UNFCCC and KP also contained other climate finance policies: (a) that Annex II countries must satisfy their Rio-Kyoto obligations through "new and additional financial resources" apart from their existing ODA commitments (the ***additionality*** issue); (b) that ***adequacy and predictability*** in the flow of climate funds be ensured, with the burden being shared among developed countries; and (c) that an institutional ***financial mechanism*** be defined to facilitate the flow of UNFCCC-mandated climate funds and thus ensure ***improved access***, including via "bilateral, regional and other multilateral channels."

Prior to COP15, the UNFCCC-KP entrusted its financial mechanism to be operated by the independent Global Environment Facility (GEF) rather than create its own new fund. In 2001, KP created its own internally governed Adaptation Fund (AF), but which had limited funding sources. COP16 in Cancun decided to create a Green Climate Fund (GCF), to be "accountable to and under the guidance" of the COP, although important details have not been worked out yet.

There is near-universal agreement in the UN and other multilateral bodies that climate change action is becoming more urgent by the year, and that adequate and effectively governed climate finance is crucial. There is also a growing realization that climate finance could make a fundamental difference if linked to the wider Rio framework of sustainable development. (AGF 2010)

However, numerous gaps in climate finance policy are continually debated, often leading to deadlocks during COPs and the KP's Meetings of Parties (MOPs), while countries seek other sources of climate finance proliferating outside UNFCCC processes. The debates involve other entities pushing their own climate finance agenda and initiatives, such as the World Bank and other multilateral development banks (MDBs), the G20, the OECD, the Major Economies Forum (formerly Major Emitters Forum), various lobby groups backed by multinational corporations, and civil society networks based on Rio principles and climate justice.

Overview of issues

The implementation of climate finance has been contentious on four broad policy fronts: on ***volume and urgency*** of funding need; on ***sourcing***; on ***disbursement***; and on ***governance***.

1. *Volume and urgency of need*

UNFCCC estimated in 2007 that the global adaptation fund needed by major sectors could reach up to $171 billion per year by 2030—up to $66 billion of it in developing countries. A later analysis claimed the figure was probably under-estimated, but did not give a revised figure. (Parry et al. 2009) The cost of reducing global GHG emissions by 25% below 2000 levels would also need an additional net increase of $200-210 billion by 2030. (UNFCCC 2007, 92)

Thus, estimates of total adaptation and mitigation costs range from $250 to $380 billion annually by 2030. Estimates of funding increases needed from year to year also vary. But there is broad agreement that the scaling up must be done quickly in this decade, for emissions to peak sometime around 2020 and decline thereafter. (UNDP, cited in IBON 2008)

The Cancun Agreement on Long-term Cooperative Action (LCA) in 2010 cited developed countries as committing "to provide new and additional resources" of up to $30 billion for 2010-2012 as Fast Start Finance (FSF) and to a long-term "goal... of mobilizing jointly" $100 billion per year by 2020, but gave no exact timetables for scaling up from FSF to long-term. The UNSG's Advisory Group on Climate Change Financing (AGF) sees these figures as "challenging but feasible." But many others consider $100 billion per year not enough—even former UNFCCC head Yvo de Boer, who said $300 billion needs to be raised annually.

2. *Sourcing*

Sources of climate finance may be grouped into: (a) public sources for grants and highly concessional loans; (b) MDB-type instruments; (c) carbon market finance; and (d) private capital. Public sources include carbon taxation and other new taxes, auctioning of emission

allowances, removal of fossil fuel subsidies, and direct budget contributions. (AGF 2010, 7)

However, Cancun left unresolved the contentious issue of how to strike a balance between public and private finance. The issue may not be easily resolved in official processes leading to Durban, and could overflow to other forums outside the UNFCCC.

One side in the climate finance debate insists that market-driven private flows must only be supplementary while public sourcing is the key, as it generates obligatory and automatic funds covered by a legally enforceable international agreement. Global levies on shipping, aviation and financial transactions, and a global carbon price, are also being eyed as major sources outside of direct budget contributions.

The opposite camp sees private financing as the main source because it can mobilize much bigger funds at a time of budgetary deficits and sovereign debt crises. A recent Bloomberg White Paper asserts that investment flows of "the order of $100bn per annum can only be achieved if the bulk is provided by the private sector," with about $70 billion in the form of "cheap debt" from MDBs and $30 billion in equity. Some $100 trillion's worth of private funds can be tapped, it said, while governments of developed countries "are almost without exception under extreme fiscal—perhaps even solvency—pressure." (Liebreich 2011, 2)

Many CSO advocates of climate justice and sustainable development are also wary of sourcing climate funds from levies on emissions trading and the Clean Development Mechanism, since they consider these as merely enabling Northern countries and industries to buy their right to pollute and to wiggle out of their own mitigation commitments.

3. *Disbursement*

The Cancun Agreement seems to favor direct access to the Green Climate Fund, in which a country can directly tap into funding windows or assign the implementing entity of its choice. This setup appears to enjoy support among developing countries and CSOs, as it enhances country ownership, minimizes transaction costs, and avoids past pitfalls of traditional donor-recipient relationships. However, a wide range of access modalities are still being considered in the run-up to COP17.

One other big challenge for the global climate fund is to develop the right mix of mitigation and adaptation finance, and to ensure priority allocation for countries and sectors with bigger finance needs. Currently, climate funds are skewed in favor of mitigation, despite the growing adaptation needs especially in the global South. Many developing countries and CSO networks are calling for at least an equal 50-50 funding for mitigation and adaptation. (Action Aid 2011)

4. *Governance*

Since COP16 in Cancun, a chain of organizational events in setting up the GCF is supposed to start from a transitional committee, where developing countries constitute a slight majority, towards a more permanent Standing Committee. However, Cancun left unanswered important details about the proposed Committee and on raising long-term funds after FSF runs out in 2012, which will have to be hammered out in the lead-up to COP17 in Durban.

Cancun also confirmed the World Bank as an Interim Trustee. The move is welcomed by MDBs that want a bigger say in running the GCF, but is worrisome to many developing countries and CSO networks with intense policy clashes with international finance institutions. CSO positions range from rejecting any role for the Bank in managing global climate finance, to allowing it a limited role that will later be phased out. (Bank Information Center 2010; Eurodad 2010)

Meanwhile, corporate lobby groups are pushing for a looser climate finance architecture—called Green Climate Finance Framework by a Bloomberg White Paper—that would give a much bigger role to private sources of finance, development banks, bilateral funds, carbon markets, and a stronger voice for the developed countries providing the funds. (Liebreich 2011, 2)

Many developing countries and CSO networks are wary of being sucked into the debate over the detailed shape of the GCF architecture at the global level, for fear that this will sidetrack them from focusing on issues of fund

mobilization, accessibility and distribution, which they deem more urgent to resolve. They also want the architecture debate to give more attention to country ownership and country processes. (Oxfam 2011)

Linking climate finance and aid effectiveness

As the climate finance discourse expands into broader concerns of development, the development aid community has taken a closer look at the parallels. Indeed, the climate and development communities face many common issues. As Stephen Groff of the OECD-DCD explains, the task of climate finance is ultimately that of "transferring large volumes of finance for specific development objectives across national boundaries – something we have been doing since the Marshall Fund was established to help rebuild Europe after the Second World War." (Groff 2011)

In a 2006 declaration, OECD member-states declared that "they will work to better integrate climate change adaptation in development planning and assistance." An OECD-DAC policy statement later reinforced the linkage between climate finance and "international commitments to aid effectiveness." (OECD 2006; Thornton 2010, 10-12)

The OECD has taken more definitive steps in recent months to explicitly connect the HLF4-Busan and COP17-Durban processes, noting the need for "the climate community and the development community … to sit around the same table to discuss climate financing to enhance mutual learning and trust" and that "the lessons (successes and failures) from the last 50 years of development experience be applied to climate change financing modalities at the national and international level." (OECD 2011)

Developing countries and CSO networks are also expansively invoking the principles of the Paris Declaration (PD) and Accra Agenda for Action (AAA) to push for effectiveness in climate action and to maximize the outcomes of climate finance. One such effort, the Bangkok Call for Action issued in October 2010 by Asia-Pacific countries, multilateral bodies and CSOs, offered such recommendations to recipient countries, governments and international funders. (CDDE 2010)

IBON policy proposals

Climate action is integral to overall development

Even the best-financed programs cannot automatically reverse climate change and shield the world from its impacts, unless these are framed within the broader development effort based on sustainability, ecological balance, social equity and human rights. These principles, long mandated by UN treaties, declarations and other multilateral processes, must guide the planning, implementation and funding of all climate actions and help countries move away from the underlying conditions of profit-driven, untrammeled and destructive patterns of growth. Climate change action and climate finance must be thus integral to this broader development effort at the global, national, sectoral and local levels.

Climate finance must be adequate compensation

Climate justice, which is supported by CBDR, other Rio principles and UNFCCC processes, holds the industrialized North as mainly responsible for human-induced climate change. Correcting this historical injustice necessarily entails large-scale compensatory funding from the global North to finance climate action, especially adaptation which the global South needs most urgently. The UNFCCC's Green Climate Fund must thus be principally funded by developed countries and their transnational firms, and be designed to principally benefit Southern countries, especially poor and marginalized people who now suffer the worst impacts of climate change.

To truly make a difference, climate finance under the GCF must be adequate and predictable, using the Cancun-defined figures as the minimum, and progressively scaled up from year to year to keep pace with growing climate challenges. The GCF must be mostly for adaptation finance, delivered in the form of grants and highly concessional loans, but counted separately from the ODA commitments as defined in the 2002 Monterrey Consensus.

Democratic governance of climate finance

We support the various proposals that the UNFCCC and COP must exercise not just general guidance but full authority over the GCF, and that developing countries be proportionally represented in the Green Climate Fund's

internal processes and bodies. The World Bank's assigned role must be seriously rethought, given its self-admitted poor record on legitimacy and effectiveness.

Ample space must be provided for participation and intervention in GCF governance by CSOs and other non-government stakeholders, especially those representing communities and sectors most affected by climate change, by granting them either observer or regular-member status in appropriate GCF bodies.

We also call for a more inclusive and representative governance at the UNFCCC-COP-GCF levels, so that country-level ownership and alignment are further enhanced.

Applying the ownership principle

Climate funds, even assuming they are adequate and accessible, cannot guarantee by themselves the expected outcomes. They must be employed effectively, applying principles from development cooperation, specifically those of the Paris Declaration (PD) and Accra Agenda for Action (AAA) on aid effectiveness and development effectiveness.

Country ownership, the most fundamental among the PD-AAA principles, means that country recipients of aid must define and achieve their own development objectives. They must exercise effective leadership over their respective development strategies, policies and programs based on their own needs, including those on attaining climate resiliency, and not simply accept and follow external conditionalities. (IBON 2011) Thus, while climate action must follow a globally coherent framework, each country must define its own needs, strategies, policies, programs and budgets for climate adaptation, and on that basis decide what climate finance to employ and how.

Ownership of climate action must not be limited to national governments, but must be inclusive and democratic. Governments and multilateral bodies must recognize and allow full play to the crucial role of other development actors and stakeholders—civil society, media, local authorities, parliaments, and private sector—in every stage of the climate response process. Democratic ownership ensures more robust climate action, because more channels are allowed for the citizenry to articulate their needs and to harmonize their initiatives.

CSOs, whose role as development actors in their own right is well-recognized and who have long been in the frontlines of climate justice, must be particularly assured ample space in climate governance processes. CSOs working among communities and sectors who are most affected by climate change, especially the poor and marginalized people including farmers, fisherfolk, indigenous peoples and women, must be given extra support in terms of capacity development, to ensure their substantial participation in such processes.

Applying the alignment principle

Closely linked to country ownership is the principle of alignment, which means that external support must be in line with each country's climate policies and institutional systems and processes, instead of replacing or negating them. As OECD-DCD's Groff said, "[Negotiations on the GCF] should ensure that external finance is driven by nationally-owned strategies, and channeled through recipient countries' own institutions and authorities."

Alignment at the policy level is an element of country ownership. But there must also be alignment at the operative level. This means that external climate finance must use recipient countries' respective systems for public financial management (PFM) instead of imposing a separate, externally-controlled management bureaucracy usually on a per-project basis.

Country PFM systems include systems and procedures for budgeting, accounting, auditing, procurement, monitoring of results, and social and environmental impact assessments that are already in use by government ministries and public agencies tasked with planning, implementing and evaluating environmental and climate adaptation programs.

GCF funding access modalities must be designed to work well with country systems. Using such country systems helps both the GCF (or other climate finance donors) and the recipient government to focus on each country's climate adaptation goals and priorities, ensure sustainability of its climate programs even after external finance is ended, tap into additional sources, and reduce costs.

Much of climate finance flows are still being managed

externally by donor countries or multilateral institutions. The GCF must avoid these arrangements. Many countries have undeveloped PFM systems, but that is no excuse to withhold aid or to impose external systems. Country systems must be used, precisely to improve and strengthen them. As the OECD said (2009), "country systems, like muscles, must be exercised if they are to grow stronger."

Applying the mutual accountability principle

According to the mutual accountability principle, donors can hold developing countries to account for their performance, while developing country governments can also hold donors to account for their commitments. As applied to climate finance, this means that both donor country (or fund manager, in the case of future GCF funding windows) and recipient country are accountable for climate action results, must be transparent in the delivery and use of the funds, and must observe reciprocal commitments as mutually agreed.

Governments must adopt policies and laws that foster greater transparency and accountability in managing climate funds. Parliaments, in the exercise of their multiple functions, must fully involve themselves in climate finance and not leave it in the hands of the executive. Their functions, which include representation, legislation, budgeting, and oversight, can all be made to bear on improving country processes for accountability and transparency. In similar measure, local governments can also play an essential role in providing information about varied conditions and needs in the localities and in bringing together a diverse array of local stakeholders.

Finally, accountability and transparency in climate finance are further broadened and deepened by instituting a full range of social accountability mechanisms that facilitate participation of CSOs, media, academe, and other non-state stakeholders in official processes such as congressional budget hearings and public consultations on climate adaptation funds.

Applying the harmonization principle

Applying the principle of harmonization is the antidote to excessive complexity that results in fragmentation of funding channels and procedures at the global, country, and sector levels. Fragmentation drags down efficiency in delivery and increases transaction costs, which eventually undermine country ownership and weaken the effectiveness of climate finance.

The GCF's multilateral nature is a positive step in harmonization at the global level, because its structure imparts internal coherence to the numerous systems for mobilizing, managing, and delivery of climate finance. An internally coherent GCF is more likely to adopt funding modalities and allocation formulas that reflect the overall and specific needs of countries and sectors for climate finance.

But this is not enough. Harmonization also requires policy coherence on a global scale around sustainable development, in which climate action and climate finance are compatible to and supportive of the overall sustainable development strategy and policies of countries. There must be no place for incoherent policies, such as much of ODA in many countries today subsidizing the fossil fuel industry or fossil-fuel based economic infrastructure, which is grossly inconsistent with the objectives of climate finance. Climate actions and climate finance must also be coherent with other broad policies regarding the environment and global economy such as trade, investment promotion, and debt.

Applying the managing for results principle

Following the principle of managing for results, a country recipient of climate finance must manage this resource wisely to maximize the intended outcomes. "Results" must represent substantial and lasting gains along these lines, towards attaining country-wide climate resiliency, and not some targets plucked from the air or imposed as conditionalities.

Managing for results, while focused on monitoring and evaluation of climate action programs and projects, must go beyond the conventional economic and easily-quantifiable indicators of success. Instead, it should entail the conduct of impact assessments that measure the less-quantifiable but nonetheless significant gains, such as participatory human rights impacts, social-environmental impacts, educational and cultural impacts, and so on. This is especially important, since the nuances of climate adaptation and resiliency are not as obvious as, for

example, increases in volume and value of production, employment generation, or improved income distributions.

Climate justice and human rights

Injustice lies at the root of the current climate crisis. The UNFCCC process recognizes this injustice in a positive way by upholding the CBDR principle and by obliging developed countries to finance adaptation in developing countries. But the issue of adequate compensation in the form of climate finance barely scratches the surface. Confronting the climate challenge requires ultimately that countries and peoples pursue climate justice on a deeper level—which means pursuing climate action based on respect, promotion and defense of human rights especially of those most vulnerable to the climate crisis.

The impacts of worsening climate change, such as extreme weather, flooding, drought and desertification leading to physical hazards, threats to health, and economic disruption, are severely affecting the basic elements of human life and thus making it difficult for countries and communities to ensure their peoples' basic rights to food, water, health, housing and livelihood, in addition to undermining the fundamental right to development.

These impacts aggravate existing vulnerabilities of developing countries and of poor and marginalized peoples and communities, particularly farmers, indigenous peoples, and women, whose conditions of vulnerability are deeply rooted in social imbalances. If not effectively combated, this trend may turn into a vicious cycle and exacerbate North-South and rich-poor inequalities.

Climate justice must therefore necessarily address the historical and continuing failures of dominant development paradigms and their accompanying violations of human rights, which make climate resiliency more difficult and yet more imperative to achieve.

At the same time, climate justice also means mobilizing all the norms, standards, legal instruments, procedures and systems now available and accepted at the international, regional and national level in order to protect and uphold the rights of countries, communities and groups that are adversely affected by climate change, and to ensure that decisions on climate change that affect them are participatory, transparent, and accountable.

Beyond Busan and Durban

It may be propitious that the HLF4 meeting in Busan nearly coincides with the COP17 meeting in Durban in late 2011. The two meetings are both significant milestones for development efforts moving in two parallel paths that show signs of convergence. However, both processes face great challenges in resolving debates, achieving consensus, and translating them into a clearer and more coherent set of development policies.

With the modern 21st-century world into its second decade and confronted with multiple crises, what is needed is not merely a mechanical blending of principles and policies held in common by the climate community and the development community. What is needed is for both communities, for all countries and world multilateral bodies in fact, to move beyond Busan and Durban in the same direction, towards a much broader framework of human development—one that is sustainable, equitable, and climate-resilient.

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