TOWARDS A FRAMEWORK FOR SHARING COSTS BETWEEN FUNDERS AND RECIPIENTS

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WHY DISCUSS COST SHARING NOW?

• Most developing countries are expecting financial support as they implement their INDCs

• Concrete proposals will require:
  – Deciding for WHAT support will be requested
  – Deciding HOW MUCH to request (and on what terms)

• Climate finance institutions and donors are still refining approaches to providing support and mobilizing finance

• Even with agreed criteria, there could be various sources of controversy:
  – How to consider eligible costs (WHAT and HOW MUCH can be funded) and
  – How to consider threshold questions (UNDER WHAT CIRCUMSTANCES can funding be provided)

CCAP plans to work this year to help build a shared vision that helps align expectations, notably for the GCF
REVIEW: DOMESTIC CONTRIBUTION CAN COME FROM SEVERAL PUBLIC AND PRIVATE SOURCES

- **“Greening” budgets**: Most countries make investments in their development that can be maladjusted to climate, but can be reworked, such as redeploying fossil fuel subsidies.

- **Public mandates/incentives**: policies which make households and firms take mitigation efforts at their own expense (with or without incentives) can be a key source of “domestic contribution”.

- **Legal and regulatory changes** can eliminate barriers to release pent up demand and leverage bank capital more efficiently to generate new investment.

- **Carbon taxes** can create an incentive to change behavior and financial flows and can be used a source for public investment.

- **New public investment**: specific new investments in programs and climate-friendly infrastructure will likely be needed for unilateral portions of INDCs.
International Finance can come from several sources that can serve different financing needs, on different terms.

An effective investment strategy will align these various climate and non-climate sources.

The Green Climate Fund (and other multilateral climate funds) can be used catalytically and to leverage other sources (international and domestic).

A shared understanding how to address the **volume and terms** of such catalytic funding could facilitate effective and ambitious financing.
Examples of considerations in sharing mitigation costs

<table>
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<th>Recipient</th>
<th>Funder</th>
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<tr>
<td>Affordability of funds</td>
<td>Minimum concessionality</td>
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<tr>
<td>Equity &amp; Responsibility</td>
<td>Efficiency and effectiveness</td>
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<td>“Pledges first, pipeline second”</td>
<td>“Pipeline first, pledges second”</td>
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- Funders and recipients have distinct interests
- This can lead to diverging views on “who pays” for climate change mitigation
- Understanding diverging points of view can help to build streamlined, constructive funding processes and manage expectations on both sides
- Some domestic contribution from recipients is required, but how much and for what?
SHOULD CERTAIN FACTORS AFFECT THE LEVEL AND TERMS OF FINANCING?

- **Paradigm shift/Mitigation ambition**: Should the ambition of a country’s INDC be considered?

- **Country buy-in/Level of domestic financing**: is there a minimal amount of domestic contribution that should be expected?

- **Effectiveness/efficiency**:
  - **Resource endowment and cost-effectiveness**: How should countries with higher abatement costs be considered for funding, versus countries with low-hanging fruit?
  - **Leverage/co-financing**: should proposals with more leverage/co-financing be prioritized?

- **Sustainable Development**: How should mitigation that achieves sustainable development be considered? To what extent should co-benefits increase/decrease international support?

- **Need of recipient (Income)**: Should financing be less concessional for wealthier countries?

- **And what about incremental costs**: while formulaic approaches are challenging, does there need to be a demonstration that induced cost savings are accounted for?
EXAMPLE: WHEN/HOW SHOULD NEED OF RECIPIENT (INCOME) BE CONSIDERED?

1. Concurrent with other selection criteria in integrated way
2. After, as a final screen, to determine level of concessionality.

Potential moments of consideration

- Proposal submission
- Consideration against Selection Criteria
- Negotiation of funding agreement
DISCUSSION QUESTIONS

• Do countries feel that it would be helpful to develop guidelines on cost-sharing based on the GCF selection criteria?

• How should cost-sharing be reflected in the assessment of the program against the selection criteria? Should it be done separately?

• How should a country’s “domestic contribution” be evaluated?
  – For example, should one account for mandates in the same way as a country’s budgetary spending when considering country ownership?

• Should financing institutions select projects as presented, or should a negotiation on costs and terms follow initial approval?

• Do participants agree that more work should be done to bring recipients and funders together on these issues?
THANK YOU

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