

Climate finance in the trillion needed

Bonn, 19 June (Marjorie Williams) – At least US\$1 trillion worth of investments per annum is needed in new infrastructure to address climate change in developing countries, according to Christiana Figueres, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC).

Hence, Figueres added, the goal of mobilizing US\$100 billion per year by 2020 which was agreed to by governments in 2010 is “miniscule”.

These remarks were made at the opening of the first of a two-part ‘In-session Workshop on Long-term Climate Finance’ organized by the UNFCCC Secretariat on 11 June 2014. The workshop was co-facilitated by Kamel Djemouai, (Algeria) and Herman Sips, (Netherlands).

Figueres began by presenting a glimpse of the reality of climate finance. Referring to the agreement to mobilise US\$100 billion per year by 2020 agreed to in Cancun (2010), she underscored that in the real world, at least a trillion dollar worth of investment per annum into new infrastructure is needed to support the economic growth of developing countries. Figueres said that this money will flow; “it is going to flow.”

She said that there are at least a three-fold set of challenges in addressing greenhouse gas emissions (GHG) emissions, which is the basis of economic growth and which must be attended to. The first challenge is to ensure that the flow of finance for infrastructure and buildings must be fundamentally resilient to all of the impacts (of climate change) that are already in the system. “We have loaded into the atmosphere a huge number of impacts that we have not seen.” The Executive Secretary stressed that we are beginning to see the impacts of climate change but that not all of the impacts are apparent now.

A second challenge is scale: at least US\$1 trillion is needed to be mobilized. In comparison to this amount, the US\$100 billion is miniscule. The third challenge is urgency: is the need to allocate capital over the next 20-30 years, which will determine the quality of life of people, especially the urban population in developing countries, which is where population, emissions and urban growth will come from.

The US\$100 billion came out of a “magical hat” in a moment of consternation in Copenhagen, but it does not represent reality of the need, Figueres said. The conversation about the US\$100 billion is a petri dish conversation. The real conversation is about the mobilization of at least a trillion of dollars that is needed for resilient infrastructure at the scale and speed needed. She also said that if we lock in infrastructure that is not the kind that developing countries need, we condemn developing countries to a path of development that they will not be able to sustain. What is necessary to put in place is to seed public finance that is absolutely critical to that US\$100 billion to attract the private capital at the scale and speed needed.

The Executive Secretary also likened the debate over public or private finance to a conversation between a cook and botanist about whether a tomato is a fruit or vegetable. The cook asserts that the tomato is a vegetable because it is used as such and not as a sweet. The botanist on the contrary claims the tomato as a fruit because of how it grows. Figueres said that the tomato is a bit of both, that the real question is: do we have enough tomato to feed everyone? Likewise, she argued that some of the climate finance flow will be clearly public and some will be clearly private and some will be a combination both – and a bit of both is needed. What is important is to look at it constructively and ensure the way we

approach this and define the need, readiness or seed capital is in service to the important investment flows that developing countries need over the next twenty years. “We are running out of time. We need to see these financial flows having an impact in changing the economic growth pattern of developing countries so that they can continue to grow in low carbon way,” she added.

The event billed as *‘Updated strategies and approaches for scaled-up climate finance from 2014-2020’* was organized by the Secretariat as a follow up to the extended work programme on ‘Long-term Finance’ which concluded in 2013 and which explored analytical and institutional dimensions of pathways for public and private finance alike.

Subsequent to the report on the workshop by the Co-chairs of the extended work programme on Long-term Finance that was submitted to the 18th meeting of the Conference of Parties (COP 18 in 2012), the COP invited a number of developed countries to submit information on strategies and approaches for mobilizing scaled-up finance. The COP by decision 3/CP.19 (in Warsaw) paragraph 12, decided to continue deliberations on long-term finance and requested ‘the Secretariat to organize in-session workshops on, *inter alia*, strategies and approaches for scaling up climate finance, cooperation on enhanced enabling environments and support for readiness activities, and on needs for support to developing countries, from 2014 to 2020.’

As per the decision, a summary of the workshops is to be submitted for consideration by the COP and to inform the biennial high level ministerial dialogue on climate finance starting 2014 and concluding in 2020. The Warsaw decision in paragraph 10 requested developed countries to make submissions on their updated strategies and approaches for scaling up climate finance from 2014 to 2020, including any available information on quantitative and qualitative elements of a pathway, on the five elements: (a) information to increase clarity on the expected levels of climate finance, mobilized from different sources; (b) information on their policies, programmes and priorities; (c) information on actions and plans to mobilize additional finance; (d) information on how Parties are ensuring the balance between adaptation and mitigation, in particular the needs of developing countries that are particularly vulnerable to the adverse effects of climate

change; and (e) information on steps taken to enhance their enabling environments.

Following the statement of the Executive Secretary, a scene setting presentation by Cassie Flynn of the United Nations Development Programme (UNDP) noted that, as estimated by the Climate Policy Initiative, US\$ 359 billion is estimated to have been invested in climate change in 2012, with 60% (US\$ 224 billion) private finance and 40% (US\$ 135 billion) public. She stated that the total climate finance flow amounted to about US\$ 1 billion a day, but it is far lower than what we need. The lion share of 90% of the current flow of climate investment goes to mitigation with only about 7-8% to adaptation, which is mostly public money. This raises the issue of how private finance can be unlocked for adaptation. Flynn also pointed out that according to the International Energy Agency (IEA), the amount needed is between US\$1 trillion to \$5 trillion per annum by 2020 just for clean energy alone.

Flynn noted that UNDP has gained many insights from its work on the ground with developing countries with regard to how to ensure that the money is well spent. First, it is important to use country-driven, multi-stakeholder, and cross-sectoral processes that define how climate finance is prioritized and implemented, including integrating climate change into national development policies. When this occurs, countries see real results in climate change. A second insight is to ensure a pipeline of projects that deliver results (bankability, with robust monitoring and evaluation system to track and measure the effectiveness of climate finance in the long-run and using public finance catalytically to leverage private finance). The third insight is to strengthen capacity and coordination to manage climate finance in the long run through measurement, reporting and verification (MRV) process, readiness initiatives and building coherence across sectors, levels and ministries.

Following the scene setting presentations, panelists Isabel Cavelier (Colombia), Daisy Streatfeild (the United Kingdom) and Mariama Williams (South Centre) gave brief interventions on the key topics of the workshop: efforts to scale-up climate finance, including information on expected levels of climate finance mobilized from different sources; policies, programmes and priorities; actions and plans to mobilize

additional finance; balance between adaptation and mitigation; and steps to enhance enabling environments. The panel also discussed any concrete actions that can be undertaken to increase clarity in the mobilization of climate finance from 2014-2020.

Isabel Cavelier (Colombia) in her intervention said that the goal is to develop broader ambition of what we are able to do with regard to the Convention, as well as the specifics of the strategies and approaches for developed countries to get the US\$100 billion. She also said that there is a need for strategies to go further in terms of the tools that are being designed to address the broad challenge of managing climate change. She pointed out that from the exercise last year, we can improve on these issues: specificity, the identification of barriers as well as the strategies to overcome them; effectiveness (which is not equivalent to scaling-up, nor does it give clarity and predictability about the future with regard to scaling up); and a prospective focus.

Cavelier also pointed out that there was much general information such as that private investments and leveraging of the private sector are important; but there is no clarity about the scaling up of climate finance. In terms of the prospective focus, Cavelier noted that there was much information about what developed countries were and have been doing, which is important and contribute to transparency around the flow of climate finance. Nonetheless, it did not give enough clear information about the future of climate finance.

She also touched briefly on elements on the way to approach the issue since the Warsaw meeting. These included (i) strategies and approaches to include both qualitative and quantitative elements, particularly with regard to the expected level of public finance; (ii) expected levels of climate finance; (iii) how to ensure the balance between adaptation and mitigation; (iv) that enabling environment would not be limited to developing countries. She noted that with regard to enabling environment, while the focus tends to be on receiving and utilizing climate finance inflows by developing countries, the enabling environment with regard to mobilizing investment in developed countries is also needed.

Cavelier concluded that among other things there is need for clarity in trends and projections

of how the money is going to flow and will continue to flow in the future – a more prospective focus to enable long term planning to implement action on the ground. Planning in the long term requires predictability and there is a need to do long-term planning on climate finance, she stressed.

Daisy Streatfeild (the UK) outlined the actions, programmes and strategies that the UK was undertaking in order to scale-up climate finance. With regard to effort, she highlighted that the UK's specific trends of climate finance included its scaling up of public funds from about 800 million pounds over the recent past to now a 3.87 billion pounds (US\$6 billion dollar) for the period 2011-2016. Further, Streatfeild also said that there is significant scaling up of climate finance, thus there is no cliff and no lost decade in climate finance.

In terms of strategies, she noted that within the UK there was on-going work on enabling the environment for the mobilization and delivery of climate finance. These included: a strategy on climate finance signed off by ministries, political steering and buy-in. She said the UK had key priorities, including delivering results for low carbon climate resilient development, and improving and pioneering innovation and testing of new approaches. It has a strategic priority of ensuring 50/50 balance between adaptation and mitigation.

With regard to mobilizing private finance, Streatfeild noted that this was not a simple or easy matter but will require public intervention and public financing both to mobilize climate finance and to shift investment to low carbon. Lastly, she flagged a new initiative between the UK, Germany and the United States and others called the 'Global Innovation Lab', launched in June in London. The Lab will focus on testing seven potential new investment instruments for private financing of climate change.

Mariama Williams (South Centre) said there are many buzz words, including urgency, private sector finance, transformational, which have become almost like mantras in the climate change finance discussion. But, she said, there were dissonances in these mantras that are in part obstructing the scaling-up process. For example, while there is a much talk about the need for transformation in developing countries, climate finance flows were still understood by the outdated and unproductive aid paradigm,

with no regard for the developed countries' historical responsibility for climate change; instead, the discourse is on the assumption that the 'donors' were doing good, solidarity etc. Hence, 'donors' continue to drive the key elements, scale and scope of the flow, instead of basing it on the needs of the developing countries. This is different from a responsibility paradigm which focuses on collective and collaborative action and which involve developing countries in all aspects of the decision making about scale, scope, delivery channels etc. This shift is what can be seen in the Adaptation Fund and the Green Climate Fund, both of which remain underfunded or unfunded. The other mantra Williams identified was the private sector as the magic solution but it is not a magic bullet, she said.

The reliance on private capital, especially on institutional investors, introduced issues of timing and sequencing. Public finance should first move to cover the needs of developing countries. This could ultimately be complemented by the mobilization of private finance, she said. Attracting institutional investors would take time, as in some cases there are significant barriers on the supply side (in developed countries). There is need to relax institutional constraints on the ability of some institutional investors, such as pension funds, in order to enable them to undertake certain type of investments. Williams also noted that private finance carries risks that are often not discussed. Since they are profit motivated, it will be important to ensure environmental and social safeguards.

While she noted that there are constraints on public finance in developed countries, there are also alternative sources that can contribute to public finance without burdening traditional sources. These alternative contribution to public finance of developed countries included innovative finance such as financial transaction tax, termination of fossil fuel subsidies (as agreed by the G8/G-20 at least two years ago), carbon tax and ultimately the use of Special Drawing Rights (SDRs) of the International Monetary Fund (IMF), that could be unlocked and implemented in a timely manner, if there was political will unencumbered by the aid mentality. Williams highlighted that in the midst of the financial crisis developed countries authorized issuance of US\$250 billion of SDRs by the IMF within a five-month period.

The panel discussion was followed by a small interactive group discussion lead by Naderev Sano (the Philippines), Jorge Gastelumendi (Peru), Delphine Eyraud (France) and Seyni Nafo (Mali).

The second part of the workshop which took place the same week, focused on 'cooperation on enhanced enabling environment, the support needs of developing countries and support for readiness activities'. It dealt with (i) drivers of climate finance effectiveness based on lessons learned from developed-developing country collaboration in the past such as fast-start finance; (2) the actions needed to better address the support needs of developing countries; and (3) climate finance readiness activities to strengthen the capacity of developing countries to effectively deliver climate projects and programmes.