Irish Government Economic and Evaluation Service

Climate Finance – Initial Scoping Study

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An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

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1. Introduction and Background

At the UN climate conference in Copenhagen in 2009, industrialised countries pledged up to US$30 bn for Fast-Start Finance (FSF) over the period 2010 to 2012 from public funds. A "long-term" commitment was also pledged to jointly mobilise US$100 bn per annum by 2020 from developed countries to developing countries from a variety of sources to support capacity-building, development and transfer of technologies, mitigation of greenhouse gas (GHG) emissions, adaptation to the impacts of climate change, economic diversification and so on in developing countries.

In relation to FSF Ireland met and exceeded its voluntary commitment of providing up to €100m in public funding between 2010 and 2012 from ODA designated to climate sensitive activities and from contributions from the Department of Environment, Community and Local Government and the Department of Agriculture, Food and the Marine.

In relation to long-term finance, if a distribution key for burden-sharing is used that is similar to that used during the FSF period Ireland's contribution could potentially be of much greater scale in overall terms than the FSF contribution, although such a share would be derived from a wide variety of sources. The sources of funding for the attainment of this long term commitment can be from private, public, multilateral, bilateral or innovative or alternative sources of finance. Ireland's contribution over the FSF period came entirely from State funds. As public sources of funding are limited due to Exchequer constraints, it will be important that other forms of climate finance or potentials are fully captured and realised, given the pressure being placed on developed countries to augment contributions going forward.

This initial scoping study seeks to generally survey the overall climate finance landscape in Ireland, to begin to map some of the existing flows of relevant climate finance and to begin to identify relevant flows of climate finance, from a variety of sources, which could potentially count towards any burden share that Ireland may acquire. This is being done with a view to identifying potential issues and implications for Ireland in meeting the terms of any future international climate finance agreements.

2. Position following Doha 2012

The key question in relation to climate finance prior to the UNFCCC COP 18 in Doha in late 2012 was what signal developed countries could send to developing countries on the continuation and increase of funding after 2012. While the agreement reached in Doha served to restate the commitments to long-term finance as previously agreed in Copenhagen in 2009, it sets out no collective mid-term commitment on scaled up funding towards the US$100 bn per annum goal by 2020.

Some of the primary points stemming from Doha in relation to climate finance are that the UNFCCC:

- "encourages" developed countries to further increase their efforts to provide resources of at least average annual level of the fast-start finance period for 2013 – 2015
- "invites" developed countries to submit information on their strategies and approaches for mobilising scaled-up climate finance towards the US$100bn goal by COP 19 which will be held in Warsaw in November 2013, and
- "extends" the work programme on long-term finance to the end of 2013 to help developed countries in their efforts to identify pathways for mobilising climate finance from public, private and alternative sources.

There has been criticism from developing countries in relation to the Doha Agreement as it fails to provide a pathway or bridge from the fast-start finance (2010 – 2012) period to the long-term US$100 bn per annum goal by 2020. The failure to reach a substantive agreement in relation to stepping-up climate finance serves to illustrate the challenges for the climate finance process at this time with agreement on the identification of a pathway to the 2020 US$100 bn goal still appearing elusive. It is worth noting that pressure is also increasing on the more advanced "developing" countries, in particular the BASIC[1] block of countries, to contribute towards climate finance but as of yet the quid pro quo that is currently in place urges developing countries to take appropriate mitigation actions and includes no commitment to provide any financial support.

3. General findings/recommendations from initial scoping study

Ireland should continue to stress at international level that it has met, and indeed exceeded, its commitments during the Fast-Start Finance (FSF) period and that Ireland remains within the confines of an EU-IMF programme under which it has to achieve fiscal consolidation and sustainable public finance. To date Ireland has been a strong contributor to climate finance commitments, and there is limited or no scope for the Exchequer to increase contributions going forward.

Analysis from Oxfam shows that globally only 43% of Fast-Start Finance (FSF) was provided in grant form, with 57% provided as loans[2]. Loan-based financing requires a repayment, whereas grants can be viewed as more beneficial to recipients as no repayment is required. The breakdown between grants and loans could possibly be a discussion point in future negotiations. As negotiations develop internationally**, the fact that Ireland's contribution under the FSF period was made up entirely of grants[3] should be highlighted to show how strong a contributor Ireland has already been.**

[1] "BASIC" is a bloc of four large developing countries – Brazil, South Africa, India and China – who formed an agreement to act jointly at COP 15 in Copenhagen.

[2] Oxfam, November 2012, *The climate "fiscal cliff"- an evaluation of Fast Start Finance and lessons for the future*

[3] Inter-alia this may arise because Ireland's climate finance contributions have focussed on supporting adaptation measures while mitigation measures may be more amenable to a loan mechanism.

3.1 Definitions

Ireland's potential to meet future commitments will be dictated by what can be counted towards our share of the 2020 developed country goal of mobilising US $100bn per annum in climate finance flows from developed to developing countries. As it stands there is a dearth of clarity regarding definitions of some of the fundamental variables (climate finance, new and additional finance, mobilised, leveraged, catalysed, facilitated, etc). **It is important that Ireland keeps abreast of any developments on definitions in relation to climate finance as such developments may have an impact on the structure of Ireland's climate finance contributions going forward.**

The public sector has limited capacity to provide climate finance funding beyond our present levels of support. Furthermore, conditional to how definitional negotiations evolve, the public sector could very likely contribute a decreasing proportion towards any future climate finance targets. **Depending on how climate finance is defined within the UNFCCC process a small number of activities supported by the public sector that do not currently count towards Ireland's climate finance contributions currently but which could potentially be considered going forward could possibly be identified with some further research.** These could include contributions to bilateral and multilateral agencies, development education, emergency and recovery response, institutional development, human capital and research activities.

A key element of the common tabular format to be used as part of the UNFCCC biennial reporting structure for developed country Parties, as agreed at COP 18 in Doha in 2012, is that each Party shall provide an indication of what "new and additional" climate finance resources they have provided to developing countries, and clarify how they have determined that such resources are "new and additional". The first biennial report must be submitted to the UNFCCC Secretariat by January 1st 2014. **Thus, as a priority, the concept of "new and additional" finance should be teased out. The relative merits of different assumed baselines could also be examined both domestically and in terms of various proposals put forward in the international fora**.

Another key challenge for Ireland will be to work towards a set of globally agreed definitions that recognise those private flows of climate finance that have been "leveraged, facilitated, catalysed or mobilised" by the Irish State. Given the limited capacity of the public sector to contribute to climate finance beyond the present levels of support it is likely that the private sector would be expected to contribute to an ever-increasing share of climate finance commitments in the future. Initial analysis has indicated that there may be a notable degree of activity taking place in Ireland (both in terms of ODI and IFSC activity). However further research will be required to establish the amount involved.

There are also important considerations in terms of the characteristics of the Irish economy which could, depending on any globally-agreed climate finance definitions that may emerge, impact on what Ireland can count towards future climate finance commitments. For instance, a substantial proportion of Ireland's Outward Direct Investment (ODI) stems from multinational corporations located in Ireland which, if some of this ODI was to be considered as being climate-relevant and could potentially be counted towards countries' climate finance commitments, other countries may also seek to claim. As yet it is still unclear whether and how private sector contributions should be calculated because of the multi-national nature of investment portfolios. **It is important for Ireland to undertake further work to identify the potential implications of any proposed internationally agreed definitions regarding private climate finance and to contribute views from an Irish perspective towards the formation of such definitions.**

It is also important that coordination and cooperation across all Government Departments that have a responsibility for climate finance is enhanced in order to progress all definitional issues at national level.

3.2 Global Climate Flows

A body of research already exists (albeit limited in scope and subject to uncertainty) regarding global climate finance flows. Trends emerging from this analysis highlight some important issues for consideration in tracking and meeting climate finance commitments. For instance, according to the *Landscape of Climate Finance* (CPI, 2012[4]), 63% of global climate finance flows[5] over the period 2010 and 2011 came from the private sector, while between 5-6% were provided from public sources. The remainder came from public intermediaries (21%)[6] and private intermediaries (10%)[7]. While the challenges that exist in relation to identification, quantification and tracking of private climate finance flows must be acknowledged, such trends are important for consideration when developing a climate finance strategy for Ireland going forward. A body of literature also exists regarding the various issues involved in tracking and monitoring climate finance nationally and internationally and these should also be evaluated from an Irish perspective.

3.3 Private Sector

As alluded to above evidence suggests that the levels of private finance appear to outweigh public finance in terms of contributing to global climate finance flows. Outward Direct Investment (ODI) forms a substantial source of North-South private financial flows. Indications from initial contact with representatives from the Green IFSC show that there is

[4] http://climatepolicyinitiative.org/wp-content/uploads/2012/12/The-Landscape-of-Climate-Finance-2012.pdf
[5] Note that these are finance flows to climate-relevant projects from the private sector and thus are not related to FSF flows.
[6] Multilateral, bilateral and National Development Banks
[7] Private commercial banks and Investment Funds

likely to be potential climate relevant flows stemming from this source in Ireland. **However it is currently unclear as to whether such flows, or what proportion of such flows, could potentially count towards Ireland's future climate finance commitments. It is also worth noting the challenges that exist in relation to identification, quantification and tracking of private climate finance flows.**

If such flows are to be considered as part of Ireland's future climate finance contributions, there are a number of issues that will need to be teased out from an Irish perspective. These include the issue of multinationals in Ireland, how to capture ODI climate finance flows and the role of the Irish Government in the mobilisation, leverage, catalysation or facilitation of ODI climate finance flows. **Further research is also required to identify activities being undertaken by companies associated with the Green IFSC and elsewhere in the private sector.** This would provide more insight into the nature of these financial flows and possible implications for future negotiations. It may be possible to do this by way of a small number of case studies.

Consultation with a number of private actors as part of the initial scoping study indicate that measuring and capturing private climate finance flows will be a complex matter. Ireland's contribution in facilitating these flows is often in the form of human capital (a benefit in-kind) or as an initial investment which in turn may leverage a much larger capital investment from the private sector. There are issues regarding how, if, and what proportion of these might be counted towards future climate finance commitments.

Analysis, as part of this initial scoping study, has also shown that Ireland may not be capturing total investments arising out of the Clean Development Mechanism (CDM) in Ireland which could count towards private climate finance flows. **Further work is required to isolate actions (including changes to the fee charged) to attempt to capture all CDM projects that stem from entities based in Ireland.**

A number of changes to the tax code have been undertaken in recent years where **further research and consultation would be required to explore any climate finance flows (e.g. REDD+) arising from these provisions.**

At enterprise level, a number of activities (e.g. through corporate social responsibility agreements) are taking place within firms. However, there is currently no central system or defined approach as to how these could be quantified. These activities are not likely to be as substantial as ODI in terms of climate finance flows; nonetheless this source could become more important if public education leads to more people voluntarily offsetting their travel and other sources of their carbon footprints.

In terms of trade missions, there should be greater appreciation of the dual benefits of "green enterprise" trade missions to developing countries. Not only would these trade missions identify climate change opportunities for Irish enterprise in developing countries, they could also be an avenue for increasing private climate finance flows from Ireland.

Consideration should also be given to increasing the frequency of "green" trade missions visiting developing countries.

3.4 Third sector

Relative to the private sector, the third sector (i.e. the not for profit sector) is found to be a smaller but yet not insignificant contributor to the general overall climate finance flows from Ireland. There are a substantial number of these entities in existence in Ireland; however, **identifying the cohort of organisations that work in developing countries and funds associated with carrying out climate change projects is difficult.**

It was found that charities and approved bodies which are eligible and in receipt of tax relief provide some limited data to the Revenue Commissioners. While it appears that the cohort involved in climate change activities in developing countries may be small in number, this will depend on the definition of climate relevance applied in any analysis of their work. That said, this data could be assessed to examine whether it could steer future research on the third sector's contribution to overall climate finance flows from Ireland.

There could be **issues around double counting climate finance flows as organisations involved in this sector work in a communal manner with each other and with the public and private sectors. Further research would be required to assess climate finance flows from this sector.** Even if some of the flows from this sector were considered to have been "leveraged, facilitated, catalysed or mobilised" to some extent by the Irish State it remains to be seen whether NGOs and charities would support the inclusion of flows from this sector as part of Ireland's contribution towards any long-term climate finance commitment.

3.5 Public sector

Ireland's reported contributions under the FSF period 2010-2012 consisted primarily of Overseas Development Assistance (ODA). Outside of the FSF contributions, there may be limited scope to count other ODA elements in Ireland's future climate finance commitments. This is a result of a number of limitations and national policy considerations.

The ODA programme is focused on poverty reduction and hunger eradication. This has implications for the proportion that Ireland can claim as being climate relevant. In addition, the scope to include further ODA towards climate finance commitments will be dictated by overarching ODA levels and definitional aspects. Ireland delivers the vast majority of its ODA via multilateral and bilateral institutions; therefore there is also a need to guard against double counting. In addition, **possible tension between development aid and climate finance targets will need to be considered**.

There are a number of other sources of public funding which could potentially count towards Ireland's future climate finance commitments. The State financially contributes to a number of bilateral and multilateral organisations which have varying degrees of climate change outputs. **These flows could potentially count towards Ireland's climate finance commitments provided that an appropriate approach is adopted on how to quantify Ireland's proportional contribution**. The OECD is currently carrying out some work on this issue and it is important that Ireland keeps up to date with this and any other future developments in this area.

The State also contributes to climate change efforts in developing countries in the form of non-ODA flows e.g. research or human capital. **If such flows were to be recognised further work would be required to establish how to place a monetary value on them and to identify the extent to which the State contributes to climate change efforts in the form of non-ODA flows.**

It is important to emphasise that public funding of climate finance from Ireland under the FSF period has been entirely through grants; this compares with the overall FSF funding from developed countries where only 43% of funding was made up of grants, with the remainder stemming from loans which have to be repaid. Again, this point illustrates Ireland's strong historic performance in terms of climate finance contributions. Many developing countries and NGOs argue that loans, and in particular the full amount of loans, should not be eligible for inclusion in developed countries climate finance commitments. Some countries appear to have counted the full value of loans given, rather than the net amount, thereby reducing the net public contribution while claiming the full value of the loan**.** **There may be some merit in Ireland considering a wider variety of financing models in the future.**

4. Conclusion

This initial scoping study has shed light on potential areas which could contribute to Ireland's future climate finance commitments. Firstly, it is important to stress that any additional climate finance funding from the public sector is limited (with only a small level and number of areas where future flows may arise – contributions to bilateral and multilateral agencies, development education, emergency and recovery response, institutional development, human capital and research activities). Depending on how negotiations regarding definitions evolve, the public sector could very likely contribute a decreasing proportion towards climate finance targets going forward.

The private sector will likely become an ever-more prominent contributor to long term global climate finance. Initial analysis has indicated that there is a notable degree of activity taking place in Ireland (both in terms of ODI and IFSC activity). Many key challenges exist in relation to private finance, one of which will be working towards a globally agreed set of definitions which recognise any additional private climate finance flows which have been "leveraged, facilitated, catalysed or mobilised” by the Irish State. As a clearer picture emerges on definitions in relation to private climate finance, further research can be undertaken to identify possible policies and measures that could be put in place to “leverage, facilitate, catalyse or mobilise” these finance flows.

This study has also raised a number of additional issues which need to be explored further to identify potential implications for Ireland in meeting climate finance commitments. The urgency with which these research areas need further analysis will be somewhat dependent on the pace of International negotiations. However, it is important that the key areas of research are identified and prioritised to ensure that Ireland can formulate agreed national positions on the various climate finance issues which can in turn be used to try and shape future international negotiations and processes.

Some of the areas that could be prioritised for further research could include:

- Identification of the issues regarding private climate finance flows from Ireland
- Further research of the CDM process in Ireland
- Assessment of the impact of tax-code changes on climate finance
- Identification of ways to mobilise, leverage, catalyse or facilitate private sector climate finance