ROAD TO COPENHAGEN

Forum Discussion

Theme B - Financing climate mitigation and adaptation at COP 15

The current economic crisis has questioned the feasibility of raising significant financial resources for climate mitigation and adaptation. A recent study released by the UNFCCC[1] calculates that the additional amount of financial flows and investments for combating climate change in 2030 will amount to just 0.3% - 0.5% of estimated Global Gross Domestic Product and 1.1% - 1.7% of global investment for the same year. The same study has also determined that in 2030 an amount between USD 200 – 210 billion per year will be needed to return global green house gas (GHG) emissions to current levels (mitigation) and several more billion dollars will be needed for adaptation, with figures ranging from USD 28 – 67 billion in developing countries alone.

Contrasting the scale of needed funds, financial resources under the Convention roughly amounted to only USD 18 billion for the period of January 1991 to July 2007. From this sum, USD 3.3 billion were granted through the Global Environmental Facility, the financial mechanism established under the UNFCCC and USD 14.4 billions were funded by bilateral donors, beneficiary's countries and the private sector[2]. As such, it is evident that existing financial resources under the Convention are not enough to adequately address current and future needs.

It is important to recognise that needed resources to combat climate change will not primarily come from the mechanism under the Convention, even if scaled up and enhanced, but from the private sector that already constitutes 86% of total investment and financial flows[3]. Hence, substantial additional public funding will be imperative to mobilize and leverage the needed private capital.

As such, the big opportunity for financing climate change lies in a shift of current and future investments and financial flows into a low carbon direction. In fact, addressing climate change should be an integral part of the solution to the global economic crisis, i.e. a new green deal. If public spending can be designed to boost "green growth" - private investments in clean and energy efficient technologies - the result will benefit not only employment, innovation and wealth creation, but also help combat climate change, enhance energy security and pave the way for a low carbon future.

Regardless the undeniable leverage needed from the private sector, providing public financing will be imperative for certain areas, technologies and principles (such as the polluter pays principle) that cannot be adequately funded through the private sector.

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[1] United Nations Framework Convention for Climate Change (UNFCCC) 2007. Investment and Financial Flows to Address Climate Change

[2] UNFCCC Fact sheet: Financing climate change Investment and financial flows for a strengthened response to climate change. Pag. 2.

[3] Ibidem. pag.3

State of play in the negotiations

Securing adequate funding and the operationalization the financing mechanism has become a central piece in the climate negotiations. On the one hand, many developing countries claim that required funding for climate protection should be increased significantly since the existing available amount is inadequate. The financing should be additional so that it does not compromise social and economic development, and it should be predictable, unlike today's voluntary replenishment system. As such it should differ from the current voluntary aid paradigm and from the Official Development Assistance (ODA) that is supposed to target other developmental objectives that go beyond climate change. Developed countries generally differ on their positions, though most of them have recognized the need for a new financing architecture and greater funds. Some of them have argued that there is a need to distinguish between mitigation and adaptation when finding adequate solutions. In the first case, incentives could be the most appropriate tool, whereas direct funding could be the right answer for adaptation needs. Other countries insist that new funding should be considered as part of ODA and in other cases they should be regarded as concessional loans.

Yvo de Boer, Excecutive Secretary of the UNFCCC, has summarized the negotiation situation ahead of Bonn with the following words: It is clear that an agreement reached in Copenhagen must clarify how much industrialized countries would have to reduce their emissions by 2020, and what developing countries are willing to do to limit their own emissions. Those two areas are inextricably linked because the United States and other industrialized nations will not ratify any agreement without corresponding commitments by developing countries… Developing countries, in turn, will not commit to address climate change unless there is a clear target for Annex I parties and a stable financial system for both mitigation and adaptation is created". The G77/China have underscored the unconditional need for new, additional, appropriate, predictable and sufficient funding in addition to ODA, as well as for funding of incremental costs.

Hence, the architecture of the financial mechanism under the Convention will be key for the successful conclusion of an agreement in Copenhagen. At the same time – from a financial governance perspective - it is important to note the interconnectedness of progress under the UNCCC with that achieved in the process outside the Convention. It is likely that several deals requiring agreement by Copenhagen will be done outside of the UNCCC meetings, in the form of bilateral negotiations, such as the dialogue between the US and China, or in smaller multilateral meetings, including the G8 discussions, the UN Secretary-General's climate summit of world leaders in September and the series of meetings under the Major Economies Forum announced by US President Obama.

Key questions:

The draft negotiating text which was published by UNCCC on the XXX accounts for the national proposals that have been submitted in so far on the operationalization of a financial mechanism – outlining the objectives, scope and guiding principles. Given the existing background and the state of play, we need to think about **how to finance climate mitigation and adaptation from inside, through and outside the Convention**. Financing **from inside the Convention** involves challenges like the **amount, source and guiding principles of funding**, and the innovative mechanisms that can be included in the implementation. Funding **through the Convention** raises for instance issues like using the legislative power of the Convention to certify carbon emissions reductions. Finally, financing **from outside the Convention** requires a deeper analysis of several issues, such as how we during an economic crisis shift our economy towards a low carbon path - a new green deal - and design public financing to boost “green growth” - private investments in clean and energy efficient technologies

Questions on generation of financial resources – guiding principles and proposals in the draft negotiation text

- What are the principles that should guide the generation of financial resources according to the Convention besides common but differentiated responsibilities and capabilities?

- What are the proposals that also could address the polluter pays principle and historical responsibilities in an efficient manner?

Suggested reading: See *UNCCC draft negotiating text***.** Enhanced action for financing, technology and capacity building

Questions on Climate Governance – the architecture of the financial mechanism

- Looking at the proposals in the draft negotiating text how can we combine the best aspects of the decentralised and centralised architecture models into a hybrid that is both politically acceptable to all parties and most effective in addressing climate needs?

- Country conditions and needs vary and so should the types of support that are provided through a new financial architecture. How can we get around the 'one size fits all' problem that for many parties makes such a position useful in negotiations but maybe not so effective in implementing mitigation or adaptation actions?

Suggested reading: *The institutional Architecture for Financing a Global Climate Deal: An options paper* - WWF, June 2009

Questions on Public Finance Instruments – how and where to mobilize?

- What are the most important innovations or changes needed in public finance to maximize private investment in green tech at scale, i.e. how can we mobilize public funds to leverage sufficient commercial capital to achieve greenhouse gas emissions reduction objectives?

- Where and how to target public finance along the R&D, demonstration, deployment chain?

Suggested reading**:** *Public finance mechanisms to mobilize investment in Climate change mitigation*, UNEP 2008.