

A reflection on climate change finance after Cancun

by Bob McMullan

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(Editor's note: Bob McMullan recently served on the UN Secretary General's Advisory Group on Climate Change Finance.)

In my previous [blog](#) I looked at the work done by the Advisory Group on Climate Finance (AGF) from my perspective as a member of the Group.

As the dust settles after COP 16 at Cancun there is an opportunity to reflect on the progress achieved in this field and the possibilities generated for future progress at COP 17 and beyond.

The overall assessment of the outcome from Cancun is much more positive than that which followed COP 15 in Copenhagen. While this is justified it is important not to underestimate the positives from Copenhagen nor the extent to which they contributed to the better results from Cancun.

This is certainly the case with climate finance. Although the establishment of the AGF was not a formal outcome of Copenhagen because the Copenhagen Accord was not formally adopted, our brief flowed directly from the Accord.

Post Cancun we can reflect on the work of the AGF. What is now clear is that there can be no comprehensive international agreement without an agreement on finance. Equally there will be no agreement on financial issues outside the context of an overall agreement.

But this does not mean nothing has been achieved so far or that there will inevitably be a deadlock. With realistic expectations and continued application of the approach displayed in the AGF and at Cancun we can make progress.

I never thought that a free standing agreement on financial issues could be reached. Rather what was possible, and what was done, was to show that if the other issues can be resolved a balanced package of financial measures with the potential to raise \$100 billion p.a. is possible.

Some of the key financial questions which were addressed at COP 16 were: adaptation; mitigation; REDD and financial architecture.

The combined outcomes of Copenhagen and Cancun together with the work of the AGF put us on a positive path with regard to all these elements of a financial package.

Adaptation

A moderately positive outcome was achieved with regard to **adaptation**. Over the next 12 months an Adaptation Committee has been tasked with developing a work program linked to climate change finance and ultimately to the Green Climate Fund.

Globally, the biggest problem is that adaptation appears to be receiving only a small share of the currently available money. The last figures I saw suggested that so far only about 8% of climate change finance has flowed to adaptation. A figure much closer to 50% would be appropriate.

There is another aspect with regard to adaptation which is challenging for some donors. Most of the work in this area is non-commercial and therefore more suited to funding by grants rather than loans.

Neither of these matters is a problem for the Australian program which since 2007 has focussed on adaptation and which is grant rather than loan based.

Mitigation

The key work on responding to the mitigation challenge will need to take place over the next 12 months in the lead up to COP 17.

The main interest here is to reduce greenhouse gas emissions in the rapidly growing developing countries. Enabling less developed countries to adopt a low carbon growth path is important too.

It is in the mitigation area that private investment opportunities are plentiful. This is where the vital issue of a price on carbon arises. Such a price is essential as a catalyst for private investment and as a means to drive the funds to pay for mitigation (and adaptation) where it is not commercial.

The existing Clean Development Mechanism may be strengthened by decisions at Cancun. At present only about 2% of CDM investments are in Africa. One way or the other this has to change.

With France's turn as Chair of the G20 coming up I expect climate finance to be a

significant element of their agenda.

REDD

Progress on issues related to reducing deforestation and forest degradation remains slow. Action has begun on one of the critical challenges—valuation. Much more remains to be done and finance issues will be important in any final package.

More work also needs to be done to assure the indigenous people of the forests that the money which flows will generate an income stream for them so that they may improve their living standards while preserving the forests.

Financial Architecture

Potentially important progress was made in Cancun on global financial architecture. The decisions concerning the [Green Climate Fund](#) seem sensible and positive. The key role played by Climate Change Minister, Greg Combet, strengthens Australia's claim for membership of the Transitional Committee. However, in such international negotiations the merit of the case is only one factor among many.

I particularly welcome the decision to make the World Bank the trustee for the first three years. This creates a possibility to reduce the fragmentation and complexity of current arrangements.

However, many big questions remain to be answered. First, how does money get into the Fund? Merely setting up the Fund does not raise the money. We also need to know how money will flow from the Fund. I hope the Fund will act as a “wholesaler” setting the *principles* by which money will be disbursed. Disbursement should take place using the established funding bodies, especially the Regional Development Banks, as intermediaries to assess applications and manage the transactions. Otherwise we may have more complexity and administrative cost rather than less.

Conclusion

For those who accept the science of climate change the outcome of the COP at Cancun is a modest step in the right direction.

For those who see the equity argument that those who contributed most to the crisis should assist those who will share the consequences, the Cancun COP has put in place the building blocks for a long-term and effective climate change financial architecture.

If the goodwill and good sense needed to get a broader global agreement can be

generated we can now see what is needed to ensure the necessary financial arrangements are in place.

Bob McMullan is an Adjunct Professor at the Crawford School. He recently served on the UN Secretary General's Advisory Group on Climate Change Finance (AGF). From November 2007 to August 2010, Bob McMullan was Australia's Parliamentary Secretary on International Development Assistance.

Author/s:

Bob McMullan

Bob McMullan has had a long and distinguished career in the Australian Parliament as one of Australia's pre-eminent Labor politicians. He is a former Parliamentary Secretary for International Development (2007-2010) and Executive Director for the European Bank for Reconstruction and Development.

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