

# ADDRESSING FINANCE IN A 2015 CLIMATE AGREEMENT



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A central issue in the Paris climate negotiations is how the new global climate agreement to be reached this year can help strengthen climate finance for developing countries. Developed countries have committed under the United Nations Framework Convention on Climate Change (UNFCCC) to help developing countries reduce their greenhouse gas emissions and adapt to the impacts of climate change. The new agreement will build on steps already taken and define an approach to climate finance for the post-2020 period. This brief provides an overview of: existing finance commitments, institutions and mechanisms under the UNFCCC and the Kyoto Protocol; current climate finance flows; potential finance-related objectives in a 2015 climate agreement; and options for addressing finance in the 2015 agreement.

## CLIMATE FINANCE UNDER THE UNFCCC

The UNFCCC includes finance-related commitments and establishes a financial mechanism to deliver support to developing countries. Through subsequent decisions, parties have elaborated the financial mechanism, establishing several distinct funds, and have established other finance-related institutions and practices, including the Standing Committee on Finance and reporting and review procedures.

In Article 4.3 of the Convention, the developed countries included in Annex II commit to “provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties” in meeting their reporting obligations under the Convention, and to “provide such financial resources...needed by the developing country Parties to meet the agreed full incremental costs of implementing measures” covered by Article 4.1 and “agreed by the developing country Party and the [financial mechanism].” These include measures to both mitigate and adapt to climate change. In addition, Annex II parties commit in Article 4.4 to help developing countries particularly vulnerable to climate impacts meet their adaptation costs. Article 4.7 states that the extent to which developing countries implement their Convention commitments will depend on the

effective implementation by developed countries of their financial commitments.

Article 11 establishes a financial mechanism “under the guidance of and... accountable to the Conference of the Parties” to provide “financial resources on a grant or concessional basis.” It also notes that financial resources may be provided through bilateral, regional and other multilateral channels.

The only numerical finance goals established under the Convention are those contained in the Cancún Agreements: a “fast-start” commitment of \$30 billion in “new and additional” finance in 2010-2012; and a goal of mobilizing \$100 billion a year by 2020 “from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources,” and “in the context of meaningful mitigation actions and transparency of implementation.”

## CLIMATE FUNDS

A number of funds have been established under the Convention and the Kyoto Protocol to provide resources to developing countries. At the second Conference of the Parties (COP 2), UNFCCC parties designated the Global Environmental Facility (GEF) as an operating entity of the financial mechanism. Originally a pilot program

of the World Bank and United Nations Development Programme, the GEF now sits as a separate institution serving as an operating entity of six conventions addressing a range of environmental concerns, including biodiversity and ozone-depleting substances. The GEF receives its funding through a replenishment process which occurs every four years. The sixth replenishment of the GEF (GEF-6), completed in April 2014, will provide more than \$3 billion in funding towards climate change activities, which the GEF estimates can be leveraged to more than \$30 billion.<sup>1</sup>

The GEF also manages two specialized climate funds established by the UNFCCC. The Least Developed Countries Fund for Climate Change was established in November 2002 to address the needs of the least developed countries especially vulnerable to the adverse effects of climate change. The fund supports the preparation of national adaptation programs of action, which identify priorities to increase resilience in these vulnerable countries. In 2004, parties established the Special Climate Change Fund to provide financing to developing countries for activities, programs and measures complementary to funding provided by the GEF.

At COP 13, Kyoto Protocol parties created a dedicated Adaptation Fund (AF) to finance activities strengthening developing countries' resilience to climate change. The AF provides direct access to funding, without intermediaries, to increase recipient country ownership. The AF is unique among climate funds: in addition to financial contributions, it also receives a 2 percent "share of proceeds" from revenues generated through the Clean Development Mechanism. (As of the AF's most recent financial statements, the split between the two was roughly 50:50.) Of the approximately \$400 million received by the fund, approximately \$100 million has been disbursed to projects and activities.

The Cancún Agreements established the Green Climate Fund (GCF) as a new operating entity of the Convention's financial mechanism. The GCF board decided on a 50:50 balance over time between mitigation and adaptation, on a grant-equivalent basis. In addition, the fund features a private sector facility that "enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels."<sup>2</sup> More than \$10 billion was pledged by developed and developing countries to the GCF in its first round of capitalization last year, of which

approximately \$4 billion has been converted into formal contribution agreements.<sup>3</sup>

In addition to funds established under the UNFCCC and Kyoto Protocol, the multilateral development banks (MDBs)<sup>4</sup> established a set of Climate Investment Funds (CIFs) in 2008 to provide a channel for climate finance. Unlike the other funds, the CIFs are not accountable to the UNFCCC or Kyoto parties. However, the UNFCCC is a stakeholder in the CIF governance process and can observe Trust Fund Committee meetings. Countries have pledged approximately \$8 billion to the CIFs, which the World Bank estimates will leverage more than \$55 billion. The main CIF is the Clean Technology Fund, to which \$5.5 billion has been pledged. The other CIFs are the Forest Investment Program (\$639 million), the Pilot Program for Climate Resilience (\$1.3 billion), and the Scaling-Up Renewable Energy in Low Income Countries Program (\$551 million).

## STANDING COMMITTEE ON FINANCE

The Standing Committee on Finance (SCF) was established pursuant to the Cancún Agreements as a permanent institution to assist the COP on matters related to the financial mechanism of the Convention. This includes conducting a biennial assessment of climate finance flows; providing technical input to the review of the financial mechanism; organizing forums for information exchange among relevant climate finance bodies and entities; providing linkage with the thematic bodies of the convention; and providing recommendations to the COP on how to improve the coherence, effectiveness and efficiency of the operating entities of the financial mechanism. The board has 20 members, 10 from Annex I and 10 from non-Annex I parties.

## MONITORING, REPORTING AND VERIFICATION OF CLIMATE FINANCE

Pursuant to Article 12.3 of the UNFCCC, Annex II parties report on their financial support to developing countries in their national communications (NCs), which are submitted every four years, and in their biennial reports (BRs). In their NCs, they provide a detailed narrative on their provision of new and additional finance, assistance to developing countries especially vulnerable to climate change, and transfer of technology. In their BRs, they provide detailed quantitative data on their contributions

to multilateral funds, including the GEF, AF, GCF, CIFs, MDBs, UN bodies and other funds, and via bilateral, regional and other channels. At COP 18, parties adopted a Common Tabular Format for this reporting to help make data comparable across Annex II countries.

The NCs and BRs undergo international assessment and review (IAR) conducted by the Subsidiary Body for Implementation (SBI). This entails a country-by-country technical expert review, which includes an examination of the provision of financial, technological and capacity building support detailed in BRs.<sup>5</sup> Technical review reports are made publicly available on the UNFCCC website. (IAR also includes a multilateral assessment phase following the technical review, but this applies to mitigation only.)

Developing countries report in their NCs on financing gaps and needs and list projects for which they would like to receive financing. In their biennial update reports (BURs), developing countries report on financing needs and on the receipt of climate finance from Annex II parties, including the funding's source, the type of financing (grants, concessional loans, overseas development assistance, etc.), and how the support is used (financial, technology transfer, technical assistance, capacity building).<sup>6</sup>

BURs undergo a process of international consultations and analysis (ICA). First, a team of technical experts (TTE) analyzes the completeness of the BUR, undertakes a technical analysis of the information it contains, including on support received, and identifies capacity-building needs to improve a party's reporting. This is followed by a facilitative sharing workshop in the SBI in which developing countries, either individually or in groups no larger than five, present their BURs and other parties may ask questions. The BUR, and a summary of the technical analysis by the TTE, serve as inputs to the facilitative sharing process.

## A SNAPSHOT OF CLIMATE FINANCE FLOWS

The SCF completed its first biennial assessment of climate flows last year, covering the period 2010-2012. Based on available information, the SCF estimated that flows from developed to developing countries ranged from \$40 billion to \$175 billion per year (including in excess of \$33 billion in fast-start finance reported by

developed countries).<sup>7</sup> Public finance accounted for \$35 billion to \$50 billion, whereas private finance ranged from \$5 billion to \$125 billion. Total global climate finance in all countries, including domestic investment and from all sources, ranged from \$340 billion to \$650 billion per year (see **Figure 1**).

The biennial assessment highlighted a number of challenges for quantifying climate finance flows, including: a lack of an agreed definition of climate finance; the wide range of delivery channels and instruments used for climate finance; the inconsistent application by parties of UNFCCC guidelines on reporting flows in their biennial reports; and the lack of adequate information on climate financing, in particular domestic adaptation spending, private sector financing, energy efficiency investments and non-CO2 emissions reductions. These issues partly explain the wide range in estimates of climate finance the biennial assessment provides. The SCF notes that efforts are underway to improve the quality and coverage of climate finance data, including the OECD Research Collaborative on Tracking Private Climate Finance and the exploration by MDBs of options for estimating mobilized private finance.

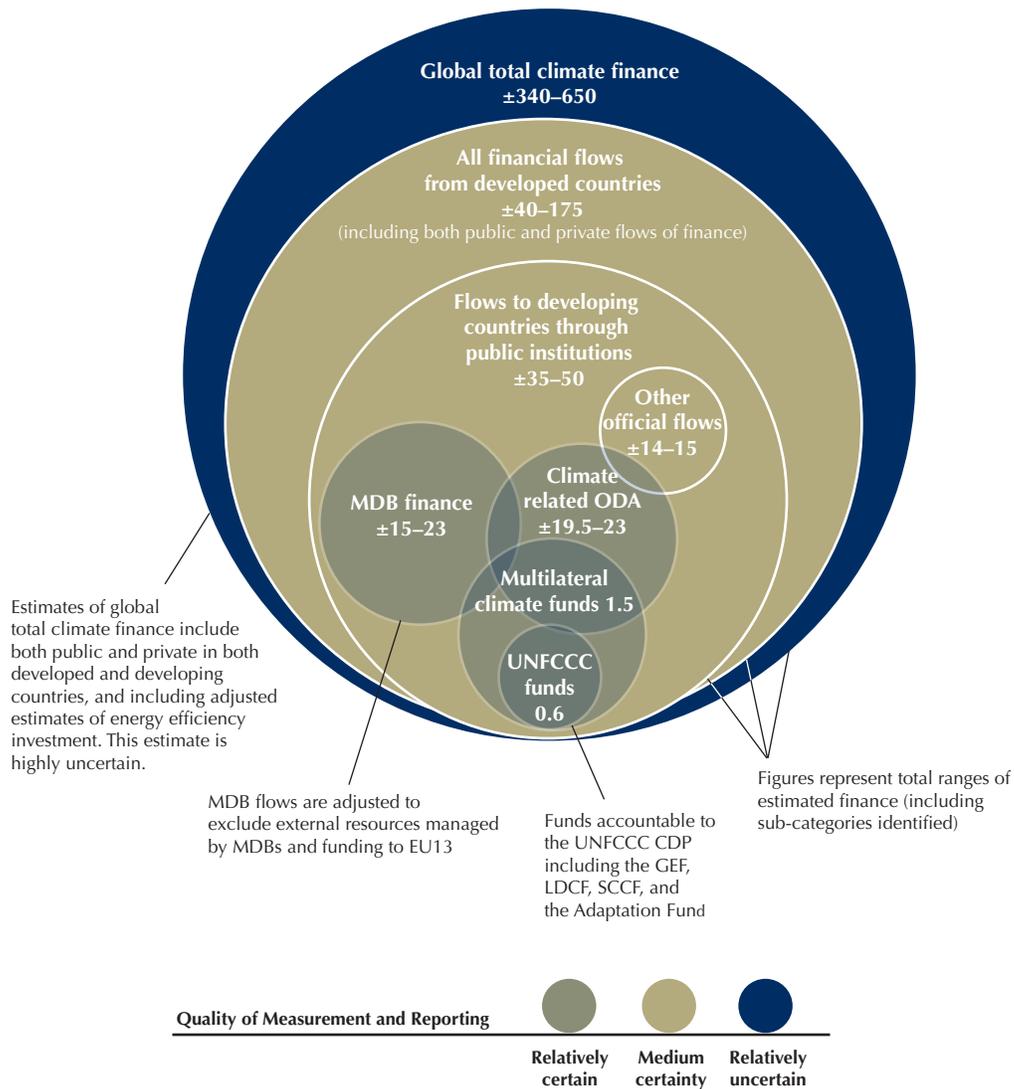
The Climate Policy Initiative's Global Landscape of Climate Finance series, which tracks flows annually, provides more up-to-date estimates of climate finance. According to its most recent publication, in 2013 developing countries received \$31 billion to \$37 billion in climate finance from developed countries, 94 percent of which came from public sources. The report acknowledges significant information gaps on private climate finance.<sup>8</sup>

## POTENTIAL FINANCE-RELATED OBJECTIVES

An overriding objective in fashioning the finance-related provisions of the 2015 outcome is to support the transition to a low-carbon and climate-resilient global economy. More specific objectives could include:

- Providing greater assurance of sustained and/or scaled-up finance.
- Enabling increased mitigation ambition.
- Ensuring appropriate/balanced allocation of finance for different purposes (e.g., adaptation, REDD+, loss and damage, technology, capacity-building).

**FIGURE 1: Global Climate Finance Flows, 2010–12 (in \$ per year)**



Source: UNFCCC Standing Committee on Finance (2014)

- Mobilizing or leveraging a diverse range of public and private sources of finance.
- Promoting South-South finance.
- Improving enabling environments.
- Improving the efficiency/effectiveness of the UNFCCC’s financial mechanism.
- Simplifying access to finance.
- Promoting coherence/harmonization among institutions providing climate finance.
- Strengthening transparency of financial flows.
- Promoting needs-based and/or results-based finance.

## OPTIONS FOR ADDRESSING FINANCE

The Paris outcome will likely include a mix of instruments such as a core legal agreement, supporting COP decisions, and political declarations. Depending on parties' objectives, they could seek through these instruments to: establish new or strengthen existing commitments; encourage scaling up available resources; enhance existing institutions; strengthen the transparency of support; or enhance enabling environments. Specific options include:

### COMMITMENTS

The agreement could establish or strengthen a range of finance-related commitments, such as:

- Individual commitments
  - By:
    - Annex II parties
    - Parties in a position to do so
  - To:
    - Provide quantified levels of finance
  - Based on:
    - Percentage of GDP (uniform or differentiated)
    - Assessed scale of contributions
    - Self-determination
- Collective commitments
  - By:
    - Annex II parties
    - Parties in a position to do so
  - To:
    - Mobilize finance in accordance with agreed aggregate goals/benchmarks
    - Mobilize finance commensurate with 2° goal
    - Mobilize finance enabling full implementation of developing countries' nationally determined contributions
- A collective commitment to enhance enabling environments

### SCALE OF RESOURCES

The agreement could seek to enhance the scale of resources available to assist developing countries, for instance through:

- Collective post-2020 goals for public or total finance
  - [5-][10-]year benchmarks through 20[XX]

- Pathway with annual targets

- An *ex ante* process to:
  - Periodically assess finance needs
  - Periodically establish next-stage finance goals/allocation
- A periodic pledging process

### INSTITUTIONS

The agreement could address institutional needs, for instance by:

- Incorporating some or all existing UNFCCC funds/institutions
- Providing new guidance to the Green Climate Fund
- Modifying the role of the Standing Committee on Finance
- Initiating a process to develop COP decisions to:
  - Simplify access to finance
  - Improve the coherence/coordination of funding mechanisms

### TRANSPARENCY/REVIEW

The agreement could seek to strengthen the transparency of support, for instance through:

- A periodic review to assess:
  - Collective progress in provision of climate finance
  - The impacts/effectiveness of finance provided
  - Progress in improving enabling environments
- Enhanced reporting of support provided/received, in-country investment, and private flows:
  - Based on existing procedures (BR/BUR, IAR/ICA)
  - Through new procedures to be determined by the COP
- A process to establish common definitions of climate finance, both public and private

### CONCLUSION

Adequate finance is critical to strengthening the global climate effort. This paper has identified the climate finance commitments and institutions already in place under the UNFCCC, and some key issues and options in addressing finance in the 2015 climate agreement.

**ENDNOTES**

1 Global Environment Facility, available at: [http://www.thegef.org/gef/climate\\_change](http://www.thegef.org/gef/climate_change)

2 Green Climate Fund Governing Instrument, Available at: [http://gcfund.net/fileadmin/00\\_customer/documents/Key\\_documents/GCF\\_Governing\\_Instrument\\_web.pdf](http://gcfund.net/fileadmin/00_customer/documents/Key_documents/GCF_Governing_Instrument_web.pdf) pg. 14

3 Green Climate Fund, Status of Pledges and Contributions made to the Green Climate Fund, April 30, 2015. Available at: [http://news.gcfund.org/wp-content/uploads/2015/04/GCF\\_contributions\\_2015\\_apr\\_30.pdf](http://news.gcfund.org/wp-content/uploads/2015/04/GCF_contributions_2015_apr_30.pdf)

4 CIFs funding is disbursed through the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB) and the World Bank Group (WBG)

5 [http://unfccc.int/files/national\\_reports/annex\\_i\\_national\\_communications/recent\\_developments/application/pdf/cop19\\_review\\_crf.pdf](http://unfccc.int/files/national_reports/annex_i_national_communications/recent_developments/application/pdf/cop19_review_crf.pdf)

6 [http://unfccc.int/files/national\\_reports/non-annex\\_i\\_natcom/training\\_material/methodological\\_documents/application/pdf/cross\\_cutting\\_issues\\_\\_2\\_%2831\\_oct\\_2013%29\\_y06-handbook.pdf](http://unfccc.int/files/national_reports/non-annex_i_natcom/training_material/methodological_documents/application/pdf/cross_cutting_issues__2_%2831_oct_2013%29_y06-handbook.pdf)

7 Standing Committee on Finance, November 2014, Biennial Assessment of Climate Finance Flows. Available at: [http://unfccc.int/files/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/application/pdf/2014\\_biennial\\_assessment\\_and\\_overview\\_of\\_climate\\_finance\\_flows\\_report\\_web.pdf](http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_biennial_assessment_and_overview_of_climate_finance_flows_report_web.pdf) Page 44

8 Climate Policy Initiative, November 2014, Global Landscape of Climate Finance 2014. Available at: <http://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2014/>

**Other C2ES Resources:**

*Addressing Adaptation in a 2015 Climate Agreement*, June 2015

*Differentiation in a 2015 Climate Agreement*, June 2015

*Key Legal Issues in the 2015 Climate Negotiations*, June 2015

*Building Flexibility and Ambition into a 2015 Climate Agreement*, June 2014

*Evolution of the International Climate Effort*, May 2014

*Issues for a 2015 Climate Agreement*, May 2014

Available at [www.C2ES.org](http://www.C2ES.org)



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