Improving Access to Climate Finance for Small and Vulnerable States

A Report of the Commonwealth Expert Group on Climate Finance to the Commonwealth Heads of Government Meeting 2013

The Commonwealth

Written by the Commonwealth Expert Group on Climate Finance

For further information, please contact Janet Strachan, Economic Affairs Division, Commonwealth Secretariat, *j.strachan@commonwealth.int*.

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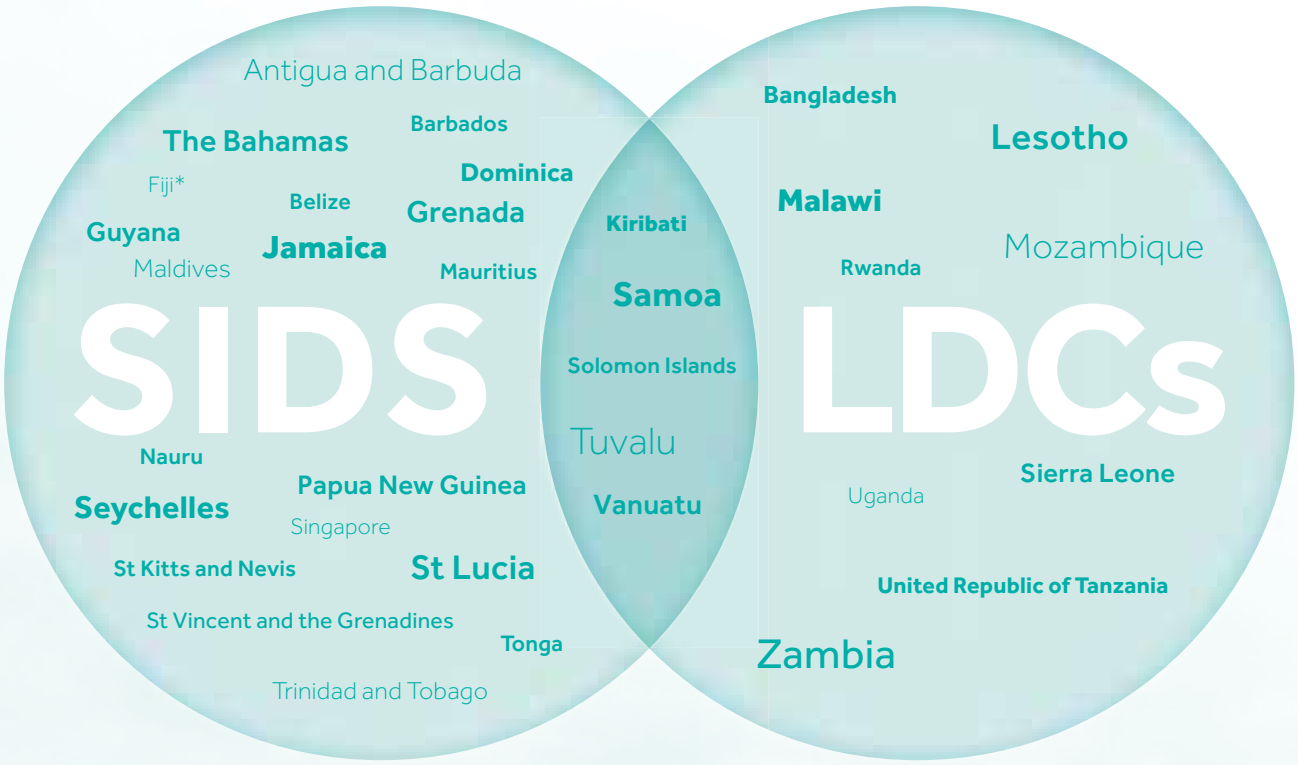
Introduction

The Commonwealth Expert Group on Climate Finance was asked to examine how the Commonwealth can best assist its developing country members, particularly Small Island Developing States (SIDS), Least Developed Countries (LDCs) and other particularly vulnerable states, to improve their access to currently available climate financing, and institutionalise easier access to climate financing in the future. We have not repeated the wealth of analysis available elsewhere. Rather, we have set out some key and immediate practical steps that Heads of Government can take to deliver a step-change in the effectiveness of climate financing for all developing countries (including those outside the Commonwealth), at the same time as increasing the global commitment to climate action.

LDCs and SIDS in the Commonwealth[1]



*Fiji was fully suspended from membership of the Commonwealth on 1 September 2009 pending restoration of a democratically elected government.

What is the Problem?

1. Climate change is reversing development everywhere in the Commonwealth

'Decades of progress are now in danger of being rolled back because of climate change [...] This is a 'make-or-break' decade for action on global warming. The time to address the interlinked challenges of climate change and ending extreme poverty is now.'

World Bank President Jim Yong Kim addressing the UN General Assembly, September 2013

Climate change is reversing progress on poverty alleviation, economic growth and stability across the world. 46 of the 53 Commonwealth countries have coastlines, and the vast majority of these have large cities and populations dependent on land and marine resources along the coastline. By 2030, sea level rise alone is estimated to incur economic costs of over US$100bn and lead to the loss of over 21,000 km^2 of land[2]. Across the Commonwealth changing weather patterns are leading to losses in crop production and unquantifiable human impact caused by disease, migration, unemployment, and loss of wealth. The smallest and least developed members of the Commonwealth are facing the greatest impacts – they are some of the world's most vulnerable countries, have contributed least to cause climate change, and have the most limited capacity to respond.

Recently published findings from the Intergovernmental Panel on Climate Change (IPCC)[3], which synthesises all of the current published research on climate change, conclude that:

- Climate change continues.
- On the ground, in the air and in the oceans, global warming is without doubt.
- Atmospheric CO_2 concentrations have increased by about 40 per cent since 1750, due to human activity.
- Sea levels have been rising by about 3 mm a year since the early 1990s.
- It is extremely likely that human influence has been the dominant cause of the observed warming since the 1950s.

2. Everyone is impacted, but the costs are hurting SIDS and LDCs most

'Climate change [...] is by far the greatest economic challenge of the 21st century'

Christine Lagarde, Managing Director, International Monetary Fund, speaking at the World Economic Forum Annual Meeting, Davos-Klosters, January 2013

In both developed and developing countries, the cost of dealing with climate change is increasing. Private economic activities and infrastructure are being damaged by extreme climate events, the cost of insurance (where available) is increasing, and many businesses are having to increase investment in adapting to climate change, thereby reducing finance for more productive investments. At the same time, governments are forced to spend scarce public resources on new or improved infrastructure, efforts to seek alternative sources of food and water, the relocation of communities, and recovery from natural disasters which are occurring with increased frequency and intensity.

This is particularly apparent in the LDCs and SIDS, where vulnerability is increased by limited resilience capacity in the key sectors of the economy that are also the most climate sensitive. The cost of adaptation is estimated to be many billions of dollars annually in the coming decades – in Africa alone, where 34 countries are LDCs, the costs of adaptation were estimated in 2010 to be more than US$600 billion over the next 10-20 years.[4]

In the smallest and poorest members of the Commonwealth, climate-related disasters can roll back decades of development gains in a single event. For example, the last decade has seen some SIDS and LDCs experiencing natural disaster losses that in any one year approach or even exceed their GDP. While no one event can be attributed to climate change, LDCs and SIDS are already highly vulnerable to extreme weather events and these are anticipated to increase in frequency and intensity with climate change[5].

Climate change is damaging lives, livelihoods and the viability of nations in the Commonwealth

In Bangladesh, widely acknowledged as one of the most climate vulnerable countries on Earth, the increase in ocean surface temperature and sea level rise are predicted to intensify the number of cyclones, with cyclone storm surges also covering an additional 15 per cent of coastal zones. The extreme 2007 floods inundated 62,300 km^2 or 42 percent of total land area, causing 1,110 deaths and affecting 14 million people; 2.1 million hectares of standing crop land were submerged, 85,000 houses completely destroyed, and 31,533 km of roads damaged. The asset losses from this event alone were estimated at US$1.1 billion.

In Guyana, major floods in 2005 caused damage equivalent to 60 per cent of GDP and 320,000 people were directly affected. Annual economic loss due to flooding is projected to be US$150 million by 2030 unless a US$1 billion adaptation infrastructure programme is completed.

In Tanzania, more than 70 per cent of all natural disasters are linked to extreme droughts and floods due to climatic variability and change. The droughts of 2003, 2005, 2010, and 2011 are the most recent major droughts which severely affected agriculture, energy and business sectors, impacting over 20 million people and causing an economic loss of more than 1 per cent of the national GDP.

In 2004, a low Category 3 hurricane in Grenada resulted in damages estimated at more than 200 per cent of the island's gross domestic product in that year. When Cyclone Heta struck Niue in 2004 it caused immediate losses amounting to over five times the 2003 GDP.

The Pacific's 5 year review of the Mauritius Strategy for Implementation (MSI) identified that despite the hard work of Pacific SIDS to fulfil their commitments to internationally agreed development goals, such as the MSI and the Millennium Development Goals (MDGs), gains made in recent decades risk being lost through the adverse impacts of climate change, in part because their already limited finances are being diverted because of climate change.

The Government of Kiribati has put in place a relocation strategy, based on the concept of migration with dignity – stating that climate change threatens the survival of the country, and the Kiribati Government 'acknowledges that relocation of our people may be inevitable.'

3. Solutions are in reach – but require political action and finance

'Climate change has quite frankly slipped to the back burner of policy priorities. But the problem is not going away – quite the opposite.'

Maria van der Hoeven, Executive Director of the International Energy Agency, speaking at the launch of a World Energy Outlook Special Report, 'Redrawing the Energy-Climate Map', London, 10 June 2013

The major elements of the response to climate change are known: prudent investment in climate change adaptation to protect people and existing economic activity, coupled with a global conversion to a low carbon economy, built from clean energy, efficient industrial and transport systems, sustainable land use and better forest management. Solutions are possible and affordable – but they require:

- Urgent international political action to create the foundations for a global low carbon economy. The international community has committed to stabilise the planet's climate by finalising a legally binding global climate agreement under the UN Framework Convention on Climate Change (UNFCCC) by 2015, for implementation from 2020. This is not the first time leaders have tried to finalise such an agreement – in 2009, in Copenhagen, the international community tried and failed. As leaders of a third of the world's population, Commonwealth Heads of Government can significantly influence the chances of reaching a meaningful agreement on the second try.[6]
- Strengthened national systems in developing countries. Strong and domestically accountable national planning systems that factor-in climate change will create an environment for greater long term returns for the overall development and resilience of any country. Yet many developing countries suffer from a proliferation of small, donor-driven projects. For countries with very limited capacity, the overwhelming number of projects and development partners is itself an impediment. A move towards greater use of country systems will encourage longer term development effectiveness and help to reduce administrative costs.
- Adequate finance to support long term action on climate change. Adapting to climate change and addressing its causes will require significant investment of public and private resources. Money invested today means greater success and cheaper future costs.[7] At the Port of Spain Commonwealth Heads of Government Meeting (CHOGM) in 2009, Commonwealth leaders were among the first to publicly recognise this reality,[8] and committed to creating new financial resources for action to promote sustainable investment and move away from 'business as usual'.

4. Some climate financing is available for developing countries – but many recipients say it is not functioning effectively

'[...]concerted efforts should be made towards the provision of new and additional, adequate and predictable financial resources; and transfer of appropriate technology on concessional basis so as to enable African countries to adapt and participate effectively in the mitigation efforts to address climate change.'

HE Dr Jakaya Mrisho Kikwete, President of the United Republic of Tanzania and Chair of the Committee of the African Heads of State and Government on Climate Change (CAHOSCC) at the opening of the CAHOSCC meeting, New York, September 2013

In 2010, the international community agreed that climate financing would be used to help developing countries address climate change straight away, pending the implementation of a global climate agreement from 2020. Specifically, under the UNFCCC[9], all countries agreed that:

- new and additional resources approaching US$30 billion would be delivered for the period 2010-2012, with a balanced allocation between adaptation and mitigation. The funding for adaptation would be prioritised for the most vulnerable developing countries, such as the LDCs, the SIDS, and Africa. This commitment has become known as 'fast-start finance'; and
- an annual total of US$100 billion in public and private finance will be mobilised by 2020 to address the needs of developing countries.

The Secretary General of the United Nations set up an expert panel which concluded that it was 'challenging but feasible' to generate the funds required, and made suggestions on how this could be done.

These commitments are what the international community usually means by climate finance.

But climate finance is not flowing as expected. Commonwealth countries report many problems with making climate finance work. This is reducing trust at a time when a new, fair 2015 global climate agreement needs to be reached, and the Green Climate Fund[10] made operational. Understanding and then solving the problems associated with climate finance is key to any future climate agreement, as well as to broader development goals and international co-operation.

5. Public climate finance is seen as inadequate, inefficient and ineffective

Now that the three years of fast start finance is complete, it is possible to see where there are major barriers to the effective deployment of this funding (Table 1).

Table 1. Reported barriers along the climate finance chain

Pledge	Make available	Allocate	Disburse	Use	Track
• Lack of clarity over whether pledges were met and how • Lack of clear climate finance commitments from 2013-2020	• Large allocations made as loans not grants, so inaccessible to heavily indebted but climate vulnerable countries • Over 500 different mechanisms being used globally	• Complex requirements which are specific to each particular fund • Lengthy and highly technical processes to secure funds • Long timeframes for approval, yet short financing cycles • Funds allocated to projects of narrow focus, not long term or integrated approaches	• Channeling via intermediaries can add extra complexity and cost • Wide range of mechanisms, many which run outside recipient country systems for receiving and reporting on funds	• Limited project management capacity • Complex and restrictive procurement policies of funders can limit ability to deliver cost effectively	• No agreed definitions for donors to track against • Very limited capacity for recipients to track in domestic systems due to fragmentation of finance • Large volumes of climate finance outside government view

Within this overall landscape, three major problems have been highlighted with public climate finance:

1. Pledges were not kept by all who made them. During the difficult negotiations to conclude the Copenhagen Accord of 2009 and the Cancun Agreement of 2010, world leaders promised that public climate finance would amount to US$30 billion over three years, and be new and additional to Official Development Assistance (ODA). Many developing world leaders cite this promise as the reason they accepted the provisions of both the Accord and the Agreement, which were far below their ambitions to stabilise the world's climate.

Table 2. OECD-DAC data: change in climate finance commitments and disbursements [11]

*In billion constant 2010 USD	Commitment*			Disbursement*		
	2010	2011	Change	2010	2011	Change
Total ODA	USD 164	USD 149	-9%	USD 147	USD 141	-4%
Total climate finance	USD 23.4	USD 17.6	-25%	USD 10.8	USD 10.8	0%
Adaptation	USD 8.51	USD 7.72	-9%	USD 4.62	USD 4.76	+3%
Mitigation	USD 18.56	USD 13.24	-29%	USD 8.71	USD 8.21	-6%

Commonwealth providers of fast-start financing have reported meeting their commitments.[12] However, some questions remain as to whether fast-start financing internationally has been 'new and additional'. OECD-DAC data for 2010 and 2011 shows a decrease in committed ODA and climate finance and a lag between these commitments and their disbursement (Table 2). Figures for 2012 have not yet been published.

As well as corroding trust between developing countries and some of their developed world partners, this is compounding difficulties in achieving the MDGs as the re-allocation of a dwindling amount of money to 'climate finance' means that money which should have been spent on health, education and other priorities is in effect being diverted.

2. Funding is not addressing the priority climate needs of LDCs and SIDS. Large emerging economies are receiving the vast majority of funding, virtually locking out SIDS, LDCs and other small states. Around 92 per cent of approved climate finance has gone to middle income countries, primarily for mitigation[13]. Despite the importance of adaptation to LDCs and SIDS, and despite the political commitments that adaptation funding would be equal to that of mitigation, the percentage of funds going to adaptation has remained static in recent years, at around 17 per cent.[14]

Within adaptation financing, research commissioned by the Commonwealth shows there is a mismatch between pledges made, the receipt of funding, and implementation on the ground (Table 3, published in 2012), pointing to persistent access and programming barriers, as well as absorptive capacity issues.[15]

In Tanzania, for example, recent analysis has shown that funding recorded through official

Table 3. Funds primarily supporting adaptation[16]

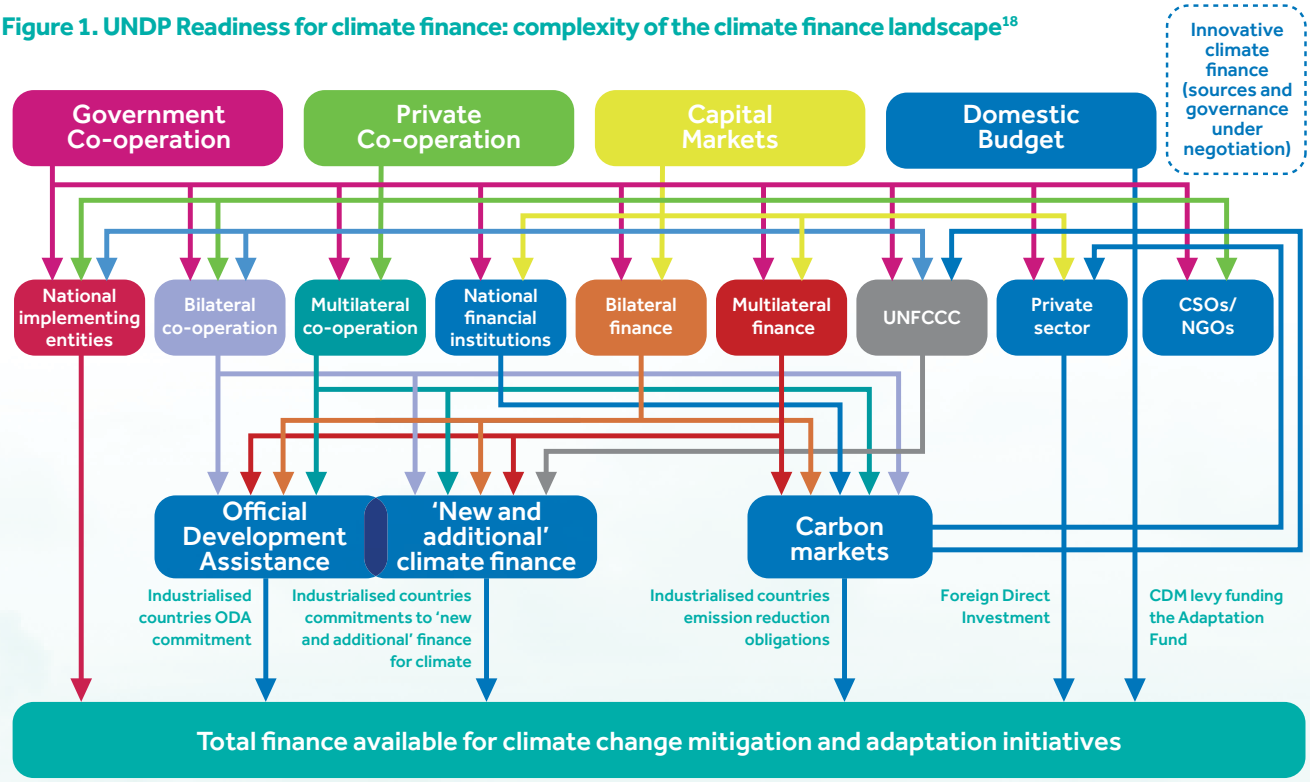
Fund	Pledge	Deposit	Approval	Disbursement
Adaptation Fund (AF)	323.05	186.48	166.36	29.14
Least Developed Country Fund (LDCF)	536.65	435.46	286.73	126.63
Special Climate Change Fund (SCCF)	241.61	196.4	147.25	100.23
Pilot Programme for Climate Resilience (PPCR)	1119	804.8	317.48	8
Global Climate Change Alliance (GCCA)	385.36	365.36	296.81	130.99

government sources (of about US$20 million) is far below the support reported by donors for climate change related support (more than US$ 200 million).[17] This raises the question of lack of donor co-ordination at national level and non-alignment of donor support to nationally driven strategies for immediate and long term action on climate change.

Furthermore, it is the experience of this group that funds have been made available to SIDS and LDCs for short term enabling activities such as staff training, disaster preparedness assessments, and policy development – while very little funding is allocated to concrete and lasting climate investments such as flood defences to secure homes, private investment and agricultural land; or the incremental investment that is needed to 'climate proof' existing infrastructure.

3. Climate financing arrangements are a maze and require specialist knowledge to access. The climate finance landscape that has emerged since 2009 is extremely complex, and comprises a large and highly diverse 'spaghetti bowl' of funds (Figure 1). In many instances, the transaction costs for accessing these resources (including multilateral institutional fees and direct management costs) are above 20 per cent of the total project cost. Different funding windows have their own individual criteria for eligibility, access, implementation, monitoring and reporting. This fragmentation has placed considerable burden on recipient countries, particularly small and vulnerable states, and limits their ability to unlock existing climate finance and use it effectively. Many vulnerable states have reported the reality that these funds are simply inaccessible.

Figure 1. UNDP Readiness for climate finance: complexity of the climate finance landscape[18]



6. Private finance continues to result in greenhouse gas emissions, rather than a low carbon economy

In market economies, investment, both green and brown, is predominantly funded by private finance. A 'business as usual' development trajectory will mean that the trillions of dollars in private investment that will take place globally in the coming years will be accompanied by excessive greenhouse gas emissions. There is therefore a need to reform private finance in order to incentivise green investment.

The structure of private finance is inadequately adapted to this challenge. Bloomberg recently described the structures of private finance as 'institutionally fossilist', by which they meant that those structures favoured brown over green investment. In such circumstances it is unlikely that vulnerable states will have adequate access to private finance for climate mitigation, or that the rest of the world will easily find the finance to reduce the level of their emissions.

Solutions need to be found to change this bias, and to bend the arc of investment away from fossil-fuel energy dependence, inefficient industrial processes, unsustainable land use, and deforestation – the activities which, according to the IPCC[19], are the causes of the overwhelming majority of human-made climate change.

To be effective, these solutions must avoid incidence[20] and other negative impacts on the developing world – instead, solutions must catalyse a transfer of finance, technology and skills to boost inclusive, low carbon growth in all developing countries, including those that are most vulnerable to climate change. As well as generating international investment flows into developing countries, this can enable the local private sector to help to alleviate poverty, create jobs, establish and expand profitable businesses, and generate domestic public revenues to provide the long-term income stream that is needed for sustainable development.

Many private finance solutions are currently being implemented by the private sector, as well as by countries and groups of countries around the world, and these should be supported. However, to achieve impact at the scale needed – i.e. to stimulate the investment that is needed to keep average global temperature rise below 2 degrees above pre-industrial levels, or less – equitable global measures need to be agreed through the UNFCCC in accordance with international law.

An ambitious climate change agreement[21] can create the policy framework to attract private investment into sustainable development programmes in all states. An equitable agreement can build and strengthen the private sector within developing countries. It can also protect private activity against impacts both of climate change and the response measures (where global measures to address climate change cause an excessive cost to be borne by developing countries).

Yet implementation of measures agreed under the UNFCCC will not start until 2020, as agreed in Cancun. Complementary measures are needed before then. A wide variety of workable and affordable solutions have been put forward. Several of these can be implemented before 2020 without diverging from agreed UNFCCC positions.

Private finance is not a substitute for public finance. While the latter is of particular importance in the financing of adaptation for LDCs and SIDS, their leaders recognise that:

- Without reform of private finance any short-term gains would be quickly wiped out by worsening climate change.
- If the US$100 billion per year by 2020 climate finance target from the Cancun Agreement is to be reached, there needs to be inclusion of finance originating from private sources.

In 2010, the UN Secretary-General established a High Level Advisory Group on Climate Finance[22] who identified a set of measures which can meet these dual objectives, while avoiding incidence for developing countries. These measures include:

- Partial removal of fossil fuel subsidies;
- International auctions of emissions allowances, and auctioning of allowances in domestic emissions trading schemes;
- Offset levies;
- Revenues from international transportation (maritime and aviation); and
- Carbon tax(es).

As well as these policy interventions which aim to change market incentives and so support low carbon investment within the global economy, regulation of international finance could also be reformed. Today, the public regulatory authorities that govern international finance tend not to consider the effect of the statutes that they are passing on climate change. This is despite the fact that climate concerns are themselves a very significant risk to the stability of the financial system – the economic damage caused by runaway climate change will threaten the stability of banks and other financial institutions, as well as affecting the world's citizens directly. This issue would benefit from further examination: those who write the rules which govern international finance should have in mind their effect on increasing investment in low carbon development across the developing world. Yet it is our understanding that as yet, little consideration of this issue has been made by the authorities who have written the international regulations which govern the world's banks, insurance companies, stock exchanges, or who set the world's accounting, actuarial and other financial standards.

The G20 and the Green Climate Fund

In September 2013, the G20 – a quarter of whose membership is from the Commonwealth (Australia, Canada, India, South Africa and the United Kingdom) – examined many of these issues, and agreed to take action on several measures. The relevant G20 outcomes are summarised in Figure 2. Also in 2013, the international community established the Green Climate Fund (GCF) which has as one of its objectives catalysing greater flows of private finance to developing countries.

Taken cumulatively, these measures can be supportive of the overall goal to ensure that adequate levels of private climate finance flow to developing countries before 2020. However, to ensure that there is no incidence or other negative impacts on the developing countries who are not members of the G20 or Board Members of the GCF, it will be necessary to ensure that the G20 and GCF take into account the needs of *all* developing countries. Commonwealth members of the G20, and Commonwealth members who are on the Board of the GCF, can help to ensure that the interests of all countries are represented.

Figure 2. G20 St Petersburg Declaration, September 2013

On 6 September 2013 the leaders of all G20 countries issued the G20 Leaders' Declaration, following the St Petersburg G20 Summit. They stated (emphasis added):

1. 'We reaffirm our commitment to *rationalise and phase out inefficient fossil fuel subsidies* that encourage wasteful consumption over the medium term while being conscious of necessity to provide targets support for the poorest.' Recognising the importance of providing those in need with essential energy services, the leaders of the G20 asked Finance Ministers, to 'consider, in conjunction with the relevant international institutions, policy options for designing transitional policies including strengthening social safety nets to ensure access for the most vulnerable'.

2. 'Sizable investment, including from private sources, will be needed in the G20 and other economies in energy infrastructure in the years ahead to support global growth and development. It is our common interest to assess existing obstacles and identify opportunities to *facilitate more investment into more smart and low-carbon energy infrastructure, particularly in clean and sustainable electricity infrastructure where feasible*. In this regard we encourage a closer engagement of private sector and multilateral development banks with the G20 Energy Sustainability Working Group and call for a dialogue to be launched on its basis in 2014 that will bring interested public sector, market players and international organisations together to discuss the factors hindering energy investment, including in clean and energy efficient technologies and to scope possible measures needed to promote sustainable, affordable, efficient and secure energy supply.'

3. 'Regulation among other policy levers can play an important role in creating a proper context for investment. Noting that regulatory roles differ from country to country and the regulation remains a country-led process, but in some cases is shared within regional integration space, *we welcome the dialogue between interested G20 national power sector regulators supported by regulatory associations and international organisations*, and take note of the statement they have provided on sound regulation and promoting investment in energy infrastructure.'

4. 'We commend the progress made by the FSB together with standard setting bodies and the IMF and the World Bank Group in *monitoring the effects of evolving regulatory reforms on emerging markets and developing economies (EMDEs) with the view to address material unintended consequences without prejudice to our commitment to implement the agreed reforms*. We ask the IMF, the World Bank Group and standard setting bodies to step up their monitoring, analysis and assistance in this area. Lastly, we encourage the FSB to continue to monitor, analyse and report on the effects of evolving regulatory reforms on EMDEs as a part of its overall implementation monitoring framework.'

5. 'We support the *operationalisation of the Green Climate Fund (GCF)*. We welcome the report of the G20 Climate Finance Study Group on G20 countries' experiences.'

7. Resolving these issues needs first-order political attention

Experience has shown that no matter what proposals are made to address climate change or climate finance, they quickly get caught up in their own negotiations around a fair sharing of the burden and benefits.

These are important considerations and developing countries rightly feel that the major burden of solving the problem should be borne by those who caused it, and who have the most financial and other resources to solve it. Developing countries are alert to the possibility of unfair burden sharing, and will not support creating a situation where both the problem of climate change and its solutions are disproportionally borne by the poor. In particular, they recognise the need to build and strengthen the private sector within small and vulnerable states, and to protect private activity against both climate change impacts and the impacts of response measures.

Nonetheless, one common thread of feedback from developing and developed countries is that the needed solutions will only be agreed if they receive focused attention from Heads of Government. Only Heads of Government can broker the needed trade-offs and decisions. Without their engagement, the complexity of the negotiations risks overwhelming any sensible ways forward and progress on climate change, MDGs and overall global development will be wiped out.

Climate change has historically not been the top priority of Prime Ministers and Presidents – even in the most vulnerable countries – although this is changing. This can lead to a misalignment of national priorities, where climate change does not get the attention of the most senior policy-makers despite sometimes being the biggest threat to the society and economy.

It is therefore crucial that all leaders commit to using the next year to advance the UNFCCC process to address the vital issue of climate finance, both in terms of how to raise the $100 billion in climate finance as committed at Cancun, and in terms of modernising global public policy to change the long term incentives for private finance.

Climate Finance: Commonwealth Leaders can make a Difference

As Heads of Government of a third of the world's people, Commonwealth leaders share the responsibility for securing a global climate agreement in 2015.[23]

The elements of a climate agreement are clear.[24] What is missing is the trust and international political commitment to make the decisions that are needed to stabilise the climate, safeguard decades of development gains, and help to protect the very viability of the world's most vulnerable communities and countries.

To re-build international trust, achieve development outcomes, and advance climate results, it is essential to make progress on climate finance before the 2015 UNFCCC negotiations. Commonwealth leaders can help to do this through five practical actions over the next two years.

Developed country leaders can:

1. Accept greater transparency and accountability around existing and future climate finance commitments and ODA pledges.

2. Ensure improved efficiency and access to existing sources of climate finance and provide better donor co-ordination arrangements in the delivery mechanisms at the receiving end.

Developing country leaders can:

3. Focus leader-level attention to strengthen national planning systems to maximise development outcomes, and facilitate improved accountability and transparency on investments made.

All leaders can:

4. Support and attend the UN Secretary General's Climate Summit in 2014, and the Conference of the Parties to the UNFCCC in Paris in 2015, to agree a global climate agreement in 2015 for implementation from 2020, alongside agreeing an effective post-2015 development framework.

5. Support the reform of the global economy in line with the climate needs of the Commonwealth and the wider world.

The remainder of this document sets out each of these actions.

1. Improve transparency and accountability around commitments and pledges

- Contributing countries should agree to standardise definitions and reporting for all international flows of climate finance and ODA from and to all Commonwealth countries, working in partnership with key organisations and mechanisms.

Lack of transparency fosters mistrust and is complicating progress in the climate change negotiations. There is no broadly accepted definition of climate finance,[25] and no easily accessible mechanism to monitor progress against pledges. This is compounded by concerns that are sometimes justified about double counting.[26] Transparency and accountability from contributing countries is therefore key to progress. To help improve transparency and accountability, developed country leaders should instruct their governments to:

Develop clearer definitions: Work with organisations such as the OECD and relevant bodies under the UNFCCC to agree a clear and simple definition(s) of climate finance, and ensure that it is not 'double counted' ODA, ahead of the September 2014 UN Climate Summit in New York.

Improve clarity of sources: Engage with other organisations[27] to ensure that clear information is pro-actively disseminated regarding the requirements and objectives of different sources of climate finance. This will improve the ability of potential recipients to rapidly identify what funds they are eligible for and what may suit their adaptation and mitigation needs. Countries can engage with the private sector to help them understand their role, monitor private investment, improve understanding about how much is flowing, and identify trends.

Improve reporting: Report progress on pledged, committed, and disbursed climate finance on an annual basis, working in partnership with others.[28] This should enable all Commonwealth countries to access up-to-date information to track and monitor the effectiveness of the finance that is being disbursed. This should also be accompanied by transparent reports from recipient countries on how the money was spent.

2. Improve access to existing sources of climate finance

- Establish a Commonwealth Climate Finance Skills Hub and Response Mechanism to provide expert support in navigating the existing climate finance (both public and private) and related ODA infrastructure.
- Create a climate finance template and a common, harmonised set of procedures to simplify access to climate finance over the medium to longer term.
- Improve allocation and access procedures to support vulnerable countries.

Existing climate finance is not being deployed as efficiently as it could be to ensure the achievement of necessary resilience and sustainable development outcomes. To help address this, Commonwealth leaders should agree measures to:

Establish a Commonwealth Climate Finance Skills Hub and Response Mechanism: The hub and the mechanism would aim to address critical gaps in the capacity of SIDS and LDCs in accessing and managing climate finance. The Hub would be based around an active partnership between Commonwealth member countries and draw on the Commonwealth's strengths in technical co-operation. Its purpose would be two-fold: (i) for LDCs and SIDS to draw down on skills and advice to address key blockages to accessing climate financing within their own systems; and (ii) for the Commonwealth to build up a body of knowledge about climate financing blockages experienced by Commonwealth SIDS and LDCs, to share examples of effective responses or ways of working to unlock climate financing.

Develop climate finance templates and harmonised procedures: In order to create a single, stream-lined process to access multiple sources of finance, bilateral funders in the Commonwealth can start to work with like-minded groups to establish common application requirements and fiduciary management standards.

Identify the most flexible and effective delivery mechanisms: Commonwealth leaders have a range of opportunities, working collectively to create systemic change. Working to strengthen regional mechanisms can help deliver a pool of skills and know-how, and help deliver finance at scale, without overwhelming national systems. The Commonwealth has the potential to support this approach through cross-regional learning. Agreements between major bilateral partners could help to harmonise funding disbursements (drawing on lessons from aid effectiveness). Multilateral funds need to be channelled cost effectively, perhaps by enabling recipient countries to choose a preferred accredited institution with an understanding of particular sectors or regional needs. Access to concessional financing could be improved for a number of climate vulnerable countries by revising criteria for graduation from LDC status to take into account vulnerability to climate change, and by using vulnerability as a criteria for determining development assistance. The design of the new Green Climate Fund should to be tailored to suit the needs of small and vulnerable states, perhaps through special access windows.[29]

3. Focus leader-level attention to strengthen national planning systems

- Recognise the need for climate change to be at the top of pan-government agenda and not to be left to any one individual Ministry or Agency.
- Developing country leaders ensure that national planning systems and strategies are integrated towards their climate needs.

Commonwealth developing country leaders can:

Ensure domestic policies support effective climate finance to address the needs of the most vulnerable: Without co-ordinated action, the opportunity for multiple benefits from policy action are lost. In the worst cases, different national entities may be working in opposition. While many countries have made strides towards more integrated approaches, we believe that there is still some way to go, to:

- Clearly document the implications of climate change in the country, and the actions the government is taking to deal with these.
- Integrate these into national development plans, policies and budgets .
- Set up institutions so they achieve integrated actions on development and climate change.
- Understand which skills and actions need to be done in-country or can be outsourced.
- Consider how partnerships could leverage private investment but maintain the focus on the country's priorities.

Prioritise the strengthening of national public policy and financial systems, to enable nationally-led implementation of climate responses. Some countries are integrating climate change issues into policy planning, however delays in financing often prevent commensurate implementation and action. Using approaches such as Peer Reviews of National Systems (under the Pacific Islands Forum Compact on Development Effectives); Public Financial Management Roadmaps; and Climate Change Finance Assessment efforts, countries are getting ready to effectively harness and utilise climate financing, though such funds often do not arrive in the most compatible way.

4. Personally support the UNFCCC process and the post-2015 development framework

- Announce intention to attend, and be involved in the preparations for the UN Secretary General's Climate Summit in 2014 and the UNFCCC COP 21 in 2015.
- Work to ensure coherence between climate finance, and financing for the post-2015 development agenda.

Officials in most countries will point to the large volume of analytical work that is being done on climate finance. However, it is high-level political attention rather than further analysis that will help break through the outstanding blocks to global agreement on climate finance, and the long term agreement to stabilise the climate. Without the attention of Heads of Government, the requisite progress will not be made. All Commonwealth leaders should:

Work to secure an international framework: A global agreement for deep cuts in greenhouse gas emissions, guided by science, is essential. Without this, climate-related challenges and costs will continue to worsen. The UN climate change negotiations have two major upcoming milestones: (i) a Climate Summit to be convened by the UN Secretary General in September 2014, and (ii) the climate change negotiations in Paris in 2015, where a new legally binding global agreement is to be reached.[30]

Leaders should attend in person, and ensure that their negotiating teams are clear that they need to broker the action necessary to respond to climate change and mobilise adequate climate financing to address the challenge. They should request negotiators to use the gains made and agreements reached at the Warsaw 2013 and Peru 2014 Conferences of Parties to the UNFCCC to set the needed direction before Paris.

Ensure coherence between climate finance and the post-2015 development agenda: As a development, poverty alleviation and security issue, climate change is central and cross-cutting to the post-2015 development framework. A 'climate-blind' post-2015 framework would simply never meet its objectives. Finance for development and for responding to climate change needs to be co-ordinated and mutually supportive.

5. Support the reform of the global economy to support climate needs

- Support the G20's efforts to create a global low carbon economy.
- Request that global financial regulators are asked to consider the consequences of their actions for the financing of a global low carbon economy, and avoid negative impact on developing countries, and to report on their actions.
- Develop mechanisms to ensure that the interests of non-G20 developing countries are represented in the relevant counsels of the G20 and elsewhere to avoid unintended negative impacts, especially relating to reforms of market incentives and financial regulation.
- Support the operationalisation and capitalisation of the Green Climate Fund (GCF).

Endorse relevant G20 initiatives and ensure that they support all developing countries. This report has identified five major outcomes of the September 2013 G20 Heads of Government meeting, which are supportive of the overall need to catalyse greater private sector investment in low carbon development in developing countries, as outlined in Figure 2.

We believe that all these initiatives should be commended, but underline the need for them to be supportive of all developing countries, including those who are not members of the G20. On that basis, Commonwealth countries should lend their support to these initiatives.

We would welcome the development of mechanisms to ensure representation of LDCs and SIDS in the counsels of the G20 and elsewhere, which should assist the G20's efforts to be supportive of all developing countries and to avoid any unintended negative impacts on SIDS and LDCs.

To achieve this objective, we propose the following actions on behalf of Heads of Government:

- **Reform of Market Incentives.** We note that the first three recommendations from the G20 Declaration (Figure 2) involve looking at various aspects of the global energy sector. As well as the need to avoid unintended incidence, the inclusion of all developing countries in an expanding market for clean energy would be of global benefit. We propose that the Commonwealth Secretariat liaise with the bodies established by the G20 to enable input from Commonwealth LDCs and SIDS to (i) the G20 Finance Ministers' work on fossil fuel subsidies, and (ii) the Energy Sustainability Working Group and regulators' work on financing for clean energy, and to report back on progress.
- **Climate and Financial Regulation.** We also note that recommendation 4 of the G20 Declaration (Figure 2) involves a review of global regulatory standards for finance. One issue which must not be overlooked in financial regulation is the importance of ensuring that the system as a whole is capable of delivering the finance needed for a sustainable economy, including to developing countries, and to addressing the future risks associated with climate change. We propose that the Commonwealth Secretariat ask international financial regulators[31] to make an 'environmental assessment' of regulatory rules for which they are responsible to assess how the rules are affecting the availability of climate finance, avoiding negative impacts on developing countries, and incorporating environmental risk, and to report back on this matter.

Ensure that the views of SIDS and LDCs are represented on the Board of the Green Climate Fund. Several Commonwealth countries are on the current Board of the Green Climate Fund (GCF). As the GCF is capitalised, and assumes responsibility for intermediating a significant portion of the Cancun climate finance commitments, it will be necessary to ensure that funds are available and accessible to all developing countries. In particular, it is essential that Commonwealth Board members represent the viewpoints of SIDS and LDCs. We propose that two Commonwealth Heads of Government whose countries are on the Board of the GCF, with the support of the Commonwealth Secretariat, approach the GCF to ensure that the specific concerns of and opportunities for SIDS and LDCs are taken on board as the GCF is capitalised, and to report back on this matter.

Conclusion

Commonwealth developing countries are seeking to lead the world towards a more sustainable future by creating low-carbon development pathways, adapting to climate change and protecting their societies and economies from its impacts. We have presented five proposals, which can be immediately acted upon to improve access to climate finance by SIDS, LDCs and other climate vulnerable countries. Commonwealth Heads of Government have the opportunity to act, collectively at CHOGM and in their country. The five key areas in which work is needed are summarised below:

Issue	Proposals
1. Transparency and accountability	Contributing countries agree to standardise definitions and reporting for all international flows of climate finance and ODA from and to all Commonwealth countries, working in partnership with key organisations and mechanisms.
2. Improved access	Establish a Commonwealth Climate Finance Skills Hub and Response Mechanism to provide expert support in navigating the existing climate finance (both public and private) and related ODA infrastructure. Create a climate finance template and a common, harmonised set of procedures to simplify access to climate finance over the medium to longer term. Improve allocation and access procedures to support vulnerable countries.
3. High-level leadership for climate action	Recognise the need for climate change to be at the top of pan-government agenda and not to be left to any one individual Ministry or Agency. Developing country leaders ensure that national planning systems and strategies are integrated towards their climate needs.
4. Support to existing processes	Announce your intention to attend, and be involved in the preparations for the UN Secretary General's Climate Summit in 2014 and the UNFCCC meeting in 2015. Work to ensure coherence between climate finance and financing for the post-2015 development agenda.
5. Private finance system	Support the G20's efforts to create a global low carbon economy. Request that global financial regulators are asked to consider the consequences of their actions for the financing of a global low carbon economy, and avoiding negative impact on developing countries, and to report on their actions. Develop mechanisms to ensure that the interests of non-G20 developing countries are represented in the relevant counsels of the G20 and elsewhere to avoid unintended negative impacts, especially relating to reforms of market incentives and financial regulation. Support the operationalisation and capitalisation of the Green Climate Fund (GCF).

To show commitment to creating change, we would recommend that Commonwealth Heads of Government review their progress on actions agreed when they next meet in Mauritius in 2015.

We stand ready to support efforts at and beyond CHOGM in any way appropriate.

About the Expert Group

The Commonwealth Secretary-General established a Commonwealth Expert Group on Climate Finance to provide recommendations to Heads of Government on how to facilitate access to climate finance for small states and climate vulnerable countries, for consideration at CHOGM 2013. The group was led by former President of Guyana, HE Bharrat Jagdeo, with representatives from academia, business, and regional centres of excellence from across the Commonwealth.

Expert Group profiles

HE **BHARRAT JAGDEO** (Guyana) was the President of Guyana from 1999 to 2011, and currently holds a number of global leadership positions in the areas of sustainable development, green growth and climate change.

Dr **FATIMA DENTON** (The Gambia), PhD, is the Co-ordinator for the Africa Climate Policy Centre (ACPC) of the United Nations Economic Commission for Africa (UNECA).

Dr **SALEEMUL HUQ** (Bangladesh/UK) is Director for the International Centre for Climate Change & Development, Independent University in Bangladesh and Senior Fellow in the Climate Change Group at the International Institute for Environment and Development.

Mr **SEAN KIDNEY** (Australia/UK) is CEO and co-founder of the Climate Bonds Initiative, an investor-focused not-for-profit working to mobilise bond markets for the rapid transition to a low-carbon and climate resilient economy.

Dr **KENRICK LESLIE** (Belize), PhD, is the Executive Director of the Caribbean Community Climate Change Centre (CCCCC).

Mr **RICHARD S MUYUNGI** (United Republic of Tanzania) is the Assistant Director of Environment in the Vice President's Office of the United Republic of Tanzania and the National Climate Change Focal Point.

Ms **CORAL PASISI** (Niue) is currently the Regional and International Issues Adviser of the Pacific Islands Forum Secretariat (PIFS) focusing on sustainable development policy.

Mr **DAVID PITT-WATSON** (UK) is Chair of the UNEP Finance Initiative. He was formerly a senior fund manager, and is currently an Executive Fellow in finance at London Business School.

Mr **DAVID RUNNALLS** (Canada) is distinguished fellow at the Centre for Governance Innovation and senior fellow at Sustainable Prosperity and the Institute for the Environment at the University of Ottawa.

Notes

[1] This diagram illustrates Commonwealth LDCs and SIDS (according to the UN List of SIDS). There are of course a number of other Commonwealth countries that are particularly vulnerable to climate change, and a wide spectrum for whom the recommendations in this report are equally relevant.

[2] Nicholls, R, S Brown, S Hanson, J Hinkel (2010), Economics of Coastal Zone Adaptation to Climate Change, Discussion Paper 10, International Bank for Reconstruction and Development/ World Bank, Washington, D.C., October.

[3] IPCC (2013), Climate Change 2013: The Physical Science Basis, Summary for Policy Makers, Working Group 1 Contribution to the Fifth Assessment Report, Intergovernmental Panel on Climate Change, Bern.

[4] African Development Bank (2011), The Cost of Adaptation to Climate Change in Africa, African Development Bank, Tunis, October, available at: www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Cost%20of%20Adaptation%20in%20Africa.pdf

[5] Hay, R, C Hartnady, and D Blake (2011), 'Disaster Risk Reduction and Adaptation to Climate Change', in Integrating Sustainable Development into National Frameworks: Policy Approaches for Key Sectors in Small States, Commonwealth Secretariat, London: 17–35.

[6] Many leaders are already taking action within their own regions, for example, the Majuro Declaration for Climate Leadership, 5th September 2013.

[7] In 2006, the Stern Review estimated the economic costs of climate action to be around 1 per cent of global GDP per year, whereas the costs of inaction were the same as losing 5 – 20 per cent of global GDP each year (depending on whether factors such as the financial cost of impacts on human health and the environment are included). See Stern, N (2007), The Economics of Climate Change: The Stern Review, Cambridge University Press, Cambridge.

[8] This was captured in the 'Port of Spain Climate Change Consensus: The Commonwealth Climate Change Declaration', (November 2009).

[9] As agreed at COP 16 held in Cancun in 2010. See Cancun Agreements http://unfccc.int/meetings/cancun_nov_2010/items/6005.php

[10] See http://gcfund.net/home.html

[11] OECD–DAC 2012 data, as analysed by Terpstra, P (2013), 'Are Developed Nations Falling Short on Their Climate Finance Commitments?', WRI Insights, 20 March.

[12] Submissions on information from developed country parties on the resources provided to fulfil the commitment referred to in decision 1/CP.16, paragraph 95. FCCC/CP/2013/INF.1, September 2013.

[13] Climate Funds Update (n.d) '10 things to know about climate finance in 2012', Heinrich Böll Stiftung (HBF) and the Overseas Development Institute (ODI).

[14] Boyle, J, J-E Parry, M Harris, P Gass and D Sawyer (2013), 'Climate finance challenges for the Commonwealth', Research prepared for the Commonwealth Secretariat, International Institute for Sustainable Development, June 2013 (unpublished).

[15] *Ibid.*

[16] Schalatek, L, S Nakhooda, S Barnard and A Caravani (2012), Climate Finance Thematic Briefing: Adaptation Finance, Heinrich Böll Stiftung and ODI.

[17] Source: Tanzania, Ministry of Finance.

[18] Vandeweerd V, Y Glemarec and S Billett (2012), Readiness for Climate Finance: A framework for understanding what it means to be ready to use climate finance, UNDP, New York.

[19] In its Fourth Assessment Report (2007), the Fifth Assessment Report is to be fully published in 2013. See www.ipcc.ch

[20] Incidence refers to 'who really pays' for revenue for any given solution among countries – effective climate solutions seek to avoid placing excessive direct burden on developing countries.

[21] Described by the G20 Leaders as 'a protocol, another legal instrument, or an agreed outcome with legal force under the convention applicable to all Parties to the UNFCCC – agreed by 2015'.

[22] See www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300

[23] To be made at the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties 21, or COP 21 in Paris.

[24] See the UNFCCC progress at https://unfccc.int/key_steps/doha_climate_gateway/items/7389.php and the recent report Olsen, KH, J Fenhann and S Lütken (2013), Elements of a New Climate Agreement by 2015, Perspectives Series 2013, UNEP Risø Centre, Roskilde, June.

[25] See Patel, S and S Venugopal (2013), Why Is Climate Finance So Hard to Define?, WRI Insights, April, and OECD Development Co-operation Directorate (2013), 'A Post-2015 Information System for International Development and Climate Finance: Background Research Paper', OECD, Paris, May.

[26] See Neslen, A (2013) 'EU admits double-counting climate finance and development aid,' EurActiv.com, 20 September.

[27] Such as OECD-DAC, Multilateral and Regional Development banks, Green Climate Fund, Global Environment Facility.

[28] Such as OECD-DAC, UNDP, GIZ.

[29] For example, see Maclellan, N (2011), Turning the Tide: Improving Access to Climate Financing in the Pacific Islands, Policy Brief, Lowy Institute for International Policy, Sydney, July.

[30] UNFCCC COP 21, expected to be held in Paris in 2015.

[31] These include: The Financial Stability Board; The Basel Committee; IOSCO (International Organisation of Securities Commissions); International Association of Insurance Regulators; International Accounting Standards Board; International Actuarial Association.

Commonwealth Secretariat
Marlborough House, Pall Mall
London SW1Y 5HX
United Kingdom

thecommonwealth.org