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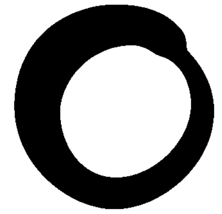

Friends of the Earth

Briefing

International Climate Finance: An Overview

International climate finance is the transfer of funds from the North to the South to help enable developing countries adapt to the unavoidable impacts of climate change (i.e. adaptation), reduce greenhouse gas emissions (i.e. mitigation), and embark on clean energy development paths. With the climate crisis upon us, the world cannot afford for developing countries to go down the dirty development road that already-industrialized-countries took over the last few centuries, which has landed us in the throes of global warming.

In keeping with the principle that polluters are responsible for cleaning up the mess they cause (i.e. "the polluter pays principle"), developed countries responsible for the climate crisis - top among them the United States - must use public funds to provide climate finance. Climate finance is further grounded in the concept of the North's historical responsibility for causing the climate crisis. The provision of climate finance can be seen as part of repayment of 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).

Friends of the Earth defends the environment and champions a healthy and just world.

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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 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 poor countries. 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 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, it will be difficult for developed countries to direct funds in national treasuries toward international climate finance. Some appropriations of money from national budgets will be necessary, but even more important to this effort are innovative sources of climate finance. There are a number of very promising sources of finance which 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;

[1] "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.

- 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;

- Revenue from a carbon tax in developed countries directed toward climate finance in developing countries.

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 UN Framework Convention on Climate Change. 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.

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.

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