Some questions to ask at COP 23

1. Who’s running the show on Paris finance?

There’s a process for running the climate negotiation side of the Paris agreement, most publicly the COPs themselves. There’s also quite a long list of UNFCCC finance mechanisms and facilities – ten of them in fact. But there’s almost no sense that these are connected in any meaningful way, or that they are working towards a co-ordinated internal agenda, let alone that they are making the vital connections with the private finance universe, which is where the $ trillions necessary to finance Paris actually reside. If we’re 15x down on where we need to be on funding, don’t we now need to contemplate a “finance director for Paris” with a brief and powers to create a global strategy and the public / partnerships to deliver on it?

2. Divide and conquer?

UNFCCC has the triumph of Paris behind it, and will no doubt continue to do a good job on writing the rule book for the future and then enforcing it. But the truth is that a mechanism and skillset for negotiating complex policy and scientific outcomes is utterly different to that for creating successful financial outcomes. The current UNFCCC finance facilities are the results of hard won battles and painfully convoluted negotiations and some important precedents have been established along the way. But we’re in a new world where operationalization and rapid deployment is the name of the game, requiring a very different set of actors and skill sets to ensure efficient, effective and accountable financial supply and implementation. We need financial architects to compliment the policy architects running the UNFCCC. Would it really be unthinkable to place the responsibility for the finance side of Paris in more appropriately qualified hands, and leave the UNFCCC to get on with what it does best, which is intergovernmental negotiations?

There’s one possible ready-made candidate – the IMF, a body that seems to lack a role equal to its global clout. Yes, we know: for many in developing countries it’s the Count Dracula of global institutions. But there are growing signs that it recognises its own responsibility for some of the downsides of globalisation and more readily favours a wider spectrum of financing solutions and definitions of economic health. As an applicant for the Paris Finance Director role, it does have the significant advantage of knowing something about global finance and how to co-ordinate it, and it does have credibility with the private sector.

By the way, if it’s a concern for developing countries and especially LDCs, that splitting out the negotiation and finance sides of Paris would reduce their leverage in negotiations, we don’t believe that would be the case. The responsibility for developed countries to deliver the funding they’ve promised at the UNFCCC doesn’t go away because the delivery mechanism has moved home, and nor does the transparency over delivery. In fact, with a highly experienced and hard-headed operator like the IMF in charge, it might very well improve.
3. Why have we got nearly ten times as many climate finance funds as there are jobs for them to do?

There are some thirty bi- and multi-lateral climate finance funds out there, but they basically only do three things – institutional readiness, adaptation and land use / REDD+. That means there are 30 agendas for applicants to navigate, all a bit different, rather than 3, which inevitably makes access many times harder than it needs to be, especially for small, more local applicants. We can’t afford to lose the money in these institutions, as they are vital for non-commercial or experimental activities, but we can surely afford to merge a lot of them, just as you would expect to happen in any market that’s efficient for its users. Another job for a Finance Director ...

4. What’s the GCF for?

It seems the GCF itself doesn’t presently know the answer to this question, so it’s definitely one worth asking. The answer, for sure, isn’t what it currently seems to think it’s for, which is to be all things to all people. In a logically arranged climate finance landscape, you could posit that the “free money” climate funds (see question 3) would do all the readiness and adaptation work that doesn’t have any commercial angle, while the GCF would be the prime interface between “official” public finance and private finance for Paris-related projects. With such a clear role, it could use its precious high-risk-appetite money to create leverage of lower-risk-appetite private money, including for some adaptation finance that has revenue streams attached. There could be a simple demarcation for GCF and non-GCF projects: If they can be leveraged, the GCF should handle them. If they can’t, the donor climate funds, linked to ODA and private philanthropy should take them on.

5. What are the Development Finance Institutions (DFIs) for?

In an optimal climate finance architecture, the DFIs would be the critical gateway for private finance into emerging markets and new technologies. They would de-risk initial investments into these markets and technologies, enabling private finance to get comfortable with the risks and work out longer term unsubsidised modalities for investment. At present, however, for the most part the DFIs seem to regard themselves as public sector investment banks, and are incentivised to accumulate assets with at or near commercial rates of return and in a basically opportunistic rather than a strategic way. Very little of their capital is directed towards early-stage, higher risk investments, and what’s directed at climate-related projects tends to be focussed on energy. The DFIs argue that their principal objective must be to maintain their AAA ratings, as this enables them to provide capital at lower cost. Leaving aside that many of their clients would burst into laughter at the notion of DFI capital being cheap, there is in fact significant scope for risk appetites to be lifted without endangering ratings or sustainability. If you’re from a developed country (as shareholders in these institutions, developed countries have board member representation), find out who your DFI board members are (normally civil servants) and challenge them to question the DFIs they govern far more closely over their roles and risk appetites.
6. Who’s counting?

It’s little understood that the 2.7°C temperature outcome that Paris currently achieves is highly conditional on countries (including large ones like India) receiving external financial assistance to implement their NDCs. If this is not forthcoming, the outcome is well in excess of 3°C. There is at present no way of keeping track of any of these conditional flows, yet to ensure they happen should surely be a strategic objective of any properly thought through climate finance architecture. Similarly, there is no way of linking what we call “green finance” (i.e. finance undertaken mainly by companies or financial institutions in the ‘ordinary course of business’, but which happen to fulfil NDC objectives) with the NDCs themselves. This needs attending to, surely a natural role for a Finance Director, and not just a Standing Committee of non-financial-experts (as in the UNFCCC). The Finance Director could also build on and support the work of think-tanks such as the CPI with their Landscape Study.