shifts in private sector expenditure is not the primary task of climate finance, which should focus on addressing developing country needs that the market sees no profit motive to meet (particularly in relation to adaptation). Policy changes and regulations, particularly in developed countries, are what’s needed to shift private investment from brown to green. National governments could do far more to shift incentives so that trillions of dollars of private investment will flow to sustainable, climate-friendly activities. Such measures may include strong, legally binding emissions targets, emissions output limits and scaling down fossil fuel power stations, feed-in tariffs, robust and progressive carbon taxes, and large-scale shifts in subsidies away from the fossil fuel industry.

WHAT ROLE SHOULD THE GREEN CLIMATE FUND PLAY?

The Green Climate Fund (GCF), a financial mechanism of the UNFCCC, is intended to play a primary role in delivering international climate finance. Around US$10.2 billion has been pledged to the Fund for the period 2015-18, which will be disbursed via other institutions ranging from national planning ministries to regional development banks and large international private banks.

Half of the GCF’s funds are supposed to go toward adaptation, and half are supposed to go toward mitigation. Furthermore, 50% of adaptation funds are supposed to go toward particularly vulnerable countries, which include African countries, small island developing states, and least developed countries. The 50/50 adaptation/mitigation split represents an important win, as adaptation gets much less funding than mitigation.

Unresolved questions remain over what the GCF will actually finance. Some donor countries – including the United States, United Kingdom, Japan, Australia and France – are pushing for a fund that would support transnational corporations and their supply chains, helping them turn profits from investments in developing countries. Moreover, despite its mandate, the possibility of the Green Climate Fund financing dirty energy – including power generation from fossil fuels, nuclear power, and destructive mega-dam projects – has not been ruled out.

These ongoing battles are still being fought. Despite its shortcomings, the Green Climate Fund has real potential to support climate resilience and a global transition to renewable energy, sustainable public transport systems, and energy efficiency.

WHAT NEEDS TO HAPPEN IN PARIS?

Developed countries should commit to provide developing countries with public climate finance commensurate with the scale of need, not politics-as-usual. This must match requirements for adaptation to climate impacts and for supported public mitigation actions in the South – a figure amounting to hundreds of billions of dollars a year.

Countries in Paris should clarify that the promised $100 billion is to be made up of grants and grant-equivalents, with developed countries agreeing to a road map and yearly commitments through 2020 to meet this target in full. Loans and private investments must not be counted as developed countries’ contribution to climate finance. Further, climate finance should not be used to support dirty energy projects and programmes.[2] The COP should provide guidance to the GCF board that its investment framework must rule out financing for fossil fuel and other harmful energy programmes. The GCF should also adopt an “exclusion list” as part of this effort.

Beyond 2020, countries should agree to a needs-based collective target for new and additional public finance, with separate targets for adaptation and mitigation to ensure that adaptation receives 50% of funds. Finally, a post-2020 agreement should legally bind wealthy countries to year-on-year commitments to provide these funds.

The measurement, reporting and verification of finance provided by developed countries should be mandatory and conducted according to unambiguous methodologies established under the UNFCCC. Further, reporting of climate finance should not just be about the amount of money moved, but should also seek to address environmental and social co-benefits and human rights impacts

There should be an indication that funding for the GCF will rapidly scale up from the initial resource mobilization phase, beginning with the first formal replenishment process.

Finally, developed countries should agree to establish a financial transactions tax (FTT), with a portion of generated revenue directed toward climate finance. Also known as a Robin Hood Tax, an FTT is a tiny tax on the trades of stocks, bond and other financial instruments that could annually generate hundreds of billions of dollars of new money. France has already established an FTT that produces revenue for climate finance; other developed countries must now follow suit.

[2] Statement from Global South Civil Society Calling for No Dirty Energy in the Green Climate Fund, http://www.internationalrivers.org/resources/8303