TWN
Warsaw News Update
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www.twn.my
Published by
Third World Network
15 November 2013

ADP: Rich discussion on 'finance' in the 2015 outcome

Warsaw, 15 Nov (Meena Raman) – The UNFCCC's Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) held a session on 'finance' in the 'open-ended consultations on the content and elements of the 2015 agreement' which took place on Thursday, 14 Nov in Warsaw.

It saw a rich discussion on issues relating to finance both in the pre- and post-2020 timeframes.

On Friday, 15 Nov, following the interventions from countries and their groupings on the substance of the matter, Co-chair, Artur Runge-Metzger (European Union) provided a summary of what he had heard the previous day, just before the ADP discussed the issue of 'capacity-building' in the context of the new agreement.

Metzger said there is an important pretext for climate finance. Pre- and post-2020 discussions are linked with each other. It was highlighted in many statements that it is important to deliver on commitments. In the pre-2020 period, all institutions will have to show that they can work and deliver as is foreseen. This was an important pretext mentioned by many Parties. Climate finance commitments play a continued role in implementing enhanced action post-2020. There is need for the continuation and strengthening of existing institutional arrangements. The existing financial mechanism should be part of the future arrangements after 2020. They provide the infrastructure for mobilisation and delivery of finance. We heard about the important role that public finance will have to play. Many countries said adaptation funding is important for the vulnerable and small economies. One point is the role of private finance and there is need to discuss this in the future. Some mentioned other sources of finance. Some wanted clarification on defining climate finance, which would need to be done before we come to 2015. From every corner of the room, it was said that there needs to be transparency on both ends – on the side of those who must deliver and those who receive.

Metzger said there was call for new additional, predictable and adequate finance with quantified targets. This is one area to deepen discussions and get our head around this in the coming year. Parties pointed out to the importance of effectiveness of climate finance and the importance of enabling environments. Any scaled up provision of finance should see balance between mitigation and adaptation. On the scale of finance, US 100 billion is seen as the floor but in the context of adequacy, there was clearly a call for more information. Some said there is a need to link this to science on how to stay well below 2 degree C, how much is needed to adapt to a world below the 2 degrees and for technology transfer. There were some indications of the scale and a call for more information.

In response to the summary, Bolivia raised a point of order and said there were some elements that the Co-chair had not included. Some Parties had raised the need to clarify what is public and what is private finance. Some Parties had said public funding is important and predictable, and there is need for quantified finance for the pre- and post-2020 time period. There is need for measuring, reporting and verification (MRV) of finance. Others had raised the issue of a roadmap for financial provision.

The European Union, in a later intervention, said that the Co-chair had provided a good summary and it too had issues that could be added, including on the issues of MRV and which countries could be added to provide funding. It will come back to this during the stocktaking session of the ADP.

On 14 Nov, Metzger in chairing the session on finance posed two questions for the consideration of Parties: These were (i) how could climate finance for the implementation of the post-2020 commitments be reflected in the 2015 agreement and (ii) what institutional arrangements would be required in the post 2020 period. Metzger in his opening remarks at the session said that he wanted Parties not to focus on what is happening in the other bodies and processes on the issue of finance but on the post 2020 timeframe.

This provoked a series of 'points of order' which began with **Bolivia** and was supported by **China, Venezuela, Cuba, India, Nicaragua, Saudi Arabia, Kuwait, Ecuador, Mali** and **Sierra Leone.**

The main issue regarding the point of orders was not to confine the finance discussion to only the post 2020 outcome but also to consider this in the context of the pre-2020 time frame as both time frames were linked. In response, the Co-chair said that it would be good to look at finance in the 2015 agreement but he would not stop Parties if they also talked about the pre-2020 period. Many of them said that the finance issue could not be discussed in a vacuum and that the pre-2020 finance is relevant for the post 2020 outcome.

China also a raised concern about question 1, saying that it was misleading, as the issue is about enhancing actions under the Convention (and not merely of how to reflect the element in the 2015 agreement). **India** also raised similar concerns as it said that on other matters such as the transparency of action and support which is to be considered on Friday, Nov 15, the question states how this can be 'reflected and enhanced' but when it came to the element of finance and technology development and transfer, the questions only relate to how they can be reflected in the new agreement. It said that they is need to maintain consistency in relation to all aspects of the elements being dealt with, drawing applause in the room.

Metzger responded that he too would have clapped in response to India and that the question is supposed to be the same for all the elements and that he was not excluding enhanced implementation. In response, **Mali** suggested that the questions be amended to include how the elements could be reflected and enhanced so as to inform the interventions.

In responding to the questions posed, many countries took the floor.

Egypt speaking on behalf of the Like-Minded Developing Countries (LMDC) said that financing is fundamental to the success of the 2015 outcome. If there is no attempt to enhance action on finance, there will be little ambition left in the post-2020 period. We are convinced that the finance chapter of the 2015 outcome should have the same legal bindingness or legal nature as the other chapters including mitigation. The fulcrum of the balance in the Convention lies in Art. 4.7, under which the extent to which developing countries implement their commitments under the Convention depends on the extent to which developed countries implement their commitments to provide finance and technology. The financing obligation under the Convention is for Annex II Parties, not for their private sector.

The 2015 agreement should ensure scaled-up, new and additional, sustained, adequate and predictable public fund provided by developed countries. The 2015 agreement shall include not only an aggregate target of finance commitment of developed countries, but also an individual commitment for each developed country.

For the LMDC, public finance from developed countries must be the primary source of financing to developing countries under the Convention. Public financing could leverage private finance and other sources but should remain the primary vehicle. We should not try to renegotiate financing requirements to mean creating enabling environments to facilitate investments by the private sector of developed countries by requiring developing countries to provide greater market access to their economies.

Egypt said we look at financing under the Convention as the commitment of Annex II only and not the role of South-South cooperation. South-South cooperation has evolved as a voluntary effort over time and completely differs from the obligatory and responsibility framework which motivates the North-South template.

The $100 billion to be provided by developed countries at Cancun is only the starting point for the post-2020 period and not the ending point. This needs to be scaled up to meet the necessary levels of the real financing needs of developing countries in the context of the actions that they need to undertake in order to cope with the adverse effects of global warming up to and beyond the 2 degree C temperature goal. The

Convention's financial mechanism must be made more robust, with new, additional, adequate and predictable funding going towards its operating entities such as the Green Climate Fund (GCF). In this regard, Annex II Parties must provide a clear roadmap for public climate financing from developed countries with specific targets, timelines, and sources. Any burden sharing for the provision of climate finance, under the Convention, must be done among developed countries.

It called for transparency in the means of implementation as in clarifying mitigation pledges and commitments. We also need to reinforce non-market approaches and mechanisms. It underlined that the importance of this COP coming to a meaningful decision on the road map to reach $100 billion by 2020. This will be the basis for enhanced action. If not, there will be neither enhancement nor action.

Several countries expressed similar views as the LMDC which included **the Philippines, Algeria, Pakistan, India, Ecuador, China, Mali** and **Bolivia.**

Belize for the **Alliance of Small Island States (AOSIS)** said climate finance is essential for developing countries to implement adaptation and mitigation actions towards achieving the ultimate objective of the Convention; it must be an integral building block of the 2015 agreement. The ADP should cite the Financial Mechanism of the Convention as the financial mechanism of the ADP outcome. The ADP should establish definitions on what is considered "support" and the financial instruments that it considers as contributing to the implementation of the Convention. These definitions should come from a technical process. The nature of financial instruments that are acceptable should be established by the Parties, taking into account the level of external debt of developing countries, especially those with small-scale economies.

Belize said the ADP would seek to define its financial framework and this would form the basis of MRV and the meeting of commitments. These include the use of (or not) of incentives and subsidies, debt forgiveness, etc. as the mechanism for meeting their obligations. Developed countries should include in their mitigation commitments a finance commitment. Financial commitments may include cash, financial instruments as well as financial policy such as risk reductions, subsidies reallocation, debt reduction etc.

There is need for a mechanism to register and MRV public finance and its effectiveness and to define what this means to developing country Parties. All public finance should easily recorded and what the recipient countries receive also be recorded on how and when funds are received. The scale of the climate change problem requires the mobilization of all sources of finance available, including public, private and alternative sources. Public finance from developed country Parties to support actions in developing countries will continue to play a central role post 2020, especially for adaptation finance.

There needs to be a definition of what is private finance and the technologies that should be supported. Special provisions should be made for Small Islands States. Mobilizing private sector finance for adaptation remains challenging in developing countries, in particular for SIDS and LDCs. To achieve a paradigm shift towards low emission and climate resilient development pathways, leveraging and catalyzing private sector investment will be crucial, especially in the energy sector. To be able to shift private investments and to develop the right incentives in developed and developing countries towards low emission and climate resilient technologies and infrastructure, the 2015 agreement needs to send an ambitious, loud and long-lasting signal to the private sector that the world's governments are serious about their commitment to combat climate change.

Countries would need to set financial targets to correspond with the mitigation actions of the developing country Parties and this should be based on the targets for both mitigation and adaptation. There is also a link between the various mitigation scenarios and future financial needs of developing countries, especially for adaptation and loss and damage. Holding global temperature rise to 1.5 degree C will have much lower adaptation costs and residual impacts than 2 degree C; low ambition mitigation scenarios will require much higher finance needs for adaptation and loss and damage. Funding for the activities of the international mechanism for loss and damage must be separate from adaptation funding and specific sources for loss and damage must be considered in the context of the post 2020 finance.

All financial institutions established should be under the authority of the COP and not under a new Protocol or any other legal instrument. In 2020, the GCF must be operating at seamless phase, be resourced at scale, i.e. be the main channel for international climate finance. commitment periods under the new agreement ensuring availability and predictability of adequate resources for implementing actions in developing countries.

Swaziland for the **African Group** stressed that that financing in the pre-2020 allows for moving forward in the 2020 timeframe. It would allow for clear quantified commitments. Finance should have the same legal bindingness as other elements in the new agreement. US 100 billion per year up to 2020 is the floor and not the ceiling. There should be a goal to mobilise 1.5% of global GDP. There should be common accounting for burden sharing among Annex 2 Parties. There is need for additionality, predictability and sustainability and said this is needed in view of the crisis in the Adaptation Fund.

Nepal for the **LDCs** there is need for public finance and targets for the fair share of contributions from the Annex 1 Parties with clearly defined time periods. It wanted the GCF to be fully capitalised and for early and adequate replenishment. The finance targets should be quantified and subject to regular reviews consistent with the latest science. It also stressed the importance of the MRV of finance.

India said a template giving a complete picture of financial commitment and actual flow of funds being channelized in short-term, medium term and long –term finance must be developed. Official Development Assistance (ODA) should not be reclassified as climate finance but this is the distressing picture that emerges from Fast Start Finance (FSF). A study by OXFAM reveals that only 34% of Fast Start Finance (FSF) was new, 24% of FSF was additional, 43% of FSF was grant rest was loans, only 23% of FSF was channeled through multilateral funds and only 21% of FSF supported adaptation and rest mitigation despite promises on balance.

In relation to the GCF, on the type of instruments, it should be predominately grants and concessional loans. It will be difficult to developing country parties to adopt to new instruments. Private sector investment is the new buzz word. It can complement but not supplant public financing. The reason is that they call for providing level playing field and enabling environments which is not something that adds value to this discussion – given the variety of conditions, policies and priorities of the different countries.

We want to emphasize that South- South cooperation is voluntary and a lot of cooperation is already taking place under it. But it does replace the obligatory commitment under the convention framework based on North-South template.

Mali said that the US 100 billion in the pre 2020 time frame is on the floor. A paradigm shift is needed for the mobilisation resources commensurate to implementing the Convention objectives. **Bolivia** called for 1.5% of the GDP of developing countries to be set aside for climate financing and money should not be from carbon markets.

China highlighted the need for setting a clear roadmap which is well-defined with mid-term target for the long-term finance commitments by developed countries as well as the adequate capitalization of the GCF.

Bangladesh also stressed the importance of long term finance pathways. There is lack of agreement on what is climate finance and what is new, additional and predictable. There needs to be sincerity in the debate on what is ODA and what is climate finance. Adaptation funding needs predictable resources as it is anticipatory. It is difficult to differentiate between adaptation financing and development financing. At the generation point of funding, there needs to be two accounts- one for ODA and the other for climate finance. At the utilisation point, the two pots will meet. If US 2 trillion is possible for military budgets, why can't there be a 1% diverted during peace times?

The **European Union** said it is working hard to mobilise resources in other fora as well as under the Convention. To stay below the 2 degree C goal, there is need for transformational change and to make our investments in low carbon efforts. Finance flows to adaptation and mitigation must also ensure geographic balance. There is need for arrangements for actions by all Parties. The key role is for having enabling environment, with carbon pricing and signals to attract climate finance. We need to integrate the private sector into the framework on financing, as public financing is not enough. Private finance flows will have to move away from high carbon investments. The EU is committed to making the GCF fully operational. The post 2020 financial framework should be flexible taking into account environmental and economic realities.

The **United States** said significant climate finance will continue to flow after 2020 and that infrastructure for this has been created in last 5-10 years. It expected arrangements to grow and strengthen beyond 2020. The role of means of implementation in the 2015 package deserves careful consideration

The new agreement will be applicable to all. The stringency of each Party's contribution will vary and we have not determined what will be legally binding, but all countries need to make contributions with the same legal force. This means that mitigation reductions cannot be predicated on financial support as this would imply legal differentiation. Public finance is for adaptation and for LDCs. The status of donors and recipients must evolve over time, just like status on mitigation.

Public finance will be particularly important for adaptation and for mitigation in LDCs, while private investment should be focus of post-2020 cooperative efforts among middle and higher-income countries. Promoting finance for developing country green infrastructure is two-way street. Need a pull factor (policies & regulatory reforms) in addition to push factor. Ambitious mitigation action needed in order to spur climate finance flows.

Norway said there is need to continue public finance for adaptation and the poor. All Parties must do what they can. All should use tools to place responsibility for where it belongs. It should not be cheaper to pollute and there should be cost effective means for emission reductions involving emissions trading and other market mechanisms.

Switzerland said that the objective is to enhance finance and more sources are needed with a broad donor base which reflects reality. Those who have capacity should be able to contribute.

Japan said that public money is important especially for the vulnerable counties. Public financing has the role to enable direct financing and to also mobilise private finance.

Canada said the agreement would needs to reflect financial support for low carbon development and climate resilience especially for the poorest. Public flows alone are not enough and there is significant opportunity to leverage private sector investments.

New Zealand said a lot of work has been done on markets and various approaches and there is need to take into account the context of Parties in the new agreement and their capacities. It supported the US position.