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DEVELOPED COUNTRY CLIMATE FINANCING INITIATIVES WEAKEN THE UNFCCC

SYNOPSIS

This Analytical Note looks at the level and delivery vehicles of public financing for climate change actions in developing countries from developed country Parties of the UN Framework Convention on Climate Change (i.e. the Parties listed in Annex I of the Convention). It argues that such public financing from Annex I Parties as is available falls far short of what is needed, shows preference for non-UNFCCC delivery vehicles, and is essentially double-counted as compliance by these Annex I Parties with their official development assistance (ODA) and climate financing commitments. It concludes that existing modalities under which climate financing is being provided by developed countries have the effect of weakening the UNFCCC in terms of its role as a catalyst and vehicle for climate financing that is consistent with and supports the objectives of the UNFCCC.

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EXECUTIVE SUMMARY

Current developed country actions in relation to climate financing undermine the institutional effectiveness of the United Nations Framework Convention on Climate Change (UNFCCC).

The amounts pledged or to be committed from Annex I Parties for climate financing remain far too low to meet the scale of the financing needs of developing countries in relation to climate adaptation and mitigation. The UNFCCC estimates that US$262.15 – 615.65 billion annually by 2030, while the G-77 and China in their August 2008 climate finance proposal has suggested that initially (as a minimum) at least US$278.82 billion to US$557.64 billion (based on the 2007 GDP of Annex I Parties) will be needed. Currently, climate-related funds under the GEF amounts to US$10.03 billion to US$10.25 billion, while US$18.95 billion (including US$6.68 billion in bilateral initiatives and US$12.27 billion through multilateral initiatives) in climate-related financing may be forthcoming from Annex I Parties' individual climate financing initiatives, with approximately US$4.8082 billion annually being made available as a result of these initiatives over varying time periods. That is, climate financing that is available or may be made available by Annex I Parties in the foreseeable future are a little over one-tenth of the minimum estimated requirements for climate financing coming from the UNFCCC or the G77 and China.

Developed countries prefer to use either their own bilateral channels or other multilateral channels such as the World Bank as their vehicles for public sector financing flows. They also show a preference for relying on unpredictable and market-driven private sector financing. The public financing from developed countries for climate change-related actions that go through non-UNFCCC channels, and such financing that do go through the UNFCCC's financial mechanism (via the Global Environment Facility as an operating entity), reflect and respond to the donors' political and economic priorities and interests rather than to the sustainable development priorities of developing countries.

Developed countries also stress that the climate change-related aspects of their official development assistance (ODA) flows should be considered as compliance with their UNFCCC obligations to provide new, additional and predictable financing to support developing countries' climate actions. This can be clearly seen in the national communications of many Annex I Parties.

Existing modalities under which climate financing is being provided by developed countries have the effect of weakening the UNFCCC in terms of its effectiveness as a normative legal regime for global action on climate change and in terms of the effectiveness of its financial mechanism as a catalyst and vehicle for climate financing that is consistent with and supports the objectives of the UNFCCC. To address these, the following three points need to be highlighted:

1) There must be a minimum nine-fold increase of public financing to be made available by Annex I Parties through the UNFCCC for such financing to at least be commensurate and responsive to the lower-end figures of either the UNFCCC estimate of US$262.15-615.65 billion per year or the G-77 and China proposal of an initial minimum estimated annual amount of US$278.82 - 557.64 billion (0.5-1% of Annex I total GDP as of 2007);

2) The UNFCCC's financial mechanism must be the vehicle through which such scaled-up public financing will be channeled to developing countries. This will require structurally enhancing the financial mechanism to handle the potential financial flows and associated administrative and logistical matters. The G-77 and China have already submitted a proposal in this regard for enhancing the operationalization of the UNFCCC financial mechanism. It is only when financial resources are channeled through the UNFCCC that they will be able to contribute most effectively to meeting the objective of the UNFCC (including its ultimate objective); and

3) The scaled-up financing must be new and additional to existing ODA flows to developing countries. There should not be any mixing or double-counting of ODA and climate financing in terms of reporting and accounting for specific flows in relation to donor country compliance with either the 0.7% of GNP target for ODA from developed countries or with the UNFCCC obligation to provide financing support for developing country implementation of the UNFCCC.

It is only if such financial resources are channeled to and through the UNFCCC and its financial mechanism, consistent with the UNFCCC's principles and obligations, and making full use of the mechanisms and processes already established within the UNFCCC, that the global community will be able achieve the objective of the UNFCCC in the most effective manner

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I. INTRODUCTION

1. Over the past year, developed countries have been stressing their willingness to come up with the financing to support global actions to address climate change. But action should speak louder than words when it comes to climate change financing.

2. Developed country actions in relation to climate financing undermine the institutional effectiveness of the United Nations Framework Convention on Climate Change (UNFCCC) for the following reasons, among others:

   (i) the amounts pledged or to be committed remain far too low to meet the scale of the financing needs of developing countries in relation to climate adaptation and mitigation[1];

   (ii) the preference of developed countries to use either their own bilateral channels or other multilateral channels such as the World Bank as their vehicles for public sector financing flows and their reliance on unpredictable and market-driven private sector financing both weaken the UNFCCC's ability to serve as the main multilateral vehicle for climate financing and are not consistent with developed countries' financing obligations under the UNFCCC; and

   (iii) the insistence by developed countries that climate change-related aspects of their voluntary official development assistance flows be considered as compliance with their UNFCCC obligations to provide new, additional and predictable financing to support developing countries' climate actions is not consistent with the obligatory nature and intent of the UNFCCC's provisions relating to such financing.

3. To address these reasons, developing countries through the Group of 77 and China (G-77 and China) in the context of the on-going intergovernmental process of the Ad-Hoc Working Group on Long-Term Cooperative Action (AWG-LCA) under the Bali Action Plan (BAP) of the UNFCCC Conference of the Parties (COP) have proposed the further

[1] In the context of the mitigation scenario presented in the 2007 UNFCCC report entitled "Investment and Financial Flows to Address Climate Change", at http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/background_paper.pdf. The mitigation scenario in that report envisioned reductions by 2030 of global emissions from 61.52 Gt CO2eq to 29.11 Gt CO2eq, which is 25 percent below the 2000 emissions of 38.90 Gt CO2 eq.

enhancement of the UNFCCC's financial mechanism.[2] This proposal seeks to channel financial resources for climate change under the authority of the COP. It contains concrete ideas for strengthening the operation of the UNFCCC's financial mechanism in ways that best and most effectively and viably address the gaps that have been identified so far in the implementation of the UNFCCC. The proposal is also intended to address the problems that have been encountered and experienced by developing countries with respect to the effective use of financial resources that have been made available in order to achieve the objective of the UNFCCC, including its ultimate objective under Art. 2 thereof.

II. Developed Country Climate Financing Too Low to Meet Needs of Developing Countries

4. In an update of its 2007 report on investment and financial flows to address climate change,[3] the UNFCCC secretariat's estimated annual cost requirements to fund adaptation, mitigation and technology transfer for developing countries were as follows:

Table 1: Estimated Annual Financial Requirements for Adaptation, Mitigation and Technology Transfer for Developing Countries

Adaptation	Mitigation	Technology Transfer
US$ 27.75-58.25 billion annually in 2030 for developing countries (calculated from the proportion needed in developing countries as indicated in Table 5, FCCC/TP/2008/7, p. 19). The UNFCCC estimate globally for annual adaptation costs is US$49-171 billion.	**US$52.40 billion annually** in 2030 for developing countries (calculated from the proportion needed in developing countries as indicated in Table 4, FCCC/TP/2008/7, p. 18) without including the amount required for investments in technology research, development and deployment of climate technology in developing countries. The UNFCCC Secretariat paper seems to assume that all the costs for the technology transfer-related research, development and deployment for climate technology will go solely to developed countries.	**US$6-41 billion annually** up to 2030 for deployment of technologies to developing countries (US$25-163 billion globally). (see Table 17, FCCC/TP/2008/7, p. 57) **US$176-464 billion annually** up to 2030 for diffusion and commercial transfer in developing countries (US$380 billion to US$1 trillion globally). (see Table 17, FCCC/TP/2008/7, p. 57) For research and development, global cost estimates amount to US$10-100 billion annually up to 2030, and for technology demonstration, US$27-36 billion annually up to 2030 globally. (see Table 17, FCCC/TP/2008/7, p. 57) The UNFCCC Secretariat paper did not put any estimates of the costs that need to be financed in developing countries with respect to climate technology

[2] For the text of this proposal, see FCCC/AWGLCA/2008/MISC.2, 14 August 2008, pp. 35-37.
[3] See UNFCCC, Investment and financial flows to address climate change: an update, FCCC/TP/2008/7, 26 November 2008, at http://unfccc.int/resource/docs/2008/tp/07.pdf.

		research and development, implying that R&D is done <u>only</u> in developed countries. However, for developing countries, support for endogenous R&D is an important and integral component in any technology transfer under the UNFCCC.[4]
The total UNFCCC estimated annual financial requirements for adaptation, mitigation and technology transfer for developing countries -- which <u>may still be on the low-end</u> in any case due to omissions with respect to technology R&D and demonstration – would be: **US$262.15 billion – US$615.65 billion annually by 2030**		

5. In their August 2008 proposal submitted to the AWG-LCA regarding the operationalization of an effective financial mechanism under the UNFCCC Conference of the Parties (COP), the G-77 and China suggested that the level of new funding that would go into the financial mechanism from Annex I Parties "can be set at 0.5% to 1% of the GNP of Annex I Parties" and additional to existing official development assistance (ODA) flows. This can be taken as an **initial minimum estimate** from the G-77 and China of the financial resources needed to support adaptation, mitigation, and technology transfer and their means of implementation in developing countries. Furthermore, *this initial minimum amount will likely vary from year to year depending on the annual GNP figures of Annex I Parties.*

6. Using GDP figures instead of GNP,[5] total Annex I Parties' GDP in 2007 (at purchasing power parity, PPP) amounted to US$53.66 trillion (see Annex 1 for figures of UNFCCC Annex I Parties' GNP). **The G-77 and China proposal would therefore require Annex I Parties**, in compliance with their funding commitments under Arts. 4.3, 4.4, 4.5, 4.8 and 4.9 of the UNFCCC, **to provide initially (as a minimum) US$278.82 billion to US$557.64 billion (based on the 2007 GDP of Annex I Parties)** to the UNFCCC's financial mechanism.[6] This annual figure will vary from year to year depending on the level of GDP for each Annex I Party.

7. Compared to what is estimated to be required <u>at the minimum</u> by both the UNFCCC Secretariat in its report and by the G-77 and China in their proposal, the funding available, pledged, or otherwise committed by Annex I Parties fall far short – whether in terms of what is available under the Global Environment Facility (GEF) (as an operating entity of the UNFCCC financial mechanism) or in terms of developed countries' climate financing initiatives though non-UNFCCC channels (see Tables 2 and 3 below):

[4] See e.g. the G77 and China's August 2008 proposal for a technology transfer mechanism which clearly states that financing should also be provided for technology research and development in developing countries.
[5] Due to the lack of publicly available lists of GNP figures on a country-by-country basis.
[6] The UNFCCC Secretariat's estimate is US$201-US$402 billion. See FCCC/TP/2008/7, para. 348. The UNFCCC Secretariat's basis for calculating this estimate, however, is not explained in their paper.

Table 2: What is Currently Available or Estimated to be Made Available to Developing Countries under the GEF as an Operating Entity for the UNFCCC's Financial Mechanism

Adaptation	**US$ 50 million** – GEF Trust Fund: Strategic Priority for Adaptation **US$ 90.3 million** – Special Climate Change Fund (GEF administered) **US$ 172.0 million** – Least Developed Countries Fund (GEF administered) **US$ 80–300 million per year for the period 2008-2012** from the 2% share of the proceeds of annual sales of certified emissions reductions from CDM projects – Adaptation Fund; current funding estimated at **US$91.3 million**
Mitigation	**US$ 1,030 million** from the GEF 4th Replenishment for the period 2006-2010 , of which **US$352 million** is already committed **US$ 154 million** – GEF 4 special programme on LULUCF **US$ 8,400 million** – Market value of expected emissions reductions from CDM projects during 2007 **US$ 41 million** – Market value of expected emissions reductions from JI projects during 2007
Technology Transfer	The GEF estimates that **80-100 per cent of GEF climate change mitigation funding** fits the technology transfer definitions used by the Convention (see FCCC/SBI/2007/21, Table 2 and para. 62) **US$ 16.2 million** were available from the SCCF for the programme for transfer of technology
Total through the GEF	**US$10.03 billion to 10.25 billion**

* Unless otherwise indicated, the source for all figures in this table is the UNFCCC secretariat report, FCCC/TP/2008/7, Table 28 (figures are rounded off).

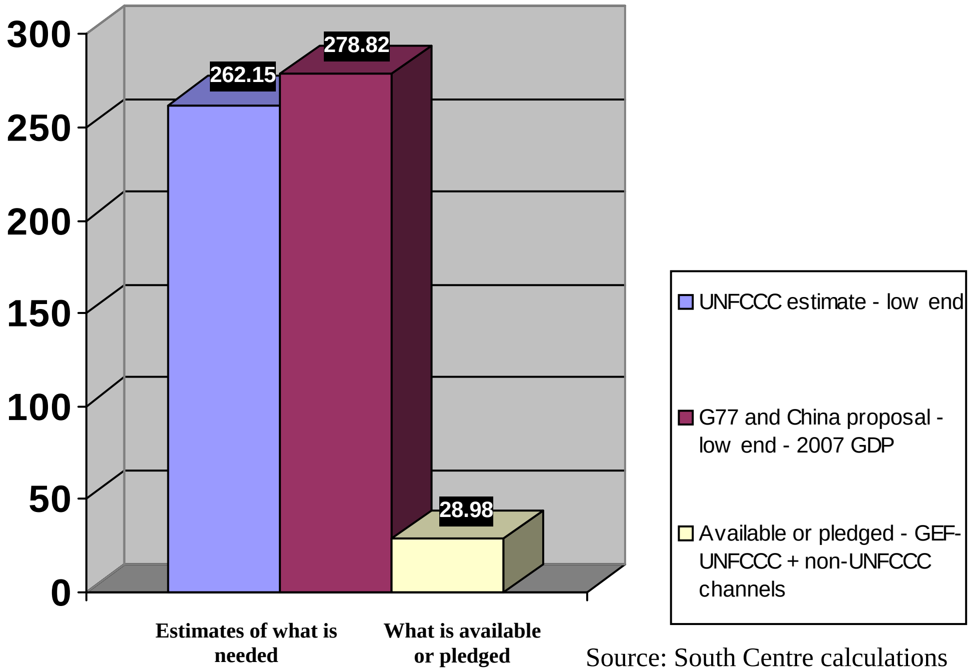
Table 3: Public Climate Financing through Non-UNFCCC Channels from Annex I Parties

Non-UNFCCC Channel	Estimated Amount
Bilateral	US$6.68 billion
Multilateral	US$12.27 billion
Total	**US$18.95 billion** (with approximately US$4.81 billion annually being made available as a result of these initiatives over varying time periods)

Source: FCCC/TP/2008/7, Table 29 (figures are rounded off)

8. As can be seen in Figure 1 below, the total of currently available or pledged public sector financing from Annex I Parties, whether through the GEF (as an operating entity for the UNFCCC's financial mechanism) or through bilateral or other non-UNFCCC multilateral channels, fall far short of current estimates for annual climate financing requirements (whether based on the UNFCCC paper or the G-77 and China financial mechanism proposal). Much more scaling up of public sector financing from Annex I Parties therefore needs to be undertaken in order to meet climate financing requirements.

Figure 1: Climate Financing Mismatch between Needs and Availability (US$ billions)



Source: South Centre calculations

9. The problem is also not simply limited to the severe funding shortfall evident in both UNFCCC (through the GEF) and non-UNFCCC channels. A major part of the problem relating to current public climate financing from developed countries is that regardless of the delivery channel, these are voluntary and are not directly accountable to the UNFCCC COP. As such, currently available public financing for climate action from developed countries (whether channeled through the GEF or not) does not, and cannot, be compliant with the criteria of predictability and adequacy of financing that is required under Art. 4.3 of the Convention. The nature of voluntary financing is directly inconsistent with the mandatory nature of the financing commitments for developed country Parties under Art. 4.3, 4.4, and 4.5 of the Convention.

10. Furthermore, it is not clear to what extent such voluntary financing (again whether through the GEF or other non-UNFCCC channels) complies with the COP's guidelines on such financing's consistency with COP policies, programme priorities and eligibility criteria, and on non-introduction of new forms of conditionalities.[7] For example, in relation to the GEF, the COP has

[7] Decision 11/CP.1, paragraph 2(a) states as follows: "**Consistency should be sought and maintained between activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism and the policies, programme priorities and eligibility criteria for activities as relevant, established by the Conference of the Parties**. Towards this end and in the context of Article 11.5 of the Convention, the secretariat should collect information from multilateral and regional financial institutions on activities undertaken in implementation of

had to issue additional guidance at virtually every session to the GEF, thereby indicating that qualitative deficiencies in the GEF's performance as an operating entity for the UNFCCC's financial mechanism continue to persist. Critiques of the GEF's performance as an operating entity generally relate to, inter alia, the simplicity and efficiency of its funding procedures and the equitable distribution of GEF funding to developing country Parties, especially LDCs and SIDS.[8]

11. Given that many Annex I Parties have managed so far to raise and commit a total of US$4.1 trillion to bailout their financial sectors as a result of the current global financial crisis[9], committing the current low-end minimum initial estimates (from UNFCCC and G77 and China) of US$262.15-US$278.82 billion needed from Annex I Parties annually to support the financing of climate change adaptation, mitigation and technology transfer for developing countries should also be doable (see Figure 2).

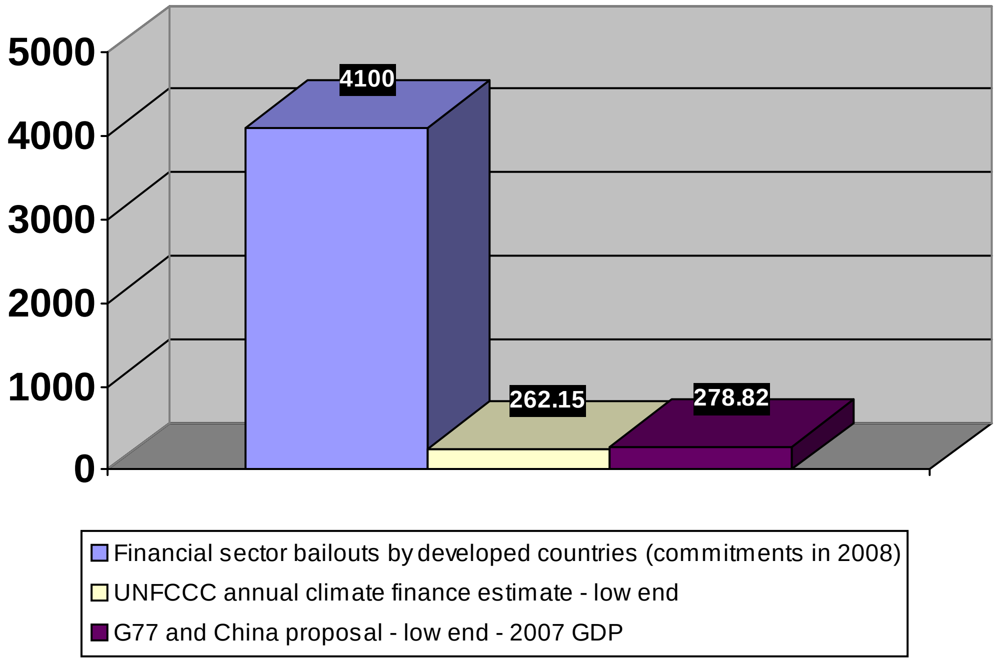
12. The fact that climate financing currently available through the UNFCCC's financial mechanism (a low-end estimate of US$10.03 billion) is so very little and falls so far short of what is needed effectively means that institutionally, the UNFCCC – in particular the COP – is severely weakened in terms of its ability to provide, direct, guide, and hold accountable the flow of public financing to support developing countries' actions under the UNFCCC.

Article 4.1 and Article 12 of the Convention; **this should not introduce new forms of conditionalities**." (emphasis added)

[8] These critiques are implicitly reflected in, for example, COP Decision 3/CP.12's paragraphs 1(a) and (b) and 2(a), (b) and (d) with respect to the COP's request and invitation to the GEF to further simplify and improve the efficiency of its procedures and processes as well as the last preambular paragraph of the same Decision "noting the concerns expressed by developing country Parties over the implications of the requirements for co-financing, in particular in adaptation project activities", and paragraph 3 urging the GEF "to provide further funding, in a more timely manner, to the developing country Parties, in particular the least developed countries and small island developing States …" The difficulties that developing country Parties have with the GEF were already being experienced since the beginning, as can be seen in the fifth preambular paragraph of COP Decision 11/CP.2 (which was adopted in July 1996, the second year after the UNFCCC entered into force), which expressed concern over the difficulties encountered by developing country Parties in receiving the necessary financial assistance from the Global Environment Facility owing to, *inter alia*, the application of the Global Environment Facility operational policies on eligibility criteria, disbursement, project cycle and approval, the application of its concept of incremental costs, and guidelines which impose considerable administrative and financial costs on developing country Parties."

[9] See e.g. Sarah Anderson et al., How the Bailouts Dwarf Other Global Crisis Spending (Institute for Policy Studies, 24 November 2008).

Figure 2: Comparison of Financial Sector Bailouts by Developed Countries and Estimated Climate Financing Needs (US$ billions)



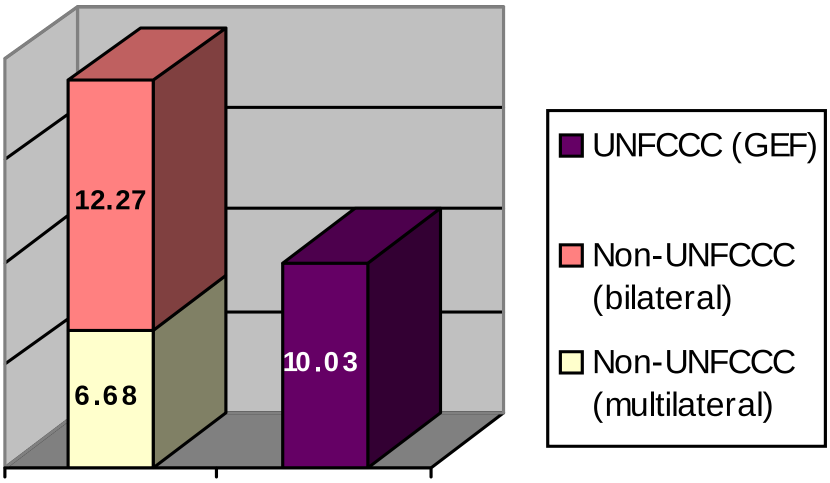
Source: South Centre calculations

III. DEVELOPED COUNTRY PREFERENCE FOR NON-UNFCCC CHANNELS FOR PUBLIC CLIMATE FINANCING

13. In addition to the severe mismatch between estimated climate financing needs and what is made available, Annex I Parties also show a great reluctance to channel climate financing sourced from their governmental funds through the UNFCCC.

14. Counting the low-end estimate of US$10.03 billion channeled or available through the GEF as an operating entity of the UNFCCC's Art. 11 financial mechanism and those through bilateral and other non-UNFCCC multilateral mechanisms (US$18.95 billion), the current total available or pledged public financing for climate change-related actions from Annex I Parties comes up to US$28.98 billion. Of this total amount, 34.61% is through the UNFCCC (via the GEF as an operating entity) and 65.39% is through non-UNFCCC channels (see Figure 3).

Figure 3: Public Sector Climate Financing from Some Annex I Parties – Clear Preference for Non-UNFCCC Channels (in US$ billions)



Source: South Centre calculations

15. Many Annex I Parties justify their reluctance to channel such financing through the UNFCCC by arguing that the UNFCCC is not set up institutionally to handle massive financial flows, and that other multilateral institutions such as the World Bank are better equipped and have more expertise in handling such flows. However, considering that the UNFCCC is the sole virtually universal multilateral policy and institutional regime providing the legitimate framework for global action on climate change, climate financing should be channeled through the UNFCCC's financial mechanism and its capacity to handle such flows should be further enhanced.

16. There are four main consequences to this preference by Annex I Parties to channel their public sector financing for climate change-related actions through non-UNFCCC channels:

(i) <u>The UNFCCC is institutionally weakened</u> -- The preference for non-UNFCCC channels for climate-related public financing is a step towards weakening the UNFCCC itself and thereby undermining the effectiveness of the UNFCCC's legal regime and institutional architecture as the international community's main vehicle for global action on climate change. Such weakening also effectively lessens the normative value of the UNFCCC itself as a binding legal regime;

(ii) <u>The UNFCCC's financial mechanism is weakened</u> – The financial mechanism established under Art. 11 of the UNFCCC serves as the sole multilaterally recognized channel through which developed countries can comply with their obligations under Art. 4.3, 4.4, and 4.5 to provide new and additional financing. By leaving the UNFCCC virtually un-financed, and by moving public climate financing to other channels, the institutional ability of the UNFCCC to serve as the main conduit for public sector-sourced climate financing is severely weakened. Furthermore, once non-UNFCCC funding channels are built up and adequately funded, developed countries might become even more reluctant to further enhance the UNFCCC's financial mechanism as the main channel for climate financing. This would make it unfeasible for the UNFCCC's COP, and developing country Parties to the UNFCCC, to ensure that such financing is consistent with the provisions and objectives of the UNFCCC.

(iii) Developed countries cannot be held accountable to the UNFCCC COP for fulfillment of their financing commitments under the UNFCCC – Finally, because most Annex I public sector-sourced climate financing is not through the UNFCCC under the authority of the COP, developing countries would find it difficult if not impossible to raise issues relating to measurement, reporting, and verification, as well as accountability, for the flow and the use of such financing in the COP.

The difficulties that developing countries have experienced with the GEF as an operating entity for the UNFCCC's financial mechanism in terms of accessing climate financing are likely to be compounded even more with respect to climate financing that go through non-UNFCCC channels that are not accountable to the COP. These non-UNFCCC channels (such as the World Bank or other multilateral institutions whose governance structures and memberships are different from the UNFCCC COP – not to mention the fact that the governance of the World Bank and most of the other regional development banks are heavily dominated by developed countries) would likely have governance and accountability mechanisms in which developing country recipients play little or no effective role and in which the funding priorities are likely to be driven by the donors' interests rather than the recipients' needs or the climate financing priorities identified by the UNFCCC COP.

The example of the GEF can be highlighted because even though it was designated to be an operating entity for the UNFCCC's financial mechanism and that with respect to climate change-related funds, its actions are supposed to be subject to the guidance of the UNFCCC COP, developing countries have often raised concerns with respect to the difficulties encountered in terms of having the GEF's operational decisions be fully consistent with COP guidance. [10] The fact that the GEF's

[10] Part of the problem with the GEF in terms of ensuring the equitable allocation of funding resources to developing country Parties is that "higher levels of funding have typically been assigned to the countries with the highest overall potential for GHG mitigation" which means that many other developing country Parties whose priority is adaptation more than mitigation (because of the low levels of their emissions or low mitigation capabilities) often find it difficult to obtain GEF funding. Many African countries, for example, are sinks rather than sources of emissions. Some of the GEF's stakeholders, particularly in the Pacific region, have, in fact, suggested that "the GEF must fund activities in the area of adaptation to climate change because it is in the guidance from the UNFCCC and, because they are smaller emitters, the mitigation of GHG emissions is not a high national

governance body is different from and not accountable to the UNFCCC COP makes it even more difficult for developing countries through the COP to call the GEF to account.

Using non-UNFCCC channels as the main conduits for public climate financing to support developing countries' implementation of climate change-related actions means that the fund providers – e.g. developed countries – need not and would not be bound by UNFCCC COP guidelines, nor be accountable to the UNFCCC COP. Furthermore, there is greater room for donor control over the scale, direction, objectives, recipients, and objectives of climate financing by using non-UNFCCC channels. This therefore also institutionally weakens the UNFCCC. Accountability to the UNFCCC COP with respect to climate financing is explicitly stated in Art. 11 of the UNFCCC, and having such financing go through the UNFCCC's financial mechanism will ensure that all the UNFCCC Parties, both developed and developing alike, through the COP will be able to participate fully and transparently (and hold each other accountable) in the process of guiding and using such financial resources consistent with the provisions of the UNFCCC. This would also enable the Parties, both developed and developing, to work together to leverage such financing to generate other resources outside of the UNFCCC context that can be used to also support the meeting of the UNFCCC's objective.

(iv) Climate financing priorities of developing countries will not be met – Finally, current public financing from developed countries for climate action – whether through the GEF or through non-UNFCCC channels – will essentially reflect and respond to their own strategic political and economic interests and priorities rather than the sustainable development priorities of developing countries. This is clearly inconsistent with the needs-focused approach implicit in the UNFCCC's financing provisions (Arts. 4.3, 4.4 and 4.5) in which financing from developed countries are supposed to respond and meet developing countries' needs.

IV. MIXING CLIMATE FINANCING AND ODA: DOUBLE COUNTING FLOWS

17. Annex I Parties' preference for using non-UNFCCC channels – e.g. bilateral or non-UNFCCC multilateral channels such as the World Bank – also makes it easy for them to essentially double-count such financing as financing that meets both their commitment to provide at least 0.7% of their GNI as official development assistance (ODA) and their UNFCCC commitment to providing financing to developing countries. That is, a dollar channeled through the World Bank or through bilateral aid agencies can be counted by the donor as an ODA flow and as a climate finance flow. This would be directly

priority." See GEF, OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the GEF (June 2005), pp. 36-40.

inconsistent with Art. 4.3 of the UNFCCC which requires that such climate financing must be new and additional. As the G77 and China has stressed, climate financing must be "new and additional … which is over and above ODA."

18. Double counting funds given as ODA to support development in developing countries as also being funds for climate financing under the UNFCCC, or vice-versa, is clearly something that developed countries do not think are inconsistent with their UNFCCC obligations. This is clearly evident in the national communications of Annex I Parties in relation to their compliance with their UNFCCC financing obligations.

19. Some examples of how some Annex I Parties view the relationship between their ODA flows and their climate financing commitments under the UNFCCC are as follows:

- Australia in its submission on "Enhanced action on financial resources and investment" submitted on 21 August 2008 clearly suggests that climate financing "will continue to utilize the full range of public financial instruments and purpose built funds like the World Bank Climate Investment Funds;"
- New Zealand, in its submission "Enhanced Action on Finance" dated 30 September 2008, notes that "effective financing requires action at multiple levels, including through redirecting private and public investment, the financial mechanism of the Convention, Official Development Assistance, national policies and proposed new financing options and mechanisms" and goes on to state that principles contained in OECD-initiated documents relating to aid effectiveness (e.g. the Paris Declaration and the Accra Agenda for Action) as well as the Monterrey Consensus on Financing for Development could also be applied to climate financing;
- Mixing ODA and climate finance is also the tenor of the United States' submission on finance and technology dated 30 September 2008;
- In the European Union submission on adaptation technology and financing dated 30 July 2008, France (on behalf of the EU) stated that ODA will play a role in meeting the costs of climate adaptation, and that climate financing should be in line with the international development assistance architecture (recommending that the OECD's Paris Declaration on Aid Effectiveness could also be applied to climate financing).[11]

20. In effect, by double-counting ODA as climate financing, developed countries are essentially reflecting and responding to their own priorities relating to development assistance and climate financing rather than to the priorities and needs of developing countries. This in essence undermines the balance contained in the UNFCCC with respect to the climate financing needs of developing countries and the climate financing obligations of developed countries.

[11] See also Annex 2 for quotes from selected Annex I Parties on climate financing and ODA.

21. Mixing ODA flows for development projects and financial flows for climate adaptation and mitigation makes it difficult to obtain a clear picture of the extent to which Annex I Parties are complying effectively with their UNFCCC obligation to provide new and additional climate financing to support developing country implementation of their UNFCCC obligations. Also, from the way in which financing is reported by Annex I Parties in their national communications, there are no benchmarks or guidelines by which such compliance can be effectively gauged. This could have adverse implications in terms of meeting the requirement in paragraph 1(b)(ii) of the Bali Action Plan that the provision of financing and technology to support nationally-appropriate mitigation actions by developing countries must also be done in a measurable, reportable and verifiable manner.

22. Hence, the issue of whether such preference for non-UNFCCC channels for public sector-sourced climate financing and the mixing of ODA flows with climate financing are consistent with the provisions of Art. 11 of the UNFCCC are of great concern to developing countries. This has already been raised by the G77 and China. In response to the developed country financing initiatives give preference to non-UNFCCC channels for climate financing, the G77 and China in their August 2008 climate financing proposal suggested that "any funding pledged outside of the UNFCCC shall not be regarded as the fulfillment of commitments by developed countries under Art. 4.3 of the Convention, and their commitments for measurable, reportable and verifiable means of implementation, that is, finance, technology and capacity-building, in terms of para 1.b(ii) of the Bali Action Plan."

V. Conclusion

23. It is clear that existing modalities under which climate financing is being provided by developed countries have the effect of weakening the UNFCCC in terms of its role as a catalyst and vehicle for climate financing that is consistent with and supports the objectives of the UNFCCC.

24. In order to enhance financial flows for climate adaptation, mitigation and technology under the UNFCCC in the context of the intergovernmental process being undertaken in the AWG-LCA under the Bali Action Plan, existing modalities for such flows from Annex I Parties need to be revisited and revised if such flows are to be rendered measurable, reportable and verifiable, and in full compliance with the UNFCCC and its objectives.

25. First, there must be a minimum nine-fold increase of public financing to be made available by Annex I Parties for such financing to at least be commensurate and responsive to the lower-end figures of either the UNFCCC estimate of US$262.15-US$615.65 billion per year or the G-77 and China proposal of an initial minimum estimated annual amount of US$278.82 – US$557.64 billion (0.5-1% of Annex I total GDP as of 2007).

26. Second, the UNFCCC's financial mechanism must be the vehicle through which such scaled-up public financing will be channeled to developing countries. This will require further structurally enhancing the financial mechanism to handle the potential financial flows and associated administrative and logistical matters. A proposal has already been submitted by G77 and China in this regard, positive action on which needs to be taken. This would make such flows fall directly under the guidance of, and the use thereof would be directly accountable to, the COP.

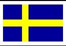
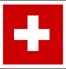
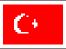
27. Third, the scaled-up financing must be new and additional to existing ODA flows to developing countries. There should not be any mixing or double-counting of ODA and climate financing in terms of reporting and accounting for specific flows in relation to donor country compliance with either the 0.7% of GNP target for ODA from developed countries or with the UNFCCC obligation to provide financing support for developing country implementation of the UNFCCC.

28. The relationship between the availability of climate financing resources, the channel (including governance institution and accountability mechanisms) through which such resources are provided to those that need them, and the objective of the UNFCCC, cannot be ignored and are crucial to ensuring that such financial resources are used effectively and well.

29. In this regard, it is only if such financial resources are channeled to and through the UNFCCC and its financial mechanism, consistent with the UNFCCC's principles and obligations, and making full use of the mechanisms and processes already established within the UNFCCC, that the global community will be able achieve the objective of the UNFCCC in the most effective manner – especially in terms of: (i) ensuring coherence and consistency with Parties' treaty obligations under the UNFCCC; (ii) adequately meeting and responding to the financing needs that have been identified and may still be identified through the UNFCCC's processes and mechanisms; and (iii) ensuring that control of, access to, and use of such financial resources are transparent, participatory, and cost-effective.

Annex 1: GDP of UNFCCC Annex I Parties
(as of 2007, PPP US$ millions)

UNFCCC Annex I Party	2007 GDP (in PPP, US$ millions)
Australia	762,887
Austria	316,006
Belarus	105,292
Belgium	377,215
Bulgaria	86,381
Canada	1,269,688
Croatia	68,907
Czech Republic	250,057
Denmark	203,519
Estonia	27,633
European Community (27 Member States)	16,760,074
Finland	185,853
France	2,067,707
Germany	2,812,255
Greece	324,891
Hungary	191,453
Iceland	12,274
Ireland	188,372
Italy	1,787,897
Japan	4,292,198
Latvia	39,896
Liechtenstein	1,786
Lithuania	59,885
Luxembourg	38,261
Monaco	976
Netherlands	647,966
New Zealand	112,703
Norway	247,956
Poland	621,984

	Portugal	230,834
	Romania	245,847
	Russia	2,089,607
	Slovak Republic	109,677
	Slovenia	54,714
	Spain	1,351,521
	Sweden	335,405
	Switzerland	301,181
	Turkey	885,905
	Ukraine	321,874
	United Kingdom	2,167,837
	United States	13,807,550
	Total GDP Annex I Parties (in US$ millions, PPP, as of 2007)	**55,763,924**

* Source: International Monetary Fund, World Economic Outlook Database, data for 2007, except for the GDP figures for Liechtenstein and Monaco, which are from The World Factbook, United States Central Intelligence Agency (CIA), March 20, 2008.

Annex 2: Mixing UNFCC Climate Financing and ODA – Quotes from Selected Annex I Party National Communications

Annex I Party	Quote from National Communication
Australia	The Australian Government, through its overseas aid programme, provides assistance for activities in developing countries in support of the UNFCCC, particularly in the Asia–Pacific region. (4th National Communication, p. 7, http://unfccc.int/resource/docs/natc/ausnc4.pdf)
Canada	Canada supports international efforts to develop climate change solutions through financial contributions to the Global Environment Facility (GEF), World Bank, United Nations programs, regional development banks, and other international institutions. In addition to the contributions made by CIDA, the Department of Foreign Affairs and International Trade (DFAIT) and other federal departments and agencies make contributions to the regular budgets of certain international organizations. (4th National Communications, p. 170, http://unfccc.int/resource/docs/natc/cannc4.pdf)
European Community	The EU Action Plan for climate change in the context of development cooperation reaffirms the commitment made in Bonn in July 2001 for the EU to deliver $369 million annually for climate change funding for developing countries by 2005. (4th National Communication, p. 110, http://unfccc.int/resource/docs/natc/eunce4add.pdf)
France	La relève du défi climatique est un objectif majeur de la politique française de développement et de coopération internationale. En effet, la prévention et la maîtrise du changement climatique passe par une mobilisation de l'ensemble de la communauté internationale et un renforcement de la coopération et de la solidarité internationale. C'est pourquoi la France axe sa politique de développement et de coopération internationale autour de deux objectifs : • développer une aide publique au développement croissante en volume et en efficacité ; • soutenir des mécanismes additionnels et spécifiques destinés à lutter contre l'effet de serre, objectif qui se décline lui même en plusieurs sous-objectifs; - respecter l'engagement de Bonn d'accroissement des financements alloués au climat de 40,8 M$ par an ; - appuyer le développement de projets au titre des mécanismes de flexibilité du Protocole de Kyoto ; - favoriser la consolidation et l'élargissement d'un mécanisme international de lutte contre l'effet de serre. (4th National Communication, Chapter 7, p. 3, http://unfccc.int/resource/docs/natc/franc4f.pdf)
Germany	The development policy of the German government also follows this vision, with the Federal Ministry for Economic Cooperation and Development (BMZ) shouldering the main burden of responsibility. Collaboration on the production of international rules and regulations and supporting developing countries in their efforts to put these into practice is an important contribution to global structural policy. Development cooperation helps create an enabling environment, without which it would be quite impossible to achieve global environmental and development goals. In this way too the German government is meeting its commitments under a growing number of international agreements and conventions. (4th National Communication, p. 183, http://unfccc.int/resource/docs/natc/gernc4.pdf)
Japan	Japan's environmental cooperation follows Environmental Conservation Initiative for Sustainable Development (EcoISD) announced in August 2002 at the World Summit on Sustainable Development (WSSD). In particular concerning the global-warming issue, which threatens sustainable development on a worldwide scale, the Government of Japan announced the Kyoto Initiative on aid for anti-global warming programs in developing

Annex I Party	Quote from National Communication
	countries during the Third Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP3) held in Kyoto in December 1997. Under the initiative the Government of Japan provides active support for anti-global warming programs and projects. (4th National Communication, p. 203, http://unfccc.int/resource/docs/natc/japnc4.pdf)
New Zealand	In 2001, New Zealand also joined with several other countries in a Political Declaration on Financial Support for Developing Countries. New Zealand's share of this voluntary commitment is NZ$5 million per year from 2005. The voluntary commitment comprises the proportion of funds from New Zealand's total Global Environment Facility contribution that is likely to be spent on climate change projects; the New Zealand Agency for International Development's climate change related support in the Pacific; funding for lump sum contributions to one or more of the UNFCCC funds; and funding for ad hoc contributions towards projects which advance international action to address climate change. (4th National Communications, p. 131, http://unfccc.int/resource/docs/natc/nzlnc4.pdf)
United Kingdom	The UK's development assistance programme is increasing. New and additional resources are available to deal with global environmental problems such as climate change. … The G8 also agreed to put climate risk management procedures in place for donor-funded development investments, to increase their resilience to the impacts of climate change. The UK will put these procedures in place by 2008. Before then a pilot phase will be implemented, working with the World Bank and other donors. … The UK makes a major contribution to the aid programmes of the UN development agencies and other international financial institutions, which are funding projects in developing countries related to the implementation of the UNFCCC. (4th National Communication, pp. 78-79, http://unfccc.int/resource/docs/natc/uknc4.pdf)
United States	U.S. financial flows to developing and transition economies that support the diffusion of climate-related technologies include official development assistance and official aid, government-based project financing, foundation grants, nongovernmental organization (NGO) resources, private-sector commercial sales, commercial lending, foreign direct investment, and private equity investment. (4th National Communication, pp. 4-5, http://unfccc.int/resource/docs/natc/usnc4.pdf)

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Fax: +41 22 798 8531

Chemin du Champ d'Anier 17
Case postale 228, 1211 Geneva 19
Switzerland

Telephone : (41 22) 791 8050
Fax : (41 22) 798 8531
Email : south@southcentre.org

Website:
http://www.southcentre.org