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# Making climate finance work: key issues in the short-and longer term, from pledge to project

Extended slide pack from side event presentation

Cancun, 4 December 2010

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**Bert Metz, Chair**

## Short presentations

**Joerg Haas**, Project Catalyst

*From climate finance to green growth*

**Sabine Miltner**, Deutsche Bank

*AGF findings and the role of private sector finance*

**Liane Schalatek**, Heinrich Böll Stiftung

*A Matter of Principle(s) – the role and obligation of public climate finance*

**Jessica Brown**, Overseas Development Institute (ODI)

*Tracking international climate finance: improving transparency and assessing effectiveness*

**Sandra Guzmán**, Mexican Centre of Environmental Law (CEMDA)

*Transparency and efficient use of resources*

Moderated discussion and Q&A

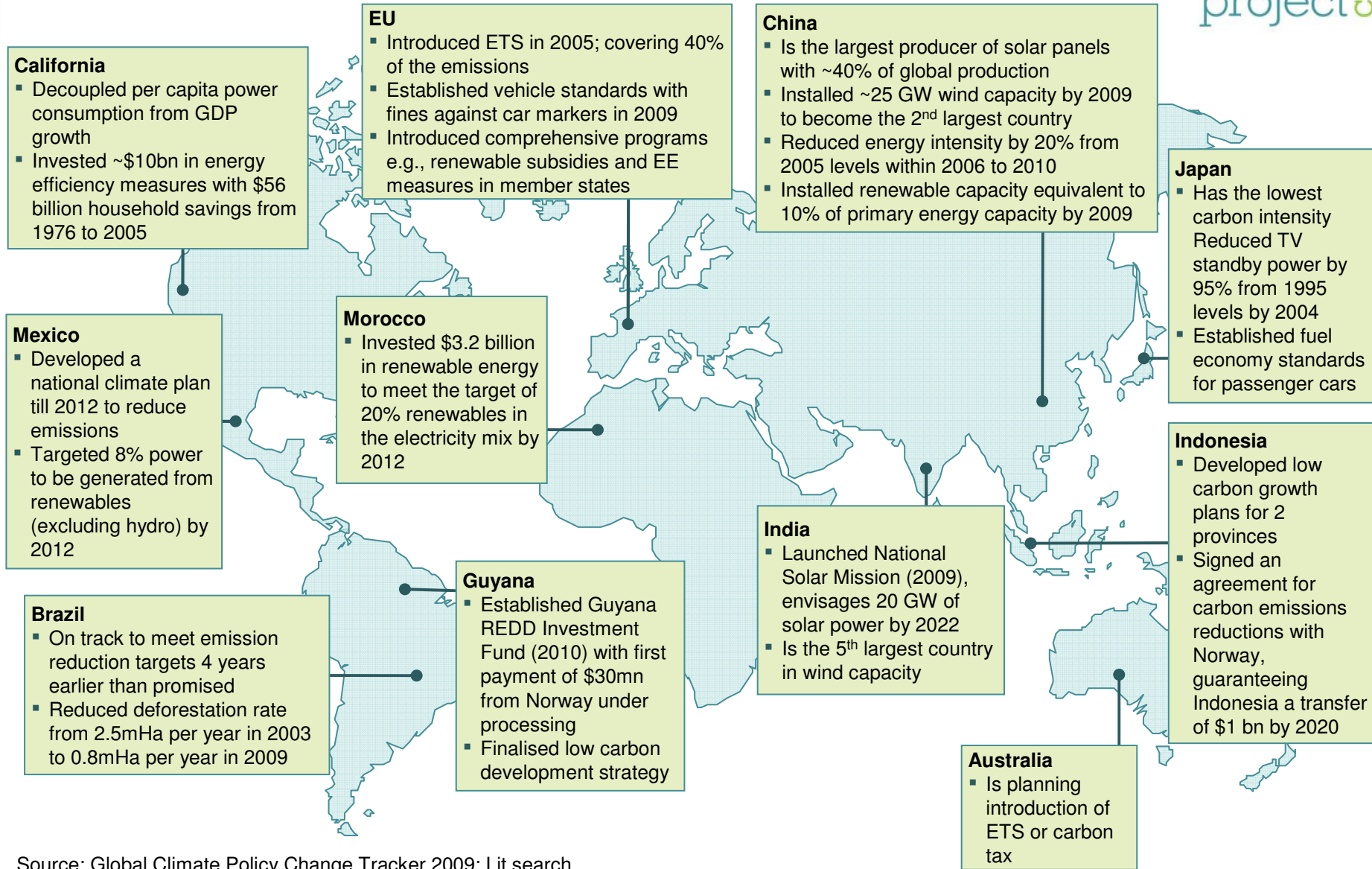


## **From Climate Finance to Financing Green Growth**

Joerg Haas, European Climate Foundation

Publication available at [www.project-catalyst.info](http://www.project-catalyst.info)

# Developed and developing countries have already started to transition towards low carbon economy



Source: Global Climate Policy Change Tracker 2009; Lit search

# Required emission reductions for 2°C pathway

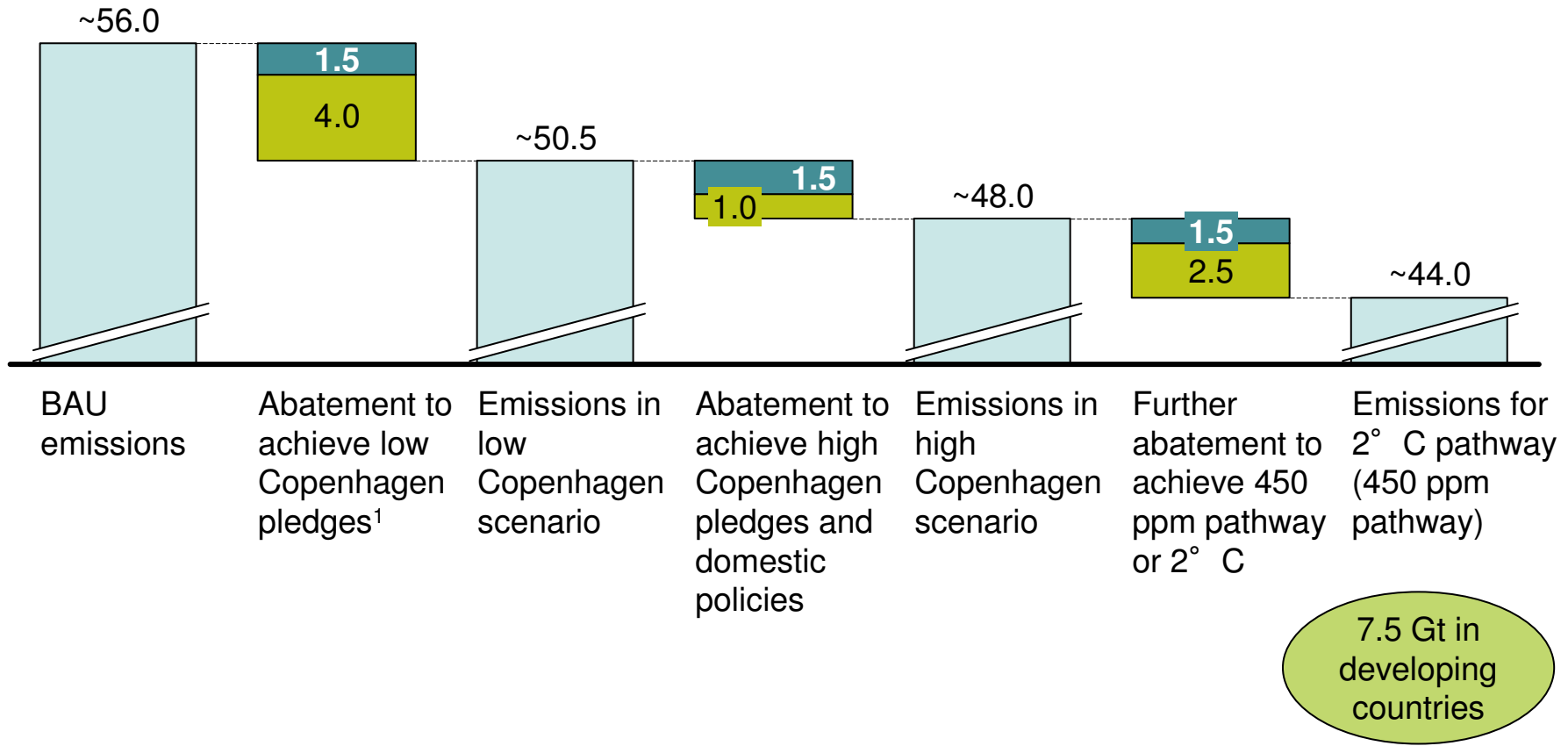
ROUGH ESTIMATES

project catalyst

## Global GHG emissions – gap to 450 ppm pathway in 2020

Gt CO<sub>2</sub>e per year, 2020

■ Developed countries  
■ Developing countries



<sup>1</sup> Aggregate of individual country pledges in the low (unilateral) and high (conditional) cases; Pledges indicate targets in 2020

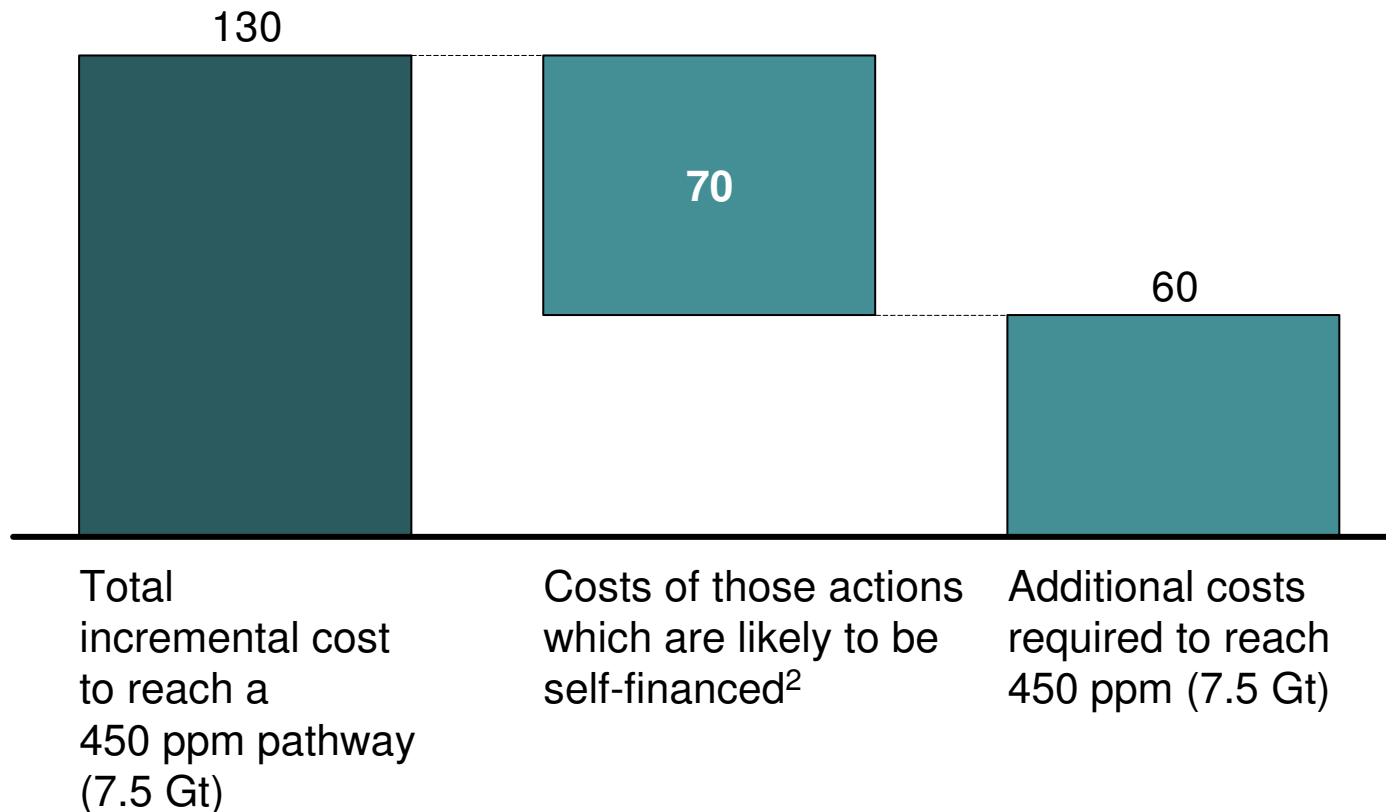
SOURCE: McKinsey Global GHG Abatement Cost Curve v2.1; IEA; US EPA; Houghton; IPCC; OECD; den Elzen; Meinshausen; van Vuuren

# Countries seem to be self financing the low end of the pledges, implying a lower financing requirement in 2020 of \$60 bn (down from \$130 bn)

## Incremental cost<sup>1</sup>

\$ bn, 2020, per year

## MITIGATION ONLY

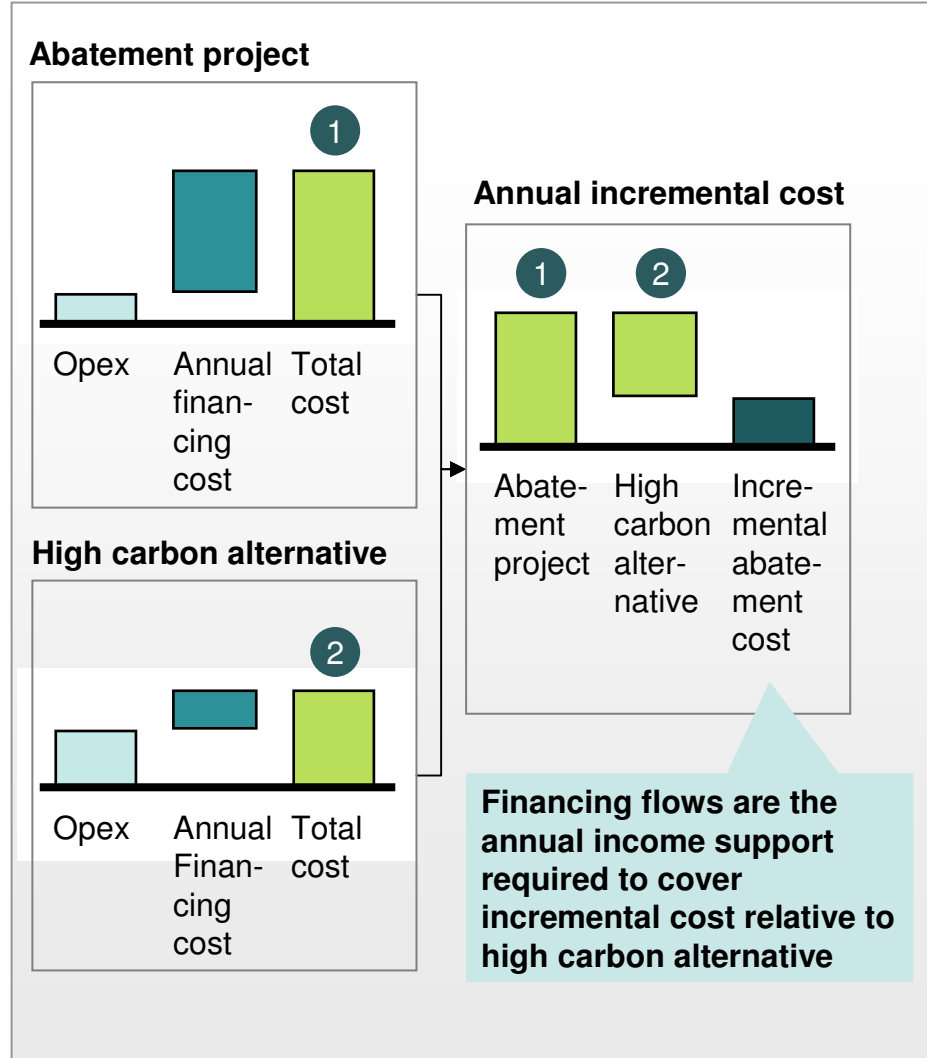
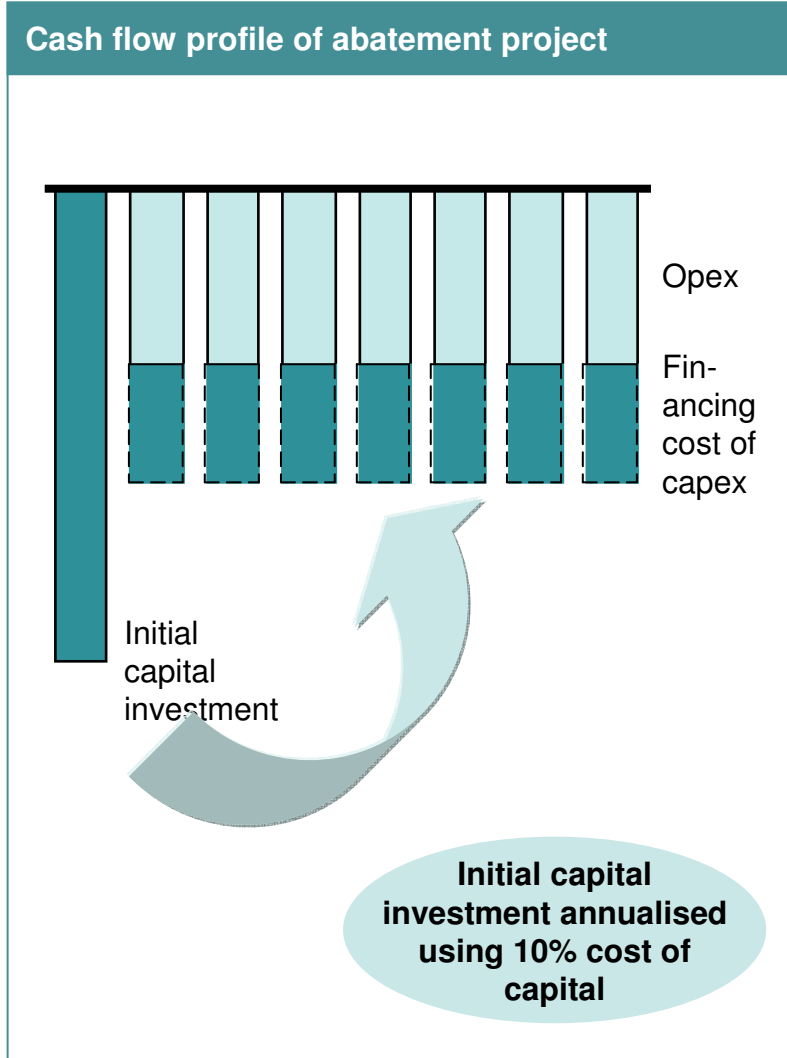


<sup>1</sup> Includes transaction costs at \$4.5/ tonne; \$18bn for low Copenhagen pledges and \$35 bn for 450 ppm

<sup>2</sup> Low end of Copenhagen pledges used by Project Catalyst as proxy for unconditional measures

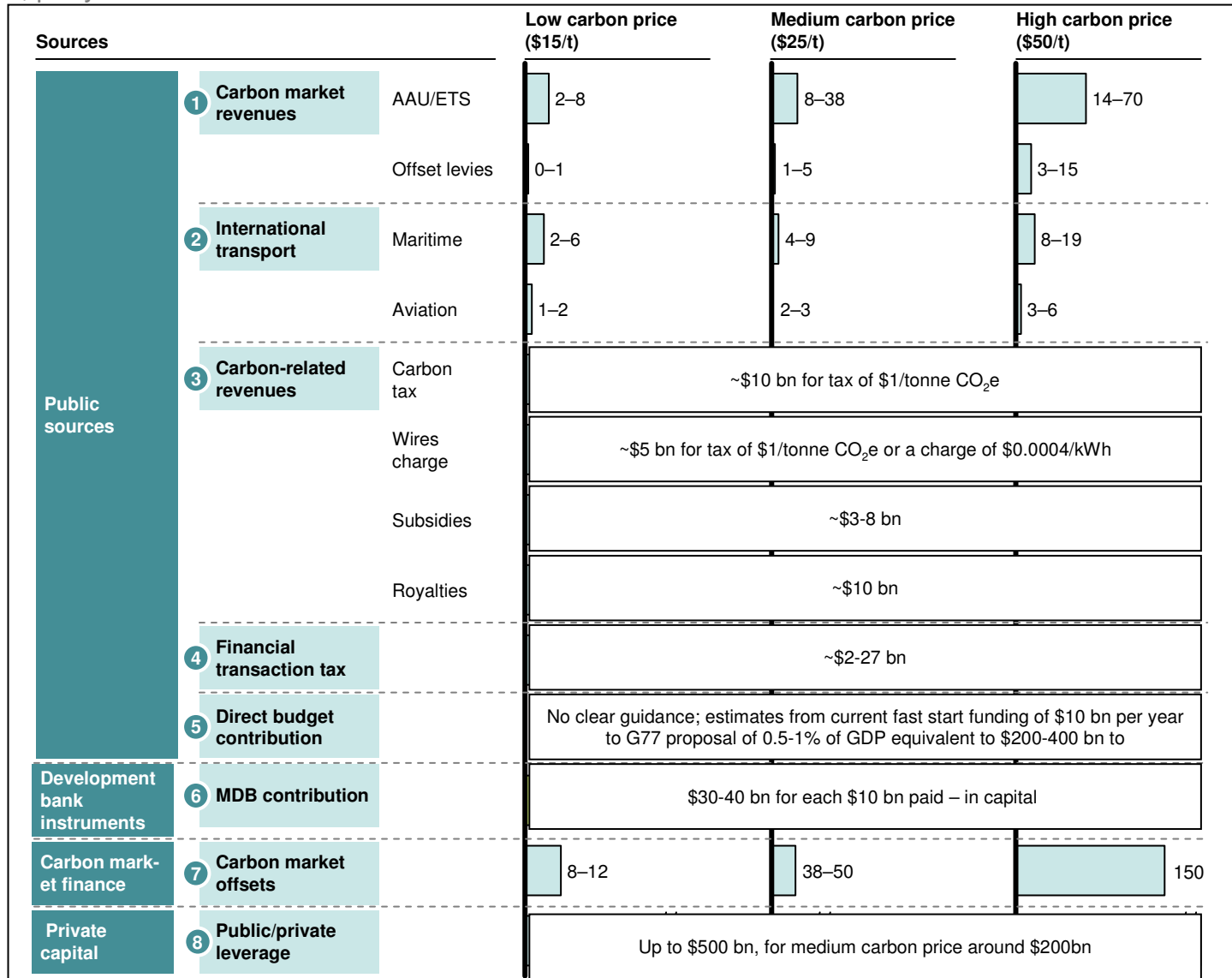
SOURCE: McKinsey Global GHG Abatement Cost Curve v2.1; Capital Access Index by Milken Institute; Project Catalyst analysis

# Incremental cost calculation



# Overview of sources analysed by AGF

\$bn, 2020, per year

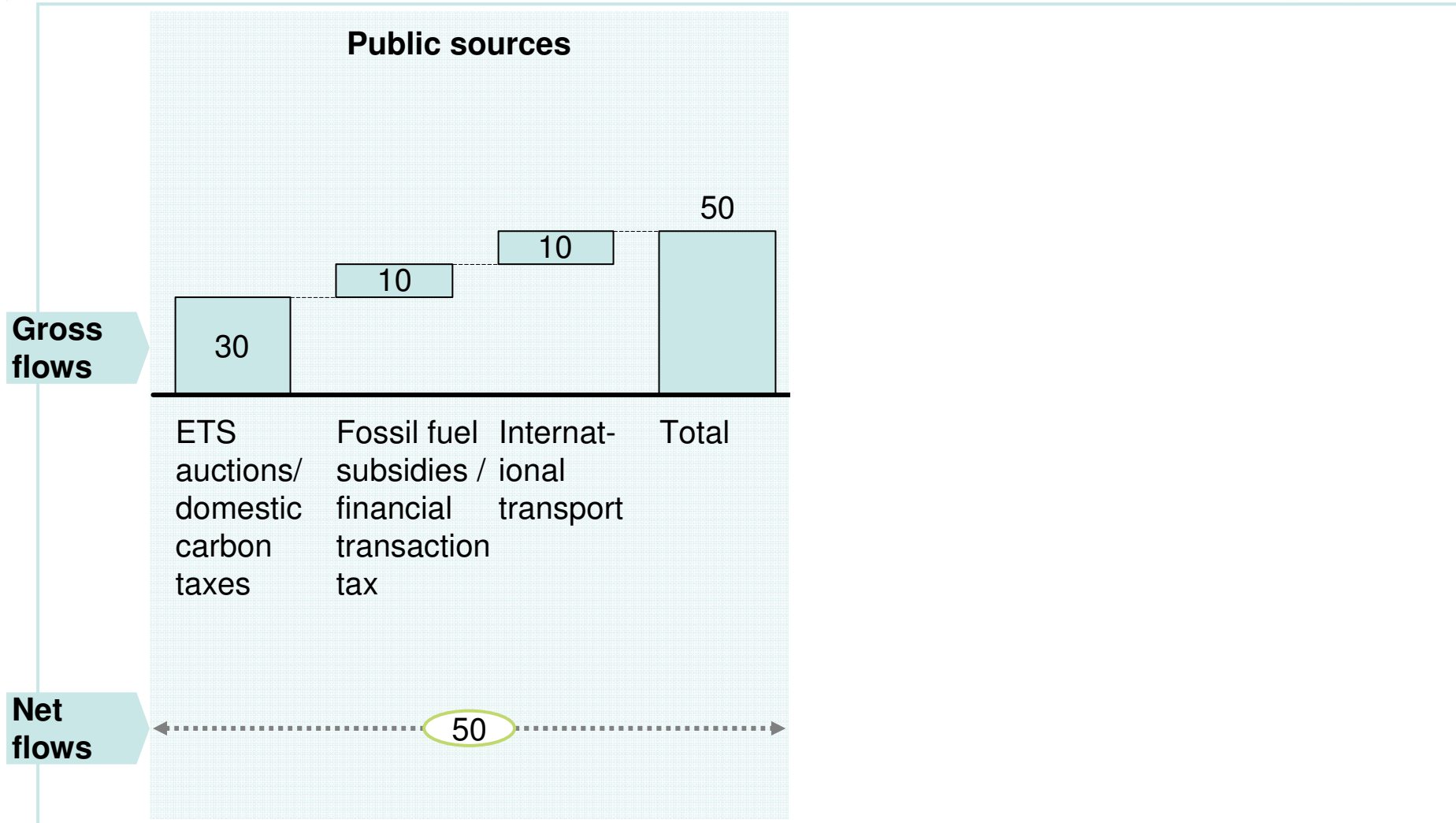


SOURCE: AGF report



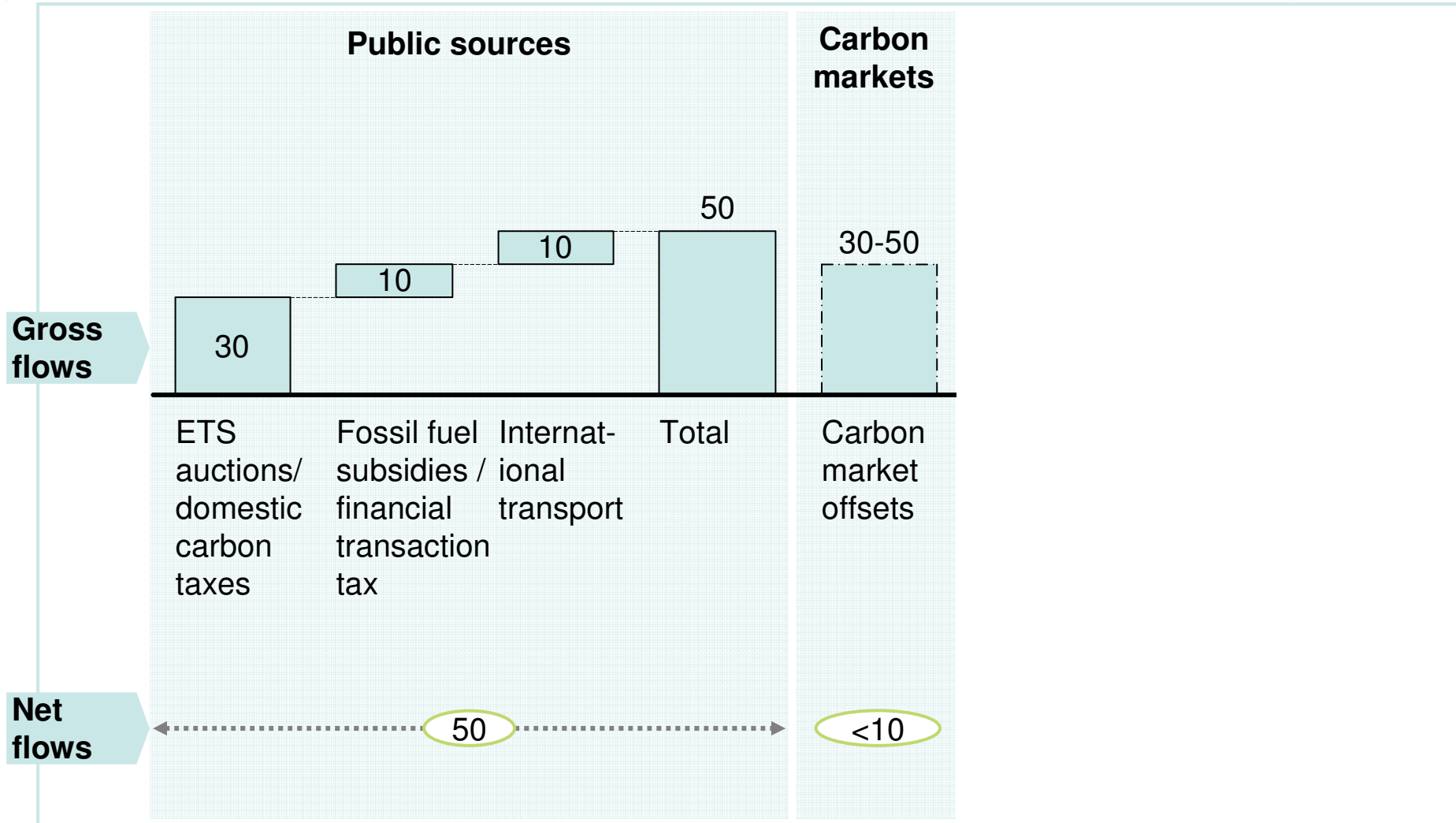
# Sources identified by AGF could go a long way to meeting this finance need, depending on mitigation/adaptation split

\$bn, 2020, per year



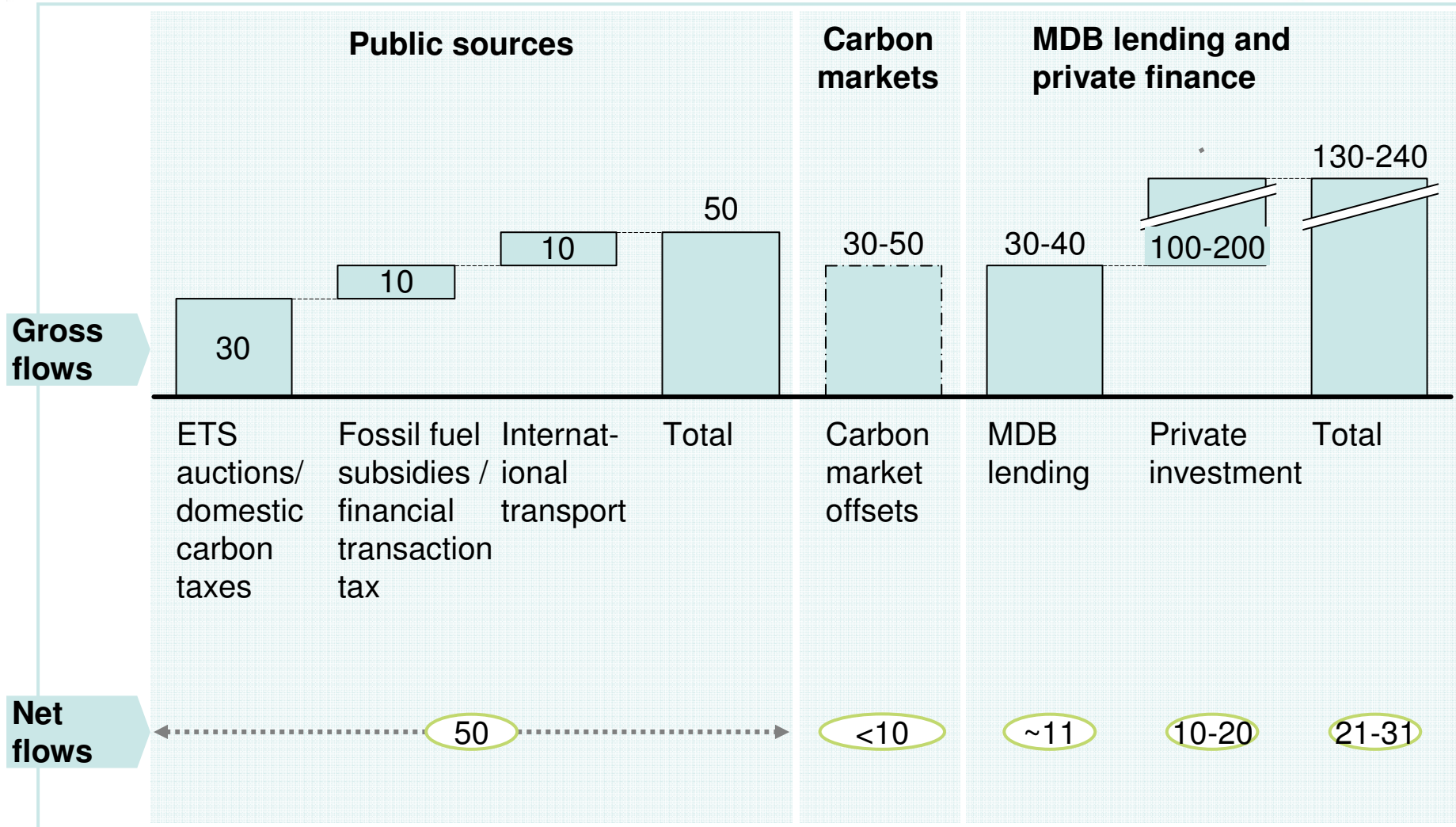
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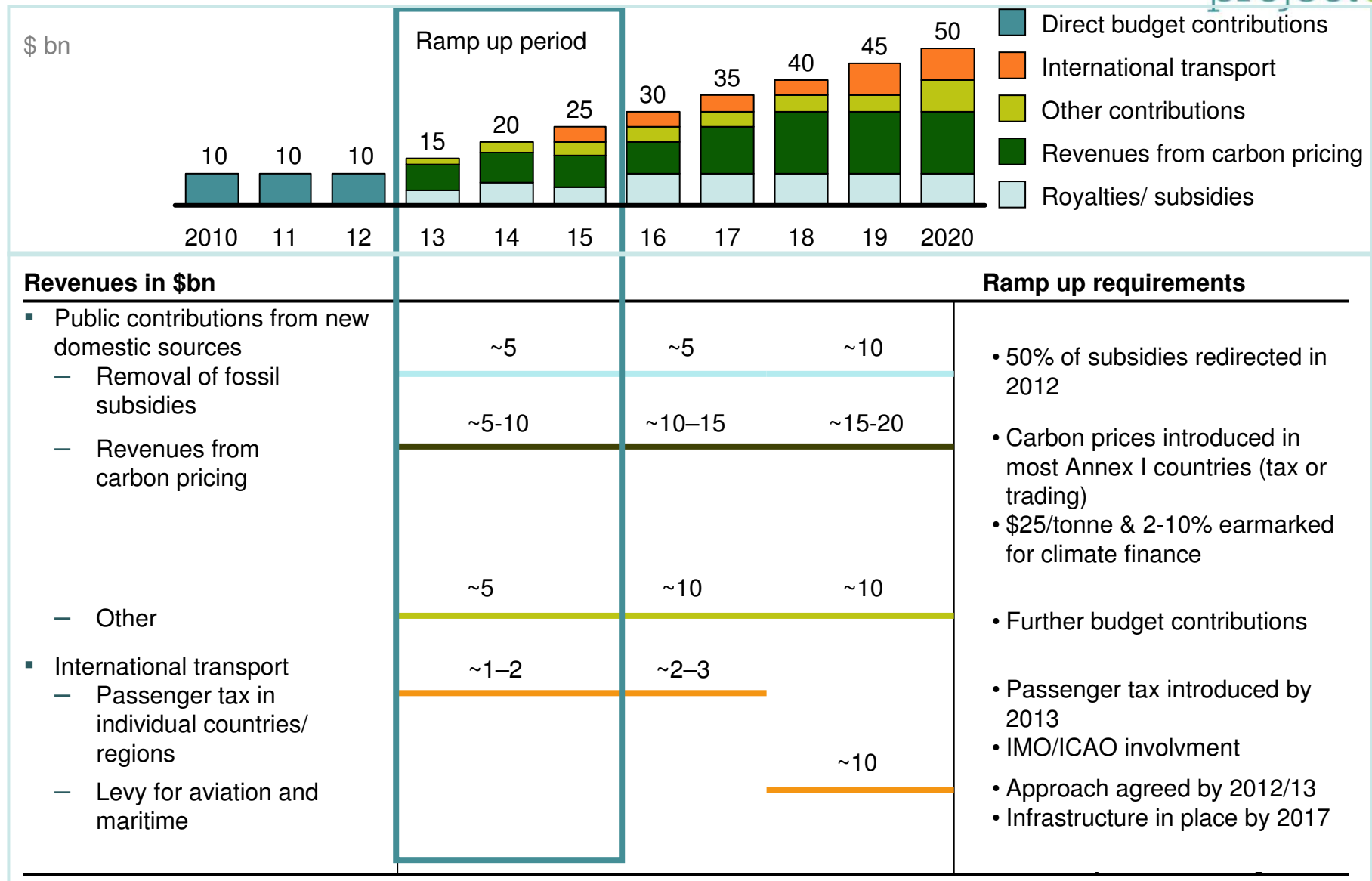
\$bn, 2020, per year



# Public sources need to be scaled up and the 2013-15 timeframe will also be critical

ILLUSTRATIVE

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# “Climate finance” is just a small but essential part of the financing of green growth

Incremental cost  
Capital investment

ROUGH ESTIMATES

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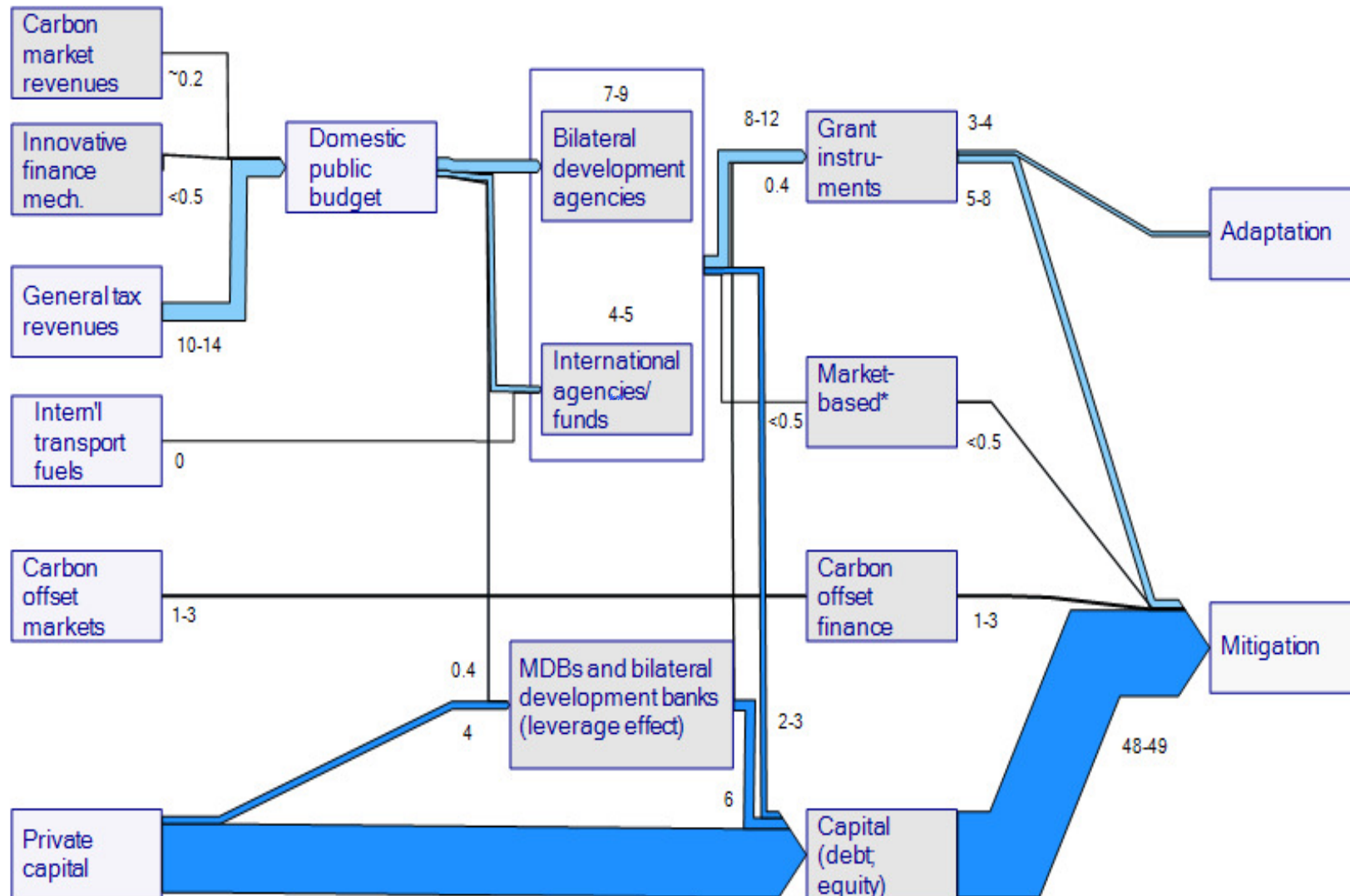
Sources \$ bn, 2010

Intermediaries

Instruments

Channels

Uses



SOURCE: Climate Policy Initiative and McKinsey analysis

# **A Matter of Principle(s) – The Role and Obligation of Public Climate Finance**

Joint Side Event, ODI – CEMDA - Project Catalyst - Heinrich Böll Foundation  
COP 16, Cancun, December 4, 2010

Liane Schalatek

[liane@boell.org](mailto:liane@boell.org)

## Introduction

- Climate change **disproportionally affects** those countries and societal groups within countries **most marginalized and disenfranchised** = also those most **excluded from participation and decision-making relevant to climate change** and necessary financing for adaptation and mitigation
- With emergence of multitude of new bilateral and multilateral public climate financing structures and mechanisms over past years, comprehensive climate finance architecture which collects, allocates and disburses public resources in an **equitable, effective and efficient** manner is still elusive
- Focus on role of public finance – **special obligations of transparency and accountability** towards citizens and to **maximize public benefit** by focusing on stabilizing the **climate as a global common** while **safeguarding individual rights and livelihood opportunities**

## Status Quo of (Public) Climate Finance Post-Copenhagen

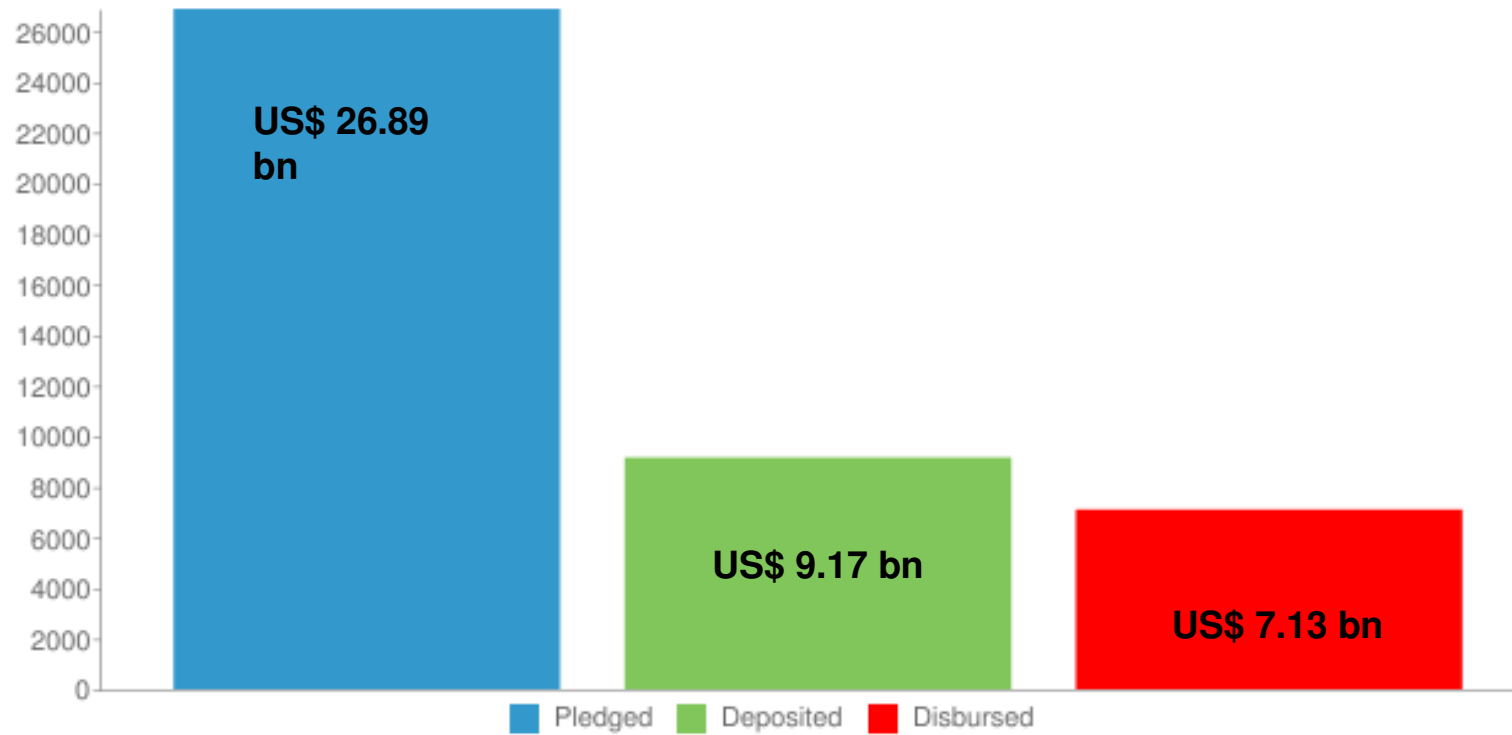
- Varying estimates for the scale of overall climate finance – range of US\$ 150-200 bn annually by 2020
- Copenhagen Accord political commitment on climate financing (Dec. 2009)

**Fast Start Finance** = Commitment of industrialized countries to pay US\$ 10 bn per year for three years (2010-12) to developing countries for urgent climate action

- many pledges not translating into deposits and disbursements
- Contributions given in erratic and uncoordinated way (and many clearly not additional)
- Adaptation remains underfunded/treated as a stepchild



## Current Funding: Pledged vs. Deposited vs. Disbursed



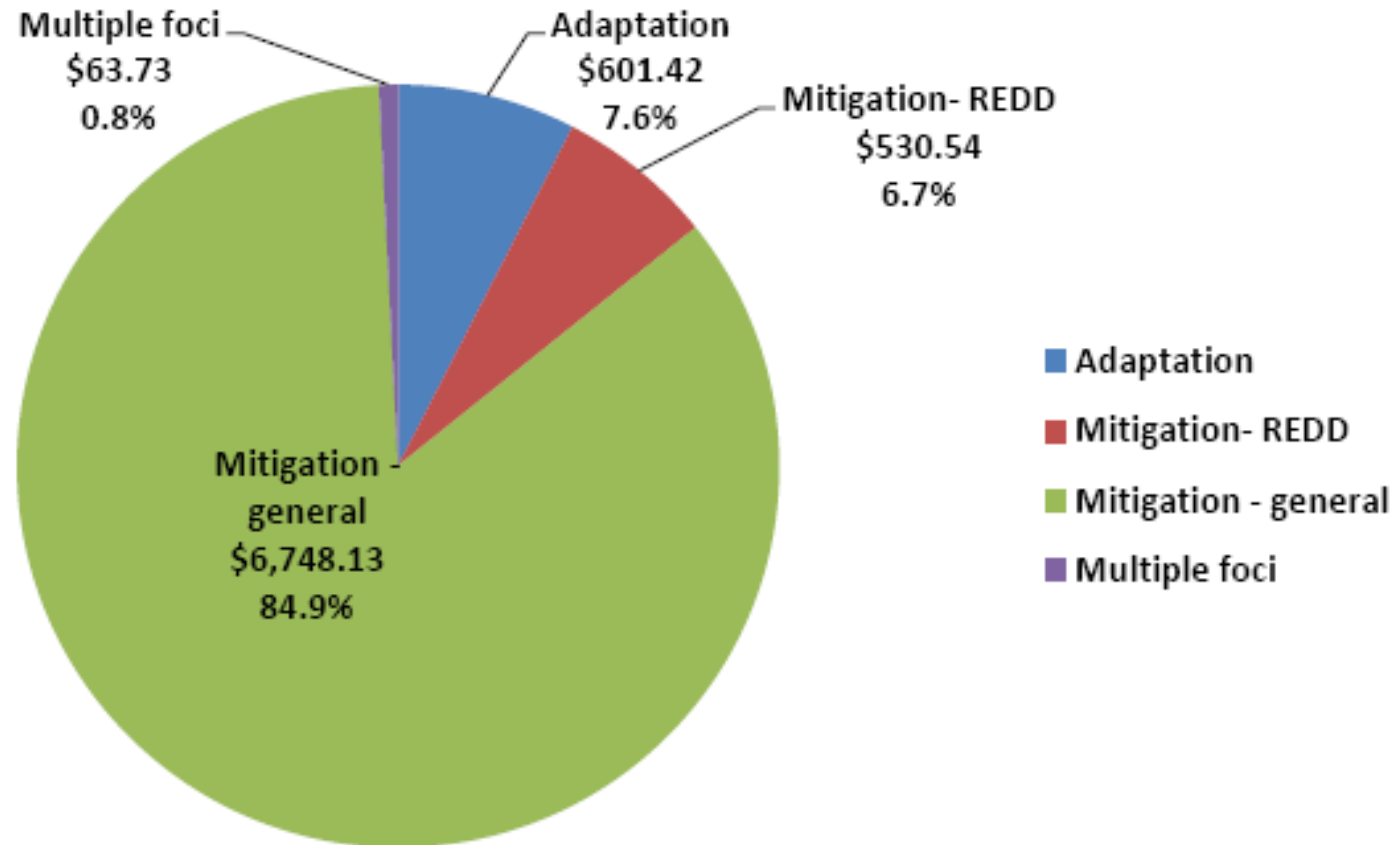
*Source: CFU, committed funding for 19 dedicated funding initiatives*

**Long Term Finance** = Commitment of industrialized countries to raise US\$ 100 bn per year in public and private money by 2020 for adaptation and mitigation actions in developing countries

→ UN SC High Level Advisory Group on Climate Change Financing just affirmed that this is “challenging, but feasible...” using a variety of instruments and funding sources (including innovative financing mechanisms such as levies and taxes) → left open how much of this money to come from public sources

- Fragmentation – multitude of actors → absence of a coherent unifying framework = no purposeful division of labor, nor fair and needs-based allocation of financial resources among countries
- RESULT: few country “darlings” (China, India, Brazil, Mexico, Indonesia) and many “orphans” (most LDCs).

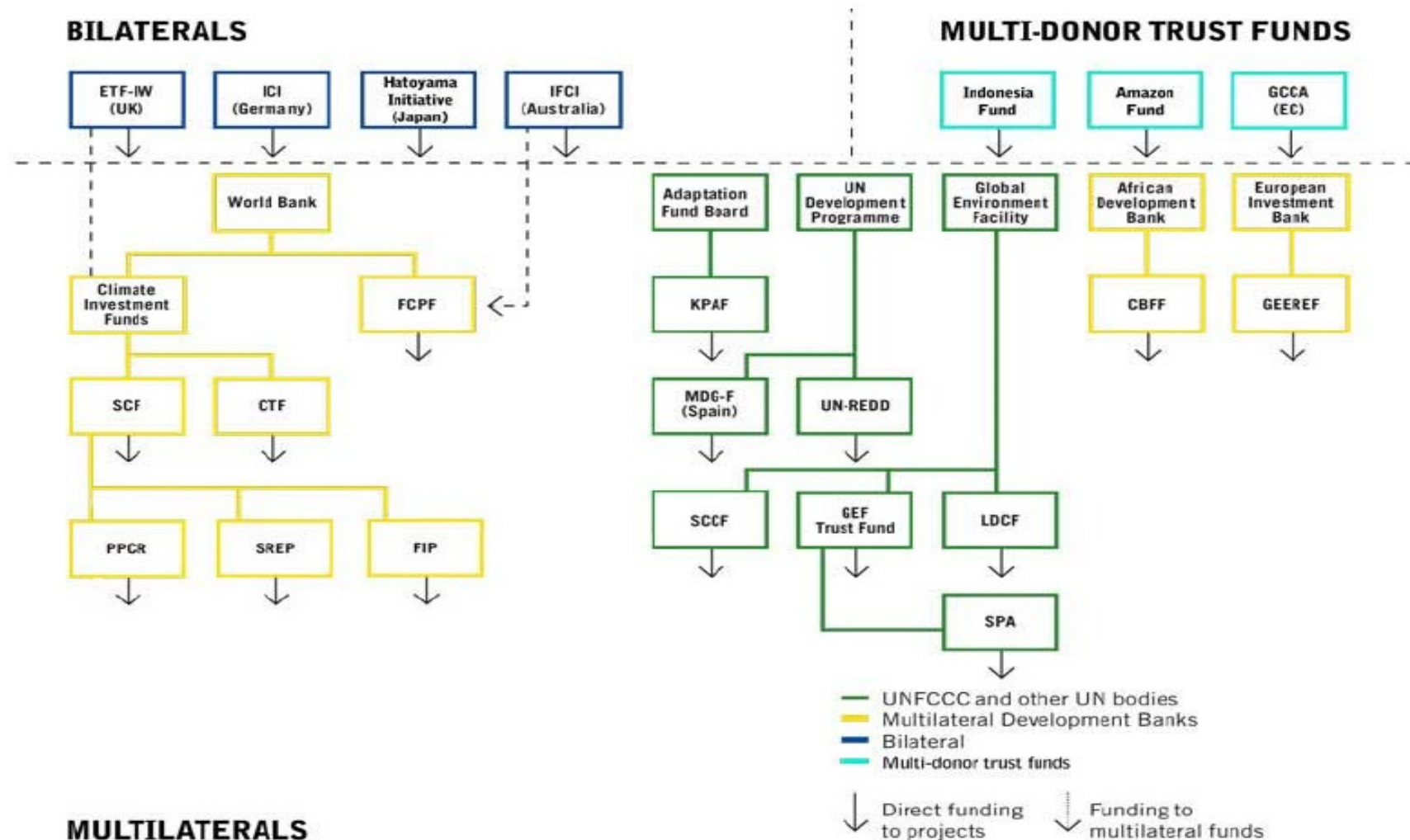
## Approved funding according to issue area, in US\$ Million



Source: [www.climatefundsupdate.org](http://www.climatefundsupdate.org) (12/3/2010); money approved by 19 listed dedicated climate funding initiatives

## Climate funds architecture diagram

This diagram presents the emerging architecture of international fund administration.



## **Human-rights based approach to climate change**

Human choices influence pace of climate change and policy responses to it

- Not just a technological-scientific phenomenon
- Focus on human impacts and capabilities
- Compatibility of UNFCCC and UN human rights treaties confirmed by legal experts
- Coherent implementation necessary – without consideration of human rights' impacts in funding adaptation and mitigation action, human rights violations are likely

### EXAMPLES:

- Right to Adequate Food – biofuel production might exacerbate food insecurity
- Rights to Water and Sanitation – prioritization of domestic over industrial needs
- Rights of Indigenous Peoples – apply free, prior and informed consent to REDD actions
- Gender Equality and Women's Rights -- inclusion of gender-differentiated mitigation and adaptation capabilities to prevent gender discrimination

## Policy Coherence

“Do no harm” = yardstick against which all climate funding decisions need to be judged

Importance of policy coherence between traditional lending portfolio of MDBs/national development institutions and their dedicated climate funding

Avoidance of certain climate finance investments with at best dubious benefits for climate and harmful impacts for sustainable development and human rights

Missing: universal, enforceable investment restrictions for scarce public climate funding

Need voluntary investment guidelines for all bilateral and multilateral climate funding mechanisms with the following mandates:

- Do not invest in largely business-as-usual fossil fuel projects
- Do not invest in nuclear power generation
- Do not invest in export production of biofuels and plant oils
- Do not invest in the building of large hydro dams
- Do not support monoculture reforestation efforts under REDD
- Do not invest in a “new green revolution” based on GMOs

**OVERVIEW OF PRINCIPLES FOR A NORMATIVE FRAMEWORK FOR PUBLIC CLIMATE FINANCE**

**MOBILIZATION OF FUNDS**

**GOVERNANCE OF FUNDS**

**DISBURSEMENT OF FUNDS**

← Democratic Core Principles: Transparency and Accountability →

**The Polluter Pays**

**Under the Authority and  
Guidance of the UNFCCC**

**Subsidiarity and National/Local  
Ownership**

**Respective Capability**

**Equitable Representation**

**Precautionary and Timely**

**New and Additional**

**Public Participation in  
Decision-Making**

**Appropriate**

**Adequate and Precautionary**

**(Directly) Accessible to the Most  
Vulnerable**

**Predictable**

**Gender Equitable**

## Principles Guiding the Mobilization of Public Climate Funds

- **Transparent and accountable** – MRV (“measurable, reportable, verifiable”) of climate finance → need for global common reporting format
- **The Polluter Pays** – (Rio Principle 15) – relates the level of GHG emissions to the amount a country has to pay for climate action
- **Respective capability** – countries should contribute to climate finance related to their measure of national wealth (more broadly defined) as well as the status and trend of national economic and social development (= taking into account an individual’s right to development)
- **New and additional** – climate change imposes new challenges on top of existing development hurdles – should be additional to existing ODA obligations (0.7% of GNI).
- **Adequate and precautionary** – Most costing efforts tied to 2° C temperature increase scenario; better: base climate finance needs estimates on countries’ own climate action plans
- **Predictable** – Need to overcome irate nature of voluntary contributions with a sustained and sustainable flow of climate finance over longer periods and funding cycles



## Compliance Checks for Mobilization of Public Climate Funds:

- COP decision on establishing polluter pays and respective capability as part of a formula for mandatory payment obligations
- Set a base year for the determination of nationally assessed contributions
- Develop a set of criteria to define a country's respective contribution capability
- International agreement on a comprehensive common reporting format for public climate change flows
- Only money on top of annually 0.7% of GNI as well as public auction revenues, no money from carbon offsets or loans to be counted
- Move from top-down (supply side) approach to financing needs to bottom-up (demand side) approach based on national climate and development strategies
- Establish a system for the collection of mandatory assessed contributions with enforcement options for the UNFCCC

## Principles for the Governance of Public Climate Funds

- **Transparent and accountable** – publicly available, accurate, timely information on a mechanism’s funding structure, its financial data, its decision-making process, the structure of its board and funding decisions made. Parliamentary oversight and redress/grievance structure is needed
- **Under the authority and guidance of the UNFCCC** – oversight over global climate financing is inseparable from global climate action mandates under UNFCCC
- **Equitably presented** – need clear break with existing ODA-delivery mechanisms and old unequal power-relationship between donor and recipient countries, but also in-country inclusion of broad group of stakeholders in fund management
- **Public participation in decision-making** – clearly spelled out under Aarhus Convention for environmental agreements. Need public participation beyond perfunctory, underfunded consultation processes.

## **Compliance Checks for the Governance of Public Climate Funds**

- Introduce an “obligation to disclose” for all climate change related public finance flows
- Establish complaints and redress mechanisms for climate funding decisions
- Establish a Global Climate Fund under the authority and guidance of and fully accountable to the Parties of the UNFCCC (including oversight and authority over existing multilateral climate funds not currently under UNFCCC authority)
- In multilaterally administered climate funds, give developing country representatives a majority of seats in Trust Fund Committees and Boards (including guaranteed seats for SIDS and LDCs), but also allow multi-stakeholder representation beyond nation-states

## Principles for the Disbursement of Public Climate Change Financing

- **Transparent and accountable:** Safeguards for and MRV of funding disbursement on national level as obligation to a recipient country's own citizenry with a crucial role for national parliaments and civil society
- **Subsidiarity and national local/ownership:** Funding decisions should be made at the lowest appropriate level; creating of new national funding entities or hubs
- **Precautionary and timely:** Performance indicators to ensure that voluntary pledges are turned as rapidly as possible – considering oversight requirements -- into funds delivery
- **Appropriate** – climate funding should not place an extra development burden on recipient countries
- **(Directly) accessible for the most vulnerable** – equitable distribution of climate finance benefits among countries and within countries with direct access to funding where feasible
- **Gender equitable** – gender-aware climate finance mechanisms and gender-equitable fund disbursement guidelines and criteria to take into account gender-differentiated climate change impacts as well as capabilities to mitigate and adapt

## Compliance Checks for the Disbursement of Public Climate Change

### Financing

- Support national funding entities in developing countries and base funding on nationally owned communications and plans such as NAPAs or NAMAs
- Develop, apply and enforce social and environmental guidelines for all public climate funding disbursements at both the multilateral and bilateral donor country level and at the recipient country level
- Streamline funding and project cycles at existing climate funds and harmonize disbursement requirements among donor countries and multilateral funding institutions
- Disburse funding for adaptation exclusively in form of grants and extend mitigation funding in grant form to all LDCs and SIDS as well.
- Allow direct access for countries in existing climate funds and extend it to non-state agencies, including civil society and grassroots groups as well as local communities
- Recognize gender equality as an explicit goal of public climate change funding and develop a gender action plan or gender guidelines for each fund.

## **The normative framework applied -- How does the status quo measure up?**

Significant performance gap revealed by cursory look at 19 major dedicated multi- and bilateral climate funds (further analysis needed)

- Majority of funds stuck in traditional donor-recipient development aid framework of cooperation (loan use; preferred channels)
- Despite some governance improvements, funding remains “top-down” ignoring subsidiarity and national ownership = falling behind good ODA requirements (Paris Declaration/Accra Action Agenda)
- Opportunities for new and innovative funding initiatives not seized or even actively blocked (examples: Adaptation Fund, Yasuni ITT Trust Fund)
- Transparency and accountability gaps, especially in MRV and information disclosure (timing, quality and specificity of information)
- Insufficient stakeholder involvement and public participation in decision-making as well as lacking complaints/redress mechanisms

## The way forward –some recommendations

Important starting point for universally accepted and applied normative climate finance framework:

- Integrate a human-rights based approach in the UNFCCC, for example via existing national reporting structure (national communications, NAMAs, NAPAs)
- Establish a clear hierarchy in global climate change finance – Global Climate Fund under authority and guidance of the UNFCCC
- Integrate an obligation to uphold and protect human-rights as “yardstick” for all World Bank/MDB climate-relevant investment decisions
- Reorientation of development approach of multilateral and bilateral funders towards a coherent human-rights led, climate-aware development policy (non-growth focused understanding of development)
- More critical engagement and oversight of parliaments (“power of the purse”) and by responsible citizens as a matter of civic duty.

# Climate Funds Update

 Search this site

- Home
- Climate Funds
- Funded Projects
- Graphs and statistics
- Fast Start Finance
- Resources
- Contact

## The latest information on climate funds

Climate Funds Update is an independent website that provides information on the growing number of international funding initiatives designed to help developing countries address the challenges of climate change.

This site aims to detail:

- Where these climate change funds are being developed;
- What the funds support;
- The scale of the proposed funding;
- How the funds are expected to be disbursed; and
- What had been achieved so far

[View the full list of climate funds >>](#)

[View details on Fast Start Finance pledges made by countries >>](#)

[View a list of projects financed by the climate funds >>](#)

[View graphs and statistics on the funds and projects >>](#)



### Latest updates

**New August 2010 update completed** All funds and project information have now been updated as of end of July 2010. Information on Fast Start Finance pledges is also now available. For any questions, comments or ...

Posted 30 Jul 2010 12:02 by Izabel Camargo

**New: Climate Finance Policy Brief No.2 - Climate Finance Additionality: emerging definitions and their implications** New Climate Finance Policy Brief on climate finance additionality published by ODI and Heinrich Böll Foundation, July 2010.

Posted 2 Jul 2010 09:49 by Izabel Camargo

**New Climate Finance Policy Brief No. 1 - Climate finance post-Copenhagen** This is the first paper in series of policy briefs which provides an independent commentary on current themes associated with the international debate on climate finance. The papers are prepared ...

Posted 9 Jul 2010 12:05 by Izabel Camargo

Showing posts 1 - 3 of 7. [View more »](#)

[www.climatefundsupdate.org](http://www.climatefundsupdate.org)

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Overseas Development  
Institute

# **Tracking international climate finance: improving transparency and assessing effectiveness**

Jessica Brown

4 December 2010, Cancun, COP16



Overseas Development  
Institute

## Why is tracking climate finance important?

- 1) Perform **global analysis** on climate finance
- 2) Identify **best practices** in uses of climate finance
- 3) Increase **transparency** and trust
- 4) Provide an **information portal** for projects or initiatives seeking climate finance



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## Climate Funds Update: responding to the information gap

- Aim is to:
  - Establish a platform for comprehensive and consistent tracking of international climate finance
  - Provide an information base from which to analyze the effectiveness of international climate finance, and evaluate existing practices
- Tracking progress on international climate finance – [www.climatefundsupdate.org](http://www.climatefundsupdate.org)
  - 22 international funding initiatives, searchable project database, graphs and statistics, etc
  - Provides resources and commentary on funds
  - Following proposals for innovative approaches to resource mobilization



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## Finance is tracked according to the following classifications

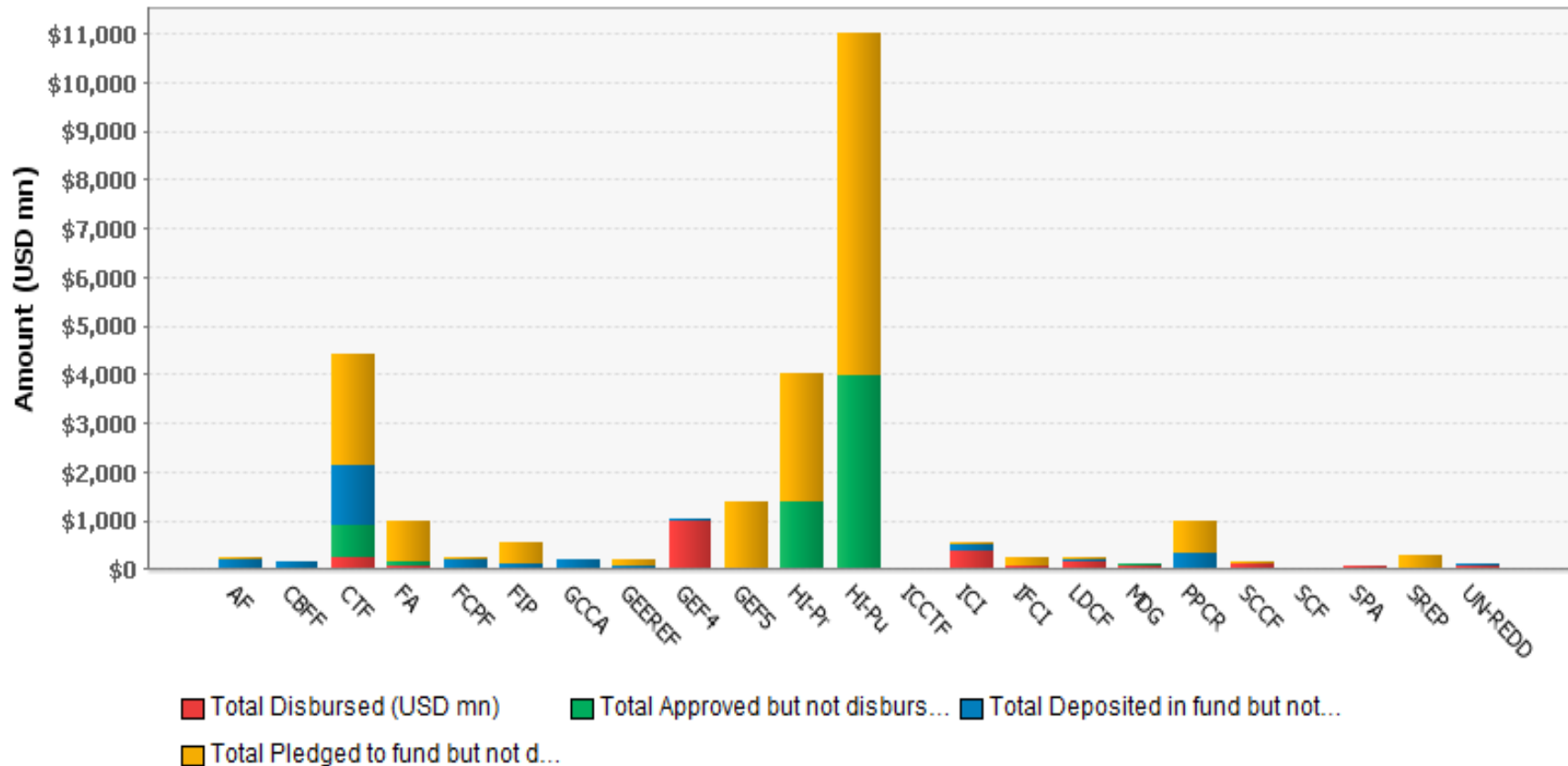
- **Pledged:** verbal or signed commitments from donors to provide financial support for a particular fund.
- **Deposited:** funds that have been transferred from the donor into the account(s) of the fund. Also known as committed funds
- **Approved:** funds that have been officially approved and earmarked within a fund to support a specific project or program.
- **Disbursed:** funds that have been spent, either through administrative means or directly to an implementation programme or project, with proof of spend.



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## Snapshot of funds currently tracked

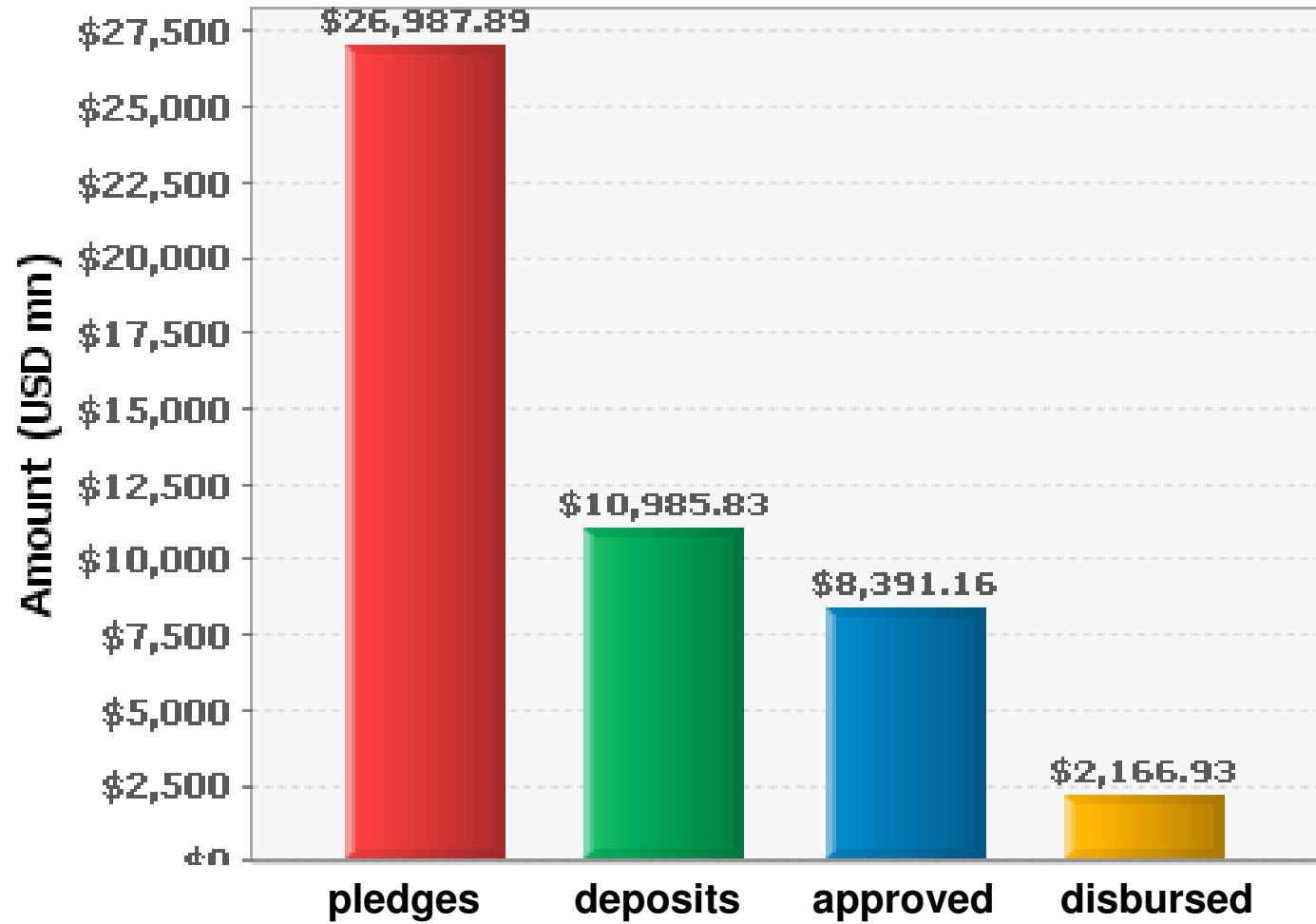
### Pledged, deposited, approved and disbursed by fund





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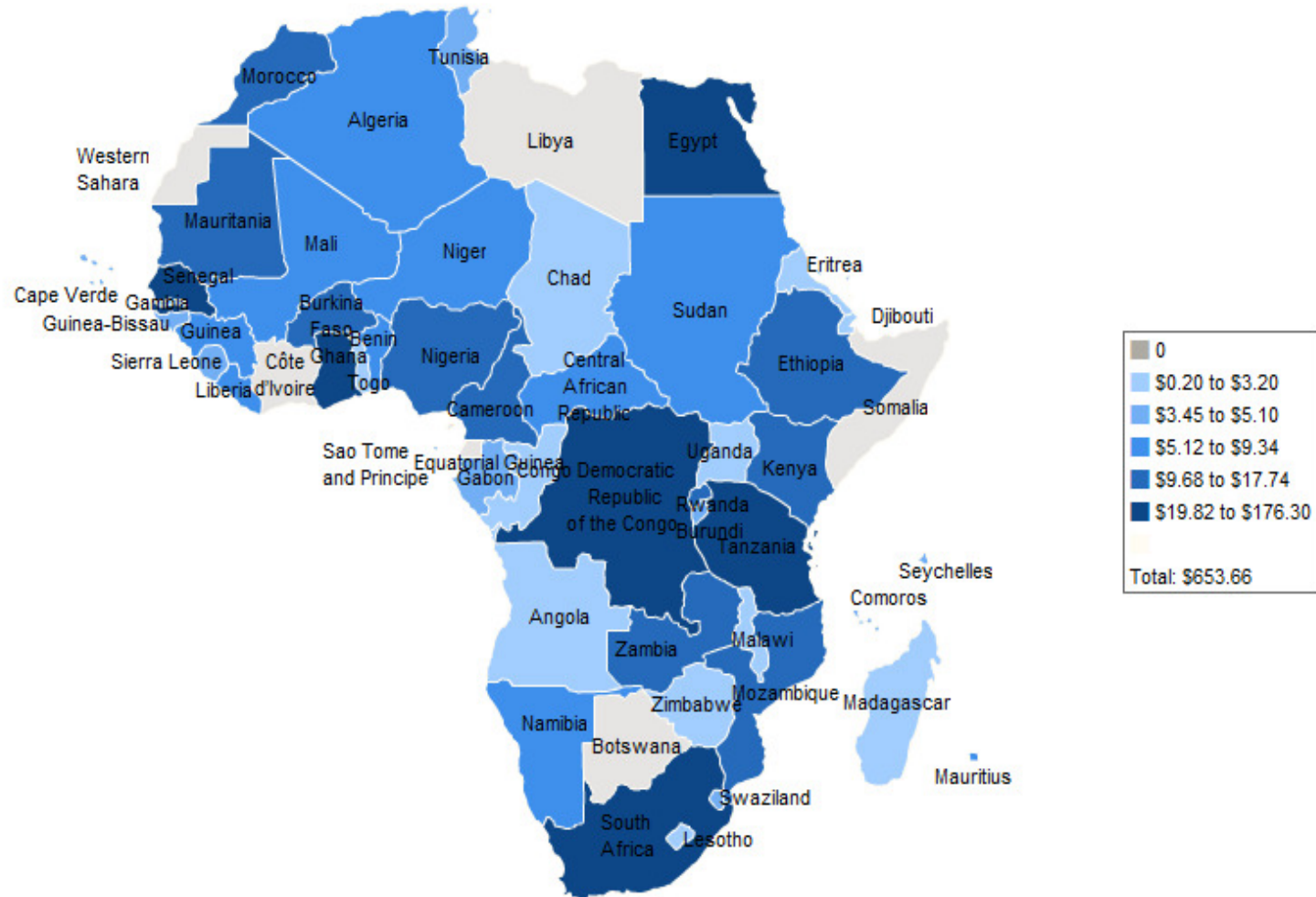
## Total funds tracked: pledged, deposited, approved, disbursed





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## Funds by region





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## Moving from transparency to effectiveness: How to link the international, national, and sub-national financial flows

- 'Bottom up' analysis (at national and sub-national level) needed to understand effectiveness of flows:
  - what financial modalities are being supported
  - how is public finance interacting with domestic and private finance,
  - extent to which money is delivering actual results on the ground.
  - What institutions are being used/built? What are governance issues?
- How to measure effectiveness of finance?
  - Begs the question of needing to come up with hard core indicators to measure effectiveness of finance for both mitigation and adaptation
- Will then be able to answer what types of finance are most effective?



# We can then begin to assess how well the current financing mechanisms are responding to Indonesia's needs...

## Donor support in country

Committed funding		
Source	Amount (US \$)	type of finance
AFD	800 mn	soft loans
World Bank	400 mn	IBRD loan
World Bank	400 mn	soft loans
AusAID	2 mn	grants
AusAID/IFCI	75.9 mn	grants
JICA	1 bn	soft loans
JICA	16.5	mix
USAID	136 mn	grants
Norway	1 bn	grants
DFID	2.4 mn	TA
DFID	17.9 mn	grants
UN-REDD	5.6 mn	grants
FCPF	3.6 mn	grants
FIP	80 mn	grants
Germany (KFW)	28 mn	grants
Germany (GTZ)	10 mn	TA
Germany (KFW)	335 mn	soft loans
Germany (KFW)	2 mn	TA
Germany (ICI)	26.05 mn	grants
GEF	4 mn	grants
<b>Total</b>	<b>US\$ 4.345 billion</b>	
Pledges in the pipeline		
DFID	80 mn	grants
AusAID	TBD, likely 40-50 mn	grants
United States	TBD, likely 700 mn	TBD
EC	21 mn	grants
several donors	TBD, could be 5 bn	soft loans

## Supported mechanisms

Funding mechanism	type of finance
Indonesia CC Trust Fund	grants
CC Policy Loan	loan through budget support
Norway LOI	grants
project support	grants, T.A.
Indonesia Green Investment Fund	equity, loans



## Indonesia's financing needs

Sector	abatement potential in 2030 (in MtCO2e)	total cost in 2030 (in USD), excluding transaction, social costs
Peat	566	\$1,014,760,000
LULUCF	1223	\$14,455,000,000
Agriculture	105	\$525,000,000
Power	149	\$4,906,000,000
<b>Total</b>	<b>1,477</b>	<b>\$20,900,760,000</b>



# FINANCIANDO EL CAMBIO sin cambiar **el clima**

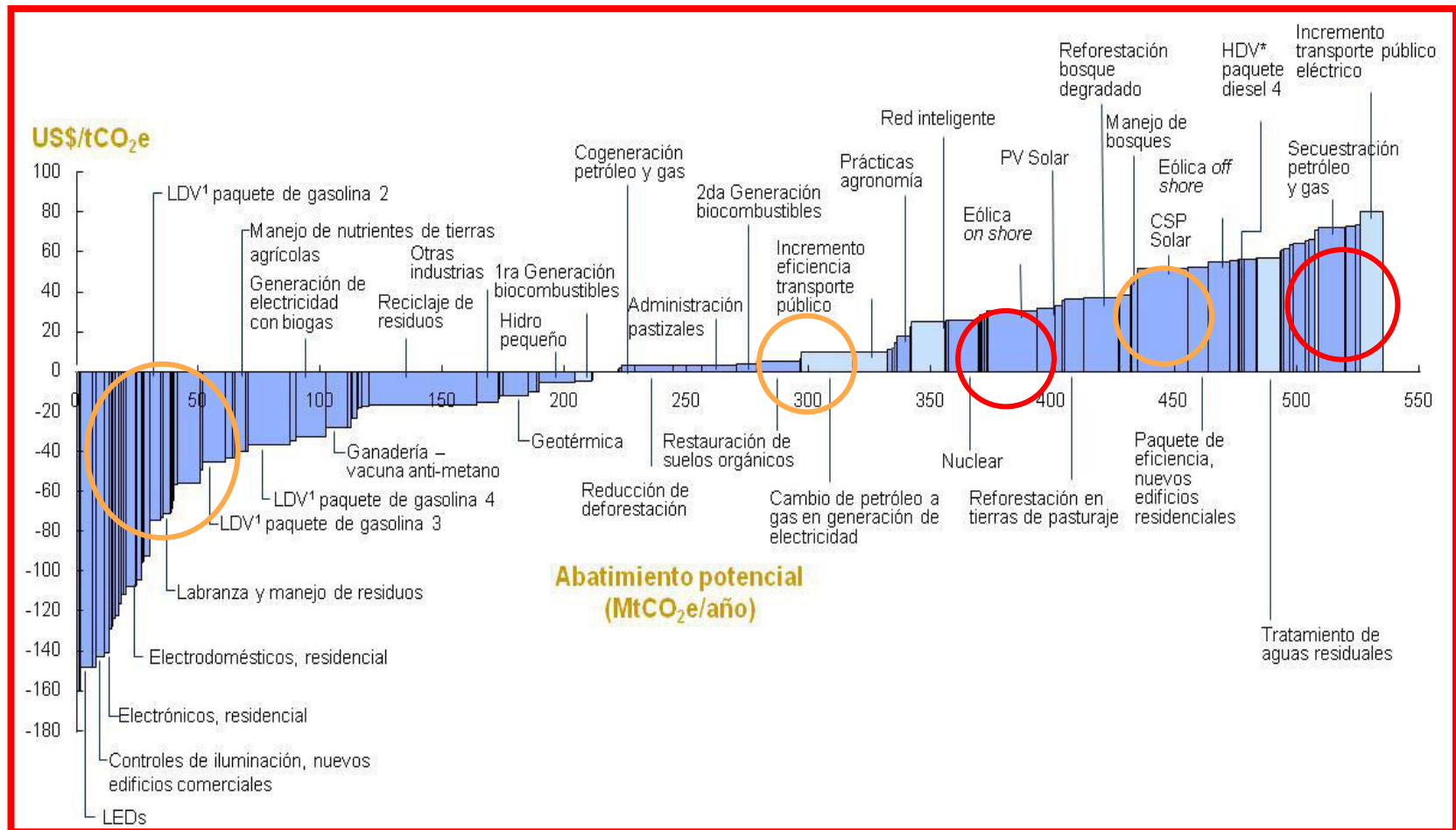
Sandra Guzmán Luna  
Air and Energy  
Mexican Center of  
Environmental Law, CEMDA

## Transparency and efficient use of the resources: KEY ELEMENTS.

Does Mexico need more international resources to address climate change?

- **YES, but... it is not a money issue..**
- Mexico promotes a Global Fund to achieve national goals... but how are we going to ensure the efficient use of the funds?

- Is not **enough to have more** resources
- We have to learn to use them
- Mexico is receiving more than **20 billion dollars** to address climate change, but
- Where is **the money?**
- **Where are the actions?**
- The international resources must complement the national resources.
- What about the **federal budget?**
- What are the **real priorities?**
- Mexico has money, but we are not using it in an efficient way...**so we have to be congruent, transparent and efficient.**



Fuente: Low carbon growth path para México, McKinsey

- **Where is climate change in the federal budget?**
- **1 year = 300 millions of pesos (25,000 millions of dollars) to address climate change**
- **How we are going to use this money (CCS?, Nuclear Power?)**

# Mexican Finance Group



Centro de  
Transporte  
Sustentable



**GREENPEACE**



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BACKUP>>>

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