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WWF Briefing

For Geneva Ministerial on Climate Finance, 2-3 September 2010

On 2-3 September 2010, Ministers and officials from more than 40 countries will meet in Geneva, Switzerland to discuss climate finance and prepare for the climate negotiations later this year in Cancun, Mexico. Hosted by Switzerland and Mexico, the Geneva Ministerial is an opportunity to advance the negotiations on financing institutions to support climate action in developing countries, and how to generate finance at the scale required to support ambitious actions to reduce greenhouse gas emissions and prepare for those impacts that are unavoidable.

Recent weather-related disasters and extreme weather events have hammered home the urgent need for an ambitious global climate agreement, and brought into sharp relief the disarray and halting pace of the climate negotiations. Concrete and substantial progress on finance in Cancun will help build trust between parties and restore confidence in the UNFCCC negotiating process, and lay the groundwork for an ambitious and comprehensive global agreement.

The meeting should aim to ensure a robust outcome at CoP 16 in Cancun in December on finance issues, in particular on governance and institutions for delivering financing for actions in developing countries to reduce emissions that cause climate change, and to build resilience and adapt to the impacts of climate change. To ensure that sufficient new and additional financing is mobilized through these institutions, CoP 16 must kick off a concerted and urgent discussion over the coming year on innovative sources of financing to support climate action. This discussion can build on, where appropriate, any findings and recommendations of the Advisory Group of the UN Secretary General on Climate Finance (AGF) that was established early this year by UN Secretary General Ban Ki-Moon and tasked with finding new and innovative sources for the required financial means. The AGF will brief the Ministerial meeting on its activities and the status of preparation of its final report, which will be released on October 29th.

Ministers meeting in Geneva must commitment themselves to achieving an ambitious outcome in Cancun, which includes the following:

Institutions and financial governance: The creation of a strong and transparent financial governance mechanism will send the message that the world is serious about developing the infrastructure to support strong global action, and will resolve one complex and contentious set of issues, freeing up valuable negotiating time and energy for other pressing issues beyond the Cancun CoP. Ministers in Geneva must make progress and enable resolution of the following issues by Cancun:

- Adoption of a CoP decision establishing a new fund as an operating entity of the financial mechanism of the UNFCCC. The decisionshould
  - establish the composition of the Fund Board, ensuring balanced regional representation and including specific seats for LDCs and SIDS;
  - provide for appointment of the Board members by the CoP in Cancun, and allows them to begin work immediately in 2011 on establishing rules of procedure and other matters necessary for full operationalization, in consultation with relevant experts;
  - identify the procedures and criteria for selection of the trustee and secretariat;
  - identify the procedures and criteria for creation of thematic funding windows;
  - Set out procedures for direct access.
- Creation of a body to undertake oversight of all activities under the financial mechanism of the UNFCCC, and ensure coordination with other institutions and funds outside the UNFCCC;
- Identifying and/or establishing the broad institutional framework of the UNFCCC, including thematic bodies for adaptation, technology, REDD, etc., as well as a registry for mitigation actions and support, and institutions and procedures necessary for MRV.

Sources of public funding: Even the best-designed financial architecture needs resources. Developed countries must take full responsibility for mobilizing the required means, and financing from government budgets will continue to play an important and increasing role in mobilizing the resources necessary. But to mobilize public finance at the scale necessary to support ambitious actions in developing countries, new and innovative sources are required. The AGF is studying several such sources, including mechanisms related to international aviation and maritime transport, financial transaction taxes, auctioning of emissions allowances, and Special Drawing Rights.

The discussion of innovative sources of public finance has been largely on hold in the climate negotiations, pending the results of the group appointed by the UN Secretary General to analyze such sources. The AGF will release its report in late October, and the UNFCCC negotiations must be prepared to quickly resume its deliberations on sources, so that progress can be made in 2011. In Geneva Ministers must work to create broad acceptance of innovative sources and commitment to rapid progress towards agreement and operationalization of a set of sources that can generate financing at the scale necessary. There is a need to overcome some widespread suspicions and misconceptions about innovative sources, as well as to deal with some well-founded concerns. Ministers must lay be groundwork for renewed focus on this issue in Cancun, by ensuring the following:

- Parties must start a formal discussion of innovative sources under the UNFCCC, perhaps starting in Cancun with an in-session workshop on the topic (see separate proposal);

- Identify the institutional home for the discussion of innovative sources of public finance under the CoP, and develop an ambitious workplan for 2011, leading to agreement on a set of sources by CoP 17;
- Formally recognize the work of the AGF and other relevant initiatives and consider how to incorporate any useful recommendations and analyses into ongoing deliberations under the UNFCCC.

Carbon markets: These may yet prove to be effective tools in driving mitigation actions, and driving finance into low-carbon technologies, but the experience to date is inconclusive. What is certain, however, is that carbon finance used to purchase offset credits from activities in developing countries to meet agreed mitigation targets cannot be counted as support for developing country mitigation. This would constitute “double counting” of the same funds to meet developed country commitments and as support for developing country mitigation actions.

Role of private sector: Both private and public sources of financing are essential to support climate actions, and both must be scaled up dramatically. Private finance will be particularly important for mitigation actions. However, these two sources of financing will serve different functions and the scale involved is very different. The scale of private funding the must be mobilized for climate action - both new and additional private finance and shifting investments from dirty to clean technologies – is in the order of magnitude of a trillion dollars annually. Estimates of public finance transfers need to developing countries are much lower – WWF’s best estimate of public finance needed to support ambitious adaptation and mitigation action in developing countries is $200b per year by 2020. We need to mobilize public funding in excess of the $100b figure committed to in Copenhagen, and this public finance, along with appropriate regulatory frameworks and other factors, must mobilize much greater private sector investments.

Separate accounting of public and private sector funding: Including the two types of funding in one total would be misleading and counterproductive. The amounts of private sector investments that need to be mobilized for climate change actions in developing countries need to be in the $ 1 trillion per year range. If significant private funding is included in the $100 billion commitment, private sector flows could easily dwarf the $100 billion figure and render it meaningless. Thus private finance should not be counted towards that $100b milestone (except in rare cases, e.g. where private sector finance is mobilized at lower than commercially acceptable risk-adjusted rate of return.

Fast-start finance: Transparency and reliable information on fast start finance would contribute to building trust and improving the effectiveness of the financing provided. Ministers should reach agreement on how to provide this transparency, including by revisiting the proposal in Bonn3 for having the secretariat compile information and conduct an analysis of the accessibility and channels of financing, the extent to which it is new and additional, whether it is loans or grants, and the concessionality of the former, etc.

Conclusion

The Geneva Ministerial meeting can unblock a number of discussions by identifying a coherent and strategic set of issues that can move forward substantially in Cancun, and which can set the stage for a comprehensive and ambitious agreement the following year in South Africa. Ministers can create the political will and solutions that can unblock this set of issues, and allow negotiators to make progress towards a deal in Cancun. Giving the centrality of finance issue in Cancun, it will be helpful to have the active and constructive engagement of finance ministers in the process, to allow then to contribute their expertise and ensure they and their governments are fully committed to implementing decisions made in the negotiations. Finance ministers and officials are heavily engaged in the AGF and play a key role in influential fora such as the G20, which can send useful political signals to ensure a positive outcome in Cancun and the following year in South Africa. .

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