

## **Submission of the United Nations Environment Programme (UNEP) to the Ad Hoc Working Group on Long-Term Cooperative Action under the Convention (AWG-LCA)**

**December 7, 2008 (revised February 2009)**

### **Background**

In response to the invitation by the Chair of the AWG-LCA for Parties and observer organizations to submit further ideas and proposals in correspondence with the earlier invitations, the United Nations Environment Programme (UNEP) makes the following submission. The submission provides UNEP's views on selected elements contained in paragraph 1 of decision 1/CP.13 focussing on five key areas. They deal with enhanced action on (1) mitigation of climate change; (2) adaptation; (3) technology development and transfer to support mitigation and adaptation; (4) the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation; (5) supporting the implementation of UNFCCC decisions.

### **Mitigation**

On mitigation of climate change, dealing in particular with the reform of the Clean Development Mechanism (CDM), UNEP recommends a clear separation in the discussions on the proposed action between longer term vision for the evolution on the market and the short term improvements needed in the current market situation and design of the mechanism. The longer term vision could be worked in the language to be developed on Nationally Appropriate Mitigation Actions (NAMA), on Reporting, Monitoring and Verification (MRV) and on sectoral approaches and will be closely linked with the other key elements of a possible future agreement.

In the near term as the Parties desire to maintain and enhance the current dynamic development of CDM activities, there is an urgent need to develop concrete approaches and methodologies that can deal with current bottlenecks in the project process and delays in the review and approval process, and to support more rapid development of the existing options for programmatic activities (P-CDM). There is also a need for enhanced capacity building efforts to increase regional distribution of CDM projects.

UNEP with its on-going activities in analytical and capacity building activities, if invited, is well placed to work with Parties, the UNFCCC secretariat and the CDM Board on these short-term actions. UNEP will in April 2009 issue new guidance on P-CDM and initiate further capacity building activities in support of the Nairobi Framework.

### **Adaptation**

On adaptation, UNEP proposes the following for the consideration of Parties and the UNFCCC secretariat: (a) separate the immediate steps to deal with urgent needs for adaptation from long-term arrangements needed to prepare and respond to future climate

risks; (b) focus on the most vulnerable countries, communities and groups of people, and responding to the specific support needs identified by them; (c) deliver packages of support for the adaptation activities of governments and communities of vulnerable regions, including assessments of impacts and vulnerabilities, piloting adaptation, and capacity building in support of policy setting, planning and adaptation practices; (d) provide increased, sustainable and long-term funding to meet the increasing needs for capacity building, technology development and transfer, and adaptation practices; (e) strengthen the management and mobilization of data, information and knowledge to support knowledge-based adaptation; and (f) build the resilience of ecosystems and apply ecosystem-based approaches in adaptation.

UNEP will work to strengthen its supportiveness and complementarity to the actions taken by governments, communities and other partners on adaptation, to ensure the enhanced resilience of the most vulnerable regions and communities to climate change. In particular, UNEP will work with countries on the integration of adaptation into national development planning processes, and on increasing the climate resilience of key vulnerable ecosystems and the people depending on them. To enhance the adaptive capacity of vulnerable countries in a sustainable manner, UNEP is facilitating the development of the Global Adaptation Network in partnership with other UN and international organizations.

## **Technology**

UNEP believes that there are a number of barriers to the development of robust markets for cleaner energy technologies. They include poor access to timely and unbiased information, weak institutional and human capacities, and limited access to finance, which affects all actors in the market. UNEP, supported by other bilateral or multilateral aid agencies, is well placed to facilitate and help the implementation of a number of these activities and initiatives.

The activities suggested below can help foster market development for cleaner energy technologies in developing countries. These initiatives include: (a) help governments design and implement climate and sustainable energy policies and programmes that provide the basis for the systematic removal of barriers needed to develop markets for prioritised technologies; (b) provide institutional and financial support to governments willing to test out changes in energy subsidy regimes in favour of climate-mitigation technologies; (c) establish national centres of excellence in clean energy technology and link them with regional networks of climate change officials to provide a means for sharing knowledge, exchanging information and experience, and accelerating technology transfer through cooperative regional efforts; (d) facilitate the scale-up of seed financing and later stage bank financing to climate entrepreneurs, as guarantees are provided to share market and technology risks; (e) provide affordable long term financing on concessional terms for low carbon infrastructure projects by establishing a Least-developed country credit facility for climate infrastructure; (f) help the domestic banking community to begin financing the uptake of cleaner technology amongst households and small business; (g) facilitate first-of-a-kind carbon transactions based on new

methodologies and approaches; (h) provide targeted support for first-movers investing in cleaner energy technologies through information and financial assistance that reduce transaction costs; (i) create technology platforms to scale-up the uptake of cleaner energy technologies at the regional level in key areas such as energy-using devices, energy intensive industries or fossil-fuelled power generation; (j) develop standards and norms for selected products and strengthening of national and regional capacities to adopt, implement and enforce a range of product standard programmes.

## **Finance**

On provision of financial resources and investment, UNEP believes that key questions include: What should be the scale of new financing by governments? How can public monies mobilize and leverage sufficient commercial capital to achieve GHG reduction objectives? In other words: how to get and importantly make most of those new financing resources?

A wide range of public finance mechanisms can be used to catalyze private investment in low-carbon technologies and projects, including credit lines, risk sharing guarantees, private equity and venture capital funds, carbon finance facilities and a wide range of innovative grant based instruments. New mechanisms or adaptations of existing mechanisms are also being proposed, for instance inducement prizes and different types of technology funds. To ensure their success, UNEP suggests that these new mechanisms be aimed at complementing national policy instruments such as regulations, taxes and market mechanisms, rather than operation in isolation. Their role is to help commercial financiers act within a national policy framework, filling gaps and sharing risks where the private sector is initially unwilling or unable to act on its own.

Besides being aligned with policy frameworks, public finance mechanisms must also be structured to act along the entire chain of financial intermediation, which can include development finance institutions, commercial financial institutions, investors, equipment manufacturers and technology delivery companies. In many cases, technical assistance programmes, like those being successfully demonstrated by UNEP, are needed to build the capacities of these market actors to create a pipeline of investment-ready projects, a pre-condition for leveraging commercial funding. Examples of such programmes involving leveraging public finance, capacity development and provision of seed finance are included in the technology section above.

A review of existing public finance mechanisms has found that at any scale they can be made most effective and efficient if they: (a) accurately assess technology market barriers and financial market conditions; (b) target market segments where the project economics are compelling; (c) take a programmatic approach to financial mechanism design; (d) use and strengthen existing financial delivery capacities throughout the chain of financial intermediation; (e) address the lending or investment criteria of commercial financial actors; (f) include marketing and market aggregation plans; and (g) develop plans for public or donor-supported technical assistance programmes to build capacities, fill gaps, and take on any roles or risks not assumed by commercial parties.

UNEP notes that an in-depth exchange of best practices on public funding instruments is needed if parties are to design and implement a new financial architecture under the convention. With this goal in mind UNEP has recently set up a public finance alliance ([www.SEFAlliance.org](http://www.SEFAlliance.org)) of public finance and publicly financed agencies focused on clean energy and climate sector development. UNEP has also released at COP14 a preliminary report on Public Finance Mechanisms to Mobilise Investment in Climate Change Mitigation and will look to further contribute to the AWG-LCA finance agenda and the UNFCCC Secretariat Technical papers on Investment and Finance Flows to Address Climate Change.

### **Support to implementation of UNFCCC process**

On supporting the implementation of UNFCCC decisions, UNEP notes that the UN Secretary General has asked agencies with specific programmes and mandates in areas of climate change (REDD, technology transfer, finance, capacity building and adaptation) to play a convening role within the UN, and to help deliver results in each of these areas. At the same time, the UNFCCC will act as the conduit for United Nations system inputs to the intergovernmental negotiation process. UNEP will focus its activities in the provision of the substantive work that will help inform and support the negotiation process.

More broadly, UNEP believes it is crucial:

- (i) That adaptation planning, financing and cost-effective preventative actions are increasingly incorporated into national development processes that are supported by scientific information, integrated climate impact assessments and local climate data;
- (ii.) That countries make sound policy, technology, and investment choices that lead to a reduction in greenhouse gas emissions and potential co-benefits, with a focus on clean and renewable energy sources, energy efficiency and energy conservation;
- (iii.) That improved technologies are deployed and obsolescent technologies phased out, financed through private and public sources, including the Clean Development Mechanism;
- (iv.) That increased carbon sequestration occurs through improved land use, reduced deforestation and reduced land degradation;
- (v) That country policy-makers and negotiators, civil society and the private sector have access to relevant climate change science and information for decision-making. In this regard it is important to help advance negotiations on future action through capacity building workshops for climate change negotiators to help them articulate and refine their national, sub-regional and regional policy positions with regard to specific building blocks of the Bali Road Map and with the requirements of any negotiated outcome at COP15.