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## The Green Climate Fund

What needs to be done for Durban (COP 17)

by Farrukh Iqbal Khan<sup>1</sup>

### Introduction

Amid much apathy and disenchantment with the UN-led climate change negotiations, Cancun delivered a glimmer of hope in the wee small hours of 11 December 2010. Unlike the notorious Copenhagen Accord, which was rejected by the Conference of Parties (COP), the Cancun Agreements were adopted and supported by the Parties, with the sole exception of Bolivia, which lodged a protest.

The prolonged applause that followed was a marked departure from what had taken place exactly a year earlier at Copenhagen. But let us be frank, the applause was not for what we – negotiators – had managed to achieve, but rather for what we did not let happen: another failure. With 40 of the 147 paragraphs in the agreement unfolding a new process, critics charge that the Cancun outcome is modest, and negotiators have done exactly what they are best at – producing texts that baffles readers, inventing more negotiating processes, and buying time for continuing them.

### Unfolding climate tragedy and promised finance

Given the unfolding climate catastrophe due to low levels of emission reduction pledges by the developed world, as well as the uncertainty surrounding the delivery of financial commitments, critics also charge that it is difficult to use the words ‘success’ and ‘Cancun Agreements’ together in one sentence.

Science requires developed countries to have cut their emissions by at least 25–40 per cent below 1990 levels by 2020. Instead, the current levels of voluntary pledges (at the lower end of their ranges) suggest that they will have either increased their emissions by 6 per cent, or (at the upper end) reduced them by 16 per cent. Either way, even after including emission reduction actions by the developing countries, we are heading towards a global temperature increase of 2.5 to 5 °Celsius, spelling danger, in particular, to vulnerable developing countries that neither contributed to climate change nor are capable of handling its after effects.

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<sup>1</sup> Lead Negotiator on Climate Change (Pakistan)/Chair Adaptation Fund Board, e-mail: fik2101@columbia.edu

On the finance side, there is little uncertainty left that most of the promised US \$ 30 billion Fast-Start Finance is actually Official Development Assistance (ODA) and, to the developing world's surprise, devoted more to mitigation than adaptation. Even more ironically, some are full counting the loans given to developing countries as part of their Fast Start contribution.

Similarly, the goal – not commitment – of mobilizing US \$ 100 billion by 2020 from developed countries appears to include controversial international sources, such as a financial transaction tax or shipping and aviation levies. In addition, achieving this goal also requires that the carbon price does not fall below US \$ 25, in order to collect sufficient revenues in developed countries. Unless we rewrite Economics 101, it is mystifying to see how the carbon price can reach this level with low emission reduction pledges. Above all, some of the recent studies, such as those done by Ecofys, have pointed out that a 2 °Celsius temperature stabilization pathway needs a trillion dollar annual investment, not just the US \$ 100 billion promised so far.

### **The Cancun Agreements – Critics' charge sheet**

Critics argue that the Cancun Agreement does further damage amid hollow promises. They argue, in particular, that:

- First, it puts Kyoto on a respirator. While the ostensible aim is to ensure no gap between the commitment periods, the real aim is to find an agreement on when and how to remove the respirator.
- Second, developing countries have bargained away their future and existence, by formalizing the voluntary pledge-based emission reduction regime. The developed world is no longer bound by top down targets for emission reduction, as provided for under the Kyoto Protocol.
- Third, in the absence of an aggregate emission reduction target for developed countries, there should have been a mechanism to at least review the adequacy of these voluntary pledges – this is glaringly absent.
- Fourth, given that there has not been any agreement on how to resource the new Green Climate Fund, its mere establishment – though a positive development after many years of fits and start arrangements – amounts to creating an empty pot.

### **What has Cancun achieved?**

There is indeed much that we have not managed. But we would be missing the woods for the trees if we just focused on what we could not manage to achieve at Cancun.

The Cancun Agreements are a part of a 20 year effort to structure an inclusive global climate change regime. Not everyone has been on board thus far. Cancun, interestingly, brought together some of those structural common denominators which might hold us together in the future.

COP 16 has arrested the downward spiral in the trust deficit amongst Parties, and in the viability of the UN-led process since Copenhagen. Another failure could have made it impossible to piece together a global regime. Instead, the agreement formalizes a transformation of the world, in which many developing countries are not only ready, but are also already shouldering the burden of mitigation, despite their having had little or no historical contribution towards the threat to all

civilization posed by climate change. The agreement establishes several institutional changes within the UNFCCC and its processes that were considered vital, especially by the developing countries: the Adaptation Committee, Technology Mechanism, Standing Committee on Finance, REDD+ and, most importantly, it lays the foundation of the first ever global Green Climate Fund. Also, through the agreement to continue negotiations under the Kyoto Protocol, it reinforces the need for continuing with the top down binding emission reduction commitments by the developed world as the way forward, and as it ought to be.

A comprehensive climate deal will happen if two key conditions are met: equitable distribution of atmospheric resources between developed and developing countries, in accordance with the principle of common but differentiated responsibilities and respective capabilities enshrined in the UNFCCC, and delivery on the promise of finance as part of developed countries' legal obligation to pay for the pollution historically caused by them.

There should be no doubt that an eventual global pact on climate change runs through finance. Fortunately, Cancun has also captured both the need for improved governance, and coordination in the delivery of finance, by establishing a Standing Committee on Finance, and a Transitional Committee to design the Fund.

### **An Agenda for Durban – Finance**

By the time of Durban, we must find solutions for the three pieces of new climate finance regime that are vital: determining the sources (funding arrangements); outreach (private sector and civil society); and finally balanced allocation of financial resources between adaptation and mitigation. Solution to these key pieces hinges on synchronized progress in the establishment of the Green Climate Fund (GCF) as well as operationalization of the Standing Committee on Finance.

First, there is no clarity on how to finance the Fund. Developing countries are keenly awaiting announcements by their developed country partners on regular and mandatory contributions to the new Green Fund. The Transitional Committee work cannot finish without some collective assumption on the scale of funding to be routed through the fund – an important design parameter for the Fund.

The developed world's reticence to discuss the magnitude of the GCF is simply scandalous. It neither bodes well for a proper institutional edifice of the GCF nor for the rapid progress needed to achieve results by Durban. This conversation cannot be avoided. It must take place now and side by side with the design process to be initiated by the Transitional Committee. In order to build a skyscraper of climate finance, the Transitional Committee must soon have a lay of the land. The forthcoming Bangkok climate talks should launch this discussion.

Also, to be clear, such an agreement on scale will need an agreed definition or an understanding of what constitutes climate finance and how it can and must be distinguished from ODA. The tendency amongst a number of developed countries to tag any transfer of resource, including loans, to the developing countries as climate finance is but a recipe of disaster.

Second, outreach to the private sector is central to finding additional and supplementary sources of financing. The input and active participation of the private sector remains crucial in the design process, especially in creating instruments such as insurance, guarantees, and sources of revenues

from the carbon markets. The Transitional Committee must hold regular consultations with the private sector to synergize their role in generating substantial supplementary sources of financing.

Similarly, the TC should formalize contributions from civil society. Besides regular interaction, civil society can be asked to submit input in writing, which can be followed up in subsequent open-ended sessions with them. Given the scale of the challenge, it may be useful for the design process to seek to work closely with major non-governmental actors such as IUCN, OXFAM, and WWF with a view to ensuring global co-benefits.

Finally, the required balanced allocation to, and equal treatment of adaptation and mitigation on the GCF will hinge on determining the portion of the much heralded US \$ 100 billion that can and should be channelled through the new Fund and how, in that context, it would be possible to have a significant share of new multilateral funding for adaptation to run through the GCF, as required in the Cancun Agreements. Resolving this would allow the design process to proceed on a surer footing.

Improving the governance, coherence, and coordination in the delivery of climate finance should be at the centre of the forthcoming Bangkok negotiations and the subsequent session. Between now and Durban, we must elaborate upon the role and function of the Standing Committee on Finance, establish a registry to measure, report and verify financial contributions, as well as to periodically assess the adequacy of available finance. It should immediately establish a panel of experts to deliberate on a figure for the level of financing needed until 2020, and submit a strategy to COP 17 to meet the target.

A climate resilient pathway is about a new energy production and consumption paradigm. Unlocking this new energy construct both at the national and international levels, through an effective climate change regime, is the strategic design parameter for the delivery of finance and the institution that will lead this efforts.

Whether or not we eventually agree to a legally binding treaty or a set of decisions remains an open question but an inclusive climate change regime must respond to the needs of all stakeholders including those economies that are heavily reliant on traditional sources.

All said and done, it is finance which will determine whether we are going to save the world or put it on an irreversible path to long-term devastation. Switching the global economy as well as national economies to low carbon pathways sounds attractive and theoretically possible but empirically herculean and financially astronomical. That's the reality of it.

South Africa – as was the case with Mexico last year – must wake up very soon to craft a strategy that builds on the foundations painstakingly laid out at Cancun last December. Much labour is needed to cement a deal at Durban.