Cancun Conclusions on Climate Finance

By Jonathan Pickering
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With public calls for fairer climate funding intensifying in week two of the UN climate conference, one of its major achievements was the decision in the Cancún Agreements to establish a global Green Climate Fund that will address climate impacts, support clean energy and reduce deforestation in developing countries. Thanks to Mexico's transparent and deft leadership of the conference, the Agreements should lay the institutional groundwork for longer-term climate finance. At the same time, much still needs to be done to identify new sources of funding and to make information available on how funding is being delivered.

Climate funds – voices for and against. Week two kicked off with strident voices on either side of the financing debate. In Cancún, a consortium of 215 civil society organisations issued a call for a fair global climate fund: a 'one-stop shop' that would replace the 'spaghetti bowl' of channels through which climate finance is currently delivered. Meanwhile in the United States, Republican senators sceptical of climate science (sadly virtually a tautology these days) wrote to President Obama opposing any US contributions towards the existing Kyoto Protocol Adaptation Fund.

Thankfully some governments were evidently drawing different conclusions on the Adaptation Fund's potential. On Thursday, Australia became the fourth country (after Spain, Germany and Sweden) to make a substantial pledge to the Fund, announcing a contribution of A$15 million, along with A$221 million in other allocations for adaptation and forest protection. Australia's contribution represents a vote of confidence in a new institution that is both innovative – with a majority of developing countries on its board, and provisions for streamlined access to funding – and well-regarded by many countries.

Finance under the Cancún Agreements. As the pace of negotiations picked up, the Mexican presidency called upon arriving ministers to facilitate consultations on key areas. Ministers from Bangladesh and Australia (represented by Climate Change Minister Greg Combet) co-chaired the financing consultations. Evidently their constructive approach bore fruit: while the final text on financing has elements that no party will be entirely happy with, it does seem to strike a balance on many of the pressing issues that had eluded resolution until now.

It is fitting that the decision to establish a Green Climate Fund was formally taken in Mexico, which for several years has been a strong advocate for the creation of such a fund. While last year's Copenhagen Accord envisaged the creation of a 'Copenhagen Green Climate Fund', many no doubt wished to avoid saddling the Fund's name with a reminder of the acrimony surrounding the Accord. The Fund will be governed by a board of twenty-four members, with equal representation of developed and developing countries. A forty-member Transitional Committee (with majority representation of developing countries) will have a hefty workload to design the Fund by the next major UN climate conference in Durban, South Africa in late 2011.

While the text implies that all developing countries could be eligible to access resources under the Fund, it highlights the needs of countries particularly vulnerable to climate change. During the conference India reaffirmed the position of the BASIC group (Brazil, South Africa, India and China) that they would not seek to access fast-start finance in the interests of ensuring sufficient resources for the most vulnerable. The BASIC countries are likely to continue to attract the lion's share of market-based climate finance, but whether they will take the same position on resources from the Green Climate Fund remains to be seen. It is widely agreed that the most vulnerable countries should be the priority candidates for adaptation finance. Nevertheless, given that the most vulnerable countries often have relatively low emissions as well as limited capacity to absorb effectively rapid increases in external funding, there may still be a role for the Fund and other international public finance to play in supporting low-cost mitigation in some of the larger emerging economies.'

One of the more contentious aspects of the Fund's structure is the role of the World Bank, which will serve as the Fund's interim trustee for its first three years. A number of developing countries have argued that the World Bank largely reflects the interests of wealthy countries, which hold greater decision-making power by virtue of their financial contributions to the Bank. But whatever one's views of the Bank, simply having it as an interim trustee (which the Adaptation Fund does too) does not necessarily mean the Fund will be subject to the Bank's influence to the same degree as other mechanisms that the Bank is more closely involved in, such as the Climate Investment Funds established in 2008.

While only specifying limited steps to improve the transparency of the US$30 billion in fast-start finance for 2010-12, consistent reporting of longer-term finance should be enhanced as part of a work program to improve reporting of developed countries' mitigation efforts. In addition, a registry will be established to help match developing countries' mitigation actions with international support.

The next set of challenges. Two big questions ended up in the too-hard-basket. First, are the pledges of medium-term financing made in Copenhagen (US$100 billion a year by 2020) sufficient to address developing countries' needs? Perhaps unsurprisingly, the final text dropped attempts by some developing countries to lock in a much larger commitment (e.g. 1.5% of developed countries' gross national product, or around US$600 billion a year). However, it also removed a proposal to review estimates of post-2012 financing needs.

Second, what sources can be tapped into for generating adequate and reliable flows in the longer term? The agreement merely takes note of the report of a UN high-level panel on climate financing that convened earlier this year to identify promising sources of finance. Although a new Standing Committee on finance will include consideration of ways to mobilise resources, its role is as yet largely undefined, and there are no timelines for how the challenging task of identifying innovative sources will proceed. Despite the limited progress made on this issue at Cancún, individual governments can still take the initiative to set up reliable domestic sources for finance, such as earmarking proceeds from carbon pricing instruments). However, other possible sources such as levies on air and sea transport will require concerted international negotiations to unlock their potential to generate substantial revenue.

From small things… The decision to establish the Green Climate Fund is a very positive step that may be – to elaborate on an image used by Oxfam in calling for a fund – a seed into which something much bigger may grow in future, potentially supporting millions of people in poor countries vulnerable to climate change. But just as seeds need water and sunshine to flourish, funding institutions need reliable flows of money and transparency. Now that the first step has been taken, sustained commitment among both developed and developing countries is needed to ensure that the Fund and the broader global architecture for climate finance can flourish too.

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