Scoping Memorandum
Climate Finance 2010: Issues and Opportunities
Prepared for the Charles Stewart Mott Foundation, Rockefeller Brothers Fund, and World Resources Institute

"The system of international finance to address climate change needs to be better coordinated, predictable and of sufficient scale and scope to meet future financing delivery needs. An effective institutional framework will be essential in building confidence and delivering the necessary scale of finance in a durable way."-Joint Proposal of UK/Mexico/Norway/Australia, 2009.

"We are not here to bask in the glory of our high moral standards and pristine principles. We are not here to preach or to grandstand. We are here to negotiate, to give and take and seal a fair deal however messy such a deal might be." -Ethiopian Prime Minister Zenawi, Copenhagen 2009.

"The time for talk is over, this is the bottom line: We can embrace this accord, take a substantial step forward. We can do that and everyone who is in this room will be part of an historic endeavor or we can choose delay. We will back here making the same stale arguments, year after year, perhaps decade after decade, all until the danger of climate change grows until it is irreversible." -U.S. President Barak Obama, Copenhagen 2009.

"The issue is not only money. Some people think only funds or money would solve the problems. It did not solve the problems, it will not solve the problems of the present and will not solve the problems of the future." - Brazilian President Luiz Inacio Lula da Silva, Copenhagen 2009.

These diverse statements demonstrate the challenge of post-Copenhagen climate change policy generally and climate finance specifically. Climate finance is the channeling of public resources towards developing countries through frameworks and mechanisms that are equitable, leverage private sector capital and are in line with national development goals. In Copenhagen, all the rhetoric did not translate into a specific and binding agreement to mitigate climate change or provide climate finance at scale. Promises of climate finance to meet international burden sharing obligations were addressed in the Copenhagen Accord, but the way forward to achieving those or other goals remains uncertain.

No matter what ones opinion is of the variety of Copenhagen outcomes, the challenges for channeling finance at scale to developing country mitigation and adaptation efforts will require a positive and forward-looking agenda in 2010 and beyond. At the same time, the financial crisis puts serious constraints on the feasibility of channeling public funds towards international climate finance. Climate focused NGOs will need to construct new narratives on the need for climate finance and pursue alternative funding sources and unique political alliances rather than simply relying on more routine sources of appropriated money to achieve at-scale goals. ODA will provide some fast-start funds but is a limited and unreliable source of climate finance over the medium and long-term.

The purpose of this memo is to synthesize some of the key issues related to climate change finance and the diversity of policy goals within this space that various key stakeholders are advancing. There is no doubt that public finance that leverages even larger shares of private capital is a political, economic and scientific necessity in order to address climate change challenges at scale. However, the route to achieving that scale comes with a diverse set of viewpoints, and achieving consensus and moving forward enjoys little time for further debate. *A particular challenge is designing a system where global public finance crowds in private finance* <u>and</u> *where international financial institutions are held accountable to global agreements and norms of climate finance.* A global plan of action requires immediate forward movement and would benefit greatly from cohesive, coordinated advocacy positions from civil society actors around the globe.

This memorandum will begin to outline a pathway forward on international climate finance. Key questions include:

1. What level of public funding is necessary to mitigate and adapt to climate change at scale?
2. What levels of funding are currently proposed by governments and what is a feasible path forward to increase those funding sources to scale?
3. What would a proper governance framework look like to ensure prudent deployment of capital that meets the dual criteria of accountability for donors and meaningful outcomes?
4. What role can civil society play in the aftermath of Copenhagen to advance politically feasible, equitable and positive outcomes for climate finance?

Section I of the memo will review the key climate finance provisions in the Copenhagen Outcomes – or the current state of play. This includes a brief note on climate finance in the negotiating text, and provisions of the Copenhagen Accord. Section II reviews some of the leading estimates on the scale of climate finance required, irrespective of the Copenhagen Accord. Section III provides illustrative examples/a synthesis of leading climate finance commitments to date. Section IV synthesizes some of the key country submissions on climate finance in the lead-up to Copenhagen that remain relevant going forward with respect to sources of revenue and governance structures of funding mechanisms.

Section V reviews some key NGO proposals on CF in the lead-up to Copenhagen that remain relevant for consideration. Section VI provides an overview of a variety of potential sources of revenue and provides insight into the processes for determining the availability of these sources for climate finance. Special attention is paid to Special Drawing Rights via the International Monetary Fund, Financial Transactions Taxes, and fossil fuel subsidy phase outs--three potentially at-scale sources of revenue that have received minimal prioritization to date from climate change focused NGOs yet are under consideration at the G20. Section VII attempts to provide a summary of key issues and provides a set of strategic findings for consideration. Finally, the document provides suggested next steps on how to move forward based on political feasibility and scale of funds criteria.

I. **Copenhagen Outcomes**

1. Negotiations to enhance ***action on the provision of financial resources and investment*** remained heavily bracketed within the AWG-LCA work coming out of Copenhagen. Much work remains ahead in the context of the scale of finance required and the associated institutional arrangements necessary to ensure funds are properly channeled. While there was significant progress at the LCA contact group on finance on the governance arrangements (creation of a Finance Board accountable to and under the guidance of the CoP with balanced representation) and detailed outline of the functions of the proposed Copenhagen Fund; and finally a clear guidance to the existing financial mechanism – the GEF – the Copenhagen Accord did not capture any of these detailed elements. It remains unclear how the accord took into account the proposed G77 finance and governance text as well as the joint proposal discussed by UK, Norway, Mexico and Australia.

2. Discussions on ***REDD+*** at the international level have progressed in the past few years, and steps forward were made in the SBSTA and AWG-LCA at Copenhagen, but there were no UNFCCC decisions providing specific details on the structure of such a mechanism. There are also no hard targets in the final text. The various options on the table throughout the negotiations were: a target to reduce deforestation by 50 per cent by 2020, reduce by 25 per cent from current levels by 2015, or halt deforestation altogether by 2030. The Copenhagen Accord provisions, however, do include REDD+ as part of the finance equation through a multilateral green fund.

3. Little progress was made on issues of ***technology transfer*** in Copenhagen. A number of brackets appeared in the text especially with respect to IP rights and the financing mechanisms. The draft high-level text contained proposals for a Finance Board, a Finance Fund, or a Finance Facility, and possibility of reform of the GEF. Copenhagen Accord provisions, however, include technology transfer activities as eligible for multilateral green funds. The Accord also calls for the establishment of a “Technology Mechanism.”

4. ***Copenhagen Accord and finance***. Several key measures were agreed upon under the Accord. Some of these actions may take place pursuant to the CoP while it is equally possible that Parties will pursue these goals outside of the CoP if it is more efficient to do so in their judgment.

- New and additional resources from developed countries approaching USD 30 billion for period 2010-2012. Balanced allocations between adaptation and mitigation.
- 2010-2012 adaptation funding prioritized for most vulnerable developing countries.
- By 2020 developed country goal of mobilizing USD 100 billion a year for mitigation.
- 2020 finance funds from “wide variety of sources”: public, private, bilateral, multilateral, and “alternative sources.”
- New multilateral funding for adaptation through “effective and efficient arrangements with governance structure providing for equal representation of developed and developing countries.”
- A significant portion of such funding should flow through a yet to be established Copenhagen Green Climate Fund.
- Creation of a High Level Panel under guidance of the COP to identify potential revenue sources.

- Copenhagen Green Climate Fund established as an operating entity of the financial mechanism of the Convention.

II. **The Scale of Finance Required**

5. There is no agreed upon figure for public climate finance to developing countries needed for addressing climate change challenges at scale. In the lead up to Copenhagen a wide variety of numbers were put on the table by various stakeholders. Each of these numbers comes with its own set of metrics and politics. While the Copenhagen Accord provides a figure of $100 billion annually by 2020 from "public and private" sources, the figures below remain good faith estimates from various stakeholders. There is consensus that the scale of the finance required is not in proportion to the money currently available.

6. The 2009 World Economic Forum's Low Carbon Task Force notes that figures vary , but developing countries will require billions of dollars of investment in the coming 10-15 years. The Task Force also recommends establishment of different multilateral and regional funds to channel this capital and leverage the private sector. These public international institution models suggest a level of required governance for harnessing private sector capital appropriately in light of the current global economic crisis. After providing these public mechanism models, the Task Force notes that:

> **"By far the largest potential source of long-term private investment is institutional investors, such as public and private pension funds, insurance companies, sovereign wealth funds, endowments and private banks. Most institutional investors invest in funds managed by private investment management firms. This allows them to access a wide variety of investible projects in markets far from their centre of operations, exercise effective governance, achieve targeted "exit" returns and, most importantly, diversify their risk. There is growing interest among such investors in low-carbon infrastructure in developing countries, but the volume of investment by them remains low because of the considerable risks and uncertainties involved and the related fact that few large, diversified funds exist for this purpose."**

7. The Climate Action Network has identified a public finance need of around $100 billion dollars a year at 2020 for mitigation action. This includes approximately $35 billion a year to support REDD plus activities, $50 billion a year to support low carbon technologies, $5 billion a year for agriculture, and $10 billion for technology research and development.

8. The **UNFCCC** estimates that total climate finance will need to reach somewhere in the range of .3 to .5 % of global gross domestic product annually by 2030. These same estimates assume 86% of climate finance will need to come from the private sector. Prior to Copenhagen, Yvo De Boer of the *UNFCCC called for $180-$250 billion per year by 2020* citing projections of the International Energy Agency.

9. The ***Copenhagen Protocol***, a consensus NGO document including viewpoints of WWF, Greenpeace and the Natural Resources Defense Council calls for at least *$160 billion annually*.

10. The **G77 and China** calls for a contribution of 0.5% of GNP by developed countries, totaling between *$150 to $300* billion dollars a year.

11. ***Project Catalyst***, a McKenzie led study group on climate policy, estimates a range of *$40 billion to $130 billion per year* from 2010-2020 to stay on a 450ppm pathway and 17 Gt of carbon abatement by 2020, depending upon a variety of factors including the level of ambition in industrialized country mid-term abatement targets.

12. The ***South Centre*** indicates $250 billion annually is necessary by 2030.

13. The ***European Commission*** estimates $118 billion annually by 2020, with $94 billion earmarked towards mitigation.

14. The ***2009 World Development Report (World Bank)*** estimates $170 billion to $765 billion (Key message median figure is $475 billion). This figure includes anticipated private sector investment leveraged by public investment. Thus the public climate finance element is actually a range of $128 billion to $574 annually by 2030.

15. The **African Union** estimates at least $267 billion annually in climate finance is needed by 2020.

16. The **International Energy Agency** indicates it will cost $45 trillion to halve GHG emissions by 2050.

17. The UN **Department of Economic and Social Affairs** indicates that a review of available estimates of mitigation and adaptation costs suggests that additional annual total investments in developing countries could be upwards of one trillion dollars per year by 2030.

III. **Synthesis of Existing Government Commitments on Climate Finance**

18. A variety of existing and proposed funding mechanisms and related commitments for climate finance have emerged. The approaches include a variety of different bases for calculation and a range of institutions with different levels of accountability, transparency and capacity on issues related to climate finance. These institutions also represent a diversity of governance structures in terms of decision-making for disbursement and oversight of funds. Below are illustrative examples, not a complete set of commitments.

19. Existing commitments internationally and proposed legislation at the domestic level don't come close to the goal of $100 billion annually (public and private) reflected in the Copenhagen Accord let alone the broader range of estimates on climate finance noted above. The UNDESA finding, for example, states that a figure of up $1 trillion of public and private funding annually by 2030 is necessary for mitigation and adaptation efforts. The $100 billion figure could however be adequate to meet Project Catalyst figures noted above, depending upon levels of ambition for domestic reduction put into law, yet those levels of ambition appear weak.

20. Fast-Start Pledges Under the Copenhagen Accord. The Accord calls for approximately $30 billion to developing countries from 2010-2012. Governance and methods of disbursement of such funds are not noted in the Accord. Approximately $27 billion is already anticipated through contributions from the U.S., European Union, Japan and Norway. However, whether these funds line up with definitions of "new & additional" remains to be seen. Without a specific governance structure in place, donors are likely to opt for the use of bilateral agreements and Multilateral Development Bank funds as the mechanisms for Fast-Start activities.

21. The most significant resources for climate finance to date are the **market-based mechanisms of the Kyoto Protocol**. These funding sources create revenue for mitigation investment in developing countries as a result of developed nations' need to comply with Kyoto ghg reduction commitments. By 2012, the World Resources Institute (WRI) estimates approximately $18 billion in direct carbon revenues for developing countries will result from the Clean Development Mechanism (CDM) for 1.5 billion tons of Co2 reduction. Nonetheless, the CDM and other flexibility mechanisms are not operating at a scale or level of environmental integrity sufficient to address climate mitigation requirements and the next commitment period of Kyoto is in flux. Whether the downward price of carbon in the wake of Copenhagen is a short-term reaction or long-term reality remains to be seen.

22. **Official Development Assistance (ODA)** for mitigation and sustainable energy investment totaled approximately $99 billion from 2002-2008. Redirection of additional ODA from other international development goals, while contentious policy, may be one path countries will take going forward.

23. **Adaptation Fund of the Kyoto Protocol.** The Adaptation Fund was established by the Parties to the Kyoto Protocol with a view to financing adaptation projects and programs in developing countries. The Fund is financed with a 2% levy of the Certified Emission Reduction (CERs) issued for projects of the Clean Development Mechanism (CDM) and with funds from other sources. The governance structure of the fund requires 2 representatives from each of the 5 UN Regional Groups, 1 representatives from small-island states, 1 representative from Least Developed Countries (LDC), 2 additional Annex I representatives and 2 additional non-Annex I representatives. The Adaptation Fund Board was asked by the COP to develop modalities for countries to access financial resources from the Fund directly without having to involve Multilateral Implementing Entities (MIE).

24. **BNDES and Brazil's Amazon Fund**. BNDES is the largest public financing entity for energy and infrastructure in the world. Brazil launched this international fund in August of 2008. The fund seeks to raise $21 billion over 13 years to finance conservation and sustainable development in the Amazon. The Amazon Fund will support forest conservation through scientific research and sustainable development projects such as rubber tapping, forestry management and the creation of drugs from plants. To date, Norway has made the largest public finance commitment at $1 billion. BNDES will be in charge of independent audits to verify accurate resource allocation.

BNDES itself does not contribute to the Amazon Fund and finances projects that are criticized for deforestation of the Amazon at dollar levels well above the fund. BNDES is also becoming a major player in African energy investments. However, BNDES will manage the fund and control donations, issuing certificates for contributions. Certificates are non-transferable and will not imply equity rights or carbon credits to offset mitigation obligations. Regional development banks such as BNDES can be expected to play an increasing role in managing or contributing to climate finance.

25. **Export-Import Bank of the United States (Ex-Im).** Ex-Im's 2009 "Carbon Policy" includes a new $250 Million Renewable Energy Export Facility. The fund will support pre-export working capital, short-term finance, export credits and longer-term loan guarantees. As part of the policy, Ex-Im Bank also committed to advocate in the Organization for Economic Cooperation and Development (OECD) for the creation of financing incentives for low to zero CO2-emitting projects, a common methodology for evaluating and taking into account the social cost of carbon, and disincentives for high intensity fossil fuel projects.

26. **Multilateral & Regional Development Banks: Climate Investment Funds (CIFs)**. There are several donors providing a total of $6.1 billion to the CIFs. There are two key funds: the Clean Technology Fund and the Strategic Climate Fund. The fund governance structure seeks balanced and equitable representation on the Trust Fund Committees that make financing decisions. The CIFs included a "sunset clause" to avoid getting out ahead of the UNFCCC and COP processes. The funds offer multiple financial instruments/windows including concessional loans, guarantees and grants.

27.   **World Bank Group: Forest Carbon Partnership Facility (FCPF).** The World Bank acts as trustee and staff to the fund designed to support country readiness efforts (Readiness Fund) with a view to graduating to eligibility for a carbon finance mechanism (Carbon Fund). $107 million has been contributed by 11 donor countries to the Readiness Fund with a goal of $185 million. The target for the Carbon Fund is US$200 million. Both national and sub-national programs are allowed as this is the sovereign decision of a given country according to the FCPF. The governance structure of the FCPF is comprised of the Participants Assembly, a Participants Committee (PC), six Observers, and a Facility Management Team (FMT) embedded at the World Bank.

28. **U.S. Emerging Climate Legislation**: While certainly not commitments at this stage, it is worth noting the financing approach that is taking shape in proposed U.S. legislation. Both the House of Representative ("Waxman-Markey") legislation and the still emerging Senate provisions ("Kerry-Boxer") bill seek to ***set-aside a targeted amount of allowances*** for international climate finance that can be either bilateral or multilateral in nature. The three program areas where will these funds are directed are: 1. Emissions Reductions for Reduced Deforestation, 2. International Clean Energy Deployment and 3. International Climate Adaptation/Global Security Program. There is a stated preference for accountable multilateral organizations or bilateral approaches. In addition, both pieces of legislation envision international offsets (project and sectoral-based) providing an additional source of funding to developing countries. As this legislative package is still emerging, it remains to be seen the level of allowances, if any, provided and what levels of projected funding can be projected. ***Other climate legislation under deliberation in the Senate is unclear on international climate finance as it is in earlier stages of development.***

IV. **Synthesis of some Key Submissions Re: Climate Finance**

As significant uncertainty remains with respect to the governance structure and sources of funds for climate finance going forward and much work remains on these issues within the CoP (and potentially outside of the CoP), it is worth reviewing a sampling of key submissions on the topic by Parties in the lead up to Copenhagen.

29. **Joint Proposal of UK, Mexico, Norway & Australia**

1. Operating Entity: Fast-Start should use existing mechanisms. Longer-term financing should go through a multilateral green fund, but all finance (bilateral and multilateral) needs to be included and counted.
2. Governance: Green Fund needs High Level Board *under the policy guidance of, and accountable* to CoP. Equal representation and equitable/transparent governance. Existing international institution with funding through institutions identified by developing countries.
3. Other Key Issues:
    i. All countries (except LDCs) contribute *over time*.
    ii. Loosely recognizes the variety of methodologies for country contributions, does give special recognition to: a) Norwegian proposal that aims to draw finance from national and international auctions of emissions permits and b) revenues from international aviation and shipping.
    iii. No matter the scope or structure of funds, they should be led by developing country policy commitments and planning (including MRV).
    iv. Link to carbon markets and private sector is crucial.

30. **United States Submission**

1. Operating Entity: Multilateral Fund operating under the Convention
2. Governance: Transparent and balanced representation between net contributors and net recipients. Operates with an existing multilateral institution as trustee.
3. Other Key Issues:
    i. All countries (except LDCs) contribute to funding.
    ii. Funding contributions can be conditioned by donors to specific thematic sectors.
    iii. Formal indications of level and source of expected contributions required.
    iv. Smaller role for Global Environment Facility, e.g. capacity for national communications only.

31. **Mexico Green Fund Proposal**

1. Operating Entity: Multilateral Fund operating under "aegis" of the Convention.
2. Governance: Equal representation between developed and developing countries on implementing Executive Council. Existing multilateral institution administers the fund.

3. Other Key Issues:
   i. All countries contribute to funding in proportion to GHG emissions, Gross Domestic Product and population (Assessed Contribution formula)
   ii. Multiple financing windows
   iii. Developing countries receive majority of climate finance
   iv. No more than 15% of funding to any one country.

32. **G-77 and China "Enhanced Financial Mechanism" Proposal**

1. Operating Entity: Multilateral fund under the "authority and guidance and fully accountable to" the COP underpinned by the principle of equity and common but differentiated responsibilities;
2. Governance: equitable and geographically-balanced representation of all Parties within a transparent and efficient system
3. Other Key Issues:
   i. Must enable direct access to funding by recipients countries.\
   ii. Must ensure recipient country involvement during all stages of identification, definition and implementation, "rendering it truly demand driven."
   iii. Developed countries contribute 0.5 to 1% of GNP.

33**. European Union "Stepping Up Climate Finance" Proposal**

1. Operating Entity: new *High-level Forum on International Climate Finance* should monitor and regularly review gaps and imbalances in financing mitigation and adaptation actions.
2. Governance: "Decentralized and bottom-up" approach
3. Other Key Issues:
   i. Must adhere to standards for aid effectiveness
   ii. MRV for actions for both donors and recipients
   iii. Domestic Finance (public and private), Carbon Markets (reformed CDM, sectoral crediting) International Public Finance key funding sources.
   iv. Considering both bilateral and multilateral mechanism approaches.

34. As we head into 2010, it is a clear consensus that new, scaled-up public climate finance mechanisms that leverage private sector capital will remain a core point of future deliberations. To the extent new multilateral funds are created there is a general understanding they should be accountable to the COP. There is also general agreement that both donors and recipient countries must become accountable, consistent, thoughtful and transparent in their contributions and actions (MRV) for climate finance to be successful.

35. There is general consensus on the need for country driven plans, but developed countries tend to prefer clear and accountable indicators as a condition of providing funds and trust existing multilateral institutions to ensure that process with ***guidance*** from the COP. Developing countries see a role for existing multilaterals but prefer ***"direct access"*** through national implementing agencies all under the **authority** of the COP. The key issue going forward is on what terms can "direct access**"** under the authority and/or guidance of the COP occur that holds

all Parties accountable for their actions; and how will existing institutions engage in that structure. The second related matter of contention is defining the legal terms for which institutions will ultimately control the purse strings and related issues of conditionality and efficiency.

36. These principles for a new multilateral fund remain intact post-Copenhagen; however there will be some effort to achieve similar goals outside of the CoP if these processes continue to bog down in disagreement.

V. **Key NGO Proposals on Climate Finance: Governance & Revenue Sources**

This section reviews some key international networks in the lead-up to Copenhagen that will require reflection and evolution in 2010.

37. The **South Centre** (SC) seeks a consistent and coherent financing mechanism under the guidance and control of the COP. SC provides the most detailed proposal from the NGO perspective. SC proposes a multilateral Climate Change Fund (CCF) with the COP as the operating entity. The CCF requires an "equitable and balanced" representation of the Parties (similar to the Adaptation Fund) and full transparency of operations. Direct access to finance is supported.

In practical terms, this governance structure requires: 2 representatives from each of the 5 UN Regional Groups, 1 representatives from small-island states, 1 representative from Least Developed Countries (LDC), 2 additional Annex I representatives and 2 additional non-Annex I representatives. Additionally Secretariat staff and Financial Trustee institutions should be selected through an open and competitive bidding process.

SC seeks a flexible approach to financial contributions including:

- Mandatory assessed contributions from developed countries
- Other sources as consistent with Article 11.5 of the Convention, but as flexible as possible with respect to sources on a voluntary basis.
- ODA funding is qualified as a limited percentage of contributions, but all funding must be "new and additional."
- Market-based activities and mechanisms could also contribute.

SC advocates that financing should go towards:

- Developing country "commitments."
- Grants and concessional loans only.
- The CCF must be replenished every 3 years based on assessment of scale of required contributions.

38. **Third World Network** (TWN) proposes the establishment of a multilateral financial structure (MFS) for Climate Change, to be located within the UNFCCC, under the authority and guidance of the COP. Governance requires that the MFS is operated by an Executive Committee reflecting "equitable and balanced representation of all Parties within a transparent system of

governance." This will include a small secretariat staff and a trustee with funding administered by a trustee (e.g. commercial bank) selected through an open process of bidding and serving under the direct guidance of the Executive Committee and COP. The MFS would be the "focus of all activities" conducted with respect to other bilateral, regional and multilateral funding sources. A technical expert group would define eligible activities for "full incremental costs." TWN provides a flexible menu of potential sources of funding: including bilateral funding and *auction of* emission permits of Annex I countries, "in-ratio" of UN contributions or other methods agreed upon by the COP. Companies, banks and other private institution funding sources are acceptable. All funding must be additional to ODA. TWN seeks to relegate the GEF to a role of national communications funding support only. Key to the TWN position is that there are no conditionalities or performance indicators such as World Bank practices. Direct access to finance is supported.

39. **Climate Action Network** (CAN) seeks a multilateral fund with "representative and equitable governance" based on the model of the Adaptation Fund. Formal representation by civil society is an additional requirement. The vast majority of public climate funding must flow through a consolidated fund under the "authority of and fully accountable to the COP." The fund must include environmental and social safeguards as conditions of disbursement. It should be noted that there is significant overlap between CAN members and organizations represented in the Copenhagen Treaty process.
CAN suggests four primary sources of funding:

- Levies of international aviation and maritime sectors: either on passengers or fuel, OR, through emissions trading schemes with 100% of the allowances auctioned.
- Norway proposal: a portion of international emissions allowances (AAUs) allocated to each developing country be set aside/auctioned rather than being assigned to countries.
- Additional National Contributions: from developed countries based upon "responsibility and capability."
- Redirecting fossil fuel subsidies is cited as another option.

40. **Taken together, all of these NGO positions seek a new, multilateral fund that is under the COP's guidance**. Some level of legal control by the COP appears to be a priority issue from a broad cross-section of NGO interests, although this issue is more well-defined by some than others. Likewise, all seek equitable and balanced representation in fund governance structures from a developing-developed country perspective. It remains to be seen if these positions evolve to reflect new post-Copenhagen realities.

41. The extent to which existing multilateral institutions can be involved remains an area of concern, with some organizations taking harder lines on limiting these roles, whereas some view this issue as part of leverage in negotiations with a view to priorities of good governance structures and direct access to funding. Most organizations represented above acknowledge the possibility of carbon market oriented systems as a significant revenue source albeit with varying levels of priority and trust. There does appear to be broad consensus on 1) international levies on transport sectors and 2) redirecting fossil fuels subsidies towards climate finance.

42. Climate focused NGOs have an opportunity to build on the political momentum enjoyed by the following three issues:

A. Special Drawing Rights
B. Financial Transaction Taxes and
C. Re-Directing Inefficient Fossil Fuel Subsidies

VI. **Policy Processes and Potential Revenue Sources**

A. Burden Sharing/Ecological Debt Concepts

43. **Greenhouse Development Rights Framework (GDRs)**
"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 poverty."- Sivan Kartha, Stockholm Institute et al.

- Carbon constrained growth will exceed 2 degrees Celsius, thus pathways to a rapidly decarbonized world need to be pursued.

- Imperative to find a climate regime that can bring global emissions rapidly under control that also allows developing world to scale-up energy services to fight poverty and ensure basic human development.

- Operationalizing a GDRs burden-sharing framework.
  1. Start with recognizing the UNFCCC commitment to "protect the climate system…on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities."
  2. Codify the right to development as a "development threshold"-a level of welfare below which people are not expected to share the costs of the climate transition. Set this threshold modestly higher than a global poverty line per person.
  3. Establish a ***"Responsibility-Capacity Index."*** Calculation of the fraction of global climate burden above the development threshold. This calculation is done for all Parties to the UNFCCC, based on country-specific income, income distribution, and emissions data.

- GDR stresses the need for a system in which its not "the North" but rather the affluent and consuming classes globally that bear the burden of the climate transition. GDR is an effort to specify "fair shares" in a manner that acknowledges and respects a meaningful right to development.

- Formula approach puts numbers on the table that high and middle income countries must provide to a global solution.

44. **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

Climate Debt should be understood as more than a campaign proposal, but rather an alternative political framework and metrics set. Under this framework, developed countries have used a disproportionate amount of the world's common resources: mainly the finite capacity for the earth's atmosphere to absorb manmade carbon dioxide emissions, thus creating an ecological debt. There is a direct correlation between industrialization and carbon emissions. 75% of the historical carbon emissions have been produced by only 20% of the world's population. Basic goals of this concept:

- At a minimum a UNFCCC agreement should have the following elements:
  1. Developed countries repay the full measure of their adaptation debt to developing countries and communities via financing and technology for compensation and future losses.
  2. Developed countries must repay the full measure of their emission debt to developing countries and communities. Assigned amounts for future years would therefore be negative thus requiring developed country commitments to be carbon neutral and carbon positive. This acknowledges the full historical emissions as a baseline.
  3. Developed countries must provide the financing and technology required by developing countries to deal with a hostile climate and restricted atmospheric space. This requires honoring obligations to provide "full incremental costs."

- The First World Conference of the People on Climate Change and the Rights of Mother Earth will be held in the Bolivian city of Cochabamba from April 19 to 22, 2010. This venue provides an opportunity to advance the above concepts with a view to building up analysis, understanding and political space in future UNFCCC negotiations or other venues.

B. Financial Reform and Levies/Taxes

45. Special Drawing Rights and the International Monetary Fund (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 counter the impacts of the global economic and financial crisis. Creative use of SDRs could complement measures such as the proposed financial transaction tax and levies on bunker fuels and aviation to raise the sums urgently needed. With international co-operation, SDRs could potentially mobilize more resources than other proposals for new forms of financing." - Fruits of the Crisis, Action Aid International & Third World Network, 2010.

- G20 as focal point for campaign outcomes (April Finance Ministers Meeting in Washington). "*We look forward to discussion at our next meeting the IMF's review of* *options on how the financial sector could contribute to paying for burdens associated with government interventions to repair the banking system."*

- SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies (dollar, yen, euro, and pound). SDRs can be exchanged for freely usable currencies. It is the official currency of the IMF. A potential claim on freely usable currencies of IMF members as a supplementary asset reserve.

- During the financial crisis of 2008-2009, IMF member countries issued $250 billion of SDRs to boost global liquidity when foreign exchange reserves were depleted. IMF "Green Fund" proposal would require the release of additional SDRs via central banks/finance ministers.

- Davos 2010. IMF Managing Director Dominique Strauss-Kahn proposes "Green Fund" for climate change financing. States funds could reach $100 billion a year in a few years and include a significant SDR component for alternative sources of funds. Fund would use this money to make grants and low-cost loans for low-carbon growth strategies.

- Likely political resistance from several central banks. Economic concern that SDRs create global inflation.

- Two kinds of allocation:
  General allocation of SDRs has only occurred three times. Must be based on a "long-term global need to supplement existing reserve assets." Special allocation of SDR funds occurred in September 2009. Both systems of allocation require approval via the IMF Board of Governors.

- Issues of Concern: Distrust of IMF by some stakeholders in macroeconomic policy. Lack of expertise and capacity within the IMF on low-carbon investment and climate change matters.

- Soros made a similar SDR/Green Fund proposal during UN negotiations in Copenhagen. Soros proposal focused on taking a portion of the 2009 special allocation of SDRs and reorienting towards $100 billion "fast-start" fund with SDR to hard currency conversion backed by IMF gold stocks. This would require US Congressional approval. Soros focused on loans not grants so all low-carbon transactions are paid back with interest.

- Like the FTT process described below, the G20 and the IMF report will be key processes with respect to SDR possibilities.

46. **Financial Transaction Taxes (FTT)**
"Calculations based on 2000 trading volumes showed that a set of scaled transaction taxes, imposed on transfers of stock and other financial assets could raise more than $100 billion a year, even assuming large reductions in trading volume."- The Benefits of a Financial Transactions Tax, Center for Economic & Policy Research. (Dean Baker, December 2008)

- Key challenge: Need to ensure that global and domestic priorities are aligned. "A Parade of Interests." E.G.-Raising money for national versus global priorities. For instance, current U.S. legislation focuses on domestic issues. In the UK global priorities are one focus but tension between health and climate priorities.

- Key challenge: Taxes collected at the national level are difficult to tie to a specific expenditure. Finance Ministries will push hard for revenues to go to a general fund. To the extent progress is made it can be readily undone by subsequent political leadership.

- IMF Consultations Ongoing. 2009 G20 requested that the IMF analyze policy options "for how the financial sector could make a fair and substantial contribution toward paying for any burdens associated with government interventions" to repair the financial system. FTT is under consideration in that context. Consultations have taken place in London and Washington, D.C.

- February 1, 2010 was the deadline for initial comments. A second call for comments will take place after the initial IMF study is published.

- Connecting to UK Robin Hood Campaign. This is a media-oriented campaign being developed by the filmmaker Richard Curtis, focusing on a Robin Hood theme. Although it is a UK-based campaign, there is a desire to produce materials that are useful to groups in other countries. There is a global network that has conference calls at least once a month on the FTT. North American points of contact include Sarah Anderson, IPS and Frazier Reilly-King, Halifax Initiative. In Europe, there is also a campaign coordinated by ATTAC.

- Key proponents of US legislation: Rep. DeFazio (D-OR), Senator Harkin (D-IA). Broader legislatively feasibility remains to be seen. Legislative goals: $150 billion annually, 50% to fund job creation, 50% to pay down budget deficit. Strongly opposed by Financial Markets Association and similar industry lobbyist groups. Strong support from labor groups. H.R. 4191, *Let Wall Street Pay for the Restoration of Main Street Act of 2009* is the title of the bill sponsored by DeFazio.

- Secretary Geithner was "not prepared to support" a FTT based on 2009 statement at the G20. President Obama has endorsed a levy on major financial institutions but that does not necessarily tie revenues to financial sector regulation. Prime Minister Gordon Brown is the leading European advocate for the FTT and has indicated an agreement could be reached by April. France, UK, Germany all in favour. UK movement is crucial. Belgium, Austria also on board.

47. **International Aviation and Shipping Levies**
Concept: Two leading sector-based proposals are the "International Maritime Emissions Reduction Scheme" and the "International Air Passenger Adaptation Levy." Analysis suggests these two proposals, taken together, could contribute a range of $8-10 billion annually. Levy is assessed to individuals, not countries and on an international basis. Other *bunker fuel-based* approaches, for example, are available as well.

- Aviation and shipping together constitute nearly 8% of global emissions and are growing fast: if they continue to grow unchecked, they would represent 50-85% of a 'safe' global carbon budget by 2050.

- *"A market-based mechanism that could be implemented through international bodies such as the UNFCCC or the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO). An international mechanism 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*

- The EU tabled text at UNFCCC calling for IMO and ICAO to develop global sectoral policies by the end of 2011. Norway has a similar proposal specific to shipping.

- Brings previously uncapped Kyoto sectors into the ghg reduction process, yet comes with significant compliance challenges if implemented.

- There is some industry support, e.g. the Aviation Group. Likewise, resistance of some industry and government in context of global economic slowdown to "new taxes" even if collected internationally as opposed to domestically.

48. **Redirecting/Reforming Fossil Fuel Energy Subsidies**
"You can't really say you're committed to the fight against climate change if you're still funding oil and coal. If you're in a hole, stop digging."- Steve Kretzmann, Oil Change International

- Subsidies to fossil fuels work as a "negative tax" on carbon emissions, encouraging carbon-intensive energy production. "*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 Report

• Response by developing country WB EDs to the US position on coal standards for the Bank demonstrates countries are making link between World Bank energy subsidies and climate finance. NGOs should too.

• Measures to protect the poor must be taken into consideration.

• G20 & APEC agreement to phase out "inefficient and wasteful" fossil fuel subsidies already agreed upon demonstrates political feasibility. The question is what to do with saved money. Clarification on definitions of "inefficient" subsidies and broader definition of energy subsidies requires significant work to reach consensus.

• Efforts to phase out IFI and ECA financing of fossil fuels are ongoing by international environment and development networks. Need pressure to ensure their inclusion in G20 process.

• G20 process has started process by OECD, IEA, World Bank and OPEC to agree on which fossil fuel subsidies will be counted and reduced. Need transparency, and framework / methodology for domestic reporting and monitoring.

• Actually shifting national fossil fuel subsidies and specifically redirecting them to international climate funds, poses serious technical/accounting challenges - particularly in context of economic slowdown and budget deficits. This, however, doesn't diminish political utility of concept.

• Subsidy shift campaign creates central targets for international campaigns and opportunities for national level campaigning.

• Strong, powerful resistance to implementation at the national level. Internationally, there is a question of what institution could provide the framework for a substantive international agreement.

C. Carbon Markets as Sources of Revenue

49. **Auction of Emission Allowances ("the Norwegian Proposal").**

- The proposal links financing to Assigned Amount Units (AAUs) as conceived under the Kyoto Protocol in relation quantified emission reduction targets. AAUs would be auctioned at the international level with a view to revenue generation.

- According to the Overseas Development Institute, this process could raise up to $20-30 billion per year based on anticipated prices in the international carbon market.

- If implemented this approach provides a consistent and relatively predictable source of funding at the international level.

- However, value of funds are subject to the fluctuations of the price of carbon in markets (could be overcome with a reserve price). Some developed countries will resist this approach due to economic costs passed on to consumers. Unclear post-2012 governance structure for international commitments and AAUs.

- The Norwegian Proposal would need to be endorsed through the CoP processes and subsequent implementing mechanisms.

50. **Carbon Market-Based Levies**
Concept: Applying a levy to flexibility mechanisms as conceived under the Kyoto Protocol: Clean Development Mechanism (CDM), Joint Implementation (JI) and Emissions Trading systems (ETS) or future carbon market mechanisms. Currently, there is a 2% levy on all CDM transactions with funds allocated to the Adaptation Fund.

- System precedent already in place. Anticipated "scaling-up" of carbon markets can create momentum for larger funding sources. System is tied to Annex I binding commitments. These levies could also be carried out within the context of domestic legislation with a percentage of funds earmarked for international climate finance.

- Fluctuations in the price of carbon and liquidity of markets tied to large global economic challenges: Uncertain levels of funding. Uncertainty of post-2012 carbon market structure. System is tied to Annex I binding commitments (potentially developing country commitments).

- Requires CoP outcomes that continue Kyoto flexibility mechanisms or some evolution/scaling-up of these market-based mechanisms, ideally through an international architecture.

51. **Assessed Amounts**
Concept: Developed country Parties, based on some formula of the principles of equity, "common but differentiated responsibilities," respective capabilities, GDP, the polluter pays principle, current emission levels and historical responsibility provide funds on a organized basis to a COP-led multilateral climate finance fund.

- This approach provides definitive formula and a significant scale of finance potential. However, the variety of methodologies for determining required contributions is highly contentious and political within CoP context.

- "Domestic revenue problem." Even if these contributions are agreed upon internationally it requires domestic funds to be appropriated for international purposes. Perception of national money being exported. Difficult political feasibility for many developed countries, resulting in the replenishment challenge.

- Policy process appears to require CoP-based outcome for traction.

52. **Domestic Legislation, Allowances/Auction Revenues**
Concept: A percentage of allowances/auction revenues are set-aside for bilateral and multilateral climate finance funding mechanisms.

- Steady-stream of consistent funding. This approach closest to political consensus for the U.S. to provide climate finance, however scale of revenue is weak at best.

- Competing domestic interests for shares of the allowance pie, leads to less than at-scale funding contributions. Lack of political appreciation for the "value" of international climate finance, e.g. export opportunities, developing country commitments, etc. Uncertainty of cap-and-trade political feasibility particularly in the United States.

VII. **Summary of Key Issues**

This section identifies the next layer of issues that are raised by this research, what may emerge in a next stage of climate negotiations, and what should advocacy groups consider. There are a diversity of positions and perspectives on the way forward.

A variety of proposals with respect to the scale of funds required for international climate finance are available. The range of proposals in terms of required scale is dramatic. Each proposal comes with its own set of metrics and politics. It will be a significant challenge to match each of these "scale of funds" perspectives into one common consensus amount to agree upon. Proposals on the sources of revenue are equally diverse. In the near-term ODA will likely play a significant role in meeting climate finance goals. However, international levies & financial transactions, burden-sharing approaches and carbon market revenues all have positive qualities and challenges. There is no clear approach that is more politically feasible than another from a *global* perspective, although levies, subsidies and financial transaction issues enjoy G20 momentum.

Governance of international climate finance remains a key issue for further strategic discussion. Several countries will continue to insist that existing international financial institutions play a lead role as the mechanism for such funds. At the same time, "direct access" by nationally-based implementing agencies is a lynchpin issue for others. Likewise, differences remain on the level of legal authority a new operating entity can have *vis a vis* existing multilateral institutions. How these perspectives can be drawn together or otherwise positively interact is crucial with a view to the goal of conceiving multilateral green funds. There is a real political risk that some countries will seek to move these negotiations outside of the CoP process if a consensus cannot be found in 2010.

While there will be calls for centralized budgeting and MRV'ing of climate finance, it is also reasonable to anticipate there will be a dispersion and proliferation of funds. It will be important to establish priorities that can be revisited as funds develop prepare to hold the variety of institutions that may enter this space accountable to real and equitable outcomes.

Private sector capital remains an elusive yet large ***potential*** source of climate finance and is intended by many countries to be increasingly linked to emerging funds and governance proposals. The role of private sector finance remains a thorny challenge. Carbon markets and carbon commoditization have yet to achieve promised scale of mitigation or uniform environmental integrity, but do represent a potential at scale form of international climate finance. Carbon finance also is being examined in the broader context of the global economic crisis. Engagement with private sector capital on climate finance should take place but with due care to achieve environmental integrity and broader financial regulatory reform.

Copenhagen demonstrated that technocracy will not achieve outcomes that avoid catastrophic climate change. Going forward, there is a significant opportunity for coalition building between climate change, financial crisis and international financial institution minded networks. These networks can build off the strengths of each other to set mutually beneficial goals and achieve outcomes at scale. Yet this work will require the strategic development of new narratives and openness to find consensus.

A significant amount of action will continue to take place within the UNFCCC process. However, key pieces of a coherent agenda going forward will take place in national campaigns and other international venues. As a practical matter, this broader field of action will require coherent messaging and capacity for coordination.

Suggested Next Steps

Based on the above, the following priority activities are suggested in the coming year.

- **Ensuring integrity of "Fast Start Funds" within the UNFCCC process** will require work to ensure such funds are measurable, reportable and verifiable in that context. Clear messaging that "fast start funds" will require this accountability are advisable. Ensure that funds committed are "new & additional" and don't threaten other global development objectives particularly with respect to ODA. Likewise work with key recipient countries on transformational NAMAs to align with fast-start funds. Create clear set of definitions and macro-level reports for international distribution that keep all Parties accountable to their commitments. Avoid debate on merits of Copenhagen Accord and focus on implementation of these funds within UNFCCC process. However, be prepared to work in other domestic and international settings towards these goals if UNFCCC process is abandoned by some Parties.

- **Maximizing opportunities within the G20 process** on issues around special drawing rights, financial transaction taxes and inefficient fossil fuel subsidies is great opportunity. Consider joint campaign efforts on common messages for climate change, financial crisis and international financial institution streams of work. Consider building support for existing or new legislation on the domestic level to compliment the international work, and building pressure internationally through engagement with the IMF and G20 processes. Consider seeking high-level engagement at the Finance Ministries globally.

- **Work within the UNFCCC processes** with the AWGLCA and sort out institutional architecture, the CPH Accord fund and the Hi Level Panel. However, assess political feasibility of a positive outcome through CoP process in summer of 2010 and explore alternative forums to achieve similar outcomes if necessary. Consider the joint submission of the UK, Mexico, Norway and

Australia as a platform for engagement. and set a concrete goal of establishing the fund as an outcome of Mexico CoP. Engage the UNGA to highlight efforts as of September 2010. Monitor the BASIC countries and their new fund multilateral including at April meetings in South Africa.

- **The most likely mechanisms for long-term funding will come through Multilateral Development Banks and flexible bilateral agencies**. Climate campaigners should work with IFI focused campaigning and policy efforts using the Bretton Woods reform agenda as an anchor and focusing on their role in climate finance. This will require engagement with national level parliaments and finance ministries, the UNFCCC, G20 and direct engagement with these banks. Campaigners in key donor capitals will need to take on board a broad set of civil society perspectives with respect to governance concerns and related issues such as direct access and accountability to the CoP.