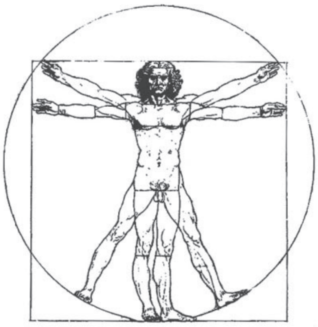

IN BRIEF

CLIMATE FINANCE

What is climate finance?

The Standing Committee on Finance defines climate finance as "*finance that aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.*" This is a broad definition that avoids many of the controversies surround climate finance, such as its:

- Source (public or private sources)
- Type (development aid, private equity, loans, grants, concessional finance)
- Channel (whether it flows through bilateral or multilateral institutions
- Governance (who decides how it is allocated and used)
- Additionality (whether it is "new", and over and above development assistance)
- Predictability (to allow recipients to plan action in advance)
- Amount (including long-term pledges and roadmaps to achieving them)
- Balance (between mitigation and adaptation finance, and also finance for new elements such as loss and damage)

These issues are often linked in complex ways. For instance, including both public and private sector sources in the definition of climate finance makes it more difficult to count climate finance – it is difficult to pinpoint exactly how much private sector finance can be classified as climate finance, and if any of it is "additional".

What is the UNFCCC "financial mechanism"?

When it was adopted in 1992, the UN Framework Convention on Climate Change established a "financial mechanism" to provide financial resources to developing country Parties, and stated that the operation of the financial mechanism can be entrusted to one or more existing international entities. The Global Environment Facility (GEF) has served as an operating entity of the financial mechanism since the Convention's entry into force in 1994. At COP 16, in 2010, Parties established the Green Climate Fund (GCF) and in 2011 also designated it as an operating entity of the financial mechanism. The financial mechanism is accountable to the COP, which decides on its policies, programme priorities and eligibility criteria for funding. In addition, Parties have established two special funds – the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF), both managed by the GEF – and the Adaptation Fund established under the Kyoto Protocol in 2001.

What is the Standing Committee on Finance?

At COP 16 in 2010, Parties decided to establish the Standing Committee on Finance (SCF) to assist the COP in exercising its functions in relation to the financial mechanism of the Convention. Currently, the SCF assists the COP in: improving coherence and coordination in the delivery of climate finance; rationalisation of the financial mechanism of the UNFCCC; mobilisation of financial resources; and measurement, reporting and verification of support provided to developing country Parties. The SCF produces biennial assessments and

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overviews of climate finance flows (the last was produced in 2016). At the Paris Conference in 2015, Parties decided that the SCF shall also serve the Paris Agreement.

What does the Paris Agreement say on climate finance?

Article 9 of the Paris Agreement deals with climate finance, addressing the following elements:

- **Provision**: Developed countries "*shall*" provide climate finance for developing countries (Article 9.1) while other Parties (developing countries) are "*encouraged*" to provide support voluntarily (Article 9.2). Developed countries "*should*" also take the lead in mobilising climate finance "*from a wide variety of sources, instruments and channels*", progressing beyond previous efforts (Article 9.3).
- **Balance**: Financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, the priorities and needs of developing countries, in particular LDCs and SIDS (Article 9.4).
- **Reporting**: Developed countries have to biennially communicate indicative information on: the provision of climate finance to developing countries, including "*as available*", projected levels of public financial resources to be provided in the future to developing countries (Article 9.5); and support for developing countries mobilized through public interventions (Article 9.7). Developing countries are "*encouraged*" to do so voluntarily.
- **Governance**: The UNFCCC's Financial Mechanism, including its operating entities, will serve as the financial mechanism of the Agreement (Article 9.8). Parties agreed that the operating entities of the financial mechanism – GCF and GEF – as well as the SCCF and the LDCF shall serve the Paris Agreement. Regarding the Adaptation Fund serving the Paris Agreement, negotiations are underway in the Ad hoc Working Group on the Paris Agreement (APA).

In addition, Paris Decision 1/CP.21 states that the existing collective mobilisation goal (US$100 billion per annum by 2020, first announced at the 2009 Copenhagen COP) will continue until 2025. The CMA will set a new collective quantified goal with US$100 billion as a floor prior to 2025 (§53). The Decision also states that the GCF, the Global Environment Facility (GEF), the LDCF and the SCCF will serve the Agreement (§58). The Adaptation Fund may serve the Agreement, subject to relevant decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP) and the CMA (§59).

Other Articles of the Paris Agreement also make references to climate finance, including for instance:

- Article 2 on the overall goal of the Agreement, which refers to the need to make finance flows consistent with a pathway towards low greenhouse gases and climate-resilient development.
- Article 6.6, which calls for a "share of proceeds" from the sustainable development market mechanism in Article 6.4, for adaptation.
- Article 11 on capacity building, which calls for capacity building to facilitate access to finance.
- Article 13 on transparency, which calls for a framework for transparency of support, to provide clarity on support provided and received, and, to the extent possible, to provide a full overview of aggregate financial support provided, to inform the global stocktake under Article 14.
- Article 14, which calls for the global stocktake to consider means of implementation and support.

What finance-related issues are being negotiated for the Paris Agreement rulebook?

The first finance-related controversy that arose post-Paris was whether the Adaptation Fund should serve the Paris Agreement. The Paris Agreement said the fund "*may*" serve the Agreement. The following year, at COP22 in Morocco, the CMA decided that the Fund "*should*" serve the Agreement. During the 2017 Bonn Conference, the CMP decided that the Fund "*shall*" serve the Agreement – it now remains for the CMA to agree on this.

A second issue related to finance in the Paris Agreement discussions is that of transparency of support. Related to this discussion,

- The APA is working on developing modalities, procedures and guidelines for the transparency of support.
- SBSTA is discussing the modalities for accounting of financial resources provided and mobilised through public interventions under Article 9.7. Discussions include how to define new and additional finance and climate-specific finance.
- SBI is working on the identification of the information to be provided by Parties in accordance with Article 9.5 of the Paris Agreement, to forward outcomes to COP24.

The main controversies relate to: the provision of ex ante information under Article 9.5, to allow for greater predictability of climate finance; and negotiations on the long-term finance figure. The allocation of share of proceeds under Article 6.6 is a potentially controversial issue in the future.

What other finance-related issues are challenging in the UNFCCC negotiations?

Other climate-finance related issues that continue to be challenging include:

- The adequacy of overall climate finance and achieving a balance between adaptation and mitigation finance.
- Accessibility of funds from operating entities of the financial mechanism.
- Differentiating between climate and development activities to access global finance.
- The role/ accounting of private sector finance.
- Finance for loss and damage.

How much climate finance is currently being provided?

This is a difficult question, given the lack of agreement on the definition of climate finance and what should count. The answer often depends on who you ask. For instance, according to the 2016 *Roadmap to US$100 Billion* prepared by developed countries, they provided US$ 41 billion per year in 2013-2014. According to the SCF 2016 Biennial Assessment, developed countries reported US$ 26.6 billion of climate-specific finance in 2014 in their Biennial Reports (more than 70% for mitigation). Oxfam estimates, however, that the "net climate specific assistance" provided by developed countries during this period is between US$ 16 to US$21 billion per year, of which between just US$ 5-7 billion per year is for adaptation. Oxfam defines net climate specific assistance as only including the grant element of climate finance (excluding loans), and discounting the non-climate element of projects that only partially cover climate change.

Further Reading

- The international climate finance accounting muddle: is there hope on the horizon?
- The Paris Predictability Problem: What to do about climate finance for the 2020 climate agreement?
- Two Unconventional Options to Enhance Multilateral Climate Finance Shares of Proceeds and Crowdfunding
- Enhanced Direct Access: A Brief History (2009-15)
- A Paris Replenishment Cycle For Contributions to the UNFCCC Financial Mechanism
- Local Funds for Local Development
- Summary and recommendations by the Standing Committee on Finance on the 2016 biennial assessment and overview of climate finance flows
- Climate Finance Shadow report 2018: Assessing progress towards the $100 billion
- Towards Transparency: 2016 Adaptation Finance Transparency Gap Report