Empty shell or nest egg: what next for climate finance after Durban?

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One of the main achievements of the Durban climate change conference was establishing the Green Climate Fund. The Fund is expected to channel a fair amount of the US$100 billion a year in climate finance that wealthy countries have promised to mobilise by 2020. Critics are concerned that for now the Fund is simply an 'empty shell'. But there are several reasons why we should see the Durban outcome on finance as a significant positive step, without underestimating the challenges that lie ahead.

For a start, it was not a foregone conclusion that agreement on the Fund's structure would be reached at Durban. A Transitional Committee to design the Fund in the lead-up to the conference ended with Saudi Arabia and the United States blocking consensus. This was read as a tactic for securing a bargaining chip for Durban.

But it also highlighted that several points on which most parties had already made significant compromises were yet to be put to rest. Getting agreement on issues such as the oversight and day-to-day administration of the Fund meant that little time was left to address how longer-term funding could be raised.

The Fund is now at a delicate stage where it will need to attract resources quickly in order to build its credibility. At the same time, it has to build the expertise and policy frameworks necessary to demonstrate its ability to manage larger flows. Thankfully several countries have now either flagged that they will bid to host the Fund (including Switzerland, Korea and Germany) or pledged to contribute towards the start-up costs of the Fund (including Korea, Germany and Denmark). But it is understandable that wealthy countries are reluctant to make major pledges for the Fund's activities until fiddly but important bits such as financial accountability mechanisms are in place.

To begin nutting out these issues the Fund's board will hold its first meeting in early 2012. Together these steps should help create a 'nest egg' alongside which countries can be enticed to lay (so to speak) their own eggs.

One promising although controversial development on funding sources was the creation of a private sector facility under the Fund. This element was arguably crucial to getting the support of the US. In a pre-Durban proposal the US had effused about the importance of 'Recognizing that institutional investors such as pension funds, sovereign wealth funds, and insurers control trillions of dollars seeking long-term investment opportunities'.

This may sound like a personal classified on behalf of the financial services industry (along the lines of 'Goose expecting golden egg seeks stable nest'). But it is supported by recent estimates that private investment in low-emitting, climate-resilient development in developing countries is at least three times as high as public funding. The two together may already amount to around $100 billion a year.

This is an encouraging sign. At the same time it highlights the urgency of setting up accounting rules to control what kinds of private finance can count towards the 2020 commitment. Developed countries will now need to report to the United Nations on how their finance is 'new and additional'. Accordingly, they will need to tell a credible story of how they have 'mobilised' additional private finance rather than simply taking credit for market decisions that would have happened anyway.

Public finance will continue to be vital, particularly for adaptation. One promising option for raising public funds that featured prominently in civil society advocacy at Durban is a levy on international shipping. While the idea received little airtime in negotiations, it has been endorsed by the International Chamber of Shipping. Agreement in the near future could prove more tractable than levies for international aviation, unless the EU's inclusion of aviation in its emissions trading scheme (resisted by the US, China and India) forces parties to seek a multilateral alternative.

A work program on long-term finance commencing next year could focus substantive attention on new sources. Concurrently, Australia and other governments can already begin scaling up their climate finance through a range of other means, including through dismantling subsidies and tax breaks for fossil fuels.

With pledges of fast-start finance coming to an end in 2012, it is now increasingly urgent for governments to advance promising options that could help to meet their longer-term commitments and fulfil the Fund's potential.

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A note for our readers

The Development Policy Centre blog will be taking a break for Christmas and New Year. Thank you all for your support during 2011, especially to our contributors. We hope you have enjoyed the discussions and we look forward to many more blog posts, debates and collaborations in the year ahead.

Our regular posting will resume on January 9, 2012.

From the team at the Development Policy Centre, we wish you a joyous holiday season and a happy new year.