No tipping please: Australia and the UN climate fund

By Robin Davies and Jonathan Pickering
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Australia stands as the only wealthy country to have ruled out a contribution to the United Nations Green Climate Fund. As of 20 November 2014, the fund has received pledges from 22 countries totalling US$9.6 billion against an initial funding target of US$10 billion.

The climate fund is a new financing mechanism [pdf] to help developing countries protect themselves from the impacts of climate change and reduce greenhouse gas emissions. It will invest in clean energy generation and distribution, energy-efficient buildings and transport, forest conservation and management, and the 'climate-proofing' of infrastructure and agriculture against storms, floods and higher temperatures.

Interviewing Prime Minister Tony Abbott shortly before countries gathered in Berlin last week to record their pledges, 2GB's Alan Jones said, 'I hope you're not going to be tipping taxpayers' money to this $10 billion global Green Climate Fund that President Obama's talking about are you? Please tell us, eh?' Abbott seemed to equivocate. Jones fumed. But, come pledging day, Australia did not tip.

Australia's position is consistent with Abbott's earlier, less equivocal comment on the United States' US$3 billion contribution to the fund, rudely announced by President Obama at the G20 summit in Brisbane. Abbott said, 'we are doing a very great deal and I suppose given what we are doing we don't intend, at this time, to do more'.

Australia is one of only a handful of wealthy countries not to have contributed to the fund. Canada's conservative Harper government, of one mind with the Abbott government on many things, briefly held back too—but then announced [pdf] a contribution of US$265 million. The other wealthy non-contributors, Austria, Belgium and Ireland, are relative minnows, and in any case have not actually ruled out participation.

Canada's aid budget, the source of its contribution to the climate fund, is similar to Australia's, and A$300 million is roughly what Australia might have been expected to contribute over four years. As in Canada's case, this sum would have been drawn from Australia's aid budget. Since that budget is currently being held constant in nominal terms at about A$5 billion per annum, a contribution would have involved no additional impost on the federal government's budget bottom line.

Nor would Australia have been doing anything new by supporting the climate fund. The fund itself is certainly a new institution, though it has been under development for more than four years now. But it picks up the reins from existing, *ad hoc* mechanisms like the multilateral Climate Investment Funds set up in 2008, and is seeking a relatively modest level of resourcing at US$10 billion over four years (2015-18).

To put the above sum in context, developed countries pledged and delivered some US$30 billion in financing for climate change adaptation and 'mitigation' (that is, reducing emissions) in developing countries over the three years to about the end of 2012. Just under one-third [pdf] of that amount, around US$10 billion over three years, was provided through multilateral channels. It is therefore reasonable that the climate fund should now seek to concentrate a similar amount in a consolidated multilateral pool.

Australia's share of the above US$30 billion was A$600 million over three years, or just under two per cent of the total. Around one-third [pdf] of Australia's contribution supported various multilateral funds and programs. When Mr Abbott and foreign minister Julie Bishop defend Australia's international efforts on climate change, they refer to this past funding commitment or to measures funded by it, such as climate change adaptation programs benefiting the Pacific island countries.

If Australia were roughly to maintain its recent levels of international climate change assistance, and again use around one-third of it to support consolidated multilateral action, then, as above, that would entail a Canadian-sized contribution to the climate fund.

In short, the Australian government can only claim plausibly to be 'doing a very great deal' if it maintains international climate change assistance at around A$200 million a year. For reasons of impact, efficiency and burden-sharing, a substantial proportion of that should be directed multilaterally. And, unless there are good reasons to the contrary, such resources should be consolidated in the Green Climate Fund rather than being distributed across a patchwork of smaller mechanisms.

Are there good reasons to the contrary? Is the climate fund likely to be profligate, unaccountable and bureaucratic? So far, 22 other countries, including the United States, Japan, Germany, France, the United Kingdom, Sweden and Canada, do not think so. That is in large part because they have been heavily involved in establishing the fund's governance arrangements and operating principles, as indeed was Australia as co-chair of the fund's 24-member board until 2013.

Other donor countries also have confidence in the fund because they will continue to be engaged in its governance, including in decisions on how resources are allocated to countries and programs, and how fiduciary and other risks are managed. With an equal number of seats for developed and developing countries, the fund's governing body allows more voice to potential beneficiary countries than the World Bank's. That is, in fact, the main reason why we have a new fund, rather than a new organ of the World Bank Group. But it does not follow that major contributors to the fund are somehow disempowered.

The climate fund will face many of the same risks as other large-scale multilateral funds. These include politicking around the allocation of resources to countries and regions; insufficient integration between the programs it funds and wider development programs; turf warfare with other funds and organisations; cumbersome policies and procedures leading to slow program delivery; and in some cases even fraud and corruption within recipient administrations. But other special-purpose funds, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, have learned some lessons the hard way and come out stronger. The climate fund has already sought to learn from such experiences. Among other checks and balances, it will have an Independent Integrity Unit to investigate any fraud and corruption allegations, and a mechanism to receive complaints about non-compliance with environmental and social safeguards.

There are at least six good reasons for providing international public finance for climate change action in developing countries, and for concentrating much of it in a well-governed multilateral fund.

First, current action on climate change adaptation is very fragmented and also under-funded relative to action on mitigation. The poorest and most vulnerable countries will bear the brunt of the impacts of climate change. A single, large-scale mechanism can help to correct this imbalance and achieve better results. The climate fund aims to dedicate half of its resources to adaptation over time.

Second, climate change mitigation delivers global benefits no matter where it occurs. Developing countries struggling to deliver basic education, health and infrastructure to their citizens cannot be expected to bear all the costs of providing environmental services beyond their own borders. Though they are willing to bear some of the costs—Indonesia, a contributor to the climate fund, has said it will cut emissions unilaterally, but will cut more with assistance—they do need large-scale external financing of the kind the climate fund will provide.

Third, over time a large, consolidated mechanism will draw resources away from the plethora of smaller multilateral funds and programs that finance action of various kinds on climate change. The climate fund is by far the largest climate financing mechanism yet created—the Climate Investment Funds raised US$6.5 billion over a number of years, and the Global Environment Facility recently raised US$4.4 billion for its work over the next four years, of which one-third might be used for climate change mitigation. Rationalising the cluttered multilateral landscape in this area is important for ensuring scarce funds are applied as cost-effectively as possible, and reducing transaction costs for developing countries.

Fourth, the climate fund does not have to become a Green World Bank, with all its own administrative apparatus, a global network of country offices, and so on. Project development and implementation can and should be undertaken by third parties, including the existing multilateral development banks. It can and should operate as a lean and strategic investor in effective adaptation and mitigation measures, whether those measures are driven by the public or the private sector. Moreover, its role in catalysing private investment [pdf] in mitigation and adaptation projects has the potential to leverage resources on a very large scale from institutional investors such as superannuation and sovereign wealth funds.

Fifth, the provision of adequate levels of climate change financing to developing countries is a necessary, though far from sufficient, condition for reaching a global agreement on measures to slow and stop climate change at next year's global climate change conference in Paris. The climate fund, importantly, is the designated financing mechanism of the UN Framework Convention on Climate Change.

Sixth, and finally, allocating funds to multilateral action on climate change in developing countries delivers a double multiplier effect. Multilateral channels pool resources to achieve scale and impact, and resources spent in developing countries buy far more than the same amount of resources spent in developed countries.

This last point is particularly important in relation to mitigation. Australia, like other countries, does need to act domestically to curb emissions. But at least some of the Abbott government's 'Direct Action' funding would achieve better value for money if spent where the wins are cheaper, that is, in developing countries. Two of the present government's ministers, Malcolm Turnbull and Greg Hunt, well knew that in 2007 when they and Alexander Downer created the A$200 million Global Initiative on Forests and Climate.

There are, in short, no good reasons for the Abbott government to stand alone in refusing to support the climate fund, and plenty of good reasons for Australia to participate. Perhaps the government was right to be cautious about joining the China-backed Asian Infrastructure Investment Bank, but this is a very different case.

There was some equivocation in Abbott's reply to Alan Jones. But in the end good sense was overcome by one of two things. Either there was a desire to maintain fidelity with past prime-ministerial commentary (the Green Climate Fund was 'a global Bob Brown bank' and 'socialism masquerading as environmentalism'), no matter how unstudied those past remarks might have been, or else there was concern about the possibility of an extended backlash from Jones and others of his cast of mind.

Either way, the government could have done something both useful and as near as possible to being Jones-proof. That is, it could have made a substantial contribution to the climate fund which was entirely earmarked for allocation to climate change adaptation in the most vulnerable countries.

In relative terms, other donors tend to over-fund mitigation and under-fund adaptation because several of the largest insist on providing their money in the form of 'soft' loans, which are usually not appropriate for adaptation financing. This is admittedly one reason why developing countries have generally been reluctant to condone the earmarking of climate fund pledges. However, earmarking that strongly aligns with developing countries' preferences is less likely to meet with resistance.

An Australian contribution for adaptation would likely have been well received, at least by comparison with a nil contribution, and would have avoided an entirely unwarranted display of isolationism. It still could.

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