07 CLIMATE FUNDING

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Fast Track Funding

In the Copenhagen Accord, one of the most talked about decisions is the "fast track" funding which, between 2010 and 2012, should transfer US $30 billion from developed countries to the developing ones for adaptation and mitigation of climate change.

There is a historical debt that the developed world has to pay to the developing nations: profits from a high-carbon development have been reaped by the developed nations, while the brunt of subsequent climate change will have to be borne by the less prepared and less guilty developing world. This has been stated as the reason for a transfer of funds from the developed to the developing world. Some say it is a way to pay off the climate debt, although most agree that US $30 billion is far from the full debt repayment.

The Fast Track Fund is meant to meet the immediate concerns and priorities that a changing climate has brought about. It is essentially a trust-building exercise before larger sums are put on the table for climate change mitigation and adaptation work in the developing world.

Developed nations also pledged to raise US $100 billion annually by 2020 and to establish the **Copenhagen Green Climate Fund** to help nations curb greenhouse gas emissions, chart a low-carbon growth pathway and adjust to climate challenges. But fault lines surfaced soon.

Fund architecture: Some concerns

"New and additional"

In spite of being a rather straightforward term, the ambit of "new and additional" is mired in controversies. To begin with, the suspicion that any new fund from the North is essentially just a re-branding of ODA (Official Development Aid) and earlier climate commitments has always been strong among the developing and less developed countries.

Fast track funding has also drawn flak from developing countries – the EU, particularly, has been accused of double-counting, counting in regular yearly increases in ODA and through diverting other funds that were already earmarked for aid to meet the MDGS.[1] Developed nations, including the EU block, that have committed to the Copenhagen Accord have not yet agreed on a universal definition of "new and additional" funding; they do not seem to have any plans to do so either.

What the Copenhagen Accord says

*"The collective commitment by developed countries is to provide **new and additional resources**, including forestry and investments through **international institutions, approaching** US $30 billion for the period 2010–2012 **with balanced allocation** between adaptation and mitigation and $100 billion per year in 2020."*

"Investments through international institutions"

Most of the developed nations have chosen to keep a majority of their fast track funding in bilateral agreements; little (for example, 39 per cent of EU funds) goes through multilateral channels. A portion of this will go to refilling the coffers of the Global Environmental Facility and the Adaptation Fund. Much of the multilateral funding is going to be channelled through the World Bank, an institution that does not have, according to many NGOs and developing countries, a credible or unbiased approach when it comes to matters of environment.[2]

"Approaching US $30 billion"

There were fears that the phrase "approaching" would become a problem, but **pledges amounting to US $28 billion have been made for the period 2010-2012.** However, these remain mere pledges and funds have not yet been transferred. There is also the question whether this pledged money is really new and additional. In many countries, including the US, the money for these funds will come from their respective national budgets and appropriations, which must be passed in parliaments each year. Thus, the money pledged for future years may fail to appear if the budget is changed or politically voted down, this can especially be feared after the mid-term elections in the US where the climate-sceptics gained many seats.[3,4]

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"Balanced allocation between adaptation and mitigation"

A 50-50 split of money between adaptation and mitigation has been pledged, though country positions vary on this. Some countries are advocating more money for adaptation or for mitigation. As per the data available, mitigation is getting a larger share of the funds, at least from the EU (64 per cent for mitigation)[5], while developing nations are requesting a larger share for adaptation.[6] Since the majority of the funds are bilaterally channelled, there are no direct attempts to coordinate and balance the funds between adaptation and mitigation, this also makes it harder for both governments, IGOs and NGOs to monitor that the balance is kept. So far much of the pledged money has not been committed so there is time to move funds in a way that keeps the balance between mitigation and adaptation but this requires transparency.

The politics of funding

How much is US $30 billion really?

Peanuts. US $30 billion is an inadequate sum for helping developing countries to adapt to and mitigate anthropogenic climate change. The long term goal of US $100 billion per year in 2020 is not sufficient either. In fact, the UNFCCC has predicted a need of US $250 billion per year to adapt to and mitigate the negative effects of climate change,[7] while former chief economist of the World Bank, Nicholas Stern has said that there is a need for US $400 billion already in 2010 to counteract climate change.[8]

Compared to these US $30 billion for climate change that the whole developing world is supposed to pledge, the EU by itself committed €3 trillion in 2009 to bail out banks with guarantees or cash injections in the wake of the global financial crisis, according to the European Commission, and mobilised a half-a-trillion fund in the space of just 48 hours two weeks ago in an attempt to calm markets as a result of the Euro-zone debt crisis.

The question of transparency and double counting...

Developed and developing countries need to commit to transparency in both the delivery and utilisation of climate finance. However, current finance reporting guidelines and related guidance from institutions such as the OECD DAC's creditor reporting system, are neither transparent nor comprehensive.

A recent EU report on climate funding, released in 2010, has been largely devoid of any details, admitting that concrete facts and numbers are missing. The report notes: "A comprehensive set of statistics for climate financing is clearly needed."[9]

But campaigners are accusing the EU of not being transparent enough. The EU has agreed to submit reports on implementation at Cancun.

The lack of clear guidelines and transparency has lead to problems of defining what "new and additional funds" is. For example, of the US $30 billion goal (of which, US $28 billion has been pledged), Japan has pledged 50 per cent or US $15 billion. But according to the World Resource Institute (WRI), only US $1 billion of the US $11 billion of public expenditures so far pledged are new and additional. The rest is from the 'Cool Earth Partnership' that was announced in 2008.[10]

This by itself lowers the amount of pledged new and additional funds to US $18 billion. Many more examples exist of creative accounting. For example, Sweden has pledged that new and additional funds are the part of the ODA exceeding the goal of 0.8 per cent of GNP; but Sweden has already exceeded this goal in earlier years. So, the funds cannot strictly be said to be either new or additional.[11] The US seems to mostly use budget appropriations[12] which should make the funds new and additional, but it will be impossible to say if this, in backroom dealings, will mean that there will be fewer appropriations for aid during the same year.

The World Development Movement, a British NGO, has in a report on fast-start financing estimated that only 26 per cent of the US $28 billion that is pledged, has actually been committed to projects. Only 13 per cent has been given so far, most of it through the Cool Earth Partnership; 7 per cent can be considered additional to existing governmental aid and only 17 per cent or US $5.2 billion can be said to be new, and not announced before the Copenhagen Accord. Of the UK contribution, 72 per cent has been given or committed to programmes that will give loans rather than grants, such as the World Bank, and this is far from the only example where loans are given instead of grants. Many countries also double-count their pledges for the fast-start funds towards their ODA goal, which in turn means less ODA to other important areas.[13, 14]

The vast majority of funds cannot be said to be strictly new and additional which is in breach of the Copenhagen Accord's promise. This needs to be admitted by the developed countries and included in the EU report that is to be presented in Cancun. Obviously, this also needs to be rectified with a proper definition of "new and additional" and the missing funds being provided.

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And that of governance

To gain the necessary political support, any new financial mechanism must embrace strong governance structures and procedures that will give a greater voice to developing countries. This should be done in a manner that ensures efficiency, effectiveness and accountability, but more importantly, that results in better environment and development outcomes.

Delivering this money effectively requires

- an institutional architecture that is inclusive and transparent;
- reform of the governance structure of existing institutions involved in climate financing; and
- equitable and balanced representation between developed and developing countries on relevant governing bodies.

To ensure that decisions around finance are made with strong governance rules in place, relying solely on existing multilateral funds (such as the Climate Investment Funds) – that many developing countries are wary of – may not be sufficient. Figuring out whether or not these so called "live experiments" fit into a larger finance mechanism, should be a priority this year.

Developing countries are promoting the use of the Adaptation Fund. Established in 2008, it is a multilateral fund set up through negotiations where the money would not have to go through a multilateral development bank. Developing countries can apply for projects directly to the Fund. This Fund has, however, received little attention and even less funds from the developed world. Instead, most multilateral funds have so far been channelled through development banks such as the World Bank which many developing countries consider far from transparent and not working in the interest of a better environment.[14,15]

Governance of the mitigation part of the funding is very unclear: the funding is so far spread out bilaterally and multilaterally through development banks and the Global Environmental Facility (GEF), but there is a need of an overarching view on how the part of the funding going to mitigation should be used.

Bonn and after

In the Bonn Climate Talks in early 2010, developing countries expressed scepticism about fast track finance. There are serious differences among countries on the mechanisms of raising this fund as well.

Report of the Secretary-General's High-level Advisory Group on Climate Change Financing

This report is the latest in efforts to find out more mechanisms of climate financing, a task which it describes as "challenging but feasible". The report will be presented at Cancun for further discussions. The suggested mechanisms include:

Pricing carbon: A carbon price of US $20-25 could generate around US $100 billion to $200 billion of gross private capital flow, the report suggests. Such flows could lead to private net flows in the range of US $10-20 billion. About US $30 billion to $50 billion could be generated annually in increased carbon market flows. Carbon market flows of this magnitude could yield around US $10 billion of net transfers.

Multilateral development banks: These, in close collaboration with the United Nations system, can play a significant multiplier role and leverage additional green investments. For every US $10 billion in additional resources, multilateral development banks could deliver US $30-40 billion in gross capital flows and significantly more by fostering private flows.

Direct budget contributions: Such contributions, based on existing public finance sources, such as domestic revenues, could continue to play an important role as governments may prefer to increase direct budget contributions before they implement new instruments. The political acceptability of such sources will depend on national circumstances and on the domestic fiscal environment, which has currently put many developed countries under extreme pressure.

Private finance: Flows of private investments will depend on a mix of government policies and on the availability of risk-sharing instruments. Confidence in policies and instruments could be built quickly, but others may require more time to be implemented, the report observes.

Criticism of the report

There has been much critique of the report, NGOs and developing countries deplore that it focuses on carbon financing, a tool that has been discredited many times as only a revenue machine and not actually mitigating much. Carbon financing also relies on a highly volatile carbon price that may crash the market and cause more problems than it solves. There are also widespread doubts that the focus on private sector solutions suggested in the report is viable and that the focus on funding going through multilateral development banks such as the World Bank is positive for the environment as these institutions have often been discredited in the past for funding of non-environmental projects such as coal power plants. The use of development banks would also mean more loans, and thereby more debt for the developing world to deal with. A lack of discussion on adaptation-funding in the report is also deplored by NGOs.[19]

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During the Bonn meeting the EU gave a preliminary report on how far their pledge for fast-start finance has come but many facts and figures were missing, the EU also promised to have a full report done by Cancun.[16]

With little hope of a consensus on emission commitments emerging at Cancun, leaders in developing countries have been harping on at least finalising the modalities of releasing and collating the funds that have already been pledged.

However, questions have been long raised over whether developed nations are able and willing to open their wallets to fully meet their promises – especially when many countries, including the US, face tough economic times and a host of other domestic challenges. Recently, the European Union head of delegation to Bangladesh, Peter Wittoeck, was reported as saying that the Fast Track Fund on climate change will be fully operational in Cancun.[17] But sceptics point out that the current performance of donors has been far from satisfactory.

There seems to be no mention of either the Copenhagen accord or the fast start financing in the CoP-16 preliminary agenda.[18] This may mean that it these discussions will take place parallel to the UNFCCC negotiations or that it will be added later. It seems quite clear, however, that discussions will take place. But it would be good if these were official and clearly organised for transperancy and inclusions of all parties and to avoid back-room dealings.

Looking ahead to Cancun

As Cancun approaches, therefore, several actions are necessary in order to rebuild the trust and goodwill for the negotiations:

- First, developed countries should begin to deliver the US $30 billion "fast start" funding. Though the pledges add up to approximately US $27.9 billion, many of it is diversion of climate funds pledged earlier, ODA commitments and pledges in other areas.
- A decision on the channelling of funds through well monitored, creditable and efficient multilateral institutions is needed.
- Pledges of new and additional funds should keep in mind the balance of adaptation and mitigation and more of the funds should be channelled through the Adaptation Fund by the developed countries.
- A decision on what, if any, role the Copenhagen Climate Fund will have in this structure and how it is to be set up and monitored is also called for.
- A global standard is needed on the meaning of "new and additional" for funds.
- A plan is required on how to expand this funding after 2012 to reach the goal of US $100 billion a year in 2020, preferably before schedule.

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