



Climate Action Network International

Climate Finance under the ADP

June 2, 2014

Climate Action Network International (CAN-I) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 900 members in over 100 countries. www.climatenetwork.org

Introduction: the climate finance challenge

The Fifth Assessment Report of the IPCC (IPCC AR5) underlined that limiting global warming to below 2°C is not only possible, it will also not cost much – ambitious action will slow down economic growth by no more than a tiny amount, with substantial benefits from e.g. reduced air pollution or avoided climate damages. Yet, meeting the challenge will require massive efforts to shift existing investments away from fossil fuels towards the expansion of renewable energies and increasing energy efficiency. According to CERES (2014) the world needs to invest an additional \$36 trillion in clean energy by 2050, in order to limit global warming to well below 2°C. For the near term, this requires at least doubling investments in clean energy to \$500 billion per year by 2020. Over half of these investments need to be made in developing and emerging economies.

On adaptation, the IPCC AR5 has recently highlighted that too little is being invested in adaptation and that in the absence of massive adaptation actions today, the cost of adaptation will increase massively in the future. According to the 2012 CPI report on climate finance, adaptation received only around \$10 billion of public finance in 2011. This remains highly inadequate given that developing countries' adaptation needs are estimated to cost between \$60 and 182 billion each year by 2030 according to the UNFCCC. These numbers do not yet account for existing and future economic and non-economic loss and damage that may increase massively over time, especially if adaptation continues to receive much less than needed, meaning that vital actions cannot be taken, eroding entire socio-economic systems over time, leading to the world community failing in eliminating poverty and preserving livelihoods and ecosystems.

Shifting existing investment patterns and mobilising additional investments will require considerable efforts from developed countries as well as from developing countries, with the latter having the additional challenge to pursue sustainable development while at the same time overcome poverty as their first priority. Especially for mitigation, much of the required investments will be made by the private sector that however will need to be mobilised to adequately take on this challenge.

The right policy frameworks can be one tool to mobilise such additionally needed investments, if they are designed to pursue pro-poor sustainable development, respecting social and environmental safeguards and ensuring people affected by such actions are consulted and give their consent.

Another tool will be the provision of public finance to leverage additional investments that would not occur otherwise. For instance, public finance is needed to ensure that interventions that remain unattractive for the private sector, especially in lower income countries and in marginalized communities, receive the required support. Public finance can, for example, help promote micro, small, and medium-scale and off-grid sustainable energy solutions, lower the cost of renewable energy access for the poorest, ensure forest protection, and build capacity in developing countries. Public finance can help ensure private finance

investments are not detrimental to and benefit the poorest and most vulnerable - if international best practice social and environmental safeguards (the do no harm principle for example) are applied.

Public finance will remain essential for adaptation e.g. to secure livelihoods systems including food production, health, land rights and political empowerment, water supply or disaster risk reduction, preparedness and management, and increasingly compensation for losses and damages – especially in the most vulnerable countries.

In this context, 2014 will be an important year to revitalize short-term financial support, send strong signals to the investment community, and prepare to give finance a central role in the 2015 agreement for strengthened action in the post-2020 period.

The role of climate finance under the ADP

The UNFCCC process should play a catalytic role in mobilizing the political will, policy and investment shifts, and financial transfers necessary to put the world on a low carbon, climate-resilient development path, staying well below a 2°C while keeping staying below 1.5°C within reach. The UNFCCC process should advance the climate finance agenda, including in particular on i) the provision and monitoring of public climate finance ii) the facilitation of a broader systemic approach to shifting investments worldwide away from fossil fuels and other dangerous and polluting technologies, and into the expansion of renewable energies and improving energy efficiency, in the context of sustainable development as the basis of future energy systems worldwide.

The provision of public finance and the mobilisation of additional finance is part of the global effort to which each country must contribute its fair share, in line with the provisions and principles of the UNFCCC. This includes provisions of Article 4, such as that financial support shall be new and additional and cover the incremental cost (that either the private sector is not suited/able to cover, such as finance for adaptation, or that emerge for public finance to cover to mobilise additionally needed investments from the private sector). Developed countries must take the lead in providing public finance to developing countries and assist them in transforming their economies and societies towards a low emission climate-resilient development.

Consequently, climate finance is also a key issue for the ADP. Climate finance is a key enabler for developing countries to enhance their nationally determined contributions under WS1, and climate finance provided to developing countries also allows concrete action to narrow down the ambition gap under WS2. Climate finance is also an enabler for the negotiations as progress by developed countries to meet promises made relevant to the pre-2020 period will directly influence developing countries' willingness to muster high ambition in both the pre- and post-2020 period.

ADP Workstream 2: Climate finance to help close the pre-2020 ambition gap

Under Workstream 2, the provision of climate finance is directly linked to the level of ambition that developing countries can take on, for both mitigation and adaptation. Accelerating and increasing climate finance is an integral part of the climate regime for the period until 2020, in order to close the ambition gap. In that regard, CAN welcomes the decisions adopted in Warsaw whereby developed countries are urged to to increase public finance, rising from fast-start levels and in line with the goal to reach \$100 billion a year by 2020, as well as the decision that developed countries will submit regularly updated strategies to scale up climate finance through to 2020.

Pre-2020 finance can enhance mitigation ambition by, for example, supporting the transition to energy-efficient appliances. Even though many measures are cost effective with short payback periods, the upfront additional capital cost may be a financial barrier in many instances. For instance, Indonesia has submitted a NAMA proposal seeking support to implement a smart-street lighting initiative that will incentivize the more

rapid uptake of electricity metering to improve electricity consumption behaviour of 8 to 15 cities. The project is estimated to cost 294 million US\$, for which the government seeks 19 million US\$ of international support, for an estimated 1.4 MtCO_{2e} emission cut. Pre-2020 mitigation finance could also support the transition to and dissemination of renewable energy by covering the high initial capital cost, as well as creating mechanisms to facilitate competitive pricing of renewable energy (feed-in tariffs). Finance can also support readiness and capacity building as key pre-condition to enhance ambition and create the right regulatory, institutional and fiscal environments. The Green Climate Fund could play a helpful role here in channelling finance to such initiatives that help transform entire sectors but requires early and substantial capitalisation to exploit its full potential.

Pre-2020 finance is also crucial to enhance ambition on adaptation, especially in light of the recent IPCC report that highlights the substantial under investments in adaptation. CAN welcomes the Warsaw decision that a substantial share of public climate funds shall be channelled to adaptation activities, and the decision by the Board of the Green Climate Fund to aim for an initial 50/50 allocation between adaptation and mitigation.

In light of all this, CAN suggests the following areas for progress under Workstream 2:

1. By COP20, developed countries should **provide information on levels of climate finance** they have provided in 2014 and are planning to provide in 2015, as part of their updated strategies and demonstrating the agreed increase of public finance as adopted at COP19.
2. COP20 should adopt a decision that **at least 50% of climate finance should be channeled to adaptation**. In 2020, at least half of the \$100 billion promise should come in the form of public finance grants for adaptation.
3. COP20 should task the standing committee to craft a **global climate finance roadmap**, based on the updated strategies submitted by developed countries, with a view to identify gaps between finance provided and finance needed, disaggregated by the different financial instruments and channels, including recommendations as to how to close such gaps.
4. Developed countries should pledge, no later than by COP20, **at least 10-15 billion USD for an initial capitalisation of the Green Climate Fund** through contributions over the next three years, with subsequent replenishments leading to much higher levels over the years through to 2020.
5. COP20 should revitalise work to **identify alternative sources for new public finance**, taking into account the provisions of the convention including CBDR-RC and ensuring no negative incidence on the poorest populations This should include consideration of financial transaction taxes and allocating a significant portion of the revenue to international climate finance, as well as an international mechanism addressing emissions from aviation and shipping, and using the proceeds from these policies for climate finance.
6. Developed countries should commit to rapidly **phase out all forms of fossil fuel subsidies** and use part of the finance for international climate finance. Developed countries should also **shift public financial support via development banks or export credit insurance away for fossil energy projects** and related investments and towards renewable energy and energy efficiency projects in developing countries.
7. **Developing countries should begin to gradually divert fossil energy subsidies towards renewable energy and energy efficiency**, ensuring pro-poor sustainable energy access. Developed countries should support such reforms by covering the incremental costs involved in the gradual redirection. Developing countries could also increase efforts to improve the national fiscal and regulatory framework in place to ensure this reform is pro-poor, implemented effectively and resource-efficiently.
8. **Rules on MRV of finance should be consolidated, reviewed and streamlined**, to make contributions by countries comparable and better understand the types and instruments of finance deployed, including assessments of net financial transfer between developing and developed countries.

ADP Workstream 1: Climate finance in the post-2020 world

Climate finance is not only a key enabler for developing countries to enhance their ambition, it is also a key instrument to operationalize and substantiate equity. A country's total contribution to the overall effort to keep global warming under control is composed of what a country is ready and able to do in terms of cutting domestic emissions plus what it additionally mitigates by providing means of implementation to developing countries, i.e. finance, technology and capacity building. Together, finance and mitigation define the fair share that a Party is willing to contribute to the common climate challenge. As also the IPCC AR5 WG3 report suggests, any reasonably fair sharing of the global effort will require substantial transfers of finance from developed to developing countries on top of what emission cuts countries are going to commit to as part of their Nationally Determined Contributions. Also climate finance, in particular public finance, will remain vital also for the period post-2020 to allow vulnerable countries to engage in urgently needed adaptation efforts.

In light of this, CAN calls for the following under Workstream 1:

1. COP21 should set a **global goal for public finance** for meeting adaptation needs, addressing loss and damages, and covering the incremental mitigation costs in particular in less developed markets and thus, meet the mitigation, adaptation and loss and damage goals that will shape the 2015 agreement, in light of the most recent science and assessment on financing needs.
2. Countries with high levels of responsibility and capability should take on **commitments to provide adequate, and predictable public climate finance for developing country actions. These financial contributions should be part of countries' overall commitments** under the new agreement, and vary according to each country's level of responsibility and capacity. **Relevant information should be submitted as part of countries' Intended Nationally Determined Contributions, outlining what they intend to contribute financially, including disaggregated information by channel, type and instrument those countries plan to deploy.**
3. **Developing countries should elaborate, when preparing their Intended Nationally Determined Contributions on what finance they seek** (type, volumes etc.) to realise planned actions, contributions and commitments. They should include this information alongside information on their planned contributions to limit greenhouse gas emissions, in light of their responsibility and capability, and how much further they could go with reliable and adequate international support.
4. **All NDCs, from all countries**, should also highlight commitment to provide a consistent and enabling environment domestically to avoid inefficient use of resources and to avoid polluting investments undermining climate-proofed investments.
5. On alternative sources for new public finance, the **WS1 discussion should complement the discussion taking place under WS2** to consider the deployment of tools to mobilise additional finance, including from private sources (including the Carbon Majors), as part of the post-2020 agreement, ensuring no negative incidence on the poorest populations and ensure all countries and private stakeholders contribute and receive their fair share, in line with their evolving responsibility and capacity.
6. The Paris agreement should also include a **target level for annual (net) contributions to the Green Climate Fund**, realised through regular replenishment processes, before and after 2020.
7. The Paris agreement should include strict transparency, effectiveness and evaluation principles **to guide and safeguard delivery of climate finance**, both public and private, disbursed, leveraged or received through all climate finance channels and intermediaries.