

Financing clean development for addressing climate change

Countries are in the process of negotiating a new deal on long-term cooperative action on climate change. The talks are spurred by scientific findings of the UN's Intergovernmental Panel on Climate Change (IPCC), who concluded last year that the average global surface temperature could rise by as much as 4° Centigrade unless there are reductions in emissions of gases that contribute to the heat-capturing greenhouse effect.

The new agreement must be completed at the UN climate change conference scheduled for the end of 2009 in Copenhagen. In the meantime, the 2008 Doha Conference on Financing for Development provides an important opportunity to discuss financing mechanisms that would allow developing countries to cope with climate change.

Efforts to finance an effective response to climate change are expected to draw and expand upon some of the existing mechanisms developed in the Kyoto Protocol. These include market-based instruments, such as the establishment of a carbon market and a globally funded investment programme to assist developing countries in deploying renewable energy technologies for climate change adaptation and mitigation.

Such financial mechanisms are considered central to the “Green New Deal” that UN Secretary-General Ban Ki-moon has called for—a global initiative to create jobs and prosperity while tackling the problem of climate change.

New financial mechanisms

According to Yvo de Boer, Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC), negotiators working on the outcome for Copenhagen need to look at “how to provide the clever financial architecture that will enable countries, not least those developing rapidly, to green their economic growth and avoid the mistakes made by the developed world.”

In developing the global financial architecture to address climate change, countries have agreed to be guided by the principle of ‘common but differentiated responsibilities and respective capabilities’ in the Climate Change Convention and the Kyoto Protocol. This reflects the idea that any new mechanism should ensure that developing countries, who are responsible for a relatively small part of the accumulated stock and per capita contributions to current emissions of greenhouse gases, are enabled to meet their energy needs without endangering their economic growth and poverty reduction efforts.

The Kyoto Protocol-inspired carbon market in Europe is known as a “cap-and-trade” system that allocates carbon credits to carbon emitters. These emitters then buy and sell credits depending on the extent that they exceed or limit their allocations. Similar emissions trading systems are also being established among a number of states in the United States.

The mechanisms could do much more. The Kyoto Protocol can provide part of the blueprint of the Copenhagen outcome. For example, the Protocol's Clean Development Mechanism allows industrialized countries to generate emission credits through investment in emission reduction projects in developing countries.

The Clean Development Mechanism (CDM) presently has invested in more than 1160 projects in 49 countries and is expected to generate more than 2.7 billion certified emission reductions, each equivalent to one tonne of carbon dioxide, by the time the first commitment period of the Kyoto Protocol ends in 2012.



UNFCCC estimates that the CDM projects that entered the pipeline in 2006 will result in \$25 billion in capital investment and that renewable energy and energy efficiency projects that were registered during 2006 will result in \$5.7 billion in capital investment. This is about triple the amount of official development assistance for energy policy and renewable energy projects in the same countries, UNFCCC says.

Green economics

The UN Secretary-General has posited that the world is at the threshold of “the age of green economics,” noting that investment in renewable-energy and fuel-efficiency technologies, along with other green technologies, had risen dramatically. With the right policies and a global framework, he has indicated, needed economic growth can be steered in a low-carbon direction.

“Handled properly, our efforts to cope with the financial crisis can reinforce our efforts to combat climate change,” Secretary-General Ban Ki-moon said.

Since the global financial crisis, there have been renewed worries that financing intended for climate change will have to be curtailed. But the Secretary-General has urged solutions that re-start economic demand while addressing issues that concern all people, especially the poor.

“As world leaders,” he said, “we are morally bound to ensure that solutions to the global financial crisis protect their interests, not just the citizens of wealthier nations. Those left behind by the previous boom – the so-called ‘bottom billion’, living on less than one dollar a day – must be brought into the next economic era. Again, a solution to poverty is also a solution for climate change: green growth. For the world’s poor, it is a key to development. For the rich, it is the way of the future.”

Achim Steiner, UN Under-Secretary-General and Executive Director of the UN Environment Programme (UNEP), who recently launched the Green Economy Initiative, said that the financial, fuel and food crises of 2008 are “part of a wider market failure,” which is “triggering ever deeper and disturbing losses of natural capital and nature-based assets, coupled with an over-reliance on finite, often subsidized fossil fuels.

“The flip side of the coin is the enormous economic, social and environmental benefits likely to arise from combating climate change and re-investing in natural infrastructure—benefits ranging from new green jobs in clean tech and clean energy businesses up to ones in sustainable agriculture and conservation-based enterprises,” he added.

Finance key to climate change negotiations

Countries have agreed that any outcome of the current climate negotiations must include a long-term global goal for emission reductions to keep temperature rise to a minimum. In addition, they have agreed that any new deal must include assistance to countries and communities struggling to adapt to and mitigate the impacts of climate change, mechanisms for making emission-reduction technologies more available to developing countries, and financing for addressing climate change.

It is, according to de Boer, “a huge, global problem, in need of a global solution, to reduce the cost of mitigation and to secure funding for adaptation. While concerted action significantly reduces the cost, it is clear that we will need all the tools at our disposal to really rise to the challenge.”

According to the International Energy Agency, global energy demand will grow by 55 per cent by 2030. In the period up to 2030, the energy supply infrastructure worldwide will require a total investment of \$22 trillion, with about half of that in developing countries.

Even in prosperous times, critics have charged that climate change action would be too costly, with ruinous consequences for economies. But the IPCC found that action to mitigate climate change-causing emissions by 2030 would, at most, subtract only three percentage points from cumulative GDP growth over the next twenty-plus years.

In addition, official development assistance will be necessary for developing countries to reduce emissions and adapt to the impacts of climate change. The UN Development Programme’s 2007 Human Development Report concluded that \$86 billion in new and additional finance for adaptation through transfers from rich to poor by 2016 was needed to protect progress towards the Millennium Development Goals.