Climate Finance: Cancun update

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Climate finance for developing countries is one of the critical issues under negotiation at the UN climate conference currently underway in Cancún, Mexico. At the 2009 climate conference in Copenhagen, governments of wealthy countries committed to provide billions in short-term (or 'fast-start') and medium-term finance. But on the eve of the Cancún conference, representatives of the world's poorest countries raised concerns that the promised funding was not materialising. Indications from the first week of negotiations are that limited progress is being made on increasing the transparency of fast-start finance, and there is some promising movement on arrangements for a global climate fund to govern medium-term funding, but convergence on sources of longer-term finance remains elusive.

Fast-start finance. In the lead-up to and at Cancún, several major contributing countries (including the three largest contributors: the EU, Japan and the US) have released information on their fast-start finance for 2010. Australia has not yet released a report on its 2010 funding but has joined with other contributing countries in submitting basic data to a common website. While the additional information is welcome and demonstrates that a considerable proportion of the promise funding is indeed flowing, the reports vary widely in the amount of detail and analysis they set out.

The EU reports on some issues for which it has attracted criticism (including that a majority of its funding is in the form of loans, and only a third of total funding is going towards adaptation). The information currently available on Australia's contribution indicates that it is entirely in the form of grants, and that around half of total funding is being allocated to adaptation (reflecting no doubt the substantial proportion of existing Australian development assistance that goes towards neighbouring Pacific countries that are also highly vulnerable to climate change). However, none of the reports provides rigorous assurance that the funding is 'new and additional' rather than diverting development assistance, and countries appear to be using widely divergent definitions of what additionality means.

At the end of week 1, a revised draft text was issued by Chair of the Ad Hoc Working Group on Long-Term Cooperative Action (AWG-LCA), whose mandate includes financing. The draft text attempts to address the issue of transparency by 'inviting' contributing countries to report annually to the United Nations Framework Convention on Climate Change (UNFCCC) on the finance that they have disbursed. Reporting is to be based on existing guidelines for reporting support that were established by the UNFCCC in 1999, which have several limitations that restrict comparability, including the lack of a requirement to distinguish between grants and loans. It would be preferable if the text contained an undertaking to have more robust reporting guidelines in place before the fast-start period ends in 2012. If no UN agreement can be reached on this issue, contributing countries should at least agree on improved voluntary reporting requirements for their fast-start finance.

One of the less salubrious aspects of week 1 has been the Guardian's publication of cables obtained by Wikileaks detailing the United States' use of promises of fast-start finance to encourage developing countries to sign up to the controversial Copenhagen Accord. While providing some sobering insights into the Realpolitik of climate finance, the cables highlight that there is still much trust to be built between developed and developing countries on this issue.

Longer-term finance. Currently fast-start finance is largely being channelled through existing institutions such as bilateral aid programs, multilateral development banks, and to a lesser extent smaller UN funds. At Copenhagen parties to the negotiations acknowledged that as new financing sources emerge and flows scale up to match increasing needs, a dedicated UN climate fund will be needed, along with improved oversight of funding. At a negotiating session shortly before Cancún in Tianjin, China, parties discussed proposals submitted by several governments, which the draft text has narrowed into a reasonably clear set of options.

One of the biggest questions is how longer-term funding will be raised. Developing countries have preferred an assessed contribution of a proportion of wealthy countries' GNP (the text contains a figure of 1.5%, but other proposals have ranged between 0.5% and 6%), while developed countries have preferred to emphasise a greater role for private finance. As outlined previously on this blog, a recent high-level UN panel report on climate change financing sought to dampen expectations of such a heavy reliance on national budgets to generate funds, which is no doubt one reason why parties have not yet been able to agree even whether to include a reference to that report. Equally, parties have struggled to make progress on other possible innovative sources of finance, including levies on emissions from international sea and air transport. It is unclear at this stage how a compromise position could be reached, although agreement to work on an appropriate formula for adequate contributions to the climate fund, possibly modelled on the scale of assessments for core funding to the UN and referenced in some way to emissions, could help.

As for the institutional framework, the Cancún conference seems likely to set in train work to draw up the policies and guidelines for the climate fund, and may also set up a standing committee or the like to monitor broader global flows of climate finance and promote their coherence. One of the key unresolved issues is how to ensure balanced or equitable representation on the Fund's board. While the Copenhagen Accord envisaged equal representation of developed and developing countries for multilateral adaptation funding, many developing countries and NGOs have called for the fund to follow the precedent of the Kyoto Protocol Adaptation Fund, which has majority representation for developing countries.

Prospects for agreement. While some of the bigger financing issues such as long-term sources are likely to remain unresolved, the AWG-LCA chair was upbeat on the progress made on the financing text overall. However, parties have called for a 'balanced' package of decisions across all major areas at Cancún, including the thorny issues of ambition and transparency of countries' mitigation levels, and a conclusive agreement on finance may depend in large part on whether breakthroughs are made in these areas as well.

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