

Off the tracks: Lack of climate finance could derail developing world’s ability to adapt to changing climate

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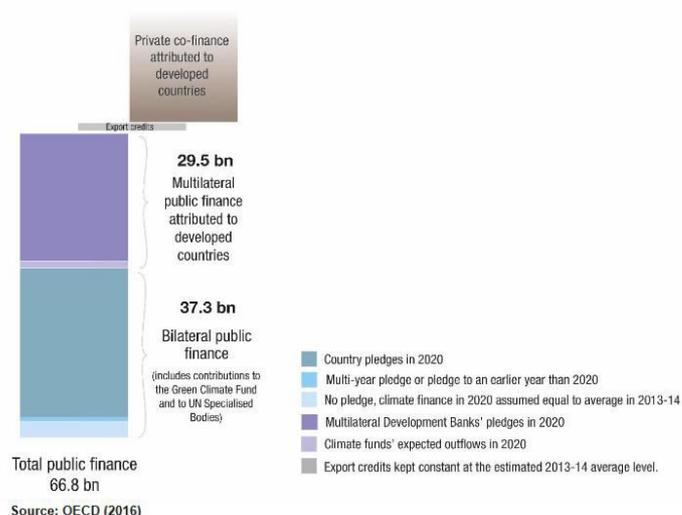
Section 1 – Smoke and mirrors: Accounting methods obscure acute climate finance shortfall

At the Conference of the Parties (COP15) in Copenhagen (2009) developed countries, under the United Nations Framework Convention on Climate Change (UNFCCC) process, pledged to deliver \$100 billion in ‘new and additional funds’ annually to developing countries’ climate change adaptation and mitigation efforts by 2020 (Weikmans and Roberts 2017: 1). This commitment was re-affirmed in 2015 under the Paris Climate Agreement, albeit without specific reference to ‘new and additional’ funds.

In 2016, developed countries produced a *Roadmap to US\$100 Billion* detailing how this climate finance would be mobilized. With less than two years left to achieve this commitment, developed countries’ progress on mobilizing climate finance has fallen well short of the promises made in Copenhagen. Saying this, the full extent of developed countries’ collective failure to make adequate progress on climate finance has been obscured by a lack of transparent accounting methods. Currently, the UNFCCC framework does not include a firm agreement on how to define ‘new and additional funds’ and climate finance accounting methods are murky. In addition to grant funding, countries have claimed loans (both concessional and non-concessional) at their face value. In practice this means that the ‘net transfer’ to developing countries from this climate finance instrument, “obscures the level of assistance developing countries receive by a huge margin” (Oxfam 2018: 10). Some countries have also been including the full amount of finance for development projects that contain some climate sub-projects in their climate finance reporting (Oxfam 2018).

With public funds being relatively scarce, developed countries have also increasingly included ‘mobilizing private sector funds’ as part of their climate finance reporting. According to the plan laid out in the roadmap, up to 25 per cent of climate finance is anticipated to come from funds ‘mobilized’ from the private sector (Oxfam 2018: 22).

Fig 1: Estimated climate finance flows by 2020 (OECD)



As Oxfam (2018) argues, these accounting practices have led to an inflated calculation of developed countries’ contributions towards the goal of mobilizing \$100 billion by 2020. Oxfam maintains that

when instruments such as loans are taken into account, net financial flows from developed countries to developing countries are lagging far behind reported figures:

“Using OECD data, we estimate net climate-specific assistance to be significantly lower than \$48bn (aggregated donor reports): between \$16bn and \$21bn per year, of which between just \$5bn and \$7bn per year is for adaptation.”(Oxfam 2018: 8)

This analysis underscores the startling gap between the climate finance needs of developing countries and the types of funding that have been made available by donor countries to date, especially with respect to adaptation finance.

To make matters more urgent, the need for climate finance is now understood to be greater than was estimated at the time of Copenhagen’s \$100 billion commitment. According to the UN Environment Program (2016: xiii), for adaptation alone, “the costs...could range from US\$140 billion to US\$300 billion by 2030, and between US\$280 billion and US\$500 billion by 2050.” The UNFCCC Bonn meetings (April 2018) made fragile progress on climate finance, albeit with a number of concerns remaining.

Countries are now set to agree to the Paris Agreement’s ‘rule book’ at COP24 in Poland in December 2018. However, African countries have threatened to withhold their agreement to a deal at COP24 unless there is progress on climate finance (Carbon Brief 2018). BASIC countries (Brazil, South Africa, India and China) have also highlighted climate finance as a critical issue (IISD 2018). This fraught climate diplomacy is taking place against a backdrop of an increasingly severe need for climate finance, with the effects of climate change beginning to bite in poor countries with increased storm intensity, sea-level rise, droughts, and other impacts already leading to significant fiscal (and social) impacts.¹

Section 2 – Key trends: fragmented multilateral funds and the rise of private finance

In addition to the relative scarcity of funds relative to developing countries’ needs, climate finance is also hampered by a highly fragmented funding landscape, with mobilized funds being allocated through a patchwork of different sources. The developed countries’ *Roadmap to \$100 Billion* (2016: 19) gives a frank assessment of the challenges faced by developing countries in accessing funding for climate change and mitigation activities in this convoluted climate finance environment:

“[D]eveloping countries can face a number of barriers and challenges in accessing and attracting climate finance. ... Applicants need to navigate between numerous bilateral and multilateral financing institutions – often with varying application procedures and funding criteria. A second challenge relates to limited readiness. Even after a particular funding source is identified, applicants may lack the technical expertise and capacity to design and implement investment proposals for low carbon technology and climate resilience”.

The main multilateral climate finance mechanisms that developing countries can access under the UNFCCC and other multilateral *fora* are discussed below. Beyond the questions about aggregate totals of climate finance, as outlined above, these multilateral mechanisms through which climate finance is dispersed also face significant institutional challenges and constraints.

The Green Climate Fund (GCF) and Adaptation Fund (AF), which sit inside the wider UNFCCC umbrella, are overseen on an interim trustee basis by the World Bank. The GCF was created under the UNFCCC process in 2010 to serve developing countries’ needs. It has faced considerable growing

pangs. In May 2017, the Trump Administration announced that the US would withhold its final pledge of \$2 billion as part of its announced withdrawal from the Paris Agreement. This has made a significant dent in GCF's \$10 billion in pledged funds to date (see Friends of the Earth [2017](#)).

The GCF has been criticized for not disbursing funds quickly enough: "As of December 2017, the fund has only released roughly \$150 million, or less than 6 percent of the nearly \$3 billion it had committed up to that point" (*Devex*[2018](#)). Although the GCF has a mandate to have a 50-50 split between mitigation and adaptation finance, the fund's definition of these, as well as its attempts to parse adaptation from development finance more generally, remains a work in progress (*Devex* 2017). The GCF's most recent board meeting in July 2018 ended with the Fund's board unable to agree how to proceed on the Fund's replenishment, and failing to approve any of the \$1 billion in developing countries' proposed climate projects that were potentially under consideration during the meeting (Bose 2018).

The Adaptation Fund, which was created under the Kyoto Protocol, is a relatively small fund, but is politically significant as it is devoted specifically to adaptation efforts. It was agreed at COP23 (2017) that the Adaptation Fund will be administered under the Paris Agreement, although negotiations continue on the technical changes needed to embed it inside the Paris Agreement's framework (*Carbon Brief*2018). To date it has committed \$439 million in adaptation finance to projects in developing countries (*World Bank* [2018](#)).

The Climate Investment Funds (CIFs) are two World Bank-hosted climate investment funds, which according to the Bretton Woods Project's *CIFs Monitor 14* (2016: 4), are:

"financing instruments designed to pilot low-carbon and climate-resilient development through multilateral development banks (MDBs). They comprise two trust funds – the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)².... As of end June 2016, donor pledges amounted to a total of \$8 billion to the CIFs: \$5.4 billion to the CTF and \$2.6 billion to the SCF."

When founded in 2009, the CIFs were conceived as temporary funds designed to pave the way for a larger fund to serve developing countries, via the UNFCCC. However, in May 2016, the CIFs joint committee decided not to instigate the so called 'sunset clause', which requires the CIFs to close. Instead the committee agreed to continue to monitor "the developments in the international climate finance architecture to inform a discussion on the sunset clause in December 2018 at the earliest, and take a decision on this issue in June 2019" (*BWP CIFs Monitor 14*, 2016: 4). Critics suggest that the CIFs' continued operation is evidence of the World Bank trying to impinge on the UNFCCC financial framework, with more than 100 civil society organizations calling for the CIFs to close at the time of decision to extend their sunset clause (*Bretton Woods Project* 2016: 4).

The Global Environment Facility (GEF) was set up prior to the 1992 Earth Summit. With a budget of \$1.3 billion, it was established as a global fund to finance agreements emerging from these meetings. According to Newell (2012: 127), although the World Bank runs the GEF along with UNDP and UNEP,

"as trustee of GEF funds [the World Bank] organizes most [of the] direct control and funding, and must sign off on all financial aspects. This has resulted in some ideological wrangling over the extent to which the Bank's economic vision should be applied to areas of UN environmental protection."

In Bruce Rich's critique of the GEF, he stated that the clear imprint of the World Bank was evident on the GEF governance structure: "The formulation of the GEF was a model of the bank's preferred way

of doing business: Top-down, secretive, with a basic contempt for public participation, access to information, involvement of democratically elected legislatures and informed decisions of alternatives” (cited in Newell 2012: 130). One critique of GEF-funded projects is that they have acted as a sweetener in order to entice developing countries to accept wider World Bank finance packages rife with conditionalities (Newell 2012: 131).

Private finance: further muddying the waters of “what counts” as climate finance

Oxfam (2018: 22) noted that 15 countries and EU institutions “claimed to have mobilized private finance” in their 2015/16 biennial reports to the UNFCCC, but that donor countries “have accounted for this finance in very different ways.” For example, Canada only includes private finance mobilized through its contributions to MDBs, while France and Japan report overall estimates (without granularity on how they generate the figures). The Netherlands, meanwhile, provides specific figures for some projects and rough estimates for others.

Oxfam (2018: *ibid*) maintains that an agreement on how to account for the private sector stream of climate finance is urgently required. Increasingly, MDBs, led by the World Bank, have placed an emphasis on mobilizing private finance as part of efforts to kick-start climate action. For example, the Invest4Climate platform – which includes MDBs, the GCF and other actors, puts ‘green growth’ at the centre of its efforts to fight climate change by:

“Developing new solutions and knowledge to “crowd-in” private capital, know-how, and mobilizing resources to accelerate and scale early-stage climate entrepreneurship in frontier markets, creating jobs and stimulating green growth” (World Bank [2017](#)).

In this vein, the World Bank has sought to mobilize \$13 billion annually in private climate finance by 2020 (World Bank [2016](#): 25). This overall approach is consistent with the wider “Maximising Finance for Development” agenda being led by the World Bank, which sees the private sector as being the first port of call for development projects (see Green [2018](#)). There are serious questions about whether the efforts of developed countries and MDBs to ‘crowd in’ the private sector through de-risking investment opportunities can be aligned with the goals of climate finance. This is of particular concern when meeting the needs of the poorest countries and individuals, as the profit motives of private sector actors may be particularly hard to satisfy without creating hidden debt liabilities for developing country governments (see, for example, Romero [2017](#)).

Section 3 –Ways forward: transparent accounting and innovative financial instruments urgently needed

Given the challenges described in the preceding sections, the mobilization of climate finance that delivers a just outcome for developing countries, rather than a world with heightened inequities in the face of climate impacts, is an acute challenge. This concluding section highlights the urgent need to both clarify climate finance accounting norms and to develop innovative climate finance streams to complement existing flows.

Modalities to account for climate finance have been politically contentious since the \$100 billion pledge in 2009 by developed countries. As Weikmans and Roberts (2017: 4) summarize:

“Eight years after Copenhagen, the question of ‘what counts’ as climate finance is still not internationally agreed, even between OECD Development Assistance Committee (DAC) countries or European Union (EU) member states. At an even more fundamental level, to assess the “newness and additionality” of financial contributions, negotiators should have

determined a baseline against which any claim of additionality could be stated (Stadelmann et al., 2011). Such a baseline still does not exist.”

Estimates of climate finance have been politically fraught. An initial report, which was co-written in 2015 by the OECD and the Climate Policy Initiative at the request of the COP21 presidency, provided a global estimate of climate finance. These findings were presented with no consultation of developing countries on the question of ‘what counts’ (Weikmans and Roberts 2017: 2) putting questions about fairness and transparency at the heart of this thorny issue. Thus, an agreement on the post-2020 framework for climate finance accounting is key to getting parties to make progress on overall Paris Agreement implementation at COP24, with the end of 2018 being the deadline for parties to agree to the Paris rulebook that will govern implementation of the Agreement.

The lack of transparency on climate finance accounting on the part of developed countries remains a primary stumbling block: “The most severe problem ...lies in the fact that many developed countries have so far failed to be transparent and complete in their reporting to the UNFCCC on the methodologies that they used to account for climate finance” (Weikmans and Roberts 2017: 5).As predicted, developing countries have been unable to ensure that developed countries honour their commitment to ‘new and additional’ climate finance (i.e. separate from official development assistance– ODA), as agreed under the Copenhagen commitments (Weikmans and Roberts 2017: 3).

With progress slow on mobilizing finance for adaptation and mitigation, other areas of need in climate finance are in danger of falling off the map completely under the UNFCCC Paris Agreement. After years of political wrangling, there was finally an acknowledgement of developing countries’ need for climate finance to cover “Loss and Damage” (L&D) from climate change under Article 8 of the Paris Agreement. Still, there has been little progress on identifying concrete financial instruments to address L&D. It remains sidelined, emblematic of unresolved climate finance issues in general.

As Singh (2018)noted at the Suva Expert Dialogue in Bonn (May 2018), “Civil society experts called for the provision of at least US\$50 billion per year by 2022 for loss and damage, which they said must be over and above the annual target of US\$100 billion a year for climate finance.” However, developed countries have thus far expressed little appetite to engage with mobilizing finance for Loss and Damage, apart from making ‘climate insurance’ more available to developing countries. One such initiative is InsuResilience, a G20-backed program that aims to provide ‘access’ to climate insurance to 400 million people in developing countries by 2020 (Bretton Woods Project 2017).

With the post-2020 Paris Agreement implementation fast approaching, there is an urgent need not only clarify climate finance accounting norms, but to identify new and innovative financial instruments that can help to augment existing climate finance flows. As Oxfam (2018: 20) has noted, climate finance urgently needs to be scaled up: “New innovative sources of climate finance, such as carbon pricing for shipping and aviation, a financial transaction tax and an equitable fossil fuel extraction levy, are crucial to help address the large and growing gap between existing levels of finance and growing needs.”A climate polluters’ tax initiative was proposed at COP23, with advocates seeking to have the tax embedded in UNFCCC framework (Climate Home2018). However, such innovative measures, though urgently needed, are yet to enter into the firmament of the UNFCCC process.

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¹To cite just one example, recent IMF research has found that the cost to island nations of tropical storms in the Caribbean has been drastically underestimated, accounting for an average of 5.7% of countries’ GDP over the last 65 years (Acevedo 2017). Increased storm intensity, as witnessed in the 2017 hurricane season when the Caribbean suffered an estimated \$130 billion in damages from Hurricanes Irma and Maria alone (Wilkinson 2017), will likely increase Caribbean countries’ damages from tropical storms.

²The SCF is an overarching fund aimed at piloting new development approaches. It consists of three targeted programmes: Pilot Program for Climate Resilience (PPCR), Forest Investment Program (FIP) and Scaling up Renewable Energy Program in Low Income Countries (SREP).