Climate Action Network

A finance package for Paris

Position

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Climate Action Network International (CAN-I) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 900 members in over 100 countries. www.climatenetwork.org

To secure a strong outcome in Paris that facilitates ambitious climate action on the ground, a key pillar will be a "finance package" that covers both the pre- and the post-2020 period. Developed countries will have to demonstrate how they are meeting past promises (in particular the $100bn target). For the period after 2020, strong provisions on finance in the Paris Agreement are needed to enable developing countries to enhance their ambition beyond what they can do on their own, laying out the mitigation potential that could be unlocked with scaled-up financial resources. Also, developing countries, particularly the poorest and most vulnerable countries, will require increasing amounts of financial support to adapt to a changing climate and cope with the impacts. This submission outlines the Climate Action Network's view on the main elements of this finance package for Paris.

Pre-2020 finance: meeting the 100 billion promise

1. **A credible 100 billion plan well ahead of Paris.** Developed countries should provide a plan on how they intend to ramp up support to developing countries, and reach/surpass the promised $100bn per year by 2020. This should include qualitative and quantitative information on actors, channels, sources and instruments that developed countries will use to deliver predictable and scaled up funds between now and 2020. CAN believes the $100bn should be comprised of public funds, with private finance additional to that sum. That said, the plan should also give clarity on the intended division to be reached by 2020 between financial sources (public and private sources, loans and grants). The plan should also demonstrate how the balance between adaptation and mitigation finance will be reached to address the adaptation gap.

   Why? A pre-condition for adopting a new agreement in Paris is confidence that past promises to provide support are going to be fulfilled, particularly in the face of more frequent and intense impacts of climate change on vulnerable countries and the high pre-2020 mitigation potential. Also, any such plan would greatly suffer if it turned out to be a *mere accounting exercise, and did not show what additional efforts developed countries will make to increase both direct and mobilised support over the next five years.*

2. **A pledge to significantly increase public finance as part of the 100bn plan.** Well before Paris, developed countries should make a quantified pledge to increase annual finance from public budgets between now and 2020 to support climate action in developing countries. Additional finance for adaptation should be prioritised so that adaptation receives half of overall public finance flows.

    Why? Public finance is needed to ensure that interventions that remain unattractive for the private sector, especially in lower income countries and in marginalised communities, receive the required support. Public finance can help for example to promote micro, small, and medium scale and off-grid sustainable energy solutions; lower the cost of renewable energy access for the poorest; ensure forest protection; and build capacity in developing countries. Public finance can help ensure that private finance investments are not detrimental to, and benefit, the poorest and most vulnerable.

    It is clear that current levels of public finance are far below what is needed, and that adaptation remains under-funded. Predictable public finance for adaptation will be essential for developing countries to deal with the unavoidable impacts of climate change. While developed countries may seek to deploy a range of innovative instruments, channels and actors to meet the target, annual funding from public budgets will have to increase significantly. Meeting the 100bn promise must not become an issue of smart accounting of private investments or over-reliance on high leverage ratios.

Post-2020 climate finance under the Paris Agreement

3. **Periodically set collective and dedicated targets for the provision and mobilisation of public finance – captured in separate targets for adaptation and mitigation**. The Paris Agreement should stipulate that collective targets for the provision of new and additional public financial support should be set every five years. Separate targets should be set for adaptation and for mitigation. These targets should be informed by support requirements of receiving countries, enabling them to ramp up ambition and enhance action, complement their own efforts, and leverage additional finance. Through a COP decision in Paris, Parties would set the first iteration of these targets, for the 2021-2025 period. The initial targets should be reviewed and adjusted before 2020 based on national assessments of support required (see item 5 below).

    Why? Such targets are needed to provide predictability on the provision of support from contributing countries so that receiving countries can make sound and sustainable planning decisions. Such targets would also help unlock dormant ambition in the INDCs, where developing countries point to potentials they could exploit with support. The targets *should be targets for public finance (some of which would be used to leverage and mobilise additional finance from private sources for mitigation actions).*

It is imperative there is a *<u>separate public finance target for adaptation</u>* *in order to close the gap in the provision of financial support for adaptation and provide more clarity on levels of support to be made available. Public finance for adaptation is essential for the world's poorest countries and communities on the front lines of climate change, who have the least resources to cope and do not tend to live in places or circumstances that attract private investment. Developing community disaster preparedness plans, planting mangroves for protection from storms and rising seas, or developing small-scale irrigation systems, for example, do not generate internal returns and will not attract private sector investment.*

The targets would be reviewed, adjusted and renewed in five-year cycles consistent with the overall commitment/contribution periods of the agreement. The Paris Agreement itself would not set quantified targets directly but only establish that targets be set at five-year intervals. The numerical targets should be set via COP decisions, possibly linked to other mechanisms to enhance ambition (such as a robust ratchet-up mechanism).

4. **A commitment by contributing Parties to meeting the targets.** The Paris Agreement should include a commitment by developed countries as well as countries with comparable levels of responsibility and capability and who are in a position to contribute, in light of national circumstances, to meeting the collective targets through the provision of finance. Countries should regularly provide information on levels of support made available and on types, instruments, sources and channels of such support, for the past year, the present year and, indicatively, for the following three years. The information provided should indicate the additionality of the levels of support to existing flows of finance. The commitment should also include that developed countries would provide support that is increasingly additional to resources provided to meet development aid targets.

    Why? The commitment spelt out here would not give any individual country a specific financial commitment, except the generic commitment that countries will contribute to the targets set at five-year intervals. Countries would, however, be firmly committed to providing information on what is made available, in order to continuously monitor progress made towards the collective targets.

5. **Establish a process to enable receiving countries to periodically identify support requirements.** The Paris Agreement should establish a process by which receiving countries would be enabled to iteratively and regularly identify the support they require to enhance action, including through an enhanced NAP process for adaptation or expansion of INDCs. This would also form the basis for regularly setting the collective targets under the Agreement.

This process would bring support requirements (to enhance action) formally into the UNFCCC process, allowing these assessments to form the basis for the setting of collective targets, and measure progress on the provision and mobilisation of support against support requirements. The process could be linked to (or built on) existing processes such as on NAPs or INDCs.

6. **A process to mobilise finance from alternative sources.** The Paris COP should launch a [1 or] 2 year work program to explore innovative sources of finance, with a mandate to report back and make recommendations to the COP at both COP22 and COP23 on how to implement new and innovative sources of finance. Based on this work, the COP could take action, or, where appropriate, call on relevant institutions and bodies to do so, as required for setting up revenue streams from such sources, consistent with the principles of the UNFCCC with regard to revenue generation and distribution.

   Why? To generate additional public finance to meet the 100 billion promise and future financial commitments under the post-2020 agreement, many options exist and have been analysed in various reports and studies. These options include levies on fossil fuel extraction, revenues from a financial transaction tax, auctioning revenues from carbon market systems such as the EU emissions trading scheme, debt-for-climate swaps, emissions-related levies on international transport, etc. Some options may be enacted by the COP itself, others depend on other bodies, and the COP could call upon those bodies to take action.

7. **A commitment by all Parties to "shift the trillions".** The Paris Agreement should include a commitment by all Parties to do their part in shifting financial flows towards low-carbon, climate-resilient development (smarter infrastructure, renewable energy and energy efficiency) by setting the right policy frameworks such as climate legislation and other policies to incentivise, leverage, mobilise and shift financial flows, and by deploying public finance. The Paris Agreement should also recognise that developing countries with low capabilities will require international public finance to develop the regulatory and policy frameworks.

   Why? To ensure that we keep warming well below 2°C and keep staying below 1.5°C within reach, financial flows need to become increasingly carbon-neutral and geared towards contributing to developing low-carbon, climate-resilient economies and societies. While all countries can do something, developing countries with low capabilities will continue to require increasing amounts of support also in the post-2020 world, and this should be explicitly recognised in the Paris Agreement.

Fairer and more sustainable climate finance before and after 2020

8. **A target by contributing Parties to move towards allocating at least 50% of public finance to adaptation.** The Paris outcome should include (through a COP decision) a commitment to gradually improve the balance between mitigation and adaptation when allocating climate finance, aiming to reaching a 50:50 balance by 2020.

    While it was agreed in Cancún that there should be a balance between mitigation and adaptation, the majority of climate finance is used for mitigation. Especially since private sector finance will mostly go to mitigation, it is imperative that the balance in allocating public finance is improved in order to tackle the imbalance and ensure sufficient support is available for investing in critical sectors, such as food and water security or risk management strategies, that depend on public finance. The GCF has already adopted a 50:50 policy, which should now be extended to all public climate finance.

9. **A commitment from Parties to shift financing of international public finance institutions away from fossil towards renewable energies**. The COP should call on public finance institutions at national, regional and global level to quickly shift spending away from fossil fuels to renewable energies. This should include MDBs, national development agencies and export credit agencies. It should include all forms of financing, such as direct financing, export credit insurance and fossil fuel subsidies. It should also direct the Green Climate Fund to ensure no support is given to fossil fuel and other unsustainable energy options. The COP should hold an annual assessment on progress made on this issue.

    Why? Public finance plays an important role in providing signals to private finance and hence should phase out finance for fossil fuels based energy as soon as possible. I*t's important that these commitments be enshrined in the Paris Agreement but applicable well before 2020.*

10. **An agreement to only count climate-specific finance towards meeting UNFCCC commitments.** The Paris outcome should include an agreement that, when reporting financial support towards meeting UNFCCC commitments, only finance that has climate action as its principal objective (corresponding to the OECD DAC Rio Marker 2) should be counted.

    Why? Without this principle, there is a high risk of losing credibility, and of future finance targets being largely met by simply mainstreaming climate change into development spending. Doing that is crucial, but meeting finance commitments largely through a generous accounting method of financial flows that often have only very limited climate components would drastically reduce the amount of dedicated climate finance available for projects such as building a seawall or relocating displaced communities in a coastal village. This would severely limit the extent to which international climate finance *contributes towards meeting the huge additional costs developing countries now face to even stand still.*

11. **A commitment from finance institutions and Parties to abide by strong social, gender, environmental and climate safeguards.** The Paris COP should include a commitment from financing institutions and Parties to apply the do-no-harm principle, which stipulates that international development interventions or activities should not cause unacceptable harm to communities or ecosystems. The Paris Agreement should also abide by all international human right laws, and support the full integration of Environmental, Social and Governance (ESG) practices into financial reporting. The Paris COP should also ensure all climate finance is gender-sensitive. Finally, the Paris COP should decide on an exclusion list applicable to all operating entities of the financial mechanism, to ensure that climate finance does not cause environmental degradation or fund projects that are harmful for local communities, violate human rights or are counterproductive to climate ambition.

Why? Currently, a share of climate finance is spent on projects with limited impact on climate change action but high social and environmental costs. For example: coal projects that do not effectively tackle climate change and create health problems for the people, or big dams that are a threat to biodiversity and unfairly displace communities. The Paris COP should signal a complete shift away from such projects and ensure that action on the ground has the most positive impacts without compromising social and environmental standards.

Therefore, climate finance should abide by the do-no-harm principle. Accountability of climate flows is key to establishing a high level of environmental and social integrity of climate actions and upholding the Cancun agreement that "Parties should, in all climate change-related actions, fully respect human rights."
Since climate finance is not gender-neutral but has differentiated impacts on men and women and their respective ability to adapt to, or contribute to the mitigation of, climate change (as underlined by the IPCC 5th Assessment), climate finance provision must be gender-sensitive.

Overall, climate finance should support countries' right to development by funding low-carbon and climate-resilient development strategies with multiple benefits in line with recipient countries' funding priorities, and be country-owned in order to maximise climate finance effectiveness.

12. **An agreement to improve reporting and transparency on financial flows.** The Paris outcome should include an agreement to improve the reporting and transparency of climate finance flows, building on existing processes but tightening up reporting guidelines to address flaws and inconsistencies, and in particular enlarge it to all kinds of financing institutions.

Why? Transparency is crucial to ensure trust between developed and developing Parties and to track commitments to the outcomes on the ground. Improving and strengthening a common monitoring, reporting and verifying systems among donors and recipient countries will allow evaluation of the effectiveness of finance flows in order to ensure the achievement of climate goals in accordance with sustainable development and human rights.