1. Climate finance for reductions of emissions and vulnerability

Climate finance is crucial to addressing climate change, because large-scale investments are needed for the significant reduction of greenhouse gas emissions and for the adaptation to the adverse effects of climate change. As the capacity to prevent and cope with the consequences with climate change varies vastly among countries, countries with more resources shall provide financial assistance to the less endowed and more vulnerable countries.

1.1 Definition: what is climate finance?

"Climate finance" is usually broadly defined as the financial resources that are paid to support climate change mitigation and adaptation activities, and thus to cover the costs of the transition to a global low-carbon economy, and to build resilience against current and future climate change impacts1 2. This includes both financial resources from public sources, such as governments and intergovernmental organisations, as well as private sector financing, including alternative sources such as crowd funding.

The term "climate finance" is often used in the context of the international climate change negotiations as part of the UNFCCC3. The UNFCCC specifically states that a diversity of channels, such as bilateral and multilateral, may be used for climate finance4. The Standing Committee on Finance5 aggregates climate finance in two ways, being (a) the global total climate finance flows and (b) climate finance flows from developed to developing countries, also known as international climate finance.

Sometimes climate finance is defined more narrowly, incorporating the notion of "incrementality" or "additionality". In that case, climate finance only includes those financial commitments that are investments beyond a business-as-usual case. In order to be counted towards climate finance, the investment should then thus be "new and additional". There is little agreement on this definition, or on how to quantify additionality6.

1.2 Climate finance under the UNFCCC

Article 4.3 of the UNFCCC7 states that "developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1." These obligations include a national emissions inventory and a general description of the country’s steps to implement the Convention. More substantially, Article 4.3 states that developed country Parties should provide financial resources for developing countries to meet the "agreed full incremental costs of implementing measures that are covered by paragraph 1 of this Article." This includes amongst others the implementation of mitigation and adaptation plans, international technology transfer and taking into account climate change considerations in relevant social, economic and environmental policies and actions.

At the fifteenth Conference of the Parties to the UNFCCC (COP15) in Copenhagen in 2009, developed countries have pledged to support developing countries in their transitions to low-carbon economies: "Scaled up, new and additional, predictable and adequate funding as well as improved access shall be provided to developing countries"8. According to the Copenhagen Accord, international climate finance should consist of an annual 100 billion US dollars of public and private finance by 2020, in the context of meaningful mitigation actions and transparency on implementation. In 2010, the commitment of 100 billion dollars of climate finance was also included in the Cancun Agreements of COP169.

2. Principles for climate change funding

Considering the importance of large-scale climate finance, there is an increasing interest in ensuring its effectiveness. There is no single agreed set of principles for climate finance effectiveness, but several authors and organisations have proposed such principles, based, amongst others, on principles for official development assistance (ODA) and perspectives from the international climate negotiations[10].

In this section, a synthesis of these principles is provided. While some of the criteria and principles focus on climate finance in general, many only apply to climate finance by the public sector, or specifically to international climate finance flows from developed to developing countries. This section has a synthesis of these principles provided, based on a range of articles and reports[10] [11] [12] [13] [14] [15] [16] [17] [18].

2.1 Scaled-up climate finance from various sources

There is general agreement that scaled-up climate finance is needed. The funding should be "substantial" and "adequate". Adequacy is defined in several ways, but in general it means that funding should be sufficient to keep the global temperature rise as low as possible, and at least below the 2 °C temperature increase scenario. Funding should be provided in a timely fashion, and uncertainties on the need for mitigation and adaptation actions should not lead to delays in the availability of funding.

Specifically for public international climate finance, the Copenhagen Accord calls on developed countries to provide "new and additional resources". Terms such as additionality (as also discussed above in section 1.1), 'new-ness' and complementarity are used as principles for climate finance, to ensure it does not cover existing financial flows which are given a new label of "climate finance". A main consideration is that climate finance should be both additional to ODA, ensuring that climate finance is not just ODA with a new label, whilst mainstreaming into ODA, to ensure coordination of funds within developing countries.

To allow for adequate investment programme planning, the financial flows should be predictable through multi-year funding cycles. The Accra Agenda for Action of 2008, agreed by ODA recipients and donors, specifically requests financial sources to provide 3 to 5 years of forward information on their planned funding.

The majority of climate finance will come from private sources, but public funds are also required for many activities that are unlikely to attract sufficient private finance. In addition, public climate funding can be used as a leverage to open channels for private investments. Public climate finance contributions should relate to the respective capabilities of countries; sources of finance that have incidence on developed countries only, and thus not burden developing countries, should be preferred. With regard to private climate finance, principles such as respective capabilities can play a role with regard to improving for example enabling environments: developing countries may need support for designing the regulatory framework and building government capacity to enable private investments in the country. A key requirement for effective private funding is the maximisation of risk-adjusted returns.

2.2 Equitable, inclusive and transparent financing process

Especially for public climate finance, transparent administration of funding is needed. This requires publicly available, accurate and timely information on funding structures, financial data and decision-making processes. The importance of transparency is stressed in Article 11.2 of the UNFCCC. In addition, the climate finance process should be upwardly and downwardly accountable. Upwardly, public international climate finance funding processes under the Convention's financial mechanism are accountable to the COP. Downwardly, affected countries, organisations and citizens should have procedural rights to challenge climate funding decisions and climate finance project implementation.

International public climate funds should be governed based on equitable representation, including a broad group of stakeholders, not only from the donor countries but also from recipient countries. With regard to individual projects, also those financed through private climate funding, there should be inclusive public participatory processes. Views of those that are directly affected by climate-financed activities need to be taken into account in the design of climate funds and the implementation of projects, in order to maximise impacts and minimise harm.

2.3 Appropriate fund disbursement with a vulnerability focus

The UNFCCC 's Article 11.1 states that the COP should decide on the climate finance policies and priorities of the Convention's financial mechanism. However, a general principle is that funding priorities should be made in line with the concept of subsidiarity. Decisions should be made at the lowest possible and appropriate levels. Local experiences should be the basis upon which climate policy is formulated and climate finance is distributed. Specifically for adaptation projects, climate finance should match the adaptation needs of those affected.

Obviously, climate finance disbursement should be appropriate. Appropriateness is explained as that climate funding should not place extra development burden on the recipient country, and should not be at the expense of national development priorities or human rights. This principle is also identified as 'do no harm'. In other words: the 'good' of the climate funding should not lead to 'bad' with regard to sustainable development and human rights. In addition, climate finance activities should be consistent with the provisions of other environmental agreements, such as the Convention on Biological Diversity.

A final principle, specifically applicable to climate change adaptation, is a focus on vulnerability. Access to and the benefits of climate finance should be distributed equitably. Vulnerable groups should be prioritised, and special funding provisions should be made for the least developed countries (LDCs). The vulnerability focus not only applies to the macro-level of countries, but also to the project-level. Certain vulnerable groups, such as indigenous peoples, the poor, women and children, often experience disproportionate impacts of climate change. Differences in vulnerabilities to climate change for men and women should be taken into account, by creating gender-aware climate financing mechanisms.

The vulnerability focus is not directly applicable to climate change mitigation, as in this case the principle of adequacy defines the focus (keeping the world below the 2 °C temperature increase scenario). In specific project implementation, however, the needs of vulnerable groups need to be taken into account.

3. The landscape of climate finance

It is estimated that the total global climate finance flows have been between USD 331 and 364 billion per year (2011-2013 data by Climate Policy Initiative[19] [20]), or between USD 340 and 650 billion (2010-2012 data by the Standing Committee on Finance[5]). The landscape of climate finance is diverse and extensive. An overview of the climate finance landscape is given in knowledge package "The Diverse and Extensive Global Landscape of Climate Finance Flows" with a special focus on international climate finance.

The IPCC's 5th Assessment Report[21] reasons that global arrangements are necessary for public international climate finance. Universally trusted institutions are needed to distribute funding in an orderly and efficient manner. The GCF is expected to become the main global fund for supporting action in developing countries.

Apart from the global arrangement, regional arrangements play an important role in fostering regional cooperation and stimulating action and funding. Regional arrangements include institutions such as multilateral development banks (e.g. the African Development Bank) and regional groupings (e.g. the Association of Southeast Asian Nations). In addition, bilateral cooperation arrangements can be effective for international climate finance.

4. The way forward

There is general acknowledgement that climate finance, specifically international climate finance, needs to be increased from its current level. It is not clear how developed countries can effectively and efficiently mobilise sufficient funds to meet the climate finance needs of developing countries. In addition to following the principles for effective climate finance, the OECD2 and Open Climate Network22 have identified aspects that can help to increase climate finance:

- Better design of the institutional structures of climate finance sources. Donor countries should also ensure that global investment is shifted away from climate-incompatible development.
- Demonstration of successful interventions. If a particular mitigation or adaptation activity functions effectively, this 'demonstration effect' can lead to upscaling and replication.
- National and regional policies to enhance enabling environments in the developing countries that receive climate finance. Programmes should be solidly grounded in national circumstances and opportunities.

Experience with development aid has made clear that the effectiveness of financial initiatives is generally higher if there is a focus on an overarching strategy, rather than individual projects. Funding strategies for climate and development may be integrated, by developing an integrated funding and innovation strategy, in order to enhance their effectiveness23. UNDP concurs with the need for integrated climate and development strategies: "aligning development and climate management goals is critical to scale up climate investments"24.

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