

# Climate Finance: Issues and Opportunities

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# Framing Questions

- What level of funding is necessary to address climate mitigation and adaptation at scale?
- Sources of funding revenue?
- How is funding governed and distributed?
- What funding is “new & additional”?
- Should funding be loans? grants? a blend of different lending mechanism?
- Is the funding predictable over the long-term?
- What is “politically feasible”?

# Climate Finance

- Climate Finance: The channeling of public resources towards developing countries (for mitigation & adaptation) through frameworks and mechanisms that are equitable, leverage private sector capital, and in line with national development goals.
- Challenge: Designing systems where global public finance crowds in private finance and IFIs are held accountable to global agreements and norms.

# Copenhagen Outcomes

- Progress in AWG-LCA on action on the provision of financial resources and investment. LCA Contact Group focus on governance arrangements and functions of Copenhagen Fund.
- Progress on REDD+ but no targets or clear mechanism.
- Technology Transfer heavily bracketed on IP and financing mechanisms.

# Copenhagen Accord & Finance

- *Noted* by the CoP
- Fast-Start Funds. \$30 billion in 2010-2012
- Goal of \$100 billion annually by 2020
- Wide Variety of Sources: bilateral, multilateral, public and private, alternative sources
- Copenhagen Green Climate Fund-operating entity of the financial mechanism
- High Level Panel under guidance of the CoP
- Addresses Mitigation, Adaptation, REDD+, Tech Transfer

# Illustrative Climate Finance Efforts

- Variety of Mechanisms
  - **Fast-Start Pledges** via Copenhagen Accord (primarily ODA)
  - **Kyoto Protocol “Flexibility Mechanisms”**- \$18 billion in direct carbon revenues to developing countries by 2012.
  - **Adaptation Fund**- 2% levy on CERs.
  - **Regional Funds**: E.G. Brazil Amazon Fund via BNDES
  - **Export Credit Agencies**: E.G. US Ex-Im \$250 million renewable energy facility.
  - **World Bank Group**: E.G. FCPF, CIFs
  - **Cap-and-Trade**- potential revenues allocated to international mitigation & adaptation.

# Challenge of Existing Commitments

- “New & Additional”?
- Crowding the ODA space (development, health, MDGs)
- Dispersion of funding mechanisms with different levels of accountability and transparency

# NGO Proposals: Governance & Revenues

- **South Centre, Third World Network, Climate Action Network, Several Others!**
- **Consensus:**
  - New, multilateral funds
  - Equitable, balanced representation
  - Legal control by the CoP
  - Direct Access
- **Issues for Discussion:**
  - Role of carbon markets and other sources of “conventional” funding
  - Role of Multilateral Development Banks
  - Grants vs. Loans
  - Alternative Sources of Revenue: E.G., IMF Special Drawing Rights, Financial Transaction Taxes, Inefficient Fossil Fuel Subsidies.

# Burden Sharing/Ecological Debt Concepts

- Greenhouse Gas Development Rights Framework (GDR)
  - *“A climate framework designed to support an emergency climate stabilization program, while at the same time, preserving the rights of all people to a dignified level of sustainable human development free of privations of property.”*- Stockholm Institute et al
  - Carbon constrained growth will exceed 2 degrees C, thus pathway to decarbonized world.
  - Burden-Sharing Framework- “Responsibility-Capacity Index” to assess climate burden (funds for contribution) above development threshold.
  - “Fair Shares” from affluent and consuming classes.
  - Climate Agreement via CoP

# Burden Sharing/Ecological Debt Concepts

- Climate Debt

- “Justice and equity must be at the heart of any agreement at the Copenhagen climate talks. An unfair climate change deal could be as great a threat to lives and livelihoods in poor and vulnerable communities as failing to deal with it at all.”- Christian Aid
- Developed countries repay emission, adaptation debt.
  - AAUs into future would be negative, thus requiring carbon neutral/negative commitments.
- Developed countries pay “full incremental costs” of financing and tech transfer.
- Upcoming Bolivia Conference April 19-22, CoP.

# Financial Reform & Levies

- Special Drawing Rights & the IMF
  - *"SDR-derived funds can be applied to critical financing needs for developing and low-income countries, including development, climate finance and effective measures to counterbalance impacts of the global economic & financial crisis."*-Action Aid & Third World Network
  - G20 Mandate to the IMF
  - SDR is an international reserve asset based on four currencies (dollar, yen, euro pound). Official currency of IMF. Used to boost global liquidity during financial crisis.
  - General Allocation/Special Allocation
  - Green Fund with SDR proposed by IMF in Davos 2010 (loans)
  - Soros proposed SDR Fund in Copenhagen (grants)

# Financial Reform & Levies

- Financial Transaction Taxes (FTT)
  - *"Calculations based on 2000 trading volumes showed that a set of scaled transaction taxes on transfer of stock and other financial assets could raise more than \$100 billion a year..."*- Center for Economic & Policy Research.
  - G20 Mandate to IMF
  - U.S. Legislative Proposals, H.R. 4191, Rep. DeFazio (D-OR)
  - U.S. Treasury Department "not prepared to support" at G20, but signals recently from President Obama on domestic taxation.
  - Solid European support- UK, France, Germany, Belgium, Austria.
  - Tension on domestic versus international use of revenue
  - UK Robin Hood Campaign in UK, ATTAC in EU

# Financial Reform & Levies

- International Aviation & Shipping Levies
  - *"A market-based mechanism that could be implemented through the UNFCCC or ICAO/IMO that would allow global aviation and maritime emissions to be addressed through a single cap, which would avoid competitiveness concerns by ensuring a level regulatory playing field."*- WWF International
  - Tabled by the EU at the UNFCCC. Norway has similar proposal.
  - Some industry support via Aviation Group
  - Brings previously uncapped sectors into the ghg reduction process, yet comes with significant compliance challenges and resistance in political resistance in difficult economic times.

# Financial Reform & Levies

- Redirecting/Reforming Fossil Fuel Subsidies
  - *"Globally, subsidies to fossil fuels may be on the order of US\$500 billion per year, of which about US\$100 billion is provided to producers. Nobody knows the real number; however, because there is no international framework for regularly monitoring fossil fuel subsidies."*- IISD
  - G20 & APEC agreements to phase-out "inefficient" fossil fuel subsidies.
  - OECD, IEA, World Bank and OPEC developing framework pursuant to G20 mandate. Need for transparency and methodology in reporting.
  - Efforts to include IFI & ECA financing in larger debate are ongoing by international NGO networks.
  - Process of technically shifting these subsidies to climate finance is a challenge but strong organizing tool.

# Carbon Markets as Sources of Revenue

- Carbon-Market Based Levies
  - Applying a levy to the Kyoto-style flexibility mechanisms.
  - Currently there is a 2% transaction tax on all CERs under the CDM, transferred to the Adaptation Fund.
  - Value of funds will fluctuate with the price of carbon.
  - Unclear post-2012 commitments/AAUs and carbon markets

# Carbon Markets as Sources of Revenue

- Assessed Amounts
  - Parties contribute to international climate finance based on agreed upon formula/principles of equity, “common but differentiated responsibilities,” respective capabilities, polluter pays, current and/or historical emission levels.
  - Metrics and politics will vary greatly depending upon the Party position in such negotiation of formula.
  - “Domestic Revenue” challenge via appropriations, domestic politics

# Carbon Markets as Sources of Revenue

- Allowances via Domestic Legislation
  - A percentage of revenue from allowances/auction revenues in domestically-based cap-and-trade law are set-aside for international climate finance.
  - If successful, provides a steady stream of consistent and reliable funding.
  - Uncertainty of cap-and-trade policy going forward particularly in the U.S. broadly and scale of revenue.
  - Challenge to tie these revenues to an international agreement.

# Summary of Key Issues

- Variety and dramatic range of proposals on scale of funds. Key question is which proposals are politically feasible??
- In near-term ODA will be most likely source of climate finance.
- Financial crisis is both a challenge and an opportunity
- G20 processes provide political momentum for alternative funding sources.
- Governance of a multilateral Green Fund making progress.
- Dispersion of alternative funds likely.
- “Inside vs. outside of the CoP” issue will create tension in 2010.
- Role of carbon markets and broader private sector capital remains illusive and uncertain.
- Lots of needs and limited resources.
- Inside the CoP strategy has limitations for climate finance. Need to build new alliances and tie to financial reform opportunities.

# Suggested Next Steps: 2010

- **Ensure Integrity of “Fast Start Funds.”**
  - Definitions (e.g. “New & Additional”)
  - Role of UNFCCC
  - Engagement with variety of funding mechanisms
  - International reporting on initiatives
- **Maximize Opportunities within G20 Process**
  - **cross-network collaboration: climate, financial crisis, IFIs. Bring these pieces of work together towards a set of alternative sources of climate finance.**

# Suggested Next Steps: 2010

- **Set 2010 Goal: Multilateral Green Fund within CoP as a priority.**
  - **However, recognize and prepare for other scenarios:**
    - 1. Dispersion of Funds and/or**
    - 2. Negotiations outside CoP.**
- **Engage Multilateral Development Bank CF Funds with a view to accountability and governance concerns for climate finance.**
  - **Climate and IFI Bretton Woods campaigning**
  - **Parliamentarians, Finance Ministries, UNFCCC, G20, Direct Engagement**