INTRODUCTION

Climate finance remains one of the most highly debated issues in the global climate change negotiations. At the recent United Nations Climate Change Conference in Cancún, Mexico (COP 16), held from 29 November to 10 December 2010, important progress was made on climate finance, but much more work needs to be completed urgently to provide sufficient and equitable funding to meet the resource needs for climate change mitigation and adaptation in developing countries.

For many involved in the debate, it is also important that all aspects of climate finance meet exacting ethical standards, such as how scale, sources and governance reconcile with the principles of equity and common but differentiated responsibilities (CBDR) and respective capabilities. Adherence to these and other related agreed principles is the key to achieving fair and effective delivery of climate finance that respects human rights.

This NGLS Roundup highlights civil society perspectives on climate finance. In part it draws upon the work NGLS conducted from August to October 2010 to facilitate input from civil society representatives focused on climate finance to the UN Secretary-General’s High-level Advisory Group on Climate Change Financing (AGF), which issued its final report shortly before the Cancún climate conference.

The Roundup begins with a brief review of Cancún outcomes on climate finance. It is followed by a variety of civil society reactions to these outcomes, focusing on the newly established Green Climate Fund and equity concerns about additionality and scale of climate finance. The next section discusses broad political considerations about climate finance sources. The final section, Civil Society Voices, contains articles provided by civil society climate finance experts specifically for this Roundup.

The subjects of the Civil Society Voices articles include:

- The need to take the discussion on sources forward in the UNFCCC and other international fora;
- Examinations of a variety of proposed innovative public sources of finance;
- Issues related to the governance of climate funds.

I. THE CANCÚN OUTCOME

The Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention from the Cancún climate negotiations contains a number of decisions related to climate finance. ¹

The Cancún outcome affirms that climate change is one of the greatest challenges facing the world and that all Parties should share a vision for long-term cooperative action “on the basis of equity and in accordance with common but differentiated responsibilities and respective capabilities.” It notes that the mobilization and provision of scaled up, new, additional, adequate and predictable financial resources is necessary to address the adaptation and mitigation needs of developing countries.

In this regard, it takes note of the collective commitment by developed countries to provide approximately US$30 billion in fast-start finance to developing countries for the period 2010-2012, and an annual US$100 billion in long-term financing for meaningful mitigation by 2020. These funds may come from a wide variety of sources, public and private, bilateral and multilateral, including innovative sources.

The Cancún outcome also established a Green Climate Fund, to be designed by a Transitional Committee, through which a significant share of new multilateral
funding for adaptation should flow. The Fund will support projects, programmes, policies and other activities in developing countries and will be governed by a board comprised of an equal number of members from developing and developed countries. It positions the World Bank as the interim trustee of the Fund (subject to a three-year review after its operationalization).

Finally, the Cancún outcome established a Standing Committee that will provide assistance to improve the coherence and coordination in the delivery of climate change financing; the rationalization of the financial mechanism; the mobilization of financial resources; and the measurement, reporting and verification of support provided to developing country Parties.

II. CIVIL SOCIETY ON THE CANCÚN OUTCOME

A Youth Perspective

The first impacts of climate change have already been felt, but actions at national and international levels remain too slow and insufficient to properly address the problem. For the average young person, regardless if they reside in a developed or developing country, this is a worrying state of affairs when they consider their future.

Young people around the world, especially in developing countries, where some 85% of the world population under 18 live, have the most at stake in ongoing climate change negotiations. Young people have been tireless advocates for greater and faster progress in negotiations on climate change. They have strongly urged negotiators to agree on and implement concrete actions and to make sure that sufficient financing is available to address the climate impacts that their generation as well as future generations will have to face. See Box on opposite page.

The Green Climate Fund

Following the Cancún outcome, many civil society organizations expressed satisfaction with the establishment of a Green Climate Fund; nevertheless they warn that many details remain unclear and need to be addressed urgently. Key questions include: How much money will be channelled through the Fund? Where will this money come from (public or private sources or both)? To what extent will these sources be innovative and additional?

“Governments backed a new global ‘green fund,’ but now need to identify innovative sources of finance, such as levies on the currently unregulated international aviation and shipping sector, that would both address 8% of global emissions while simultaneously securing billions of dollars in long-term financing.” (WWF)

“Theresa are issues that need to be addressed, including finding the sources of new, long-term money to help fill the Climate Fund. An opportunity has been missed to establish levies on international aviation and shipping, which could have raised substantial new resources for fighting climate change in poor countries. This issue must be revisited with urgency next year [in 2011].” (Oxfam International)

“While the fund established in this text is imperfect – for example, its trustee will be the World Bank – its creation does represent real momentum and potential.” (Friends of the Earth US)

Multiple civil society organizations call for a Green Climate Fund that respects the principle of gender equality:

“Language lobbied for by advocates in order to ensure the Fund was guided by the principle of gender equality was not secured, and finance mechanisms could potentially exacerbate existing inequities in the most vulnerable regions and for the most vulnerable people.” (Women’s Environment and Development Organization - WEDO)

“The concerns of women should be put at the heart of the new Fund to ensure that those who are among the most affected receive the funding they need.” (Oxfam International)

Equity Concerns About Additionality and Scale

The Cancún outcome recognizes that all Parties to the UNFCCC should share a vision for long-term cooperative action on the basis of equity and in accordance with the principle of common but differentiated responsibilities (CBDR) and respective capabilities. From an equity and CBDR perspective, developed nations should take the lead in combating climate change and its effects, and provide new and additional climate finance to developing countries that is equal to the incremental costs associated with mitigation and full costs of adaptation.

According to many civil society organizations, although the agreed goal of US$100 billion per year by 2020 for long-term climate financing is an important milestone and must be met, the amount will be insufficient to address these costs. Civil society groups also contend that amounts available for mitigation and adaptation should be balanced. However, the Cancún outcome is ambiguous on this subject.

Indeed, it is still difficult to determine the exact costs of climate mitigation or adaptation, now or in the future. For example, the Intergovernmental Panel on Climate Change (IPCC) has predicted that costs to stabilize emissions at 445 ppm would be 3 percent of global GDP between 2012 and 2030. In 2009, the UNFCCC estimated that an additional US$200 billion to US$210 billion will be
Box 1: Fund A Future Youth Can Live With

Young people demand responses to climate change that are strong, as the danger posed by climate change is serious. We want a stable climate and a safe future for ourselves and future generations. We recognize that substantial, transparent, and equitable financing from diverse and appropriate sources will help to unleash clean energy and energy efficiency solutions, while protecting people from the ravages of climate change we are already experiencing. YOUNGO, the youth constituency in the UNFCCC, came together and agreed in Cancún on steps we think the world must take to secure robust climate financing. Many are included here.

We welcome the commitment by countries to provide US$100 billion per year by 2020, and US$30 billion in fast start financing through 2012. However, these amounts are well below the full need for climate financing around the world. In 2010, we suffered the hottest year on record, and saw some of the countries our youth call home continue to sink below rising seas. Countries must use these commitments as steps toward greater funding for mitigation and adaption if we are to ensure the survival of the world we have grown up in.

The Green Climate Fund is one place to achieve this. We are glad to see it established. We are deeply concerned about the World Bank as trustee of the Fund and urge a thorough examination of the impacts of its trusteeship, and the appropriateness of alternative trustees, at its three-year review. Regardless of what the trustee is, it must ensure predictability, equity, environmental and social sustainability, transparency, and accountability in the collection and administration of funds. It must also adhere to UN principles, especially common but differentiated responsibility, and support the need to realize a low-carbon future without delay. These same mandates should govern the work of the Transitional Committee as it designs the Fund.

The composition of the members of the Transitional Committee is encouraging. Like the representation on the Adaptation Fund Board, the fair distribution of positions on these should serve as models for future boards and committees. Developing countries must have their fair say in how funds will be spent in their countries. The Transitional Committee should help to ensure this. Further, just as developing country governments should be empowered to help direct how the funds are spent, some money should be used to support projects by grassroots organizations and community groups focusing on traditionally marginalized peoples, which includes women, youth, indigenous and front-line communities experiencing severe climate impacts. All are vital partners in mitigation and adaptation and should be consulted and included in climate finance decisions.

Similarly, as both vulnerable individuals and key stakeholders in fighting climate change, youth urge the world to continue developing innovative sources of climate finance, to reach the scale of money needed. In particular, and noting the work of the High-level Advisory Group [AGF] in illuminating how these funds could be raised, we must develop agreements to put a price on pollution from international transport; find a revenue stream from currency transactions; and redirect, or at least end, dirty fossil fuel subsidies, as agreed by the G20. We recognize that private financing should assist public commitments. We want public policies that will help drive private finance and innovation towards adaptatio- and mitigation measures.

The quality of our very future is at stake in how the world responds to climate change. If society truly values a clean energy world, then it must develop a set of financial resources that can achieve it. Show us your budget, and you ‘ll show us your priorities. As for youth, our money is on success, but we ‘ll only get there with your help.

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needed annually for mitigation by 2030 to return emissions to current levels, along with massive investment in the energy sector (also in the hundreds of billions).

“ The G77 position remains 1.5% of Annex 1 GDP. 1.5% would be around US$600 billion per year. UN DESA says that US$500 billion is needed for mitigation alone. Factor in adaptation and extreme weather events and you get to US$1 trillion per year. Alliance Insurance and WWF did a study of likely impacts of non-linear events showing that sea level rise by 2050 in global port cities alone could threaten upwards of US$25 trillion worth of assets. Meanwhile, US $100 billion per year is the total being named as adequate for all developing countries for both mitigation and adaptation? ” (Matthew Stilwell, Institute for Governance and Sustainable Development)

“ The texts come nowhere close to providing sufficient funding to developing countries to help them transition to clean economies and respond to climate change impacts. Such funding, known as climate finance, is not assistance: rich countries owe compensation to poor countries because the rich have polluted more than their fair share of atmospheric space. ” (Friends of the Earth US)
Civil society organizations continue to express strong concern that developed nations will re-direct existing Official Development Assistance (ODA) toward climate change financing, and evade their commitment to provide new and additional funding.

“...the developing country Parties to meet the agreed full incremental costs of implementing measures ‘to address climate change.” (Greenpeace International)

“Governments must make sure this funding is additional to existing aid targets – poor countries should not be forced to choose between building flood defences and building schools.” (Oxfam International)

## III. SOURCES OF CLIMATE FINANCE

The Cancún outcome notes that the funds to be mobilized may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources; and takes note of the AGF report. The Cancún outcome does not contain any further detail about potential sources for climate finance, or direction for how the discussion on sources should proceed. This section will address broad political considerations regarding climate finance sources put forward by civil society organizations. The next section, Civil Society Voices, includes several contributions from civil society climate finance experts that examine specific proposals for innovative public sources of finance in detail.

The AGF report argues that in order to reach the goal of US$100 billion per year by 2020 for climate finance, a mix of public sources, development bank-type instruments, carbon market finance, and private capital are likely required. The report takes the view that “international private investment flows are essential for the transition to a low-carbon and climate-resilient future.”

Some AGF members “emphasized that private financing would be the primary source, inter alia, because of the important role that private investments already play in climate-relevant sectors in scaling up technology deployment and catalysing entrepreneurship, and because of its predictability and scalability.”

### Public vs. Private Sources

As part of their inputs to the AGF process, various civil society organizations were adamant that only public sources of financing should count towards the US$100 billion milestone. “Anything that’s not public should be off the table.” (Friends of the Earth) “The US position on private funding feeds suspicion in developing countries. Innovative funding can be seen as a way for countries to get out of responsibilities, but private funding definitely is.” (WWF) “We do not agree that private funds are necessary to reach the US$100 billion figure, although they are certainly an important part of financing mitigation. But if we have to rely on private flows to reach this initial and insufficient goal, we are not on the right track.” (International Trade Union Confederation)

### The Use of Innovative Sources of Public Finance

There are many innovative sources of public finance that are under debate in various international fora, including transportation fuel and airline ticket levies, re-direction of fossil fuel subsidies, revenue from carbon pricing mechanisms, financial and currency transaction taxes, and the use of International Monetary Fund (IMF) Special Drawing Rights. These proposed sources require careful consideration because funding from national budgets has not so far proven to be predictable, reliable or adequate.

In order to be in accordance with the principles of equity and CBDR, innovative sources must have no net incidence on developing countries. For example, global levies or other measures to address emissions from international shipping and aviation must not place a burden on developing countries. Proposals exist for addressing incidence of innovative sources, such as a rebate mechanism for transportation levies, but there is not yet a process within the UNFCCC for discussion about sources for climate finance. For many, an essential starting point for progress on sources would be to establish such a process.

### Grants vs. Loans

Civil society’s determined view that public sources should dominate climate finance is also related to the conviction that adaptation projects – for both practical and ethical reasons – should be funded by grants rather than loans, so that they do not place onerous debt burdens upon developing countries, particularly the Least Developed Countries (LDCs) and Small Island Developing States (SIDS). “Adaptation funding, in particular, is compensation for damages done by developed countries and should only be given in grants. It is untenable that the AGF suggests otherwise. The enormous costs of dealing with climate change must not add to the already heavy debt burdens experienced by many developing countries.” (Jubilee South – Asia/Pacific Movement on Debt and Development)

### Carbon Markets

Civil society organizations submitted a great deal of criticism about the use of carbon markets as a source for climate financing:
"Carbon market finance should not count toward the US$100 billion. Offsets are used to meet industrialized country commitments so it would be double counting to include them in the US$100 billion." (Civil society input to AGF Secretariat at 23 September meeting)

"Carbon markets are not a good fit. Carbon market money is for Annex 1 countries to meet their Kyoto Protocol (KP) requirements. Carbon markets help developed countries make cuts more cost effective. So to count finance used to purchase offsets is to count money that is being put on the table to help the developed countries. It is money for the rich countries not the poor countries. It did not matter under the KP because we didn’t have a global goal. But it does matter when you set a cap on global emissions. Carbon markets allow a developed country to take up more atmospheric space. There are also good legal arguments against using carbon markets – it has no role under the Convention. To the extent we’re looking at what can be used under the Convention, it’s just grants and concessional funding. The foundation needs to be assessed contributions. If the amount needed is more than can be raised, then we look at innovative sources that have incidence on the developed countries." (Matthew Stilwell, Institute for Governance and Sustainable Development)

"Derivatives were a major cause of the financial crisis – if you promote a carbon market regime, and you send a strong signal to investors to increase the carbon market, you will further destabilize the global economy. The Secretary-General should really consider this." (Civil society input to AGF Secretariat at 7 October meeting in Tianjin, China)

**The Role of Multilateral Development Banks**

The AGF report recommends that Multilateral Development Banks (MDBs) “in close collaboration with the UN system can play a significant multiplier role and leverage additional green investments." Civil society, however, had vigorously urged the AGF not to include MDBs as a potential source or channel of financing in the report, and reactions to the AGF report’s inclusion of MDBs were critical.

"The Bank’s questionable energy lending practices are very problematic since fossil fuel lending still outpaces lending in the renewable and efficiency sectors and will hopefully be seriously addressed in the on-going review of its energy strategy. The Bank’s Climate Investment Funds provide funding in the form of grants and loans, which is problematic for developing countries, whose current level of indebtedness impedes their poverty eradication and climate adaptation efforts. Other problems with the World Bank include its very poor history of including community participation in its projects and its undemocratic governance structure which favors developed countries." (From the NGO Discussion Paper “A Review of Public Sources for Financing Climate Adaptation and Mitigation"

"MDBs are not designed with the particular set of expertise needed to manage a climate fund. But moreover, and very generally, the MDBs are donor driven institutions. For a climate fund, much more balance in the governance system is needed." (ActionAid)

"It was inappropriate for the AGF report to make reference to the role of multilateral development banks. MDBs are not a source of climate finance, but are used as a channel. And they are not acceptable even as a channel. MDBs are a part of the climate problem, not the solution. The World Bank and other MDBs are far, far more adept at causing climate pollution than in helping countries to mitigate or adapt to it. Using MDBs as a channel would also mean climate finance in the form of loans or other debt-creating instruments." (Jubilee South – Asia/Pacific Movement on Debt and Development)

"The report’s inclusion of the World Bank as a potential finance source should not be used to undermine international negotiations on the establishment of a new, independent global climate fund that is fair and accessible. For the fund to be effective poor countries must have a say in decisions on how the money is managed and at least half of the funding should address climate change impacts on the most vulnerable." (Oxfam International)

"The labour movement’s position is that the funds should be managed through the United Nations with its democratic mandate to decide on climate change financing, not through the World Bank or the MDBs." (International Trade Union Confederation)

See also the article “World Bank and Climate, More Harm than Good?” by Friends of the Earth and Campagna per la Riforma della Banca Mundial (Campaign for World Bank Reform) in the next section.
This section features articles provided by civil society climate finance experts specifically for this NGLS Roundup. Mark Lutes (WWF) highlights that it is time for institutions such as the UNFCCC, the International Maritime Organization, the International Civil Aviation Organization and the G20 to move beyond analysis and study, and to start acting by making concrete decisions on and by implementing the best innovative sources of climate finance. Considering that the Green Climate Fund should be operational at the end of 2012, moving forward in the negotiations on how the Fund is to be sourced predictably should receive priority. Ilana Solomon (ActionAid USA) explains how Special Drawing Rights can provide a capital base for the Fund, while Janet Redman (Institute for Policy Studies) similarly, elaborates on the role of a Financial Transaction Tax (FTT). Stephen Kretzmann (Oil Change International) calls for shifting fossil fuel subsidies to climate finance, and Pete Lockley (European Climate Foundation) justifies why it is important to put a carbon price on international aviation and shipping, also known as “bunkers.” Finally, Karen Orenstein (Friends of the Earth US) and Elena Gerebizza (Campagna per la Riforma della Banca Mundiale [Campaign for World Bank Reform]) give their critical assessment of the role of multilateral development banks in the emerging climate finance architecture.

We are now in a good position to say where that funding can come from. Last year saw an impressive crop of analyses and reports by the international community on ways to generate financing for pressing global issues of development and climate change, including:

- The IMF report to the G20 on a range of options to raise revenue from the under-taxed financial sector, including through the use of Financial Transaction Taxes (FTTs);
- The 60-country Leading Group on Innovative Financing for Development produced a solid report recommending a Currency Transaction Tax, as a way to raise funds for the Millennium Development Goals and climate action;
- The European Commission produced analyses and proposals for different kinds of innovative financing mechanisms;
- The UN Secretary General’s High-level Advisory Group on Climate Change Finance (AGF) produced its report on options for mobilizing climate financing, which included detailed background papers on issues like Financial Transaction Taxes and revenue from measures to address emissions in the aviation and maritime transport sectors.

With this impressive body of work already completed, it is clearly time to move beyond analysis and study, and get to work on prioritization, negotiating and implementing the best options for generating the financing needed.

Turning this analysis into decisions will require political will and determination, taking advantage of the negotiating fora and decision-making processes available, focusing on the most promising sources first. The role of civil society will be essential in ensuring that developed and developing countries move beyond their traditional defensive positions, and together make the difficult decisions necessary to implement innovative sources of financing.
The work in the above reports point to two clear opportunities to make progress this year on innovative sources of public finance – measures to tax the financial sector, especially through a Financial Transaction Tax, and measures to address emissions from the aviation and maritime transport sectors (often referred to as “bunkers,” the term for international transport fuels).

In order to move forward towards implementation this year on these sources of financing for climate action and perhaps other “global public goods” as well, action should be pursued under the Climate Convention (UNFCCC), the International Maritime Organization (IMO), the International Civil Aviation Organization (ICAO) and the G20.

Under the UNFCCC, discussion of sources of new and additional finance has taken a back seat in the last couple of years to issues of governance and financial architecture of the Convention. A major breakthrough was achieved in Cancún in December with the decision to create a new Green Climate Fund, to be designed by a Transitional Committee over the course of this year. This fund must become operational and be able to channel financing as soon as the Fast Start finance period expires at the end of 2012. Given the need to have new and scaled up sources of finance implemented within two years, it is essential that this issue be taken up this year in the main negotiating body under the UNFCCC, the Ad Hoc Group on Long Term Cooperative Action (AWG-LCA), drawing on the findings of the AGF and other relevant work, as indicated in the Cancún decisions. The relevant bodies of the UNFCCC and its Kyoto Protocol have the authority to make decisions related to measures related to greenhouse gases, such as auctioning of emissions allowances. For other sources not directly related to greenhouse gas emissions, such as FTTs, the UNFCCC should still provide coordination and guidance regarding climate finance to other bodies that will also play a role in implementing sources of financing.

The financing source that received the strongest recommendations in the final report of the AGF was measures to address emissions from the aviation and maritime transport or “bunkers.” According to the AGF, bunker-related finance could generate more than US$10 billion for climate action. Progress in these sectors has been blocked for more than a decade because of the inability to reconcile the principal of “common but differentiated responsibilities” of the UNFCCC and the principal of equal treatment and non-discrimination between ships and air carriers, that govern the specialized bodies in these sectors, the IMO and ICAO. The AGF gave support to a proposal that can overcome this stalemate, using a rebate mechanism to ensure there is “no net incidence” on developing countries, in the context of a global mechanism that can ensure equal treatment of ships and aircraft worldwide. The IMO will be taking up these issues in 2011 starting at a meeting in March, and the AGF recommendations offer an opportunity for a breakthrough this year.

While specialized bodies like the UNFCCC, IMO and ICAO will have the primary decision-making and implementation role, other more political bodies like the G20 can also play a supportive role, by indicating the willingness and commitment of their members to pursuing action. This is particularly important for measures like FTTs, where there is no clear competent body, and where the revenue could be sufficient for multiple ends, including climate, sustainable development and domestic budgets. President Sarkozy of France has committed to using their presidency this year to pursue action on innovative financing and FTTs in particular. The Seoul G20 statement asked Finance Ministers to take into account the AGF report. A strong commitment to action from G20 members on such innovative financing measures would be a welcome development and provide valuable input to decision-making in other bodies.

With the deepening of impacts of climate change in many parts of the world, decisive action on financing for measures to prevent much worse future impacts and adapt to unavoidable climatic disruptions will be an important signal that national leaders and the international community are facing up to the need to provide leadership on climate change. It will provide support for adaptation and mitigation actions on the ground in developing countries in coming years, and strengthen the ability of international institutions to respond to this growing threat.

This year presents a huge opportunity, but civil society will need to hold governments accountable, both at home in capitals and in international fora, and ensure their actions and position reflect the urgent need for mobilizing new and scaled-up finance through innovative sources.


4Report of the Secretary-General’s High-level Advisory Group on Climate Change Financing. www.un.org/wcm/content/site/climatechange/pages/financedevelopmentgroup/pid/13300

5Financial transaction taxes can generate revenue for multiple purposes, including other global public goods like development, poverty eradication, health and education. If it is a broad-based FTT going beyond currencies to securities like stocks and derivatives, it could generate hundreds of billions of dollars per year, some of which should go towards domestic budgets as well.
SPECIAL DRAWING RIGHTS AND THE AGF REPORT: AN UNACCEPTABLE EVALUATION

Ilana Solomon, Policy Analyst, ActionAid USA

Special Drawing Rights (SDRs), which have the potential to capitalize the recently-established UNFCCC Green Climate Fund as soon as it is operational, were quickly dismissed in the final report of the High-level Advisory Group on Climate Finance (AGF). The report found that “globally coordinated special drawing rights appear to be unlikely instruments for meeting the 2020 goal of US$100 billion.” The reason offered was that “political acceptability was found to be limited, owing to a lack of consensus on the appropriate role of special drawing rights in the international monetary system.” In ActionAid’s estimation, it is morally unacceptable to overlook a financing option such as SDRs which can immediately contribute billions of dollars to support developing countries confront the climate crisis.

SDRs are reserve assets created at no cost by the International Monetary Fund (IMF). They were devised in 1969, amidst a shortage of both dollars and gold, but have been used most recently in 2009 in response to the global financial and economic crisis. At that time, a new allocation of US$250 billion worth of SDRs was issued – US$165 billion of which went to developed countries which have the least need for additional reserve assets.

There are a number of ways that SDRs can be used for climate finance. Philanthropist George Soros suggested at the Copenhagen climate conference that developed countries could transfer US$100 billion worth of the SDRs from their 2009 allocation to capitalize a Green Climate Fund. The IMF released a Staff Paper in March 2010 which proposed that developed countries use their reserve assets (including SDRs) as the initial capital base for a Green Climate Fund. ActionAid has proposed that in addition to developed countries transferring SDRs from their 2009 allocation to the Green Climate Fund, the IMF should also issue new, regular allocations of SDRs to fund climate needs.

As suggested by the AGF report, policy makers’ reservations about using SDRs for climate finance is in part because SDRs were not created for that purpose. And while this is true – SDRs were created with the purpose of supplementing reserve assets – the climate crisis demands that we open ourselves up to new ways of thinking about financial instruments. SDRs are an existing mechanism which can be utilized immediately and without drawing on national deficits in developed countries.

It is important to note that the AGF report did acknowledge that some countries may find using SDRs for climate finance an attractive option, leaving the door open for countries to use their SDRs for the purpose of climate finance. ActionAid encourages developed countries to dedicate their SDRs to the Green Climate Fund. In countries where the political climate is not yet ripe for such action, we call on people across the globe to demand more from their policy makers and make it unacceptable to dismiss a perfectly viable financing mechanism that could literally make the difference between life and death for millions of the world’s poorest people.

FINANCIAL TRANSACTION TAXES: A WIN-WIN FOR THE CLIMATE AND THE ECONOMY

Janet Redman, Co-Director, Sustainable Energy & Economy Network of the Institute for Policy Studies

At the UN climate talks in Cancún, developing countries secured a new Green Climate Fund to channel money for adaptation and the transition to low-carbon economies. But while developed countries committed to mobilizing climate finance, they did not cite specific sources. And because existing pledges to reduce greenhouse gas emissions fall short of what the science demands for climate security1, the costs of adaptation and mitigation in developing countries will far outpace the US$100 billion per year enshrined in the Cancún agreement2.

The scale and immediacy of the need for climate finance in developing countries highlights the importance of the work of the UN High-level Advisory Group on Climate Finance (AGF) and why innovative mechanisms with the potential to generate significant revenue and promote economic stability like a Financial Transaction Tax (FTT) must be enlisted to fight against climate change.

An FTT is a tiny levy on trades using financial instruments like stocks, bonds, foreign currency exchanges, credit default swaps, commodity futures, or any other derivative. Because trillions of dollars worth of transactions happen every day, even a small tax of 0.05% could raise more than US$600 billion annually3. A tax on only foreign currency trades among the four most heavily traded currencies (the dollar, euro, yen and pound) could generate as much as US$33 billion each year4. Directing even a fraction of this revenue to climate change would dwarf current public contributions.

As well as raising significant resources for vital projects, an FTT could help rein in casino-style high frequency trading and short-term speculation. This would give an advantage to long-term, productive investment – the kind needed to move to clean, renewable energy and energy efficiency. Indeed, an FTT is an equitable way for the financial sector to make up for causing a crisis that squeezed government spending around the world, including spending for climate programs.
As the members of the AGF have noted in their final study, the implementation of an FTT is not a question of feasibility. A recent technical paper from the International Monetary Fund has pointed out that most G20 countries have already implemented some form of transaction tax\(^1\), without regional or global coordination.

The greatest hurdle to an internationally coordinated FTT has been political will. But this could be changing. What the AGF report fails to note is an increased interest in a regional tax scheme in Europe, leadership by France to take up the proposal for an FTT in the G20 in 2011, and a rapidly growing global civil society campaign in support of such taxes.

The AGF process could have been stronger if civil society had been given reasonable opportunity to participate, including representation in the advisory group, sufficient time to organize interventions, and access to working papers, AGF members, and the contributions of all parties consulted in a timely manner.

Identifying and analyzing the full range of possible sources for innovative climate finance will be increasingly important over the next year as design of the Green Climate Fund moves forward.

**PUTTING BUNKER EMISSIONS IN THE BANK**

*Pete Lockley, Consultant, European Climate Foundation*

Bunkers are a doubly attractive source of finance: putting a price on international aviation and shipping carbon would create an incentive to cut emissions in two fast-growing sectors, as well as provide tens of billions of dollars for climate action.

Debate has been dogged by disagreement on how (or even whether) to apply the principle of Common but Differentiated Responsibilities (CBDR) in sectors that are inherently global. The specialist UN agencies, the International Civil Aviation and Maritime Organizations (ICAO and IMO), have a tradition of applying regulation to all operators, irrespective of nationality. The industries themselves back global regulation, arguing (rightly) that adding costs to some operators but not others would distort competition where they both ply the same route. But many developing countries see global policies as imposing an unfair burden, and violating the CBDR principle.

There is a way forward. Article 4 of the UNFCCC provides for “co-operative sectoral approaches” in sectors including transport, on condition that developing countries’ incremental costs are met by developed countries. The AGF report endorses a similar concept, stipulating that sources should create “no net incidence” on developing countries. And it highlights ways to do this that make sense for each sector.

In the future, governments and institutions like the UN would do well to work more closely with global civil society to share research to overcome coordination issues, review revenue estimates, and further explore the equity implications of a Financial Transaction Tax.

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1. The UNEP found that the mitigation pledges tabled by developed and developing countries in Copenhagen imply a temperature increase of between 2.5 to 5° C before the end of the century, far above the 1.5 to 2° C threshold scientists say we must stay below in order to avoid a climate tipping point. [www.unep.org/publications/ebooks/emissionsgapreport/pdfs/EMISSIONS_GAP_TECHNICAL_SUMMARY.pdf](http://www.unep.org/publications/ebooks/emissionsgapreport/pdfs/EMISSIONS_GAP_TECHNICAL_SUMMARY.pdf)

2. The 2009 World Economic and Social Survey estimates that developing countries will need between US$500 and US$600 billion every year for climate change adaption and mitigation if we are to stay below 2° C. At higher temperatures, climate impacts will increase and the cost of adaptation will rise. [www.un.org/News/briefings/docs/2009/090901_DESA.doc.htm](http://www.un.org/News/briefings/docs/2009/090901_DESA.doc.htm)

3. The Austrian Institute for Economic Research estimates that a mid-range tax rate of 0.05% on financial transactions would raise annual revenues of approximately US$650 billion. [www.halifaxinitiative.org/content/policy-brief-ftt-idea-whose-time-has-come-april-2010](http://www.halifaxinitiative.org/content/policy-brief-ftt-idea-whose-time-has-come-april-2010)


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Ships can easily carry reserves of fuel, making evasion a major issue for any non-universal policy. In this sector, the solution is to rebate the cost of the policy to developing countries. If all developing countries received a rebate according to their share of global imports, the additional cost of shipped goods would be cancelled out (no net incidence). The cost that fell on developed countries (around two-thirds of the total) could be made available to finance climate change actions. Furthermore, a developing country could forego its rebate, and be internationally recognized for such action.

For aviation, a route-based approach to differentiation is possible. If a measure applied to all planes flying from...
developed countries (or all countries above a *de minimis* threshold of aviation activity, as discussed in ICAO), it would not trigger major evasion. Passengers value their time too highly to tolerate additional stops, and the additional miles, landings and take offs would be too expensive for airlines. The majority of passengers on these routes are from the developed world, and able to shoulder the modest additional cost of carbon.

Countries (and NGOs) that want to see progress on bunker finance must pay more attention to debates in IMO and ICAO in 2011. These bodies will design and implement the policies that ultimately deliver the money, but the voices of the countries most in need of climate finance are not often heard there. Developed countries should also demonstrate how part of the funds could be used to facilitate transfer of clean technologies within the sectors. They must also give clear pledges that revenue from international transport would not simply be channelled back to their own coffers, or support from developing countries, and industry, will evaporate.

The international community, as widely as possible, should endorse the approach of no net incidence on developing countries as a way to resolve CBDR in the bunker sectors without undermining the ICAO/IMO principle of equal treatment of all operators. It should also set out clear expectations of IMO and ICAO: both have Assemblies in late 2013 that should adopt market measures. COP-17, the G20, the Cartagena dialogue, the Rio+20 process, the on-going Transport Ministers dialogue – all could be used to build consensus on the way forward, and pressure on the bodies responsible to deliver.

Pending agreement on a carbon pricing mechanism in ICAO, individual developed countries could implement air ticket taxes of the kind already used by France (and several developing countries) to provide a revenue stream to fight HIV/AIDS. Such taxes require no international negotiation, are cheap to collect and have a negligible effect on demand for air travel.

If the proceeds were pledged to the Green Climate Fund ahead of COP-17 it would give much-needed confidence to developing countries that the GCF will not be just another “placebo” fund. Ticket taxes could then be abolished when equivalent revenue came on stream from a comprehensive emissions control mechanism.

**SHIFTING FOSSIL FUEL SUBSIDIES TO CLIMATE FINANCE**

*Stephen Kretzmann, Director, Oil Change International*

The ongoing efforts towards phasing out support for fossil fuels present an important opportunity to redirect substantial portions of those subsidies into climate finance. The concept is simple: stop funding the problem, start funding the solution.

### Figure 1. Recent Global Fossil Fuel Subsidy Estimates

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<tr>
<td><strong>G20 “IGO4” Report¹</strong></td>
<td>IGO4 study excluded OECD/Annex 2 subsidies but provides estimate of US$100 billion annual in production subsidies</td>
<td>US$557 billion/yr (based on 2008 figures)</td>
<td>IGO4 study excludes IFI and ECA subsidies</td>
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<tr>
<td><strong>Estimates from Non-Governmental Organizations (NGOs)²</strong></td>
<td>~US$100 billion/yr</td>
<td>US$400 billion/yr</td>
<td>At least US$12 billion/yr</td>
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<td></td>
<td>US$88 per capita</td>
<td>US$54 per capita</td>
<td></td>
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<tr>
<td><strong>G20 Submissions</strong></td>
<td>~US$8 billion/year</td>
<td>n/a</td>
<td>None specified</td>
</tr>
<tr>
<td><strong>None</strong></td>
<td>Wealthy country subsidies are mostly producer subsidies, going to corporations. G20 submissions did not use common definitions or reporting formats. Unfortunately, the AGF report relied on these submissions.</td>
<td>Developing country subsidies are mostly consumer subsidies, going to reduce energy costs.</td>
<td>These numbers vary annually because they are based on loans and project funding.</td>
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**Scale and Definitions of Fossil Fuel Subsidies**

The amounts of money currently going to fossil fuels in Annex 2 countries alone would likely cover a significant amount of what is needed for climate finance in developing countries. However, as seen in the box below, the current dollar amount of subsidies going to fossil fuels, as well as the definition of subsidy, is a matter of debate. This uncertainty highlights the need for transparency and an agreed reporting process.
The UNFCCC can play a critical role in both defining and reporting fossil fuel subsidies by undertaking transparent reporting on fossil fuel subsidies as part of National Communications Reporting. Establishing current levels of subsidies is a necessary precursor to subsidy reform.

The elimination of fossil fuel subsidies would lead directly to greenhouse gas emission reductions. The G20 study estimated that the elimination of subsidies in 37 developing countries alone would reduce greenhouse gas emissions 6.9% by 2020. Higher emission rates and per capita subsidies in wealthy countries suggests that much greater emissions reduction could be achievable if all subsidies (wealthy country and developing country) were removed.

Developing countries are legitimately concerned about access to energy for their populations, and the removal of fossil fuel subsidies can be seen as a threat to that access – unless the subsidy removal is accompanied by increased climate finance. For example, nine World Bank Directors representing 90 countries recently stated that the US Treasury’s guidance note on halting Bank support for coal “may have been acceptable if it had been accompanied by a US commitment to provide such enabling finance and technology.”

The key to subsidy removal will likely be the provision of climate finance and the sequencing of the subsidy phase out.

To establish trust and build momentum, the subsidy removal should be phased, gradually decreasing the level of support, and differentiated by country income level. For example, wealthy countries could commit to phasing out energy subsidies completely within five to seven years, and those funds could be redirected to climate finance. Middle-income developing countries could aim for 10 years. Low-income countries could target a 50 percent reduction within 10 years and a complete elimination in 15 years.

This strategy offers benefits to all parties. Wealthy countries would take a significant step forward in reducing their emissions, while also producing needed funding for climate finance. Developing countries would benefit from reduced exposure to the fluctuations in the oil market as well as financial and technology transfers for mitigation. In addition, subsidy phase out could become a central part of nationally appropriate mitigation actions (NAMAs) required of countries under the UNFCCC.

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International Air Passenger Adaptation Levy (IAPAL)

In 2008, the Least Developed Country Group of the UNFCCC released a proposal that calls for the introduction of an International Air Passenger Adaptation Levy (IAPAL) – a nominal solidarity levy to be charged on all international air travel – in order to collect significant core funding for climate change adaptation in developing countries. It is estimated that the IAPAL could raise on average US$8-10 billion annually.

The idea for a solidarity levy on air tickets is not new. In 2006, France became the first country to implement such a levy to support the global fight against HIV/AIDS, tuberculosis and malaria. 12 countries now apply this International Solidarity Levy on Air Tickets voluntarily to support UNITAID’s efforts to supply medicines for these diseases at greatly reduced cost. With the success of this program in mind, a recently released Oxford Energy and Environment Brief (January 2011) argues that use of an IAPAL for climate “deserves some special attention, because it is probably the only innovative financing scheme that could actually fly in time, for the simple reason that it already exists (albeit under a different name)!”

Read also:


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1OECD, OPEC, World Bank and IEA Study June 2010. This study included 37 developing countries and is based on 2008 oil prices which were highest ever at over US$90 / barrel. Abstract available at: [www.iea.org/files/energy_subsidies.pdf](http://www.iea.org/files/energy_subsidies.pdf)

2Based on Global Subsidies Initiative, IISS, Bank Information Center, ECA-Watch, Pacific Environment and Oil Change International estimates. The estimate of US$100 billion in annual production subsidies in wealthy countries is also cited in the IGO 4 report.

WORLD BANK AND CLIMATE, MORE HARM THAN GOOD?

By Karen Orenstein, International Policy Campaigner, Friends of the Earth US, and Elena Gerebizza, Development Finance Coordinator, Campagna per la Riforma della Banca Mundial (Campaign for World Bank Reform)

The World Bank and other international financial institutions, like the European Investment Bank and regional development banks, have been eager to find a niche for themselves in the climate change arena. The World Bank has been especially aggressive. In 2008, at the behest of the US, UK, and Japan, they launched the Climate Investment Funds, which many have viewed as competing directly with under-resourced climate funds under the UN Framework Convention on Climate Change (UNFCCC). To the bafflement of many, the report of the UN Secretary General’s High-level Advisory Group on Climate Change Financing even went so far as to characterize multilateral development banks (MDBs) as “sources” of climate finance. In reality, however, these banks are great “sources” of climate pollution.

Despite the climate crisis, the World Bank set a record in 2010 for the highest fossil fuel lending in its 66-year history. Financing for coal – the dirtiest of the fossil fuels – increased by 356% over 2009 and represented two-thirds of fossil fuel funding, according to the Bank Information Center. With ever scarcer international public resources available, and with the climate crisis threatening to erase decades’ worth of development gains made by countries, it is difficult to believe that the World Bank is actually taking climate change seriously when it’s a major driver of climate pollution. Indeed, despite widespread South African and international civil society protest that it would be harming South Africa’s poor and the environment, the World Bank in 2010 lent more than US$3 billion to build one of the world’s largest coal power plants in South Africa. Because of the Bank’s poor track record on the environment, human rights, development, and democratic governance, a worldwide “World Bank out of Climate Finance” campaign was launched last year.

This pressure is having an impact. The UN climate conference in Cancún last December saw the establishment of a Green Climate Fund (GCF) under the UNFCCC. A Transitional Committee is now tasked with actually designing the GCF in 2011. Because of their experience with the World Bank and other MDBs, developing countries fought hard to ensure that the GCF allows them to directly access funds without requiring that they go through multilateral implementing agencies like the World Bank, countries to have direct access to funding. It will be crucial to ensure that this right to direct access is fully built into the design of GCF.

This builds on the precedent set by the UNFCCC’s Adaptation Fund, which provides for national implementing agencies within developing countries to have direct access to funding. It will be crucial to ensure that this right to direct access is fully built into the design of GCF.

Many developing countries and civil society also strongly pushed for a competitive bidding process to determine the trustee of the GCF. However, due to the insistence of some developed countries, including the US and EU, the World Bank was named the trustee for an interim period of three years. As the work of the Transitional Committee gets underway, it will be critical to limit the mandate of the World Bank and the reach of the MDBs in influencing the GCF’s design.

It is also fundamentally important that the World Bank honor the sunset clause of its Climate Investment Funds, ensuring that they close shop when the Green Climate Fund is operational, as required. The World Bank’s Pilot Program on Climate Resilience (which deals with adaptation) is actually supposed to sunset in 2012; this sunset clause must be adhered to.

For decades, civil society watchdogs have monitored the World Bank. They have become increasingly concerned by its escalated support for private financial actors and by the profit-driven, short-term investment strategy implemented by the current World Bank presidency. Its support for the expansion of carbon markets as well as for financial intermediaries (to which its environmental and social safeguards do not apply) to leverage more capital on financial markets is a lose-lose strategy for poor countries. Carbon markets represent a false solution to the climate crisis – they don’t lead to a decrease in global warming, which will have the worst effects in poor countries, nor do they deliver financing to them. Troublingly, such markets could drive a new speculative bubble based on subprime carbon derivatives (similar to the housing bubble), which would hit poor and vulnerable economies the hardest.

Should the World Bank compete with private investors in highly profitable – but highly polluting – activities, like in the oil and gas sector, in a short-term, speculative manner? Or should it help catalyze investments to achieve access to truly clean energy for the poor and reduce the impact of climate change related-activities, in coherence with its mandate? We prefer the latter.
Resources on Climate Financing

Below are some of the most recent civil society papers and statements on climate finance. These and many more are available on the NGLS website: www.un-ngls.org/spip.php?article3104

- *The U.S. Role in International Climate Finance*, Alliance for Climate Protection & Center for American Progress, December 2010
- *From Climate Finance to Financing Green Growth*, Project Catalyst, 23 November 2010
- *Clearing the Air: Moving on from carbon trading to real climate solutions*, Friends of the Earth, November 2010
- *Civil Society Letter to the AGF*, 8 October 2010
- *Fair and Effective Climate Finance: an assessment of finance in global climate negotiations*, 2-3 September 2010
- *The Political Economy of Climate Finance*, Christian Aid, September 2010
- *Climate Change Finance: Providing Assistance for Vulnerable Countries*, Pew Center on Global Climate Change, by Elliot Diringer, 27 July 2010
- *Investing in Our Future Act of 2010 (H.R. 5783) – Using a Currency Transaction Levy to Raise Resources to Address Global Health and Climate Change in Developing Countries*, IPS, ActionAid International, Friends of the Earth International, RESULTS and Health Gap, 26 July 2010
- *Statement to the UN Secretary General’s High Level Advisory Group on Climate Finance (AGF)*, Greenpeace, 12-13 July 2010
- *Civil Society Intervention for the High Level Advisory Group on Climate Finance*, 12 July 2010
- *Climate finance sources discussion paper 2010*, IPS, Campagna per la riforme della Banca Mondiale, ActionAid, Global Alliance for Incinerator Alternatives (Gaia), Jubilee South Asia Pacific Movement on Debt & Development (APMDD), July 2010
- *What Are Special Drawing Rights and How Can They Be Used to Finance Climate Adaptation and Mitigation?*, ActionAid USA, June 2010
- *Capitalizing on Climate: The World Bank’s Role in Climate Change & International Climate Finance*, Friends of the Earth US, by Karen Orenstein, June 2010
- *Baseline for trust: defining “new and additional” climate funding*, International Institute for Environment and Development (IIED), June 2010
- *Climate Finance additiornality: emerging definitions and their implications*, Heinrich Böll Stiftung North America & Overseas Development Institute (ODI), June 2010
- *Climate Finance Post-Copenhagen: The $100bn questions*, Oxfam, 31 May 2010
- *Additionality of Climate Finance*, World Resources Institute (WRI), May 2010
- *UN and International Financing proposals: A Chronology*, WWF, by Mark Lutes, 15 May 2010,
NOTES

2 The Transitional Committee shall have 40 members, with 15 members from developed country Parties and 25 members from developing country Parties, including 7 members from Africa; 7 members from Asia; 7 members from Group of Latin American and Caribbean States; 2 members from Small Island Developing States; and 2 members from Least Developed Countries.
7 www.un-ngls.org/IMG/pdf/Notes_-_AGF_meeting_Sept_23_-_Input_Summary.pdf
11 www.connectusfund.org/resources/review-public-sources-financing-climate-adaptation-and-mitigation

Climate Justice for a Changing Planet: A Primer for Policy Makers and NGOs shines a light on the important intersection of equity and justice in the context of the current climate change debate. The book explores climate justice as an emerging concept and as a key to understanding the global debate. The book demonstrates that climate justice is not only an ethical imperative, but also an economic and social one.

Climate Justice for a Changing Planet lays out key principles to take the climate justice agenda forward and to ensure that equity is at the core of any response to climate change. It compiles research and analysis from several international organizations and by civil society and highlights the need to address climate simultaneously with the international development agenda, achieving poverty reduction and respecting international human rights. Available at http://www.un-ngls.org/climatejustice

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