BRIEFING PAPER
LONG-TERM FINANCE

BACKGROUND

The Durban decisions confirmed the commitment by developed countries to the "goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries", "in the context of meaningful mitigation actions and transparency on implementation" (COP 16/Decision 1, §98).

To define more precisely the potential modalities for such a commitment and scale up the mobilization of climate change finance after 2012, COP 17 launched a work program in 2012 on long-term finance (COP17/Decision 2, §127) whose deliverable will be a report by the two co-chairs, Mr Zaheer Fakir (South Africa) and Mr Georg Boersting (Norway), for consideration by COP18.

The long-term finance work programme is framed by Decision 1 of COP 16 (§97-101) which implies in particular that:

- Funds to be provided to developing countries constitute a "Scaled-up, new and additional, predictable and adequate funding" (§97) and can come "from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources" (§99). Existing reports, including the report of the High-level Advisory Group on Climate Change Financing (see Annex 1), already provide some options to be accounted for (§101).
- The issue of long-term finance is interconnected with the Green Climat Fund as "a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund" (§100).

KEY DEVELOPMENTS

The work program should analyze options for the mobilization of resources and undertake relevant analytical work on climate-related financing needs of developing countries. To do so, two workshops were held, while webinars and e-fora have been organized all year long to gather stakeholders' opinions.

Workshop No1: 9-11 July in Bonn, Germany

The first workshop on long-term finance gathered 140 representatives from governments, major financial institutions, private sector entities and civil society. The event aimed to discuss key issues for scaling up finance mobilization for climate change including:

- Understanding the long-term finance needs of developing countries
- Sources of climate finance
- Options for mobilizing climate finance
- Lessons Learnt from Fast-start Finance

Understanding the long-term finance needs of developing countries

Despite a wide range of estimates in the financing needs of developing countries (estimated $600 to $1,500 billion a year), workshop participants agreed on the gap with current and projected climate finance[1]. Uncertainties in the estimates highlight the need for greater understanding of their scale and assumptions. As mitigation and adaptation programs are highly context-specific, bottom-up studies by country may help understanding better finance needs.

Sources of climate finance

There is a general consensus that it is feasible to raise $100bn a year by 2020 by combining a number of different instruments (see Annex). However, raising new sources for climate funding will take some time. That advocates for having initial financial flows based on existing sources. In particular, multilateral development banks were identified as key actors used to leveraging private savings for development purposes and to improve access to existing climate finance instruments.

Public policies play a key role in driving investments so there are clear advantages in strengthening institutional capacities and learning, as well as in reinforcing policies through international public finance rather than circumvent them.

Discussions also focused on the role of both public and private sectors in scaling-up climate finance flows. Public funding also was defended as the key tool to address market failures as the private sector is not ready to invest in all climate needs. Nevertheless, public funding should be well targeted to mobilize private funding but not replace it. The Convention noted that particular attention and support should be given to mobilize funding by the private sector in LDCs and SIDS.

Options for mobilizing climate finance

Mobilizing climate finance can be done through:

- Direct public funding, which is difficult at this time given the economic context. Nevertheless usual development aid tools, like concessional finance or guarantees, can address specific barriers (e.g. cost of technology due to lack of availability or risks), reward over-performance (performance-based contracts) and absorb complexity of climate finance.

- Private financing, which involves some kind of repayment aligned to market conditions for similar project risks. Barriers often involve the absence of a level playing field between high-carbon and low-carbon investment; regulatory matters (for example, absence of grid access for low-carbon technologies); as well as political and regulatory investment risks. In this regard, many Annex I countries also aim at identifying means of maximizing the leveraging of private sector investment by public funding.

- Pollution taxation, including through carbon markets, which nevertheless only addresses incremental costs of climate investments. Several options have been suggested such as

[1] Climate finance refers to available funding from public or private sources to invest in low-carbon or climate resilient development.

carbon taxes, taxation of financial transfers, taxation of international bunkers, implementation of carbon markets etc.

Lessons Learnt from Fast-start Finance

Reviews on the implementation of Fast-start Finance suggest different lessons. First, imprecise targets make it difficult to assess the actual achievements of the programme. For example prioritization of SIDS, LDCs and Africa as requested is not easy to evaluate because of uncertainty in the definition of "prioritization".

Moreover, there is a clear need for improved tracking mechanism from donor countries. Details on actual funding vary significantly depending on the Party and on the channels involved. A single format for reporting would simplify reporting and verification of commitments, keeping in mind that this MRV system should remain simple to avoid becoming a major constraint.

Finally, speakers emphasized that a robust national strategy has facilitated quick start-up of climate actions, which advocates for implementation of national strategies in developing countries willing to attract international funding (e.g. through NAMA development).

Workshop No2: 1-3 October 2012 in Cape Town, South Africa

The second workshop implemented plenary sessions and "breakout groups" to further discuss specific items. The workshop focused on approaches to scaled-up climate finance and on enabling environments.

The first session on scaling-up climate finance and sources highlighted the need of action from different Parties in the raising of innovative sources. For example, funds that are to be collected domestically can involve only national decisions or be coupled with support from international institutions. At the international level, international cooperation and coordinated action would be expected. Finally leveraging private funds could involve governments from developed and developing countries.

In all cases there is a strong demand for 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.

The role of the UNFCCC in this regard could be to provide an effective international framework by coordinating Green Climate Fund and its private sector facility, Adaptation Fund and Committee, existing or new KP mechanisms for carbon finance, the Global Environment Facility, Technology Executive Committee and Climate Technology Centers, NAMA Registry, Standing Committee, Forum for capacity-building and MRV framework building.

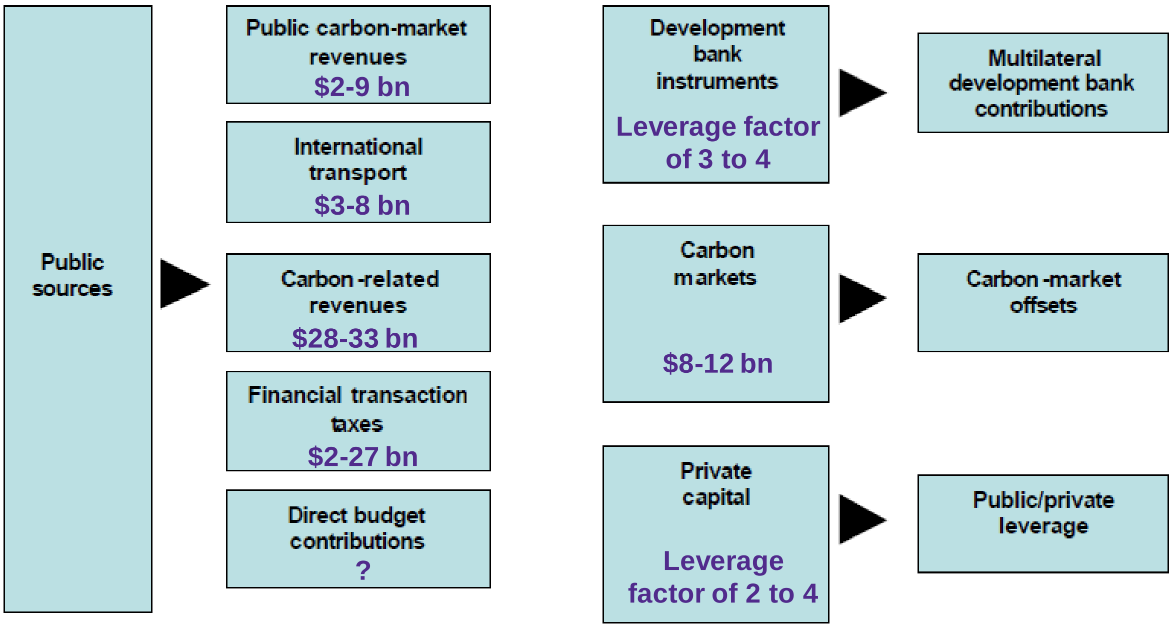
NEXT STEPS IN NEGOTIATIONS

The report of the long-term finance programme will be presented to COP-18.

REFERENCES

- E-forum on Long-term Finance
  http://unfccc.int/cooperation_support/financial_mechanism/long-term_finance/items/7047.php
- Report of the High-level Advisory Group on Climate Change Financing (2010)
  http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf
- G20 report on mobilizing climate finance (2011) http://www.g20-g8.com/g8-g20/root/bank_objects/G20_Climate_Finance_report.pdf
- UNFCCC Long-term Finance web portal:
  http://unfccc.int/cooperation_support/financial_mechanism/long-term_finance/items/6814.php

ANNEX 1



Source: from Report of the High-level Advisory Group on Climate Change Financing *(2010).*

Note: estimates indicated in this figure are based on the minimal hypothesis presented in the Report of the High-level Advisory Group on Climate Change Financing (2010). Estimates of Public carbon market revenues (earmarked for international funding) and International transport refer to a carbon price of $15/tCO_2$. Estimate for Carbon-related revenues include carbon taxes (~1 USD/tCO_2 on energy in developed countries), reduction in fossil fuel subsidies and redirection of fossil fuel royalties.