Innovative Public Finance: Fruit Ripe For Picking

Many delegates have spent years, inside and outside of this process, on the seemingly enticing topic of innovative finance. ECO understands if some of you are getting tired of this work—so now is the time to harvest the fruits of your labour and lock in new, predictable and significant sources of finance that aren’t at the whim of treasuries!

The ground has been prepared by studies, such as those of the High-Level Advisory Group on Finance, the Leading Group on Innovative Finance, and others who have scoped the landscape. Trial plantings have been made with a share of proceeds of the CDM that initially provided funds for the Adaptation Fund. Unfortunately, this fruit has withered on the vine.

Early seedlings in ICAO and IMO have so far come to nought—it seems they need UNFCCC fertiliser to grow. And if there’s one thing the UNFCCC can produce, it’s fertiliser.

Now that the ground has been prepared, and the Paris agreement is well placed to ensure that, within a year, we are harvesting the fruits of innovative public finance.

We need only one more ingredient: a process to agree on new innovative sources of public finance. Paragraph 82 in Part II is a good start, but should be spliced with the detailed options found in paragraph 54 and paragraph 64, Part III.

We need to be sure that predictable finance flows into adaptation, loss and damage, and no-net-incidence are considered, as well as targeting the drivers of climate change where possible. And then, with some gardening work in 2016, we will be in a position to enjoy the fruits of our labour.

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Agenda 2030 — Share the Love in Paris

ECO is truly enthusiastic about the global sustainable development agenda: “Transforming our World: the 2030 Agenda for Sustainable Development” which received a standing ovation when adopted last month in New York.

ECO strongly urges negotiators to support the proposal currently captured in preambular paragraph 33 of section III, which references the post-2015 agenda, to ensure alignment of the climate and development processes.

Here is why: Agenda 2030 includes 17 Sustainable Development Goals. One specifically urges action on climate change and its impacts when fighting global poverty, inequality and injustice. But, fret not about your role in the bigger picture, Agenda 2030 also says that the UNFCCC is the primary intergovernmental forum for negotiating a global response to climate change.

Although these two processes have different starting points, they both recognise the need to eradicate poverty. Agenda 2030 is the first UN document of its kind that tells us to look at development and climate together. It reminds us that the choices we make today when tackling hunger, improving energy access or building infrastructure will affect mitigation and adaptation to climate change.

Agenda 2030 calls for these goals to be achieved while keeping the global average temperature increase below 1.5°C or 2°C. It asks all UN member states to work collectively through the UNFCCC towards an ambitious legal outcome, applicable to all Parties and following the CBDR principle.

Both processes must deliver in a coordinated and coherent manner. The Paris agreement should welcome Agenda 2030’s mitigation and adaptation targets, and acknowledge the important role that Agenda 2030 will play in climate outcomes. Turkey already supported the idea on Monday; ECO hopes that others will follow suit.

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It’s the Scale, Stupid

In the endless repetition of long-standing positions that passes for climate finance negotiation these days, one message comes through loud and clear: the Paris agreement—yes, the core legal agreement, currently largely in Part 1 of the co-chairs’ tool—must address the scale of finance to be provided post-2020. Failure to do this will undermine trust, contribute to a lowest-common denominator deal (or even no deal), and bring us closer to the 3 or 4°C-warmer future we all dread.

ECO is well aware of the difficulties: post-2020 is beyond national budgeting cycles, finance ministries and political leaders must be engaged, etc., etc.

But let’s move into solutions mode. ECO concedes that firm numbers will not be in the core agreement. But let’s think about what can go there. Here is a start:
- The US$100 billion-by-2020 commitment will be a floor for post-2020 finance.
- Financial support will be scaled up over the post-2020 period until climate goals are met, and (to pick up on what the EU said yesterday) the most capable countries will contribute such financial support.
- Ex-ante financial targets (aggregate and/or individual countries) will be agreed on a rolling basis, on a 2- to 5-year cycle.
- Mechanisms, provisions or processes to enable developing countries to identify their needs to enhance action.
- Recognition of the catalytic and central role of public finance, with at least 50% going to adaptation.
- Traditional channels of financial flows,
- New financing arrangements for activities with high mitigation potential identified through Workstream 2 and an ongoing technical examination and prioritisation process, and
- Matching of finance with conditional activities that have been identified in developing countries’ INDCs.

ECO is convinced that if all the big brains around the finance table really tried, they could find ways to incorporate these ideas. This includes finding even better ideas that can provide certainty that financial resources will be available.

Such certainty is the requisite to unlock the maximum mitigation and resilience potential in developing countries, by complementing their own domestic efforts to shift public and private financial flows.

Loss and Damage FAQ

ECO is pleased that Parties have started substantive discussions on the important issue of loss and damage. Equally, ECO is glad to have been helpful to Parties with our debunking mechanism—as was mentioned in today’s loss and damage facilitated discussion, which dove into the hard questions. Key amongst them were:
- If we’re creating a durable agreement at Paris, in the context of available science, how could we justify not including loss and damage in this durable agreement?

The answer for this question was given in the moving intervention from Dominica about the devastating impact of Hurricane Erika, supported by the many references by others to the need for finance for the impacts of climate change. Zambia also pointed out that the circumstances of vulnerable countries are likely to be very different in 20 or 50 years—some of these countries will face existential crises in that time frame. As the Marshall Islands, the US and others noted, this is an existential question for low lying countries—and not an end-of-century problem. It is real and urgent, and it is not going away. Vulnerable countries need certainty and they need permanence that we will deal with the threats to their existence.

Will developed countries accept loss and damage in the Agreement? An argument that Parties would accept loss and damage within the Decision but not the Agreement only serves to reinforce concerns that developed countries are not treating loss and damage with the seriousness it deserves.

If placing it in the Decision indicates you’re committed to it, then go all the way and put it in the Agreement. Demonstrate that it is part of our long-term commitment to dealing with climate change.

Why include loss and damage in the Agreement, when we have the Warsaw Mechanism?

The mandate for the Warsaw Mechanism is narrow and contested. Let’s remember that developed countries have argued against including finance for loss and damage in the work plan, despite it being included in the WIM. Any agreement needs to reflect the latest science and reality on the ground, requiring a broader and deeper mandate, including a comprehensive approach to managing risk and comprehensively addressing climate displacement.

How would the Warsaw Mechanism interact with the Paris agreement?

The WIM can do important work between now and the implementation of the Paris agreement, and this should answer some of the questions that Parties now have. It could also have a role to play in implementing the functions outlined in the Agreement, while remaining open to be changed if needed.

And, delegates, remember that ECO is always ready to help if there are more questions!

Productive Differentiation Times

ECO has spent years calling for serious discussion on differentiation, and was pleasantly surprised when, yesterday, one materialised. Even better, the “spin off” meeting unfolded as a probing exercise that cast some real and useful light.

The fundamental question – what is the purpose of differentiation? – saw lots of good answers. One, offered by Mali, was that a proper differentiation system would ensure that all countries, whatever their level of development, could make their “best efforts”. ECO wants to add that in an economically stratified world like ours, a differentiated regime is key to equity, trust, solidarity, and action.

If the level of effort is nationally determined, one crucial point – repeatedly noted – is that we must not lose focus on the need for developed countries to take the lead. Self-differentiation, the theme of yesterday’s discussion, is what we have to work with. And clearly, we have to make it work.

The EU said that it never wanted self-differentiation, but rather a “spectrum of commitments” that takes the complexity of the modern world into account. Can we reach that same goal by a path other than self-differentiation? It won’t be easy, but that’s because the only spectrum currently open is one of nationally determined actions.

Such happy outcomes are possible, but not without principle-based ex-ante assessment. ECO was a bit taken aback when China went out of its way to insist that such assessment, and even “common indicators,” were doomed to lead to “name and shame.” ECO wonders if naming and shaming is always a bad thing though.

After all, there really are leaders and laggards among us when it comes to climate action. China helpfully added some perspective to this view yesterday when it argued that the existing “categories” had not, in fact, dissuaded the developing countries from voluntarily, and substantively, increasing their ambition.

On this point, ECO is happy to agree. But this seems to support the need for a principle-based assessment, one capable of identifying such ambition where it exists and constructively highlighting where more work needs to be done.