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Political economy of climate finance

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AS the implications of the Paris Agreement on Climate Change of 2015 become clear, financing of actions to tackle climate change on both the global and national level in every country will play a key role. These will, in turn, be influenced largely by the global and national political economy. In this article, I will try to give some personal insight on the matter of the political economy in which future climate change finance is likely to play out. This will include the main institutions involved, main drivers of change and where things are going.

GLOBAL LEVEL

At the global level there are two major areas of climate finance, namely mitigation (to support actions to reduce emissions of greenhouse gases) and adaptation (to support actions to cope with potential adverse impacts of climate change). There are also other areas such as afforestation and technology transfer, but these can also be largely divided into mitigation or adaption related activities.

There is another general categorisation that can be made, namely that mitigation actions are most relevant in large developing countries such as China, India, Indonesia, Brazil, South Africa and a few others that have the highest levels of greenhouse gas emissions to begin with. Support for adaptation, on the other hand, is a higher priority in the poorest and more vulnerable countries such as small island developing states (SIDS), Africa and the Least Developed Countries (LDCs), of which Bangladesh is one.

This does not mean that adaptation is not required in China, India and Brazil, etc. or that mitigation should not take place in LDCs and SIDS, but rather that the priority for international financial support for mitigation is logically to be directed at the larger developing countries while that for adaptation support should be directed at the poorer and more vulnerable developing countries.

GREEN CLIMATE FUND

The Paris Agreement has reiterated the pledge of the developed countries to provide USD 100 billion a year starting from 2020, when the Paris Agreement comes into force, to the developing countries to tackle climate change through both mitigation and adaptation. The developed countries also agreed that this amount would be a floor and not a ceiling and that it would be enhanced over time after 2020.

The main, but not exclusive, vehicle for channelling most of these climate funds will be through the recently created Green Climate Fund (GCF), which has its own board and secretariat based in Korea. The GCF Board has met a number of times already and has made several significant decisions. The first one was to promise to allocate at least 50% of their funding towards adaption, especially in SIDS and LDCs. This is a significant decision in that current trends of global climate finance show that the balance of flows between mitigation and adaptation stands at 84% and 16% respectively, which is an unacceptable ratio from the perspective of the vulnerable countries.

The second important decision that the GCF board made at their last meeting in November was to approve the first set of eight projects worth several hundred million US dollars. One of these projects was for Bangladesh.

The GCF is likely to become the main channel for future climate finance from developed to developing countries, but it is by no means the only channel. I will briefly touch upon some of the other channels.

UNFCCC FUNDS

There are several other funds that have been set up under the UNFCCC over the years to channel global funds to support actions to tackle climate change in developing countries. These include the Least Developed Countries Fund (LDCF), which supports adaptation projects in only LDCs only; the Special Climate Change Fund (SCCF), which supports different kinds of actions in all developing countries; and the Adaptation Fund (AF), which supports adaptation projects in all developing countries. Each of these funds are under the UNFCCC, but they are managed by the Global Environment Facility (GEF) based in Washington DC, USA, and are composed of contributions from developed countries (although the AF also gets funded from the Adaptation Levy under the Clean Development Mechanism).

All of the funds still exist and may continue to do so until they are merged the GCF once it is up and running in full swing in a few years. However, these are matters still under discussion and will be decided on as time goes by.

BILATERAL AND MULTILATERAL CHANNELS

Another significant channel of funding from developed to developing countries are bilateral development assistance agencies such as DFID in the United Kingdom, USAID in the United States and GIZ in Germany, etc., as well as multilateral banks such as World Bank and Asian Development Bank (ADB) and UN agencies like UNDP, UNEP, FAO, etc.

These existing channels have traditionally been used to provide Official Development Assistance (ODA) from rich to poor countries, pre-dating climate change funding by several decades. However, as climate change funding becomes more prevalent, there has been a tendency for rich countries to combine development assistance with climate finance, which is problematic from the perspective of the developing countries receiving the funds.

Political economy of ODA versus climate finance

Under the UNFCCC, developed countries have agreed that climate finance will be "new and additional" to development assistance. However, in practice almost every developed country has mixed development finance with climate finance, double counting a significant amount of their contributions towards both their ODA pledges with their UNFCCC pledges.

One of the challenges of going forward after 2015 is to find ways to better monitor climate funding at the global level as there is no currently agreed-upon way of doing it and the method of self-certification adopted by the rich countries is severely flawed.

Thus counting which funds are for development assistance and which are for climate change support is going to remain a tricky political issue between the developed and developing countries.

PRIVATE FUNDING

Finally there are likely to be significant flows of private sector funds from developed countries to developing countries with investments into activities to tackle climate change. However, even here there is a very distinct pattern for private funding, which is basically profit making, to favour almost entirely investment in mitigation where there are profits to be made, rather than in adaptation where profits are not very likely.

NATIONAL LEVEL

In addition to funds from developed to developing countries, every country is also going to have to look at domestic funds to tackle climate change. This is particularly true for the more vulnerable countries that are already paying a very heavy price in terms of lost income and investments due to the severe adverse impacts of climate related disasters such as floods, droughts and hurricanes. Such impacts can take many percentage points off a country's Gross Domestic Product (GDP) and will need to be calculated in order to align national budgets to minimise such losses in the future.

At the same time, social safety net programmes to

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