Presentation by India at the Workshop on Financing under AWG-LCA
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The provision of "new and additional financial resources" is the common thread that not only weaves all the other pillars of the Bali Action Plan together but also remains central to the commitments of the Parties under article 4 of the Convention. More specifically, articles 4.3, 4.4 and 4.5, place the burden of providing such "new and additional resources" to cover "agreed incremental costs", including costs of technology transfer, on the developed country Parties. Recognising the overriding priority of developing country Parties to economic and social development and poverty eradication, Article 4.7 states that effective implementation by developing country Parties of their commitments under Article 4 will depend upon how effectively the developed country Parties meet their commitments related to provision of financial resources and transfer of technology. And precisely the same concept is captured by the MRV regime foreseen under 1b(ii) of the Bali Action Plan. However, despite such a clear mandate the developing world is still awaiting the fulfilment of these commitments and is being put under immense pressure to accept parallel initiatives that are clearly outside the legal provisions of the Convention, and will not operate under the guidance and authority of COP/MOP or be accountable to it. This is clearly worrisome and could derail the availability of financial resources foreseen under the provisions of the Convention. Let me highlight some of the issues with the various proposals on the table:

Conceptual Clarity

First, new and additional financial resources cannot refer to diversion of any existing or likely resources, including net foreign inflows, available for economic and social development and poverty alleviation. Nor can they refer to resources outside of the current or future provisions of the Convention.

Second, to the extent that the incremental costs of investment in adaptation and mitigation or subsequent lifetime costs of the output/service, that the investment yields, are positive, they would have to be fully recompensed if economic and social development and poverty alleviation are not to suffer. Often, there is reference to the private sector in the context of investments in mitigation and adaptation. The private sector will not absorb the additional costs and if negative impacts on growth and investment are to be avoided, it too will have to be recompensed in full. This can only

happen if the financial resources foreseen under the Convention are in the nature of resource transfers or grants. Alternatively, Carbon Markets could fund these incremental costs provided the carbon price was right and there was a demand for CERs at that price. This requires that carbon markets be driven by deep, long-term GHG reduction commitments by developed countries.

Scale of Costs and Institutional Arrangements

Next is the issue of how much will it cost? The UNFCCC has estimated a requirement of US$ 200-210 billion in additional investment in 2030 to return GHG emissions to the current level. Further, additional investment needed worldwide for adaptation is estimated to be US$ 60-182 billion in 2030 by UNFCC, inclusive of an expenditure of US$ 28-67 billion in developing countries. Incremental investment needed by developing countries for adapting to projected impacts of climate change is estimated as US$ 10-40 billion per annum by the World Bank and Oxfam estimates this number to be US$ 50 billion per annum. The UNDP estimates that incremental investment needed for adaptation could amount to US$ 86 billion per annum by 2015. Not only do these numbers vary widely among themselves, they are a fraction of UNFCCC's own estimate of 0.3-0.5 % of GDP or Lord Stern's estimate of 1% of world GDP needed annually to tackle climate change.

To illustrate the point, in 2007 dollars, Lord Stern's estimate translates to an annual requirement of US$ 540 billion in 2007; rising to US$ 953 billion in 2030 assuming a 2.5% annual growth in global GDP. Many have argued that Lord Stern seriously underestimates the cost and the true annual cost would be much higher if the tolerable level of risk for a catastrophic climate related event, the value assigned to the potential damage to life, property and livelihoods and the discount rate used were made more realistic. Given this broad range, one can only conclude that we simply do not know the additional cost of addressing climate change. This is not surprising for we are still struggling to fully understand the science of climate change. Hence, we need to learn by doing and not wait for elimination of all uncertainty because costs of impacts from climate change will be a multiple of the estimates made if we fail to act immediately.

Such immediate action is constrained as currently available new and additional financial resources under UNFCCC are lower by several orders of magnitude. The funding

committed to GEF, for various funds managed by it, is US$ 1.3 billion for the period 2007-10. The funds managed by GEF for adaptation total about US$ 275 million and since 2005 GEF has provided US$ 110 million for adaptation projects. And the Adaptation Fund to be built up from 2% of CDM flows is expected to amount to US$ 100-500 million by 2012. Tapping other flexibility instruements will, at best, add increments of similar magnitude.

Neither, I might add, is the World Bank Group along with other Regional Development Banks in a position to handle funding of the required magnitude. Further, any funding structured through these MFIs will remain outside the UNFCCC. In any event, the primary mandate of these institutions remains economic and social development and eradication of poverty and the global community must ensure that both the capacity and the resources of MFIs are not diverted to addressing climate change objectives. Finally, while this is not the forum for discussing the performance of the Financial Mechanism established under the UNFCCC; my distinguished Philippine colleague Bernedita has repeatedly noted the massive effort needed to make GEF comply with COP guidelines.

The essential point is that given the magnitude of the funding required and the experience thus far with financial resource flows and Financial Mechanism under the UNFCCC; alternative means of ensuring adequacy and predictability of financial resource flows is needed. Perhaps we need to create a new financing architecture under a new institution – the Global Fund for Reversing Climate Change Impacts capitalised with annual flows from developed country Parties equalling the low end of 0.3% of global GDP to the upper end of Lord Stern's 1% of global GDP.

Misleading Comparisons

The UNFCCC report on Financial and Investment Flows, apart from grossly underestimating the funding requirements, attempts to make the funding look feasible by comparing these numbers with total investment flows through FDI, ODA and the Capital Markets. These gross flows, however, are not funding the incremental costs of mitigation and adaptation that we are talking about – in fact, currently financial flows for funding incremental costs of tackling climate change are an insignificant fraction of the total financial flows. The study compares apples and oranges and then shows its faith in the markets to figure out which is which. And while I am a great believer in the power of the

markets, apart from the pre-conditions to their functioning that I have set out above, I have repeatedly drawn the attention of the AWG-LCA to the fact that there shall be no market for flexible instruments, under the vision of reducing GHG emissions to 50% of 1990 level by 2050, unless developed countries take on sizeable negative emission commitments.

Governance

It is relevant to point out that a governance structure with equal representation from donors and recipients in any new arrangement is a huge leap backward from the governance structure for the Multilateral Fund under the Montreal Protocol and the CDM linked Adaptation Fund (AF) finalized at Nairobi and Bali. At Nairobi the second meeting of the CMP decided that the AF should be under the 'authority' of the CMP in addition to the traditional requirement of 'being under the guidance and accountable to'. The Nairobi decision also adopted "a one country one vote" rule and a majority representation for developing countries on the governing body (Decision 5/CMP.2.para 3). CMP.3 at Bali created the Adaptation Fund Board with a majority of members from developing countries and designated representatives from the two main recipient interest groups i.e. Group of Least Developed Countries and the Alliance of Small Island States. Moreover, it was decided that Parties should have direct access to the funds, and the involvement of the GEF and the World Bank in the running of the AF was reduced to an interim provision of secretariat and trustee services respectively. These two initiatives have succeeded in developing an equitable and balanced representation of all parties within a transparent system of governance as required by article 11.2.

Conditionalities

The issue of conditionalities in accessing funds under any proposed financing architecture needs careful consideration. If the implementing agency develops financial packages that include co-financing by other institutions then the conditionalities imposed by the co-financiers become applicable. If, however, funding is provided directly to cover agreed incremental costs in the form of financial transfers based on COP approved criteria then the borrowers may raise additional funding to their best advantage, thus creating no additional conditionality for funds provided by the UNFCCC. In the case of GEF several Parties have stated that the grants or concessional funds provided by GEF are used by the implementing agencies as the carrot to sell the stick!!

Conclusion

Let me conclude by saying that any new financing architecture must operate under the authority and guidance of and be fully accountable to COP. The financing architecture must have an equitable and balanced representation of all Parties within a transparent system of governance, in accordance with Article 11.2. The financing architecture must allow direct access by recipient Parties and enable their involvement during all stages of identification and definition of a need to make the architecture demand driven. The proposed financing architecture must be funded by developed country Parties as required under Article 4 and may accept additional resources from the market, private and other relevant sources. The financing architecture should be organized into functional windows to address specific requirements such as a Technology Acquisition and Technology Transfer Fund for available climate friendly technologies, a Venture Capital Fund for emerging climate technologies, a Collaborative Climate Research Fund etc. The financing architecture could integrate other funds operating under the Convention. An Executive Board appointed under the Convention must manage the proposed financing architecture with the assistance of a professional secretariat and appropriate technical committees that establish eligibility, evaluation and compliance criteria. The foregoing design parameters are not unrealistic – they have already been achieved in the Multilateral Fund under the Montreal Protocol and the Adaptation Fund.

Some, no doubt, will worry about making the new entity unwieldy and ineffective by the concentration of all activities under one source. It is pointed out that the only unifying force is a common architecture of governance, funding and investment policies all of which would be under the direct control of and accountable to COP. Each window will operate and grow independently under this architecture.

Mr. Chairman, the proposed financial architecture must ensure access to funds for adaptation instead of forcing developing countries to adapt to funds made available. Again, the long-term vision must enable vibrant carbon markets that fund incremental costs of mitigation and technology in the developing world instead of forcing mitigation of growth and adaptive capacity of the developing world.

I thank you for your patience.