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Climate Finance: Key Issues for Durban

Poor people especially in the developing world are already bearing the negative impacts of climate change. Because drastic mitigation through substantive reduction in greenhouse gas emissions especially from the industrialized North has yet to take off, climate change is likely to get worse and extend further into the future. It threatens to undermine a wide range of human rights of present and future generations. It also threatens to push people into poverty and underdevelopment, and lock millions deeper into it. Adaptation is looking to be a long-term requirement poor countries are most compelled but least equipped to undertake. They need a system that will deliver adequate and effective financing for climate action, especially adaptation.

The 16th Conference of the Parties (COP-16) of the United Nations Framework Convention on Climate Change (UNFCCC) offered some measure of progress with regards climate finance. The Cancun Agreement on Long-Term Cooperative Action (Decision 1/COP.16) confirmed the climate financing promises that were only vaguely given in the Copenhagen Accord in 2009. These include (1) the promise of developed countries to raise $30 billion in fast-start finance for 2010-2012, and up to $100 billion per year in long term finance, and (2) the establishment of a Green Climate Fund (GCF) to serve as an operating entity of the financial mechanism of the Convention. In addition, the Cancun LCA text included a decision to establish a Standing Committee on finance to assist the COP on matters relating to the financial mechanism, and to improve reporting by developed countries on their provision of finance to developing countries.

While these decisions represent a positive step, they are at best incomplete. Many countries harbor low expectations of a binding deal on a second round of commitments coming out of Durban, but it presents an opportunity to fill gaps and make further progress on climate finance. As the climate finance architecture takes shape and money starts to flow into countries at scale, the issue of climate finance effectiveness increasingly comes to the fore, above all to do justice to the poor and marginalized whose rights and development prospects are being diminished. Lessons from decades of advocacy in aid reform tell us that effectiveness depends

on an approach that is based on human rights, and that empowers the poor to take active ownership of climate action. Climate finance cannot also be just a band aid over a development system that is inherently unequal and unsustainable, as exposed by the multiple crises in economy, energy, and food. It must be embedded with bottom-up efforts, nationally and internationally, to transition to sustainable, people-centered development. This is a broad agenda, requiring a new level of international cooperation. In Durban, we can start settling the climate finance side of the equation:

1. **Ensure that developed countries, as duty bearers, fulfill their Cancun funding commitments**
2. **Secure public sources of finance**
3. **Ensure that financial mechanism related decisions in Cancun are built upon leading to transformational changes in how climate finance is governed and delivered.**

Box 1. Some key principles in climate finance

Climate finance must be adequate and equitable compensation. Climate justice, supported by principle of common but differentiated responsibilities, holds the North as mainly responsible for climate change. Correcting this injustice entails large-scale compensatory funding from the global North to finance climate action, especially adaptation which the global South needs most urgently. Climate finance must be adequate and predictable; additional to existing official development assistance (ODA) commitments; public in nature; and delivered as instruments that do not create repayment obligations. Climate funds should come primarily from contributions of developed countries assessed according to responsibility and capacity to pay.

Climate finance must be democratically governed. International climate funds should ideally have mandate from the UNFCCC and come under the full authority of the COP. Developing countries should be proportionally represented. Nationally, climate finance institutions should be publicly mandated institutions with full multi-stakeholder structures. At both international and national levels, ample space must be provided for participation and intervention in governance by civil society and other non-government stakeholders, especially those representing communities and sectors most affected by climate change.

Climate finance must be human rights-based. Climate finance must be framed as a relationship between rights-holders (developing country recipients) and duty-bearers (developed country providers). Climate finance should lead to the protection, fulfillment, or redress of the rights that are compromised by climate change (e.g. right to life, food, shelter, work, self-determination) and not lead to their further violation. Apart from general human rights as described in the UN Universal Declaration of Human Rights, climate finance must also thoroughly consider the specific subsets of rights especially of those sectors most affected by climate change, such as women, farmers and indigenous peoples. Climate finance funding decisions and processes of delivery must also be consistent with human rights principles. These include the rights to information, participation in decision-making, and access to justice through redress mechanisms.

Climate finance must be country-led and democratically owned. Climate finance should not be driven by donor priorities, but the nationally-determined needs of developing countries and their diverse peoples, as articulated in climate change plans or strategies or integrated in development strategies.

Climate action is integral to overall development. Even the best-financed programs cannot succeed in halting climate change and shielding people from its impacts if the underlying conditions to environmental destruction and poor people's vulnerability – unequal and unsustainable patterns of development – are left unaddressed. Climate adaptation and mitigation strategies and funding must be framed and integrated with national development strategies towards ecological sustainability, food sovereignty, decent work, gender equality, social equity and people's empowerment. Policy coherence around these goals across the various areas of international cooperation, such as aid, trade, investment and finance are also necessary.

<table>
<tr><th colspan="2">Table 1. Summary of climate finance commitments in Copenhagen and Cancun</th></tr>
<tr><th>Copenhagen Accord
(2009)</th><th>Cancun Agreement on Long-term Cooperative Action
(COP-16, 2010)</th></tr>
<tr><td colspan="2">Scaled-up, new and additional, predictable and adequate funding for developing countries</td></tr>
<tr><td colspan="2">$30 billion for 2010–2012 (Fast-start finance)
• Includes forestry and investment through international institutions
• Balanced allocation between adaptation and mitigation
• Priority to adaptation for the most vulnerable developing countries such as least developed countries (LDCs), small island developing states (SIDS), and Africa</td></tr>
<tr><td colspan="2">$100 billion per year by 2020 (Long-term finance)
• In the context of meaningful and transparent mitigation actions of developing countries
• Will come from various sources, public and private, bilateral and multilateral, including alternative sources</td></tr>
<tr><td colspan="2">Green Climate Fund (GCF)
• To be established as an operating entity of the financial mechanism of the Convention
• Will channel a significant share of new multilateral funding for adaptation</td></tr>
<tr><td>High Level Panel
• To be established to study the contribution of the potential sources of revenue, including alternatives sources of finance, towards meeting the $100 billion goal</td><td>GCF Board
• Shall govern the GCF
• With 24 members of the following composition: equal number of developed and developing countries, including representation from UN regional groupings, SIDS and LDCs, and non-voting alternate for each member
Trustee
• Shall manage GCF's financial assets, maintain appropriate financial records and prepare financial statements and other reports
• Shall be accountable to the Board for the performance of its fiduciary standards, and shall administer GCF's assets only for the purpose of and in accordance with the Board's decisions
• Shall hold and maintain records and accounts of GCF assets separately and apart from its own assets, but may commingle them for administrative and investment purposes
• World Bank to serve as interim trustee subject to review three years after GCF's operationalization
Secretariat
• Shall support the GCF's operation
Transitional Committee
• Shall recommend the design of the GCF for approval at COP-17
• Shall have 40 members:15 developed countries and 25 developing countries, representing Africa (7), Asia (7), Latin America and Caribbean (7), SIDS (2) and LDCs (2)</td></tr>
<tr><td></td><td>Standing Committee
• To be established to assist the COP in exercising its functions with respect to the financial mechanism of the Convention in terms of improving coherence and coordination in the delivery of climate finance, rationalization of the financial mechanism, mobilization of financial resources and measurement, reporting and verification</td></tr>
<tr><td></td><td>Improved reporting
• In national communications, developed countries shall improve the reporting of information on the provision of financial, technology and capacity-building support to developing countries
• COP decides to enhance the guidelines for the reporting of information in national communications of Annex I Parties, including the development of common reporting formats, methodologies for finance, and in order to ensure that information is complete, comparable, transparent and accurate
• COP decides to set up a registry to record nationally appropriate mitigation actions seeking international support and to facilitate matching of finance, technology and capacity-building support to these actions</td></tr>
<tr><td colspan="2">Sources: Copenhagen Accord, Cancun Agreement on Long-term Cooperation Action (1/COP.16)</td></tr>
</table>

1 Getting to $100 billion

Adequate, predictable, and additional climate funding from developed countries is crucial for successful climate action in developing countries. Climate finance flows that meet these criteria ensure that needs are matched by available funding; that recipients can properly plan and implement investments; and that aid flows for poverty reduction and socio-economic development are safeguarded.

The billions promised in Cancun ($30 billion for 2010-2012 and $100 billion per year by 2020) for the first time gives developed countries targets to meet, and developing countries actual figures to expect and hold developed countries against. The long-term target is large—about as large as current ODA flows—yet cannot be said to be adequate. "Adequate" should mean meeting the South's needs especially for adaptation, and meeting the amount needed to support the mitigation effort required to hold atmospheric CO_2 and global warming at safe levels. The $100 billion pledge arose not from an assessment of the South's adaptation and mitigation financing needs (for instance, through country-driven, bottom-up costing), but rather as a bargain of developed countries to get developing countries to take on mitigation obligations. There is no complete bottom-up cost estimate of developing countries' funding needs, and many countries lack capacity to undertake such an exercise. Still, several other estimates indicate that $100 billion per year will only cover a fraction of the costs of climate action in the South. Separate analyses suggest global adaptation costs could go as high as $300 billion per year by 2030,[1] and that mitigation towards stabilizing atmospheric carbon dioxide to 350 parts per million could cost between 1% and 3% of global gross domestic product (between $630 billion and $1,891 billion in 2010 world GDP).[2]

Debate on the adequacy of these numbers now seems to have been put aside. How now to make sure developed countries deliver on these commitments? Doing so faces a number of problems. First, the Cancun LCA Agreement is not legally binding and therefore the financing commitments in them are not enforceable. The Convention track negotiations (AWG-LCA) have yet to produce a legally-binding outcome (e.g. a treaty)—now two years overdue—but some developing countries take caution in pursuing discussion on the outcome's legal form while debate continues to rage on the substance of the outcome (especially with regard to mitigation commitments of developed countries).[3]

Second, climate finance provision remains a pledge-based system with no rules, no transparent monitoring and reporting system, and no means to ensure accountability and compliance.

- The money being announced by developed countries as climate finance are voluntary commitments rather than mandatory contributions. There is no credible system to determine a country's fair share of the climate bill. Developed countries decide individually how much they wish to contribute. Funding flows are also subject to bureaucratic delays. This makes them uncertain and unpredictable like aid flows. Unpredictability makes effective budgeting and resource management difficult. The gap between commitments and actual disbursements is huge. As of October 2011, out of $31 billion in pledged funding for 22 climate funds, only $2.4 billion has been disbursed.[4]
- Although many countries accept in principle that climate finance must be new and additional to aid, the absence of clear definitions and rules in reporting has allowed developed countries to get away with double-counting climate finance as aid, and also recycling existing aid commitments. There is so far no common definition of additionality. Neither is there a common set of tools for tracking finance capital flows across the board. Funders and recipients are not able to coherently identify the climate change component of funded activities. Nearly all of available public climate finance from existing climate funds is reported as ODA. It is also

estimated that around half of the fast-start finance for 2010-2012 had already been promised or planned before Copenhagen in 2009.[5]
- There is no transparent and comprehensive reporting system to gather accurate information on climate finance flows and to assess developed countries' compliance with funding targets. Within the UNFCCC, reporting of provision and receipt of financial support is done through periodic self-reporting through national communications (NCs).[6] Existing guidelines for NCs limit the usefulness of data they gather. Notably, they do not allow for clarity on whether or not finance is new and additional, and do not allow for comparability of data within Annex II reports and between Annex II and non-Annex I reports due to lack of common scope, timeframe, exchange rate and coverage. Lack of strict rules on reporting also allows developed countries to use formats inconsistently.[7]

Conclusion

The $100 billion promised in Cancun represented a temporary settlement between developed and developing countries, but does not settle the question of the scale of funding the developing world really needs for effective climate action. As the scientific community, governments and economic sectors are still understanding the costs of climate change, a lot of uncertainty remain. $100 billion is a starting point; if anything it should be a floor.

While pushing in favor of higher targets for climate funds in the future, one urgent task now is to make sure that the Cancun numbers are met. Climate finance is an obligation of developed countries (duty-bearers) to developing countries (rights-holders), and a system of clear targets and rules must be put in place to enforce this relationship as such.

The COP decision in Durban should include:
- A reiteration of the $100 billion funding target, with language stating it more clearly as an obligation rather than a goal (e.g. "Developed countries shall jointly mobilize and provide new and additional financial support reaching at least $100 billion annually by 2020")
- Agreement that the level of funding will progressively increase starting 2012 to reach at least $100 billion by 2020 (e.g. by a definite percentage per year)
- Agreement to develop a burden-sharing mechanism in which the contribution of developed countries are assessed according to responsibility and capacity to pay
- Agreement on work to define the baseline for new and additional funding
- Agreement to develop an improved common reporting format for provision and receipt of climate finance in national communications
- Decision to establish the Standing Committee on finance that will house the Convention's climate finance registry
- Agreement to review the adequacy of the $100 billion goal in 2015 (as recommended by the Standing Committee)
- Agreement to adopt a legally-binding outcome on climate finance in the AWG-LCA by 2012.

These short-term steps should lead to a long-term scenario for climate finance wherein:
- Climate finance is provided as mandatory payments to a reformed financial mechanism of the UNFCCC, instead of ODA-like finance flows either bilaterally from donors to recipients or multilaterally from donor-based and non-inclusive institutions and mechanisms to recipients
- Climate finance payments are provided in multi-year funding periods to enhance predictability
- The scale of developed countries' climate finance payments are assessed based on responsibility and capacity to pay, based on internationally-agreed criteria
- A central climate finance registry supervised by the Standing Committee registers and verifies climate finance payments by developed countries and receipts by developing countries, and provides transparent and publicly accessible information on climate finance
- Only registered and verified payments and receipts to the climate finance registry are accounted for as official climate finance.

2 Securing public sources of finance

To move climate financing from a pledge-based system to a system with definite and reliable funding, funding commitments should be backed by actual means to generate funds. Countries should agree on sources of funds and be able to put them to work. This is crucial in this decade to help secure resources for the scaling up of funding through to 2020 and the initial capitalization of the Green Climate Fund. Funding sources should be consistent with Convention and human rights principles.

The Cancun LCA Agreement notes that along with public sources, private sources will be mobilized by developed countries to address developing countries' financing needs.[8] The text does not elaborate what these private sources will be, but it does imply that at least some of these flows will be included in claims of meeting the promised long-term finance of $100 billion per year. Studies seeking to define the types of private flows that comprise "private climate finance" include in their list foreign direct investment (FDI), portfolio investment, investments leveraged by bilateral and multilateral development banks, payments for carbon offsets, and private donations.[9]

Developed countries, multilateral development banks and "green business" investors envisage private finance playing a significant role in climate financing. It is in fact argued that private flows will play a larger role than public finance in funding climate action. Some of the reasons raised are:

- The private sector can mobilize much larger funds than the public sector, especially at a time when developed country governments are facing high debt-to-GDP ratios and tight budgets.[10]
- Because the private sector is responsible for the majority of investments in the developing world, including in climate-relevant sectors such as energy, private finance will play a key role in low-carbon development.[11]
- Because adaptation costs are uncertain and can be larger than available public adaptation financing can cover, private finance will still be needed.[12]

In this perspective, public climate finance is relegated to the role of catalyzing and leveraging private investments,[13] and focusing on countries that do not benefit from private flows.[14]

But private finance is not fit for purpose:

- Climate finance, especially adaptation finance, is restitution owed by a payer (developed countries) to a payee (developing countries), not money employed in expectation of larger returns (investment), not a commercial exchange (e.g. payment for carbon offsets), and not charity (aid, donations).
- Private finance and markets—which are driven by the goal to maximize private gain—are inherently unfit to achieve climate change mitigation and adaptation which are public goods. They cannot guarantee equitable, pro-poor, and positive environmental outcomes.
- Private sources tend to concentrate in relatively better-off countries where profit opportunities are larger, leaving behind poorer countries such as Least Developed Countries that need greater attention. For instance, over 50% of all FDI inflows to developing countries in 2010 went to only eight middle-income developing countries. Similarly, nearly 80% of all clean development mechanism projects are hosted by just four countries (China, India, Mexico and Brazil).[15]
- Private investments and markets tend to be unpredictable and unstable, especially in the context of business cycles. They could also introduce new sources of financial instability.

Public funds are more appropriate for climate finance. Public finance can be deployed to reach the poorest countries and communities, and support unprofitable but necessary interventions. Public fund can also be managed with democracy, transparency and accountability.

Where are the public funds going to come from? Assessed budgetary contributions should be the main source. This will not mean an inordinate burden on developed countries already suffering from strained budgets. Changes in funding priorities and policies can free up billions in public dollars that are spent for the wrong priorities in today's crisis-ridden world, such as military spending. And a combination of new sources of finance can be put in motion to generate new streams of revenue, and can also trigger changes in investment patterns. Potential public sources are explored in the 2010 report of the High-Level Advisory Group in Climate Change Financing. Some of these are:

- Removal of fossil fuel subsidies and redirection of fossil fuel royalties
- A global financial transactions tax
- A fuel levy on international fuels for the aviation and maritime sector
- An aviation ticket tax
- Domestic carbon taxes in developed countries.

Conclusion

Parties need to move forward in the right direction on the issue of how to raise public climate finance. The COP decision in Durban should include:

- Agreement that the main source of funding will be public sources, and that private and market-based sources will be supplementary and will not count towards meeting funding targets
- Agreement that the public climate finance will be raised through mandatory assessed payment of developed countries, supplemented by revenue generated from international mechanisms
- Decision to start a roadmap for scaling up climate finance, which includes developing a mechanism to collect developed-country payments and putting onstream new sources of finance by mid-decade.

3 Transforming climate finance governance and delivery

Because traditional aid structures and approaches play a large part in climate finance, the climate finance architecture operating right now is virtually an extension of the aid architecture and thus shares many of the latter's constraints and concerns. Despite persistent efforts at aid reform and the adoption of aid effectiveness principles in recent years, what exists is still a top-down, donor-driven system. Developed countries determine the purpose of climate funds and deliver them to their preferred channels, notably their own bilateral aid channels and the World Bank-managed Climate Investment Funds. Not enjoying the North's fullest support, the UNFCCC's financial mechanism became a collection of smaller vertical funds suffering chronic underfunding. With the exception of the Adaptation Fund, all other climate funds give undue weight to developed countries in decision-making. Overall international climate finance is a fragmented landscape of multiple funding mechanisms operating with no coherence and coordination and no oversight from the Convention.

At the country level, developing countries struggle with governance and capacity deficits to integrate climate response into development plans and national systems for comprehensive climate action. Donor approaches complicate this situation. In several countries external funders and requirements are more clearly driving the climate response than national priorities. Funders come to countries with pre-set objectives, or withhold funding until clear strategies are in place. Limited resources are burdened by having to meet multiple requirements and procedures to access money from multiple channels. Funders bypass local systems where they are weak, or in the

Box 2. Climate finance and principles in effective international public transfers

Climate finance is not aid, but decades of experience in aid provide relevant lessons to climate finance. A key lesson is that external funds are effective only if developing countries are able to determine their objectives based on their needs and pursue them through their own strategies and systems. This is the principle of country ownership, enshrined in the 2005 Paris Declaration on Aid Effectiveness.

The other Paris principles call for anchoring of external support to country policies and systems (alignment); cooperation and coordination among funders to reduce fragmentation (harmonization); results-oriented decision-making and resource management (managing for results), and two-way accountability between funders and recipients (mutual accountability) founded on domestic accountability of government to its people.

Building on the Paris principles, the 2008 Accra Agenda for Action recognized the important role of civil society organizations and citizens in the development process, thus further expanding the notion of ownership from mere government ownership to a more democratic and inclusive base of ownership.

Meanwhile CSOs argue that truly effective aid enables human rights, deals with the roots of unsustainable development, and is anchored on international policy coherence and wider development architecture reforms (development effectiveness).[16]

desire to get things happening on the ground quickly. Activities are mostly uncoordinated among donors, and governments rarely have the capacity to map all ongoing climate finance activities within each country. Accountability to funders is more evident than that to recipients, and in most countries, CSOs have yet to organize themselves around the issue of climate change or be given meaningful space to participate in the design and delivery of climate funding.[17]

The Green Climate Fund and the Standing Committee: shaking up the donor-driven system

The problems of the current donor-driven climate finance architecture are systemic. The international community will have to sort out how to do both development cooperation and cooperation for climate action in the long term, in ways that the necessary convergence points produce synergy and not worsen the problems. How can adding two new international climate finance institutions serve as initial steps towards the needed change?

The Green Climate Fund

The GCF is envisioned to be the principal form of the climate financial mechanism, and not simply just one among the many climate funds in operation.[18] It should address the demands of many developing countries for a fund that is legitimate, that better represents them, and that has stronger lines of accountability to the COP; that can channel larger sums of money within the UNFCCC; that is responsive to developing country priorities especially adaptation; and that uses funding modalities that increase access to and ownership of climate funding by recipient countries, among others. It should set new benchmarks for democratic governance, civil society participation, democratic ownership, and quality of activities funded, thereby building a case for the UNFCCC-based GCF to hold a central place in the climate finance architecture.

The following should be taken into consideration in the design of the GCF:

- **Scale.** The GCF should be the main channel of the $100 billion or more in annual long-term funding. The GCF's core income should come from assessed budgetary contributions of developed countries, with supplementary income coming from international revenue-generating measures.
- **Adherence to Convention, human rights, and other internationally-agreed principles.** The GCF should be anchored on principles set out in the Convention and other international agreements, including, among others: equity, common but differentiated responsibilities, the precautionary principle, national sovereignty and self-determination, gender equality, free, prior and informed

Box 3. Climate finance and development aid

Development aid's purpose is to promote sustainable development and poverty reduction in developing countries. Climate finance's purpose meanwhile is to pay for the costs of adaptation and mitigation in developing countries. More precisely, climate finance's purpose is thought to be payment for climate action, for the additional costs of adaptation and mitigation on top of business-as-usual development.

In reality, the two are not completely different and separate but have many links and overlaps, just as development and climate action intersect. For instance, aid that leads to better health services and income improvements reduces poor peoples' vulnerability to climate change. Adaptation finance that builds adaptive capacity through disaster preparedness and better infrastructure protects gains in poverty reduction. Renewable energy investments both avoid emissions and provide accessible energy to the poor. Helping small farmers shift to agroecological farming yields mitigation, adaptation, and development dividends.

Despite these overlaps, it is still of practical use to distinguish between development and climate activities. Development and adaptation for instance can be thought of as a continuum: on one end are activities that address the socio-economic sources of vulnerability and are therefore more like development activities; on the other end are specific activities that are dedicated to responding to climate impacts but pay attention to the dimensions of social sustainability and human rights -based approaches.

Aid and climate finance need to be accounted for separately to guard against double-counting and diversion, in line with the additionality rule. But on the ground, aid and climate finance have to be marshaled coherently and complementarily to support development efforts. This stems from the fact that successful mitigation and adaptation is underpinned by development that seeks to address the underlying sources of vulnerability and unsustainability. Aid cannot continue to fund activities that contribute to climate change or reduce resilience to future climate impacts. At the same time, adaptation and mitigation projects would not be effective if not embedded within larger development efforts to achieve goals such as food security, gender equality and employment. In planning and implementation, climate action has to be integrated with democratically-owned national development processes. At the policy level, this means climate change strategies that are well-integrated into sustainable development strategies. Aid and climate financing arrangements should provide developing countries the space and flexibility to spend aid and climate finance in ways that fit these strategies.

consent, and democratic ownership. Its founding documents should make reference to these principles.

- **Civil society participation and pro-poor expertise.** Meaningful civil society participation should be integral to the GCF's governance and funding processes in all their stages. Experts with competence in gender and pro-poor development in the South rather than multilateral development bank experts should be tapped. This participation should translate into actual seats in the GCF governing bodies reserved for CSOs and other carriers of pro-poor expertise.
- **Limited role for the trustee.** The World Bank has been named as the GCF's interim trustee. While we recognize the important role of a trustee, that role should be strictly limited to that of financial administration, such as management of financial assets and financial records. Clear rules in the trustee's mandate should be drawn, including strict accountability to the GCF board. The WB's appointment as GCF trustee is questionable and must be reviewed at Durban, given its tainted role in supporting high-emission projects, for example.
- **Thematic funding windows.** The GCF should have thematic funding windows on adaptation, mitigation, technology transfer, and capacity-building. Special funding windows could be conceived for LDCs and SIDS. Earmarking of developed country contributions, or other

Table 2. The Standing Committee – itemized functions

Improving coherence and coordination in delivering climate finance

- Provide a forum for exchange of information with bilateral and multilateral funding institutions working on climate finance and related issues outside the Convention (e.g. aid agencies, World Bank and multilateral development banks, UN funds, DAC-OECD, etc.)
- Coordinate with other thematic bodies within the Convention such as the Adaptation Committee and the Technology Executive Committee
- Develop recommendations to the COP for coordination of current and future climate funds

Rationalization of the financial mechanism of the Convention

- Establish a platform to improve coordination and coherence of the funds mandated by the Convention
- Support the COP in reviewing the accountability, operational rules and modalities, and contractual arrangements of Convention funds
- Develop recommendations to rationalize multiple Convention funds

Mobilization of sources of public climate finance

- Provide recommendations on new and supplementary sources, including technical feasibility studies
- Provide recommendations on burden-sharing in financing among developed countries

Measurement, reporting and verification of climate finance

- Assess information related to MRV of support based on national communications received of developed countries
- Provide recommendations in developing comparable standards for the MRV of climate finance
- Set up and maintain a climate finance registry to record all relevant information on climate finance institutions, flows and activities, and verify financial flows against funding obligations under the Convention

Sources: Group of 77 and China (2011), African Group (2011), Khan and Müller (2011)

mechanisms of private-investor intrusion, should not be allowed in GCF modalities.

- **Devolved decision-making.** For GCF funding to be accessible and democratically owned, not to mention efficient, funding decisions could be devolved to the national implementing entities (NIEs) of recipient countries. At the country level, NIEs should align funding decisions to democratically-formulated national climate change (or sustainable development) strategies. The direct access modality wherein communities and local governments are eligible to be executing entities also works best if funding decisions are made at the country level. Developing countries especially LDCs will need capacity support in establishing and operating their NIEs.
- **Transformational funding.** The GCF should move away from funding one-off projects that emphasize large-scale technology and market-based solutions, to investments that promote people-centered sustainable development.

The Standing Committee on Finance

While the GCF's role is to trigger a consolidation of funding streams within the UNFCCC, the Standing Committee's role is to assist the COP in tackling macro issues surrounding climate finance both inside and outside the UNFCCC, specifically to push for improved coherence. The Cancun LCA Agreement outlines four areas in which the Standing Committee is to assist the COP: first, improving coherence and coordination in the delivery of climate finance; second, the rationalization of the financial mechanism; third, the mobilization of financial resources; and fourth, measurement, reporting and verification of support provided to developing countries.

The Standing Committee could have the functions summarized in Table 2.

As a first approximation of the Standing Committee's evolving shape, it could be initially composed of 18 members nominated

and approved by the COP, and with a two-year term: 16 government representatives (representing Parties to the Convention) and two representatives of civil society. The government membership may consist of two representatives each from UN regional groupings, one representative each for SIDS and LDCs, two representatives from Annex I Parties, and two representatives from non-Annex I Parties. Standing Committee meetings could be held semiannually and be open to observers from other climate funding entities, bilateral and multilateral funding agencies, and civil society.

Conclusion

The GCF and Standing Committee represent forward steps in the consolidation of climate finance and improvement of coherence among climate funders. A COP decision in Durban that adopts the design of the GCF and Standing Committee is crucial in making these first steps. The two institutions need to be launched by 2012. But these are just initial steps to a long-term reform that the climate finance system must undergo towards enhancing coherence and developing country ownership. In the long term, the following could be envisioned for the climate finance system:

- Most climate finance will pass through GCF, acting mainly as disbursement mechanism of climate finance to countries; funding decisions are done in-country
- Most bilateral and multilateral agencies cease independently-maintained climate funds and funding initiatives, or as a transitional arrangement align these according to GCF policies and standards; Convention funds are rationalized
- Developing countries have the necessary policy and institutional components in place for comprehensive climate change response, including transparent, accountable, and inclusive systems for managing climate funds
- All climate finance and development aid flows are on budget; developing countries able to plan and spend them under strong policy direction.

Endnotes

[1] Martin Parry, Nigel Arnell, Pam Berry, David Dodman, Samuel Fankhauser, Chris Hope, Sari Kovats, Robert Nicholls, David Satterthwaite, Richard Tiffin, Tim Wheeler, *Assessing the Costs of Adaptation to Climate Change: A Review of the UNFCCC and Other Recent Estimates* (London: International Institute for Environment and Development and Grantham Institute for Climate Change, 2009). Parry et al. conclude that the 2007 UNFCCC estimate of global adaptation costs ($49-$171 billion per year by 2030) was probably underestimated by a factor of two to three.

[2] Frank Ackerman, Elizabeth A. Stanton, Stephen J. DeCanio, Eban Goodstein, Richard B. Howarth, Richard B. Norgaard, Catherine S. Norman, Kristen A. Sheeran, "The Economics of 350: The Benefits and Costs of Climate Stabilization" (Economics for Equity and the Environment Network, 2009), available at http://www.e3network.org/papers/Economics_of_350.pdf. 1-3% of 2010 world GDP ($63,048 billion at current US dollars) amounts to $630 billion-$1,891 billion (World Bank http://databank.worldbank.org, accessed 17 September 2011).

[3] Third World Network, "Strong disagreement over way forward on legal options group," TWN Bonn News Update No. 22, 15 June 2011, available at http://www.twnside.org.sg/title2/climate/news/Bonn08/TWN_bonn8.up22.pdf

[4] Climate Funds Update, "Pledged v deposited v approved v disbursed," http://www.climatefundsupdate.org/graphs-statistics/pledged-deposited-disbursed, accessed 4 October 2011.

[5] Jessica Brown, Martin Stadelmann and Lena Hornlein, "Fast-start finance to address climate change: what we know at mid-point," ODI Background Note (London: Overseas Development Institute, 2011), 7, available at http://www.odi.org.uk/resources/download/5929.pdf.

[6] Annex II Parties (Annex I Parties that have financing obligations) are required to report information on climate finance for developing countries in their NCs, while non-Annex I Parties (developing countries) are requested to report information on support received from bilateral and multilateral channels. Annex I Parties are required to submit NCs every three to five years, while non-Annex I Parties submit NCs depending on the availability of funds.

[7] Barbara Buchner, Jessica Brown and Jan Corfee-Morlot, "Monitoring and Tracking Long-Term Finance to Support Climate Action" (Paris: Organisation for Economic Co-operation and Development, International Energy Agency, 2011), available at http://www.oecd.org/dataoecd/57/57/48073739.pdf. 27-30; World Resources Institute, "The Measurement, Reporting and Verification of Climate Finance,"

available at http://pdf.wri.org/mrv_of_finance_workshop_summary_2011-06-12.pdf.

[8] "The Conference of the Parties…[a]grees that, in accordance with paragraph 1(e) of the Bali Action Plan, funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources." UNFCCC, Draft decision -/CP.16, "Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention," 2010.

[9] Martin Stadelmann, J. Timmons Roberts, and Axel Michaelowa, "Accounting of private climate finance. Types of finance, data gaps and the 100 billion dollar question," Climate Strategies Working Paper, August 2011, available at http://www.climatestrategies.org/component/reports/category/71/331.html; Barbara Buchner, Jessica Brown and Jan Corfee-Morlot, "Monitoring and Tracking Long-Term Finance to Support Climate Action" (Paris: Organisation for Economic Co-operation and Development, International Energy Agency, 2011), available at http://www.oecd.org/dataoecd/57/57/48073739.pdf.

[10] Michael Liebreich, "Towards a Green Climate Finance Network," Bloomberg New Energy Finance, White Paper, 1 September 2011, available at http://www.bnef.com/free-publications/white-papers/.

[11] Stadelmann et al., iii; Jessica Brown and Michael Jacobs, "Leveraging private investment: the role of public sector climate finance," ODI Background Note (London: Overseas Development Institute, 2011), available at http://www.odi.org.uk/resources/download/5701.pdf.

[12] Aaron Atteridge, "Private Sector Finance and Climate Change Adaptation: How can voluntary private finance support adaptation in developing countries?," SEI Policy Brief (Stockholm: Stockholm Environment Institute, 2009), available at http://sei-international.org/mediamanager/documents/Publications/Climate-mitigation-adaptation/policybrief-privatesectorfinance-adaptation.pdf.

[13] Pay for the incremental costs or buy down the risks associated with low-carbon investments.

[14] Atteridge, 1, 3.

[15] These are China, Brazil, Singapore, Saudi Arabia, India, Mexico, Chile and Indonesia. UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development* (Geneva: United Nations, 2011), 3-4; UNEP Risoe Centre, "CDM projects by host region," available at http://cdmpipeline.org/cdm-projects-region.htm.

[16] For a detailed discussion on principles of aid effectiveness and development effectiveness as applied to climate finance, see IBON International, "Aid Effectiveness of Climate Change Financing," Busan Issue Paper No. 2, 6 September 2011, available at http://www.iboninternational.org/page/whats_new/100.

[17] Nigel Thornton, "Realising Development Effectiveness: Making the Most of Climate Change Finance in Asia and the Pacific" (Capacity Development for Development Effectiveness Facility, 2010), available at http://www.aideffectiveness.org/images/stories/Making_the_Most_of_Climate_Change_Financing_in_Asia_and_the_Pacific_-_CDDE_Report_2010.pdf; Thornton, "Realising the Potential. Making the Most of Climate Change Finance in Africa" (African Development Bank and OECD, 2011), available at http://www.oecd.org/dataoecd/27/38/48597031.pdf.

[18] Fund creation in the UNFCCC has been akin to a series of band aid measures, each one an attempt to patch up problems left unresolved by the last. Calls by developing countries for a democratically-run UN-led Fund stretch back to the drafting of the Rio conventions. What they got instead was the World Bank-managed Global Environment Facility (GEF), which also serves the other Rio conventions. Dissatisfaction with the GEF and the lack for funding for adaptation led to the decision in the early 2000s to create three new funds: two Convention funds—the Least Developed Countries Fund and Special Climate Change Fund—and one Kyoto Protocol fund—the Adaptation Fund. All three focus on adaptation, the first two managed by the GEF and the last managed by a Board under the authority of Kyoto Protocol members. The AF enjoys legitimacy among Southern governments and CSOs for having a developing country majority in governance; for have clear lines of accountability to the Parties; and for enabling direct access of funding to countries. Still, the AF like the LDCF and SCCF do not enjoy Northern support and remain underfunded. Two decades on, developing countries still await a fund that is both democratic and manages volumes of finance at a scale that can respond to their needs.

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