



# CURRENT STATUS OF CLIMATE FINANCE

OCTOBER 2010

**T**here is a general agreement on the need to increase financing for climate change mitigation and adaptation, but negotiators diverge on key issues like architecture and institutions, which raises concerns about what Parties will be able to agree on at COP16.

The **Copenhagen Accord**, “noted” by the UNFCCC COP-15, was the main outcome of side meetings of the negotiations in December 2009. The financing commitments were:

- “New and additional” **Fast Start Finance goal approaching USD \$30 billion for 2010-2012**, with balanced allocation for adaptation and mitigation.
- Developed countries’ goal of providing developing countries with **USD \$100 billion p.a. by 2020 for non annex I countries** (a mix of public and private, bilateral and multilateral, including alternative sources of finance)
- **To set up** a Copenhagen Green Climate Fund and a High Level Panel under the COP to study the contribution of potential sources of funding

## KEY POST-COPENHAGEN DEVELOPMENTS INCLUDE:

- The establishment of the High Level Advisory Group on Climate Financing by Ban Ki Moon. The objective of this body, co-chaired by Ethiopian Prime Minister Meles Zenawi and Norwegian Prime Minister Stoltenberg, is to conduct a study on potential sources of revenue for the scaling up of new and additional resources from developed countries for financing actions in developing countries. Their interim report is due in November.

## PLEDGES ON FAST START FINANCE:

The REDD+ Partnership (Reducing Emissions from Deforestation, Forest Degradation and forest restoration, rehabilitation, sustainable management and/or afforestation) has been established by 55 countries at the Oslo Climate and Forest Conference (May 2010) as an action track to supplement the negotiations on REDD+ within the UNFCCC. **\$4bn has been committed for fast-start activities 2010-2012.**

Current **pledges** of Fast Start Finance to developing nations for 2010–2012 add up to approximately **USD \$28-29 billion** (slightly below the \$30 billion outlined in the Copenhagen Accord). The estimates done by several institutions come to slightly different conclusions: Project Catalyst and WRI calculate \$28 billion as of June and August 2010 respectively and Climate Funds Update calculates \$29 billion as of September 2010.

Project Catalyst notes that analysis of other sources of international public climate finance in the 2010-12 period, but which are not considered by donor countries to be ‘Fast Start Finance’, amount to roughly an extra \$4-7 billion. They also estimate the grant-equivalent component of Fast Start Finance is actually \$25 billion (\$3 billion less than the pledged amounts), they use OECD methodology and historical data on the ‘grant element’ of past loans from each contributor country.

## THE UN HIGH LEVEL ADVISORY GROUP ON CLIMATE CHANGE FINANCING (AGF):

- Established in February 2010 by the UN Secretary-General, the AGF is a non-negotiating forum intended to provide valuable input for the financing negotiations. The objective is to study potential sources of revenue for climate change financing and develop practical proposals on how to scale up long term financing from various public and private donors.
- It is co-chaired by the Prime minister of Norway and Ethiopia. The Group of Principals (similar to a steering committee) includes three heads of state, several ministers and representatives of development banks, financial institutions and academia.
- The AGF will submit its report in November 2010.
- There are two main Working Groups (other than the Group of Principals), tasked to identify the potential sources of financing: 1) on public sources (chaired by Nicolas Stern); and 2) on private sources (chaired by Caio Koch-Weser of Deutsche Bank).
- The group of Principals met in April (London), July (New-York) and will meet in Addis Ababa (October), while the two Working Groups met in April (Washington), in June (Paris) and in September (Singapore).

## THE KEY REMAINING ISSUES IN THE NEGOTIATIONS ARE:

### The Role of the New Climate Fund:

- **Source of funds:** The issues around the source of funds (USD \$30 billion in Fast Start Financing by 2012 and approaching \$100 billion per year by 2020) include the specific level of funding for a new climate fund, and how to provide some certainty of the flows over time. Developing countries insist on the need for new, additional, adequate and predictable public financing and support the idea of assessed contributions by developed countries. Developed countries generally stress the importance of mobilizing private sector finance, through carbon markets and potential new market mechanisms, but some developed countries are opposed to markets. Three options exist for generating additional funds: national budgetary allocations, national market based levies (e.g. AAUs for auction), or international market based levies (e.g. air travel)
- **Governance of the fund:** Key issues include the composition and mandate of any new climate fund board, and whether this fund/board are seen generally as an operating entity of the financial mechanism of the UNFCCC, reporting to the Conference of the Parties or not. Some would like the creation of a new institution with balanced representation of developed and developing countries, while others would prefer to strengthen existing institutions such as the GEF. Other issues relate to: the trustee of the fund (i.e. World Bank vs an open-bidding process); the establishment of one or several specific funding windows (mitigation, adaptation, technology and capacity building); simplified or direct access to funds by developing countries; and how to address the need for priority assistance for LDCs.

### The need to improve oversight and coordination

- **Oversight body:** Some countries have called for a new body for oversight of the mechanism under the UNFCCC, while others prefer that existing institutions take on this coordination and oversight role, as a “forum of entities”.
- **MRV:** Oversight is currently hampered by inconsistent and partial data, old reporting guidelines, limited review mechanisms and fragmented efforts to coordinate the allocation of funds. Countries have yet to agree on institutional arrangements and framework to oversee and coordinate finance for climate.

### The role of the private sector in long-term financing

- How best to leverage private sector participation in clean technology investments, adaptation, mitigation?
- What role for carbon markets and how to account for these and other private sources of climate finance?