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31
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Developing countries call for new narrative on enabling environment for climate finance

Geneva, 4 July (Marjorie Williams) – Developing countries in a workshop on 'Long-term finance' called for a new narrative in discussions on enabling environment and readiness.

The current discourse does not reflect the principle and intent of action, which is really about country ownership and country programming for low carbon and resilient development, according to South Africa's Zaheer Fakir, at an in-session workshop on 'Long-term climate finance', held on 12 June, in Bonn during the recent climate talks.

Fakir stated that understanding the needs of developing countries was half the job of meeting those needs and called for a new narrative. "We need to change the narrative in our discussion on enabling environment and readiness. We have polluted the discussion; it does not reflect the principle and intent of action, which is really about country ownership and country programming for low carbon and resilient development."

He said that, "poverty does not mean no capacity or no potential (in developing countries)" adding that "We need cooperation to unlock the inherent potentiality in all of us, to transform potential energy to kinetic energy on climate finance".

This thread of the importance of developing countries' ownership of climate strategies, programmes and projects and for their financing requirments needs to drive the climate support they receive was also at the heart of Smita Nakhooda's scene setting presentation in which she reflected on the Overseas Development Institute's (ODI) experience with climate finance on the ground in developing countries. Nakhooda said who does the climate finance needs assessment exercises and how they are linked to national institutions and priorities matter a great deal.

Amjad Abdulla of the Maldives reiterated the point, when he argued that institutional barriers have locked Small Island Developing States (SIDs) out of the system for almost two decades. Support for readiness and preparatory activities, he said, is key to access climate finance, especially via the (soon to be operationalised) Green Climate Fund (GCF).

These views, which echoed strongly the points of views articulated by panelists the day before in the inaugural session of the of the two-part in-session workshop on long-term finance, were shared with participants at the concluding session of the series. (See a report of the first part in TWN Bonn Climate News Update No.21: "Climate finance in the trillion needed" available at: http://www.twn.my/title2/climate/news/Bonn13/TWN_update21.pdf)

This second part of the workshop, which focused on *'Cooperation on enhanced enabling environments, the support needs of developing countries and support for readiness activities'* opened with an introduction by the co-facilitators, Kamel Djemouai, Algeria, and Herman Sips, the Netherlands.

As with the first part of the workshop, the format of this session included a scene setting presentation, a three-person panel discussion, followed by small group interactions that focused on specific questions relative to the broader topic. These included sub-topics such as: (i) the drivers of climate finance effectiveness based on lessons learned from developed-developing country collaborations in the past such as on fast-start finance; (ii) the actions needed to better address the support needs of developing countries; and (iii) climate finance readiness activities to strengthen the capacity of developing countries to effectively deliver climate projects and programmes.

Smita Nakhooda (ODI), in her scene setting presentation, reflected on the lessons learned from the efforts of developing countries to understand (their direct adaptation and mitigation) needs for climate finance, the associated capacity related needs as well as the impacts of the multiple readiness activities now being implemented by many agencies and institutions in developing countries. She pointed out that many developing countries are investing efforts in the development of needs assessment and its associated financing requirements in responding to climate change. For example, the UNFCCC's National Economic, Environment and Development Study for Climate Change (NEEDS, 2010**)** involved ten pilot countries and estimated the financing needs of these countries as ranging between US$45 million to US$33 billion. (The NEEDS included Costa Rica, Egypt, Ghana, Indonesia, Jordan, Lebanon, Maldives, Mali, Nigeria, Pakistan and the Philippines.)

The UNDP is also involved in number of needs assessments exercises with pilot countries focussing on particular sectors and priorities areas. In addition, there are many countries also involved in technology needs assessment exercises.

Nakhooda argued that these experiences show that better information on emissions and vulnerability trends was necessary to allow for more robust assessment, scope and methods. Furthermore, she noted the need for deeper linkages with national processes. She pointed out that the lessons that can be derived from these experiences include: (i) the assumptions that underlie the exercises fundamentally shape the outcome; (ii) the need for much better information on vulnerabilities, emissions trends and emissions reduction opportunities; and (iii) a number of countries were involved in 'fruitful' debate on the implications underlying assumptions and methodologies that guide climate needs assessments that can result in costing that can be the basis for future investment decisions.

Cross cutting lessons, Nakhooda said, pointed to the importance of who does the exercise; this matters a great deal – as well as how well the exercises are linked to national institutions and priorities. Ultimately, she argued, it is important to begin with the appropriate tools from the onset. Nakhooda also emphasised that needs assessments are dynamic processes and not simply outcomes: they create dynamic opportunity space at country level that helps to make the exercises more actionable. Hence, it is important that local contexts are built into and grounded into needs assessments, and national priorities are important in order to ensure that they become more actionable.

With regard to the enabling environment aspect of the long term climate finance discussion, Nakhooda said that enabling environment is a charged term which means very different things to different people. At ODI, it is thought of in terms of the dimensions of institutions, policies, regulations and capacities that enable investment in low carbon resilient development. She also pointed out that enabling environment is situated in the wider framework of investment climate, which she argued is the background conversation around enabling environment.

Nakhooda said that enabling environment is important for both unlocking private investment in mitigation as well as being quite central to adaptation. For mitigation, policy and regulations are central to scaling up mitigation activities over time. For adaptation, there is the need for better information on climate impacts and risk, adaptation and efforts to manage disaster risk management. There is also need for policy and regulations that identify priorities and support risk management in support of resilience.

On the subject of readiness, Nakhooda argued that we must take into account lessons from existing funds. These lessons point to the importance of integrating national priorities and engagement with national institutions. She noted that expressed provisions for support for such activities are embedded in the design of the Green Climate Fund. She said further that there were challenges of coordination and coherent at country level with the growing multiplicity of actors offering readiness support.

Zaheer Fakir (South Africa) in reflecting on the theme of the workshop as well as Nakhooda's presentation, argued for a new narrative, which he said could impact at country level and increase the level of predictable and sustainability of climate finance through UNFCCC funds and at international level. He said a shift in the narrative could help: (i) to increase the level of predictability through the UNFCCC funds to implement of mitigation and adaptation actions by providing adequate financing; (ii) a deeper understanding of the full menu of climate finance mechanisms that are available including from multiple sources; (iii) country led implementation strategy that go beyond just national climate planning; (iv) enhance understanding of use of intermediary and financial instrument and access modalities in particular enhancing the understanding of implementing entities and access modalities; and (v) incentivize multiple actors, including sub national and private and investment at a scale needed to achieving for national goals. Returning to the readiness sub-theme, Fakir iterated that readiness is about how to unlock the potential.

Sarah Conway (the United States) shared with participants a few concrete examples of how and where the US is working to strengthen enabling environment to allow for public and private capital to flow to developing countries. She said that strengthening the environment was important for both developed and developing countries. The whole of government approach involved key agencies. Through these policy adjustments the US was to shift international investment into climate friendly activities. She said that the US supports the strengthening of enabling environment from national to project level in developing countries. However, she underscored that this is not a pre-condition for funding, but rather, an important step in the process to maximize flows of climate finance. Hence, enabling environment is not about refusing or providing support until countries reform strategies but is part of the process to maximize private finance. With regard to its approach to low emissions development strategies, the US recognised that there is no one size-fits-all.

Amjad Abdulla (Maldives) shared the experiences of SIDS with some aspects of climate finance. He reiterated that "SIDS consider readiness a key in climate finance'. He said that the experiences and lessons learned from the Fast Start Finance Initiative (US $30 billion from 2010-2012) showed that it is also important for countries such as Maldives and other SIDS to be ready for and have access to the funds of the GCF. He said that a key lesson was that support for capacity and capacity for accreditation is only one aspect of readiness: readiness must take a systematic and holistic approach; it must be iterative with multiple entry points along the funding cycle, including having pipelines of bankable projects and programmes to enable ambitious and impactful projects which are truly responsive to the need of SIDS.

Abdulla pointed out that SIDS, and in particular the Maldives, benefited concretely from their participating in the UNFCCC NEEDS exercise, which was a bottom up and country-driven approach and was also consultative; this was a key strategic lesson. Another was the importance of overcoming challenges with the methodologies for climate finance. Specifically, he pointed to the difficulties in calculating the costs of mitigation, the lack of specific standardized methodologies and the need for robust assessment of mitigation potential, vulnerability and adaptation needs. He also said that while tools for mitigation are more advanced and widely available, those for assisting adaptation needs must be improved. These include climate scenarios that would project adaptation needs, bottom up models and comprehensive long term multi-stakeholders participation. Abdulla concluded his intervention by stating that support provided needs to be more adequate and accurate at international and national levels.