10

things to know about climate finance in 2014

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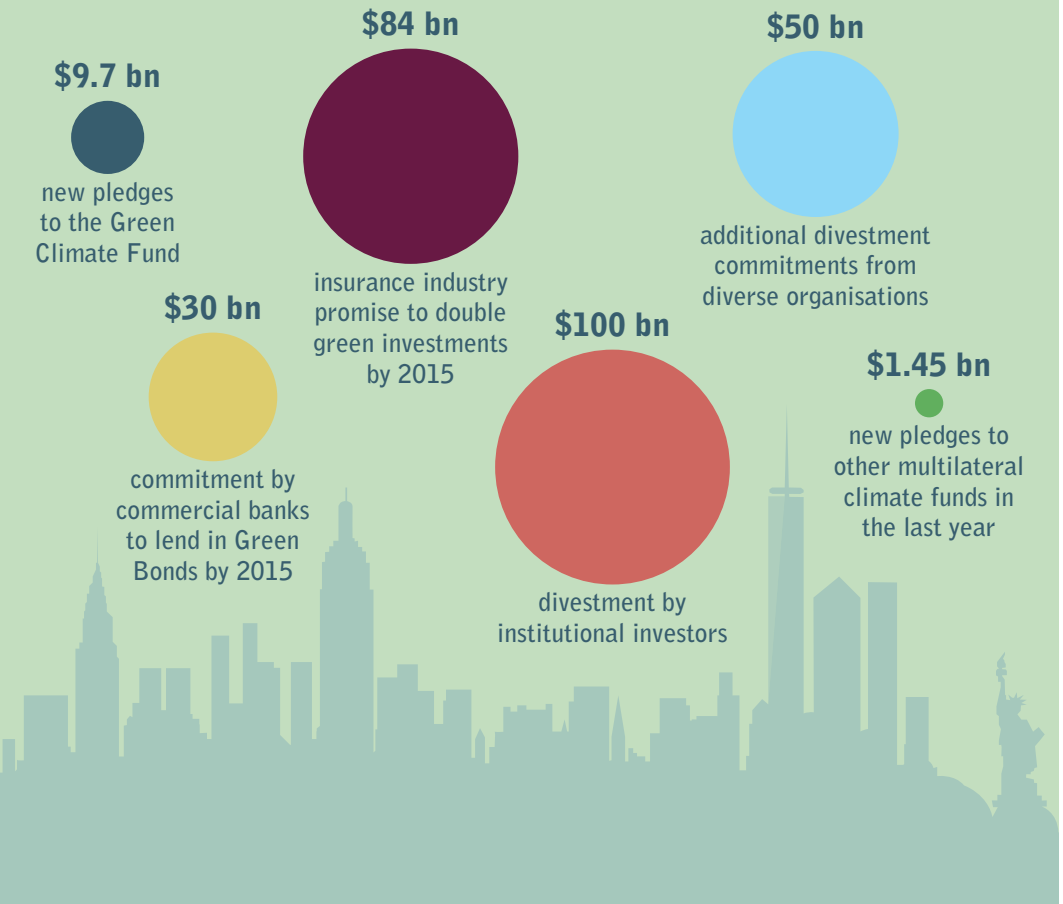
10 things to know about climate finance in 2014

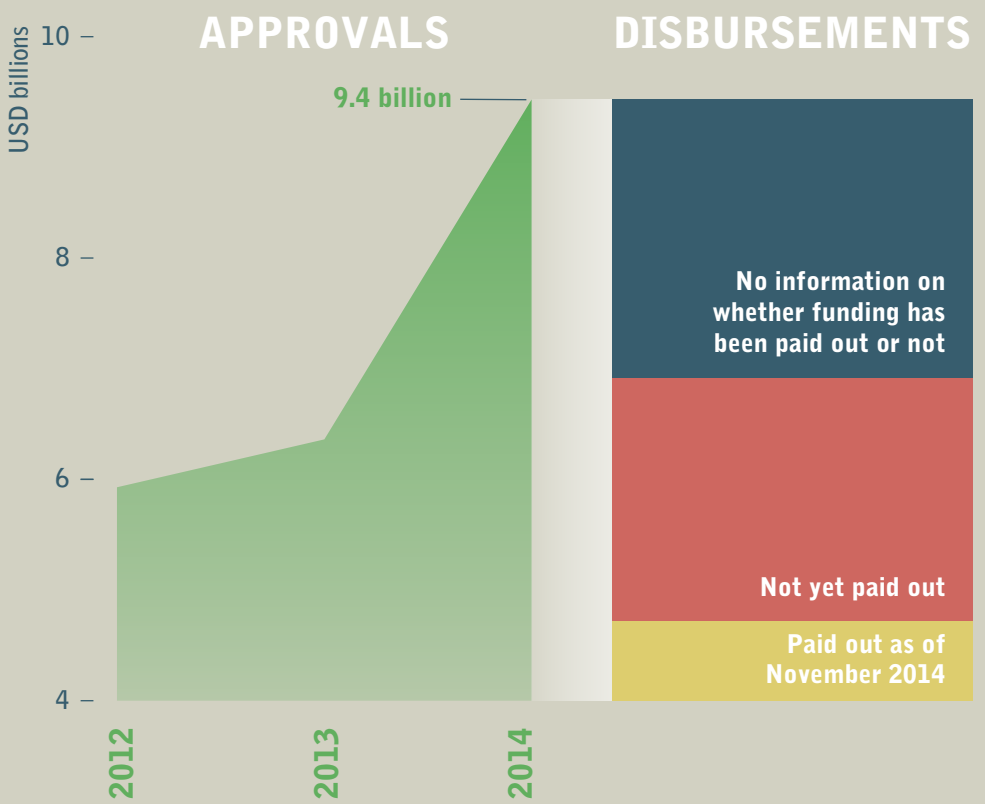
Highlighting the ten most noteworthy insights from our efforts over the past year to monitor climate finance on Climate Funds Update (CFU).

1 Ban Ki-moon's summit helped galvanise over $200 billion in climate related financial commitments



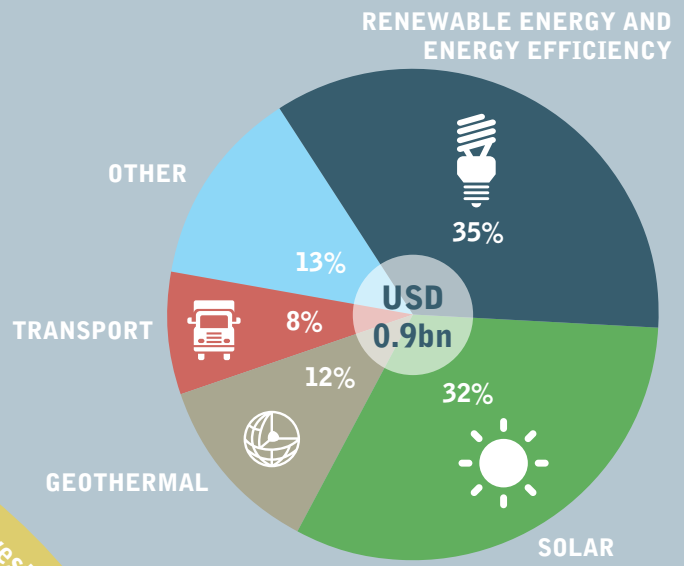
In 2014 governments, business and the financial sector committed significant sums to help address climate change, galvanised in part by the UN Secretary General's climate summit in New York this September. The summit refocused leaders' attention on climate change and set the stage for major new commitments of more than $200 billion. Global efforts to divest from fossil fuels also gained momentum: the $850 million Rockefeller Brothers Fund announced that it too would divest from fossil fuels, joining a global movement that includes local governments, philanthropic foundations, universities, faith-based organisations, non-governmental organisations (NGOs) and individuals.

2 Approved climate finance for new projects increased by almost 50% - but we need to know more about climate spending within countries



Finance approved for new projects to address climate change has increased by almost 50% since November 2013. A large share of this increase can be attributed to the Climate Investment Funds, which approved $2.3 billion for projects (many of which had been in the pipeline for some time). $1.6 billion came from the Clean Technology Fund for projects in Morocco, Ukraine, Turkey and Chile. While funds are clearly getting to work, increased disbursement within countries is the real test of implementation. Although there is some evidence of progress, it is incomplete: we don't have disbursement information for more than 46% of the projects that have been approved so far.

3 Developing countries are still spending more on conventional energy than they receive in mitigation finance

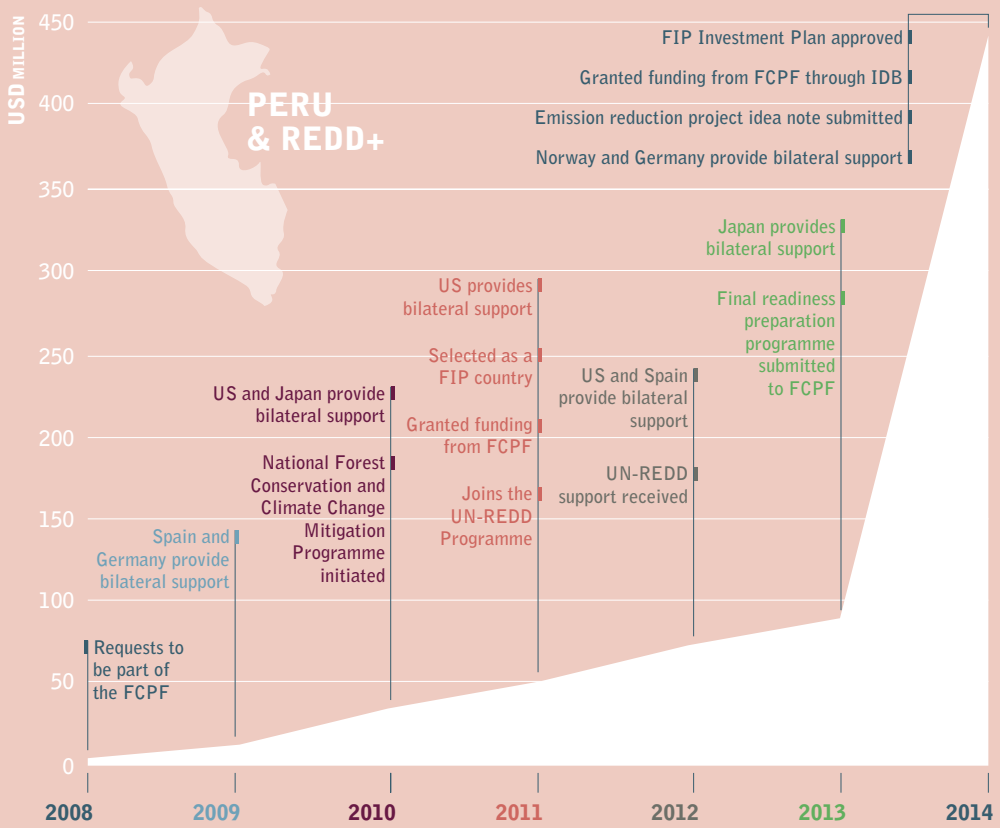


China and Mexico to invest in conventional energy

USD 5bn

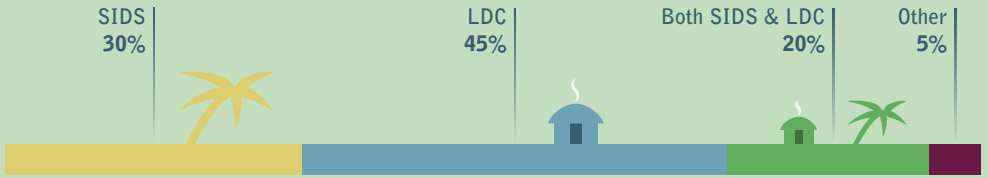
Mitigation finance continued to increase in 2014. The Clean Technology Fund, Scaling Up Renewable Energy Programme and the Global Environment Facility approved $0.9 billion for mitigation activities. The largest share, $346 million, supported new credit lines and financing facilities for low carbon technologies, as well as mini-grids and other infrastructure that enable the use of energy generated by remote technologies, followed by support for the deployment of solar power. But while funding has increased, it remains small relative to continued investment in conventional energy, including by developing countries. For example, China and Mexico recently launched a new fund which is likely to invest $5 billion in conventional energy.

4 REDD+ finance is increasing – particularly for climate conference host Peru

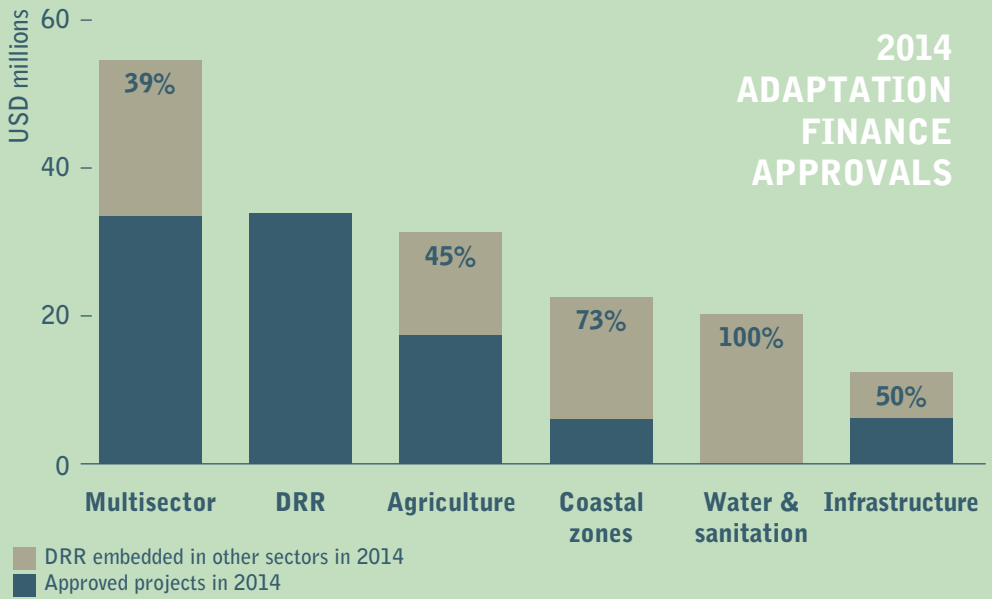


Finance to help developing countries reduce emissions from deforestation, forest degradation and related activities (REDD+) reached $1.9 billion in project approvals. In September countries, companies, civil society organisations and indigenous peoples agreed to 'cut natural forest loss in half by 2020, and strive to end it by 2030'. Peru, the host of this year's climate conference, received more than $350 million in pledges and approvals in 2014; of this, $300 million was from Norway, and $200 million will only be paid when emission reductions are demonstrated. But expanded investment in extractive industries and other environmentally damaging economic activities across Latin America are creating new pressures on remaining forests. Continued REDD+ finance will be critical for their preservation.

5 Adaptation Finance is overwhelmingly going to some of the world's most vulnerable countries - and most of it includes disaster risk reduction measures

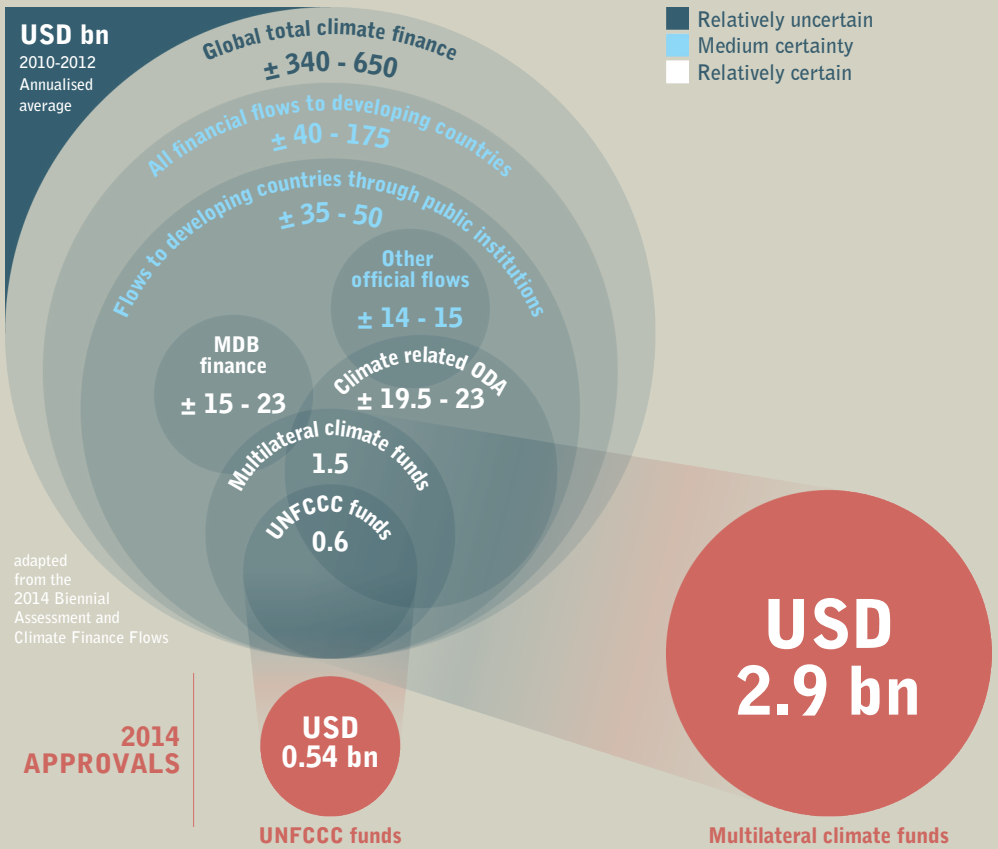


2003-2014 ADAPTATION FINANCE APPROVED FOR DRR



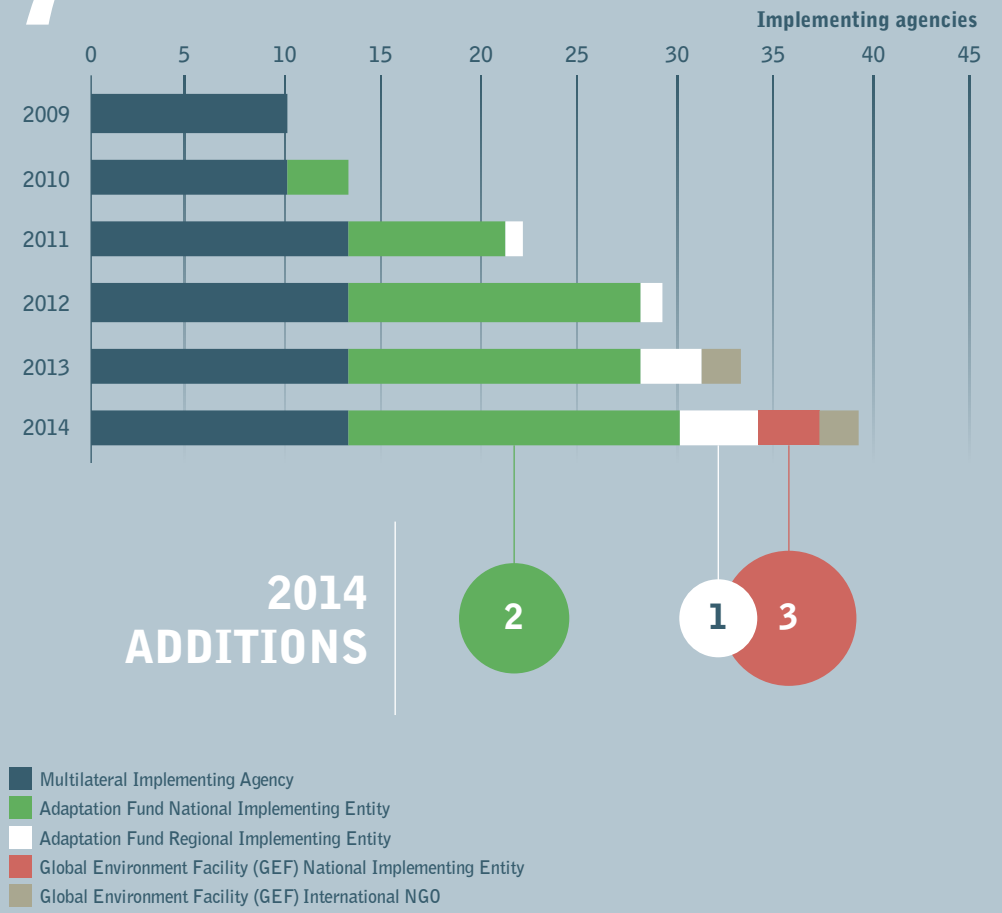
Adaptation finance has now reached $2 billion, after 2014 saw a further $214 million approved for adaptation projects. The largest sum, $54.6 million, went towards incorporating climate risk and resilience measures into national development planning. This year a further $34 million went to disaster risk reduction (DRR) efforts such as early warning systems, bringing the total to $202 million since 2003. Of this, least developed countries (LDC) and small island developing states (SIDS) received 95% – the top recipients being Dominica, Niger, Grenada, St Vincent and the Grenadines, and Samoa. But investment in disaster risk reduction is much bigger than it appears, as other adaptation sectors – such as water management, or efforts to increase the resilience of agriculture – often include a component that addresses disaster risk. A full 43% of the adaptation finance approved this year included a disaster risk reduction component.

6 The first biennial assessment of climate finance was completed – but climate spending still needs to become more transparent



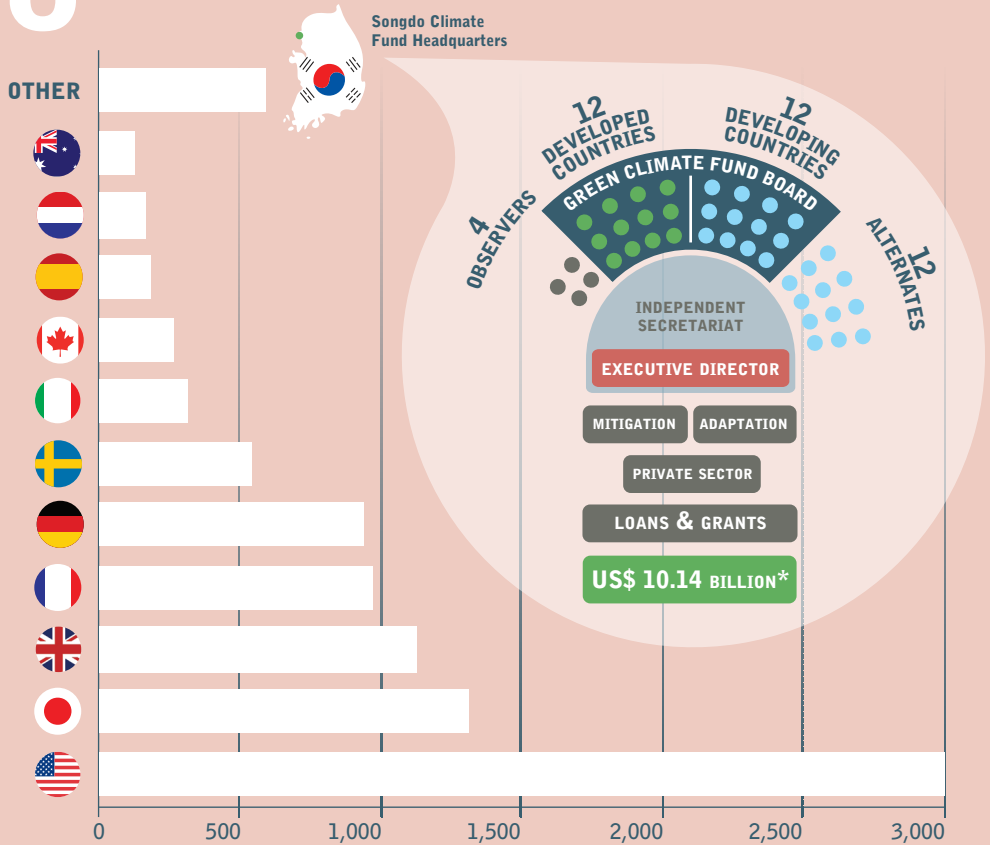
Under the oversight of the Standing Committee on Finance of the UNFCCC, the first Biennial Assessment of international climate finance identified $40-175 billion flowing from developed countries to developing countries annually between 2010 and 2012. While total climate finance flows may be falling, in 2014 multilateral climate finance increased to $2.9 billion, almost doubling the estimated average approvals of $1.5 billion a year between 2010 and 2012. Despite growing efforts to monitor climate related spending by major data providers, (the Organisation for Economic Cooperation and Development, multilateral development banks, the Climate Policy Initiative, and Climate Funds Update), huge uncertainties remain around climate-related spending. Reporting of underlying data needs to become more complete, and more precise definitions for adaptation and mitigation finance are needed.

7 Climate funds are partnering with a growing diversity of institutions



A large proportion of climate finance continues to be channelled through multilateral development banks, but funds are increasingly partnering with developing country institutions. There are now about 40 implementing agencies – a fourfold increase over the past five years – including regional development banks, international organisations, developing country ministries, trust funds and NGOs. The Adaptation Fund pioneered this shift by offering developing country based institutions direct access to its finance and now has 21 institutions accredited as national or regional implementing entities. The Global Environment Facility has also expanded its implementing partners, accrediting the Development Bank of South Africa, Brazil's biodiversity fund (FUNBIO) and several international NGOs.

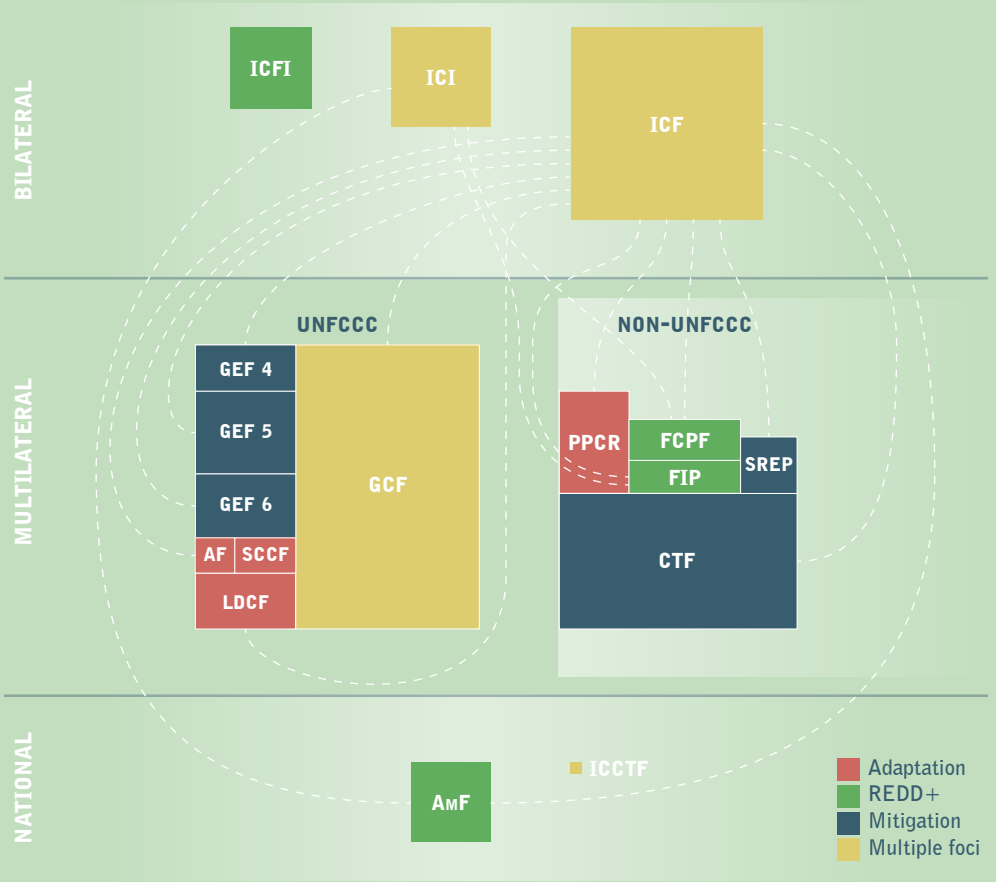
8 The Green Climate Fund became the largest climate fund



*The exchange rate at which pledges are converted from their stated currency to US Dollars is uncertain. The figure uses exchange rates as per the date of the pledge. Discrepancy between the GCF reported figure and the chart results from currency change to USD.

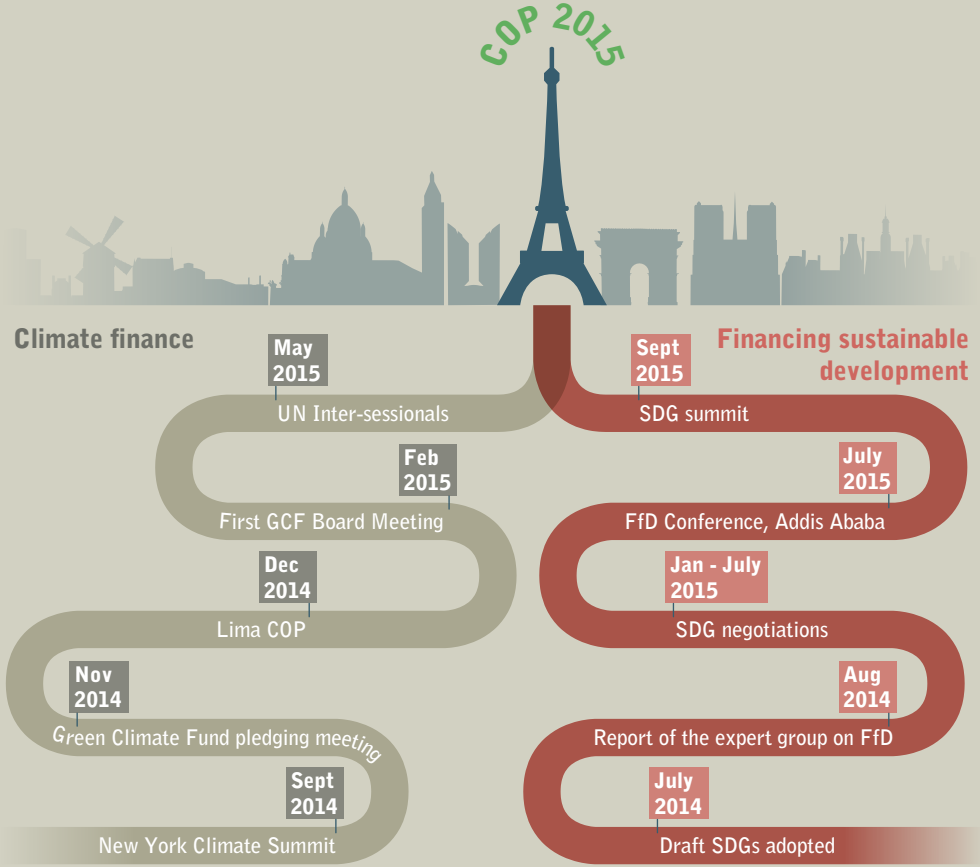
The Green Climate Fund is now the largest and fastest-growing climate fund, with $10.14 billion pledged ahead of the Lima climate conference in December 2014. Of this the United States pledged $3 billion, Japan $1.5 billion, the UK $1.2 billion, France $1 billion, and Germany $1 billion. Developing countries also pledged support, including South Korea ($100 million), Mexico ($10 million), Peru, Colombia, Panama, Mongolia and Indonesia. As a financial mechanism of the UN climate negotiations, the speedy fulfilment of pledges will help foster trust in long-term negotiations to secure ambitious climate action. As the Green Climate Fund prepares to fund its first projects, it must build on the achievements and experiences of existing funds and set a high bar for programme implementation. To do this, it will need to find better ways to support national stakeholders and priorities; take a gender sensitive approach; and improve engagement with the private sector.

9 There are now more than 10 multilateral climate funds, some of which approve less than 50 million a year



There are more than 10 multilateral funds supporting climate action today. Smaller funds were instrumental in catalysing wider action on climate change, but there is now substantial overlap. Successful operationalisation of the Green Climate Fund (GCF) could present an opportunity to simplify, consolidate and increase efficiency, as finance scales up.

10 We have just one year left to get strong, binding international agreements on climate action and poverty eradication



The next 12 months are critical for global action on climate and efforts to eradicate poverty. Governments will agree a new climate deal in Paris in December 2015; before then, the international community is due to agree the new set of Sustainable Development Goals (SDGs) and establish a new partnership for Financing for Development (FfD). Climate and poverty eradication agendas have to converge – and finance is key to unlocking low-emission and more resilient development solutions. Meetings and dialogues throughout 2015 should seek consensus on the role of public finance for an integrated framework that supports environmentally sustainable development.

Climate Funds Update

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CFU is a joint initiative of the Overseas Development Institute (ODI) and Heinrich Böll Stiftung (HBF). Since 2009, we have monitored dedicated public climate funds from the point when donors pledge support, through to the actual disbursement of finance for projects in developing countries.

www.climatefundsupdate.org