SOUTH CENTRE

Submission on Biennial Assessment and Overview of Financial Flows

By South Centre

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Background & Context

Following the decision at the UNFCCC COP 17 that the Standing Committee on Finance (SCF) prepare a biennial assessment and overview of climate finance flows within the context of its overall mandate to assist the COP in exercising its functions with respect to the financial mechanism of the Convention in terms of measurement, reporting and verification of support (MRV) provided to developing country Parties, the South Centre welcomes the outreach effort of the SCF to external stakeholders to contribute to the process of the conduct of its first biennial assessment and overview of climate finance flows.

Also noting the decision of COP 19 that the SCF 'in the context of the preparation of its biennial assessment and overview of climate finance flows, to consider ongoing technical work on operational definitions of climate finance, including private finance mobilized by public interventions, to assess how adaptation and mitigation needs can most effectively be met by climate finance, and to include the results in its annual report to the COP,' the South Centre would like to offer the following broad comments as well as specific interventions on the items as requested by the SCF.

Unquestionably, climate finance is a central pillar of global climate change governance. But the area of climate finance and the under-delivery of obligations for the support for the financing of adaptation, mitigation programmes, projects and policies of developing countries in the forward momentum towards sustainable development is one of the most contentious areas of global governance in the on-going climate discussion. The significant under-delivery of ex ante commitments and promises by developed countries to developing countries is the palpable and unmistakable feature of this area within the wider system of development finance.

The state of climate finance

All the available evidence points to the continuing need for large scale and significant flows of finance in the hundreds of billions (for adaptation) and well into the trillions (for mitigation and technology transfer and development) by all developing countries. This includes costing exercises from the conservative (UNFCCC 2007 / 2008) to the comprehensive understanding of what is to be financed under the rubric of climate finance (DESA 2012, South Centre 2013).

Based on these exercises, it is likely that the promised $100 billion per year by 2020 (in the Cancun decision) is inadequate to the task of meeting the adaptation needs of developing countries and for transforming those economies on the path of low-carbon and climate-friendly sustainable development.

Many developing countries are facing a difficult choice between funding poverty eradication initiatives and spending on adaptation and disaster related expenditures. Many are also incurring debt through co-financing requirements of climate finance entities and/or upfront borrowing to fund climate related initiatives.

Contribution to the specific requests of the Standing Committee on Finance

1. **Comments on the draft outline of the report: Are there any missing elements/aspects?**

   Some aspects that need to be considered are general set out below:

(a) **The need for robust definitions:** To date, we have been shying away from defining **"climate finance"**. In the absence of any agreement on a working definition of what constitutes 'climate finance' we are all embarking to deliver 'Climate Finance' and have been making loud claims of how much is already being provided by public and private sources.

Although the absence of a common working definition of climate finance is at the core of the problem, there are equally important definitional problems relating to many other terms that are loosely thrown around in COP decisions without a common understanding of what they mean in the context of climate finance as articulated under the United Nations Framework Convention on Climate Change.

As examples, we need working definitions that clearly state what is meant by terms such as **"mobilization", "leverage", "new", "additional", "incremental investment", "incremental costs" etc.** as relevant to climate finance.

In the absence of these definitions, any report will only compound prevailing misinformation and the consequent confusion and bickering.

(b).**The need for robust methodologies:** Currently different methodologies are being followed for tracking and measuring what is loosely referred to as climate finance. These internally inconsistent numbers are then aggregated to show how the world is awash with climate finance. The division is blur between what is ODA, development finance, private flows, FDI and capital market flows.

We should be able to separate what component of the North-South flows are related to addressing climate change and its impacts. Hence the need for robust definitions and robust methodologies to sift the truth from the fluff.

(c). **The need for robust verification:** This needs no further elaboration for all it means is that once the above two are in place, then we need a reliable set-up that can assure us that the definitions and methodologies agreed are being substantially complied with in making the biennial assessment.

(d). **Impact Assessment:** Climate finance is only meaningful if the desired impacts are actually being realized. If not, there is need to revisit all or some of the above three areas. So the biennial assessment should include some discussion on verifiable impacts of climate finance.

(e). **Data Infirmities:** There are definite amount of data infirmities especially in terms of private flows and FDI -- both of these suffer from the rampant round-tripping of illicit outflows from the developing world and distortions linked to the transfer-pricing practices of multinational corporations. There are infirmities also in how bilateral assistance is counted and assessed.

The SCF would do well to address these areas too while developing the methodologies for the biennial assessment of climate finance flows.

(f) The draft outline should also incorporate discussion of the following two items:

- A subsection on full incremental costs—usage, limits and delimit and implication for flow of finance.
- Subsection with discussion on the scope and quantum of climate finance. (Discussion of the quantum of finance is an important starting point in this venture of producing the first biennial report on climate finance).

2. **Contributions for the overview section of the report (data, recent and upcoming reports, on-going research)**

Some recent, on-going research and upcoming reports include:

- Montes, Manuel F (2012) The Climate Change Financing Requirements of Developing Countries. Climate Policy Brief no. 11. The South Centre. Geneva. November.

- Montes, Manuel F (2013) Potential Sources of Financing for the Green Climate Fund. Draft. The South Centre. Geneva. October 2013.

- United Nations (2011). World Economic and Social Survey: The Great Green Technological Transformation. New York: United Nations.

- WIDER Working Paper No. 2013/046 Foreign aid for climate change related capacity building Zexian Chen and Jingjing He, April 2013

For an assessment of the strengths and weaknesses of the cost estimations for adaptation, mitigation and technology please see attached paper by Montes (2013).

3. **Criteria for assessment: against which criteria the finance flows should be assessed and how this assessment should be done**

The financial flows in developing countries need to be assessed on the basis of the following criteria:

- **Needs of developing countries:** the assessment needs to check if there is consistency with the projects/programmes supported and the priority areas identified by the countries themselves. This is to mean that the assessment will check whether the projects and programmes that have been financed are in line with the priority areas that the country has identified. This assessment can be done by taking some countries as case studies and closely looking at national climate change strategies and/or action plans and project/programme reports.

- **Country ownership:** The assessment should take country ownership as an important criterion and check if the projects and programmes are recognized by the country by assessing the project reports, national communications or other reports as well as rapid country surveys. In addition, identifying the beneficiaries and also national actors in the implementation of the project/programme will help assess this specific criterion.

- **The nature of financial instruments:** assess the balance between grants, concessional loans and other financial instruments used to finance countries projects and programmes.

- **The nature of access modalities:** assess the nature of access that developing countries have for different sources of funds and funding institutions. Emphasis should be on framework for ensuring enhanced direct access by developing countries.

- **Vulnerability**: determining vulnerability is a complex issue involving aspects of economic level, size and geography. For example, vulnerability to climate change differs from region to region and also from country to country within a region. Therefore the assessment should see if those countries that are particularly vulnerable (on any or all of these metric have received the climate financing to adapt to the changing climate and build resilience.

- **Geographical distribution-** when looking at the existing financial mechanisms under the UNFCCC, i.e. the Least Developed Countries Fund, Special Climate Change Fund, Adaptation Fund, the geographical distribution varies. For instance the LDCF has allocated $384.11 million for Africa, $157.67 million Asia and $7.18 million for Latin America and the Caribbean. Most of the Special Climate Change Fund (SCCF) projects are located in Asia (30%) followed by Africa (27%) then Latin America and Caribbean (17%) and then Europe and Central Asia (14%)[1]. In the case of the Adaptation Fund as of September 2013, Latin America and the Caribbean have approved projects of worth $62.39 million, Asia and Pacific 57.49 million, Sub-Saharan Africa $42.17 million and Middle East and North Africa $19.42 million2.

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1 GEF status report on the least developed countries fund and the special climate change fund, 2013, available at http://www.thegef.org/gef/sites/thegef.org/files/GEF-LDCF.SCCF_.14-03.%20Progress%20Report%20on%20the%20Least%20Developed%20Countries%20Fund%20and%20Special%20Climate%20Change%20Fund%2C%202013-05-23.pdf
http://www.thegef.org/gef/sites/thegef.org/files/documents/Status%20Report%20on%20the%20Climate%20Change%20Funds%20-%20September%202011%20cover.pdf

2 http://www.climatefundsupdate.org/listing/adaptation-fund

Therefore the financial flows need to be assessed geographically and also in line with the region's vulnerability

- **Pledged vs. Received and Allocated vs. Disbursed-** as seen in different funds, the amount of pledged and received money are not the same as is the case with the allocated and disbursed. For instance the LDCF has received cumulative pledges of approximately $774.9 million as of July 2013 of which $626.9 million had been received. As of July 2013, the SCCF has received pledges totaling $368.2 million of which $246.4 million has been paid out. Therefore the assessment should look into how long it takes from the stage of pledging to actual disbursing and identify reasons for the discrepancies and also delays.

- **Balance between adaptation and mitigation-**For most developing countries priorities are adaptation to climate change with some mitigation components. Therefore the assessment should look closely at the balance between Adaptation and Mitigation.

- **Channels-** the assessment should look at the different ways in which the money was channeled i.e. bilateral, multilateral and also if the money was channeled in the form of loans or grants.

- **Technological needs assessment and need for technology development and transfer-** As noted by the UNFCCC Executive Secretary, 'there is a need for 'the development, diffusion and transfer of climate technologies on a massive scale' (First meeting of the Technology Executive Committee, UNFCCC, Bonn, 1st September, 2011). Estimates of the resources needed are presented in Montes 2013 (attached).

The obligations imposed by the UNFCCC in this respect have not been implemented; hence, an assessment of financial flows will certainly show a dramatic under delivery in this area. Such an assessment and new programs must be based on an adequate definition of technology transfer as the process through which knowledge (whether protected or not by intellectual property rights) and skills are transmitted and implemented in recipient countries. Sales of goods do not represent a modality of technology transfer and should not be computed.

In assessing the development and transfer of technology the following elements should be considered, inter alia:

- Extent to which technology meets mitigation and adaptation objectives (UNFCCC, Article 2)
- Level of satisfaction of local needs as determined by recipient countries
- Compatibility of technologies developed/transferred with local innovation systems
- Accessibility and affordability
- Contribution to building local capacity so that developing countries can design and diffuse technologies into the domestic economy

- **Readiness-** Developing countries are heterogeneous and have different levels of development, different financial structures, including for climate finance. So there can be no one-size fits all characterization of readiness. Therefore the assessment should also seek to see if there are countries that have the mechanism in place but not have received finance. Hence the SCF will need to be careful in this regard. In the first instance, the SCF should seek to understand the varying definitions of readiness and seek to establish some common definitions, taxonomy and or benchmarks of readiness. This can be accomplished through first undertaking a survey of existing readiness programmes, the outcome documents of readiness workshops with developing countries stakeholders etc. The survey should include information on readiness assessment of the effectiveness and delivery method of readiness as instrument or pathway to delivering climate finance; and the nature and quantum of funds available for readiness programmes and projects in developing countries.

4. Ideas for strengthening methodologies for measuring, reporting and verifying climate finance

Undeniably, an effective MRV system is important for strengthening the accountability, credibility and transparency of the climate change finance architecture. It is essential for ensuring in, the first instance, confidence and trust between developed and developing countries that there is adequate flow of finance to meet agreed goals around adaptation, mitigation and technology transfer and development in working towards achieving the objectives of the Convention. In the second instance, a robust MRV system is important for ensuring the effective use of public funds. Given that climate finance architecture and the flow of funds is meant to support the achievement of the objective of the Convention and the explicit understanding and commitment for assuring progress on actions toward this end is that developing countries are to be provided with **new** and **additional** funds. It is imperative that there is a common agreement as to what exactly constitutes new and additional.

Despite the fact that Article 4 paragraphs 4.3, 4.4, 4.5 and Article 11 of the UNFCCC which seem to define climate finance there is however continuing disagreement about what exactly counts as climate finance. Hence the first and over-riding priority of the SCF must first be to work towards a common operational understanding and definition as to what constitutes climate finance and to work towards a set of standards for the MRV of public climate finance. In this context, the SCF must also explore the challenges and potentials for a creating a Monitoring Mechanism Reporting for climate finance.

The MRV must be premised on the primary imperative which is to address the need for accurate accounting of the provision of funds from developed country parties to developing country parties in order to assess compliance with finance obligations for mitigation, adaptation, technology transfer and capacity building with a view to ensure robustness and transparency of the Financial Mechanism of the Convention;

The experience from the Fast Start Initiative underscore just how urgently this is needed.

First, there is no common approach, even among EU members, who tend to have a more coordinated approach on many issues. The EU auditors report of 2013 notes that in June 2010 the commission proposed a common approach on the definition of ‘additional’ funding but

that some Member States opposed it. As a result there is a diversity of definitions in use among EU members. The same is true for non EU Annex II contributing members of climate finance, especially noted with regard to the Fast Start Finance initiative.

Second, there is a divergence of views between developed and developing countries as to the scale of funding purported to be delivered to the latter by the former. This is a result of the definition, measurement, and verification problems. It is also partly also related to the kinds of distribution channels utilized by contributing government, who have systematically by-passed the Convention' funding mechanisms, with some developed countries citing contributions to GEF and CIFs etc. as part of their fast start contributions while others provided support in the forms of export credits and loan type instruments.

A related area of work that the SCF should pursue as it seeks to articulate more precise and rigorous definition of climate finance under the UNFCCC is to grapple and establish common nomenclature with regard to the use of the following terms as they related to climate finance: promises v commitments; allocation v disbursement; pledged v. approval (approved for spending) v disbursed; and mobilise.

Quite often in the emerging climate finance literature as well as with reporting practice these terms are misused and distorted thus giving rise to a great deal of misunderstanding as well as portraying a distorted picture of the climate finance landscape. This situation works to vitiate the level of trust between developed and developing countries.

For example, though it is often reported that between 2003 and 2011, there was a total of $30.88 billion pledged for climate finance worldwide in actuality only about $9.34 billion was approved for spending and only $1.92 billion was reported to be disbursed for global climate funds (EU 2013).3 Hence, many developing countries have not received significant portions of these funds, thus creating problem of trust and transparency in the international financing architecture.

Additional to the challenges of definition and measurement there is the challenge of reporting by providing countries, implementing entities as well as national governments who receive funding from global or bilateral climate funds. This problem is closely related to the term 'mobilise', which, as noted by the OECD, 'there is uncertainty about what it mean in the context of international climate finance.'

In addition, given the pervasive trend towards relying on **private finance** for increasingly larger amount of climate change finance, it is also important to have agreed definition and common standards for MRV for tracking such flows of finance.

Definition of climate finance

- There is a need for distinctions to be made between 'Climate finance' versus climate finance under the Framework Convention. In this context, resource transfers (particularly public-public) discharge the obligation: Grants, grant components of loans and subsidy component of loans but not loans, which must be paid back.

3. In another study, the Climate Policy Initiative reports $359 billion in climate finance for 2012. This includes public, private as well as developing countries mobilized climate finance.

- Guarantees on loans from IFIs or investment insurance agencies create obligations on part of developing countries
- Many so-called Climate finance or climate-related finance which create obligations on the part of developing countries – such as on the list below do not automatically and essentially meet the obligations under the Convention:
    - ODA: ODA modalities, which are voluntary and conditional, may not meet developed country obligations
    - FDI
    - Debt-creating instruments: such as guarantees on loans from IFIs or investment insurance agencies
    - Offsets that mobilize funding

Hence, the SCF may have to evolve a multiple-two tiered working definition of climate finance (along the lines delineated above), if it seeks to have a broad and comprehensive overview of all that is purported to be climate finance

i. The starting point of building a definition must be the basis laid down in relevant articles of the Convention

ii. The definition should also consider the origin, intermediaries and characteristics of funds.

New and additional - Mindful that distinguishing additionality of finance is both a political and technically sensitive issue, the SCF can propose some guidelines to help the COP come to a better understanding and facilitate interim decision-making on this issue**.**

Parameters of additionality including the feasibility of defining a reference for greater or baseline for additionality, including:

- above the 0.7% GNI commitment to aid
- Support above xxxx or xxxx-xxxx year
- Index for additionality
- Proxies for additionality
- ODA benchmarks to define diversion

See Appendix 1 for framework towards comparative analysis of current usage of the terms new and additional in the climate finance practice area.

MRV

MRV methodology and system must be gauged and determined by the need for and the consequent flow of finance for promoting 'enhanced actions on mitigation, adaptation, technology development and transfer, report drafting, and capacity-building for non-Annex I parties, from public, private, bilateral, multilateral and alternative sources.' It should also be responsive to examining and funding for the nationally-appropriate mitigation actions by developing countries in the context of sustainable development, supported and enabled technology, financing and capacity-building, in a measurable, reportable and verifiable manner.

<u>Measurement</u>

Measurement should seek to address those funds exclusively aimed at enabling and supporting enhanced action on mitigation, adaptation, technology development and transfer, and capacity-building for non-Annex I parties, from public, private, bilateral, multilateral and alternative sources.

In this context, the SCF should consider techniques for differential measurements and accounting for:

- Funds provided for multiple purposes, only the share provided solely for climate change shall be counted towards climate change finance.
- Mobilization of funds through leverage and/or official development should be considered complementary and will not be counted as a part of climate finance.
- Mobilization of funds in developed countries for administrative purposes in indirectly related to the provision of climate change funds towards developing countries (should not be considered climate finance).

The SCF will need to develop guidelines to address the need for accurate accounting of the provision of funds from developed country parties to developing country parties in order to assess compliance with finance obligations for mitigation, adaptation, technology transfer and capacity building with a view to ensure robustness and transparency of the Financial Mechanism of the Convention;

<u>Thus measurement should involve at least the following:</u>

- Measuring the flow of funds;
- Measuring compliance with commitments made; and
- Monitoring the extent to which pledges are fulfilled.

<u>Reporting</u>

As highlighted by a number of developing countries, 'reporting of climate-related support must follow a common, internationally agreed format, approved by the COP in order to allow for comparability, assessment and analysis by the SCF and by all non-Annex I and Annex I parties. The format must include information on funded actions, amount effectively disbursed against obligations under the Convention, amount of new and additional funds, sector, financial channels, time frame and instruments (including grants, concessional loans, capital and others). (Ecuador submission May 2012 and Like-minded submission for LCA).

As also noted by number of developing countries there is need to 'establish a Financial Support Registry, universally accessible in character, in order to ensure inclusiveness and transparency to all Parties. Such a registry should include:

- The origin, intermediaries and characteristics of funds, including funds from private, public, bilateral, multilateral and alternative sources, technology transfer and capacity building, shall be reported by parties to the COP through Annex I national communications, additional information submitted from developed and developing countries, including through their national communications, annual reports of operating entities of the financial mechanism, and others.
- A common, internationally-agreed format to be approved by the COP
- Allow for comparability, assessment and analysis by the Standing Committee on Finance and by all non-Annex I and Annex I parties.

- Information on funded actions, amount effectively disbursed against obligations under the Convention, amount of new and additional funds, sector, financial channels, time frame and instruments (including grants, concessional loans, capital and others).

SCF needs to proactively set in place process and mechanism to ensure a robust reporting system that provides comprehensive, comparable and reliable information on at least 4 levels:

- Member states providing funding
- Multilateral funds and implementing entities4
- National governments receiving the funds
- Private finance

Verification:

Verification is an essential component of a Financial Support Registry which is universally accessible in character, in order to ensure inclusiveness and transparency to all Parties. There must be processes and instruments such as model taxonomy and guidelines that seeks to:

- Ensure the source and character of funds and allow for traceability on the part of non-Annex I parties.
- Developing country parties that receive funding shall be able to certify the funds received and report on the effective use of funds.

Ultimately, the modalities for the measurement, reporting and verification for means of implementation 'shall (also) take into account and incorporate matters relevant to other Convention bodies such as the Adaptation Committee and the Technology Executive Committee.' It must also be based on the recognition that climate finance obligations are discussed within the context of supporting full incremental costs of measures to be undertaken by developing countries in the context of their over-riding imperatives: social and economic development and poverty eradication.

5. Assessment of experience in mobilizing private funds using public finance

The following reports/publications are useful references in considering the above:

- Bretton Woods Project (2012) "Leveraging" private sector finance, How does it work and what are the risks, http://www.brettonwoodsproject.org/2012/04/art-570165/ ;
- Pereira, J. (2012) Cashing in on climate change? Assessing whether private funds can be leveraged to help the poorest countries respond to climate challenges ,
- Eurodad; Reyes, O. (2013) Critical Issues for Channelling Climate Finance via Private Sector Actors, BOND

6. Analysis of the experience of fast start finance

Some Key Lessons from Fast Start Finance

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4 According to the EU Auditors' report, (m)any of the dedicated multilateral funds through which the Commission and Member States channel climate finance do not consistently report on the disbursement of funding, p.30 EU report

The Fast-Start experience points to a number of useful lessons for the way forward on long term financing. These critical lessons include:

- A workable common and agreed definition of what is new and additional finance.
- Achieving some degree of clarity about the baseline to be used in assessing additionality.
- A common reporting framework or template that facilitate cross comparisons. This should include requirement for consistency in time period, committed and disbursed amounts, indications of past climate finance, shares of grants versus loans etc.
- The need for accessible and user friendly data.

Currently the UNFCCC secretariat finance portal is a clearing house of information provided by Parties but the information therein is neither analyzed nor verified. There would seem to be need for an objective third party, under the authority of and accountable, Conference of the Parties, to help process and analyze such reports.

In their ongoing deliberations, the SCF must also take into account in their appraisal of FSF, the real concerns about one or more of the following:

- Re-packaging or re-labeling existing funds or previously pledged funds as new flows;
- Double counting ODA/ climate finance;
- Counting the full value of loans requiring payments as additional financing;
- Conflating carbon market finance designed to meet developed countries own mitigation commitments with financing for developing countries;
- Counting the full value of funding through innovative mechanisms to which developing countries contribute; and
- Conflating financing provided developed countries with the financing they mobilized from public and private sources in developing countries.

These concerns, which arise from the nature of the flow of Fast-Start Finance, point to critical elements that must be institutionalized in order to build trust in Parties about the flow of medium and longer term finance for climate change activities. Primarily of course is the need for:

- A definition of new and additional finance;
- An agreed benchmark that allows for rigorous differentiation of new funds and new funding sources (IIED 2010);
- Guidelines and criteria for what constitutes sources of eligible climate finance;
  ∗More focused attention on sources of finance that do not have high incidence of burden on developing countries.
- A careful plan for how developed countries intend to realize the commitment to the goal of generating $100 billion by 2020. This should include details regarding the mix of public finance and innovative sources;
- Guidelines and criteria for transparency on current climate finance flows, and medium and long term finance;
- A process that leads towards an agreement on the aggregate scale of financial resources needed to for adaptation and mitigation objectives;

- Criteria for allocation between adaptation and mitigation, regions and countries; delivery mechanisms (UNFCCC focus, bilateral, multilateral etc. channels); forms of delivery and distinctions, such as grants and loans and proportion of concessional financing that is additional; and disbursement; and
- Guidance towards a framework for assessing vulnerability, under the convention and for the purpose of allocating the flow of adaptation financing. Such a framework could be useful at local, national and regional levels.

Ultimately, real transparency and accountability will dictate a common reporting framework for all developed countries vis a vis Fast-Start Financing and long term financing including the institutionalization of an independent third party process for verification and assessment

Appendix 1 Leveraging the private sector—myths and realities

The term leveraging is often used in the climate finance discussion. At this stage, it is important to begin the use the term more precisely. Many references to "leverage" are quite broad referring to gaining from or piggybacking on the knowledge, management and other expertise of the private sector. Where precision is needed is in its application to financing. "Leveraging" is also inter-changed with co-financing, which really involved different lender or third party agreeing to participate in a project or programme. In the development cooperation arena this has tended to mean donor, government agencies or MDBs co-financing bilateral or multilateral projects such as those of the World Banks of the Global Environment Facility. "Leverage" is also associated with Public Private Partnership activities. All of these examples are very informal usages of the term and do not refer to the normal financing mechanism in the finance industry. . It is necessary to recognize that any level or percentage of participation by private parties in any financing activity is made only at the prospect of recovery by the private party of the resources invested at a reasonable rate of return. There is no other way the private sector will co-finance a public sector project. In specific projects, if the rate of return for the whole project were high enough, why should not the public sector advance all the money and reap the return itself. Often these partnerships have features that practically guarantee the private return just to entice private participation; there are many real life examples where the public sector accepted all risks and the costs associated with a project with the private sector walking away with a reasonable rate of return. "Leveraging" of the type of co-financing is unnecessary if the public sector can guarantee a stable policy environment of regulation and price support; in this case, the private sector enters a project and finances at its own risk and there is no need to "leverage" public funds to attract private financing. Because of the nature of the private sector, one cannot expect to achieve generous co-financing rates when the private sector is involved.

Co-financing refers to any arrangement under which (World) Bank funds or guarantees are associated with funds provided by third parties for a particular project or program. Official co-financing, either through donor government agencies or multilateral financial institutions, constitutes the largest source of co-financing for (World) Bank-assisted operations.

—The World Bank

The MDBs, the private sector and leverage: Real or Imagined

The UN Secretary General AGF in its report on climate finance, argued that MDBs generate $3 for every dollar of lending through co-financing. So with every $10 billion in paid in capital, MDBs such as the World Bank can generate $30-40 billion in gross capital flow (AGF 2009 and Nevers, 2011). But a closer examination shows a slightly less compelling picture.

The World Bank's Climate Investment Funds (CIFs)—uses public finance to mobilize private funding with loans. It is argued that the Clean Technology Fund 'leverages significant private sector and MDB financing'. Proponents usually laud its approximately 1:8 leverage ratio. But what is usually not so widely noted is that the private sector's contribution to that leverage ratio is quite small (1:2.7), for both CIFs overall leverage and its mitigation (large scale). So though every dollar of public finance is argued to leverage $8 from other sources; it only leverages $2.7 from private sector. The major contributors to leverage ratios are the MDBs etc. In the case of the PPCR (which focuses on adaptation), it generates a leverage ratio of 1:2.7 and has no private sector funding (Nevers, 2011).

These leverage ratios, particularly when decomposed to examine the nature of private sector contribution, are not so good relative to the ratios of equity and debt instruments such as fixed income sovereign bonds (1:3-4), private equity and venture capital in new infrastructure (1.9 or larger). All of these also involve significant public finance participation (Nevers, 2011).

CTF COFINANCING SUMMARY/LEVERAGE RATIO as of Feb. 2011 ($ million)

CTF Funding	4,600
Cofinancing	36,806
COFINANCING DISTRIBUTION	
MDBs	13,925
Bilaterals	2,515
Private Sector	12,554
Carbon Finance	340
Government	7,420
Other Agencies	54

LEVERAGE RATIO -Total Co-financing	1:8
LEVERAGE RATIO -Private Sector Co-financing	1:2.7

Michele de Nevers : Source: http://www.globaleconomicgovernance.org/wp-content/uploads/Climate-Finance-for-Development_deNevers.pdf

In the case of the GEF, an operating entity of the financial mechanism of the Convention, much of its financing depends on co-financing[1]. It is argued to have a co-financing ratio of 1:6 in its climate change focal area. But most of its co-finance has not been 'leveraged' from the private sector but instead comes from the various MDBs and governments. For example in Asia, the ADB contributes to co-financing of regional Special Climate Change Fund's projects such as the *Pilot Asia-Pacific Climate technology Network and Finance Center.* This project is implemented by UNEP with the ADB as the primary co-financing entity contributing 67.6 million (or 80 per cent of the $83.8 million in co-financing of the project (GEF 2011). A recent GEF Evaluations noted that 'other GEF funds sources account for about 36 per cent of co-financing and national governments provide 44 per cent with the private sector and NGOs contributing a negligible amount 1 per cent each (GEF 2011)[1].