POVERTY

CLIMATE FINANCE: WHY, WHO FOR, HOW MUCH AND WHERE FROM?

Developing countries face the consequences of climate change without having benefited from the economic growth that polluting industrialisation brought to the developed world. How can such countries be compensated and helped to develop?

When countries meet in Copenhagen in December 2009 to negotiate a far-reaching global effort to tackle climate change, one of the central arguments will be around finance for the developing world.

If global warming is to be kept below 2°C, then the flow of money and technology to poor countries must be sufficient to support urgent action on mitigation and low-carbon development.

Further money is needed to help the poorest and most vulnerable people adapt to the manmade changes in the climate that are already threatening their lives, livelihoods and dignity.

Why is finance needed?

This is not aid, but a compensation fund for tackling climate change while delivering sustainable development.

Climate finance is not an act of charity. Rather, it is partly compensation for the damage done by rich countries over the past two centuries of industrialisation and economic growth. It is also a legal obligation that rich countries signed up to through the United Nations Framework Convention on Climate Change (UNFCCC).

By raising carbon levels in the atmosphere to such high levels to achieve their own economic growth, industrialised countries have removed all opportunity for developing countries to grow and develop in the same polluting way. Therefore it is the duty of rich nations to help poor countries develop in a low-carbon manner. Poor countries need finance for mitigation – including clean, energy, forestry and agriculture, which are key components of sustainable, low-carbon development.

Funds are also needed to reduce the impact of climate change on people, the environment and economies – that is for adaptation. Adaptation actions may include systems giving early warning of disasters, infrastructure for water management, insurance mechanisms and, critically, action

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- **Why is finance needed?** Rich countries owe poor nations compensation for the climate damage they have caused. Also developing countries require support to avoid the highly polluting approach to economic growth that rich countries have taken for granted. Therefore rich countries must help to fund national actions on mitigation and adaptation in developing countries.
- **Who is it for?** A significant portion should be accessible to those most affected by climate change, with developing country governments accountable to their people on how effectively the funds are spent.
- **How much is needed?** Based on current estimates of the scale of the climate challenge, total funding must be well in excess of €110 billion over and above the money flowing through carbon markets and commitments for official development assistance.
- **Where should the funding come from?** A climate fund administered by the United Nations Framework Convention on Climate Change (UNFCCC), with compulsory and predictable contributions from Annex 1 countries.

christian aid

Alison Doig, senior adviser, climate change and sustainable development, Christian Aid

Measurable, reportable and verifiable (MRV) mitigation action

The Bali Action Plan of the UNFCCC calls for mitigation actions to be delivered in a measurable, reportable and verifiable (MRV) manner.[1]

The phrase MRV refers to:

- nationally appropriate mitigation commitments or actions by all developed country Parties
- the provision of technology, financing and capacity-building that enable and support nationally appropriate mitigation actions of developing country Parties in the context of sustainable development.

The MRV process, overseen by the UNFCCC, is essential to ensure that governments are strictly accountable, both for delivery of finance by the industrialised countries and effective emissions cuts by developing countries.

to safeguard vulnerable communities' sources of income and means of survival.

The level of funding provided must match the funding requirements of actions in developing countries. National actions should be delivered through programmes designed and controlled by developing countries themselves. There are two principal mechanisms through which climate-change funding could be delivered:

Nationally appropriate mitigation actions (NAMAs) would allow developing countries to control their carbon emissions with assistance from industrialised countries.

National adaptation plans (NAPs) are plans for vital adaptations that are paid for by international adaptation funding. Basic versions of these are currently being produced by the poorest countries but could be expanded and extended to all developing countries.

Many low-income countries will need additional support to raise their capacity to access these funds: to engage with the UNFCCC negotiations on the establishment of the climate funds, and to prepare and deliver NAMAs and NAPs.

Cooperation between industrialised countries and developing countries to develop and deploy new technologies will be a key component of successful mitigation and adaptation action, so will also require funding.

Who is it for?

Delivery of climate funds should be at a national level, to the people who most need it.

It is essential that climate finance really does help the countries suffering from climate change and particularly the poorest and most vulnerable people who are already feeling its effects and who are least able to deal with it.

We want to do this without reproducing the power imbalances in the aid system, in which donor countries control the flow of funds. This is especially important because the funds are, at least partly, reparations

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The carbon market alone will not deliver

Many industrialised countries – including the US and UK – have stated that funding for mitigation actions in developing countries will in large part be delivered through the carbon market.

This approach fails because:

- The market alone will not deliver sufficient emissions cuts to stay below 2°C – it is designed to deliver only Annex 1 countries' emissions reductions. There has already been double counting of carbon cuts in both the Annex 1 country buying the carbon credit and in the developing country where the cut actually happens.
- Rich country governments are currently unwilling to contemplate the deep emissions cuts needed to generate an adequate price for carbon. In addition, such price signals are only one part of the action required to deliver a low-carbon future.
- Market mechanisms are fundamentally limited. The market has continually failed to deliver low-carbon projects in less developed countries, or smaller scale energy projects for poor communities.

At present, the mechanism for delivering mitigation finance in developing countries is the offsetting of Annex 1 countries' emissions reductions though the Clean Development Mechanism (CDM).

There are a number of concerns over the CDM, including the lack of accountability for carbon cuts, the fact that some projects would have happened anyway without CDM money and some projects' poor record on social and wider environmental impacts. If it is to continue, the CDM will need substantial reform.

The United Nations Climate Fund

The Aprodev proposal combines the funding for mitigation, adaptation and technology provision into one single financing vehicle: the United Nations Climate Fund (UNCF). The three areas can be best thought of as distinct but complementary windows within the fund.

As proposed by Norway, a portion of each Annex 1 country's carbon allowance – known as assigned amount units (AAUs)[7] – shall be withheld from Annex 1 Parties and auctioned in order to generate the necessary funds for non-Annex 1 activities.

It is proposed that the quantity of AAUs to be withheld from each Annex 1 Party shall be determined by criteria based on a responsibility and capacity indicator (RCI),[8] which will ensure that each country makes a fair and equitable contribution to the Fund.

Levies on both international aviation and international shipping would provide additional sources of income that should be allocated to the Fund.

The UNCF will operate under the authority and guidance of the Conference of the Parties (COP) to the UNFCCC and be fully accountable to it. The governance of the fund will ensure that all countries have an equal say in how it is managed.

The Fund will operate at least three funding windows, namely Mitigation, Adaptation and Technology Research and Development. One can also assess the possibility of having sub-windows; for instance the Mitigation window could have a specific forestry window and a window for low-carbon development for the least developed countries.

To ensure effective and equitable delivery and that the most vulnerable and impacted can benefit from the funds, up to ten per cent of total funding could be used for capacity building. That is to support work on NAMAs and NAPs and to increase the ability of the most vulnerable and least developed countries to access and use the funds effectively.

Funds from developed countries must be obligatory, fair and assessed by the UNFCCC

for the environmental destruction caused by richer countries, which has affected livelihoods and ecosystems.

It is essential that poor countries' plans for using climate finance are integrated into existing national planning, so that there is a cross-government response to climate change. The goal must be long-term sustainable development, not just a climate change 'sticking plaster'. This is already part of the commitments under the climate change convention.

Climate financing should create incentives for developing country governments to use climate funds well. As with development aid and any major government spending, transparency is essential in relation to how much, to whom, and for what. Information needs to be disseminated and made easily available to developing countries' citizens. Climate change funds must be seen as belonging to them and not just governments.

To achieve this, governments must ensure that their citizens participate in the design, implementation and monitoring of climate change plans. Our experience shows that participation in the development of poverty reduction strategy papers (PRSPs), while imperfect, has improved relations between governments and their people by allowing citizens to influence and hold their government to account. Such an approach should also improve the effectiveness and accountability of climate change finance. Indeed, such an approach may prove to be the cornerstone for any international climate change agreement.

How much is needed?

Any estimates are hugely speculative by their very nature. Clear, costed NAMAs and NAPs are awaited. However, the scale of funding required is clear.

Developing countries have estimated the scale of their need for climate action as being in the range of 0.5 to 1 per cent of Annex 1 countries' GNP.[2] Using projections by the World Bank for 2020, that is somewhere between €180 and €360 billion.

The European Commission estimates that delivering mitigation action in developing countries[3] will cost at least €71 billion a year by 2020, for clean energy and deforestation.[4] Reliance on the market to deliver the required level of mitigation actions in developing countries is simply inadequate (see box).

A selection of current estimates suggests that to adapt to the inevitable impacts of climate change, poor countries need additional investment in the order of at least €40-65 billion a year by 2020.[5]

Therefore many NGOs suggest that the overall scale of financing required for mitigation and adaptation support to developing countries must be well in excess of €110 billion a year by 2020. The EU must urgently define how it would meet its 'fair share' of such a total, and commit to a

minimum contribution of at least €35 billion a year in public financial support for mitigation, adaptation, capacity building and technology cooperation in developing countries.

Where should the funding come from?

Funds from developed countries must be obligatory, fair and assessed by the UNFCCC.

There must be commitment to deliver funding on a guaranteed and stable basis, to give developing countries confidence to undertake long-term climate action. Simply relying on pledges (similar to development funding) will not guarantee reliable and sufficient funds.

If there is reliance on the multilateral development banks, and particularly the World Bank, to manage and govern the climate funds, developing countries will not be confident that the funds will be equitably and fairly delivered. Negotiators from developing countries have questioned whether the World Bank (without substantial reform) would respond to the needs of poor countries and people sufficiently, or be fully accountable to recipient countries.

According to the Bali Action Plan, climate finance must meet the following basic criteria:

- adequacy (ensuring that sufficient resources are mobilised)
- sustainability (the source of funds should not diminish over time)
- predictability (certainty about the amount and timeliness of money raised)
- additionality (ensuring this is a new financial obligation, over and above existing overseas development assistance commitments).

Several countries have submitted proposals for how such funding can be delivered. Christian Aid and its Aprodev[6] partners have proposed a 'United Nations Climate Fund' (see box) as a significant means of raising climate funds, which draws on ideas from Norway, Mexico and the G77 and China, and combines them with a strong equity analysis.

Breaking the deadlock

No serious progress will be made in the negotiations without a decision on climate finance.

The biggest conflict in the UN climate change negotiations has been between industrialised countries calling for developing countries to take on binding commitments to emissions cuts and developing countries calling on industrialised countries to first prove they are serious about tackling climate change by adopting and achieving strict emissions reductions up to 2020.

The lack of meaningful engagement from developed countries and the lack of movement on either side has brought the negotiations to deadlock.

Without substantial, upfront commitments of financial resources from industrialised countries, the negotiations are likely to remain deadlocked. This would make preventing potentially irreversible and catastrophic climate change both less likely and more expensive.

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Endnotes

1 Bali Action Plan, UNFCCC, 2007.

2 The developing country bloc at the UNFCCC negotiations is known as the G77 and China.

3 This refers to developing countries making cuts of 15 to 30 per cent below 'business as usual' emissions.

4 European Commission 2009 – figures are calculated as €48 billion for energy, €18 billion for forestry and €5 billion for agriculture, making a total of €71 billion. However, other estimates suggest this figure could be much higher, and NGOs would stress that this figure is a minimum estimate.

5 Source for €40 billion (US$50 billion) – Oxfam in fact calculates this to be the current financing required (rather than that required by 2020), see www.oxfam.org.uk/resources/policy/climate_change/downloads/bp104_adapting_to_climate_change.pdf

Source for €65 billion (US$86 billion) – UN Development Programme, see hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf p194.

6 Harald Nyeggen Sommer, *The United Nations Climate Fund, Discussion paper, An Equitable Financial Mechanism Under the UNFCCC*, Norwegian Church Aid, for Aprodev, 2009, see www.kirkensnodhjelp.no/Documents/Kirkens%20N%C3%B8dhjelp/Tematiske%20filer/Klima/b-The%20Climate%20Fund-proposa180509with%20NCA.pdf

7 An AAU is equivalent to one tonne of CO2. Under the Kyoto Protocol each country is allocated an amount of AAUs that it is allowed to emit each year based on the emissions target for each country.

8 1 Paul Baer, Tom Athanasiou, Sivan Kartha et al, *The Right to Development in a Climate Constrained World: the Greenhouse Development Rights Framework*, Second Edition, Heinrich Böll Foundation, Christian Aid, EcoEquity and the Stockholm Environment Institute, 2008.

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Christian Aid has a vision – an end to poverty – and we believe that vision can become a reality. We urge you to join us.

Christian Aid, 35 Lower Marsh, London SE1 7RL
t. 020 7620 4444 www.christian-aid.org.uk