

# Climate Finance and the G20

## Policy Briefing

Ilana Solomon

October 2011

## Summary of recommendations for the G20

While the primary venue for negotiations on climate change is the United Nations Framework Convention on Climate Change (UNFCCC), the G20 can play a positive role in setting the stage for success on finance at the upcoming 17<sup>th</sup> Conference of Parties (COP) in Durban, South Africa. Specifically on climate finance, the G20 countries should:

**1 .Support innovative mechanisms to generate public climate finance. In addition to budgetary contribution from developed countries, the G20 should show support for a combination of levies and efficiency standards in the shipping and aviation sectors so as to reduce emissions and generate climate finance in a way that ensures no burden or costs are shifted to developing countries. Members of theG20 should also endorse a financial transaction tax (FTT), covering the full range of such transactions, and support directing some of the proceeds to support developing countries confronting climate change. The use of Special Drawing Rights (SDRs, issued by the International Monetary Fund) to provide, or help finance, additional revenues should also be explored.**

**2. Support the establishment of an equitable and effective Green Climate Fund at Durban that ensures:**

- funding is based on transparent country- and community-driven national adaptation and mitigation strategies;
- participation of affected communities in all decision-making and implementation, including governance, program design, implementation, and evaluation;
- any funding from the private sector is integrated in the countriesq national climate plans, complies with social and environmental safeguards, and is subject to the same governance structure, rules, and redress mechanisms as other GCF resources.

## Background

Climate change poses a fundamental threat to the rights and survival of poor communities. According to the World Food Program, by 2050, 10-20% more people will be at risk of hunger as a result of climate change.<sup>1</sup> According to the Intergovernmental Panel on Climate Change (IPCC), 75-250 million people across Africa could face more severe water shortages by 2020 because of climate change. Tragically, countries and communities which have done least to create the climate crisis are hit first and worst by climate impacts.

New and additional public finance is needed to support countries and communities to adapt to the impacts of climate change, transition to clean energy economies, and protect natural forests. At the Copenhagen climate conference in 2009, developed countries agreed on a goal of jointly mobilizing \$100 billion a year by 2020 to address the climate change needs of developing countries. This commitment was formally adopted by the UNFCCC at the Cancun climate conference in December 2010. Countries pledged that their commitment would be fulfilled using both public and private finance.

Two years after the initial commitment, however, countries have yet to indicate where any of the \$100 billion will come from. They have failed to take up any of the proposals for innovative financing that have been made, such as levies in the shipping and aviation sectors, a modest tax on financial transactions, or use of IMF Special Drawing Rights. Most of the discussion has focused on ways to mobilize the private sector instead of focusing on how to generate public resources. The private sector certainly has a role to play in helping to tackle the climate crisis. But many core adaptation activities will take place in sectors such as agriculture or disaster risk reduction, which primarily affect vulnerable countries and communities where there is little profit incentive for private sector investment. Clean energy projects in poor countries may also be seen as too financially risky for the private sector. For these and other reasons, it is essential that public finance make up the bulk— if not the entirety—of the \$100 billion commitment.

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<sup>1</sup><http://home.wfp.org/stellent/groups/public/documents/newsroom/wfp212536.pdf>

## Possible Mechanisms to Generate Public Climate Finance

Financing for climate adaptation and mitigation must come from budgetary contributions from developed countries. To supplement budgetary contributions, various innovative mechanisms, such as the ones below, can be used.

International Shipping and Aviation : Transport by sea and air account for nearly 8% of global greenhouse gas emissions. Emissions could double, or even triple, by 2050. Mechanisms in the shipping and aviation sectors can be structured so as to reduce emissions and raise significant funding for climate change. According to the High Level Advisory Group on Climate Finance (AGF), the shipping and aviation industries could contribute up to \$24 billion per year (up to half of which would go to climate finance in the AGF scenario).<sup>2</sup>

There are various ways to structure mechanisms in the shipping and aviation sectors, including fuel levies (in the shipping sector), efficiency measures (in both the shipping and aviation sectors), and passenger levies (in the aviation sector). Regardless of the structure, any proposal must ensure no net burden on developing countries and must fulfill the UNFCCC principle of common but differentiated responsibility.

Financial Transaction Tax: A financial transaction tax is a modest tax that could be levied on all financial market transactions, including stocks, bonds, foreign exchange, and derivatives. According to the Austrian Institute for Economic Research, a global financial transaction tax of 0.1% could generate between US\$410 billion and US\$1.06 trillion per year, a portion of which could go to help developing countries confront climate change. The International Monetary Fund (IMF) has found that implementing and administering a financial transaction tax

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<sup>2</sup>*Report of the High-level Advisory Group on Climate Change Financing.*  
<http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300>

is feasible, and in fact many G20 countries have some form of an FTT.<sup>3</sup> The administrative costs of collecting a financial transactions tax could be relatively low.

**Special Drawing Rights:** Special Drawing Rights are reserve assets created at no cost by the IMF. In April 2009, the G20 called for an allocation of SDRs in response to the global financial and economic crisis. In less than five months, the IMF made a general allocation of SDRs worth about \$250 billion. Based on their IMF quotas, wealthy countries received two-thirds of the SDRs, or approximately \$165 billion. However, because developed country governments can raise funds on world markets at about the same cost as the SDR interest charge, they generally do not need additional reserves.

Developed countries could convert a portion of their SDRs from the 2009 allocation into hard currency to be transferred to the UNFCCC Green Climate Fund and used for grant financing for adaptation. Additionally, developed countries could transfer a portion of their SDRs from the 2009 allocation to the UNFCCC Green Climate Fund for clean energy programs. The SDRs, in their reserve form, would form a capital base for the GCF upon which green bonds could be offered for clean energy programs.

## Green Climate Fund

While funding for adaptation and mitigation is urgently needed, how that funding is disbursed, managed and governed will determine whether it would truly meet the needs of developing countries and poor and excluded communities.<sup>4</sup> The Cancun Outcome established a new global climate fund, the Green Climate Fund, to support developing countries to adapt to the impacts of climate change, mitigate greenhouse gas emissions, and protect forests. A Transitional Committee was established to design the Green Climate Fund in 2011. The final outcome of the Transitional Committee process resulted in a draft governing instrument for the Green Climate

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<sup>3</sup>International Monetary Fund, "Taxing Financial Transactions: Issues and Evidence," Chapter 8 of Financial Sector Taxation: The IMF's Report to the G-20 and Background Material, September 2010.  
<http://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf>

<sup>4</sup>ActionAid. Equitable Adaptation Finance: The case for an Enhanced Funding Mechanism Under the UN Framework Convention on Climate Change.

Fund that will go to the UNFCCC Conference of Parties in Durban for its consideration and approval.

## **Recommendations for G20 action on climate finance**

While the primary venue for negotiations on climate change is the UNFCCC, the G20 can play a positive role in setting the stage for success on climate finance in Durban by taking the following actions:

- Announce and display support for budgetary contributions to help developing countries confront climate change in addition to innovative mechanisms to generate public resources.
- Show support for mechanisms in the shipping and aviation sectors that reduce emissions, generate climate finance, and ensure no burden or costs on developing countries.
- Endorse a financial transaction tax (FTT) and support directing some of the revenues to international climate finance. While a global FTT is ideal, individual countries can and should be encouraged to implement an FTT even if all countries are not ready.
- Explore how Special Drawing Rights can provide, or help finance, additional revenue for change.
- Lay out a clear plan for how developed countries can begin to channel already-allocated SDRs to be used for climate finance.
- Support the establishment of an equitable and effective Green Climate Fund at Durban which ensures that:
  - Funding is based on transparent country- and community-driven national adaptation and mitigation strategies;
  - Participation of affected communities in decision-making and implementation, including in governance, program design, implementation, and evaluation; and

- Funding from the private sector is integrated in developing countries' national climate plans, in compliance with social and environmental safeguards; and subject to the same governance structure, rules, and redress mechanisms as other GCF resources.