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Developed countries block further discussion of finance in the LCA

Bonn, 21 May (Alex Rafalowicz) – Developed countries blocked further discussion of finance related issues under the contact group of the AWG-LCA held on Saturday 19 May.

Mr. Aysar Tayeb (from Saudi Arabia), the Chair of the AWG-LCA convened the contact group to discuss agenda item 3(e): "Enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation"

The session was marked by reluctance on the part of developed countries to accept proposals to have a spin-off group on the topic. Developing countries highlighted the need for such a forum to advance work on important issues including the review and lesson-learning from 'fast start finance' (FSF), adaptation funding, implementation of long-term finance (LTF) commitments and arrangements for the Green Climate Fund (GCF).

Developed countries suggested there existed processes to deal with these issues already and so a spin-off group was not necessary.

The Philippines spoke on behalf of the G77 and China and said that finance was one of the most important elements of the Bali Action Plan and that decisions in Durban and Cancun had made some advances but that Doha needed to fulfil the Bali Action Plan mandate in its entirety as there are considerable gaps in the fulfilment of the mandate and in the implementation of agreed decisions. The Philippines also noted that much of the material had been elevated to ministerial level since Copenhagen and so had not been fully negotiated in a transparent way. As there were many areas with serious gaps a spin-off group was needed to determine outcomes on many of these issues.

The Philippines noted that one of the biggest gaps in current work on finance, including under the subsidiary bodies of the Convention, was transparency of FSF and so there needed to be a place to advance that work. This includes the sources of FSF and the accounting for grants to and subsequent loans made by the Global Environment Facility (GEF).

The Philippines highlighted that adaptation financing, covered in agenda item 3(e)(vi) and 3(e)(iii) is of great importance as most of the work of preparing National Adaptation Plans (NAPs) has not been fully supported and this represented only planning for adaptation and not implementation. The group was 'very happy' with the focus on LDCs in this respect due to their 'physical' and 'economic' vulnerability but was concerned that funds they have access to are voluntary and 'terribly under-funded'.

On agenda item 3 (e) (i) relating to "Improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties" the Philippines noted there is no clarity that were will be enough resources to prepare biennial reports, of which the first are due in 2014. This is particularly concerning as national communications are to receive full cost funding under Convention.

The Philippines concluded that the role of the AWG-LCA was to work on the full, effective and sustained implementation of the convention up to and beyond 2012, with an emphasis on "beyond 2012." Although there is a new process (AWG-ADP) started that will 'hopefully' produce a post-2020 outcome, the question remains what happens before 2020. Similarly, the Philippines asked, if there is something agreed, will it be the end of a principled global climate regime or will it be a new beginning? For a new beginning, it is LTF that will allow us to get there, and so more work on LTF is necessary to clear the difficult path toward an agreement. This is particularly true as the institutions that exist currently are 'empty-shells' and not fully operationalised.

Cuba was fully supportive of the statements by the Philippines and added that the 'missing element' was the 'financial resources itself', particularly with respect to LTF, so a spin-off group was necessary for a deeper discussion.

Algeria on behalf of the African Group associated itself with earlier statements and noted that with the establishment of the GCF, and a COP agenda item on it in Doha there was a need to have clarity on what was to be dealt with by the GCF and what by this group. It was also important not to mix this with the post-2020 work to be agreed under the ADP. To successfully conclude the work under the LCA the group felt there was a need for further consideration of FSF – with assessment including parts on LDCs, SIDs and Africa; and to deal with the post 2012, or LTF issue.

Egypt associated with the G77 and Africa Group and supported calls for a spinoff group to discuss the remaining issues from the BAP as well as the implementation of decisions from Durban and Cancun.

Issues to be considered by the group could include issues arising from BAP para 1 (e) (vi) which spoke of adaptation for all developing countries, not just LDCs as well as improved access to 'new and predictable resources' (BAP 1(e)(i) and the possible 'gap' in LTF particularly in relation to adequacy. Similarly further work was needed on FSF.

With reference to the GCF Egypt drew attention to para 3 of 3/CP.17, that "arrangements to be concluded between the Conference of the Parties and the Fund at the eighteenth session of the Conference of the Parties to ensure that it is accountable to and functions under the guidance of the Conference of the Parties" and said that it is very important to know where and when these arrangements will be concluded and how they will be concluded, an opportunity the spin-off group provides.

Indonesia associated with G77 and supported a proposal for a spin-off group as finance is a 'crucial issue for implementation' and a foundational issue. They expressed hope that Doha would provide clarity on FSF, an up-scaling of LTF and clarity on where finance issues would be considered upon the conclusion of the LCA's work.

Venezuela said that finance is one of the most important elements as it allows the achievement of the other elements and so must be a part of the outcome in Doha.

Saudi Arabia noted the sensitivity of the finance issue as it drives all other issues and thus requires special attention, particularly on transparency and accountability. The work should also include consideration of the role of the GCF and the question of sources of finance, in light of the greater effectiveness of public finance in contrast to private. On the issue of FSF, Saudi Arabia suggested that 'some cheques are lost in the mail' as some countries had not received support yet and so it was necessary to review this.

India attached great importance to the finance issue, especially LTF and noted the need for links to implementation and so supported a spin-off group.

The United Sates said there was a 'high threshold' to agree to a spin-off group if the issue was not mandated in Durban as there was limited time. The US said it was important to 'finish what we start' and noted the concerns raised in advocating for a spin-off group had already been addressed. Specifically the US said that there would be no "finance gap" in the LTF period and that there is already a work programme on LTF agreed in Durban (in para 127 of 2/CP.17). On the GCF the US argued that there was no point discussing an "MoU" with a 'board that doesn't exist' for an entity 'without legal personality'. On the GCF the US noted that, 'logistically', it couldn't see 'both sides' agreeing to a MoU by Doha. The US concluded by reaffirming its 'full commitment' to FSF and explained it had reported in detail and was happy to answer questions but did not need a spin-off group in the LCA to negotiate further conclusions.

Pakistan supported the G77 and added that although 'most of our work is consumed' with the closure of the mitigation gap between now and 2020, in Bali, finance was linked to mitigation through 1(b)(ii) (" Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner"), and so finance is equally important to the mitigation gap.

On FSF, Pakistan felt that although there are many reports what was important is "what we can learn" and that space was needed to draw lessons from the

FSF experience as it was not possible we had done "such a remarkable job" there were no lessons to take.

On the arrangements between the COP and the GCF, Pakistan added that the board will have capacity to draw up any instrument it chooses but there remained a need for the COP to develop its perspective, as that would be vital to a successful arrangement.

Summarising the discussion thus far, Chair Tayeb observed that Parties recognised there were different systems in place but wanted a link between those systems. Continuing his "house building" analogy from earlier in the week he suggested that there were "different floors" but what was needed were "staircases to link those floors."

China associated with the G77 statement and said that finance is of great importance to developing countries and also serves to 'maintain trust' and that a spin-off group was needed to take the work forward.

China was concerned over gaps in the finance framework considering the LCA will be terminated if its mandate is accomplished and FSF ends at this year. China strongly requested that developed countries make clear finance commitments for forthcoming years, and suggested that, for example, a 3 year period could be recognised in Doha.

On LTF, China called on developed countries to specific how they would fulfil their commitment to the USD 100 billion per year made in Cancun, and asked for detail on sources, the means of implementation and internal-burden sharing arrangements. It noted that the work programme on LTF agreed to in Durban was primarily in the form of workshops and so was a supplement and contribution to the LCA, and should not be used to dilute the LCA's work.

On FSF, China called for transparency and comprehensive reporting in Doha, in tandem with MRV, work of great importance to the Standing Committee.

Costa Rica supported the G77 and called for deeper, clearer and more concrete work on finance, particularly as the work programme consisted solely of workshops. Costa Rica explained it had ambitious long-term plans and needed predictability in terms of 'how much' and the path for delivery of finance in the medium and long term but that currently the answers were not clear. Costa Rica concluded by saying that although there was a mood of 'austerity' making climate finance 'unpopular' in treasuries the needs remained and spin-off groups were necessary on the important issues.

The **European Union (EU)** said it understood why developing countries insisted on finance and agreed it plays a central role in the means of implementation in achieving the convention. However, the EU argued that there were very significant decisions in Cancun and Durban on how to take finance forward and they had decided the 'places and ways' to take the work forward.

The EU insisted there would not be a 'gap' after the FSF period and referred to the work programme agreed in Durban and said that LTF was not 'in a distant future' but was about 'scaling up' after 2012 so that the USD 100 billion could be met in 2020. The EU argued that is was decided that discussions on this issue were to be taken forward in the work programme.

On FSF the EU said it shared the need for transparency and noted that it had reported on its actions in 2010 and that the 2011 report has been transmitted to the secretariat. The EU said that as FSF is 'transitional' and concludes at the end of 2012, with reporting each year, no further decision was necessary. The EU agreed with Pakistan on 'learning lessons' but claimed the work programme would already do that work.

As to the arrangements between the COP and the GCF the EU felt that the instrument of the fund specially detailed its links to the COP and argued that it would be 'strange' for the LCA, as a subsidiary body concluding this year, to discuss fundamental issues not decided by the COP, particularly prior to the board being able to meet. On this point the EU called on other groups to confirm their representatives.

The EU agreed that funding for adaptation for non-LDCs was very important and invited developing countries to employ the modalities for NAPs determined under the SBI for LDCs (as per para 28 of 5/CP.17). It also noted that the Adaptation Committee had been requested to support non-LDC adaptation measures (para 30 of 5/CP.17). With these approaches the EU felt there were already decisions in place to take the work forward.

Brazil supported the comments by the G77 and reiterated Pakistan's point on the importance of learning lessons for the continuing work. Any discussion of ambition is a discussion of means of implementation of that ambition and finance will be at the heart, Brazil continued that this is particularly true for the gap in finance for 2012-2020, which represents 'unfinished discussions' in the LCA, especially as to the 'level' of finance as there is a level set for 2020 but no set level for the intervening period.

Brazil said that the work programme for LTF is important but that it's not clear how the information it generates will affect the work of the parties and so it has to be complemented with a forum to discuss LTF going into the future, such as a spin-off group.

Brazil also emphasised the need for consistency in the approach of the LCA to its work, noting that there are mitigation spin-off groups despite the fact that the Durban decision refers only to the holding of workshops on that topic. As for finance there are workshops and those workshops are preparing a 'deliverable' to COP 18 there is greater reason to hold spin-offs on this issue than on the mitigation topics.

The **Chair** noted that there did appear to be a gap on LTF and how work related to it would be translated into a decision.

Iran said that since the Bali Action Plan there had been an agreement on providing financial resources but it had not been fulfilled. Given that context, and the importance of finance for adaptation in developing countries, it is very important that there is a spin-off group to clarify agreement on financial resources and the commitment of developed county parties in the transition from FSF to the LTF period.

The Chair called for a further meeting on Monday for an initial overview of issues that had been raised on the agenda with a focus on linkages between different elements and how those linkages can be made by looking at the system as a whole.