Working document

[Section F - Finance]

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Main observations:

- During two informal meetings of the facilitated group on finance, Parties continued to exchange views and identify key concepts in relation to the following issues: sources, and objective/guiding principles/thematic funding.
- In addition to a submission that was received on Wednesday, 2 September 2015, from a group of Parties on the issue of institutional arrangements on finance in the core agreement, three submissions were received on the issue of institutional arrangements.[1] In a meeting of the facilitated group on finance, Parties were given the opportunity to introduce their submissions as well as to react to the submissions made and engage in in-depth discussions. The Co-Facilitators encouraged Parties to continue their discussions on the basis of the textual proposals with the aim of coming up with possible bridging proposals in advance of the next meeting of the facilitated group, indicating that there may be emerging convergence on some of the underlying issues with regard to the issue of institutional arrangements.
- Additional submissions were made by Parties, including on the notion of scale and scaling up, enabling environments, and the objective/commitment/purpose of finance.[2] The Co-Facilitators indicated that these submissions will be discussed on Friday, 4 September 2015.

Work on the notion of scale, scaling up

- The notion of scale, scaling up was discussed in two informal meetings of the facilitated group on finance on Wednesday, 2 September 2015. Two oral reports were delivered to the facilitated group on finance by one Party delegate designated by the Co-Facilitators. During these discussions, Parties discussed concepts that would have to be anchored in the draft Agreement as well as in the draft Decision.
- In this context, Parties addressed the issue of level/scale of support, with proposals outlining that it should be commensurate with and meet the level of ambition, and/or be commensurate with developing countries' needs and priorities.
- With regard to the issue of scale as such, proposals made by some Parties indicated that scale is to, inter alia: address and have a clear link to the overall temperature goal; be linked and in line with the objective of the Convention; be based on the needs of developing countries and identified gaps in the provision and delivery of support.
- On the notion of scaling up support, some Parties proposed that it should be an obligation and commitment, within the context of Article 4, paragraph 7, of the Convention, regular and systematic, as well as regularly reviewed, and/or be based on periodic assessments every four years. Linked to that, proposals put forward by Parties with regard to the notion of scaling up included that it should be based on: a floor of USD 100 billion per year; a GDP-based calculation; a burden-sharing formula or arrangements; clear pathways for scaling up, based on periodic needs assessments, or from current levels. Further proposals included the anchoring of a long-term qualitative collective goal on means of implementation, a broadening of the contributor base, and that scaling up should come from a variety of sources, with support being only one element. The issues of predictability of resources, as well as a commitment to conducting needs assessments, were also mentioned in this context.

[1] Available at <http://unfccc.int/bodies/awg/items/9158.php>.
[2] Available at <http://unfccc.int/bodies/awg/items/9158.php>.

- Another concept that Parties addressed referred to the scaling up of efforts or actions to be taken by all, including such actions as: the mainstreaming of climate change; the shift/redirection of investment flows; the mobilization of private finance; the mobilization of climate finance at scale; enabling environments; and the scaling down of international support for high-carbon investments.
- The importance of measurement, reporting and verification/transparency of support was also raised by a few Parties; for example: in the context of a common reporting format to reflect on scaled-up quantified contributions; as an essential element also with regard to effectiveness; or as a means to recognize contributions by a broader contributor base.
- A few other concepts were also raised as essential in the context of scale and scaling up, including issues such as: the need for an anchoring of a 50:50 balance between support for mitigation and adaptation; an acknowledgment of the importance of adaptation as a crucial element; a recognition of agreed language regarding the specific needs and special circumstances of particularly vulnerable countries; the need for effectiveness; that all instruments and channels should be used; that an element of progression should be captured; as well as acknowledging the increasing importance of the private sector and that without a clear definition of what climate finance means, it becomes difficult for Parties to have a common understanding of what it is that they are discussing scale in relation to.
- Concepts that could possibly be captured in decisions included: the process through which the determination of the level of the needs and priorities of developing countries would be carried out; the determination of the level of resources required, as per Article 11, paragraph 3(b), of the Convention, to lead to a clear road map of individual annual commitments and details on this road map; details of the revision of the guidelines for national communications; or guidance to the operating entities of the Financial Mechanism provided by the governing body to include the strengthening of the issue of the determination of funding necessary and available.

<u>Work on sources</u>

- Parties engaged on the issue of sources during one informal meeting of the facilitated group on finance on Thursday, 3 September 2015. One Party representative, as designated by the Co-Facilitators, reported to the facilitated group on finance on the outcome. This included a general common understanding that, in the light of the challenges at hand, sources of climate finance cannot be limited to only one source, as well as that the concept of sources should be anchored or recognized in the draft Agreement; however, there were diverging views on whether or not there is a need for some sort of operationalization regarding the concept of sources to be captured or anchored in the draft Decision.
- Through the discussions, two lines of thought with regard to the capturing of the issue of sources in the draft Agreement became clearer. One would be along the lines that, in line with the principles and provisions of the Convention, financial resources shall be provided from public sources, and are to be the main source, and that financial resources may be mobilized from other sources, including private sources, with the understanding of the complementary/supplementary nature of such sources. The other line of thought would be around the issue of climate finance to be mobilized from a variety of sources, including public, private and alternative sources.
- Parties additionally identified a number of ideas and concepts around the issue of sources. For example, issues around adequacy and predictability were raised. With regard to private sources, various Parties raised various concerns, including with regard to: the profit-oriented nature of private sources; the suitability of private sources, particularly with regard to adaptation; and the question of the capability of private sources in relation to meeting the temperature goal. Some Parties are of the opinion that the private sector is out of the remit of the Convention; however, indicating that it is within the remit of the Convention to create, for example, incentives for private-sector engagement. Some Parties highlighted the importance of private finance for the transformation to a low-carbon and climate-resilient economy and the notion of scale related to it. Various Parties pointed out that there is a need for further consideration with regard to the use of sources other than public, including, for example, the establishment of clear processes for such considerations.
- Parties also referred to the issue of channels: some would like to see specific mention of the Financial Mechanism and its operating entities, while others highlighted the need to make use of a wide variety of channels and a broad range of instruments, such as grant-based assistance, concessional loans, commercial financing, bonds and export credits.

- Furthermore, Parties identified various issues around transparency, the measurement, reporting and verification of support, and accountability, particularly with regard to private/alternative sources.
- Overarching issues that were pointed out by a few Parties included: the importance of grant-based assistance to prioritize the poorest and most vulnerable countries; the need for additional resources to be mobilized from private sources, while ensuring that the principle of fiscal sovereignty is anchored in the draft Agreement; and the importance of taking into consideration the suitability of sources with regard to specific sectors, particularly adaptation.
- Further specific concepts that were mentioned by a few Parties included: the issue of voluntary South–South cooperation; the possibility of anchoring proceeds from existing and new mechanisms, including market mechanisms, in the new draft Agreement; as well as need to anchor support for the development of the private sector in SIDS; the importance of effectiveness in the context of the use of sources; as well as the nature of public finance and its role under the Convention, particularly with regard to catalysing actions and mobilizing other sources.

<u>Work on objective/guiding principles/thematic funding</u>

- Parties engaged on the issues of objective/guiding principles/thematic funding during one informal meeting of the facilitated group on finance. A report will be provided to the facilitated group on Friday, 4 September 2015, by a Party representative designated by the Co-Facilitators.

<u>Work on commitments/obligations/action</u>

- The informal meeting of the facilitated group on finance in the afternoon of Wednesday, 2 September 2015, covered the issue of commitments/obligations/actions as agreed in the facilitated group on finance.
- With regard to commitments and obligations, Parties referred to the existing commitments and responsibilities under the Convention. Some Parties pointed out the link between the commitment to provide financial resources and the enhanced implementation of the Convention; other Parties indicated that this would also require effort and action by all in order to mobilize the financial resources required to this end, while fully acknowledging the commitments of developed country Parties as defined by the Convention. Specific concepts that were mentioned included: the scaling up of support, the enhancement of existing commitments, the need for periodicity and review of commitments, the need for increasing ambition over time, and the need for predictability and adequacy.
- Concerning the notion of actions, various concepts were identified by a few Parties, including: cooperation to promote the mobilization of climate finance from a variety of sources; prioritization of the poorest and most vulnerable countries in the provision of grant-based assistance; mainstreaming climate change in development processes; improving of enabling environments; scaling down support to high-carbon investments; making voluntary contributions in the form of actions taken by developing countries without support, for example, in the context of South–South cooperation; and increasing transparency on support.
- In particular, the concept of enabling environments was discussed at a more in-depth level since various Parties had pointed out that more conceptual clarity is needed on this issue. There were divergent views on the need to capture the concept of enabling environments in the draft Agreement. Some Parties emphasized the need to capture a collective effort by all Parties to enhance enabling environments in the draft Agreement as they perceive this more in terms of an enabler contributing to, for example, overcoming existing barriers in order to access financial resources, rather than as conditionality for support. Other Parties expressed concerns regarding a perceived conditional aspect intrinsically linked to the concept of enabling environments, as well as regarding a lack of clarity on this concept. Another notion raised by a few Parties in the context of enabling environments was the need for enabling environments not only at the domestic level, but also at the multilateral level, for example, through commitments on financial resources and the provision of adequate and predictable resources.
- The concept of investments was also briefly discussed, with some Parties seeing the enhancement of low carbon investment and the transformational shift related to that end as an important concept to be captured in the draft Agreement, while others were of the view that this concept may transgress the scope of climate finance discussions, and that more clarity on the implementation of anchoring this concept in the draft Agreement may be needed.

- Some Parties indicated that they will provide textual proposals on the issue of commitments/obligations/actions; others indicated specific textual elements contained in the Co-Chairs' Tool on the basis of which the current text contained in the draft Agreement and the draft Decision could be enhanced and/or added to. Various Parties indicated that they will continue to engage also on a bilateral basis on some of the concepts identified.

Work on institutional arrangements – Financial Mechanism

- Parties initiated informal deliberations with discussions focusing on the issue of institutional arrangements (Financial Mechanism), as agreed on in the facilitated group. Two Party representatives were invited by the Co-Facilitators to report back on the outcome of the informal meetings, which was shared with the facilitated group on finance in the evening session, with the following issues having been identified:
    - The Financial Mechanism as described in Article 11 of the Convention is to serve as the Financial Mechanism of the new Agreement, as Parties saw no need for the creation of a new Financial Mechanism;
    - The existing funds will remain in place, but there is no convergence on whether and how such funds should be reflected in the draft Agreement/Decision, so more discussions on this issue may be necessary;
    - There is a need to continue to provide guidance to the operating entities of the Financial Mechanism, but the question of the channel for such guidance remains (e.g. Agreement, Decision or regular COP agenda item);
    - There was an agreement that the Standing Committee on Finance will continue to assist Parties with regard to the Financial Mechanism, including with regard to increasing the coherence and coordination of the Financial Mechanism;
    - An opportunity to create new institutional arrangements may be needed, should Parties see the need for this;
    - Issues such as importance of predictability and accessibility were also raised.

Next steps

- An informal meeting, as well as a formal meeting of the facilitated group on finance, will take place on Friday, 4 September 2015.