

DIplomacy: Catalyzing the Climate Economy

Foreign policy has played a vital role in supporting international climate negotiations by reaching out to partner countries bilaterally and making the case for more ambitious climate action. The Paris agreement is certainly a game changer for climate diplomacy. This does not mean, however, a break for climate action and also diplomats. To ensure that Paris will be a sustainable success active engagement is required to fully implement the INDCs and to ratchet up ambition in the coming years. Catalysing the climate economy will be the key to accelerate the path towards a much-needed climate-friendly trajectory.

Climate action makes economic sense

Many economists used to believe that, for any given country, acting to curb greenhouse gas emissions was a costly burden: it involved imposing direct costs on domestic businesses and households at present, to get an incremental reduction in undesirable climate impacts in the distant future. In this scenario, all countries benefit, regardless of whether they implement climate mitigation by themselves (because the atmosphere is a global commons). This means that every country has an incentive to “free-ride” on the mitigation actions of others. Ultimately, the tragic result is that the ambition to undertake mitigation action is too low on a global level.

Today, that view has changed: Up to 90% of the actions required to get onto a 2°C pathway could be compatible with goals of boosting national development, equitable growth and broadly shared improvements in living standards, according to the Global Commission on the Economy and Climate. There are three key phenomena behind this new cost-benefit analysis of domestic climate action:

>see Global Commission on the Economy and Climate (2015): Seizing the Global Opportunity: Partnerships for Better Growth and a Better Climate

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- Saving emissions can reduce overall costs, e.g. investment costs of retrofitting buildings can be offset by subsequent energy savings (“negative cost abatement”). This part of the analysis is the most established one.
- Economies of scale and learning-by-doing innovation lead to falling costs of action over time. For example, solar PV prices have decreased dramatically over the last two decades, and have, in many regions, now become competitive with other sources of energy.
- Enormous potential economic, social, political and environmental “co-benefits” (non-climate benefits, see infographic: p.6). Many investments can take into account climate considerations without becoming more costly.

For these reasons, there is a strong case that the vast majority of emissions reductions needed, can be done in ways that are beneficial to individual countries even when only looking at efficiency considerations based on standard economic thinking. Taking a broader perspective of the values, costs and benefits at stake, of distributional and other ethical considerations, the case for domestic action is even stronger.

Climate change is intrinsically linked to sustainable Development

Climate change is intrinsically linked to sustainable development, impacting, among other factors, a nations’ ability to reduce poverty and to ensure food security. To harness all co-benefits, climate change needs to be integrated into national development priorities. Rather than placing the emphasis on ‘development first’, it is important to recognize the strong synergies between sustainable poverty reduction and low-carbon and climate-resilient development. For example, it has been estimated that climate change could push an additional 30-100 million people into extreme poverty, mostly due to land degradation and impacts on agriculture. Reducing food losses and improving smart agricultural practices, such as sustainable rice systems, which led to significant increases in yield, are examples of how to address this.

Barriers to realizing these benefits

Key barriers to realizing all of these benefits are often rooted in the domestic political economy:

- Path dependencies make it difficult to change the trajectory and equilibrium path of the overall economy. The transformative shift requires extra effort (e.g. developing new technologies), but pays off due to larger benefits of alternative trajectory. Shifting now is cheaper than in the future because of lock-in effects of further infrastructure build-up (USD 89 trillion in relevant investments will be made over the next 15 years alone).
- A transition to a low-carbon economy makes sense in the bigger picture, but has distributive implications. These need to be addressed and powerful vested interests overcome. For example, companies with carbon-intensive business models, such



**HEALTH COSTS OF GDP
DUE TO AIR POLLUTION
IN 15 TOP EMITTERS**

as fuel extractors and distributors, have incentives to prevent change. In the energy sector, these are often monopolists, state-owned or make up the lion's share of a company's economy and exports. Policy-makers need to gradually transform these structures and to prevent or mitigate change-induced shocks to the economy and to the labor market. International obligations can serve as a 'commitment device'.

- o Externalities: Businesses do not always pay the true cost of their economic activities. Polluting air and water, logging forests and other harmful environmental and climatic activities do not register on the balance sheet of most companies. To this extent, putting an appropriate price on carbon will improve overall welfare. The net gain from reforming global energy subsidies is projected to be US\$1.8 trillion (2.2 percent of global GDP), according to the IMF.

Latin America: Integrating Climate Policies into National Development

In Latin America, climate change is not just considered an environmental issue, but also a cross-cutting development issue. In this regard, it may, in particular, hold important lessons for efforts to mainstream climate into economic development planning, as well as into sectorial policies. To this end, increasingly subnational governments are key drivers. Nevertheless, it is clear that the costs of climate change impacts are still not incorporated adequately into these economies and the climate finance resources needed for supporting transition processes are still lacking.

Peru, with its COP20 Presidency in Lima 2014, and its ambitions to become a member of the OECD, has climate-specific and broader foreign policy reasons to show commitment to climate action. Its Plan CC, the main domestic climate change strategy, running until 2021 is based upon an integrated approach. It is implemented by its cross-ministerial and participatory approach, an integrated long-term vision, multi-sectorial stakeholder participation, and cross-cutting mitigation and adaptation strategies elaborated.

Colombia has also embarked on a broad process to incorporate climate change in a systemic way into its development agenda. After extreme climatic events in 2010-11, Colombia began to integrate climate change into their risk and development plans. An inter-institutional committee bridges perspectives and needs from the agricultural, energy, transport, and tourism ministries – all of which are sectors relevant for climate finance. The process also includes integrating financial aspects of climate change into the business plans of enterprises.

Exemplary for international collaboration and exchange, six cities from different Latin American countries are taking the lead in promoting low-carbon and climate-resilient development, as the project "cities footprint" shows. It involves the cities of Quito, Lima, La Paz, Fortaleza,



\$1.8 trillion

NET GAIN FROM REFORMING GLOBAL ENERGY SUBSIDIES (2.2% OF GLOBAL GDP)

>see IMF (2014): Getting Energy Prices Right: From Principle to Practice

>see Cities Footprint Project



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Fortaleza, Guayaquil and Santa Cruz. Carbon and water footprints were crafted in the process of a multi-actor collaboration involving horizontal integration among city actors and sectors, and vertical integration with national and international entities and initiatives (e.g. INDC development, Compact of Mayors initiative). It allows benchmarking and sharing best-practices among cities, and transcends planning processes, by facilitating links between cities, funders and tech suppliers for effective implementation of strategic interventions.

Initial experience is showing: It is important to strategically allocate domestic resources in order to attract international public funds and to promote the private investment in specific climate change actions. To move forward in financing adaptation and mitigation actions, a systemic approach is needed considering the multiple dimensions of climate change in the economic and financial planning processes of a country. With this in mind, climate change could serve as an opportunity to develop more sustainably. The SDG Agenda is a good framework in this regard to raise political will for climate-compatible development.

Africa: The Climate Benefits of Sustainable Land and Water Management

African countries are – individually and collectively – increasingly taking the lead in integrating climate action and development policies, and to realize the co-benefits of climate action. Prime examples are regional land restoration initiatives such as the African Forest and Landscapes Restoration Initiative (ARI), committed to restoring 100 million hectares of degraded and deforested land in Africa by 2030.

The climate change strategy of the African Union (AU) is a 20-year strategy (2015-2035) to be reviewed every five years. The strategy is meant to complement those of the Regional Economic Communities (RECs) and Member States. It includes mainstreaming and integrating climate change imperatives in planning, budgeting, and development processes; and the promotion of national, regional, and international cooperation. As part of Africa's ambitions to reduce the devastating effects of climate change, the Committee of African Heads of State and Government on Climate Change (CAHOSCC) provide leadership and a forum for coordination.

The Sustainable Land Management, Desertification, Biodiversity and Adaptation to Climate Change (LDBA) is one of the five Regional Flagship Programmes approved by the African Ministerial Conference on the Environment (AMCEN) for the implementation of the Rio+20 Outcomes in Africa. LDBA aims to build an effective knowledge base & network on sustainable management of ecosystems and their impacts on development in Africa, to support the development of adaptive capacity for climate change through harnessing ecosystem services and ecosystem-based adaptation, and to provide support to existing platforms for high-level policy dialogue around the programme for enhanced regional coherence and integrated development. This overall



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integrated approach greatly facilitates thinking climate action and development together, and to realize the co-benefits of climate action.

The Africa Landscape Action Plan (ALAP) and the African Forest and Landscapes Restoration Initiative (ARI) commit to restoring 100 million hectares of degraded and deforested land in Africa by 2030 to improve soil fertility and food security, improve access to clean water, combat desertification, increase biodiversity and habitat, create green jobs, bolster economic growth and livelihood diversification, and increase the capacity for climate change resilience and adaptation.

What role for foreign policy?

Diplomats can bring together relevant stakeholders and include climate thinking when communicating other policy fields and aims, and ask for integration of such considerations.

It is key to highlight opportunities of climate action not only in the narrow environmental and climate discourse, but much more broadly – be it in economic ministries, in line ministries e.g. for transport, energy or land use, or of course in the business community and multilateral fora. With their cross-sectoral convening power and bilateral relations, diplomats can stimulate feeding these opportunities into these discourses. This implies changing the perspective from discussing the co-benefits of climate action towards the climate co-benefits of other policies. For example, in working with the African Landscape and Resilience Initiative, diplomats can encourage AU member states and sub-regional institutions to adopt the landscape approach in their interventions. They could also broker technical and financial partners for investing in integrated landscape management and land restoration.

In the same vein, foreign policy coherence could benefit from a systematic screening of relevant instruments of bilateral cooperation, such as energy or resource partnerships, trade agreements, or joint initiatives for technology and innovation. Successful integrated approaches can be replicated in other partnerships and initiatives.

Diplomats can help ensure that international business activities and investments fully incorporate and internalize these considerations, including by working together in the G20 and with the WEF. For example, global supply chains and how to incentivize private investment flows into funding resilience. Foreign direct investments, not matter whether done through investment banks, economic relations, or development cooperation, need to systematically assess the potential impacts of climate change for infrastructure projects and include them in the decision-making process. Because of large differences across countries, industries and corporations, the mainstreaming of climate concerns in sector policies is of prime importance. In some areas multinationals may have been the slowest to react because of operating in a quasi-legal vacuum, especially in resource-rich developing countries.



\$170 billion

**POTENTIAL GLOBAL NET
BENEFITS FOR SMALL-
HOLDERS GENERATED
FROM LAND
RESTORATION**

>see [Global Commission on the Economy and Climate \(2014\): Better Growth, Better Climate](#)

Diplomats can indicate how to overcome hurdles, such as financing difficulties, equity concerns, or special interests.

They can draw on domestic experiences and available instruments for support. For example, Germany's International Climate Initiative finances climate and biodiversity projects in developing and newly industrialising countries, as well as in countries in transition.

Diplomats can scope and facilitate bilateral and plurilateral cooperative actions – such as improving the climate for green investments or promoting joint research and innovation. This can help share and reduce costs, achieve scale, and capture spill-over effects. They can also help bring about action that may otherwise be subject to the prisoner's dilemma logic. For instance, India and France launched an International Solar Energy Alliance at COP21: about 120 countries agreed to promote solar energy, reducing its cost and building necessary capacities in development countries. It aims "to mobilize more than 1,000 Billion US Dollars of investments that are needed by 2030 for the massive deployment of affordable solar energy." An example of South-South learning and exchange, the initiative "Mitigation Action Plans & Scenarios (MAPS)" has set up a dedicated multinational stakeholder process to feed South African experiences in identifying long-term mitigation options into development priorities in Brazil, Chile, Colombia and Peru.

Diplomats can use the scope of regional organizations to advance cooperation and exchange to foster the climate economy

For example, for Africa, they could work with Regional Economic Communities (RECs), e.g. the Economic Community of Central African States (ECCAS) and its Comprehensive Program for Environmental Management, or Economic Community Of West African States (ECOWAS), which has set up advanced structures with its ECOWAS Regional Centre for Renewable Energy and Energy Efficiency (ECREEE) handling climate change mitigation and adaptation, and respective policies e.g. on renewables and on energy efficiency.

Integrate climate and economic considerations in order to address climate-fragility risks, both directly and indirectly, as laid out in the integrated resilience agenda put forward by the report "A New Climate for Peace". There is a direct link, because it will catalyse investments with strong synergies for reducing risk factors such as volatile food provision, local resource competition, and insecure livelihoods. And it indirectly addresses these risks by driving climate change mitigation in the first place. It therefore contributes to peace and stability.

Diplomats can fully use the narrative of economic and development benefits to make a more convincing case for climate action. International cooperation aimed at raising ambitions for a global climate agreement shows that it is vitally important to emphasize the economic benefits of climate action. To do so, they can share examples of good practice from across the globe, and provide lessons learnt from less effective policies.

>see [A New Climate for Peace \(2015\)](#):



This brief is based on the workshop “Climate, Development, Growth – Foreign policy opportunities to leverage the co-benefits of climate action for more ambition in Berlin on 26 November 2015. Andrew Scott, Overseas Development Institute; Fergus Green, London School of Economics and Political Science; Marianela Curi, Fundación Futuro Latinoamericano (FFLA); and Mamadou Diakhité, The New Partnership for African Development (NEPAD) provided valuable input. The workshop was facilitated by Stephan Wolters and Dennis Tänzler from adelphi.