Climate Finance Advisory Service

www.cdkn.org/cfas

CFAS Newsletter

June 2013

Dear Climate Finance Negotiators and Experts,

You are receiving this email because you are on the mailing list for the Climate Finance Advisory Service (CFAS).

Sven Harmeling of Germanwatch introduces the Climate Finance Advisory Service's latest newsletter, which summarises discussions and outcomes of recent meetings, and gives an outlook to the 4th meeting of the GCF Board:

Climate finance experts and negotiators have had a busy month in June 2013. Members of the CFAS consortium have participated in a number of recent UNFCCC meetings related to climate finance. As it is based on reports by observers in these events, this newsletter provides a unique, objective and up-to-date summary of climate finance discussions at;

- the SB38 session (3 to 14 June);

- the 4th meeting of the Standing Committee on Finance (15 to 17 June);

- the 3rd meeting of the Adaptation Committee (18 to 20 June), and

- an outlook to the 4th meeting of the Green Climate Fund Board.

Given the timely balling of all these meetings, this newsletter therefore only includes these summary articles and no recommended readings as were contained in previous newsletter.

While the climate finance train will reduce speed in July and August, it will not stop. In the first week of July, the Adaptation Fund Board will meet in Bonn, and the long-term finance work programme will convene for expert meetings in July and August. Discussions around the emerging institutional architecture have made it very clear: Its success will - to a significant extent - depend on two factors. Firstly, its ability to effectively and efficiently explore and use the linkages between the institutions; and secondly, the ability to give effective guidance to the UNFCCC and speed up implementation of the mechanisms urgently needed? While this alone can not generate the political will that is required to fully rise to the challenge of climate change in the capitals of the world, an effective architecture is an important precondition for international cooperation.

As always, we hope that you enjoy receiving the CFAS newsletters and recommended reading, and that you will engage with the service as much as possible in the future, but if you would prefer not to receive these emails please reply to this email with the subject line '**unsubscribe**', and your name will be removed from our mailing list.

The CFAS consortium (contact: cfas@germanwatch.org)

Climate finance at SB38 in Bonn

This year´s first major negotiating session of the UNFCCC took place from 3 to 14 June in Bonn, only a few weeks after a session dedicated to the Durban platform. In Bonn, finance was namely discussed during the round table on means of implementation under Workstream 2 of the ADP and the two Long-Term Finance Work Programme (LTF WP) consultations.

These LTF WP consultations were open to both Parties and civil society to discuss pathways and enabling environments, and aimed to prepare for the expert workshops to be held this summer in Makita City in the Philippines (16/17 July) and Bonn (probably end of August), and the wrap-up session in September.

The first consultation, held on June 4th, focused on pathways to scale up climate finance. Erik Haites (Margaree Consultants) recalled country commitments and aims for the extension of the LTF WP: contribute to scale up and improve the effectiveness of climate finance. He recalled key figures on climate finance: over 2005-2010, Annex II parties reported around 10 billion USD/year. With fast-start finance, overall commitment totals 20 billion/year for 2011 and 2010. Haites also raised a number of questions that need to be addressed: what is each country's commitment in the 100 billion? What « alternative » sources are included (AAUs, IMO, ICAO, etc)? What are pathways and should they be qualitative (in line with needs) or quantitative (amount per year)? What kind of private finance should be included? What is meant by « meaningful mitigation action » ? The 2nd panelist from Norway referred to the AGF report and highlighted, the need for carbon pricing mechanisms from 20 to 30 USD/ton of CO_2 to generate finance and keep global warming below 2°C. He also made the case for private finance as there will be a lot of competing uses for scarce public finance. The Zambian panelist reacted to the presentations by supporting the use of the Financial Transactions Tax and fossil fuel subsidy phase-out in developed countries for climate finance for developing countries, and not just carbon pricing mechanisms. He also insisted on the role of political will to scale up finance. Some other issues were raised by parties in the room: incremental cost of both mitigation and adaptation; the challenge to identify climate finance under the current ODA commitments; the role public finance to minimize the risk for the private sector; the country responsibility in creating the enabling environments; the role for MRV in scaling up and improving effectiveness; the risk of negative incidence of alternative sources of finance; the need to shift investments and ensure bankability of projects; the challenge to plan climate spending in the current context of financial uncertainty.

The second consultation was held the following week and focused on enabling environments. Amal-Lee from E3G introduced the key issues up for discussion. The challenge of climate finance and the reason for enabling environment is shifting the 26 trillion of existing investments from high to low carbon energy, and mobilizing of an additional 3 trillion of dollars. In the current context of capital scarcity, all forms of public and private finance will need to shift towards low-carbon and resilient options. She concluded on the need to invest in enabling environments and tracking of financial flow to use finance more effectively. She highlighted the need for institutional frameworks, norms, transparency and risk management. Her analysis was that climate change entails higher capital investments up front with higher risk because assets have been less tested. She also described the barriers to investments in low-carbon solutions:

a) Policy and regulatory barriers (as long as there are policy incentivizing high carbon, investors will not see a strong signal to invest elsewhere); b) market an technology barriers (technology is costly to invest in); c) Financial barriers that are not specific to climate change. Climate finance could help manage risks and bridge the incremental cost gap. According to E3G, an effective enabling environment for climate finance includes government ownership/leadership, appropriate institutional arrangements and cross-ministerial coordination, economies of scale if we want to deliver transformational change and a price signal to incentivize different forms of investments-carbon pricing both directly or indirectly. Capacity will also be critical to achieve all of the above. Finally, Amal-Lee recommended using the LTF WP to learn from existing uses of finance and recognize the need for ambitious policy reform to attract both mitigation and adaptation finance.

Finance was also discussed in the WorkStream 2 roundtable on "building a practical approach to increasing pre-2020 ambition; enhancing climate finance, technology and capacity-building" on Saturday 8th and Monday 10th. In fact, finance is increasingly connected to the pre-2020 mitigation discussions. During the roundtable, the EU highlighted the role of the GCF in promoting low-carbon and climate-resilient development and the need to send investors a strong signal through a long-term target and a legally-binding agreement in 2015. The need to share and analyze risk was also raised as a challenge to ensure lower risk and stable return. Some raised the need for developing countries to strengthen enabling environments and plan for low-carbon development to ensure that all financial flows are shifting in the right direction. Others highlighted the role of enabling environments in developed countries and developing countries in order to shift the investments. It was suggested by China that public finance should catalyze private sector investments in capital and technology markets. AOSIS called for a technical paper to reflect policy options for energy efficiency, renewable energy and CCS. The Africa Group called for clarity on the 100 billion, capitalization of the GCF and options to increase the price of carbon. Overall, different Parties have very different views on the way mitigation and finance should be linked, and this is hindering progress on raising short-term ambition. More clarity on short-term climate finance and a strong political signal on the pathway to the 100 billion could help break the deadlock on ambition for both adaptation and mitigation. This is why the Polish presidency made a strong call to invite finance ministers to partake in the ministerial roundtable on finance that is due to happen during COP19.

4th meeting of the Standing Committee on Finance: focus on COP-GCF arrangements

The fourth meeting of the Standing Committee on Finance was held in Bonn, Germany from June 15-17, 2013. There was a long list of agenda items discussed during the meeting. The co-chairs, with support of the secretariat, had prepared background documents for each agenda item that were distributed before the meeting. Among others, these included: arrangements between the COP and the GCF, guidance to the operating entities of the financial mechanism (GCF and GEF), guidelines for the fifth review of the financial mechanism and issues that needed follow up from the third meeting, i.e. mrv of support, linkages with other bodies of the Convention, expert inputs to the work programme on long term finance, and the adoption of a code of conduct.

Members agreed that they had too many issues on the agenda and decided to prioritize. Therefore, work was done in parallel to discuss the arrangements between the COP and the GCF and issues that emerged from the previous meeting in two separate groups.

As for the first group focusing on the arrangements, the co-chairs had prepared a text based on two submissions by the Philippines and the US. As this has been a contentious issue from the time when the Transitional Committee for the establishment of the GCF started its work, coming up with an agreed text proved to be quite time-consuming. The main controversies were defining the purpose of the arrangement, the establishment of an independent redress mechanism to settle conflicts and the termination of the arrangement.

Although all members of the SCF agreed that both the provision of the Convention and the Governing Instrument of the GCF form the basis of the relationship between the two, some SCF members, mostly from developing countries, reiterated their position that the GCF should be guided by and accountable to the COP while members mostly from developed countries stressed that the GCF should be as independent as possible. Also, with respect to the purpose of the arrangement between the GCF and the COP, there were divergent views on the respective roles and responsibilities.

With regard to Article 11.3b of the Convention, a discussion about the reconsideration of a specific funding decision by the GCF through an external mechanism allowing developing countries to appeal to the COP emerged. In that context, also the independent redress mechanism (paragraph 69 of the Governing Instrument) to be set up under the GCF was referred to. Some developing countries insisted, because of the experience made by some countries with the GEF, on the need of legitimating countries to appeal a particular funding decision to the COP if they perceive that this specific decision has not followed the guidance provided by the COP. This proposal was rejected by some developed countries which emphasized that the GCF Board should have independence on its funding decisions without the involvement of the COP. Even though the SCF spent most of its time on this agenda item, it could in the end not agree to send a text with options to the GCF Board for its consideration, and the matter will be taken up at the next SCF meeting. However, on many elements of this discussion progress was achieved.

The second group worked on the issues of Measuring, Reporting and Verification (MRV) of support, expert inputs to the work programme on long term finance, linkages with other bodies of the convention and on adopting a code of conduct. This work resulted in specific requests to the SCF Secretariat, to be taken into account in the preparation of the next board meeting. For instance, with regard to the MRV of support in general and the ToR for the Biennial Report and overview of the financial flows, some parties requested to make a call for submissions open to both parties and interested stakeholders on the best approach. Moreover, the Secretariat was also requested to map all MRV-related discussions under the convention, with the view to identifying gaps and proposing ways to address them. However, as there was not enough time for this to be commented and discussed by all members a final text was not adopted. The other agenda items - guidance to the operating entities and work on the guidelines for the fifth review of the financial mechanism - were not discussed in detail and were therefore postponed until the fifth meeting of the SCF. This may be held back-to-back before the GCF board meeting in September, however a decision on the exact dates and location has not yet been taken. Members were invited to make submissions on all agenda items.

3rd meeting of the Adaptation Committee: Exploring linkages with the Standing Committee on Finance

The Adaptation Committee (AC) as well as the Standing Committee on Finance (SCF) are respectively working on improving coherence and coordination of adaptation and finance issues under the Convention. Being aware of the opportunities (and need) to take advantage of synergies, both committees convened in Bonn after the SB38 back-to-back (15 - 17 June SCF meeting, 18 - 20 June AC meeting).

The Adaptation Committee invited the co-chair of the SCF, Diann Black-Layne, to outline the SCFs view on linkages and potential overlaps with the AC. Some ideas presented and discussed on how both committees could engage included the following:

- The issue of what exactly can be classified and labeled as adaptation finance is still contested. To get a common understanding both committees are in a good position to take concerted efforts.
- Measuring, reporting and verifying resource flows in adaptation effectively is only in its infancy. A task force between the AC and the SCF would have the opportunity to take an integrated approach.

- With regard to the upcoming SCFs bi-annual report as well as the Fifth Review of the Financial Mechanism, it would be helpful to both committees to spend some thoughts on how to best incorporate adaptation finance, particularly regarding the guidance to be given to the Operating Entities.
- Since the SCF just had its first Forum (28 May in Barcelona) and the AC will hold the first Adaptation Forum during COP19, there are clear opportunities for future joint outreach activities that both committees should take advantage of.
- the SCF is also considering the preparation of one omnibus decision, one overall decision on finance-matters. This builds on the experience e.g. from Doha where numerous decisions addressed finance matters, which sometimes can create the challenge of coherence. Such a draft omnibus decision could include a placeholder for adaptaton-specific experts, to which the AC could contribute the substance.
- Private sector investments in adaptation will become more pivotal in the future and open up a window of joint work between both committees.

Building on those ideas AC members decided to prepare an input paper to lay out some more concrete ideas on how a joint working group or task force between the AC and the SCF (as well as other relevant bodies such as the LEG and TEC) could be set up and what kind of activities could be jointly pursued in the future. In addition, a specific break-out group of the AC consolidated exchange views on what the AC´s role would be in the discussion on Means of Implementation, which includes finance.

Setting up future meetings back-to-back or with some overlap would strengthen such cooperative efforts. The next opportunity would be the meetings next spring. The next meeting of the AC will be held in the first half of September in Fiji, back to back with the workshop on monitoring and evaluation of adaptation, and the loss and damage expert meeting.

4th meeting of the Green Climate Fund Board: Business Model Framework at the core

From 26th to 28th June, the Board of the Green Climate Fund (GCF) will convene its 4th meeting, in Songdo, Korea, the future seat of the GCF. The official meeting will be preceded by an informal workshop of the Board on the Business Model Framework, to which also observers will have access.

This GCF Board meetings comes at a critical time. There is an increasing expectation in the climate community to see the GCF deliver on concrete action and become fully operational in order to be able to spend funds. However, one can also often hear the argument that before the direction and modalities of the GCF are not clearer, there is little appetite on the side of developed countries to fill the fund. With COP19 coming nearer and the negotiations towards a 2015 agreement gaining speed, it will of course be crucial to achieve substantial progress this year so that the GCF can start delivering towards its key vision, the paradigm shift towards climate-resilient and low-carbon development.

The discussions on the so-called "Business Model Framework (BMF)" will be at the core of the 4th GCF Board meeting. Just to remember: The preparation of the necessary background documents before the 3rd meeting lost its way earlier the year, with some GCF Board members who were concerned over procedural and transparency issues intervening on the preparatory process. At the last Board meeting, it was decided to prepare a number of documents related to the BMF covering different issues, but thereby also segmenting the overall approach of the GCF which may pose challenges of coherence and consistency. This section provides very brief summaries of the content of the papers. However, a more detailed discussion is not possible given the limited scope of this newsletter.

The BMF-related discussion on the **"objectives, results and performance indicators"** is crucial in order to develop a practical framework which is able deliver on the ambition that is required from the GCF. This ambition stems from the overall climate change challenge, with regard to making a substantial contribution to the developing countries´ efforts in light of the agreed goal to limit global warming to below 2°C/1.5°C increase, as well as scaling-up adaptation to the adverse effects of climate change. Such a framework must be able to incentivise and facilitate the necessary ambition, however without prescribing specific actions and thereby undermining country ownership. So it can be expected to be a very interesting discussion. For this specific meeting, the Board is expected to progress and maybe even take decisions on the objectives of the fund and the results the fund aims to achieve, to find convergence on core performance indicators to measure these results and to agree to next steps for taking the work forward.

The **"country ownership"** is another crucial element on the BMF agenda, since a country-driven approach is a core principle of the GCF. This is obviously with good reason, since it can and must ensure that developing countries are in the lead of identifying the most important, effective and suitable options for action on adaptation and mitigation. The background paper presents an assessment of country ownership in light of the relevant experience regarding the role of national coordination, national designated entities etc. It also provides an important element for the question how sub-national stakeholders would be involved. The Board is expected to progress or even decide on best-practice principles to be applied within the fund to ensure country ownership, on ways to promote country coordination and coherence within the Fund's operations, including with regard to the role of national designated authorities (NDAs), and to agree on the next steps for taking the work forward.

The **"access modalities"** are important in the BMF context since the institutions which would be able to access resources would have important responsibilities to coordinate and oversee the implementation of the concrete activities funded by the GCF. The background paper assess different options for the access modalities, including with regard to different functions of different access models and institutional approaches, which include the role of international and national implementing entities, international and national funding institutions etc. The Board is expected to decide on the application of different types of access modalities. Also it might converge on key elements of an accreditation model and accreditation procedures for implementing entities as well as the oversight and accountability between the Fund and the institutions relevant for the access. It is also suggested to give the Secretariat a mandate for the development of accreditation procedures, as well as fiduciary standards and environmental and social safeguards.

The question which **financial instruments** the GCF would use is another important element of the BMF discussion. The background paper provides an overview of a range of instruments, from grants to concessional loans, guarantees, equity finance etc., and discusses potential modalities. The Board is expected to decide on the instruments the Fund will use during its first phase (grants and concessional loans), on how and when additional instrument might be needed, and on a mandate for the Secretariat to develop a paper on terms and conditions for the first phase, by the next Board meeting.

Furthermore, the role and set-up of the "**Private Sector Facility (PSF)"** will be discussed. The GCF might take decisions on the specific objectives and results of the PSF, the employment of financial instruments and an institutional model. Given the information in the background paper, discussing and potentially converging on the core performance indicators and delivery models is also envisaged. These aspects might then be further detailed by the Interim Secretariat until the next meeting.

Furthermore, the Board will have discussions on the **structure and organisation** of the Fund, addressing aspects such as the structure of the Secretariat, permanent bodies, sub-committees and expert groups etc.

Progressing on the BMF will be crucial. However, the different papers address many important but different and at the same time interconnected aspects. It of course must be expected that on many matters there are also different views in the Board. Whether it will be possible to already take detailed decisions on certain options such as objectives and results areas, remains to be seen, given the complexity of the matter. And then ensuring coherence will in the end be decisive.

With regard to procedural issues, the probably most important decision to take by the Board is to select the future **Executive Director of the Green Climate Fund Secretariat**, from a short list of candidates. This is supposed to happen in a closed meeting at the 25th of June. There is obviously no doubt that in order to make the GCF succeed the first Executive Director must be well-capacitated, both in managerial terms as well as understanding the role the GCF is suppposed to play in order to speed up the fight against climate change.