DISCUSSION DOCUMENT

Defining "Mobilized" Climate Finance: Solving a Fractal[1] Conundrum

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Prepared for the
Climate Change Expert Group (CCXG) Global Forum on the New UNFCCC Market Mechanism and Tracking Climate Finance[3]

19-20 March 2012, Paris

[1] A Fractal as defined by its creator the late Mathematician Benoit Mandelbrot, is "a fragmented geometric shape that can be split into parts, each of which is (at least approximately) a reduced-size copy of the whole,"

[2]This paper is prepared as an input to foster dialogue and discussion at the OECD CCXG seminar in Paris, March 19-20, 2012. The findings, interpretations and conclusions presented in the document are the sole responsibility of the author and do not reflect any official position.

[3] The CCXG Secretariat would like to thank the EC for funding for this event, as well as Australia, EC, Finland, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, UK and US for their direct funding of the CCXG in 2011/12. The CCXG Secretariat gratefully acknowledges in-kind support from the UK, Denmark, OECD and IEA.

Introduction – understanding the dimensions and their elements

In Cancun (2010), the 16th Conference of the Parties to the UNFCCC endorsed the collective commitment for support of developed countries, as expressed in the Copenhagen Accord (2009). The Cancun Agreements noted for the first time in 2010 the commitment of developed countries to a quantified financial goal to address the needs of developing countries through inter alia:

1. "Takes note of the collective commitment by developed countries to provide **new and additional resources**, including forestry and investments through international, **approaching USD 30 billion for the 2010-2012**, with a **balanced allocation** between adaptation and mitigation; **funding for adaptation will be prioritized for the most vulnerable developing**, such as the least developing countries, small island developing States and Africa"; paragraph 95.
2. "Decides that, **in accordance with the relevant provisions of the Convention**, **scaled-up, new and additional, predictable and adequate** funding shall be provided to developing countries Parties, taking into account the urgent and immediate needs of developing that are particularly vulnerable to the adverse effects of climate change"; paragraph 97
3. "Recognizes that developed country parties commit, in the context of meaningful action and transparency on implementation, to **a goal of mobilizing jointly USD 100 billion per year by 2020** to address the needs of developing parties"; paragraph 98

Despite such progress, several challenges relating the definition of climate finance and of mobilization remain. They include for example:

- effectively measuring, reporting and verifying (MRV) the implementation of such a commitment;
- agreeing on an international definition of climate finance which covers a wide variety of instruments (loans, grants, carbon credits, FDI, etc.) and sources (public, private, bilateral and multilateral, alternative) and;
- defining specific climate adaptation and mitigation activities using climate sensitive indicators (impact and performance).

Besides, the MRV framework under the Convention is still in its infancy: institutional and operational architecture, tools and instruments while agreed under the COP have yet to be implemented (Biennial reporting, ICA/IAR, Registry, role of the Standing Committee, etc.).

In such an indecisive context, considerable investigation both under the umbrellas of the UN System and other relevant international organizations, inter alia: academic and research institutions, NGOs, MDBs, is underway to identify ways to qualify and quantify a vast array of potential financial sources. All these investigations are relevant to the debate on the definition of "mobilization" in the context of the UNFCCC and the commitment taken under the Cancun Agreements.

This paper aims to advance a definition of "mobilized" climate finance. To do so, this paper will focus on:

1. Surveying existing definitions;
2. Synthesizing views and discussing their implications;
3. Proposing a way forward taking into account technical and political consideration.

I. A definitional survey: from assessed contributions to climate finance

In reviewing "mobilized" climate finance definition, the following typology was attempted: (1) A wide variety of sources; (2) UNFCCC Financial Mechanism[4] (i.e. grants and concessional); (3) Outside UNFCCC Financial Mechanism (markets and leveraged finance); (4) UNFCCC (i.e. principles, provisions, and relevant articles). A brief analysis of climate finance definition by different entities is presented below. The analysis was elaborated in surveying individual document and presents the definition of each entity following the same structure: an introduction, description and methodology or methodological description, and personal comments.

(1) A wide variety of sources:

- **The Landscape of Climate Finance (CPI) - 2011[5]**

    - Description

The report evaluates climate financial flows to stand at about 97 billion US$ in 2009/2010, of which 58 billion US$ are from private sources (Direct equity and debt instruments, 21 billion US$; MDBs, bilateral and multilateral institutions, 20 billion US$; Carbon markets and philanthropic contribution, 3 billion US$) and 21 billion US$ from public finance or domestic public budgets (Carbon market revenues, 2 billion US$; Carbon tax, 7 billion US$; and General tax revenues, 2 billion US$).

Bilateral and multilateral institutions intermediate around 39 billion US$ (40% of total); 13 billion US$ in concessional loans. Asset finance represents 74-87 billion US$ (Market rate loans, 56 billion US$; Private sector equity, 38 billion US$). Grants and carbon offsets, 4.5 billion US$ and 2.5 billion US$, risk management facilities US$ (export credit and guaranties), 1.2 billion US$.

Mitigation[6] gets the lion share of current flows, approximately 93 billion US$, a whopping 95% of funding.

    - **Methodology**

While acknowledging the void in an agreed climate finance definition, after discussions with experts, major groups and organizations involved in climate finance, the authors have considered a number of elements in selecting and counting the different flows:

[4] UNFCCC, Article 11.1: "A mechanism for the provision of financial resources on a grant or concessional basis, including the transfer of technology, is hereby defined." *We are therefore adopting a literal interpretation of art11.1 in considering only grants and concessional instruments as provision under the "Financial Mechanism"*. COP17 designated the GCF as an operating entity of the Financial Mechanism of the Convention

[5] Climate Policy Initiative is a US advisory organization focused on climate policy effectiveness analysis with international branches and affiliations in Brazil (Rio, Pontifical Catholic University of Rio), Italy (Venice, Fondazione Eni Enrico Mattei) China (Tsinghua, School of Public Policy and Management at Tsinghua University).

[6] As defined in the OECD DAC Rio Makers

- Activities: Mitigation, adaptation, and enabling support (capacity building, R&D, tech transfer) in transitioning toward a resilient and low carbon economy;
- Direction: North-South, South-South and North-North flows;
- Domestic flows: from developed and developing countries;
- Cost: Incremental and capital investment expenses;
- Terms of measurement: Gross and net.

All major data sources were tapped; international organization databases and initiatives, private sector firms such as Bloomberg NEF, NGOs, third party experts and CPI's own estimates when information was unavailable or flawed.

- **Comments**

Authors from the onset flagged that the 97 billion US$ figure was not only partially additional to 2009 levels, but also includes a significant pre-COP15 portion. Also, the figure while in gross terms includes some developing countries domestic flows as well, however limited. Private sources dwarf public sources almost by 3-to-1. Carbon markets, which potential is much touted, still provokes and crystallizes considerable attention within UNFCCC negotiation attracts yearly a dismal 2.3 billion US$[7]. Finally, the mitigation sector is harnessing 95% of climate finance, grants and concessional loans, 4.5 billion US$ and 13 billion US$ each, rendering balancing finance and consistency with UNFCCC Financial Mechanism a challenging act.

- **<u>The High-level Advisory Group on Climate Change Financing</u> (AGF) - 2010**

Following the Copenhagen Climate Summit in 2009 where industrialized countries pledged to mobilize 100 billion US$ per year by 2020 UNFCCC COP15, UN Secretary General Ban Ki Moon established a high level advisory group (AGF) composed of 22 experts-institutions[8] from both private and public sectors and from both developed and developing countries, under the co-chairmanship of Prime Minister from Ethiopia and Norway.

The AGF mandate was to identify in accordance with relevant UNFCCC provisions (scaled up, new and additional, predictable and adequate, improved access), potential financial sources, including alternatives in order to fulfill the 100 billion US$ commitment.

- **Description**[9]

Experts identified four revenue categories with their attached fund raising potential: (1) Public sources; (2) Development bank instruments; (3) Carbon Market Finance, (4) Private Finance.

[7] Uncertainty over a post-Kyoto framework shall be taken in due consideration in explaining such under-performance.

[8] Inter alia: Ministers for (Finance), Mexico, France, Singapore and (Planning) South Africa, India, China; Investment guru Georges Soros; Academics, Lord Nichols Stern, Lawrence Summers; Financial Institutions, Deutsche Bank (Vice-Chair), World Bank (Managing Director), African Development Bank (President), etc.

[9] AGF Final Report, page 18; reports from Vivid Economics – EDF – Germanwatch.

1. Public sources consist of 5 revenues, all grant-like and derived from developed countries government coffers or taxpayers.
    a. Public Carbon Revenues (8-38 billion US$, AAU auctions and Auctioning domestic allowances each; 1-5 billion US$ CDM levy)
    b. International Transport (4-9 billion US$, Maritime; 2-3 billion US$, Aviation)
    c. Carbon related revenues (3-8 billion US$ and 10 billion US$, Redirecting fossil fuel subsidies and extraction royalties; 5 billion US$, wire charges[10])
    d. Financial Transaction Taxes (2-27 billion US$)
    e. Direct Budgetary Contributions (200-400 billion US$, assessed contribution[11])

2. Development Banks Instruments (31-39.7 billion US$, mitigation[12]; 4.4 -6.5 billion US$, adaptation[13])

3. Carbon market finance (30-50 billion US$[14], Carbon market offsets)

4. Private finance (100-200 billion US$, Public intervention stimulating private investments in Mitigation)

- **Methodology**

The AGF set an analytical framework to assess in detail different financial sources: from climate and non-climate related instruments, public and private, bilateral and multilateral, including carbon markets, and alternative instruments.

A number of guiding principles seconded in further filtering the assessed sources: equity considerations expressed by “common but differentiated responsibilities and respective capacities” and eight criteria:

1. **Revenue**: potential of comparable sources; role of public and private capital flows; net (only grant-equivalent transfers) or gross (private capital flows, offset finance, non-concessional through MDBs) basis; net private calculation (gross private flows and carbon markets);
2. **Efficiency**: carbon related efficiency[15] and overall efficiency;
3. **Incidence**: ensuring revenue from each source flowed on a net basis from developed to developing countries;
4. **Practicality**: time horizon required for mobilization and implementation;
5. **Acceptability**: political susceptibility (convergence/divergence);
6. **Reliability**: extent of revenue generating predictability;
7. **Additionality**: extent to which a new source add to a pre-defined reference level.

[10] A tax on electricity generation in developed countries (1 US$/ $_t$CO2)
[11] UNFCCC, G77 + China submission on a new financial mechanism requesting Annex II .5% to 1% GNP.
[12] Under a 3.3% Global GDP Growth and 20-25$/$_t$CO2
[13] Concessional MDBs lending (proxy: 20% for adaptation)
[14] In a 20-25$/$_t$CO2 scenario by 2020
[15] AGF Report, “contribution to creating a price to correct for the carbon externality”

Finally 8 work streams were established and directed by the methodology presented above, evaluated their sources accordingly: (WS1) Carbon market public revenues, 35 pages; (WS2) International transport, 52 pages; (WS3) Carbon-related revenues, 29 pages; (WS4) Development bank instruments, 35 pages; (WS5) Financial transaction tax, 13 pages; (WS6) Direct Budget Contributions, 3 pages; (WS7) Private finance, 35 pages; (WS8) Carbon markets, 37 pages.

A final report (81 pages) synthesized the work streams conclusions. It also estimated revenue and sources over time and suggested an approach to combine public instruments and levering gross flows to create coherent combinations.

Lastly, it highlighted in details the basic concepts and methods through seven sections: (1) Carbon price scenarios; (2) Criteria of the AGF and evaluation of sources against criteria; (3) Calculation net public flows; (4) Methodology for the multilateral ban multiplier ;(5) Private flows; (6) Allocation of revenues for international climate action; (7) Summary of the revenue calculations by source.

- **Comments**

The AGF study is the most comprehensive inquiry to date in assessing potential revenue sources against a set of ex-ante criteria in fulfilling developed countries 100 billion US$ pledge by 2020.

Interestingly, carbon price regardless of its intrinsic value under any scenario (low, medium, high) underpins most revenue source potential. All calculations were made with a medium target of 20-25$/$_t$CO2. Compared to current price levels, such renewed vigor assumes ambitious and appropriate emission reduction commitments in a context of a robust MRV framework.

Adequate sources relating to the most vulnerable countries' needs seem to have received less analytical focus and thoroughness: assessed contribution, SDRs and the like as reserve assets proxies to catalyze grants and highly concessional instruments, MDBs instruments towards adaptation finance… need further elaboration.

- **Mobilizing Sources of Climate Finance (G20)[16] – 2011**

G20 Ministers in April 2011 tasked the World Bank, in collaboration with regional development banks and relevant organizations to explore scaled up finance building on and extending the work of the AGF.

- **Description**

The study extends the AGF conclusions in several ways: "more detailed analysis of cost; further evaluation and review of financial options and their incidence; ways to protect developing countries against adverse effects; updating estimate and scope of innovative avenues, including leveraged private climate finance; etc."

[16] Paper prepared at the request of G20 Ministers:

The "Task Force" constituted different work streams between institutions: sources of public finance, IMF; Analysis of fossil fuel support and MRV of climate finance, OECD; Private fiancé leverage, IFC/EBRD; Leverage multilateral flows and carbon markets, World Bank; comments were provided by ICAO/IMO.

Revenues were classified under two general categories:

(1) Sources of public finance:
   a. Carbon-linked fiscal instruments (carbon pricing; market based bunkers; fossil fuel subsidies)
   b. Non carbon-linked fiscal instruments (Income tax and VAT; Financial transaction tax; Financial activity tax)

(2) Policies and instruments to leverage private and multilateral flows.
   a. Carbon markets (acting on demand and supply factors; and on market rules and instruments)
   b. Other instruments to engage private finance (FDI)
   c. MDBs leverage (leveraging shareholder capital; pooling flows)

- **Methodology**

The paper used six criteria in analyzing the sources: Revenue potential; Impact on GHG emissions; Cost effectiveness; Incidence; Practical feasibility of implementation.

- **Comments**

The G20 report tried to determine the most promising financial revenue sources based on two additional criteria (GHG impact and cost effectiveness) not included in the AGF report. It also took much into account the current economic context (worst economic downturn in half a century and associated fiscal and budgetary constraints) in developed countries in prioritizing sources.

- **Sources of Long Term Climate Change Finance[17] (Oxford Climate Policy – LDC Paper Series) – 2011.**

This review of possible climate finance sources draws from the UNFCCC, the AGF and the G20 reports. It seeks a categorization of every revenue according to both consistencies with the equity principle of the UNFCCC and its political acceptability.

- **Methodological description**

Revenues have been divided in five category sources henceforth[18]:

(1) *Funds provided by developed country governments from national budgets*: Assessed contribution, Voluntary contribution;

[17] Erik Haites and Carol Mwape
[18] As per Tim Gore summary table included in the Paper.

(2) *Sources that contribute to developed country national budgets, dependent on national decisions*: Domestic carbon taxes, Phase out of fossil fuel subsidies, share of fossil fuel royalties, Wires charge on electricity generation;

(3) *Sources that contribute to national budgets, dependent on international agreements*: Financial transactions tax, Border carbon cost leveling, Carbon exports optimization tax;

(4) *Funds collected internationally pursuant to an international agreement*: Extension of the ‘’share of proceeds’’, Auctioning a portion of AAUs, Carbon pricing for international aviation, Carbon pricing for international shipping;

(5) *Leveraged private funds*: MDB capital increases, Private flows leveraged by public policies and instruments; Carbon market finance

Consistency with equity (i.e. CBDR) was measured on a scale of three (Weak, Moderate, Strong), as well as political acceptability (Low, Moderate, High)

- **Comments**

International aviation and shipping were the only two revenues to receive top scores (Strong equity – High acceptability) provided a compensation mechanism was implemented, while extending the “share of proceed” was the only to “fail the test” (Weak equity – Low acceptability). Assessed contribution and AAUs auctioning scored “Strong” on equity and ”Low” on acceptability, finally, MDB capital increases received Weak equity but “high” acceptability.

The study while making a first attempt in highlighting potential convergence and divergence over revenues, fails in taking a step further to provide underlying assumptions in ascribing either grade to specific revenue. Such a methodology or analytical grid would have greatly enhanced the “scientific” merit of the paper, and therefore provided a way forward in the context of the negotiations.

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(2) UNFCCC Financial Mechanism:

- **Financing The Response to Climate Change (IMF – Staff[19] Position Note) – 2010.**

One of the earliest studies which outlined a fund raising scheme in line with the 100 billion US$ Copenhagen pledge by adopting two basic UNFCCC provisions:

- Transfer of financial flows from Annex II parties to developing countries parties (Article 4.3);

[19] Hugh Bredenkamp, Catherine Pattillo.

- On grants and concessional basis (Article 11).

    - **Methodological description**

The authors proposed a unified framework under a ‘’Green Fund’’ with upfront agreement on burden sharing through IMF quotas shares as a key. Initial capitalization shall be provided with Special Drawing Rights (SDRs) essentially, as reserve assets. Such reserves shall then be used to leverage resources from private and official investors through issuance of low-cost “Green Bonds”. Interest income on reserve assets and bond proceeds will first cover subsidy needs, and new sources of fiscal revenues; from carbon taxes and ETS shall be injected at a later stage.

Disbursement terms for adaptation (primarily low income countries) shall be grant based as most activities may not generate returns to service additional debt; while mitigation may consist of concessional (40% of all specific flows to low income countries) and non concessional mix for positive yielded activities.

    - **Comments**

First, mobilization is hereby viewed as a coordinating mechanism, endowed by commitment and burden-sharing among developed countries in catering developing countries climate change needs. Second, resources are mobilized at scale using official funds then leveraged by private finance and channeled largely through grants and concessional terms to developing countries. Third, seeking balance between mitigation and adaptation, while acknowledging the necessity of grant resources at scale to finance the latter.

Still, the paper recognizes political and technical challenges in using SDRs as reserve assets to quick start fund raising in commensuration with the Copenhagen pledge. Nonetheless, Bredenkamp and Patillo are precursors in outlining a mechanism which strives to abide rigorously by principles and provisions of UNFCCC.

(3) Outside UNFCCC Financial Mechanism

- **Improving The Effectiveness Of Climate Financing: A Survey Of Leveraging Methodologies (ODI – CPI – EDI – Brookings)[20] – 2011.**

“Leveraging” is business-as-usual in either banking (investment and development) or finance (corporate and market). It defines the extent to which an intervention, be it financial or policy might catalyze additional flows in reference to a multiplier effect (i.e. a leverage factor). The Copenhagen and Cancun pledges are free to be fulfilled through “a variety of sources” including private and alternative; hence the popularity of leveraging finance in a context of “relative” constrained public finance, and free trade.

    - **Methodological description**

[20] Jessica Brown (Overseas Development Institute) in collaboration with Barbara Buchner (Climate Policy Initiative), Gernot Wagner (Environmental Defense Fund), Katherine Sierra (Katherine Sierra).

Drawing from AGF[21] analysis and results, the following leverage factor from public interventions were provided on an indicative basis:

- Mitigation investments: **3**[22];
- Non concessional debt: **2-5**;
- Equity and guarantees finance via grants: **20**;
- Equity investment by MBDs with private sponsor leveraging debt or equity: **8-10**;
- Debt financed via grants (concessional) funds: **8-10**;
- Climate Investment Funds (part concessional): **3** for public sector projects and **8.5** for private sector projects.

Authors were keen to raise a number of cautionary limits in ascribing leverage factors, inter alia: avoiding double-counting flows in during co-financing; ex-ante demonstration of climate finance additionality through concrete enhanced benefits (lower interest rate or incremental cost, increased debt load, etc.); ex-post replication or "scaled-up" scheme.

- **Comments**

Leveraging is already center stage in UNFCCC negotiations, both under mitigation (MRV of support provision) and finance (Fast Start and long term finance). The outlined figures are welcomed as an initial step. However, here as well, further work needs to be carried in evaluating the different interventions and instruments effects and ensuring relevant UNFCCC principles and provisions are enforced; only then, an agreed calculating methodology under the negotiation may evolve.

(4) UNFCCC

- **Fast Start Finance: Lessons for Long Term Climate Finance under the UNFCCC (IGSD – UNECA-ACPC)[23] – 2011.**

"Fast Start" is a collective commitment from developed countries to provide "new and additional" resources "approaching 30 billion US$" during 2010-2012. Reference to a "balance allocation", prioritizing adaptation funding to the "most vulnerable countries": LDC, SIDS, and Africa, was included. An annual submission to the UNFCCC secretariat on resources disbursed and access modalities is called for to enhance transparency, assess fulfillment, and build trust.

- **Description**

[21] Work Stream 7 Paper: Public interventions to stimulate private investment in adaptation and mitigation.
[22] Considerable standard deviation due to: location, activity type, instrument used, etc.
[23] Contribution to the paper made by: Matthew Stilwell (Institute for Governance and Sustainable Development); Yacob Mulugetta, Mulugeta Ayalew, Youba Sokona (African Climate Policy Centre of the United Nations Economic Commission for Africa)

Principles and provisions of the Convention, added to developing countries experience with implementation provided the evaluating context of the study. The authors recognized clear convergence and divergence among developed and developing countries in reference to interpretation of various elements of counting the progress towards 30 billion US$.

A method through a dialogue of questions and answers as adopted resulted in seven inquiries on: status, new and additional, adequacy, predictability, transparency and accountability, adaptation and mitigation balance, balance between grants and concessional finance, UNFCCC financial mechanism versus “other channels”.

- **Status:** on the 30 billion US$ committed, around 29.2 billion US$ were pledged[24], 45% committed, 33% allocated, 7% disbursed;
- **New and additional:** between 2.8 – 7 billion US$ is new while less than 3 billion is “additional”;
- **Adequacy:** “geographic allocation not evenly nor fairly distributed”;
- **Predictability:** only 7% disbursed, strong uncertainty beyond 2012;
- **Adaptation and mitigation balance:** 62% mitigation, 13% REDD, 25% adaptation;
- **Grants and concessional finance versus “non-concessional”:** not specified.
- **UNFCCC financial mechanism versus “other channels”:** 700 million US$[25] ;

    - **Methodology**

The paper outlined definitional issues whenever presented, providing objective and subjective arguments in support of an option when a specific definition was adopted and applied:

- **Status:**
    - Pledges: verbal or signed commitments;
    - Commitments: firmly obligated contribution or earmarked;
    - Allocated: officially and legally approved and earmarked to a specific project or country programme;
    - Disbursed: released from accounts with proof of spending;

- **New and additional:** new is finance not already pledged whereas additional is in reference to a variety of baselines (ratio, year, economic indicator, etc.) In the study, additionality is measured against the 0.7% GNI aid target; adoption of this indicator authors argue avoid future aid flows “cannibalization” and undermining MDGs achievement. Finally adopting a weaker form, (.i.e. within GNI target or 2009) authors object, is faced with establishing baseline“ when there is no ex-ante commitments;

- **Adequacy:** on two counts, volume relative to needs-assessment and geographic;

- **Predictability:** amounts and speed of delivery;

[24] All figures are up to early September 2011.
[25] Adaptation Fund; Special Climate Change Fund; Least Developed Country Fund and GEF

- **Adaptation and mitigation balance:** mitigation and REDD were combined while adaptation collected a maximum of 25%;

- **Grants and concessional finance versus "non-concessional":** not specified.

- **UNFCCC financial mechanism versus "other channels":** already specified.

    - **Comments**

Short-term finance (i.e. Fast Start) offers a unique opportunity to address gaps and solve definitional issues. Increased transparency and respective accountability will foster trust, an essential ingredient towards an agreement on climate finance related definition. According to this study, provision of new and additional financial resources following a need based approach, in a predictable and adequate manner since the inception of the UNFCCC is rather weak, if not grossly insufficient in contrast to the challenges faced by developing countries.

However, recommendations are made on several counts to address the shortcomings raised through inter alia: detailed climate finance roadmap 2013-2020, ex-ante level of public finance support, clear definition of new and additional, balance adaptation and mitigation through explicit percentage, common reporting guidelines and criteria, etc.

II. Synthesis of definitional views

- **Convergence and divergence**

The definitional survey is summarized in Table 1. While the provision of financial support under the UNFCCC and its COP decisions is guided by principles and provisions recognized and abided by all, implementation of financial commitments falls against a wall of conflicting rationales: economic and financial, ideological and philosophical at times.

TABLE 1: A Definitional Survey

DEFINITION APPROACH	INSTITUTION/REPORT	SOURCES	CRITERIA/METHODOLOGY
1. A wide variety of sources	CPI/Landscape of Climate Finance	Private (Equity, Debt, IFI), Public (Carbon Market and Tax, General Tax)	Activities; N-S Direction; Domestic flows; Terms; Cost
	AGF/Report of the Secretary General's High level Advisory Group on Climate Change Finance	Public carbon Revenues (International Transport, Carbon related revenues, Financial Transaction Tax); Development Banks Instruments; Cabon Market Finance; Private Finance	Revenue; Efficiency; Incidence;, Practicality; Acceptability; Reliability; Additionality
	G20/Mobilizing Sources of Climate Finance	Public Finance (Carbon and non carbon linked fiscal instruments); Leveraging policies and instruments (carbon markets, FDI, MDB)	Revenue potential; Impact on GHG emissions; Cost effectiveness; Incidence; Practical feasbility of Implementation
	Oxford Climate Policy/Sources of Long Term Climate Change Finance	Funds provided by developed country governments from national budgets; Sources that contribute to developed country national budgets dependent on national decisions; Sources that contribute to national budgets dependent on international agreements; Funds collected internationally pursuant to an international agreement; Leveraged private sector	Amount; Mitigation or Adaptation; Consistent with CBDR; Political Acceptability
2. UNFCCC Financial Mechanism (i.e. grants and concessional)	IMF/Finance The Response to Climate Change	Grants; Concessional loans	100 billion US$ Commitment; Burden-sharing; Balance between adaptation and mitigation; Instruments inside the UNFCCC financial mechanism
3. Outside UNFCCC Financial Mechanism (markets and leveraged finance)	ODI/Improving The Effectiveness of Climate Financing: A Survey of Leveraging Methodologies	Mitigation investments, non-cessional debt, Equity and guarantees finance via grants; Equity investment by MDBs with private sector leverage; Debt financed via grants; Climate Investment Funds	Debt to equity ratio; Ratio of public and private co-financing to climate finance; Ratio of total private FDI to net public guarantee coverage; Ratio of NPV of carbon finance to project overall capital investment; Ratio of expected capital investment to annual incremental cost of financing for a clean project
4. UNFCCC (i.e. principles, provisions, and relevant articles)	ACPC/Fast-Start Finance: Lessons for Long Term Climate Finance under the UNFCCC	Grants; Concessional loans; Non concessionnal loans	Status; New and additional; Adequacy; Predictability; Adaptation and mitigation balance; Grants and concessional finance versus non concessionnal; UNFCCC financial channels and outside; Terms

Areas of divergence among developed and developing county parties are intensified by a number of external parameters amongst which: [a] North-South ideological divide, [b] Current global economy situation, [c] "Wealth paradigm shift" perspective.

[a] A pervasive rationale behind addressing climate change from an economics vantage point is to effectively put a price on carbon negative externalities. Indeed, efforts from the private sector to decarbonize the global economy will require both policy frameworks (tools and instruments) and financial incentives when some estimates put 85% of total GHG emissions in developing countries[26] in the next 25 years. Developed countries argue therefore private sector and market involvement in a transformational way is the only sensible path forward.

Developing countries on the other hand, in reference to the objective, principles and provisions of the UNFCCC, are seeking compensation: the fulfillment of "climate justice", a commitment underpinned by developed countries' historical responsibility. Following a need based approach, adaptation is often positioned as the most urgent priority, which private sector and market can hardly address, due to its risk-adjusted return profile.

In definitional negotiations, parties translate respective ideological perspectives into emphasis on activity types (adaptation) and underlying instruments (grants/concessional finance or private sector/markets).

[b] The current financial crisis which spans over most developed countries' groups has unleashed unprecedented fiscal and budgetary constraints, narrowing down the scope of sources whereby political acceptability could have been otherwise at reach.

[c] A final parameter, seldom raised at experts' level, however explicitly voiced during ministerial negotiations is the "perceived" wealth paradigm shift. Emerging countries financial status, epitomized by foreign-exchange reserves and their long term projected GDP ranks[27] in 2020, is making the case for "grants and concessional finance at scale", rather challenging in a global constrained "non-carbon related public finance sources", regardless of climate change historical responsibility claims.

- **Implications of different definitions**

Table 2 "magnifies" extreme opposing views which need to be reconciled through negotiations.

[26] This scenario has leaded some parties to dub the very principle behind provision of financial resources under the UNFCC, historical responsibility, a "relative and dynamic process".

[27] GDP (PPP) 2020 rank: China (1), India (3) outscoring Japan, Brazil (7) outscoring the UK and France, etc. http://www.wri.org/stories/2011/06/emerging-actors-development-finance-closer-look-chinese-and-brazilian-overseas-inves

TABLE 2: Extreme views

	Ends of Definition Spectrum	
	⟵	⟶
	Inside UNFCCC financial mechanism	**Outside UNFCCC financial mechanism**
Instruments targeted	Grants; Concessional	Non-concessional; Private sector (Equity, Debt); Markets
New and additional	Above .7% GNP	Above 2009 climate aid level
Activity oriented	Adaptation	Mitigation
Political support	**LDC; SIDS; AFRICA**	**UMBRELLA GROUP**
	EU	

Developing countries have persistently maintained their position in favor of the UNFCCC financial mechanism. Indeed provision of financial resources under the financial mechanism is “on a grant or concessional basis” per UNFCCC article 11.1. A number of them in the Cancun Agreements: LDC, SIDS and Africa, have again continuously designated adaptation, loss and damage as their most urgent priority and need and required commensurate grants and concessional finance to address those needs.
A definition with “grants or concessional basis” emphasis places great demand over public finance, if not direct budgetary resources in a context already discussed at length.

On the other hand, a definition outside of the UNFCCC financial mechanism centered around ”markets/private sector” might deliver considerable GHG emission reductions and achieve significant mitigation potential. It might also discriminate among developing countries groups where markets are inefficient, political risk is acute and where regulatory and policy frameworks are still weak. Most vulnerable developing countries unfortunately are coping with such challenges and might therefore find their needs inadequately catered to.

III. A way forward to advance agreement on a definition

TABLES 3 & 4: "Mobilized" climate finance definition Matrix[28]

SOURCES / CRITERIA	A. International auctioning of emissions allowances and auction of allowances in domestic emissions trading schemes	B. Offset levies	C. Revenues generated from taxes on international aviation	D. Revenues generated from taxes on international maritime emissions	E. Wires charge	F. Carbon tax	G. Removal of fossil fuel subsidies	H. Redirection of fossil fuel royalties	I. Development bank-type loans	J. Financial transaction tax	K. Direct budget contributions	L. Private capital	M. Carbon market offsets
Directional flow													
New													
Additional													
Instruments													
Terms of flow													
Balanced													
Predictability													
Adequacy													
Status													
Political Acceptability													

Elements informing the Matrix

Direction	New	Additional	Instruments	Terms	Balance	Predictability	Adeqaucy	Status	Political Acceptability
North-South	Pledged before 2009	Above 2009 aid level	Grants	Net	Mitigation %	High	High	Pledged	High
South-North	Pledged after 2009	Above .7% GNI	Concessional	Gross	Adapatation %	Moderate	Moderate	Committed	Moderate
N/A		Above given reference level	Non-concessional	N/A	N/A	Low	Low	Allocated	Low
		Not additionnal						Disbursed	
								Received	

[28] One may use the Matrix as a toolkit to stimulate discussion on the topic. For instance have all participants fill the boxes and send it electronically for compilation

Several initiatives under the negotiations and among relevant stakeholders are taking place in order to achieve agreed definitions on climate finance per se, its compositions, rules and modalities, instruments, even criteria.

Here is a tentative approach:

[1] Use Fast Start as a study case.

The provision of Fast Start (FS) financing is a valid "experiment", from which lessons should be learnt. Indeed through annual reporting, FS offered a great deal of financial information, from which guidelines, rules, modalities and criteria can be drawn, assessed and compared as to how Annex II parties to the Convention, raise, disburse, account, financial flows.

2012 being FS ending year, considerable studies and analysis regarding overall transparency, additionality, adequacy and predictability, access, sources, channels, instruments, amongst other criteria, have been pursued by world class organizations and offer parties an opportunity to have frank exchanges, ensuring common understanding as an incremental step towards agreeing to a common definition of climate finance and mobilized finance.

[2] Implement COP16 & COP17 Decisions

- **MRV Framework**

In Cancun parties decided to enhanced reporting guidelines and modalities through inter alia: common reporting format, increasing reporting frequency to a biannual basis, conduct international assessment and review, and international, consultation and analysis on both the provision and reception of support.

Most of guidelines relating to MRV framework were indeed adopted in Durban, assuring increased transparency and accountability even if initial reporting is only due a year and half from today. For instance, biennial reports guidelines have let free Annex II parties to define their interpretation of "new and additional" until further relevant decisions, leaving the door open to an agreement on definitions to be given effect at the next COP.

- **Durban**

Paragraph 128/130/131 of the LCA Decision, invites the COP President to establish a co-chairing arrangement in carrying forward the long term finance work programme on issues such as: "options for the mobilization of resources from a wide variety of sources…drawing upon reports from the AGF, G20, and the assessment criteria in the reports… taking into account lessons learned from fast-start finance". In Paragraph 131, co-chairs are requested to prepare a report for consideration by COP18.

This is yet another opportunity in the short term to further refine sources and criteria applied to "mobilized" and therefore advance agreeing on definitions as parties will have again a platform to expose, argue and debate their views.

[3] Install a permanent dialogue within and "outside" the UNFCCC

In Cancun and Durban, the Standing Committee (SC) was established and made operational with an indication to hold its first meeting before the 36th session of SBI and present its work programme to COP18. A permanent forum on the different functions pertaining to provision of financial resources under the Convention (delivery, mobilization, MRV, etc) was long overdue. The Committee acting as "chief advisor" on finance related matters to the COP, has within its mandate, ample scope to take on the fundamental question of defining climate finance and its related criteria.

Also extending participation to all relevant stakeholders (NGO, civil society, private sector, etc.) in a spirit of transparency, accountability and full inclusiveness will qualify the Committee as a truly open platform where all views can be exposed, exchanged and thoroughly considered.

Informal discussions at experts and academic fora on climate finance topics shall also be encouraged as their results can formally serve and find their way to COP decisions as considerations from the SC.

[4] Building national Institutional capacity

The increased reporting frequency (biennially) and scope (support received) on developing countries in a context of renewed quantified financial commitment (Fast-start, and the 100 billion US$ goal), will require additional capacity building in measuring, reporting, and verifying the provision of support.

Therefore enhancing developing countries' institutional capacity will not only reinforce the overall climate finance architecture, but also contribute in the medium and long term to advance agreement on definitional issues. Indeed solving a "fractal conundrum" requires active participation from all stakeholders; even more so, parties having "vested interest" in the design of a robust MRV framework which ensure transparency and accountability in tracking progress on achieving commitments under the UNFCCC.

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