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Discussion Paper

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CLIMATE FINANCE IN AND BEYOND THE PARIS AGREEMENT: IMPLEMENTING CLIMATE FINANCE COMMITMENTS IN ASIA AND THE PACIFIC

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Contents

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by

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Abstract

The Paris Agreement concluded a decade-long struggle to agree on a comprehensive global climate agreement, and for the first time ever, all the 195 Parties to the UNFCCC signed on to it. The Agreement sends a clear signal to make all financial flows consistent with a pathway towards low-carbon, climate-resilient development and to shift investments away from activities that are incompatible with achieving the temperature goals. Although the Paris Agreement makes significant progress, lots of work remains. Recognizing this, this paper answers the following question: In what ways will the Paris Agreement bring out opportunities and challenges of implementing climate finance commitments in the Asia and the Pacific region? This paper discusses planned action prior to 2020, the landscape of climate finance, climate public expenditure in selected countries, and best practices of mobilizing climate finance in the region. The paper concludes with a timeline proposal for implementing climate finance commitments in the region.

Keywords*:* Climate finance, the Paris Agreement, nationally determined contribution.

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I. Introduction

The 2030 Agenda for Sustainable Development was adopted as United Nations General Assembly resolution A/RES/70/1 in 2015 and its Goal 13 recognizes that taking urgent action to combat climate change and its impacts is one of the key measures to transform our world and achieve sustainable development (UN, 2015a). The Addis Ababa Action Agenda adopted at the Third International Conference on Financing for Development in 2015 affirms strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity (UN, 2015b). The Sendai Framework for Disaster Risk Reduction adopted at the Third UN World Conference in 2015 sets the goal of achieving substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries over the next 15 years (UN, 2015c). The adoption of these important UN resolutions in 2015 set the backdrop of the negotiation for a global climate agreement at the 21st session of the Conference of the Parties (COP) in Paris.

The Paris Agreement concluded a decade-long struggle to agree on a comprehensive global climate agreement, and for the first time ever, all the 195 Parties to the UNFCCC signed on to it. The Paris Agreement aims to achieve sustainable development through the limitation of global temperature increase. It pursues the limitation in global temperature increase well below 2°C (and strengthening this limitation to 1.5°C) by peaking emissions as soon as possible, rapidly reducing emissions in line with science, and reaching a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases (GHGs) in the second half of this century. It aims to react to global temperature increase in a way that enhances adaptive capacity, strengthens climate resilience, and reduces vulnerability. The Paris Agreement aims to enable the paradigm shift towards low-carbon and climate-resilient development by making all financial flows consistent with these goals.

The countries in Asia and the Pacific are most vulnerable to the impacts of climate change. In the past decade, about three million people in the region have been affected by natural disasters and almost 900,000 lost their lives (ESCAP, 2015a). The rising trend of economic losses from natural disasters continued in 2014 and overall economic losses from natural disasters totalled approximately USD 60 billion in 2014 in the region (ESCAP, 2015b). In addition, the Asia and the Pacific region is already the most flood-prone region in the world, with floods in 2012 affecting 78 percent of the population in the region; and if current climate change patterns continue, by 2100, hundreds of millions of people in the region, most of them in the coastal areas, are predicted to be displaced by coastal flooding (IPCC, 2014). At the same time, the Asia and the Pacific region was responsible for more than half of total global GHG emissions in 1990-2012 and this contribution is projected to increase over the next decade (ESCAP, 2015c).

The countries in the region are taking concrete national actions to address negative economic-social-environmental impacts of climate change. This discussion paper serves as a background paper to facilitate the discussions at the First High-Level Follow-up Dialogue on Financing for Development in Asia and the Pacific, to be held on 30-31 March, 2016 in Incheon, Korea and aims to address the following question: In what way will the Paris Agreement bring out opportunities and challenges of implementing climate finance commitments in the Asia and the Pacific region?

This paper is organized as follows: Session 2 provides an overview of the Paris Agreement, with an in-depth discussion on climate finance and market and non-market mechanisms in the Paris Agreement. Session 3 summarizes the communicated Intended Nationally Determined Contributions (INDCs) of countries in the region, estimates the financial needs for implementing INDCs, and describes the positions on the use of market mechanisms of countries in the region. Session 4 discusses enhanced action prior 2020 and focuses on the topics of the current pledges toward the USD 100 billion commitment, the landscape of climate finance worldwide and in the region, climate public expenditure in selected countries (Bangladesh, Cambodia, Indonesia, Nepal, Samoa, Thailand, and Viet Nam), and best practices of mobilizing climate finance in the region. Finally, this paper concludes by Session 5 with a proposal of the timeline of implementing climate finance commitments in the Asia and the Pacific region.

II. The Paris Agreement

A. Overview of the Paris Agreement

In its basic architecture, the Paris Agreement is entirely built around voluntary country pledges and abandoned the Kyoto approach of setting up legally binding GHG emissions targets through multilaterally negotiated processes. A failure to deliver the Paris Agreement would have been devastating and the significance of it can be manifested in several ways.

The acceptance of the 1.5°C long-term goal can be considered as one of the most positive outcomes of the Paris negotiations. The Paris Agreement stipulates to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change" (Article 2.1a). Small Island States and African nations had demanded for years to limit the temperature increase to 1.5°C so as to prevent the severe impacts that could threaten their peoples and the IPCC's Fifth Assessment Report indicated the disappearance of Small Island States even if the 2°C goal was achieved (IPCC, 2014). The Paris Agreement answered to these calls and included the reference to 1.5°C as the new ceiling of global temperature increase.

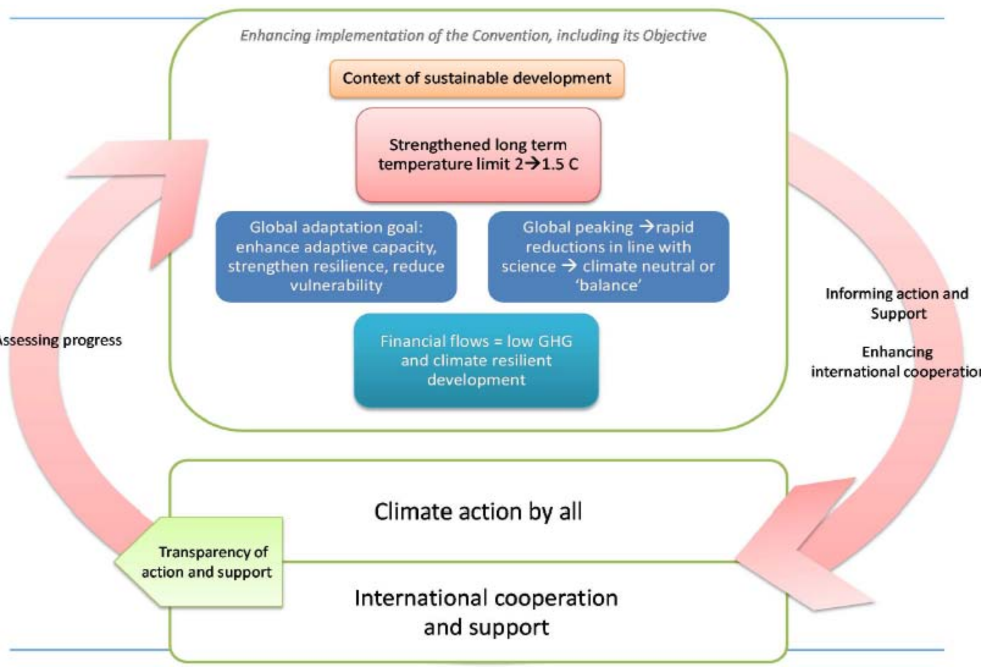
In addition, the Paris Agreement requires Parties to "reach global peaking of greenhouse gas emissions as soon as possible….to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century…" (Article 4.1). Although the Paris Agreement does not specify a quantified emissions reduction objective, most scientists interpret this provision as a target of achieving global zero emissions by 2060 to 2080 (Clemencon, 2016). The vision of achieving zero-emissions is another new target written into an international climate agreement for the first time.

Furthermore, although country pledges under the Paris Agreement are voluntary, the process to periodically review nationally determined contribution is legally binding. The

Paris Agreement requests that each party "shall communicate a nationally determined contribution every five years" (Article 4.9) and "each Party's successive nationally determined contribution will represent a progression beyond the Party's then current nationally determined contribution and reflect its highest possible ambition" (Article 4.3). These provisions indicate that Parties have to submit new or renewed pledges in 2020 for the second time and do so every five years thereafter. These important provisions will improve the transparency of how Parties account for and report on their emissions and will enforce the implementation of country pledges (Clemencon, 2016).

In the context of sustainable development, the Paris Agreement calls for the strengthening of long term global temperature limitation from 2°C to 1.5°C. It sets up the global adaption goal of enhancing adaptive capacity, strengthening resilience, and reducing vulnerability as well as the mitigation goal of achieving global peaking as soon as possible, rapidly reducing emissions in line with science, and reaching climate neutral in the second half of this century. Enhancing the implementation of the Convention, including its objective, will build upon climate action taken by all and informed action through enhanced international cooperation and support, and the transparency of action and support will subsequently enable the assessment of progress towards the operationalization of the Paris Agreement. Figure 1 explains the operation framework of the Paris Agreement.

Figure 1. The operation framework of the Paris Agreement



Source: Adapted from Barry (2016)

However, what was avoided under the Paris Agreement cannot cover up what is missing in it. While most people felt relieved as an agreement is better than no agreement, it is worth noting that the Paris Agreement has not addressed the fundamental problems of relying on fossil fuels for economic growth and has not provided a blueprint for achieving the long-term goals of 2°C and 1.5°C. The Paris Agreement does not define legally binding targets, neither does it include an emissions peak year, specific emissions reduction timeline, or a liability provision that links financial compensation to loss and damage. Article 9 related to climate finance, which will be interpreted in-depth in section 2.2, is also weak.

B. Climate finance in the Paris Agreement

One of the critical features of climate finance in the Paris Agreement is to make all financial flows consistent with the goal of enabling the paradigm shift towards low-carbon and climate-resilient development. The new and additional mobilization of financial resources provided to developing countries should enhance the implementation of their policies, strategies, regulations and their climate change actions with respect to both mitigation and adaptation to contribute to the achievement of sustainable development goals.

It should be noted that the Paris Agreement is strong when all pieces are united together and its strength is greatly diminished if it is not treated in a holistic way. This is the case for climate finance when climate finance is analyzed separately as a single component. If each provision of Article 9 is to be checked against the existing finance obligations under the UNFCCC, it seems that the Paris Agreement is weak on climate finance.

With regard to the provision of financial support, the Paris Agreement requires developed countries to “provide financial resources to assist developing country Parties” (Article 9.1) and to “take the lead in mobilizing climate finance” (Article 9.3). These obligations are simply a rehashing of the existing commitments of developed countries under the UNFCCC. However, developing countries are “encouraged to provide or continue to provide such support voluntarily (Article 9.2). Many developing countries opposed this new provision, concerning that the new obligation of developing countries—voluntary or not—will dilute developed countries’ existing obligations under the UNFCCC. Such concern is demonstrated by China’s approach of making climate finance contributions: Instead of contributing to the Green Climate Fund (GCF), China will deliver its USD 3.1 billion south-south pledge through its own development programs.

With regard to the predictability of future climate finance, the Paris Agreement only includes a general provision that the “mobilization of climate finance should represent a progression beyond previous efforts” (Article 9.3). Instead, the Paris Decision that accompanies the Paris Agreement decides to extend the USD 100 billion commitment through to 2025 and stipulates to set “a new collective quantified goal from a floor of