UNFCCC Workshop on Long-term Finance Bulletin

A Summary Report of the Second UN Framework Convention on Climate Change (UNFCCC) Workshop on Long-term Finance

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SECOND UNFCCC WORKSHOP ON LONG-TERM FINANCE 1-3 OCTOBER 2012

The second workshop on long-term finance convened from 1-3 October in Cape Town, South Africa, and focused on approaches to scaling up climate finance and creating enabling environments. The workshop was organized under the work programme on long-term finance of the UN Framework Convention on Climate Change (UNFCCC) by the Co-Chairs of the work programme with the support of the UNFCCC Secretariat, and provided an opportunity for parties, and private sector and civil society stakeholders to express their views on these issues.

During the workshop, participants considered new and innovative sources of climate finance, various approaches and strategies to mobilize climate finance from various sources, and ways to strengthen developing country capacity for improved access to climate finance. To ensure transparency and inclusiveness, plenary sessions were webcast, and presentations were followed by moderated question-and-answer sessions for all participants, whether attending in person or through the webcast and social media outlets.

Over the course of the three-day workshop, three sessions convened on: scaling up of climate finance and sources; enhancing enabling conditions, focusing on policies and instruments; and enhancing enabling conditions, focusing on delivery and access. The sessions began with presentations by experts on these issues, following which breakout groups were convened to address the issues in more detail. On the final day of the workshop, breakout group facilitators reported back to plenary on reflections from each group.

This report summarizes the discussions held during the workshop.

A BRIEF HISTORY OF THE PROCESS ON LONG-TERM FINANCE

The 17th session of the Conference of the Parties (COP 17) to the UNFCCC, held in 2011 in Durban, South Africa, decided to undertake a work programme on long-term finance (LTF) in 2012, including workshops, in order to make progress on the issue in the context of decision 1/CP.16, paragraphs 97–101 (finance).

The aim of the LTF work programme is to contribute to ongoing efforts to scale up the mobilization of climate change finance after 2012. Thus, it analyzes options for mobilizing resources from a wide variety of sources, such as public, private, bilateral, multilateral and alternative sources, and undertakes relevant analytical work on climate-related financing needs of developing countries for adaptation and mitigation. To fulfill its mandate, the work programme draws

Room view during the opening session

on relevant reports, including that of the High-level Advisory Group on Climate Financing and the report on mobilizing climate finance prepared for the G-20, and also aims to take into account lessons learned from fast-start finance.

Two Co-Chairs were appointed for the work programme, one from a developing country and one from a developed country, and parties requested the Secretariat to assist the Co-Chairs in supporting the workshops. Additionally, the Co-Chairs were requested to, with the support of the Secretariat, prepare a report on the workshops for consideration by COP 18 to be held in Doha, Qatar, at the end of 2012.

FIRST WORKSHOP ON LONG-TERM FINANCE: The first LTF workshop was held from 9-11 July in Bonn, Germany. The purpose of the workshop was to provide an understanding of the general nature and overview of long-term climate

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finance, with a focus on solutions rather than problems. It also addressed lessons learned from fast-start finance that can be used post-2020.

The workshop consisted of presentations and breakout sessions, and included in-depth discussions on key aspects pertaining to long-term finance, benefiting from technical and analytic inputs from experts. The workshop also used social media and webcast tools to promote transparency, openness and inclusiveness by engaging those not physically present during the workshop. In addition to the 150 participants at the workshop, an average of 350 people viewed the workshop webcast each day, and 1500 comments and questions were sent via Twitter.

While many valuable insights were gained from inputs received and views exchanged, the first workshop also highlighted the considerable amount of work required in the coming months to address information gaps and to identify options for financing climate action.

WEB-BASED AND OTHER ACTIVITIES: Two webinars underpinned by technical and analytical discussions were held between the first and second workshops. The first, held on 13 September, focused on various approaches to assessing financing needs to implement mitigation and adaptation measures in developing countries in the longer term, while the second, held on 21 September, focused on adaptation finance.

Other web-based activities undertaken under the work programme include: a "connect-to-co-chairs" tool, which provides an additional channel for communicating with the Co-Chairs; a resource library featuring contributions for the work programme; and a dedicated website featuring information about the work programme, including past and upcoming activities. In addition, an e-forum (www.unfccc.int/ltf-eforum) was set up to provide a platform for engaging with stakeholders, exchanging views, and sharing technical and analytic information on a variety of topics. It includes sub-forums addressing: scaling mobilization of finance resources from multiple sources of finance (3-9 September); insight from approaches applied to the assessment of financing needs to implement mitigation and adaptation measures in developing countries (10-14 September); addressing the adaptation finance needs of developing countries (15-22 September); and enabling conditions needed to mobilize climate finance (23 September to 6 October).

An information event was also convened on 4 September 2012 during the informal sessions of the *ad hoc* working groups held in Bangkok, Thailand, which also provided the opportunity for parties and other stakeholders to express their views on the process and on what the second workshop might address.

Report of the Meeting

OPENING AND WELCOME BY THE LTF CO-CHAIRS

On Monday morning, 1 October 2012, the Co-Chairs of the UN Framework Convention on Climate Change (UNFCCC) work programme on long-term finance (LTF), Zaheer Fakir, South Africa, and Georg Børsting, Norway, opened the workshop and welcomed participants to Cape Town.

Co-Chair **Zaheer Fakir**, South Africa

SETTING THE SCENE: LONG-TERM FINANCE

KEYNOTE SPEECHES: Via videolink, Sizwe Nxasana, CEO, FirstRand Limited, stressed the need to increase investment in technology for sustainability, in particular in the renewable energy and energy efficiency sectors. Noting that governments alone cannot make the shift to a low-carbon economy, he underlined the importance of involving all stakeholders. Nxasana explained that FirstRand Limited acts as a platform for investors in order to create markets that drive sustainability, and also emphasized the importance of increasing investments in green property and low-carbon transport, particularly in emerging economies. He further described FirstRand's involvement in research on improved waste management and water services. In conclusion, Nxasana called for regulations and legislation to play an enabling role in driving further investments.

Also via videolink, Trevor Manuel, Minister in the Presidency, National Planning Commission, South Africa, called for focusing on taxing the "bad carbon emissions," by putting a price on carbon, establishing carbon trading systems and setting an emissions ceiling. He underscored that the section of the Copenhagen Accord that establishes the goal of mobilizing US$100 billion a year in public and private finance by 2020 to address developing country needs is focused on additionality and innovative sources of finance. Looking ahead to the 18th session of the Conference of the Parties (COP 18) to the UNFCCC, Manuel questioned whether climate negotiators and treasury representatives are "the right people to talk to." He noted the challenge of the current political context, pointing to the upcoming US presidential elections, the aftermath of the Fukushima accident and tsunami in Japan, and the economic pressure on European governments. In the context of commitments on the Green Climate Fund (GCF), he underscored the importance of creating a clear and predictable framework, as well as determining the contribution of countries. He urged: holding the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO) to their commitment to put a price on transport emissions; enhancing private sector involvement; and recognizing that part of the solution to the problem is going beyond the UNFCCC.

Co-Chair **Georg Børsting**, Norway

INTRODUCTION AND OVERVIEW OF THE WORKSHOP BY THE LTF CO-CHAIRS

Co-Chair Børsting discussed progress made on the work programme, highlighting that activities have been progressing as planned. He noted that the use of social media and webcast tools to promote transparency, openness and inclusiveness would continue, as at the first workshop. Based on suggestions, he indicated that this workshop would include breakout sessions, focused and concrete discussions, and an emphasis on solutions.

Co-Chair Fakir stressed that the LTF work programme must be a "living process," and that the information generated should have a lifespan beyond the process itself, noting the deployment of web-based tools, such as an e-forum, webinars and a resource library to build institutional memory. He emphasized that the breakout groups would form the main component of this workshop.

SESSION I: SCALING-UP OF CLIMATE FINANCE: SOURCES

This session took place on Monday morning, 1 October, and was introduced by Børsting, who explained that presenters would explore: the potential of existing, new and innovative sources of climate finance in the short, medium and long term; various approaches and possible strategies for mobilizing scaled-up climate finance from multiple sources; and the potential role of the UNFCCC in unlocking and/or catalyzing climate finance at all levels.

Mattia Romani, LSE and GGGI

PRESENTATIONS: Mattia Romani, London School of Economics and Green Global Growth Institute, described guiding principles of the sources of finance. He stressed that approximately US$50 billion could be raised relatively quickly from public sources with a carbon price of US$20-25, noting the need for international coordination and collaboration with the private sector in order to unlock these sources. Romani underscored that the scale of potential funds varies greatly according to the price of carbon and the level of commitment of developed countries to reduce emissions, and emphasized the importance of the interim financing period (2013-2015). He highlighted the need to look at financing sources in bundles and pointed to increasing pressure on aid budgets in the developed world.

Romani then described the emergence of new bilateral instruments, citing the Fund for REDD+ Indonesia (FREDDI) and the Climate Resilient Green Economy facility in Ethiopia as examples of bottom-up, nationally-driven solutions. He concluded by noting the need to define the relationship between the bilateral funds and any future global cooperation mechanism.

Nick Robins, HSBC, via videolink, discussed private sector finance, and stressed that institutional investors and banking entities have entered as new stakeholders in the climate finance discussions. He urged better alignment of the two worlds of finance and policy, and pointed to the problem of "short termism" that is driving markets. He said new regulatory initiatives have not taken account of sustainable development and low-carbon growth, and emphasized the incipient demand for long-term assets. Robins emphasized the negative impacts of the financial crisis on financial flows to developing countries, and suggested that 8% of private capital flows into developing countries in 2010 was linked to climate finance.

Robins then discussed seven key strategic issues to address when mobilizing sources of finance in the private sector:

Nick Robbins, HSBC, gave a presentation through videolink.

- attractive framework conditions and policies with "TLC-transparency, longevity and certainty," and overcoming hurdles in pursing low-carbon development policies;
- the importance of public finance to help mobilize private capital and address market failures, as well as mechanisms such as political risk insurance and insurance for bonds that are linked to climate action;
- development of private sector demand for low-carbon assets, linking of the bond market to climate action, and consideration of "impact investments," under which investments deliberately deliver social and environmental returns, in addition to financial returns;
- the importance of terminology around investments and costs, and distinguishing between the two, as well as overcoming the high capital intensity of low-carbon options, particularly in energy efficiency;
- how to address possible negative consequences of financial regulations for long-term climate finance, and aligning tax incentives with long-term climate policies;
- lack of, and the need for, consistent and credible market data; and
- transparency and accountability of private sector investment and financing.

QUESTION-AND-ANSWER SESSION: Responding to a question via Twitter on what needs to happen at COP 18 to make progress on the bundling of climate finance sources, Romani expressed the hope that a decision would be taken regarding the work of the IMO and ICAO on transport emissions, in order to move toward carbon efficiency.

Responding to a Twitter question on how to track and count private investment toward the US$100 billion target, Robins called for the adoption of common definitions of what counts toward climate action, and for the regular capturing of data.

In response to a question from a participant from Costa Rica on how the carbon market can deliver US$50 billion, Romani explained that putting a price on carbon can generate revenue domestically in developed countries, as well as through investments in developing countries. He stressed that the price of carbon depends greatly on the level of political ambition in terms of emission reductions. He welcomed the fact that European countries have not gone back on their emission reduction commitments, as well as the intention of various emerging countries to set up domestic carbon markets.

Responding to a question by a participant from Uganda on how to avoid "killing the appetite of the private sector" to invest in low-carbon development, Robins underscored the need to provide clarity in terms of the definition and size of finance flows. He emphasized that private finance flows are no substitute for public flows, and that public flows will be the main players.

BREAKOUT GROUPS: On Monday afternoon, 1 October, three breakout groups convened to further address the issues raised in the morning. Specifically, the groups were asked to: identify public, private and alternatives sources that have the potential to contribute to mobilizing and catalyzing climate finance over the short, medium and long term; and discuss the potential role of the UNFCCC in unlocking the various sources.

Breakout Group 1: In the breakout group facilitated by Fernando Perdigão, Brazil, participants underlined the need to ensure the existence of a range of climate finance sources from which a selection can be made. They pointed to some existing good experiences on scaling up climate finance and involving the private sector in adaptation projects, noting that these could be replicated. One participant stressed the importance of establishing an enabling environment in both developed and developing countries. Another emphasized that incentives, and not only taxation, could help bring funds from the private sector.

On the types of new and alternative sources that have the potential to mobilize climate finance at the required scale over time, participants mentioned the elimination of fossil fuel subsidies and tax incentives for renewables. They discussed the bundling of measures, noting that these should be country specific. One participant underlined that the EU Emissions Trading Scheme (EU ETS) could be replicated in countries that are considering the introduction of an emissions trading system. Participants also discussed what should count towards the US$100 billion target, including whether the finance flows of carbon markets should be included, and highlighted the need to avoid double accounting.

Participants suggested that the UNFCCC should play various roles, including: working with "champions of change" within the private sector and civil society; ensuring that climate investments are used effectively; acting as a mediator to facilitate the use of alternative sources of finance; playing a balancing role to ensure that climate finance flows equally to both large and small emitters, such as small island developing States (SIDS); increasing the level of ambition within developed countries; promoting a policy framework for low-carbon investments that is country-driven and country-specific; and streamlining and facilitating access to funds by developing countries.

On sources of climate finance, participants identified: public monies; multilateral development banks (MDBs); carbon markets; an international transport tax; elimination of energy subsidies; bilateral funds; and concessional loans. One participant emphasized the lack of clarity on "what counts," noting that clarity is needed in order to build trust, ensure effectiveness, learn from experience, and thereby improve investments. Participants also suggested: greening all types of investments; implementing a development paradigm shift; using certified emission reduction (CER) revenue to provide concessional loans to leverage private investments; and only separating climate finance reporting from other development reporting for accounting purposes. They underscored the importance of political will, and the need for the UNFCCC to provide signals, bring coherence and cooperate with other international bodies.

Breakout Group 2: Paul Watkinson, France, facilitated this breakout group. Discussions focused mostly on the issue of potential sources, the timing of climate finance, and the role of the UNFCCC in mobilizing long-term climate finance. Many participants highlighted: the need for definitions, in particular in relation to the meaning of climate finance and scaling it up; and the compatibility of potential options for sources, respecting the principles of the Convention. They further identified the need both to demonstrate the mobilization of the US$100 billion a year target by 2020 and to look at wider mobilization of investment for climate action. On potential sources, participants identified various options, including the bundling of sources, new taxes such as a financial transaction tax, levies on aviation and maritime transport emissions, and direct party contributions. They noted that these sources could be categorized in different ways, for example, government-focused, climate-related and non-climate-related sources. Other issues raised included political feasibility of sources, private sector engagement and delivery instruments.

Paul Watkinson, France

Regarding the time scale of climate finance, participants suggested that a phased approach for scaling-up finance must be reasonable and stressed the importance of finding instruments that can be deployed in the short, medium and long term. Various short-term issues were outlined, including: clarity on the future of fast-start finance after 2012; transformation of existing options, such as greening existing flows; and the importance of national institutions and funds, green bonds, and risk-sharing instruments. Participants also highlighted the importance of capacity building, taking into account differing national circumstances.

Suzanty Sitorus, Indonesia

On the potential role of the UNFCCC, participants called on the COP to: ensure the operation of existing institutions and the implementation of decisions; and send a strong and clear political signal to relevant stakeholders through the adoption of future mitigation targets. Additionally, many participants said the UNFCCC should cooperate closely with other bodies dealing with related issues, such as the IMO and ICAO, in order to allow for linkages and synergies, and avoid duplication of work.

Breakout Group 3: This breakout group was facilitated by Suzanty Sitorus, Indonesia, who asked participants to identify specific sources they would like to discuss. A number of delegates emphasized the importance of addressing mobilization and accessibility of sources.

The group discussed imposing a levy on aviation and maritime transport emissions as a source of finance, with one participant urging: looking at their benefits and having a frank discussion of concerns; ensuring that the UNFCCC sends a signal that aviation and maritime transport must be part of the solution to the climate problem; and taking the concerns of large developing countries into account. One participant

Participants commenting on the reports from the breakout groups

asked: how such a levy would work technically; what political issues need to be resolved; through which institution such a levy would be channeled; and who would end up paying for it. Other issues raised by participants related to: reducing emissions in aviation and maritime before addressing revenue generation; a high price on carbon as the only viable source; common but differentiated responsibilities (CBDR) as a mechanism for calculating net incidence of an international transport tax; and the concern that some developing countries would be contributing to the US$100 billion target.

One participant stated that an interpretation of the CBDR principle that requires only developed countries to take action is not good for the environment. Another suggested a model whereby everyone pays and has some responsibility, but some countries would be net contributors and others would be net beneficiaries. Another participant cautioned that any levy framework must be designed to look beyond 2020.

The breakout group also discussed subsidies, such as fossil fuel subsidies, with one urging their phase-out. Other issues addressed related to, *inter alia*: where international coordination on subsidies should take place; a suggestion that the G-20 tackle the issue; the contradiction in putting a price on carbon while subsidizing activities that produce emissions; and supported nationally appropriate mitigation actions (NAMAs) for those incorporating subsidy reform.

One participant asked how to enable countries to undertake subsidy reform using public finance policies. Another participant suggested that those who benefit from high-carbon economies are better, more effective lobbyers than the low-carbon business community, and underscored that the latter required better organization. On a financial transaction tax, one participant suggested that the UNFCCC could incentivize such a tax, while others said the UNFCCC was probably not the appropriate place for such a discussion at this time.

Other issues discussed related to: providing incentives to encourage private sector participation; ensuring that the private sector properly assesses risk; encouraging private sector involvement in adaptation; blending private and public sector sources; involving national development banks; encouraging the private sector to engage with smaller countries and in more sectors; and effectively linking work inside and outside the UNFCCC process. Participants also discussed how existing funding is being spent, the controversy over taxation, and the need for alternative sources to complement, not substitute, public finance.

SESSION II: ENHANCING ENABLING CONDITIONS: POLICIES AND INSTRUMENTS

Amal-Lee Amin, E3G, presented on policy instruments to mobilize finance

This session, which took place on Tuesday morning, 2 October, was introduced by Co-Chair Fakir and addressed: existing policies for mobilizing, scaling up and catalyzing new and additional climate finance, both in the multilateral and bilateral contexts; future policies that could potentially lead to mobilizing, scaling up and catalyzing new and additional climate finance; and the role of the UNFCCC in creating an enabling environment for mobilizing and catalyzing climate finance from different sources to address the mitigation and adaptation needs of developing countries.

PRESENTATION: Amal-Lee Amin, E3G-Third Generation Environmentalism, provided an overview of: available policy instruments to mobilize climate finance; current barriers to catalyzing investments; and the role of public policy finance in mobilizing scaled-up investment. Noting that maintaining the temperature increase below the 2ºC target will require US$10 trillion in additional energy investment to 2030, she called for focusing and redirecting all flows of existing infrastructure investments into low-carbon and climate-resilient projects in order to increase the resilience of all economic sectors. She said investors often consider policy barriers as the most prohibitive, and that these barriers include: policy uncertainty and complexity; transaction costs; and existing subsidies and policy support for high-carbon alternatives.
Amin listed market and technological barriers, including: relatively high upfront technology costs; human and operational risks; limitations of support infrastructure; limited capacity of project developers; and lack of track records on particular technologies or projects. She also emphasized the importance of: engaging stakeholders; setting a clear, long-term and coherent policy; providing price signals to incentivize the deployment of low-carbon investments; creating markets to realize the benefits of green growth; and facilitating cross-ministerial coordination. Recognizing the need to overcome barriers to private sector investment in adaptation, she highlighted the importance of raising awareness of climate risks and creating policies to incentivize resilience measures. Amin also discussed: a case study on a renewable energy deployment project in Mexico; and Brazil's Amazon Fund. In concluding, she said the catalytic role of the GCF must focus on institutional strengthening.

QUESTION-AND-ANSWER SESSION: Responding to a participant from the Philippines who asked whether studies have been undertaken on the benefits to developing countries of taking action to attract investors, Amin replied that governments can create the right policies and regulations, and can also implement taxes that can be diverted in a beneficial way so that both investors and countries benefit.

A participant from Costa Rica asked about making low-carbon investment attractive, particularly in relation to high-carbon activities, to which Amin replied that governments need to engage with stakeholders and establish credible alternatives.

A participant from Malaysia stressed the importance of: investing in science and integrating science into policy processes; and planning at the national level as a tool to reduce emissions.

Other issues raised during the discussion addressed: governments implementing a carbon tax to effectively cut emissions without losing power; project viability in the long term; complexities of climate finance; climate finance focusing on risks and challenges additional to normal development challenges; uncertainties regarding adaptation science and costs; and blending supply and demand side strategies regarding subsidies and their possible reform.

BREAKOUT GROUPS: Three breakout groups then convened to further address the issues. Specifically, the groups were asked to: identify policies and instruments that have the potential to contribute to mobilizing, scaling up and catalyzing new and additional climate finance over the short, medium and long term; and discuss the potential role of the UNFCCC in fostering these policies and policy instruments.

Pak Sum Low, Universiti Kebangsaan Malaysia (UKM)

Breakout Group 1: Pak Sum Low, Universiti Kebangsaan Malaysia (UKM), facilitated this breakout group, which focused mainly on country experiences with various instruments and policies to mobilize climate finance. Participants identified existing policies and instruments, including national climate change action plans, climate change commissions, environmental protection agencies, funds, and investment plans. Participants also underscored the importance of South-South cooperation, through, *inter alia*, export credits, debt swaps and feed-in tariffs.

Regarding preconditions to enabling such policies and instruments, participants called for: needs assessments; awareness raising measures; transparency; close cooperation among all stakeholders, including national ministries; and improved access to information, data and technology. Participants also raised the importance of: aligning development and climate change policies; ensuring that projects are country-driven; and taking account of, and involving, actors at the local level.

Athena Ronquillo-Ballesteros, World Resources Institute

Regarding the role of the UNFCCC in fostering such policies and instruments, one participant suggested that the UNFCCC could provide guidance to parties on the creation of enabling environments for such policies. Another urged assessing how, and to what extent, the Convention actually supports country ownership, while another emphasized this ownership is vital to ensuring the credibility of the UNFCCC process.

Breakout Group 2: Facilitator Athena Ronquillo-Balesteros, World Resources Institute, invited participants to share national experiences in catalyzing climate investments. One participant said the main policy instruments used nationally are energy and carbon pricing. Participants described barriers to investments, including concessional laws and lack of human capacity. One underscored the importance of carrying out country-specific assessments to help countries access and manage resources. Various participants called for coordination at the government level, as well as the involvement of all stakeholders in order to ensure project ownership. A participant noted the need to aggregate small projects to make them attractive to institutional and public investors.

One participant described the possible roles of the various international institutions that deliver climate finance, noting they could focus on providing technical assistance, risk mitigation instruments, "cheap debt," or the incremental costs of climate projects. One participant underscored the problem of high upfront costs of climate projects. Noting that recipient countries experience the complexities of a multi-donor landscape, another underlined that the establishment of a "one-stop shop" is unlikely, but that recipient country capacity must be built in order to help navigate the various donors and funds.

On the role of the UNFCCC in fostering policies that contribute to mobilizing climate finance, participants identified, *inter alia*: convening regulators and private sector players; coordinating with other international processes, including in the area of sustainable development; and providing clear signals on the mid- and long-term mitigation targets.

Gregory Andrews, Australia

Breakout Group 3: This breakout group was facilitated by Gregory Andrews, Australia. Addressing domestic policies necessary to mobilize climate finance, participants discussed: domestic targets that can help incentivize action and create certainty for the business sector; the diversity of national institutions among and within countries; institutional coordination and reform; the necessity of coordination at the sub-national level and difficulties of engaging with local authorities; the need to raise awareness within other sectors, such as treasury departments; capacity building in developing countries to attract investment; the need to strengthen fiduciary and other safeguards; policies to strengthen community knowledge and awareness; ownership of initiatives; the importance of sensitizing the financial sector to climate change opportunities; raising the awareness of parliament members and lawmakers on the impacts of climate change; and the need for political acceptability.

One participant raised the issue of creating price incentives for low-carbon investment, phasing out fossil fuel subsidies and earmarking revenues for international climate finance. Noting multiple targets can overlap and contradict each other, one participant called for "smart targets."

Regarding international policies necessary to mobilize climate finance, participants discussed, *inter alia*: addressing information asymmetry; disseminating information, such as hydrometeorological data, to developing countries to improve decision making; coordinating to ensure issues are not passed from institution to institution without being properly addressed; ensuring flexibility at the international level so action can be taken domestically; reviewing the policies of international organizations to accommodate climate change; prioritizing low-carbon investment in export credit agencies; ensuring transparency in international climate finance flows for both donors and recipients; increasing the collective ambition while respecting the CBDR principle; promoting best practices and sharing experiences at the international level; and establishing international standards to help promote low-carbon development.

A number of participants discussed mainstreaming climate change into development, with one cautioning that action to address climate change should not hinder development, adding that it should be taken into account rather than mainstreamed.

Regarding the potential role the UNFCCC can play in fostering these policies and policy instruments, participants discussed: widening the reach and impact of the UNFCCC; engaging with bilateral funds to identify international standards; enhancing the role of the UNFCCC in reducing the complexity of climate finance; defining climate finance; compiling information on climate action; using the UNFCCC as a platform for climate finance targets; and setting overarching goals, such as the 2°C goal and the US$100 billion target.

SESSION III: ENHANCING ENABLING CONDITIONS: DELIVERY AND ACCESS

This session took place on Tuesday afternoon, 2 October, and explored: current financial mechanisms, financing instruments and access modalities that can be considered best practices in mobilizing, scaling up and catalyzing new and additional climate finance; their potential role in strengthening the capacity of developing countries to access climate financing; and the role of the UNFCCC in creating an enabling environment for mobilizing and catalyzing climate finance from different sources to address the mitigation and adaptation needs of developing countries.

PRESENTATIONS: Josué Tanaka, European Bank for Reconstruction and Development (EBRD), underscored that the private sector represents an important source of climate finance because it offers: various channels of implementation; important resources; technical capacity; and a focus on returns on investment and financial sustainability. He described the growth of the EBRD's activities since the launch of the Sustainable Energy Initiative (SEI) in 2006, highlighting that these activities include industrial energy efficiency investments, sustainable energy financing facilities, power sector and municipal infrastructure energy efficiency, and renewable energy projects. He indicated that activities carried out under the SEI have led to an estimated annual reduction of 46.7 million tonnes of carbon dioxide equivalent from 2006 to 2011. Tanaka highlighted various features of the EBRD's climate finance activities, including: work with over 70 commercial banks; the limited role of equity; the fundamental role of technical cooperation; and the involvement of a wide range of actors.

Mafalda Duarte, African Development Bank, presented on the role of long-term finance in Africa, and addressed biophysical and socioeconomic vulnerabilities, particularly poorly-developed infrastructure. She discussed a concentrated solar project in Morocco, the challenges of bridging the infrastructure gap, and the complexities of undertaking such a project. Duarte said Morocco's solar agency will receive concessional financing and grants for the project and that a large subsidy will be required to cover incremental costs. She underscored that climate finance is critical to reduce upfront capital expenditures.

Duarte stressed, *inter alia,* that: the portfolio approach can best deliver scale and long-term economic and social benefits; high levels of concessional finance are necessary to drive down costs and attract private investors; and public-private partnership financing and competitive bidding can reallocate risks the private sector is unwilling to bear.

Duarte emphasized the need for: climate change interventions that are rooted in development aligned with mitigation and adaptation; flexibility in thinking, structure and modalities; and programmatic integration. She discussed portfolios of sources and investments, cautioned against underestimating the role of equity, and stressed the range of skills necessary for national readiness.

QUESTION-AND-ANSWER SESSION: Responding to a question via Twitter, Duarte noted that solar energy is not the most cost-effective option for Morocco, but that the Government decided to proceed with the project. Also responding to a question sent via Twitter, Tanaka explained that the EBRD's focus on private sector climate finance responds to the desire of its shareholders. He also stressed the

From L-R: Co-Chair **Georg Børsting**, Norway; **Mafalda Duarte**, African Development Bank; **Josué Tanaka**, European Bank for Reconstruction and Development (EBRD); and Co-Chair **Zaheer Fakir**, South Africa importance of monitoring, reporting and verification (MRV) to report to shareholders in terms of the Bank's mitigation achievements.

BREAKOUT GROUPS: Three breakout groups then convened to further discuss the issues addressed in the presentations and the question-and-answer session. Participants in the groups: explored design elements of the international climate finance architecture that exhibit scalability and replicability for current and future climate actions/funds; and discussed the potential role of the UNFCCC in creating a more conducive enabling environment.

Jukka Uosukainen, Finland

Breakout Group 1: This breakout group, facilitated by Jukka Uosukainen, Finland, discussed leading practices on access and delivery, issues related to absorptive capacity, and the role of the UNFCCC.

On leading practices, one participant highlighted the Amazon Fund as a unique example where a purely national initiative was financed by international partners without their participation in governance, urging donors to finance more national initiatives in developing countries. Participants also highlighted other leading practices, such as: payment against verified results as an effective delivery mode; the Multi-donor Trust Fund in Bangladesh; the Multilateral Fund of the Montreal Protocol; linking climate strategies and national development plans to ensure better access to domestic and international financing; and government sharing risk with commercial banks to encourage lending to low-carbon projects. Participants underscored difficulties faced by SIDS and Least Developed Countries, in particular in accessing funds, noting complicated application processes and fiduciary standards, with one calling for more flexible procedures.

On absorptive capacity, one participant advocated building integrated capacity into institutions, noting some counties are unable to access all funds allocated to them, and pointed to the funding of embedded climate change experts within each ministry in her country. Noting the example of ozone units under the Montreal Protocol, one participant suggested climate units could be established to access GCF and Global Environment Facility (GEF) funds. One participant said her country was using revenue from CERs to build capacity.

Regarding the role of the UNFCCC, participants discussed: the need for an overview of financial flows; the Standing Committee that was established at COP 16 to assist the COP to exercise its functions in relation to the Convention's financial mechanism, and its role in making information provided by donors coherent; the UNFCCC as a platform for showcasing good practices; the possibility of a roadmap for finance, similar to that being undertaken for technology; and using the UNFCCC as a platform for countries to outline their strategies for mobilizing funds.


Smita Nakhooda

One participant urged linking the aid effectiveness and climate finance agendas, while another, pointing to the aid effectiveness principle, suggested developing "climate finance principles."

Breakout Group 2: Smita Nakhooda, Overseas Development Institute, facilitated this breakout group, which focused on elements of the design of the climate finance architecture suitable to facilitating the scaling up of sources. Many participants underscored that the process itself needs to promote efficiency, ownership and transparency. Some participants stressed that all possible approaches should be needs-based, taking into account the evolving nature of these needs. They also emphasized the importance of: predictability; the continuous improvement of partnerships; the inclusion of various national actors; and continuing to learn from past experiences.

One participant underlined that capacity building is key in various contexts, including within implementing agencies and national institutions, and in relation to direct access. Some participants identified experiences with the GEF, national adaptation programmes of action (NAPAs), the aid effectiveness debate and other financial sectors, as potential valuable sources for drawing lessons.


Cristina Colon, UNDP, facilitated the discussions in one of the breakout groups.

Participants identified consistency among all agencies and a streamlining of rules and processes as potential starting points to increase efficiency. Some participants also called for: clear performance indicators and/or criteria; a regulatory mechanism for the private sector; and clarifying the role of the GCF.

Regarding the role of the UNFCCC, some participants urged a clear signal by the COP on mitigation targets, while others stressed the importance of enforcing such targets. A participant stated that the COP should ensure meaningful mitigation and transparency commitments in order to create enabling environments.

Breakout Group 3: Facilitator Cristina Colon, UN Development Programme (UNDP), invited participants to address the means to enable countries to scale up climate finance. One participant described some success stories under the Adaptation Fund, highlighting the building of local institutional capacity through the Fund's accreditation process, which requires coordination at the ministerial level. Another stressed the need to raise awareness within recipient countries regarding the various sources of finance available. One underscored that most restricting factors in attracting financial flows are generic and not specific to climate change, such as macro-stability or contract enforceability. Another underlined that the Climate Investment Funds (CIF) take a decentralized approach to identifying the projects that receive funding, stressing that countries should seek funding after identifying good projects and setting priorities. Another called for encouraging cross-border projects, particularly in the transport sector.

One participant described the development of a climate strategy in the Caribbean region, emphasizing that regional approaches can bring economies of scale and should not replace, but rather build upon, national action. Participants also underscored the importance of ensuring effectiveness of projects and empowering local financial institutions.

On the role of the UNFCCC, one participant said a strong carbon price signal is required to drive demand for climate projects and incentivize private sector involvement, underscoring the need for the UNFCCC to ensure that Annex I parties adopt ambitious emission reduction targets.

REPORTS TO PLENARY FROM THE BREAKOUT GROUPS

On Wednesday morning, 3 October, participants heard reports back to plenary from the facilitators of the nine breakout groups.

SESSION I: SCALING-UP OF CLIMATE FINANCE: SOURCES: Fernando Perdigão reported that discussions in his breakout group addressed: bundling sources that are mutually supportive in a country-specific manner; increasing information on existing sources; defining what can be counted as climate finance; increasing flows through carbon taxes and carbon markets; phasing out fossil fuel subsidies; using CER revenues to provide concessional loans to local governments; supporting adaptation; and building on lessons learned. On the role of the UNFCCC in unlocking sources, Perdigão mentioned the Convention could: provide a diagnosis and intelligence to ensure that parties have predictable finance; provide political signals by increasing mitigation commitments of all parties; create incentives for carbon pricing or investments; support the exchange of experiences and encourage strengthening of developing country capacities; provide orientation to other institutions, including the IMO and ICAO, on how to address the Convention's principles; and define parameters on how to account towards the US$100 billion target. On elements for future consideration, he highlighted the need to: raise awareness within the private sector and enhance its involvement; develop sound policy and fiscal incentives; improve the balance of climate finance flows to address the needs of all developing countries; increase transparency in climate finance flows; and develop good systems for data collection.

Paul Watkinson reported that discussions in the breakout group facilitated by him focused on defining climate finance and what needs to be scaled up. He said participants examined a range of available sources at national and international levels, including direct public contributions, auction revenues, levies on aviation and maritime transport emissions and an international financial transaction tax. He emphasized the need to: weigh all options against the principles of the Convention, especially predictability, sustainability and additionality; and focus on national policies in the short term. He called for: clarity on finance available after the fast-start period; capacity building, taking into account national circumstances and lessons learned from previous experiences; and operationalizing the GCF, including its capitalization. Watkinson stated that the role of the UNFCCC could include: providing a political signal, in particular in the discussions under the *Ad Hoc* Working Group on the Durban Platform (ADP); and establishing a dialogue with other bodies, such as the IMO and ICAO, to increase linkages and synergies around relevant issues and decrease mistrust and overlap of work.

Suzanty Sitorus, reporting on reflections from her breakout group, highlighted potential sources of finance and key issues that have hampered progress in mobilizing sources. She emphasized both political and technical feasibility, as well as adequacy, predictability, sustainability and environmental integrity when looking at sources. She said participants discussed several potential sources, including levies on air and maritime transport, an international air transport adaptation levy, the phase out of fossil fuel subsidies, a financial transactions tax, and private sector and direct budget contributions. She said even if political will existed, many sources would still require a number of years to implement before funds begin to flow, and stressed potential political developments that could impact feasibility.

Regarding the role of the UNFCCC in unlocking sources of climate finance, Sitorus highlighted sources governed by other organizations and the need to divide the work so that the issues are appropriately addressed. She mentioned that the G-20 could be the champion for addressing subsidies. She stressed, *inter alia*: the financial mechanism under the UNFCCC could leverage sources other than public sources; establishing mechanisms to channel money to developing countries and increase accessibility; and how sources can be used to incentivize NAMAs.

In an intervention from the floor, China raised questions regarding the feasibility of the proposed international air transport tax, and stressed CBDR and ensuring sources do not negatively impact on developing countries.

SESSION II: ENHANCING ENABLING CONDITIONS: POLICIES AND INSTRUMENTS: Gregory Andrews identified those issues that participants deemed most important in his breakout group. Regarding domestic policies and actions, he highlighted: institutional coordination and reform to ensure, among other things, that the government as a whole is involved with climate finance; mainstreaming of climate change into government policies and programmes; awareness raising and political acceptability; targets to incentivize action, such as renewable energy or mitigation targets; greater developed country ambition; capacity building in developing countries so that climate finance can be absorbed; and price incentives, such as feed-in tariffs. At the international level, he said participants stressed the importance of: transparency and predictability of flows both for donors and recipients; institutional coordination reform and leverage, such as incentivizing the World Trade Organization, IMO and ICAO to address climate change; ownership to ensure climate change is addressed; institutional review; reducing red tape; mainstreaming climate change into development, while ensuring development is not hampered; and ambition, capacity building, public-private partnerships and export credit agencies. On the role of the UNFCCC, Andrews highlighted: promoting transparency, MRV, institutional coordination and good practices; reducing complexity; setting overarching goals and increasing ambition; and building political momentum.

Facilitator **Gregory Andrews**, Australia

Athena Ronquillo-Balesteros reported that her breakout group shared national experiences in mobilizing climate finance, including: developing long-term climate change action plans; adopting multi-stakeholder approaches; enacting legislation and regulatory frameworks to reduce upfront costs of low-carbon technologies; and adopting sectoral policies to incentivize the transition to low-carbon options. She underscored the importance of: investing in human capital; strengthening national institutions to facilitate direct access and foster investment; and enhancing inter-ministerial cooperation. On the role of the UNFCCC, she noted calls for the Convention to: promote linkages with other intergovernmental processes, including in the area of sustainable development; send clear signals to the international community by setting medium- to long-term mitigation goals; and enhancing dialogue during ministerial segments at COPs to facilitate further dialogue on innovative actions.

Pak Sum Low said discussions on experiences in developing national climate change policies and instruments addressed, *inter alia*: carbon and energy taxes; the creation of an "ecological fiscal regime" to mobilize finance; the EU ETS; and assistance in enhancing an enabling environment in developing countries. He called for: a fundamental change in the existing financing system in order to end bad practices; mainstreaming of climate change considerations into all development planning and projects; intra-ministerial coordination; mobilization of private sector involvement; and transparency for all stakeholders. He pointed to emerging South-South cooperation, particularly in capacity building, and in responding to disasters and other cross-border effects of climate change.

On the potential role of the UNFCCC, Sum Low said participants highlighted: facilitating the development and strengthening of national policies; providing guidance to parties on how to enhance an enabling environment for mobilizing financial support; assessing frameworks and policies of various financial institutions; ensuring the credibility of the UNFCCC process; and increasing the visibility of impacts on the ground. Among other issues raised, he mentioned: needs assessments; country ownership; the role of the media in raising awareness of climate change; and how to avoid market distortions created by subsidies.

SESSION III: ENHANCING ENABLING CONDITIONS: DELIVERY AND ACCESS: Jukka Uosukainen reported that his group addressed leading practices and highlighted: establishing national funds based on country ownership and nationally-designed governance structures to attract international finance; enhancing linkages between climate finance and aid effectiveness; and strengthening linkages between climate strategies and national development plans to enhance access to national and international finance.

Regarding absorptive capacity, particularly in developing countries, Uosukainen outlined some of the examples provided, including: placing climate finance experts in different national institutions to enhance integrated approaches; the importance of national-level coordination mechanisms involving all stakeholders, including donors; and drawing on lessons learned from other international agreements and arrangements, such as the Montreal Protocol's Multilateral Fund. He emphasized that the UNFCCC sets targets everyone can follow, and said further possible roles mentioned include: acting as a platform for sharing lessons and showcasing good practices; contributing to improving coherence on finance-related information, such as on financial flows; contributing to principles, methodologies, MRV and definitions; and improving the quality and applicability of guidance to the financial mechanism of the Convention.

Smita Nakhooda said her group reflected on scalable and replicable features of the financial architecture, and stressed the need to: learn from past experiences, including less positive ones, and build on efforts made to increase the efficiency of existing institutions; foster criteria-based competition among institutions to deliver effective support; build on efforts to understand needs, including financial and capacity needs; and harness experience and capacity through creative partnerships, including with private sector banks.

Regarding the role of the UNFCCC, Nakhooda mentioned that the COP could: signal objectives, norms and targets for delivering finance; create a meaningful framework for transparent implementation of adaptation and mitigation; maximize synergies among different pieces of the current climate finance architecture, based on "who does what well"; and foster learning and exchange.

In an intervention from the floor, one participant reiterated difficulties in obtaining GEF financing, and urged that the future financial architecture, such as the GCF, avoid those pitfalls and difficulties.

Cristina Colon reported that discussions in her breakout group highlighted lessons that could be learned from the Adaptation Fund and the Climate Technology Centre and Network (CTCN). She noted calls for: promoting the involvement of the private sector; tailoring investments to different regions; matching the objectives of the donors and recipients of climate finance; and developing MRV and tracking of flows. She noted discussions on regional and biodiversity projects, stressing that the regional approach could complement, but not substitute, national action.

On the role of the UNFCCC, Colon emphasized that the Convention should: enhance coordination, not only of stakeholders, but also of activities being undertaken; focus on eliminating mistrust between donors and recipients; harmonize the work of its multiple committees; and send high-level signals to incentivize the private sector through adopting ambitious mitigation goals. She also underscored

A view of the room during the closing session that the UNFCCC should continue exchanging views with the multilateral development banks, and further increase private sector participation in the UNFCCC process.

In interventions from the floor, one participant emphasized the need for clarity on finance for new developing country commitments, such as MRV, biennial reports and the Registry. Another suggested holding a side event during COP 18 to table information from the workshop, especially for those who were unable to attend.

WRAP-UP AND CLOSURE

On Wednesday afternoon, 3 October, Co-Chair Børsting thanked the Secretariat and participants for their contributions to, and active engagement in, the workshop. He provided an overview of the work programme's mandate and summarized the outcomes of the first LTF workshop, reiterating that participants had discussed: climate-related finance needs of developing countries; present and potential future sources of climate finance; and options for mobilizing climate finance, including lessons learned from fast-start finance.

Co-Chair Fakir emphasized the use of various media to allow for wider public engagement and provided an overview of the two webinars held under the work programme. He underscored that "success is a journey, not a destination," and that what counts is not only the report that the Co-Chairs will present to COP 18, but also the activities carried out under the work programme. On the second workshop's achievements, he highlighted: enhanced collective understanding of the mobilization of climate finance; increased institutional knowledge on climate finance issues; valuable knowledge sharing; and engagement of experts. He urged participants to "take home" the knowledge gained at the workshop and arrive at a common solution to the issues raised. Concluding, Fakir stated that the kind of leadership required in the climate finance area is one that is based on "inspiration, not domination," and on "cooperation, not intimidation." He brought the workshop to a close at 12:50 pm.

UPCOMING MEETINGS

Second Meeting of the Board of the Green Climate Fund (GCF): This meeting is expected to discuss, among other things, the long-term work plan and priorities of the Board, selection of the GCF host country, and arrangements for the Interim Trustee. **dates:** 18-20 October 2012 **location:** Songdo, Republic of Korea **contact:** UNFCCC Secretariat **phone:** +49-228-815-1000 **fax:** +49-228-815-1999 **email:** secretariat@unfccc.int **www:** http://gcfund.net/meetings.html

Pre-COP 18 Ministerial Meeting: This ministerial meeting will be held in preparation for the 18th session of the Conference of the Parties (COP 18) to the UNFCCC. **dates**: 21-23 October 2012 **location**: Seoul, Republic of Korea **contact:** UNFCCC Secretariat **phone:** +49-228-815-1000 **fax:** +49-228-815-1999 **email:** secretariat@unfccc.int

African Sustainable Energy Finance Summer Academy: The Sustainable Energy Finance Academy, held within the new framework of the Frankfurt School – UN Environment Programme (UNEP) Collaborating Centre for Climate and Sustainable Energy Finance, aims to provide decision makers and project developers with a comprehensive framework on renewable energy and energy efficiency financing. It will include a special emphasis on renewable energy and energy efficiency in Africa. **dates:** 21-26 October 2012 **location:** Nairobi, Kenya **contact:** Summer Academy Team **phone:** +49-069-154008-692 **fax:** +49-069-154008-4692 **email:** summeracademy@fs.de **www:** http://www.frankfurt-school.de/content/en/consulting/ias/summer_and_winter_academies/sustainable_energy_finance_nairobi.html

Assistance for Action: Aviation and Climate Change: This seminar is organized by the International Civil Aviation Organization (ICAO) and will provide countries and other stakeholders with an opportunity to exchange views and information on the assistance required to develop and implement policies and actions related to international aviation and climate change. **dates**: 23-24 October 2012 **location**: Montreal, Canada **contact**: ICAO Secretariat Environment Branch Air Transport Bureau **phone**: +1-514-954-8219, ext. 8243 **email**: acli@icao.int **www**: http://www.icao.int/meetings/acli/Pages/default.aspx

Climate Investment Funds Partnership Forum and Associated Meetings: The Climate Investment Funds (CIF) and the European Bank for Reconstruction and Development (EBRD) are co-hosting the CIF 2012 Partnership Forum and associated meetings. The Forum will be preceded by Pilot Country meetings for all CIF programmes (the Clean Technology Fund, the Forest Investment Program, the Pilot Program for Climate Resilience and the Program for Scaling-Up Renewable Energy in Low Income Countries) and a Private Sector Forum. **dates**: 30 October - 7 November 2012 **location**: Istanbul, Turkey **contact**: CIF Administrative Unit **email**: cifevents@worldbank.org **www**: http://www.climateinvestmentfunds.org/cif/partnership_forum_2012_home

GEF Council Meeting: The Global Environment Facility (GEF) Council meets twice a year to approve new projects with global environmental benefits in the GEF's focal areas, and provide guidance to the GEF Secretariat and Agencies. **dates:** 12-16 November 2012 **location:** Washington (District of Columbia), US **contact:** GEF Secretariat **phone:** 1 202 473-0508 **fax:** 1 202 522-3240 **email:** secretariat@thegef.org **www:** http://www.thegef.org/gef/council_meetings

UNFCCC COP 18: The 18th session of the Conference of the Parties (COP 18) to the UNFCCC and the eighth session of the Conference of the Parties serving as the Meeting of Parties to the Kyoto Protocol (CMP 8), among other associated meetings, are scheduled to take place in Doha, Qatar. **dates:** 26 November to 7 December 2012 **location:** Doha, Qatar **contact:** UNFCCC Secretariat **phone:** +49-228-815-1000 **fax:** +49-228-815-1999 **email:** secretariat@unfccc.int **www**: http://unfccc.int/meetings/doha_nov_2012/meeting/6815.php

GLOSSARY

CBDR	common but differentiated responsibilities
CIF	Climate Investment Funds
COP	Conference of the Parties
EBRD	European Bank for Reconstruction and Development
GCF	Green Climate Fund
GEF	Global Environment Facility
ICAO	International Civil Aviation Organization
IMO	International Maritime Organization
LTF	long-term finance
MRV	monitoring, reporting and verification
NAMAs	nationally appropriate mitigation actions
UNFCCC	United Nations Framework Convention on Climate Change