Briefing Note on Financing the Climate Agenda

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INTERNATIONAL POLICY DIALOGUE ON FINANCING THE CLIMATE AGENDA: THE DEVELOPMENT PERSPECTIVE: 19-20 MARCH 2009

The International Policy Dialogue on Financing the Climate Agenda: The Development Perspective, took place in Berlin, Germany from 19-20 March 2009. The event was convened by the Development Policy Forum, InWEnt, Germany, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), in cooperation with the United Nations Foundation and with the support of the KfW Banking Group.

The meeting included opening speeches and a high-level roundtable. This was followed by three main sessions, which addressed: the climate agenda as an integral part of sustainable development; new sources of financing to combat and adapt to climate change; and institutional and instrumental challenges in climate financing. Finally, a closing session provided some concluding perspectives on the topic.

OPENING REMARKS

Uwe Ohls, KfW Development Bank, and Albrecht Ansohn, InWEnt, welcomed participants. Reid Detchon, UN Foundation, noted that action on renewables and energy efficiency must now begin in order to show good faith and build confidence before the UN Climate Change Conference in Copenhagen in December 2009. He was the first of many participants to state that any new climate-related funding must be considered additional to, and not part of, official development assistance (ODA) obligations.

KEYNOTE SPEECH

Keynote speaker Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development, Germany, highlighted the importance of linking the dual meltdown of glaciers and global finance, adding that 2009 will test the capabilities of global political economic systems. She discussed financing options and called for international solidarity in funding climate goals, preserving global commons, and aiming for truly sustainable development for impoverished countries. She also said that matching short-term capacities to long-term needs is a huge problem yet to be adequately addressed.

HIGH-LEVEL ROUNDTABLE

Jesca Eriyo, Minister of State for Environment, Uganda, reported that in addition to the adverse humanitarian consequences, increasing floods and droughts in her country are also frustrating efforts to attract investors, and therefore economic progress. She lamented that funding related to climate change has fallen far short of that promised.

Katherine Sierra, Vice-President for Sustainable Development, World Bank, discussed the difficulty of separating out development and climate projects for ODA accounting purposes. She also highlighted the importance of linking adaptation to mitigation and of possible new financing pathways, including connecting current forms such as budget support and project financing.

Ahmada Rweyemamu Ngemera, Tanzania's Ambassador to Germany, focused on challenges for developing countries in mainstreaming climate change into development agendas, and called for enhanced international support towards realizing this goal. He also urged that the Global Environment Facility's (GEF) National Adaptation Programmes of Action (NAPAs) evolve into long-term programmes.

Johan Schaar, Commission on Climate Change and Development, Sweden, said that three principles need to be brought to Copenhagen: subsidiarity, because context-specific solutions are needed for local problems; complementarity, to lower transaction costs and broaden applicability of funds; and flexibility, so new financing mechanisms can be applied where and how individual conditions require. He closed by saying that an agreement at the fifteenth Conference of the Parties to the UN Framework Convention on Climate Change (COP 15) must not be allowed to hinder nations' development efforts.

Steffen Smidt, Ambassador and Representative on Climate Change Issues, Denmark, expressed Denmark's high expectations for COP 15 and his hope for a number of issues to be taken up at this event, including: the uncertainty surrounding the exact amount of financing; questions of public versus private and national versus international sources of funding; and finding an efficient institutional structure for management and delivery of climate funds.

Jennifer Morgan, E3G, noted that there is a general lack of trust on the part of developing countries, which she said was fueled by technology transfer issues and the recent failure of the EU to elaborate plans for specific financial mechanisms for climate financing. She ended by saying not enough attention is being paid by non-governmental organizations to the possibilities offered by the coming G20 meeting in April.

In response to these statements, Minister Wieczorek-Zeul stated that if we do not move together globally, we may be headed for a social and ecological recession in addition to our current financial crisis.

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SESSION I: THE CLIMATE CHANGE AGENDA AS AN INTEGRAL PART OF SUSTAINABLE DEVELOPMENT

This session was chaired by Saleemul Huq, IIED, and addressed questions regarding the role of development policy in climate protection and finance, and development policy priorities in Copenhagen.

Elwyn Grainger-Jones, Department for International Development (DFID), UK, looked at development financing successes and challenges. He suggested that a major hurdle was how to reframe the climate debate away from being about competitiveness and mitigation, and towards a model of truly sustainable growth.

Talaat Abdel-Malek, Ministry of International Cooperation, Egypt, lamented that climate discourse has traditionally focused on economic issues, not climate change, and that environment ministries lack the executive power to implement meaningful policies. He said it was essential not to count climate-related financing towards ODA, and said inadequate capacity on the ground represents the primary bottleneck of climate change policy.

Heather McGray, World Resources Institute, noted that currently mitigation receives far too much, and adaptation far too little, attention from financiers. She said the development agenda is truly a capacity development agenda and there is a lack of success stories on this front.

Richard Klein, Stockholm Environment Institute, identified a contradiction between the practical reasons for combining adaptation and development efforts, and the ODA accounting reasons for keeping them separate, noting that the latter has created demand for stand-alone, non-mainstreamed adaptation.

In the ensuing discussion, participants discussed a range issues, including: how the hundreds of billions of dollars of additional assistance being called for could realistically be targeted, distributed, and used; the failure of the NAPA scheme thus far to provide benefits to countries that have submitted programme proposals; and the impact that "trust" issues may have in precluding donors from giving recipient countries significant freedom to allocate monies where they see fit.

Imme Scholz, German Development Institute, offered concluding remarks, stating that although separating climate from development on the ground is challenging, for donors it makes sense. She also noted that integrated planning is needed to ensure proper delivery of new funds.

Saleemul Huq closed the session with a critique of the positive connotations attached to the word "donor" in discussions of funding climate change programmes, stating that these monies are not philanthropic, but are rather restitution for damage financiers have caused.

SESSION II: NEW SOURCES OF FINANCING TO COMBAT AND ADAPT TO CLIMATE CHANGE

This session was chaired by Karsten Sach, Federal Ministry for Environment, Nature Conservation and Nuclear Safety, Germany. Participants heard presentations and discussed issues relating to measuring, reporting and verification (MRV), the volume of financing required, and the roles of the public versus private sectors, and market mechanisms. Sach summarized the session's focus by asking participants to consider who pays for what, and how?

Artur Runge-Metzger, Directorate-General for the Environment, European Commission, noted that although by one estimation US$175 billion per year is needed globally to address climate change through to 2020, and US$23-54 billion per year thereafter, these amounts are not as intimidating as they sound. He noted two primary avenues to raise funds, namely fixed direct contributions and the Norwegian proposal to use a percentage of assigned amount units (AAUs) auctioned to governments.

Jörg Haas, European Climate Foundation, explained why the proposed reduction targets for stabilizing emissions at 450ppm would not deliver this goal. Referring to the McKinsey Greenhouse Gas Abatement Cost Curve (which was frequently cited at this meeting), Haas clarified how financing needs change at different moments, ranging from loans for negative cost abatement to grants for high-cost projects.

Erik Haites, Germanwatch, pointed to the need for reliable national systems to address non-compliance with international obligations. He also pondered where additional funding for the four-fold increase in research and development being called for would come from, considering that only about one-third of such research and development is government-funded in OECD countries.

Karsten Löfler, Allianz Climate Solutions, said the public sector must play a pivotal financial role in addressing market failures currently hindering private sector investment and in taking on risks that the private sector cannot. He also noted that public investment should be used to leverage private investment.

Julien Rencki, Ministry of Economy, Finance and Industry, France, said creating an appropriate enabling environment for private initiatives and investment could drastically reduce the need for public money. He also suggested that the Mexican climate finance proposal, being based on the principle of polluter pays, offers the correct incentives for movement towards a low carbon future.

William Kojo Agyemang-Bonsu, Environmental Protection Agency, Ghana, reminded the group that in order to support MRV, targets must quickly be established.

In the subsequent discussion, some participants questioned the normative foundations of the current climate negotiations, as well as why the Group of 77 and China's proposal on financing had not been discussed at this meeting. Comments were also made regarding the need for clear and rational methodologies, easing accessibility to available funding, moving negotiations in a direction to allow more private sector financing possibilities, and clarifying the distribution of funding in the Mexican and Norwegian proposals. The importance of funding reliability over time was also emphasized by a number of participants.

Claudia Kemfert, German Institute for Economic Research, provided concluding remarks, focusing on the uncertainty of the volume of finance required. She suggested that although mitigation does not require so much assistance, the public sector must provide incentives for the long-term investments that are essential for adaptation.

SESSION III: INSTITUTIONAL AND INSTRUMENTAL CHALLENGES IN CLIMATE FINANCING

This session was chaired by Manfred Konukiewitz, Deputy Director General of Germany's Federal Ministry for Economic Cooperation and Development. The session addressed the appearance of a climate financing regime, the roles of bilateral and multilateral channels, institutions and funds, the effectiveness of instruments, additionality, and ownership.

Stephen Groff, OECD, began the session by pointing out that although donors have already pledged US$18 billion for adaptation in developing countries, only US$1 billion has been disbursed. He stated that new climate funding must be in addition to existing ODA obligations, and that climate financing should be held to the same standards as ODA, as prescribed in the Paris and Accra declarations on aid effectiveness.

Benito Müller, Oxford Institute for Energy Studies, outlined a reform scheme for the UNFCCC's financial mechanism involving institutional and governance reforms such as independent oversight, subsidiarity and COP authority. He also discussed the Bangladesh Multi-Donor Trust Fund model, which could serve as a complexity-reducing model for nations receiving funds from numerous sources.

Sudhir Sharma, UNFCCC Secretariat, drew attention to discussions over whether a centralized or decentralized institutional set-up would be better to handle new funding, suggesting that a "middle way" could be suitable. He said that whatever is decided, the institutional arrangements should be established as soon as is practicable.

Ruth Jacoby, Swedish Ambassador to Germany, suggested that using existing paths of delivery is more feasible than creating new institutions to deal with climate finance, given the urgency of the situation.

Jochen Harnisch, KfW Development Bank, said existing, trusted channels should play an important role in management and delivery of new funding, noting that this would build confidence both for taxpayers in donor countries and recipients in recipient countries. He also noted the need for a robust governance structure to coordinate MRV, suggesting a clearinghouse under the UNFCCC.

Vicente Paolo Yu, South Centre, urged that the Group of 77 and China's proposal on financing play an important role in the debate. He lamented that thus far finance has been neither adequate nor sufficiently transparent. He supported proposals for a new or largely revised international institution as the operative entity for climate finance.

In ensuing discussion, participants touched on many issues. One person encouraged pragmatism, stating that there is neither the time nor a real need for a new institution, that what already exists must be simplified, and that we must investigate the capacity of developing countries to receive large amounts of new finance. Another participant noted the need to minimize trade-offs faced in trying to achieve efficient, accountable and quick disbursal of funds. There were also a number of technical questions about Müller's reform scheme and debate about whether such a large, new scheme would be appropriate.

Thomas Heller, Stanford University, provided the closing remarks. He emphasized that any agreed climate finance architecture cannot be designed in isolation, and that it will be embedded in a complex structure of other markets, mechanisms and institutions.

CLOSING SESSION: CONCLUSIONS OF THE INTERNATIONAL POLICY DIALOGUE FROM DIFFERENT PERSPECTIVES

Adolf Kloke-Lesch, Director General, Federal Ministry for Economic Cooperation and Development, Germany, began the final session on Friday, 20 March, by reiterating some of the main themes of the conference. These included moving beyond technical negotiations in light of the urgency of the problem, scaling up support for developing countries immediately and significantly, and fully integrating climate goals into development policy.

Monique Barbut, CEO of the Global Environment Facility (GEF), stated that the finance scene is already so overcrowded, with 13 climate change-related funds coming online in 2008 alone, that new sources of finance do not require new mechanisms or institutions. She announced that, recognizing the need for reform, the GEF had recently agreed to make important institutional changes. These changes would include giving the UNFCCC Conference of the Parties a more meaningful role in the GEF; improving direct access to GEF funds; and further reforming project cycles to improve accountability.

Jean-Louis Schiltz, Minister for Development Cooperation and Humanitarian Affairs, Luxembourg, said he did not expect declining ODA figures to improve in coming years and that he did not have much enthusiasm for new funds or institutions. He noted that the private sector must be included in future plans and countries exceeding or moving towards the 0.7% ODA goal should be allowed to count their climate funding towards their ODA calculations as well. He suggested that this would ease funding bottlenecks. However, following concerns and questions raised by some participants, he subsequently revised this position, saying that "double-booking" should be limited to a transition period.

Liana Bratasida, Assistant Minister for Global Environmental Affairs and International Cooperation, Ministry of Environment, Indonesia, stressed that global financial reform must play a role in promoting local sustainable development. She also stated that although carbon markets are a necessary part of combating climate change, they are not sufficient in themselves, and that new mechanisms are needed. She urged developed countries to lead by example.

In the ensuing discussion, participants welcomed the GEF reforms.

Adolf Kloki-Letsch concluded the meeting by stating that the paternalistic donor-recipient paradigm must be changed and that the burden-sharing challenge must be more adequately addressed. He then thanked participants, hosts and organizers, and closed the conference shortly before 1:00 pm on Friday, 20 March.