BRIEFING

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Climate finance

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Under the UN climate convention, rich countries have pledged to help poorer ones constrain their carbon emissions and prepare for climate impacts. By 2020, the flow of money is supposed to reach $100bn per year.

However, there are differing views about what constitutes climate finance, how it relates to overseas aid, and how the money should be channeled.

Climate finance: a brief history

The United Nations Framework Convention on Climate Change (UNFCCC), signed in 1992, is explicit: as developed nations have done most to cause climate change, they have the biggest responsibility for combatting it.

Two aspects of this responsibility include helping developing countries protect themselves against climate impacts ('adaptation'), and helping them constrain their carbon emissions through clean development such as renewable energy ('mitigation').

Money for these purposes is collectively termed 'climate finance'.

Some practices can help with both mitigation and adaptation. Forest protection and growth is one, and forms a further category of projects known as Reducing Emissions from Deforestation and forest Degradation (REDD).

However, the UNFCCC does not say how much money is needed, nor how it should be channeled and managed.

A number of funding channels have been in existence for more than a decade. The Least Developed Countries Fund addresses the special needs of the Least Developed Countries, while the Adaptation Fund helps developing nations prepare and implement national adaptation programmes.

Money for adaptation is predominantly spent in least developed nations, whereas money for mitigation can give more 'bangs for buck' in countries that are fast developing.

REDD funds, logically, are concentrated in the most forested developing nations.

Image: Climatescope, Creative Commons licence

What is 'climate finance' spent on?

Some examples of projects funded by climate finance around the world

Adaptation: projects include flood protection, early warning systems for extreme weather, and introducing climate-resistant agriculture. Biggest funding recipients: Mozambique, Niger, Bangladesh.

Mitigation: projects include cutting energy waste, rural electrification and renewable energy. Biggest funding recipients: Morocco, Mexico, India.

REDD: projects include reforestation, nature protection and supporting indigenous people in forest management. Biggest funding recipients: Brazil, Democratic Republic of Congo, Mexico.

Data from http://www.climatefundsupdate.org

In the lead-up to the seminal 2009 UN climate summit in Copenhagen, developed and developing nations announced two agreements on funding:

- to provide $10bn per year in the period 2010-2012 ('fast-start financing')
- by 2020, to 'mobilise' $100bn per year.

Developed countries pledged that this climate finance would feature 'scaled up, new and additional, predictable and adequate funding as well as improved access (for developing countries)'.

At the following year's summit in Cancun, Mexico, the $100bn per year pledge was formalised and a decision taken to establish the Green Climate Fund (GCF) as the main vehicle for channeling and managing this money.

By the time of the 2014 UN climate convention annual meeting in Lima, Peru, $10bn had been paid into the GCF. The UK put in £720 million (about $1bn); the largest donor overall is the US and the largest per-capita donor is Sweden.

Pathways for scaling up to the $100bn per year target have yet to be agreed. There have also been delays in capitalising the GCF, with some countries, including the US, yet to firm up their promises.

How much money is needed?

A number of studies have tried to analyse how much money is needed in order to help developing countries adapt to climate impacts and mitigate their emissions.

For example, in 2007 the United Nations Development Programme (UNDP) put adaptation costs at $86-109bn per year, while the UNFCCC itself obtained the figures $49-171bn.

Organisations such as the International Institute for Environment and Development (IIED) argue that these figures underestimate the true costs for a number of reasons.

The most important reason is that only limited adaptation is possible for many climate impacts, particularly at high levels of warming. Also, analyses may omit sectors such as manufacturing and tourism.

Global estimates of adaptation costs also assume warming is kept below 2C. If that limit is exceeded - which, with emissions rising at current rates, is likely - costs will be greater.

Historically there has also been a gap between funds pledged and disbursed.

Estimates of the costs of helping developing countries to 'green' their economies also vary. In 2007, the UNFCCC put the annual cost of returning global emissions to current levels at $200-210bn.

Statistics from the OECD show that in 2011, around two-thirds [pdf link] of funds were going to reducing emissions, with one-third spent on adapting to impacts.

'New and additional'? Public or private?

The wording of the Copenhagen agreement - that climate finance should be 'new and additional' - implies that it should not come from developed nations' official development aid (ODA) budgets, but form an additional source of funding.

However, in practical terms there is a degree of cross-over. For example, adapting to climate change involves addressing factors that increase vulnerability, such as poverty - which is why at ground-level, some activities look like conventional development.

At least in public, developing countries insist that the $100bn per year should come predominantly from the developed world's public coffers. They argue - and some academics agree - that climate finance is 'money owed' from damage caused by rich countries becoming rich through burning fossil fuels.

Case study: Mangrove forests in Bangladesh

Training on planting tree saplings in coastal Bangladesh. Source: UNDP Bangladesh

Bangladesh is highly vulnerable to climate impacts including sea level rise, cyclones and erosion.

The Ministry of Environment and Forests (MoEF), along with UNDP, has a project for coastal afforestation (tree planting) in five districts. Women were trained in growing and planting mangrove saplings, as well as timber and fruit trees.

Mangrove forests offer protection against coastal erosion and storm surges, but also absorb CO2 from the air and store the carbon. The project is an example of integrating efforts to reduce emissions (mitigation) and reduce vulnerability (adaptation).

Funded by the Least Developed Countries Fund, the project reached over 18,000 households, and won various awards.

In general, they also want funds channeled predominantly through UN institutions including the Green Climate Fund, as this gives them a degree of control over the funds and their disbursement.

However, with western governments tightening their purse-strings in recovery from the 2007/8 financial crisis, there has been a push to identify and mobilise private finance. Also, some developed countries prefer bilateral funding arrangements with countries that are within their general political orbit (for example, the US to supportive South American nations).

This makes assessing the current extent of climate finance complex, and estimates of how much actually flows each year vary widely depending on what is included and what isn't.

Looking back at the three-year Fast Start Finance period, the Overseas Development Institute (ODI) reported that donor countries actually exceeded the $30bn total figure. But they counted 80% of the climate finance money that they gave as official development aid (ODA) which means it was not 'additional' to development aid. The ODI also showed that the geographic distribution of funding mirrored that of non-climate-related ODA rather than either greenhouse gas emissions or vulnerability to climate impacts. Furthermore, nearly half of Fast Start money came in the form of loans, guarantees and insurance.

However, it is clear that effective channelling of flows of finance to address climate change will require ensuring that development aid, and private flows of finance, are compatible with climate change. For example, private money can be leveraged by regional development banks, or 'green bonds'.

In future, it has been suggested that pledges under the UN Climate Convention should refer to public finance only, to avoid confusion. The issue may emerge again at the UN climate summit in Paris in December 2015.

Western governments have at times discussed raising climate finance through mechanisms such as a 'Tobin tax' (a levy on international financial transactions) or a charge on international sea and air journeys, but have failed to agree anything along these lines

Currently, there is no target for climate finance in the five years leading up to 2020.

So in principle, developed countries could produce no money at all until 2020, then suddenly scale up to $100bn per year.

However, this would fail to allow institutions such as the Green Climate Fund to 'learn by doing', and would also fail to convince developing nations that their richer peers intend to follow through on their Copenhagen commitment.

In addition, there are substantial opportunities to begin adaptation schemes and constrain carbon emissions in the next few years, given evidence that it is cheaper to act on climate change earlier rather than later.