Climate Finance for COP 26

By Zaheer Fakir

Given my role as a climate finance negotiator, I will stay within the realms of what I know, and that is within the UNFCCC process. There's exists a specific ecosystem of finance within the UNFCCC from finance obligations to the financial mechanisms and hence the reason why I focus on the UNFCCC process as today we only seem to talk a lot about the Paris Agreement. We tend to forget that the entire climate change agenda is nested and rooted within the Convention, of which Paris Agreement is one of those instruments that has the sole purpose to enhance the implementation of the Convention. So therefore, there is a much longer history around climate change that merely the Paris Agreement. Under the convention, in particular Article 4 of the Convention, there are commitments and obligations that have been placed in terms of finance which are not time bound. These commitments and obligations stem from a period in time from Rio Earth Summit which also introduced the Rio Principles and one important principle of the common but differentiated responsibility. One key important parts of the finance commitments and obligations is around the provisioning of finance by developed countries that is new and additional, to developing countries, and sets the kind of foundational base by which we would then do the mobilization of finance and leveraging the private sector, etc. It's important to get a sense of current state of finance as we are talking a lot now about celebrating five years of the Paris Agreement. So, what has happened since the five years of adopting the Paris Agreement. In terms of the operating entities of financial mechanisms of the convention, namely, the Global Environment Facility and the Green Climate Fund, we have experienced a stark decline in financing in terms of their replenishments. The GCF in 2018 has seen a 36 percent decline in its climate allocation replenishment and the GCF in its latest replenishment in 2019 has witnessed a 4.3% decrease compared to its initial resource mobilization in 2014.

Now, what does that tell you about climate finance and the so-called ambition? We can take it even further and take something that's been there for 50 years i.e., the ODA target of 0.7% of GNP. The ODA reports the in 2019, ODA from all DAC member countries combined only met 0.3% (US$ 152.8 bn) of the 0.7% percent. If we take a look at the US$ 100 bn that everybody is talking about the goal was developed countries jointly mobilizing US$ 100 billion by 2020. If you look at the latest OECD report it notes that what has been mobilized is only US$14.6 billion. The report highlights that roughly US$ 62.2 billion public climate finance has been provided. However, to make the figures look a lot nicer, we add on what is being provided and so we say we have mobilized US$ 78 billion towards the US$ 100 billion mobilization goal. The reality is that we are not there and in terms of leveraging finance from the private sector we are stagnating.

What are the current developments in the climate finance environment today?

If you look at climate finance being reported over 74 to 75 % of that climate finance is coming in the form of loans. If you look at the Joint MDB report, it's even more stark in that only roughly 6% of the climate finance is in grants. Now contextualize that with looking at developing country debt. In 2018, if you look at total debt stocks developing countries, they are sitting at 191% percent of GDP. So, the reality what you're finding is that for these countries are actually finance a lot of their climate work means them incurring more debt. That is the reality of what we're facing today and this is without adding onto that the implications of covid-19 and the economic implications thereof. To combat Covid-19 and the green recovery what is being provided is additional debt, either in the form of having to take on further financing through different kinds of debt instruments or some forms of debt relief for a select group of least developed countries for some point in time.

Steve mentioned the importance of adaptation and how important it is to adapt. The reality of what we face is that between 70 to 80 % of all climate finance within the UNFCCC process goes towards mitigation, while only about 20 % is towards adaptation. The reality is that UNFCCC Adaptation Fund which has been in existence for some 19 years and was designed to be financed through the markets, only 20 percent of its funding came from the market mechanisms. The remaining 80 percent came in the form of charity type contributions from developed countries.

One of the big issues is the whole issue about historical responsibility. The reason why I raised this issue is that we are very fixated on trying to limit global temperatures to 2 or 1.5 degreea. The reality is that over the period in time, there has been a number of tonnes and tonnes of emissions that have been pumped into the atmosphere, which has resulted in the change in temperature and has resulted in climate change happening right now. The result of that, is that no matter how much mitigation activities you do, that will not eliminate the existing emissions in the atmosphere already that is result in continued climate change unless if you're not going to do serious amounts of tree planting, etc. This is why the whole issue of adaptation and the whole issue of loss and damage becomes important. You know, we're putting a lot of effort in mitigation. Yes, it's correct. We should be doing that to limit the global temperature rise, but we need to be dealing with the historical problem that we face already which means addressing adaptation in a balanced manner with mitigation as well as dealing with loss and damage.

Now, if you look at the state of private sector financing within the UNFCCC process, roughly 78 percent of financing today goes to public and around 22 percent going to private financing investment. Similarly, in the GCF, its portfolio comprises of 62 percent public and 38 percent private. Yes one can say and make the argument that we need to increase private sector financing, but there's a bigger question you need to ask. The bigger question is whether the GCF, the GEF and the others have the appropriate enabling environment to allow for increasing private financing. Is the concessionality being offered and the conditions conducive to it? I tried to do it in terms of means, motive and opportunity. So, let's go to the issue of motive right now. A lot of the general perception is that developed countries are pro private sector, while developing countries are anti private sector, which is not the case. We both believe that the private sector is an important partner in terms of working together with the public sector to address the issues of climate change.

It's not an either-or kind of scenario. However, when you look at the situation, we're currently facing, that is the decline in the provision of finance from developed countries, how this problem is being addressed in the UN, rather than addressing the decline in the ODA we responding by asking developing countries to leverage the money from the private sector or to apply more carbon tax or do more domestic resource mobilization. In essence, there's nothing wrong with that but we shouldn't be using the private sector as a means of shifting responsibility or using the private sector as a means of trying to fill in the financial gaps in our own failings. Additionally, a lot of the time we have faced with various problems in terms of private sector engagements within the multilateral system. I will just relate to you two simple examples I have experienced. The first example within the GCF was a private sector investment for which I won't mention the names of the individuals and institutions, some of them very big financial institution. This financial institution which is based in western country, with many of the GCF contributors being its shareholders. We allocated US$ 200 million towards this financial institution which would blend it with financial institution own resources and leverage the private sector. The attractiveness of it to the GCF contributors was that it was going to take the one dollar and leverage 50 dollars of financing for that. The whole issue of emission reductions became secondary. The whole driver was the leveraging or mobilization idea. Furthermore, if you looked at the proposal, it very much mirrors the Ponzi scheme. But lo and behold, for years that money was ring fenced and after four years, the project was canceled.

Now, that US$ 200 million is more than what the entire Adaptation Fund has in a year available to finance adaptation. Another proposal, when I was the chair of the Green Climate Fund, I was approached by a very famous philanthropist who wanted the Green Climate Fund provide him with the one billion dollars. In his opinion, he felt that he had the solution for the developing world and particularly in Africa and what that was seven seeds. What they intended doing was take the billion US$ and he'll give in some of his money and that funds would give to a large US agrochemical and a biotech corporation. Without mention their names, this US Corporation would conduct research on GMOs and then they would sell those seeds to Africa. I mean, that is the approach of how the private sector was looking as supporting the climate action in developing countries using multilateral finance. I will mention the names, but if you hear the name of the individual, you'll probably be shocked. This is some of the kind of relationships that the funds have been having with private sector engagement, which creates the wrong impression of how we are engaging with the private sector. It's not about just using the private sector as a leveraging mechanism or trying to create opportunities for their own private sector.

For me, as a developing country negotiator, it's important for me to see how I engage domestic private sector in the developing world. How do I promote opportunities for small and medium enterprises? How do I create those opportunities for them? So, if we come to the issue of the last point about the COP in Glasgow, what is on the agenda and that which we are negotiating is the question of whether we will continue having a discussion on long term finance under the Convention. Can you imagine that such an issue about having a discussion under the Convention was an issue that at the COP in Madrid we had to apply rule 16, meaning there was no consensus on that as developed countries did not agree to it. That's important because the whole idea about long term finance is about having a discussion in a formal setting in terms of addressing the very issues that you are raising today. How do we engage the private sector in the finance agenda?

Other issues that under discussion in Glasgow is whether we initiate deliberations on a new collective finance goal, or about providing guidance to the operating entities if the financial mechanism. So, this is the kind of financing agenda that will be dealt with by negotiators at Glasgow COP. You go to ask me the question, is this ambition? No. Is it going to be to saying to the world we have an ambitious financial agenda? No. Furthermore, we also need to contextualize the issue of ambition it in terms of the goals that we have. I mean, US$ 100 billion that everybody talks about was set in 2009. It was a goal not based on anything scientific and definitely not based on the needs of developing countries.

It was a goal based on some politicians and particularly US politicians who came up with the idea of US$100 billion. What did we do in Paris? We extended US$ 100 billion for another five years till 2025. Now, if you are in the private sector and you listen to us saying our ambitious goal is a goal that was set some 11 years ago and we are going to extend it for another five years. Does that ring ambition to the private sector to say, hey, you know what, there's ambition in terms of providing finance to support climate action.

So, ambition is currently not there when we know we need to be able to see ambition in Glasgow? How do we promote more engagement by developing country private sector and how do we create opportunities for them? We need to also think about having a moral and ethical principle around finance. For me as a developing country party and as a negotiator, what is of paramount importance is not about valuing the assets, but valuing life, valuing development and addressing poverty. I cannot fathom to think that we have come to a situation where climate action is dependent on whether we can make a profit or not. That shouldn't be the scenario that we are in today.

Finally, the last point that I want to make is that it would be important for us to start looking at how do we create an enabling environment that private sector partners with public sector in terms of delivering climate action, not purely because it's about making a profit, but a social conscious responsibility of promoting development, addressing poverty and creating global equality.