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Time to Roll up the Sleeves – Even Higher!

Longer-term Climate Finance after Cancun

by Benito Müller¹

Introduction

The recent UN Climate Change Conference in Cancun may well turn out to be a watershed in the international climate change regime. It certainly has given the multilateral approach under the UN Framework Convention on Climate Change (UNFCCC) a new lease of life. Indeed, it appears that the recent Kyoto Protocol obituaries have also proven to be as exaggerated as they were when it first entered into force.²

As concerns longer-term climate finance, the key outcomes of Cancun is the decision by the Conference of the Parties (COP) in the Cancun LCA Agreement³ (i) to establish a *Green Climate Fund*, (ii) that a *significant share of new multilateral funding for adaptation* should flow through this fund, and (iii) to establish a *Standing Committee* under the COP to assist it in exercising its functions with respect to the UNFCCC financial mechanism.

Everybody involved in bringing about this outcome deserved a good end-of-year holyday. But now it is time to roll up the sleeves even higher than last year to carry out the substantial amount of work still needed to implement these decisions by the next session of the COP in December 2011 in Durban, South Africa. The aim of this paper is to look at some of the key issues facing this implementation.

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² “Like a masked serial killer in a teenage slasher flick, the Kyoto Protocol will not die!” [Pittsburgh Tribune-Review, 24 August 2004]

³ “Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention,” http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_lca.pdf

Establishing a Green Climate Fund

An article published in *Outreach*¹ on the second day of Cancun put forward a compromise proposal on how to establish the new climate fund. It was an attempt to combine the G77+China position with the procedure that had been used in establishing the Global Fund (GF) that was the basis of the US position. The article focussed on two areas, namely the procedure of convening what was referred to a ‘Transitional Expert Panel’ (TEP), on the one hand, and the working methods of that drafting body, on the other.

PROCEDURE: WHO CONVENES WHOM, AND HOW?

The compromise TEP was meant to *include a balanced and equitable representation from the COP, expanded by representatives of non-government sectors (e.g. from private sector, multilateral development banks, civil society, academia)*. As it turns out, the Green Climate Fund will be designed by a **Transitional Committee** (TC) with 15 members from developed and 25 members from developed country Parties – the latter representing the relevant UN Groups,² as well as SIDS and the LDC Group. Assuming these Groups will select who is to represent them, the TC is likely to have the legitimacy required for COP buy-in and incorporate what has been referred to as the ‘political expertise’³ to guide the drafting work towards the desired COP approval.

However, the TC fails to take advantage of the lesson learned in establishing the GF about the importance of *incorporating all the relevant sectors* in the drafting process. It is true that the Agreement mandates the TC to be *open to observers*, and to *encourage input from all Parties and from relevant international organizations and observers*. Yet the actual drafting currently appears to be restricted to the (government) members of the TC, and (probably) the TC support staff. The latter are to be seconded from *relevant United Nations agencies, international financial institutions, and multilateral development banks, along with the secretariat and the Global Environment Facility*, and judging from experience,⁴ could be directly involved, particularly in the crucial task of preparing the initial draft documents. It stands to reason, given the Global Fund experience, that a failure to involve the other sectors in the drafting work of the TC – including the preparation of initial drafts, and the inevitable work between meetings – will not only reduce the efficiency of the process, but enhance the risk of sub-optimal outcomes.⁵

While it was said that, regarding Cancun, ‘we cannot let the perfect be the enemy of the good,’⁶ in this case we also must not let the good be the enemy of the perfect! The fact is that there is a way in which these other sectors can be directly involved in the drafting process without infringing the strictures of the Agreement. How? As mentioned above, the Agreement allows for observer involvement in the

¹ Benito Müller and Sven Harmeling, “In the Footsteps of the Global Fund: How to establish the new climate fund,” COP 16 *Outreach*, 30 November 2010; www.stakeholderforum.org/fileadmin/files/OUTREACH-02.pdf

² Africa, Asia, Group of Latin American and Caribbean States.

³ See, for example, Benito Müller, “What Expertise? On who should be drafting the framework documents for a new Global Climate Fund”, *Oxford Energy and Environment Comment*, November 2010.

⁴ In the case of the Adaptation Fund, for example, all initial drafts of the founding documents were provided by the GEF Secretariat (see www.adaptation-fund.org/1stAFB).

⁵ This is particularly true for the envisaged design of, say, *methods to manage large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access*, or of *mechanisms to ensure stakeholder input and participation*.

⁶ UN Secretary General Ban Ki-moon, as quoted in *USA Today*, 8 December 2010

drafting process, both as participants of the TC meetings and as providers of input. The idea is simply to follow the model of the World Bank Climate Investment Funds (CIF) which admit ‘*active observers*’¹ – selected by the relevant non-government constituencies – who have the right to participate freely in the discussions of the CIF Committees, and to propose agenda items (but cannot vote). The fact that the TC is to be convened by the Executive Secretary of the UNFCCC has the added advantage of a ready-made selection mechanism: the UNFCCC Secretariat regularly invites the recognised UNFCCC NGO constituencies to nominate representatives to participate in the workshops they convene. All it takes to enable the TC *to harness all the best available expertise* – inside and out of government – is to include the function of ‘active observers’ in the rules of procedure of the TC, and this should be strongly commended to whoever will be deciding on these rules.

WORKING METHODS: WHAT TO DO AND HOW TO DO IT?

In addition to the multidisciplinary and multi-sectoral nature of the GF TWG, and the support by a dedicated Technical Support Secretariat, the *Outreach* article lists the following two key factors to the success of the TWG:

- *Broad and early stakeholder consultations, including regional meetings with governments as well as consultation meetings with specific stakeholder constituencies (such as civil society, private sector, academia).*
- *Establishment of specific drafting groups, such as on fiduciary management, governance, which carried on the work of the TWG between its meetings.*

Given the UNFCCC accredited observer constituencies, the former should be easily replicable with the support of the UNFCCC Secretariat. As to the latter, it is clear that in the limited time until Durban, the workload prescribed in the *Terms of reference for the design of the Green Climate Fund*² can only be carried out through a division of labour and continuous drafting. Moreover, it is important that the TC members (and active observers) be involved from the very beginning in the drafting process. Both can only be done in (small) document-specific drafting groups.³

LEADERSHIP: WHO?

The reform of the financial mechanism which has been launched in Cancun is likely to have as profound an impact as the launch of the Bretton-Woods system some 60 odd years ago. This is why it is important to get it right. In particular, it is important to find a person who can provide genuine hands-on leadership to this process. In the context of establishing the Green Climate Fund, this can really only be given by the Chair of the TC. It is therefore key that the TC Chair be a mutually respected person who not only knows how to guide UN processes, but who also has firsthand experience of the task at hand. Following the *Outreach* article, there seems to be one obvious candidate for such a position: the convener of the process that established the Global Fund, former UN Secretary General Kofi Annan.

¹ *Recognizing that it is important to ensure good linkages between the Climate Investment Funds and key partners in order to promote sound and transparent decision making, efficient use of resources and complementarity with other sources of financing, the CIF Trust Fund Committees and Sub-Committees have invited different stakeholders to identify representatives to participate as active observers in its meetings.*[<http://www.climateinvestmentfunds.org/cif/Observers>]

² Annex III of the COP 16 LCA Outcome.

³ The technical support team of the TC is there to provide technical support, but not to do its ‘core business,’ i.e. drafting the relevant documents. In particular, the task of producing the initial drafts of the documents should not be delegated to the support team.

Identifying Sources for the GCF, particularly for adaptation

The *Outreach* article concludes with the proposition that *there is very little appetite in the developing world for establishing yet another placebo fund*. Feed-back at Cancun indicates that this sentiment is shared by many delegates from developed countries, as reflected in the COP consensus *that a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund*.¹ The question is ‘merely’: how is this funding going to be raised, particularly in the near-term?

In the Agreement, the COP reaffirms that funding *may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources*,² and takes note of the report of the High-level Advisory Group on Climate Change Financing (AGF).³ It is no coincidence that the Agreement has nothing more to say on how the new fund is to be sourced. Identifying sources of funding for the GCF will be the toughest problem in the forthcoming finance negotiations, and it has to be resolved quickly, for it is clear that without some start-up funding package, the GCF will arrive stillborn at Durban. So how could we secure *adequate start-up funding* by Durban in the current context of record budget cuts in the developed world?

The Texas Tea Party, for one, seems to have seen some writing on the wall: *A process was established to design the \$100 billion Green Climate Fund ... The design will probably be for a tax on international shipping and aviation*.⁴

Indeed, over two years ago, the LDC Group has put forward a proposal for precisely such a levy on international air travel⁵ to provide a significant core funding stream for adaptation. Although it was not actually evaluated in the AGF Report, this proposal deserves some special attention because it is probably the only innovative financing scheme that could actually fly *in time* for the simple reason that it already exists (albeit under a different name)!

THE LEADING GROUP LEVY AS INSTRUMENT FOR START-UP ADAPTATION FUNDING?

The *International Air Passenger Adaptation* Levy (IAPAL), as conceived in the LDC proposal,⁶ is a mandatory global version of the French solidarity levy for HIV/AIDS and Malaria established in 2006 in France and subsequently put under the aegis of the *Leading Group on Innovative Financing for Development* (see Box) as *International Solidarity Levy on Air Tickets*.⁷ Under IAPAL, all international air travel would be charged a nominal fee – \$6 per economy trip, and \$62 per business/first class trip – which would currently raise an estimated \$8bn to \$10bn annually.

An ecbi Policy Brief, published in 2009,⁸ discusses a number of questions arising from that proposal, currently the most pertinent of which being Question 11: *Why not make the levy voluntary?* The point here is not to make the levy optional for passengers, but simply to follow the Leading Group

¹ LCA, para. 100.

² LCA, para. 99; emphasis added.

³ LCA, para. 101.

⁴ “U.N. Agrees on a Process to Design the Global Taxing Scheme,” Cathie Adams, 12 December 2010. <http://texasgopvote.com/global-warming/un-agrees-process-design-global-taxing-scheme-002231>.

⁵ The full LDC IAPAL proposal is appended to this Brief.

⁶ See, for example: Benito Müller, *International Air Passenger Adaptation Levy (IAPAL): Thirteen Questions and Answers*, *ecbi Policy Brief*, April 2009; http://www.eurocapacity.org/downloads/ecbi_Brief_-_IAPAL_13_Q&As.pdf.

⁷ See: <http://www.leadinggroup.org/rubrique177.html>

⁸ Benito Müller, *International Air Passenger Adaptation Levy (IAPAL): Thirteen Questions and Answers*, *ecbi Policy Brief*, April 2009; http://www.eurocapacity.org/downloads/ecbi_Brief_-_IAPAL_13_Q&As.pdf

The Leading Group

The Leading Group on Innovative Financing for Development (Leading Group) is a platform for countries, international organizations and representative of civil society to engage in discussion, information sharing and promoting innovative financing mechanisms. It was launched in Paris 2006 with the original aim of

- contributing to the emergence and circulation of projects for innovative development financing mechanisms;
- promoting the idea of solidarity levies among our partners and international forums;
- developing the international air-ticket solidarity levy which is being implemented by a first group of countries with a view to extending it to other countries according to their possibilities;
- reviewing methods of using revenues generated by the international air-ticket solidarity levy for coordinated and long-term action in the health and development sectors

The Leading Group currently has 55 member countries and is led by a rotating, six month Presidency. Apart from the *International Solidarity Levy on Air Tickets*, the Leading Group also covers *Advance Market Commitments* to address shortcomings in the pharmaceutical market with regard to the poorest countries, and the *International Finance Facility for Immunization* (IFFIm), set up as is a large-scale pre-financing mechanism based on a system of guaranteed bonds.

Source: www.leadinggroup.org

solidarity levy and give countries the choice to opt-in, as it were, a *voluntary IAPAL start-up pilot* – i.e. the choice to apply the levy on international air travel from their territory in order to raise adaptation funding for the Green Climate Fund. While it stands to reason that such a move would reduce the above mentioned revenue potential, this should not be problematic as it is unlikely the Green Climate Fund would be able to process at the outset anything like the above mentioned figures.

The chief advantage of this would be the availability of a *readymade collection tool* – no need for negotiations, be that under ICAO or anywhere else!¹ Indeed, over the last couple of years, the Leading Group has started to look at innovative financing for climate change. The 2008 Conakry Declaration, for example, stated under the heading “Climate change control and innovative financing mechanisms”: *The first victims of global warming are the least developed countries (LDCs), namely the ones that are less accountable for CO2 emissions.*² However, the focus was solely on ‘(carbon) market-based’ instruments as innovative sources for climate change finance.³ And the same was true a year later at an informal Leading Group meeting on the same topic in Copenhagen during COP 15.

There is nothing fundamentally wrong with looking for innovative adaptation financing through carbon credit auctioning. But any such system will take time to establish, certainly longer than a year, by when the instrument of the Green Climate Fund

Given the aversion among many Parties to establishing yet another ‘placebo fund,’ it is difficult to see how the GCF Instrument could be adopted on the basis of funding that depends on ongoing (ICAO)

¹ This does not mean that such negotiations are not needed in the longer term, be that to introduce the full IAPAL, or to introduce a carbon permit auctioning regime for bunker fuels, with which to raise the required funding. It only means that no such negotiations are necessary to provide innovative start up funding for the Green Climate Fund.

² http://www.leadinggroup.org/IMG/pdf_Declaration_of_Conakry.pdf: p.8.

³ *The development of market mechanisms (CO2 credits, mechanisms of clean development etc...) initiated by the European Union and expected to extend itself at world level, provides an opportunity to generate new resources to address that injustice and to finance actions for adaptation to climate change. Germany, within the framework of the Leading Group's Programme, has already decided to allocate part of the revenues from auctioning of CO2 credits.*

negotiations. And, given the current economic climate, it is not sure that sufficient start up funding could be raised through sovereign contributions alone. It is hence essential that the International Solidarity Levy on Air Tickets be at least temporarily made available to countries to raise adaptation finance for the Green Climate Fund for it to have a viable chance to be fully established in Durban.

Establishing a COP Standing Committee

The idea of a *Standing Committee* (SC) to assist the Conference of the Parties in exercising its functions with respect to the financial mechanism of the Convention¹ can be traced back to a meeting in Oxford in August 2010.² It was based on the concept of a parliamentary standing committee used to support parliament in exercising its oversight functions with respect to the executive branch.

The Agreement envisages the SC to assist the COP in four areas, namely:

- improving coherence and coordination in the delivery of climate change financing;
- mobilizing financial resources;
- measuring, reporting and verifying support provided to developing country Parties;
- rationalizing the financial mechanism.

The first three reflect functions already envisaged in the AWG-LCA Tianjin Negotiating Text.³ However, a number of functions suggested in that Text did not make it into the Agreements, such as:⁴

- *Assessing the needs* for international finance to support activities to address climate change, and study the contribution of the potential sources of revenue, including alternative sources of finance, towards meeting these needs;⁵
- Recommending a *balanced allocation of funding across thematic areas* of the operating entities of the financial mechanism based on the information provided by all operating entities. Reviewing the distribution of finance and identify financing gaps.⁶

Yet the biggest lacuna in the Agreement as concerns the Standing Committee is the lack of any reference of how it is to relate to the operating entities of the financial mechanism, and, for that matter to Convention bodies other than the COP (e.g. the SBI). In particular, the following three relevant functions listed in the Tianjin Text are not reflected in the Agreement:

- *Recommending to operating entities modalities* that provide simplified, improved, effective and equitable access to financial resources in a timely manner, including direct access.
- *Establishing eligibility criteria* for climate finance, and *guidelines* related to transparency of decision making regarding financing, access to financing and reporting requirements for the operating entities.
- *Providing guidance to, and ensure accountability* (to the Conference of the Parties) *of all operating entities* of the financial mechanism.

The absence of a role for the Standing Committee in providing guidance to operating entities and ensuring their accountability is particularly problematic, for it was the realisation that the oversight function of the COP over the operating entities of the financial mechanism – expressed in terms of giving guidance and holding accountable – can only be carried out satisfactorily with the help of a

¹ LCA: para. 112.

² 2010 ecbi Oxford Fellowships; <http://www.eurocapacity.org/public/fellow-oxford.shtml>

³ FCCC/AWGLCA/2010/14:pp.39-40. <http://unfccc.int/resource/docs/2010/awglca12/eng/14.pdf>

⁴ Note: The listings here have been slightly edited to improve legibility.

⁵ FCCC/AWGLCA/2010/14, Chapter III, paragraph 14(c) and (d), respectively..

⁶ FCCC/AWGLCA/2010/14, Chapter III, paragraph 14(d).

smaller support body that led to the idea of the Standing Committee in the first instance. This is one issue that will have to be considered by the COP in the further definition of the roles and functions of this Standing Committee, as mandated in the agreement. Indeed, it will be difficult not to conclude that Parties who do not wish the Standing Committee to support the COP this oversight function are not really interested in an improved oversight.

Another potential problem is the lack of a time frame for the process of establishing this Standing Committee. This may not be unintentional, but it is important for those who are not really interested in this to keep in mind that many countries, particularly in the developing world, regard the establishment of this Standing Committee on a par with the establishment of the Green Climate Fund.

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