Climate justice briefs #6

INTERNATIONAL CLIMATE FINANCE

November 2010, Cancún

Current funding directed toward developing countries for climate change and the proposal of the Copenhagen Accord is insignificant. In addition to Official Development Assistance and from public sources, developed countries must commit to a new annual funding of at least 6% of GDP to tackle climate change in developing countries.

People's Agreement, April 2010, Cochabamba

Key messages

- Hundreds of billions in climate finance are needed every year. The less we do now, the more it will cost later
- Developed countries are historically responsible for causing the climate crisis and are obligated to provide climate finance from public sources in the form of grants
- Innovative sources of funds – like financial transaction taxes and special drawing rights – could deliver the scale of funds that is necessary
- Funding should be governed, managed, and disbursed through a Global Climate Fund under the authority of the UN Framework Convention on Climate Change. This fund must be established in Cancun

International climate finance is the transfer of funds from the North to the South to help enable developing countries to deal with the impacts of climate change, shift to equitable and sustainable development pathways, and embark on clean energy development paths.

In keeping with the "polluter pays" principle and the recognition of the North's historical responsibility for causing the climate crisis and corresponding obligations to address it, developed countries responsible for the climate crisis must provide climate finance. These committments to the South must be through public funds, and not in the form of loans or private investments.

The provision of climate finance can be seen as part of reparations for the climate debt that the North owes to the South. It is also a legal obligation under the United Nations Framework Convention on Climate Change (UNFCCC).

How much is needed?

Hundreds of billions every year, and more if rich countries don't start to take their mitigation and finance obligations seriously. For example, the UN Department of Economic and Social Affairs' 2009 UN World Economic and Social Survey estimated that $500-$600 billion annually in public funds is needed for adaptation and mitigation in developing countries. 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 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 Wall Street and to pay for wars every year.

Moreover, funds should come from public sources and be 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 not an area that is likely to turn a profit for the private sector, and truly renewable energy is often at a market disadvantage.

How much has been made available so far?

In Copenhagen, developed countries pledged to provide just US $30 billion in climate finance between 2010 and 2012. But, to date, they are nowhere near fulfilling that pledge, an ominous sign for future financing. Though all funds are supposed to be additional to any monies pledged prior to the 2009 Copenhagen summit, as of September 2010, only $5.2 billion (17%) was new according to an analysis by the World Development Movement. Moreover, only $3.9 billion (13%) had actually been delivered, and a significant proportion of the funding has come in the form of loans.[1]

How can rich countries come up with the needed money?

In these times of economic recession, innovative sources of funds are needed in addition to the appropriations of money from national treasuries. There are a number of promising sources of finance that could deliver the scale of funds necessary, especially in combination. They include:

- Financial transaction taxes - tiny levies on financial market transactions involving stocks, bonds, foreign exchange and derivatives;
- Special drawing rights - reserve assets created by the International Monetary Fund that countries can exchange for hard currency;
- Shifting fossil fuel subsidies – savings from ending fossil fuel subsidies in developed countries that are directed toward climate finance in developing countries;
- Solidarity air passenger ticket levy –a levy on individual air tickets to raise money. One proposal calls for a levy of $6 on economy-class tickets and $62 on first-class tickets; and
- Revenue from a carbon tax in developed countries directed toward climate finance in developing countries.

Key issues for negotiations

- A Global Climate Fund under the authority of the UNFCCC that is designed within the Convention must be established in Cancun.
- The World Bank must have no role in the Global Climate Fund.
- Developed countries must provide climate finance from grant-based, public sources, in line with what need and equity demand.
- Developed countries must begin to generate funds from a combination of innovative sources of finance, including financial transaction taxes and special drawing rights, in addition to funds from national treasuries.
- The payment of climate finance must address developed countries' climate debts.

How should international climate finance be delivered?

At least as important as revenue generation is ensuring that funds are delivered though an equitable, effective mechanism. Funding should be governed, managed, and disbursed through a Global Climate Fund (GCF) under the authority of the United Nations Framework Convention on Climate Change (UNFCCC). There is near consensus at the UN climate talks that a Global Climate Fund should be established in Cancun, but political obstacles remain. In particular, the US is threatening to block the establishment of the GCF until it extracts new, unreasonable concessions from developing countries related to mitigation.

To ensure both effectiveness and political acceptability to developed and developing countries, it is critical that the Global Climate Fund be designed within the UNFCCC in an inclusive process led by experts in the UNFCCC, climate, development, and other relevant areas (as opposed to the US proposal that finance ministers lead the process). It is also critical that the GCF be governed equitably -- with majority developing country representation and substantial participation by civil society, including affected communities.

No role for the World Bank

The World Bank and other multilateral development banks should have no role in the Global Climate Fund. The World Bank is far more experienced at causing climate change than in preventing it. In fact, 2010 was a record-breaking year for coal at the World Bank, with $4.4 billion in coal funding, representing a 356 percent increase over 2009[2]. The World Bank has a poor record when it comes to democratic governance, social justice, and environmental integrity.

The Global Climate Fund must allow developing countries to directly access funds without requiring that they go through multilateral implementing agencies like the World Bank.

The UNFCCC's Adaptation Fund is the first multilateral climate fund that allows direct access for developing countries. As developing countries are the most impacted by climate change and least responsible for causing it, the Adaptation Fund board has a slight majority of developing countries. Because of its provision of direct access and its governance structure, the Adaptation Fund provides a good model for the Global Climate Fund. Moreover, it deserves far greater support from developed countries; less than 1 percent of fast start funding committed thus far has been directed toward the Adaptation Fund.

[1] Mark "A long way to go – An update on the state of fast start climate finance," World Development Movement, September 2010, http://www.wdm.org.uk/sites/default/files/alongwaytogo.pdf.

[2] World Bank Group Energy Sector Financing Update," prepared by Heike Mainhardt-Gibbs for the Bank Information Center, November 2010. www.bicusa.org.

ActionAid
Arab NGO Network for Development
Asian Indigenous Women's Network
Campagna per la Riforma della Banca Mondiale (CRBM), Italy
Friends of the Earth International
Institute for Agriculture and Trade Policy
International Forum on Globalization
International Rivers
JS - Asia/Pacific Movement on Debt and Development (JSAPMDD)
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