Technical Note

Principles and guidelines for climate finance

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Latindadd
Red Latinoamericana por Justicia Económica y Social

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KNH – Kindernothilfe
Misereor
OSF – Open Society Foundations
Oxfam Brasil
PPM – Pão para o Mundo
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* OLIVEIRA, Tatiana; MEJÍA, Carola. Instituto de Estudos Socioeconômicos, Red Latinoamericana por Justicia Económica y Social. Brasil - Bolívia, mês 2024.

Between 2023 and 2024, the Institute for Socioeconomic Studies (Inesc) and the Latin American Network for Economic and Social Justice (Latindadd) followed the discussions on climate finance under the United Nations Framework Convention on Climate Change (UNFCCC), in addition to focusing on the G20 negotiation process, based on the tax and reform agendas of the international financial architecture. In view of the discussions raised in these spaces, we summarize our position on five principles and five guidelines for climate finance.

Principles

1. Social participation

Although climate change is a global challenge that involves all countries, its effects are local. Therefore, discussions on climate finance should not take place without considering the concrete damage caused by global warming in people's lives and routines, nor should they be a factor in exacerbating social injustices or inequalities between countries. For this reason, organized civil society – nationally and globally – has a great contribution to make and must be heard.

2. Transparency

The lack of definition of the concept of climate finance has led to serious difficulties for effectively monitoring internationally negotiated goals. To publicize the allocation of resources, a fundamental element is to establish an objective concept, goals, and clear indicators, in addition to establishing the format and temporality for reporting and verification.

In addition, it is essential to promote transparency regarding the conditions of access to financing, the use of resources and the impacts of financing on the beneficiary population, to ensure the participation and social control of government actions, with the consequence of also removing the breach of trust in climate multilateralism.

3. Accessibility

The climate finance mechanisms built to date are not adequate to the realities of middle- and low-income countries, especially island countries or communities vulnerable to climate change.

Due to stringent administrative and eligibility requirements of bilateral and multilateral donors, demands for funding can take many years to be processed and approved. Likewise, the documentation language tends to be excluding to indigenous peoples and local communities, as well as the use of digital platforms for information and application processes.

The requirements related to accountability can also be considered excessive for a portion of the public demanding this type of support. Creating methodologies to increase access to climate finance, making it simpler, faster, and more democratic, is a crucial measure to ensure we have a window of opportunity to achieve the 1.5ºC mission.

4. Fair and equitable climate finance: new, additional, adequate, and free of foreign debt

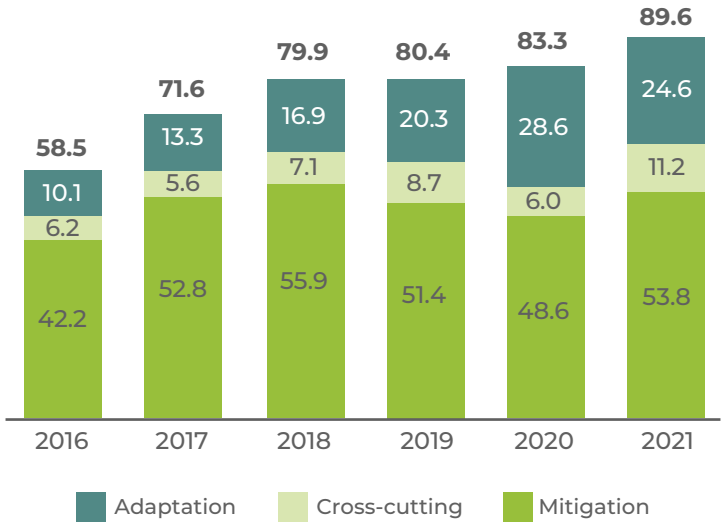
The Climate Convention (1992) established that the provision of climate finance must follow the principle of common (but differentiated) responsibilities and respective capacities (CBDR-RC). The Paris Agreement (2015) confirmed this orientation through article 9, according to which "developed countries should provide financial resources to assist developing countries with respect to both mitigation and adaptation".

Thus, climate finance should not reproduce injustices but should observe the balance between mitigation and adaptation in the allocation of resources. Also, climate funds should not be recycled. For example, a resource that is registered as aid for economic development cannot be registered again as funding for climate change. Funds should also not be taken away from other international obligations (for example, International Official Development Assistance - ODA). Therefore, climate finance must adhere to the goals' progressivity and meet the needs of nations and people that are at risk without acting as a contributor to debt.

In order to obtain additional financing, developed countries need to be more committed to transferring resources to the UNFCCC financial architecture and multilateral banks, mobilizing resources through international tax cooperation, associated with the implementation of more progressive national tax systems, as described below.

> Given that adaptation, losses and damages are priorities in the Global South, the disparity between mitigation and adaptation investment of around 60% to 30% is inadequate.. As is well known, these are precisely the countries least responsible for the climate crisis, although they are the most unfairly vulnerable to its impacts.

FIGURE 1 CLIMATE THEME OF CLIMATE FINANCE PROVIDED AND MOBILISED IN 2016-2020 (USD BILLION)



Source: OECD. Climate finance provided and mobilized by developed countries for the period 2013-2021 (2022). Available at: https://www.oecd.org/climate-change/finance-usd-100- billion-goal/

5. Climate finance aligned with the human and socio-territorial rights of vulnerable populations

Climate finance must provide the maximum resources for the fulfillment of human rights, supporting real, territorial, and community-based solutions to the climate crisis, according to the traditional knowledge and wisdom of indigenous peoples, Afro-descendants, women in all their diversity, traditional and peasant communities.

Direct funding to indigenous and community organizations has proven to be the most effective strategy for environmental conservation and combating climate change, because it protects and promotes the right to land and territory, as well as autonomy in forest management, according to the ways of life of these populations.

However, underfunding and the lack of autonomy for the management of resources, as a consequence of bringing in intermediary entities, have been obstacles to action. Another aspect of funding for human rights and climate justice is increased funding for adaptation, and losses and damages. Direct financing, more investments in adaptation and a more agile, adequate and accessible loss and damage funds are pathways to the right to an ecologically balanced environment and effective climate finance.

According to a joint report by *Rainforest Norway* and the *Rights and Resources* coalition, only 5% of official international cooperation directed at environmental protection, and less than 1% of that allocated to climate action, were applied to forest management and territorial management projects linked to indigenous peoples and local communities.

Source: *RAINFOREST FOUNDATION NORWAY (RFN) & RIGHTS AND RESOURCES. "Funding with purpose: a study to inform donor support for indigenous and local community rights, climate, and conservation". Sep. 2022. Available at: <https://rightsandresources.org/wp-content/uploads/FundingWithPurpose_v7_compressed.pdf>.*

Guidelines

1. Establish new climate finance targets tailored to the needs of middle- and low-income countries

Developed countries have shown little willingness to raise climate finance levels in negotiations for a New Quantified Collective Goal (NCQG) post-2025. Meanwhile, experts and middle- and low-income countries vary their projections on the amount of resources needed for effective, rapid climate action that is up to the advanced stage of global warming.

The current target (of US$100 billion annually, set in 2009 during COP 15 in Copenhagen, Denmark) has never been reached, according to the Standing Committee on Financing (SCF), a subsidiary body of the UNFCCC. Because of this delay in the delivery of the means of implementation, it is estimated that between US$2.3 trillion and US$11 trillion would be needed annually by 2030 to support the ecological transition of middle- and low-income countries.

Recognizing that such values are underestimated, **Inesc and Latinddad are aligned with the Working Group on Debt and Climate, to support the demand for US$5 trillion annually, which must be transferred from developed to developing countries.**

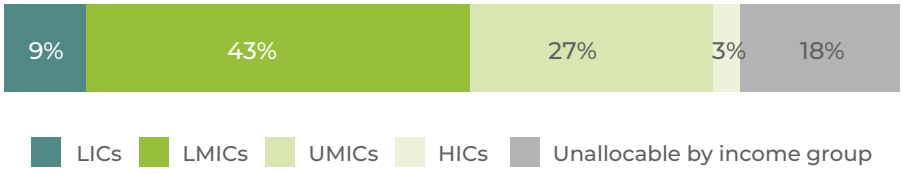
TABLE 1 UNFCCC: FIRST REPORT ON THE DETERMINATION OF THE NEEDS 2021, WHICH SHOWS THE NUMBERS OF DOCUMENTS SUBMITTED

Means of verification	Coverage	Estimated cost variance	Countries with budgeted needs / total submissions	Budgeted needs / total submissions	Distribution of added value
Biennial Update Report (BUR)	Mitigation, adaptation, and cross-cutting measures	From USD $11,465.5 trillion to USD $11,465.9 trillion	24 BUR* of 62 sent. *Only 14.6% of all developing countries sent BUR with cost calculations	535 needs funded from 2,044 needs identified in the 62 BUR. Only 26% of all identified needs were funded. Only 39% of developing countries submitted identified needs	95% of costs are spread across two countries
Nationally Determined Contributions (NDC)	Mitigation, adaptation, and cross-cutting measures	From USD $5,817 trillion to USD $5,888 trillion by 2030	78 NDC funded out of 149 presented	1,782 needs funded from 4,274 identified needs	

** Number of developing countries that are parties to the UNFCCC: 164.*

Source: UNFCCC: First Report on the Determination of Needs 2021.

FIGURE 2 CLIMATE FINANCE PROVIDED AND MOBILISED BY DEVELOPING COUNTRY INCOME GROUPS IN 2016-2020 (%)



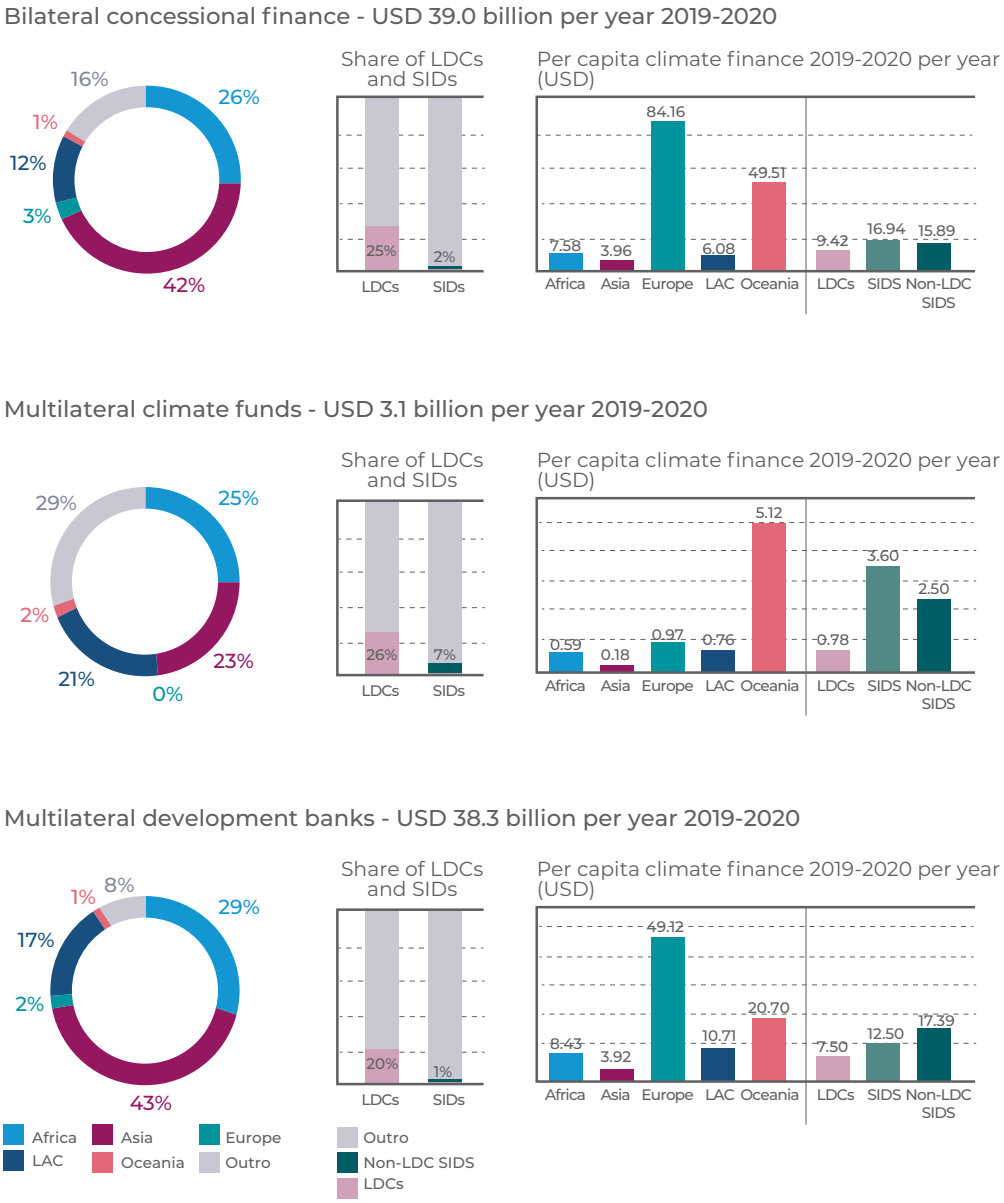
Source: OECD (2022). Available at: <https://www.oecd.org/climate-change/finance-usd-100- billiongoal/>.

Asia (36%) and Africa (27%) are the continents that receive the most climate finance from public sources. Followed by Latin America and the Caribbean (LAC) (16%). The remaining 21% was divided between the southern and eastern European countries, in addition to Oceania.

Data indicates that the contribution of developing countries that are not members of the Organization for Economic Cooperation and Development (OECD) to multilateral development banks (MDBs) has increased from USD$9 billion to USD$11 billion. The Asian Infrastructure Investment Bank and the New Development Bank are also increasing their share of financing.

Source: 5th Report of the Standing Committee on Finance, UNFCCC (2022).

FIGURE 3 GEOGRAPHICAL DISTRIBUTION OF CLIMATE FINANCE BY VOLUME AND ON A PER CAPITA BASIS IN 2019-2020



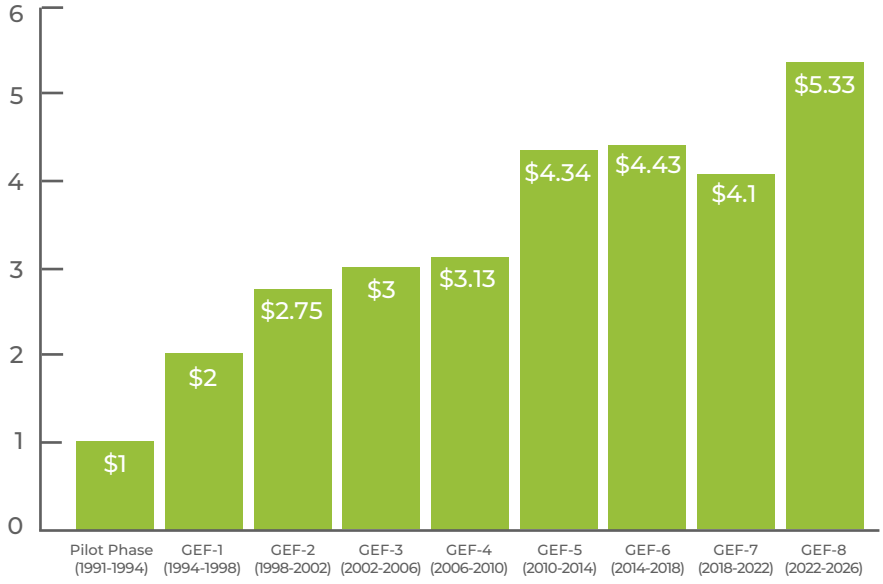
Source: 5th Report of the Standing Committee on Finance, UNFCCC (2022).

2. Strengthen the UNFCCC funding architecture

To facilitate the provision of climate finance, the Climate Convention (1992) established a financial mechanism to make resources available to middle- and low-income countries. The Global Environment Facility (GEF) has been responsible for operationalizing said mechanism since 1994. In 2010, the Green Climate Fund (GCF) was established at COP 16 (in Cancún, Mexico). The following year, GCF was designated as an operating entity of the financial mechanism. The countries that are part of the Convention financially contribute to the aforementioned funds, which are increasingly subject to monetization or the introduction of instruments for direct private funding.

However, these and other funds of the UNFCCC financial mechanism are the most prepared to deliver concessional, subsidized, and non-refundable financing to vulnerable countries and populations. Therefore, they should not be linked to private funding and leverage instruments. Market-based finance should not be a reference for structuring such instruments. In addition to enhancing resource accessibility standards, it is imperative that developed nations take on their historical responsibilities and increase their donations.

GRÁFICO 1 GEF REPLENISHMENT CYCLES (IN BILLIONS OF USD)



Source: <https://www.thegef.org/>. Global Environment Facility (GEF) website.
Note: the chart presents updated information as of June 2022.

According to the GEF, "twenty-nine donor governments provided US$5.33 billion in pledges for the next four years, an increase of more than 30% over the last period of operation and a wave of support for international efforts to achieve climate and nature goals."[1] However,

1 GLOBAL ENVIRONMENT FACILITY (GEF). "Donors boost Global Environment Facility contributions to $5.33 billion" (press-release, June 21, 2022). Available at: <https://www.thegef.org/newsroom/press-releases/donors-boost-global-environment-facility-contributions-5-33-billion>. Accessed on: 19 sep. 2024.

these figures still fall far short of meeting the climate finance needs of countries in the global South and the populations most vulnerable to climate change.

TABLE 2 GREEN CLIMATE FUND (GCF, 2024)

Breakdown by total project value by division (in USD million)			
Division	***GCF***	***Co-funding***	***Total***
Public sector	*$ 12.653*	*$ 16.588*	*$ 29.240*
Private Sector	*$ 4.085*	*$ 16.308*	*$ 20.393*
Total	***$ 16.738***	***$ 32.895***	***$ 49.633***

Breakdown by total project value by region (in USD million)			
Region	***GCF***	***Co-funding***	***Total***
Africa	*$ 7.326*	*$ 10.802*	*$ 18.128*
Asia/Pacific	*$ 5.794*	*$ 14.167*	*$ 19.961*
Latin America and the Caribbean	*$ 3.159*	*$ 5.738*	*$ 8.898*
Eastern Europe	*$ 459*	*$ 2.188*	*$ 2.646*
Total	***$ 16.738***	***$ 32.895***	***$ 49.633***

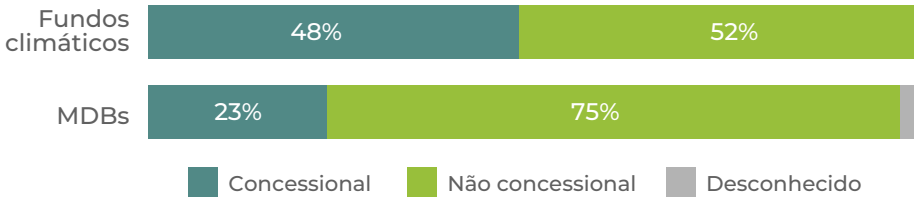
Source: GCF, Funding proposal pipeline update as of August 2024. Available at: <https://bit.ly/3XmsPt6>.

3. Strengthen donations of resources from multilateral banks and promote greater coordination with global financial support networks

For the benefit of combating climate change, we present below some guidelines for reforming the international financial architecture: (I) capitalize multilateral development banks, untying access to resources from quotas and conditionalities imposed unilaterally by such financial institutions; (II) reduce the cost of sovereign loans, favoring donations and concessional loans, to alleviate the burden of external debt for middle and low-income countries, taking into account their unfair and colonial history, which generate the largest gaps in inequality within and between countries; and (III) adopt loans in local currencies.

A report by the Organisation for Economic Cooperation and Development (OECD) shows that between 2016 and 2020, most (91%) of the climate finance provided by the MDBs was provided in the form of loans, 75% of which were non-concessional. This situation must change.

FIGURE 4 MULTILATERAL CLIMATE FINANCE LOANS BY CONCESSIONALITY LEVEL, IN 2016-2020 (%)



Based on OECD DAC statistics and complementary reporting to the OECD (September 2022).

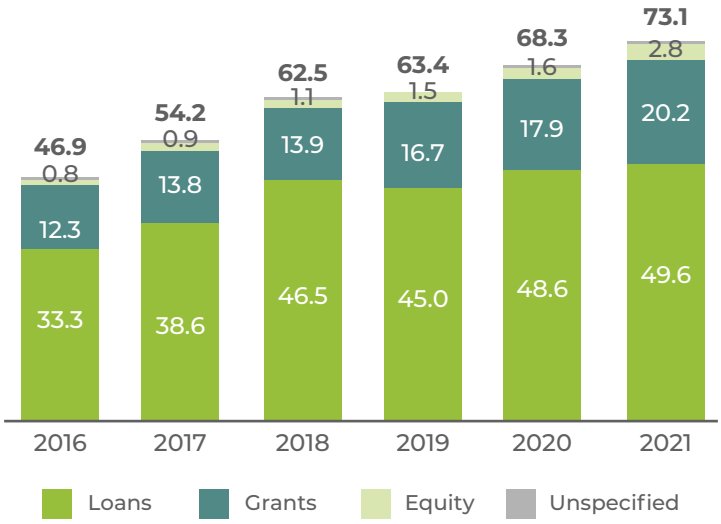
Similarly, multilateral development banks should provide long-term (therefore predictable) financing for climate action and sustainable development, while supporting controls on short-term capital flows (bonds, stocks, currency exchange, and related) to help stabilize the exchange rate and prevent speculative attacks on national currencies.

The International Monetary Fund (IMF) should review the rules on access to liquidity in times of crisis, granting a greater share of special drawing rights (SDR) to middle and low-income countries, in addition to possibly adopting the proposal of the United Nations Conference on Trade and Development (UNCTAD) for the operationalization of the "aid-link concept", through which the issuance of SDR would trigger a reaction from the World Bank to expand the resources offered to countries and relax the rigid access criteria for a rapid response to demands in times of crisis.

We also consider essential the promotion of a debt restructuring mechanism that is fair, independent, timely, transparent, and binding. That way, it is carried out within the scope of the United Nations (UN) and not under the leadership of creditors, such as the G20, the IMF or the Paris Club.

In the same sense, some resolutions constitute measures that increase the responsiveness of governments to climate change. For instance, promoting the cancellation and moratorium of debt service for countries affected by extreme weather events, in addition to promoting agile access to the Loss and Damage Fund (UNFCCC/World Bank) and even authorizing the use of debt creation mechanisms for emergency recovery after disasters.

GRÁFICO 2 INSTRUMENT SPLIT OF PUBLIC CLIMATE FINANCE IN 2016-2020 (USD BILLION)



Source: OECD (2022).

4. Mobilize public resources, because private finance and market instruments are not climate financing

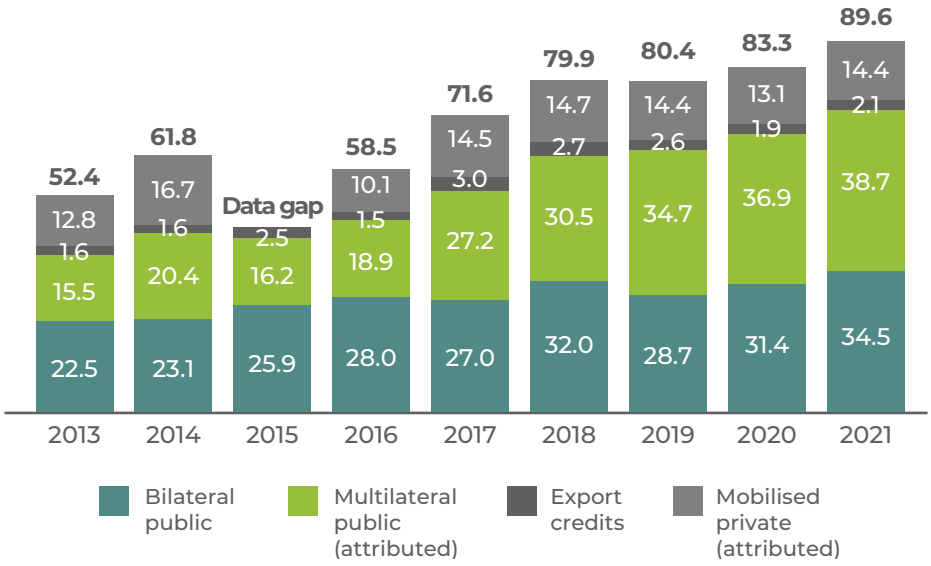
UNCTAD (2023) states that 87% of climate finance for low- and middle-income countries comes from public sources, compared to 82% recorded by the OECD. In public climate financing, multilateral resources have grown the most since 2013 (from US$15.5 billion to US$38.7 billion), surpassing bilateral public financing from 2019 onward and reaching US$34.5 billion in 2021. According to OECD figures (2022), loans accounted for about 60% of the total volume of resources allocated to climate finance in 2021, while subsidies accounted for 30%, and direct private and other investments, which could not be detailed, made up the remaining 10%.

Within the total of private financing, direct investment — i.e., directed to companies associated with impact investments and the negotiation of debt securities associated with decarbonization objectives — accounted for 41%. On average, private investments between 2019 and 2020 channeled towards climate action fell short by six percentage points compared to the previous period (2017-2018), ranging from 14.6% to 13.8% (OECD, 2022).

This scenario shows that climate financing is done with public resources and that private financing, in addition to being unpredictable, has not been able to produce national or international public common goods. Market instruments, such as carbon markets, have been linked with complaints of ineffectiveness, fraud, and violations of human and territorial rights. This raises legitimate, science-based concerns on the usefulness and purpose of joining this type of mechanism. Therefore, in addition to not meeting the requirements

related to historical reparations by developed countries, the market presents a clear limitation for the promotion of climate justice.

GRÁFICO 3 CLIMATE FINANCE PROVIDED AND MOBILISED IN 2013-2021 (USD BILLION)



Source: OCDE (2023).

5. Support the United Nations Framework Convention on International Tax Cooperation

The terms of reference of the United Nations Framework Convention on International Tax Cooperation (UNFCITC) were adopted in August 2024 by the Ad Hoc Committee created specifically for this purpose. Also in 2024, they should be endorsed by the UN General Assembly, which will install a new committee to start negotiating the Framework Convention itself from 2025.

The UNFCITC is critical to securing new and additional resources to finance climate action and sustainable development. To this end, for the benefit of the countries and populations that have the greatest needs, promising measures are taken to increase the volume of public resources available for climate finance: (I) cooperation between countries to combat illicit financial flows, tax havens and tax evasion; (II) implementation of progressive taxes for fossil fuel companies and other highly polluting activities; (III) taxation of surplus profits; and (IV) the application of taxes on the wealth of multinationals and people with personal large fortunes.

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