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Subcommittee on Domestic and International Monetary Policy, Trade, and Technology

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Summary

- Climate change is the greatest environmental challenge that our society faces today. Analysis by our scientists tells us that climate change is an imminent and unprecedented threat both to natural systems and to the hundreds of millions of people who depend upon those systems for their livelihoods, health and welfare.

- U.S. leadership is essential to catalyze successful global efforts. A strong U.S. climate policy would open significant channels for international cooperation that can provide incentives and pathways for developing countries to participate in reducing greenhouse gas emissions, create important opportunities for U.S. companies to engage in international carbon markets and to export U.S. clean technologies, and help maximize efficiencies and thus control the costs of climate mitigation

- We support the Clean Technology Fund funding. By contributing to the Clean Technology Fund, the US will support one of the key enabling mechanisms to encourage developing countries to pursue a cleaner, more sustainable path to development – one that will benefit all of us by helping to reduce the greenhouse gas emissions these countries will produce, and helping to reduce their growing demand for increasingly scarce sources of energy. This would be a demonstration of much valued, and needed, US leadership to address climate change in the international climate debate. And by coming to the international bargaining table with carrots, in the form of technology funding, the US will be in a much stronger negotiating position.

- The CTF will provide short term incentives to help developing countries meet the challenges of climate change mitigation and adaptation and to help them take on new commitments in a future international climate change agreement.

- TNC believes that the World Bank, together with the other regional development banks, is capable of managing the Clean Technology Fund. The World Bank has several comparative advantages which make this so – against which the World Bank should be held accountable and against which the success of the Clean Technology Fund and the future role of the World Bank in international climate change financing should be evaluated.

FULL TESTIMONY

Good afternoon Mr. Chairman and members of the Subcommittee. I am Dr. Andrew Deutz, Director of International Institutions and Agreements at The Nature Conservancy. I would like to start by thanking you for the opportunity to testify today on the Administration's proposal to establish a multilateral Clean Technology Fund for climate change to be administered by the World Bank.

The Clean Technology Fund is part of an emerging package to provide short term incentives and assistance to help developing countries meet the challenges of climate change mitigation and adaptation and to help them take on new commitments in a future international climate change agreement. The United States has an opportunity to show strong leadership by contributing to the Clean Technology Fund, as well as provide additional funding for adaptation and reducing emissions from deforestation in developing countries. The World Bank has a comparative advantage in administer these funds, but it needs to ensure that it effectively leverages the Clean Technology Fund to green the development trajectory of its client countries and its own larger lending portfolio.

My comments today will begin with some background on The Nature Conservancy's interest and involvement in climate change and then focus on three key themes – the international climate change policy context, why the U.S. should participate in the Clean Technology Fund, and the role of the World Bank.

The Nature Conservancy and Climate Change

The Nature Conservancy is an international, nonprofit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on earth by protecting the lands and waters they need to survive. Our on-the-ground conservation work is carried out in all 50 states and in more than 30 countries and is supported by approximately one million individual members. The Nature Conservancy has protected more than 117 million acres of land and 5,000 miles of river and more than 100 marine areas around the world.

Climate change is the greatest environmental challenge that our society faces today. Every acre of land and mile of coast protected by The Nature Conservancy will be affected by climate change. Climate change is already stressing human and natural systems in ways that menace economies, people and biodiversity. Prompt action to address this threat is essential to minimize future harm to nature and to the social and economic fabric of our communities.

A Comprehensive U.S. Climate Policy

While the testimony provided today focuses on U.S. support for the Clean Technology Fund, strong action to address all major causes of climate change across sectors is essential. The Nature Conservancy urges Congress to act quickly to address this

mounting challenge. We advocate multi-sector climate change policies that include three paramount concepts:

- A strong cost-effective cap on emissions and a market-based program designed to stabilize atmospheric greenhouse gas concentrations at a level that ensures the well-being of human communities and ecosystems worldwide.
- Incorporation of verified credits from reduction of emissions from forest and land-use practices.
- Support for programs and activities designed to help ecosystems and people that rely on them to cope with the impacts of climate change.

U.S. leadership is essential to catalyze successful global efforts to adopt comprehensive climate policy that includes the above concepts. A strong U.S. climate policy would open significant channels for international cooperation that can:

- Provide incentives and pathways for developing countries to participate in reducing greenhouse gas emissions;
- Create important opportunities for U.S. companies to engage in international carbon markets and to export U.S. clean technologies; and
- Help maximize efficiencies and thus control the costs of climate mitigation.

The International Climate Change Policy Context

I would like to frame the discussion about the Clean Technology Fund in terms of catalyzing global action on climate change. The Bali Climate Change Conference last December agreed to initiate a new round of global climate change negotiations to develop a new international agreement on emissions reductions by the end of 2009. The new agreement will address four key "building blocks" – mitigation measures, adaptation measures, technology, and finance. One of the breakthroughs of the Bali talks was the willingness of developing countries, including the major emitting developing countries like China, India, Brazil and South Africa, to move beyond the commitments they made in adopting the UN Climate Change Convention in 1992 to take on new commitments to alter the carbon intensity of their development pathways. This willingness was contingent on the industrialized countries, like the United States, showing leadership by taking on further emissions reductions commitments and by providing financial and technology support to developing countries to assist their efforts to mitigate and adapt to climate change.

Getting a global deal by the end of 2009 will require constructing a suite of incentives for developing countries to undertake new commitments. The incentive package will likely have three components: first, least developed countries – mainly in sub-Saharan Africa, South Asia, and small islands - which are likely to suffer some of the worst impacts of climate change yet be least able to deal with them effectively, will need to be provided with increased foreign aid flows to help them adapt. Second, the forest-rich tropical countries – countries like Brazil, Indonesia, Papua New Guinea, and some Latin American and central Africa countries – will be incentivized by new funding vehicles to reward them for reducing their emissions from deforestation. Third, the rapidly industrializing countries with heavy industrial sectors – countries like China, India and

South Africa – can be incentivized by providing funding to spur the uptake of low-carbon technologies across a wide range of sectors – electricity generation, transportation, manufacturing, etc.

Getting this tripartite incentive structure in place – for adaptation, for forests, and for technology – is critical to getting developing countries to take on new commitments as part of a global deal in 2009. These developing country commitments will not be the same type of quantified reduction targets that industrialized countries will need to take on. Nevertheless, getting developing countries to take on new commitments will be the enabling condition for industrialized countries, including the U.S., to sign on.

So, when the U.S. contributes to the Clean Technology Fund, it signals critical support for one of the key enabling factors for a global climate deal. Coming to the table with carrots instead of sticks further demonstrates the much valued and needed U.S. leadership in the international climate debate.

U.S. Participation in the Clean Technology Fund

The Nature Conservancy strongly endorses the Administration's request for funds to contribute to the establishment of the Clean Technology Fund administered by the World Bank. We do, however, have a few qualifications.

First, the funding must be new and additional to existing U.S. contributions for international climate change and biodiversity aid. We would like to ensure that the U.S. contribution to the Global Environment Facility (GEF), the multilateral fund established to finance climate change and biodiversity projects in the developing world, is fully assured. Current U.S. commitments to the GEF stand at $80 million per year, and we encourage the U.S. to significantly expand that support when the GEF Trust Fund is replenished next year. We also encourage the U.S. to pay its outstanding arrears to the GEF, currently about $150 million, noting that this will mobilize further, withheld contributions by other donor governments. In addition, we would like to ensure that the international conservation funding that goes through USAID, currently $195 million per year, is assured and expanded over time.

Second, we would also like to see the United States become an investor in the Forest Carbon Partnership Facility (FCPF). Deforestation currently accounts for about 20% of global greenhouse gas emissions; Indonesia and Brazil are the third and fourth largest greenhouse gas emitters, behind the United States and China, and the majority of their emissions come from deforestation and land conversion. The FCPF was established last December to bring together donors and partners to fund pilot projects to reduce emissions from deforestation in order to help shape a global mechanism to reduce emissions in developing countries, conserve biodiversity, promote local livelihoods in tropical countries, and provide real climate change benefits. It will serve as a platform for key countries to come together and work out the rules and best practices for reducing deforestation. It will be important that the United States have a seat at the table in designing one of the critical elements of the future climate change regime, as well to as

be able to bring to bear the extensive expertise that exists in the U.S., e.g, in the U.S. Forest Service, academia, and private forest managers. The FCPF currently has pledges for capitalization at $165 million out of an envisioned $300 million. Investors include ten governments (including the U.K, Japan, Germany and Australia) as well as The Nature Conservancy. The Nature Conservancy is investing five million dollars. The Administration, we understand, has also requested a modest $5 million in FY09. We are glad to see the Administration working to be part of the FCPF, and would like to see this request be significantly expanded.

Third, we would like to see the United States show real international leadership and also provide similar amounts of funding for the other critical incentive packages to enable a global deal – namely, funding for adaptation and for forests. We note that there are provisions within the Lieberman-Warner bill under consideration in the Senate, but those potential funding streams would only come on line after 2012. We would like to see the United States provide increased international assistance for adaptation and forests now, in order to provide carrots for the negotiations this year and next and to bridge the gap in international funding until 2012. The World Bank is also establishing a Strategic Climate Fund with a pilot program for climate resilience (aka adaptation) as well as a possible Forest Investment Fund.

By way of comparison, we note that the UK is considering approximately a $2 billion contribution to the World Bank's Climate Investment Fund and that Japan is considering $1 billion, and possibly more over the next few years. Last December, Norway's Prime Minister, Jens Stoltenberg, announced $2.5 billion in funding for forests over the next five years. Last week, German Chancellor Angela Merkel announced that Germany would contribute 500 million Euros (approx. $750 million) for forest protection and biodiversity conservation over the next four years, increasing to 500 million Euros per year after 2012.

For the U.S. to provide $2 billion in total funding towards the Clean Technology Fund would be a welcome signal of U.S. re-engagement in the international climate change discussions. It would help to incentivize developing countries to take on new commitments in the forthcoming global climate change negotiations, and that is an enabling condition for the U.S. to shoulder its global responsibility. For the U.S. to come to the negotiating table with a new set of carrots will be a show of long-awaited U.S. leadership.

In addition, the Clean Technology Fund will be targeted towards the rapidly industrializing, rapidly growing developing countries like China and India. These are huge growth markets for clean technologies, which are likely to be one of the great growth sectors of the 21st century's globalized, carbon-constrained economy. Generating market opportunities for next generation technology penetration in countries like China and India is a smart investment – one that countries like Japan and the UK are planning to make.

The Role of the World Bank

Lastly, I would like to address the proposal for the World Bank to administer this funding. TNC believes that the World Bank, together with the other regional development banks, is the right institution to manage the Clean Technology Fund. The World Bank has several comparative advantages which make this so – against which the World Bank should be held accountable and against which the success of the Clean Technology Fund and the future role of the World Bank in international climate change financing should be evaluated.

First, the World Bank, together with the other regional development banks, has the capacity to disburse large amounts of money quickly and relatively efficiently. Timing is critical here. The purpose of the Clean Technology Fund is to generate projects at a scale significant enough to impact a countries emissions trajectory and be replicable. In terms of the negotiations, the funds should be available to serve as incentives for reaching an agreement by 2009. In terms of project execution, the projects should be demonstrating tangible results by 2012, when the next generation of climate change financing vehicle – both public and private – should come on line. These projects need to demonstrate measureable success by then in order to provide models beginning in 2012 – that is the only way to achieve changes in developing country emissions at a scale that matters.

Second, the World Bank has the ability to offer large grants, concessional financing and blended financing vehicles. There are other climate change financing vehicles, such as the Adaptation Fund, the Global Environment Facility, and two other GEF trust funds that are available to provide small scale, project level grant financing. The Clean Technology Fund should concentrate on large scale funding opportunities where grant funding or concessional lending can leverage larger bilateral and multilateral lending operations and/or private sector finance.

Third, the World Bank has the ability to influence national development frameworks in developing countries. Most other public sector climate change financial vehicles are the domain of environment ministries, which tend to be politically weak. The World Bank is in dialogue with ministries of finance and planning and well as line ministries, and thus is in a position to ensure that clean energy pathways, as well as climate change resiliency and forest conservation, are mainstreamed into the core development planning frameworks of the countries were it works. Historically, the World Bank's track record with respect to mainstreaming environment in national poverty reduction strategies has been poor. It will need to do better with respect to climate change and clean energy going forward if it is to remain a credible development agency in any future international climate change financial architecture.

Fourth, the World Bank has the ability to use the Clean Technology Funds as a way to leverage its own, much larger energy, transportation and infrastructure lending portfolios. 15 years ago the environmental community hoped that GEF climate change projects would be able to leverage the much larger World Bank energy portfolio; those hopes have not been realized, in part because of the size of GEF projects relative to World Bank

projects. Now however the significantly larger funding opportunities, focused on a handful of key countries, may be able to do a better job of influencing the World Bank's larger portfolio. The record to date is mixed. Since the World Bank established its Clean Energy Investment Framework, it has doubled its energy sector lending from about $4 billion to about $8 billion and the percentage of so-called "low-carbon" projects increased from 28% to about 40%. The good news is that the percentage of low carbon projects is increasing; the not-so-good news is that the absolute amount of World Bank financing for "high carbon" projects is also increasing. Again, to be a credible part of any future international financial architecture for climate change, the World Bank will need to further "clean" its own portfolio and demonstrate that it facilitates policy change in its client countries. The CTF should be able to help it do this.

If the CTF is to realize its goal of catalyzing global action to reduce greenhouse gas emissions, it must be administered in a transparent and inclusive manner. It is important that developing countries see and acknowledge the benefits of this Fund, which can inspire them to greater action. Good "donorship" means being responsive to the demands of the recipient / borrowing countries and working in line with the Paris Declaration on Aid Effectiveness principles. Success is when the major middle income developing countries make the political switch themselves to a low-carbon future. The role of the Clean Technology Fund should be to reduce the costs of doing that and to demonstrate policy approaches and projects that are replicable at a scale that matters so that developing countries will be willing to take on new commitments by 2009 and undertake new development pathways by 2012. The energy, infrastructure and transportation sector investments made today will likely be with us for 30-40 years. That makes it essential that we do everything we can to assist rapidly growing developing countries to lock in low-carbon investments today.