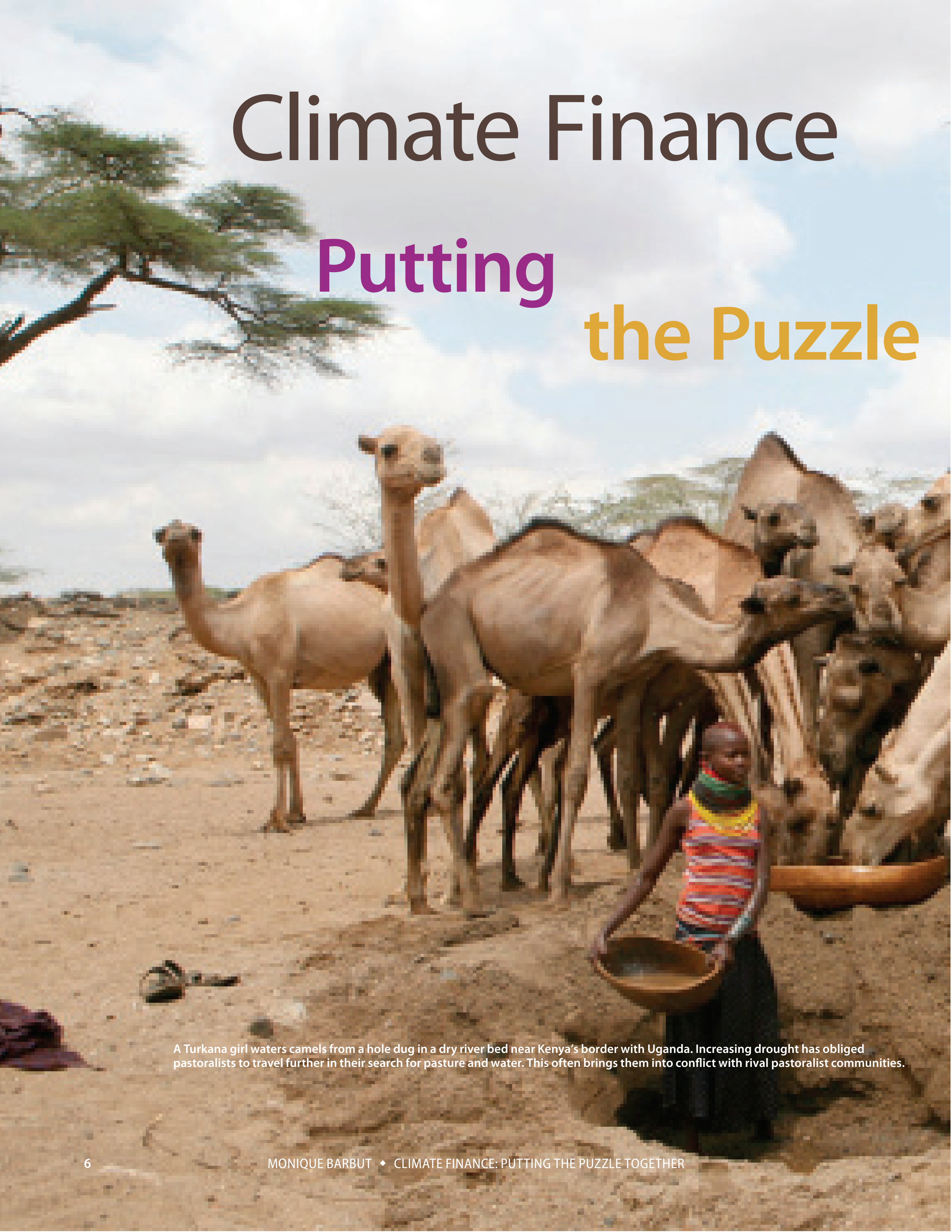
Climate Finance

Putting the Puzzle



A Turkana girl waters camels from a hole dug in a dry river bed near Kenya's border with Uganda. Increasing drought has obliged pastoralists to travel further in their search for pasture and water. This often brings them into conflict with rival pastoralist communities.

Together

By MONIQUE BARBUT

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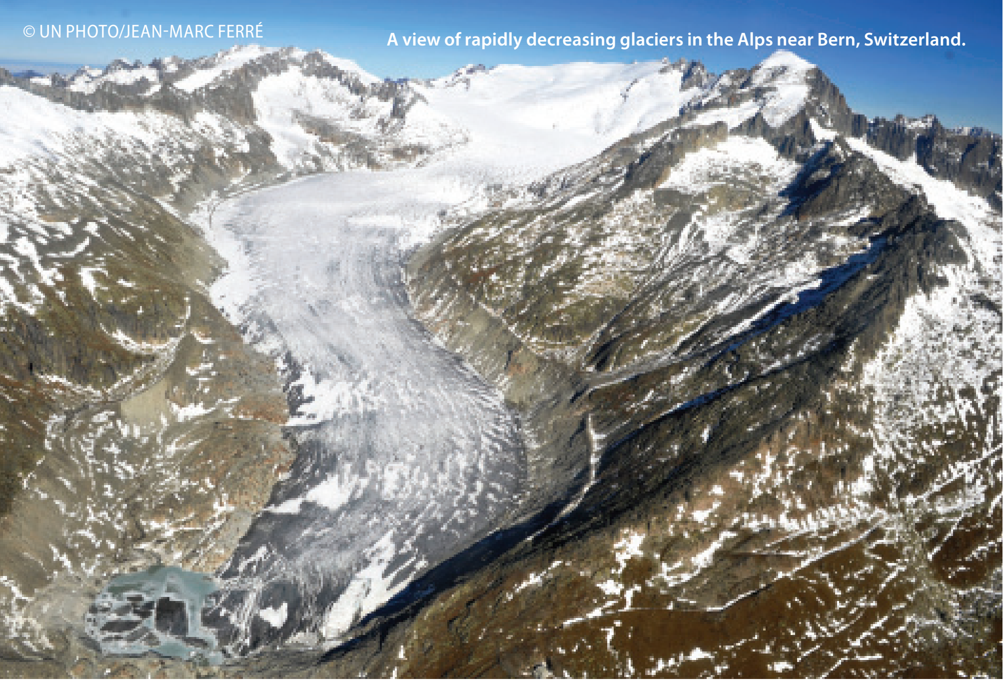

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A view of rapidly decreasing glaciers in the Alps near Bern, Switzerland.

After the disappointment of the much-heralded 2009 Copenhagen Accord, the 2010 Cancun Agreements were considered to have achieved progress, because an agreement was reached to establish the Green Climate Fund in order to scale up the provision of long-term financing for developing countries.

Over the last year, largely unbeknownst to the public, Governments from countries rich and poor were busy working on the design of the Green Climate Fund, aimed at mobilizing $100 billion a year by 2020 for mitigation and adaptation to climate change. However, do we really need and can we afford a new global fund, particularly in today's distressed financial environment?

The Global Environment Facility (GEF), a fund created on the eve of the historic Rio Earth Summit of 1992 to promote sustainable development in poor countries, has been serving as the major source of financing for the global environmental conventions created in Rio, including climate change. Today, the GEF grants $300 million per year for climate change mitigation in developing countries. The GEF also operates two funds on behalf of the climate change convention, the Special Climate Change Fund and the Least Developed Countries Fund. These funds have provided $420 million in grants to developing countries in an effort to reduce vulnerability to climate change in the context of their national development. An Adaptation Fund was also established under the Kyoto Protocol of the Climate Change Convention. Moreover, in 2008 the World Bank established two Climate Investment Funds to provide grants and loans for climate change mitigation and adaptation. Similar funds exist at various regional development banks, UN agencies and bilateral aid agencies, all dealing with climate change.

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Given this long line of funds, why do we need yet another fund for climate change? What can a new fund do that existing funds and institutions cannot? The common response is that we need a fund which can provide resources at a scale that is large enough to move economies away from their dependence on fossil fuel-based energy systems. A secondary response is that we need a fund which is more democratic in its governance structure. While dreaming up a new fund that can mobilize hundreds of billions of dollars is indeed an exciting thought exercise, it is not practical, particularly in a distressed economic environment where the Governments of most developed countries are in dire financial straits. For example, in the summer of 2011, we all watched the acrimonious battles over the budget and the debt ceiling in the United States Congress. In 2010, Congress approved only $90 million of the $144 million pledged by the United States to the GEF; this year is not expected to be any better. The Climate Investment Funds fared even worse.

It is futile to hope that a new mega fund will be received by legislators with any warmth. Designers of the Green Climate Fund are, of course, cognizant of these facts, with their hopes apparently pinned on the private sector accounting for most of this $100 billion per year—at least, this is the view of most developed countries. However, there are many hurdles, including the fact that no private sector participation is envisioned on the Board of the Fund, and that the expectations from most developing countries are that the Fund should be resourced from Government budgets.

Yet, I believe that a truly transformative approach to climate change finance at the level of $100 billion per year could be achieved if we took a different approach. We need a short- to medium-term approach that sets the stage for a long-term strategy.

First, we have to deal with the current chaos and under-resourcing of the climate change finance system. We don't need to establish another new anaemic fund. Existing funds need strengthening, regularity in funding flows, and reform of governance processes towards more transparent and democratic systems.

Second, the Green Climate Fund could be established as a virtual "fund of funds" that coordinates across all existing sources of funds, including tracking private sector investments. Currently each fund has its own rules, befuddling low-capacity countries already struggling to assemble viable financial assistance packages. The Board of the Green Climate Fund could define common norms and scrutinize projects

View from the Arctic polar ice rim during Ban Ki-moon's 2009 visit to witness firsthand the impact of climate change on icebergs and glaciers. The visit was part of the Secretary-General's campaign urging Member States to negotiate a fair, balanced and effective agreement at the UN Climate Change Conference in Copenhagen in December 2009.

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that are characterized as "climate finance" by entities, wherever they are in the global financial architecture. This fund of funds should also have its own resources to complement the actual resources of the different funds, so that it can respond as the guidance for the Conferences of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) evolves.

Introducing common norms would speak directly to the principles of the internationally acclaimed Paris Declaration on Aid Effectiveness, with all funds aimed towards achieving the common good. This approach would require that the Green Climate Fund negotiations focus on a governance structure that, while accountable to the parties to the Convention on Climate Change, can oversee, coordinate, and integrate the work of existing climate funds in a democratic and transparent fashion. This will ensure that the actions of the different funds are made more efficient, and could possibly enable us to reach our $100 billion objective, by counting all of the resources claimed as climate finance in a transparent manner.

While we could establish the quick fix outlined above, in order to realize our full ambition of scaling up investments to transform economies towards non-fossil fuel-based economic development, the long-term solution would be the establishment of a "Green Bank". To ensure that the highest level of resources are available for the activities of the Green Bank, rather than employed for its capitalization, the Green Bank should be established as a subsidiary of an existing institution. It is only by establishing such a bank that we would be able to leverage resources from capital markets and employ a range of financial instruments, including being creative with the carbon market.

Within this Green Bank the existing major climate funds—GEF, Climate Investment Funds, Adaptation Fund—could be established as funding "windows" responding to the objectives of the different funding windows under discussion in the Green Climate Fund. These funding windows could have their respective governance mechanisms. However, the Board of the Green Climate Fund would have overall governance responsibility over the funding windows, would make decisions regarding funding, and would also be responsive to the COP of the UNFCCC.

Now is the time to aim higher by bringing together the different pieces of this complicated puzzle. We will achieve the $100 billion per year target if we smartly leverage existing funds and their hard-earned experience, while enhancing the accountability of the system as a whole. We could make our collective dream a reality by putting to work what we already have. unc