Climate Change and Financing for Sustainable Development

The aim of this paper is to highlight both the importance and the potential of the Finance for sustainable Development (FFsD) process in advancing global efforts to tackle climate change. At present, FFsD does not specifically address climate change among or through the issues and mechanisms that are being discussed within the process – namely international public finance, domestic resource mobilisation (tax and private capital), international private finance, trade, and debt and systemic issues that form the Monterrey Consensus on FFD at the basis of the Addis Ababa Accord.

While recognizing the need to address many challenges for FFsD – health, education, food security among others - tackling the causes and impacts of climate change is a pre-requisite to ending poverty and promoting sustainable development. It is therefore important that FFsD explores and incorporates the numerous ways in which it can address climate change in a complementary way to the work of the United Nations Framework on Climate Change (UNFCCC) and the Sustainable Development Goals (SDGs).
The Addis Ababa Accord will be the first test in 2015 of international ambition to advance efforts on the future of sustainable development funding. The FFsD Conference should help to deliver a positive contribution to the UN climate summit taking place later in the year in Paris. This meeting – the 21st Conference of Parties (COP21) – will be a defining moment for reaching an international agreement on climate action.

The Climate Action Network asserts that the Addis Ababa Accord, to be agreed at the 3rd Financing for Sustainable Development Summit, can add significant value to climate action by ensuring that:

1) **Sustainable development financing is climate proofed through maximally reducing the climate change effects of development financing and improving the resilience of communities and investments to a changing climate. This includes climate risk assessments of all sustainable development financing and public and private policies and activities that achieve outcomes with positive impacts on global climate objectives; for example, phasing out fossil fuel subsidies and shifting support to low-carbon and renewable energy sources, and financing adaptive and climate resilient infrastructure;**

2) **Private finance is subject to robust transparency and accountability measures; and that**

3) **Climate finance commitments made through the UNFCCC are fulfilled in order to guarantee that needs for climate adaptation and mitigation are met in addition to the efforts made through development assistance, and that both strands of finance continue to increase.**

<u>Climate proofing financial flows</u>
The Addis Ababa Accord is an opportunity to integrate the systemic issue of climate change into each area of work in the FFsD. As we understand it, ***'climate proofing' means:*** all finance should prioritize renewable energy, low-carbon and environmentally sound development solutions, for example in policy and investment plans for energy and infrastructure projects; incorporation of climate adaptation efforts across sectors such as agriculture, infrastructure and fisheries; increased planning for slow on-set impacts such as sea-level rise and ocean acidification; and more comprehensive strategies for disaster risk reduction.

Therefore, we welcome the most recent zero draft of the Addis Ababa Accord, which highlights the importance of aligning all financial flows with *sustainable* development, and integrating climate and disaster resilience into development financing.

We support the point that disaster resilience and sustainability should be a key consideration of all development finance but we believe that the Addis Ababa Accord should strongly communicate the urgency to act more ambitiously on climate change and further address Disaster Risk Reduction (DRR). The FFsD Summit should send a clear signal that tackling climate change is a serious priority for sustainable development financing, and particularly highlight the numerous risks posed by climate change to sustainable development goals. DRR is a cost-effective way to prevent the severity of natural disasters which are much more costly after disasters have occurred.
In order to anchor the above assertions into more clearly defined guidelines, including the guarantee to climate-proof development finance, we recommend that the following Rio principles should be followed and integrated:

- **Rio Principle 3**. The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations.

- **Rio Principle 4**. In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it.

- **Rio Principle 7.** States shall cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem. In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit to sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command.

- **Rio Principle 15**. In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.

In addition, the Rio+20 agenda should also be integrated into FFsD, following General Assembly resolutions 68/204 and 68/279 that explicitly reference the Rio + 20 conference outcome.
Including such principles and outcomes will ensure and strengthen coherence across the various discussions taking place in FFsD. It will also ensure that FFsD is also integrating environmental integrity and climate action.

The first Financing for Development Summit and the resulting Monterrey Consensus[1] (2002) did not introduce climate change as a specific issue, and therefore lacked coherence with the UNFCCC process. At the Second FFD Summit and the subsequent Doha Declaration[2] (2008) there was a clear recognition of the three dimensions of *"sustainable development in its economic, social and environmental dimensions"* (paragraph 8).
Climate change was also recognised in a list of new challenges; *"additional costs of climate change mitigation and adaptation and damage to the Earth's environment"* (paragraph 80), adding an explicit reference to the COP 15 in Copenhagen.

All development financing must have a role in minimising the impact of climate change while supporting countries as they shift to low-carbon development strategies. This will necessitate a transformational shift in financial flows and investments within and across all countries and regions.
Some of the largest sources of development financing are **domestic government revenues and domestic private sector resources**, in both developing and developed countries.[3] **International public finance** is also important,

[1] http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf
[2] http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf
[3] Figures for domestic public resources and private resources in developing countries are $7.33 trillion and $11.8 trillion respectively; in developed countries, these figures are approximately $7.99 trillion and $24.8 trillion respectively; http://stats.oecd.org/viewhtml.aspx?datasetcode=SNA_TABLE1&lang=en

with key streams of finance deployed through country programmable aid, humanitarian aid, debt relief and unallocated aid.[4]

Given that some of the largest sources of finance are domestic, a substantial shift in financial flows will require robust **national policy frameworks and legislation** that drive both public and private finance away from investments in high-carbon activities; for example, national policies to drive investments in renewable energy and energy efficiency, as well as fiscal reform to end public support for fossil fuels.

National governments, through the support of the international community, will also need to fully integrate adaptation and resilience-building measures into national development plans, and ensure that the most vulnerable people and communities are protected against climate shocks. This includes the scaling up of international aid efforts towards Disaster Risk Reduction.

We welcome the focus given to national sustainable development strategies supported by national financing frameworks for efforts to implement the post-2015 development agenda (para 7). Strengthening national ownership and alignment of activities with national priorities is important for effective use and impact of finance. A clear implementation strategy for these commitments is needed, with the aim to implement them from 2018. We also second the commitment to support cities and local authorities in implementing climate resilient infrastructure and climate friendly policies and investments, ensuring local community participation (para 36).

A broader transformational shift in financial flows will also require progressive and environmentally **sustainable tax policies and progressive domestic tax systems**. This can be achieved through increased South-South and North-South tax co-capacity building and improving international tax co-operation. Another key instrument is the **financial transaction tax** which could contribute large amounts of additional revenue. In addition, illicit financial flows that annually cost developing countries $634 billion should be immediately tackled in order to increase domestic public resources.[5]

Aid should also become increasingly climate proof as it remains a critical resource for the most vulnerable and least developed countries that cannot mobilise sufficient domestic resources to meet their own needs and the growing threats posed by climate change. There are indications that development co-operation agencies are already being steered towards greater 'climate resilience' in their approaches.[6] In order to achieve this dual prioritization of climate action and development cooperation, more focus on integrated planning and sharing of expertise is needed across the development and environment fields.[7]

Recommendations for Addis Ababa Zero Draft:

- Replace the word *'gradual'* with a call for '*immediate'* elimination of fossil fuel production and exploration subsidies by developed countries, and a clear phase out schedule for other countries to make domestic revenue mobilisation climate proof.

- We urge that a transparent accounting mechanism is decided that allows to track international public climate finance flows within overall ODA flows, and can track whether overall development is increasing at least at the same rate as climate financing.

[4] Official Development Assistance amounted to approximately $108 billion in 2012; http://stats.oecd.org/Index.aspx?DataSetCode=TABLE5
[5] http://www.eurodad.org/files/pdf/54f98666925bf.pdf
[6] http://www.whitehouse.gov/the-press-office/2014/09/23/executive-order-climate-resilient-international-development
[7] http://www.uncsd2012.org/objectiveandthemes.html

- Developed countries should commit to ensure that climate finance that qualifies as ODA is part of a rising overall aid budget and is rising at least at the same rate
- Domestic law enforcement and international cooperation to prevent illicit financial flows, enabling greater public revenues to support climate and sustainable development financing efforts.

Advancing the accountability of private finance in sustainable development and climate action:

In recent years, we have seen greater emphasis and reliability on the role of the private sector in the planning and implementation of projects related to development cooperation and climate action. However, little effort has been made to ensure that activities involving private finance claimed to be leveraged by public finance are subject to the same scrutiny as those activities funded through public finance. When it comes to clarifying the responsibility and contribution of private finance leveraged by public finance, FFsD has the potential to advance regulation and accountability measures.

In discussing the potential of private sector finance to contribute to sustainable development, the zero draft for the Addis Ababa outcome rightly acknowledges the risks associated with excessive leveraging of private finance (para 38) and the potential weaknesses of pooled finance such as public-private partnerships (para 52). It is encouraging to read that a balanced approach towards the role of the private sector is needed – one that recognizes both the positive contributions and the risks and limitations of private finance. Recognizing the need for more policy and financial coherence in order to protect our ecosystems and to fight climate change is paramount (para 15). Stronger regulation of the private sector is a key element to this. In addition, the inclusion of the “polluter pays principle” (para 4) is welcome as it is essential to address the external social and environmental costs incurred by private actors.

There is a need to create a strong regulatory framework and a protocol for mandatory integrated reporting concerning sustainable development reporting for large and medium sized companies; such a framework should be fully integrated into financial reporting with Environmental, Social and Governance (ESG) practices. The ambition of paragraph 40 of the Zero Draft should be improved to give a deadline to this proposal, and also include medium-sized companies within its proposal as they too have significant sustainable development impacts – both positive and negative.

Recommendations:

- The third FFsD conference should apply a similar set of principles, criteria and accountability mechanisms to all private finance as those that exist for ODA and other public finance, in order to ensure that long-term sustainability and climate change objectives are met without compromising human rights and the environment.
- Corporate financial and non-financial transparency on economic, environmental, social and governance (EESG) criteria should be applied to publicly-leveraged private finance in order to facilitate independent stakeholder verification of corporate accountability and responsibility. Strengthened regulation and mandatory reporting of large businesses and companies should be implemented as soon as possible and no later than 2018. Such mandatory reporting should also be expanded to medium-sized companies and businesses that will play a role in sustainable development and climate action.

Climate finance commitments are met:

It is important that there is coherence for action across the numerous international negotiations that address finance. With that said, it is essential that climate finance continues to be a priority negotiated within the remit of the UNFCCC. In the UN context, climate finance is defined as part of developed countries' fair share of the global effort to both mitigate the causes of climate change and adapt to its impacts. It was also agreed by donor countries that climate finance support to developing countries would not come at the expense of traditional support, namely ODA that has been earmarked for other objectives related to reducing poverty and inequality.

FFsD should re-iterate the clear distinction and role of climate finance in the broader context of overall sustainable development financing. Though the Zero Draft for Addis Ababa has identified the need to account for climate finance transparently (para 61), CAN feels that FFsD should also re-iterate that better and more transparent reporting should help to guarantee the additionality of climate finance. With the growing challenges posed by climate change to overall sustainable development, it is crucial that FFsD advocates for the continued scaling up and delivery of climate finance to meet the needs of developing countries. The FFsD should also advocate for climate finance flows that are consistent, predictable and measurable with more clearly defined indicators for meeting targets.

Recommendations:

- FFsD should re-iterate that both the level of climate finance support and the level of ODA net of climate finance will continue to increase. This should be pursued while ODA and all other flows of public finance become increasingly climate proof.
- FFsD should also agree that climate finance continues to be accounted for as distinct category of finance both within and/or from development finance where applicable. In this sense, a coherent measuring, reporting and verification mechanism for climate and development finance should be put in place in order to monitor and evaluate this distinction.
- FFsD should promote ODA financing that decouples GHG emissions from development gains while making all of it climate proof.