Climate Change Financing

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Introduction

Today's international climate regime recognizes economic asymmetries among countries. Financing has therefore become a frequent topic of international climate change negotiations, since it could enable countries around the world to mitigate climate change and adapt to its effects and therefore move toward less carbon-dependent economies. In 2008, Mexico proposed creating the Green Climate Fund (GCF) at the United Nations Framework Convention on Climate Change (UNFCCC) financial mechanism. In the Copenhagen Accords (Conference of the Parties 15, or COP 15), it was decided that this fund would operate with two financing mechanisms: one to take immediate effect, and the other for the longer term.

At the COP 17 (Durban, South Africa), it was agreed that the GCF would enter into force in 2020 under World Bank trusteeship. This decision raises the question: Why should developing countries be forced to take on debt in order to modify their current economies and opt for low-carbon structures, especially since historically they have not been responsible for climate change?

Climate Change Financing: The Legal Basis

The core objective of the international climate regime is to stabilize greenhouse gas emissions at a level that prevents dangerous interference with the climate system, while also allowing societies to adapt to the phenomenon (UNFCCC, Article 2).

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As of the beginning of 2013, the UNFCCC had been signed and ratified by 194 countries, compared to the 192 which signed the Kyoto Protocol. Yet despite the UNFCCC's clearly defined objective of the climate regime, it is implemented through the principle of common but differentiated responsibility. This implies the explicit recognition of asymmetries among signatory countries and means that, in the context of climate change, not every party has the same responsibility, but they undertake different tasks to achieve a common objective.

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The Kyoto Protocol defines tasks for countries, whether or not they are Annex I countries, and it mandates —but does not obligate— the more developed countries to support the less developed ones with technology, training, education, communication, adaptation, and financing. Therefore, non-Annex I, the least developed and developing countries, are tasked with formulating domestic or regional programs to help improve the quality of greenhouse gas emission factors, drawing up emission inventories and preparing a domestic communication strategy on the issue (Article 10). However, in recognition of economic asymmetries, Article 11, Part 2, indicates that the least developed or developing countries shall have access to new and additional resources to be able to carry out these tasks, and these must originate, as mentioned above, from the most developed countries or, as indicated in Part 3, they may be obtained through bilateral, regional, or multilateral means.

In other words, this protocol has created a financial structure that is fundamentally sustained and justified on the basis that developed countries can provide resources to developing countries, but that these resources can also come from elsewhere. Given the legal basis for the existence of bilateral, regional, or multilateral financing, this then releases developed countries from their responsibility as providers without this constituting a violation of the international climate regime.

The Green Climate Fund

Although the protocol recognizes the diversity of funding sources, it also lacks its own financial mechanism (Article 11, Part 2). Therefore, to manage the second phase of the protocol, COP 13 formally agreed to create the Bali Action Plan. Two special working groups were formed for this purpose: one to manage the protocol's aforementioned second phase, and the other was the so-called Ad Hoc Working Group on Long-Term Cooperative Action (AWG-LCA).

In accordance with the precept of *mutatis mutandis* (making necessary alterations), at the AWG-LCA sessions held at COP 14 in Poznan, Poland, the Mexican government proposed the creation of the GCF to provide the UNFCCC with the financial mechanism referred to in the protocol. The Mexican government's original idea was that the GCF would be to the UNFCCC what the Montreal Protocol is to the Vienna Convention, which regulates ozone-depleting gases. However, the proposal presented in 2008 by Ambassador Juan Manuel Gómez Robledo did not lay out the plans in detail, but instead sketched a broad outline of what the fund should look like; it did not explain operating instruments or how financial resources would be obtained, or how they would be apportioned. In other words, this proposal did not provide an institutional blueprint for financing. Nevertheless, during the initial stages of the high-level talks at COP 15 (Copenhagen, 2009), the governments of the United Kingdom and Norway supported the Mexican government's original proposal, meaning that it would be presented as a tripartite contribution to the international financing negotiations on climate change.

Toward the end of COP 15, the GCF had turned into one of the key issues in the international negotiations. The fund was promoted in limited negotiations among the leaders of fewer than 30 countries (among them, the United States, China, Brazil, India, South Africa, Mexico, and European Union countries). It was decided that it would be implemented in the two operational phases mentioned above: one to provide rapidly available financing of up to US$30 billion for the 2010-2012 period, and a long-term mechanism that would enter into force in 2020, for funding of up to US$100 billion.

To bring in the first phase of rapidly available financing (2010-2012), developing countries were required to report to the UNFCCC on their work in cutting emissions and/or detailing the objectives that they aimed to achieve in this area should they receive international financing. This information had to be submitted to the UNFCCC in the first two months of 2010; but despite many countries (over 80) meeting this requirement, COP 15 decided to only take note of the Copenhagen Accords (which mentions this situation). They were not part of the official resolutions of the conference, however, because many countries objected that the negotiations took place among a small group of countries.

A year later, the content of those agreements was included in the Cancún Accords. In fact the COP 16 resolution, adopted in Cancún, was that the information provided by the countries should be taken into account to create an institutional design for the UNFCCC fund and to show its operational scope. The Conference of the Parties decided to extend the AWG-LCA mandate for at least one more year to add details about the advantages of the existence of a UNFCCC fund. The rapid financing phase (the US$30 billion offered for 2010-2012) had caused some confusion around the world up until then because, although the countries had submitted their information by the deadline set by the Copenhagen Accords, it was never very clear how the funds in question would be channeled.

An important result of Cancún was the agreement that the GCF would become the UNFCCC's financial mechanism. Despite criticism from the Bolivian government delegation on the overall outcome, this COP praised the work of Mexico's foreign minister at the time, Patricia Espinosa, as well as the results of the event that took place in the Mexican Caribbean. Another notable effect of COP 16 was that the World Bank was invited to be the initial trustee of the GCF, given its experience in handling international funds.

In 2011, during COP 17, held in Durban, South Africa, it was decided that the GCF would enter into operation in 2020, and the rapid financing instrument was cancelled definitively. Countries were asked to send their nominations for the fund's board, and the AWG-LCA was mandated to start work on the GCF's operational and institutional design. One GCF resolution taken in 2012 was to make South Korea its permanent headquarters. And at COP 18 (Doha, Qatar), it was ratified that the GCF would only enter into force in 2020.

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Conclusion: Financing for What?

A close reading of UNFCCC Article 2 reveals that climate change financing must serve two purposes: to decouple economic growth from greenhouse gas emissions and to allow for societies to adapt to this phenomenon. This expectation goes further than the mandate of Kyoto Protocol Article 10, which centers its hopes on the developing countries that have already submitted their first report to the UNFCCC updating their emissions inventories and preparing their subsequent national communiqués, and on that those that have not yet done so will begin this process. In this sense, financial resources are required to stabilize the climate system at a level so that the change does not become dangerous for current and future societies.

In 2005, for example, between US$60 billion and US$102 billion were invested in adaptation, and it is expected that by 2030 between US$109 billion and US$273 billion may be needed.

Given the inherent uncertainty of future climate change scenarios, it is easier to bet on the implementation of emissions-reduction strategies than on promoting strategies for adapting societies to unproven adverse impacts. Therefore, for some years the World Bank has promoted the low carbon economy; the Organization for Economic Co-Operation and Development (OECD) has started to work on green growth; and the United Nations Environment Program has developed the idea of the green economy. In short, the three proposals seek to decouple economic growth from greenhouse gas emissions, leaving to one side societies' adaptation to climate change. However, if we consider that the World Bank has been recommended to coordinate the work of the GCF, we must ask ourselves: Why do developing countries not only have to pay for the loans provided by the GCF, but also the interest rates, to combat a problem which, as the UNFCCC has recognized, has been caused by the same countries that today are the most developed? Therefore, the debate surrounding climate change financing must not focus exclusively on the effectiveness and efficiency of economies' decarbonization; it must open the door to broader discussions on issues such as justice, fairness, ethics, and how this may help bring about less asymmetrical societies in the context of climate change. VM