Green Climate Fund: key considerations at COP17

- The Green Climate Fund should not establish a private sector facility that would allow corporations and financiers to have direct access to funds. The role of the private sector in the GCF must be decided, managed, regulated and incentivized at the national and sub-national level.
- Financial contributions should be made to the GCF as a whole, rather than to specific windows or facilities, with the Board having responsibility for funding allocations.
- Clear principles for GCF Board decision-making are required. Where consensus decisions are not possible, a clear and balanced procedure requiring a two-thirds majority from both developed and developing countries should be adopted.

Private Sector Facility

The debate over the private sector facility is not about funding public versus private sources. Establishing **this facility would allow transnational corporations to bypass developing country preferences and communities' needs**. The proposed facility closely follows the model of the International Finance Corporation, the private sector arm of the World Bank, which channelled almost two-thirds of its investments to multinational corporations from OECD countries from 2008 to 2010.[1] Local companies in developing countries, which do not have access to international capital markets, remain under-served.

Over-enthusiastic claims about "leveraging" private finance underscore the extent to which estalishing a private sector facility would serve to **divert and distort investment priorities**.[2] The proposal envisages that institutional investors (like pension funds), private equity and hedge funds will fill in the climate financing gap left by rich industrialised countries, distracting from their continued failure to put actual money on the table. Relying on private financial actors comes at a price, however, since they would only engage if they could attract commercial rates of return (or better) on their investments. **Allowing commercial interests to guide GCF financing decisions would likely mean that non- or low-revenue generating activities, such as most adaptation efforts, would get short shrift.**[3]

An increasing reliance on financial intermediaries is redefining climate finance. The promotion of instruments such as "risk guarantees," "political risk insurance" and "currency hedging" talks the language of financial security, while promotes the type of irresponsible investment practices that contributed to the current financial crisis. The risks that are being guaranteed are those of private investors, which can encourage them to take even bigger gambles. When these come off, the private investors gain greater profits. But when they fall flat, it is the public sector (including, in this case, the GCF itself) that would shoulder financial losses, while communities at the site of failed projects would bear the brunt of any environmental or social harms.

It is therefore important to reject the private sector facility, and to ensure that the GCF priorities are tied into funding plans that are set in a participatory manner at a national and sub-national level.

Allocation of funds

The current GCF proposals would give donors, not the board of the GCF, control over the allocation of funds to adaptation, mitigation or a private sector facility. This follows the model of the World Bank's Climate Investment Funds, where 75 per cent of financial contributions have been allocated to mitigation and just 16 per cent to adaptation.[4] In order to meet the needs of developing countries, sufficient finance should be made available for adaptation and the scale of any private sector facility should be managed by the Board.

Financial contributions should be made to the fund as a whole, not tied to specific funding windows or facilities. The Board should have responsibility for allocating financing.

Board decision-making

No rules are currently provided for decision-making within the GCF Board in the event that it is unable to reach consensus. **Clear principles for decision-making are required, which reject the failed**

World Bank model of donor-driven financing. Decision-making by consensus should be the aim, but a balanced default procedure is needed when this is not possible, such as a requirement for a two-thirds majority from both developed and developing countries.[5]

Process at the COP

In order for a just agreement to be reached that fairly represents the views of all Parties, discussions on the adoption of the GCF should be conducted within the formal negotiating process, and not through behind the scenes "green room" deals. **Any discussions of the GCF should take place through an open and transparent process in the COP.**

What are the alternatives?

Capital markets and carbon markets are not the answer to finance adaptation, technology transfer and mitigation of climate change impacts.

There are innovative sources of finance that could be explored and implemented to generate the needed new, additional, public stream of resources for climate finance, on a suitable scale to allow the needed transfer of resources and without threatening the environment or contributing to an increase in GHG emissions. These include a **financial transaction tax**, which could raise up to $650 billion per year globally by putting a small tax on trades in stocks, bonds, derivatives, currency and other financial instruments.[6] A share of this revenue could be allocated to climate finance, including as a direct transfer to the GCF. This is a fairly stable revenue stream (despite the volatility of the transactions being taxed), and it could play a modest role in limiting financial speculation.

Annual global fossil fuel subsidies amount to €487 billion (IEA, OPEC, OECD, World Bank, 2010).[7] A **shift in fossil fuel producer subsidies** could reduce emissions in Annex 1 countries, and encourage the transition to a low emission economy globally if shifted to renewable energy investments.[8] To implement this equitably, it would be crucial to distinguish between producer subsidies, which benefit already profitable energy companies, and consumer subsidies, which can serve to make energy and transportation more accessible to the poor.

Many other possible sources exist. Global military spending in 2010 reached €1.1 trillion, a proportion of which could be redirected to climate investments.[9] Tackling tax evasion by transnational corporations and wealthy individuals could be another lucrative source. For example, it is estimated that lost revenue from the use of tax havens and transfer pricing (corporations "selling" goods to themselves at manipulated prices) runs to around US$160 billion per year.[10]

These examples clearly show that the absence of public finance for climate measures is not the result of a lack of money, but rather a lack of political will on the part of industrialised countries.

1 Eurodad, *Development diverted: How the International Finance Corporation Fails to reach the poor* November 2010, http://www.eurodad.org/whatsnew/reports.aspx?id=4304
2 CRBM, March 2011. Can financial markets solve the climate crisis? http://www.climaefinanza.it/?cat=52
3 For a broader elaboration of this and other points raised in this section, see Friends of the Earth US, *Lessons learned from the financial crisis - A cautionary tale for the Green Climate Fund*, Third World Network COP17 Briefing Paper 2, November 2011, http://www.twnside.org.sg/title2/climate/briefings/durban01/twn_bp02_durban.pdf
4 Data on financial contributions to the Climate Investment Funds from http://www.climatefundsupdate.org/ 29 November 2011
5 Submission by Mr. Omar El Arini (Egypt) on behalf of the TC members from Burkina Faso, China, Democratic Republic of Congo, Egypt, El Salvador, India, Morocco, Nicaragua, the Philippines, Saudi Arabia http://unfccc.int/files/adaptation/application/pdf/tcinterrefdoc12.pdf
6 A summary of the European Parliament report is available here: http://www.europarl.europa.eu/en/headlines/content/20110131STO12855/html/MEPs-push-forward-plans-for-financial-transaction-tax
7 *Joint report by IEA, OPEC, OECD and World Bank on fossil-fuel and other energy subsidies: An update of the G20 Pittsburgh and Toronto Commitments* Prepared for the G20 Meeting of Finance Ministers and Central Bank Governors (Paris, 14-15 October 2011) and the G20 Summit (Cannes, 3-4 November 2011) http://www.oecd.org/dataoecd/14/18/49006998.pdf
8 According to the International Energy Agency (IEA), phasing out subsidies for fossil fuels between 2011 and 2020 would cut global oil demand by 6.5 million barrels per day in 2020, global energy demand by the equivalent of the energy consumption of Japan, New Zealand, Korea, and Australia combined. *IEA. Energy subsidies: getting the Prices right*. June 7, 2010. http://www.iea.org/files/energy_subsidies.pdf
9 SIPRI (2011). World military spending reached $1.6 trillion in 2010, Stockholm International Peace Research Institute, 11 April 2011 http://www.sipri.org/media/pressreleases/milex
10 Hogg et al, *Death and taxes: the true toll of tax dodging,* Christian Aid, 2008, p.2. http://www.christianaid.org.uk/images/deathandtaxes.pdf