TWN
Lima News Update
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www.twn.my
Published by
Third World Network
11 December 2014

Finance pledges far from adequate, public finance key, says South

Lima, 12 December (Hilary Chiew) – At the high-level ministerial dialogue on climate finance during the Lima talks, developing countries' ministers stressed that private finance can only play a complementary role and the need for a definition of 'climate finance' and the inadequacy of current pledges to the GCF.

Developed countries' ministers focused their interventions mainly on how they have delivered their financial commitments, particularly in the recently concluded initial resource mobilisation for the Green Climate Fund and the role of private finance and investment.

The ministerial dialogue was held in the afternoon of 9 December in conjunction with the 20th session of the Conference of the Parties (COP20) of the UNFCCC and the 10th session of the COP serving as the meeting of Parties to the Kyoto Protocol (CMP10).

Belize speaking for the Alliance of Small Island States said it would need assurance before Parties leave Lima on how the annual US$100 billion from 2020 will be scaled up.

Three Annex I Parties also took the opportunity to announce their contributions. Germany announced US$50 million to the Adaptation Fund while Belgium pledged 51.6 million Euro and Australia pledged A$200 million (about US$166 million) to the GCF.

The dialogue was mandated by the Warsaw COP (decision 3/CP.19) where Parties decided to convene a biennial high-level ministerial dialogue on climate finance starting in 2014 and ending in 2020 and informed, inter alia, by the in-session workshops on long-term finance and the submissions on updated strategies and approaches for scaling-up climate finance from 2014 to 2020.

COP President Manuel Pulgar-Vidal (Minister of Environment of Peru) opened the dialogue and invited members of the Standing Committee on Finance (SCF) Hussein Alfa Nafo (Mali), Hela Cheikhrouhou, the executive director of the Green Climate Fund (GCF) and Naoko Ishii, the CEO and chairperson of the Global Environment Facility (GEF) to brief participants on the progress of work in their respective institutions to set the scene for discussion.

The dialogue session that followed was co-facilitated by South Africa's Minister of Water and Environment Affairs, Edna Molewa and the United Kingdom's Secretary of State for Energy and Climate Change, Ed Davey.

Molewa in introducing the dialogue said it is to provide the unique opportunity for ministers to engage with each other and reflect on how current institutional arrangement and information tools for climate finance under the UNFCCC are providing countries with necessary assurance that international public finance is flowing and is indeed achieving its intended purposes and to further discuss the potential of scaling up funding and investment by engaging with different actors.

She said scaling up funding and investment by engaging with different actors towards climate change requires effectively articulating financial resources with appropriate institutional arrangement and information framework that support the mobilisation, deployment and the use of those funds.

Transparency, she added, is central to this articulation and it is essential to ensure predictability and effectiveness in the provision of finance. Therefore, input from Parties, technical bodies and processes under the convention as well as outcome of the extended work programme of Long Term Finance (LTF) will inform Parties at the dialogue.

She then asked ministers and heads of delegations to try to speak to three questions:

1. To what extent are the Convention's information tools and institutional arrangements for climate finance working together to ensure the predictability and scaling-up of international climate funding?

2. How can these strengthen in-country decision-making processes and mobilize further funding and investments while encouraging the engagement of non-state actors?

3. How can Parties ensure that articulating the current arrangements into a robust institutional framework and an effective information system provide the necessary transparency and predictability in the provision and use of climate finance towards a post-2020 world?

Below are highlights of several statements made at the dialogue.

Bolivia's President Evo Morales said although the Convention has set up a financing model based on developed countries supporting developing countries but in practice, things were not working in that way. He noted three trends that governed our views – commercialisation of the environment and Mother Earth, the transfer of commitment from developed countries to developing countries, and transfer of responsibilities from public sector to the private sector.

He called for a compound index of country participation based on the historical responsibility of countries, technology capacity, ecological footprint and state of development.

China's Minister Xie Zhenghua underscored that funding is one of the core issues in the negotiation of the Convention and that the financial obligation to combat climate change cannot be transferred to developing countries in the name of innovative finance.

He said it is imperative to decide on a time table for developed countries to develop a clear roadmap in Lima by specifying the annual amount of public finance by developed country Parties and scaling up of the resources each year up to 2020 for developed countries to honour their commitments that were adopted in decisions in the Cancun, Doha and Warsaw COP sessions.

He also said the Lima conference should take a political decision for developed countries to put forward a larger scale of financial support to inject new impetus into climate finance. He said we should ensure that the GCF receive adequate and sustained funding, noting the big gap that remains despite the near US$10 billion capitalisation of the GCF.

India's Minister of Environment, Forest and Climate Change Prakash Javadekar said we should be honest in shouldering our responsibilities in meeting the challenges, asserting that the beautiful balance of collective action – the principles of equity and common but differentiated responsibilities – should form the basis of continued action. He reiterated that it is evident that developing countries could do more if finance, technology support and capacity building is to be ensured and this must be a key focus of the new agreement.

He stressed that it is important therefore for developed country Parties to urgently fulfill their legal obligations in the pre-2020 period. They must scale up their mitigation ambition now and urgently fulfill their promises for providing financial and technological support to developing countries.

Speaking for the **Caribbean Community (CARICOM)**, St Lucia's Minister of Sustainable Development, Energy, Science and Technology James Fairchild said the costs of climate change impacts in his region had exceeded its limited domestic resources. Many countries are forced to resort to debt-financing to deal with its ex-ante adaptation requests and ex-post cost of recovering from damage and destruction left by extreme events.

"Furthermore, the frequency of extreme weather events retard our development progress as we find ourselves in a constant cycle of rebuilding, rehabilitation, restoration and recovering as opposed to developing and building resilience. The threat to the very existence of nations such as ours is very real," he added.

He welcomed the operationalisation of the GCF and the near US$10 billion (over 4 years) so far is a good start but noted that it is still far from the US$100 billion per year by 2020.

To scale up, he said the definition of climate finance may sound trivial but it will give clarity to measure what is received as climate finance. "We had seen some countries repackaging existing official development assistance (ODA) but reporting and referring to them as new and predictable climate finance. This is incorrect. In our view, climate finance must be funds entirely aimed to address climate change and are new and additional to ODA," he stressed.

(Under the UNFCCC, developed countries committed to provide new and additional financial resources.)

On transparency, he said it is to assess that the funds are achieving their desired impacts and if Parties are delivering on their pledges. Therefore, the measuring, reporting and verification of support has to be an integral part of the 2015 agreement.

Fairchild said further there is the need to explore new sources of finance and the work programme on LTF has identified new innovation sources such as the auctioning of emission allowance, carbon offset, financial transaction taxes, levy on market mechanism and carbon taxes.

He said Parties should also simplify preconditions for access as well as improve and prioritise such access by small island developing states and other vulnerable countries. He said CARICOM looked forward to political commitment and global agreement for annual scaling up of finance towards the US$100 billion a year by 2020 mark with milestones set for between 2015 and 2020.

Belize speaking for the **Alliance of Small Island States (AOSIS)**, said we can all agree that transparency and predictability are needed to build trust and mutual credibility, which are the bedrock of cooperation and concerted action.

It is of the view that the function of the financial information tool to ensure predictability and scaling up is limited because their outputs are out of sync with the political cycle that they intend to influence. For instance, it said the financial information reported in biennial reports (of Annex I Parties) will not be issued until 2014 which is well after Parties have concluded the Paris agreement. Similarly, developed countries' submission on the scale up of climate finance will not be ready for Paris nor will it be ready for the next biennial assessment of the SCF.

It said there is also need to understand how the recipient countries view climate finance against what is reported by developed countries. It pointed out that information is too late to make a difference and is often on past flows, which do not necessarily indicate how climate finance will be scaled up.

It however said we can work towards improving the information tool but from the outset Parties would need robust information particularly on public finance on an annual basis, common reporting format with comparable information, and agreement on a simple set of definitions.

On the capitalisation of the GCF, it said it is still far more off the mark of the US$100 billion per year by 2020 and that it is incomprehensible at this stage how developed countries will scale up finance to meet that goal, stressing that we need the assurance before leaving Lima.

Minister of Environment for Egypt, Dr Khaled Fahmy said finance has been a cornerstone of all documents and decisions that relate to our work on climate change not only under the Convention but also through different processes including lately the UN secretary-general high level meeting on climate change in New York. He pointed out that in the Convention, we agreed to ensure adequacy, predictability, additionality and clarified the responsibility of Parties in line with the principles and provisions of the Convention.

He said we are not starting our discussions from scratch but rather building on a wealth of work, reports, decisions, agreements that all provide guidance to our work on climate finance, noting the financial mechanism and several funds and that we had also explored some sources like the carbon market in relation to the Adaptation Fund and the regular replenishment in the GEF, LDC Fund, the

Special Climate Change Fund (SCCF) and the initial resource mobilisation for the GCF.

He said transparency was dealt with through reporting mechanism and lately through the SCCF's biennial assessment report on flows of finance from developed countries.

On the question of tools, institutions and framework, he said we had done a good job. However, he reminded Parties that the main goal of all our work since COP1 was to ensure the predictability, sustainability, adequacy and additionality means of implementation flow to developing countries to allow for their effective engagement in the global effort to combat climate change and achieve the objective of the Convention.

Dr Khaled felt that we did achieve partial success with the fast-start finance (of US$ 30 billion) where quantified financial commitments for three years were agreed which allowed for decision-makers to put climate change within their development strategies. Unfortunately, it was not complemented by clear targets on mid-term building towards the US$100 billion annual goal from 2020.

He believed that the operationalisation of the agreed terms provides the needed and missing element on finance. He added that on predictability and sustainability, Egypt is of the view that longer term quantified targets by each developed country would fulfill the burden-sharing requirements, allow for enhanced scaling up of financial resources, assists developed country Parties to plan for their future contributions in their budget cycles and also allows for further clarity on the availability of financial resources to the different channels including the existing funds.

On additionality, he said it is important to work on the methodologies that relate to transparency and ensure additionality and the ODAs are not repackaged as climate finance.

On adequacy, Dr Khaled said finance captured under the new agreement should be directly related to the temperature goal that we agreed to which is below 2C, we should acknowledge the goal of US$100 billion annually is a floor and not a ceiling of climate finance.

He also said Parties should enhance accessibility and country ownership which would come from developing countries identifying their needs both in mitigation and adaptation, allowing for strengthening of the in-country decision making and the full engagement of different levels of decision-making. Clarity on criteria for accessing the provisions of finance is also very important element for enhancing and scaling up finance and it is related to the clarity of criteria used by developed countries in disbursing financial flows.

On the issue of enabling environments, Egypt is of the view that it is a two-fold issue – developing countries need to identify the specific sectors that are the priority which would help in identifying the needed policies while the developed countries would need to deal with clarity on criteria of funding and policies to encourage private sector and other funding entities from developed countries to consider funding programmes and projects that relates to climate change in developing countries.

He also stressed the importance of strengthening the role of the current funds as main elements in the finance architecture especially the GCF and Adaptation Fund whereby we agree on the scale of the funds and their sustainability through securing permanent resource mobilisation. Welcoming the pledges made that is amounting to almost US$10 billion, he said further agreement on permanent replenishment with agreed minimum scale would be necessary. He also noted the importance of providing complementary resources to fulfill the US$80 million targets in 2014 and 2015.

On the future architecture of finance beyond 2020, Dr Khaled believed that the current financial mechanism and its implementing entities should be part of the post-2020 architecture as well as the clear process that allows for regular assessment of the needs of developing countries in line with the temperature goal of below 2C, quantified targets and enhanced transparency mechanism already in place.

Mali said the deficit in finance is alarming and the lack of clarity of public finance is of concern. It said the amount pledged to the GCF is merely a factor of five of the US$100 billion promised. He also called for a roadmap to be finalised here in Lima as a transparency system for climate finance is essential.

United States climate change envoy Todd Stern said news of climate finance is not perfect but it is good, alluding to the amount of nearly US$10 billion pledged to the GCF. He also said donor countries are on their way to meet the US$100 billion by mobilising a wide variety of sources. He stressed that while many think that public finance is what matters, he insisted that the US$100 billion promise was always based on public and private sources and the joint goal is to drive investment.