SUBMISSION BY THIRD WORLD NETWORK

Defining Climate Finance

Background

1. Article 4.3 of the UN Framework Convention on Climate Change (UNFCCC) clearly states that the developed countries shall provide "new and additional financial resources" to meet the (a) "agreed full costs" of meeting the developing country obligations under article 12(1) and (b) "agreed full incremental costs" of climate actions covered by article 4.1, including costs of transfer of technology.

   Further, Article 4.3 refers to the role of international entity/entities set up under article 11 in delivering such financial resources in accordance with the provisions of article 11. Article 4.3 requires that the implementation of the financial commitment made therein must take account of the "adequacy and predictability in the flow of funds".

   Thus, taken together with Article 11, the international entity/entities set up as the implementing agency/agencies under the Financial Mechanism of the Convention must establish adequacy and predictability of climate finance for developing countries based on the "policies, programme priorities and eligibility criteria" laid down by the COP or its Standing Committee on Finance.

2. Article 4.7 further clarifies that: *"The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their* ***commitments under the Convention related to financial resources and transfer of technology*** *and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties."* (Emphasis added).

3. Article 4.4 emphasizes assistance for adaptation especially for countries more vulnerable to adverse impacts of climate change. Article 4.5 re-emphasizes technology transfer and requires support for capacity building. Article 4.8 expands funding to include cost of insurance and expands adverse impacts of climate change to include impacts of response measures that address climate change. A country specific approach is emphasized in establishing the need for Climate Finance.

4. Finally, a number of COP decisions provide for specific commitments in regard to climate finance from Annex II Parties. This underscores the fact that climate finance is defining element of the CBDR & RC principle – the bed rock of the UNFCCC.

5. It must be recognized that "full incremental cost" of climate actions must include the cost of raising finance for those actions. Not doing so will take away from the overriding priority established under Article 4.7 for non-Annex-II countries. Maximising grants and concessional funding minimizes these incremental costs of raising the required finance for funding agreed climate actions.

6. Article 2.1 of the Paris Agreement (PA) sets out clearly that the PA is to enhance the implementation of the Convention, while Article 2.2 states that the PA "will be implemented to reflect equity and the principle of CBDR-RC, in the light of different national circumstances.

7. Article 9.1 of the PA states that "Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention."

8. Article 9.3 of the PA also provides that developed country Parties should continue to take the lead in mobilising climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds….".

9. Article 9.8 of the PA provides that the Financial Mechanism of the Convention, including its operating entities, shall serve as the financial mechanism of the PA.

10. Article 13.14 in relation to the Enhanced Transparency Framework under the PA provides that "support shall be provided to developing countries…" for its implementation.

Climate Finance Definition:

11. Given the above background, climate finance can be defined as follows:

    Climate Finance is the new and additional funding provided by Annex II/ developed countries to non-Annex-II/developing countries to meet:

    (a) the agreed full costs of the obligations of non-Annex-II/developing countries under Article 12.1 of the Convention as well as Article 13.14 of the PA; and

    (b) the agreed full incremental costs, of meeting the obligations of non-Annex-II/ developing countries as detailed in Article 4.1 of the Convention as well as their nationally determined contributions as set out in Articles 3 and 9.1 of the PA.

    More specifically, such agreed incremental costs relate to defined actions/projects/programs undertaken or outlays proposed/incurred, by non-Annex-II/developing countries, towards mitigation, adaptation, technology transfer, capacity building, addressing adverse impacts or damage caused by climate change, loss incurred as a result of response measures that address climate change, and any transition to defined low emission pathway/(s) and climate resilient development. Such incremental costs must also include cost of insurance and the cost of raising and servicing the funds provided by Annex-II/developed countries.

    Maximising the share of grant funds and concessional funds in Climate Finance as also the free transfer of technology and capacity will minimize the agreed incremental costs that need to be funded via Climate Finance made available by Annex-II/developed countries.

The quantum of Climate Finance, as defined above, must be determined under a country driven process whereby the needs of each non-Annex-II/developing country is assessed, on the basis of individual country circumstances, by the implementing international entity/entities established under the Financial Mechanism of the Convention. Further, the Climate Finance needs of every country must recognize and conform with the principles outlined in Article 4.7 of the Convention

Such assessment of agreed incremental costs, based on individual country circumstances, must reflect the policies, programme priorities and eligibility criteria established by the COP/CMA or the Standing Committee on Finance (SCF) from time-to-time.

Specialised accredited intermediaries, paid by the implementing international entity/entities established under the Financial Mechanism of the Convention and the PA, must assist countries that do not have the capacity to assess their Climate Finance needs.

Finally, the adequacy and the predictability of funds provided under Climate Finance as also their deployment and outcome must also be assessed by the implementing international entity/entities established under the Financial Mechanism of the Convention and the PA, as well as the SCF.