

## DSA-DFID Policy Forum on Climate Change

# Mitigation and new sources of development finance

### Discussion group notes, questions and readings

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### Questions for discussion

The three questions for this discussion group are as follows:

- Does the concern to mitigate climate change provide innovative opportunities to fund development?
- Will this result in development that is more sustainable at a local level? What are the implications for equity and justice?
- How can we ensure that mitigation funding does not crowd out other funding?

The following notes and references are intended only as a guide, but we hope they will help to structure the breakout group discussions.

### Is climate change mitigation a development funding opportunity?

1. **Financial flows and energy investment.** According to international organisations such as the World Bank<sup>1</sup>, the financial flows required for investment in energy systems over the coming decades (let alone making them low carbon) are very large. The International Energy Agency estimated in 2006 that \$20 trillion is required before 2030 world-wide<sup>2</sup>. Of this, more than half would be required in developing countries. This assumes a 'business as usual' scenario in which climate change policy signals are not strong. The IEA 'alternative scenario' for 2006 has similar investment figures – but only leads to 16% less annual emissions by 2030, a reduction that is not large enough for climate stabilisation. This leads to the question of whether climate change mitigation might direct this finance into low carbon investment.
2. **What kind of finance?** Financial flows for mitigation will be partly public, but the largest share will be private. Furthermore, much of the delivery of low carbon investment will be by private companies not governments. So mechanisms are required to facilitate the flow of this finance into 'low carbon' rather than 'high carbon investments'. The CDM is once such mechanism, but it has its limits (see below) and many agree that it is only likely to deliver a fraction of what is required (one estimate puts the investment generated by the CDM to 2012 at \$20bn<sup>3</sup>). This opens up a general question for discussion about the relative roles of the public and private sectors in providing and mobilising finance. What are these roles? What should governments do bilaterally and multilaterally?
3. **Aid debates and low carbon finance.** Whilst climate change has come to prominence as a critical international challenge relatively recently, the mobilisation of finance to deal

with climate change will need to take into account more ‘traditional’ debates about the role and form of aid. Existing institutions such as the World Bank are seen by many developed country governments as having a key role in helping to set up and manage mechanisms for low carbon finance. What are the benefits and risks of working through organisations such as the World Bank? There has been recent concern that the international component of the UK Environmental Transformation Fund will partly take the form of soft loans not aid<sup>4</sup>. Does this reveal a more generic tension between traditional approaches to aid and climate politics which emphasise the developed world’s responsibility for taking a lead?

4. **Finance is not the only issue.** Although many discussions about mitigation, development and investment focus on finance, this is not the only issue for developing countries. For example, there is a need to develop indigenous capabilities in low carbon technologies so that these can be manufactured, operated and perhaps developed in developing countries<sup>5</sup>. This example raises a number of questions: to what extent are there barriers due to the ownership of intellectual property for low carbon technologies by developed country / multinational firms? How can indigenous capabilities be developed and what is the role of developed country governments and firms in facilitating this? What is the role of national policies in developing countries to help generate demand for low carbon investments?

### **Will climate funding result in sustainable development?**

1. **Sustainable development and mitigation.** For many in the developing world, sustainable development and climate change mitigation have to be approached in an integrated way. Pathways that achieve this integration are possible – and have been analysed in some depth<sup>6</sup> - but have to be consciously chosen since some more ‘business as usual’ development pathways could be followed that are not compatible with climate stabilisation. This leads to the question about what kinds of development pathways could achieve this integration? What does low carbon growth look like?
2. **The CDM and sustainable development.** This could be discussed as a case study of the tensions between carbon finance and broader objectives such as sustainable development and technology capacity building. The CDM aims to promote both sustainable development and technology transfer<sup>7</sup> to developing countries. It has often been criticised for failing to deliver on these aims – and alternative approaches have been proposed<sup>8</sup>. What could be done to modify the CDM (or complement it) so that it is better able to deliver? Is it too much to ask of a carbon finance mechanism like the CDM to achieve lots of other development goals?

### **Will climate funding crowd out other funding?**

1. **Evidence for ‘crowding out’.** There is perhaps a risk that climate change will lead to the rebranding of development funding – and therefore less focus on other important issues. There have also been concerns that carbon emissions mitigation funds will primarily focus on larger developing countries (e.g. India and China) and will not assist less developed countries (e.g. in sub Saharan Africa). What evidence is there that ‘crowding out’ is happening, and what are the future risks of this? Does a focus of publicly-led mitigation finance on rapidly developing countries make sense given that these are the source of a significant and growing share of global emissions?

## References

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- <sup>2</sup> Jean Acquatella (2007) 'How finance can enable a low carbon society' UK-Japan workshop: Achieving a Low Carbon Society, London, June 2007; <http://www.ukerc.ac.uk/Downloads/PDF/07/0706LCS/0706UKJapanLCSAcquatella.pdf>
- <sup>3</sup> Jean Acquatella, *op cit*.
- <sup>4</sup> Vidal, J. (2008). UK demands repayment of climate aid to poor nations. *The Guardian* 17<sup>th</sup> May; <http://www.guardian.co.uk/environment/2008/may/16/climatechange.internationalaidanddevelopment>
- <sup>5</sup> Ockwell, D., J. Watson, et al. (2006). UK-India Collaboration to Identify the Barriers to the Transfer of Low Carbon Energy Technology. London, Report by the Sussex Energy Group (SPRU, University of Sussex), TERI and IDS for the UK Department for Environment, Food and Rural Affairs; [http://www.sussex.ac.uk/sussexenergygroup/documents/uk\\_india\\_tt\\_exec\\_summ\\_final.pdf](http://www.sussex.ac.uk/sussexenergygroup/documents/uk_india_tt_exec_summ_final.pdf)
- <sup>6</sup> Halsnaes, K., P. Shukla, et al. (2008). "Sustainable development and climate change: Lessons from country studies." *Climate Policy* 8(2): 202-219.
- <sup>7</sup> Haites, E., M. Duan, et al. (2006). Technology Transfer by CDM Projects. Toronto, Canada, Margaree Consultants Inc; <http://www.margaree.ca/papers/Technology%20Transfer%20in%20the%20CDM-2006-08.pdf>
- <sup>8</sup> Aaron Cosbey, Deborah Murphy and John Drexhage (2007) Market Mechanisms for Sustainable Development: How Do They Fit in the Various Post-2012 Climate Efforts? IISD, July; [http://www.iisd.org/pdf/2007/market\\_mechanisms.pdf](http://www.iisd.org/pdf/2007/market_mechanisms.pdf)