

## Working document

### [Section F - Finance]

Version of 8 September 2015 at 15:00

#### *Main observations:*

- Parties engaged in extensive and constructive discussions on various issues related to finance, clearly identifying and further clarifying some of the concepts that, in their view, need to be addressed in the Agreement and/or the Decisions, thereby significantly contributing to crystallizing the overall storyline or narrative of the finance section of the Agreement and the Decisions. Issues that were particularly focused on included: institutional arrangements and the Financial Mechanism; the notion of scale and scaling up; commitments/obligations/actions; sources of climate finance; and objective/guiding principles/thematic funding. More information on the specific proposals and concepts that were put forward is contained in this document in order to inform the Co-Chairs of the rich discussions that took place throughout the week.
- Further clarification was sought by Parties from the Co-Chairs with regard to where and how the issues of thematic funding and measurement, reporting and verification of support/transparency would be addressed. In addition, one group of Parties indicated that, with regard to the issue of institutional arrangements, a briefing by the legal team of the UNFCCC secretariat during the ADP session in October may be a useful attribution to further clarifying some of the legal issues and questions that Parties may have in that regard.
- Additionally, and in the spirit of introducing proposals that could potentially build bridges between the diverging options and proposals currently contained in the Co-Chairs' Tool, Parties and groups of Parties made great efforts to provide a number of concrete textual proposals, particularly on the issues of: institutional arrangements;<sup>1</sup> the notion of scale and scaling up;<sup>2</sup> enabling environments;<sup>3</sup> objective/commitment/purpose of finance;<sup>4</sup> loss and damage to be reflected in the core Agreement;<sup>5</sup> and the outline for the finance section of the Agreement.<sup>6</sup> All submissions have been made available on the UNFCCC website.<sup>7</sup> Parties were given the opportunity to introduce their submissions, as well as to react to the submissions made, and engage in in-depth discussions on that basis. Upon conclusion of the facilitated

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<sup>1</sup> Four submissions were received from: G77 and China (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_g77andchina\\_02sep2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_g77andchina_02sep2015_ip.pdf)>); EU (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_institutions\\_eu\\_3sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_institutions_eu_3sept2015_ip.pdf)>); Australia, Canada, Japan, New Zealand, and the United States (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_ugcountries\\_australia,can,jpn,nz,usa\\_3sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_ugcountries_australia,can,jpn,nz,usa_3sept2015_ip.pdf)>); Republic of Korea (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_korea\\_3sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_korea_3sept2015_ip.pdf)>).

<sup>2</sup> One submission was received from: G77 and China (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_g77andchina\\_3sept2015\\_ip3.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_g77andchina_3sept2015_ip3.pdf)> ).

<sup>3</sup> Two submissions were received: EU (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_enabling\\_environments\\_eu\\_3sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_enabling_environments_eu_3sept2015_ip.pdf)> ) ; Australia, Canada, Japan, New Zealand, and the United States (<[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_ug\\_4sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_ug_4sept2015_ip.pdf)>).

<sup>4</sup> Two submissions were received: G77 and China (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_g77andchina\\_3sept2015\\_ip4.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_g77andchina_3sept2015_ip4.pdf)>); EU (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_purpose\\_of\\_climate\\_finance\\_eu\\_3sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_purpose_of_climate_finance_eu_3sept2015_ip.pdf)>).

<sup>5</sup> One submission was received from: G77 and China (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_e\\_g77andchina\\_4sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_e_g77andchina_4sept2015_ip.pdf)>).

<sup>6</sup> One submission was received from: United States (available at: <[http://unfccc.int/files/bodies/awg/application/pdf/adp2-10\\_f\\_4sept2015\\_ip.pdf](http://unfccc.int/files/bodies/awg/application/pdf/adp2-10_f_4sept2015_ip.pdf)>).

<sup>7</sup> Available at: <<http://unfccc.int/bodies/awg/items/9158.php>>.

group, one additional submission was received on the issue of finance for REDD-plus.<sup>8</sup> The Co-Facilitators wish to bring these textual proposals to the attention of the Co-Chairs.

#### 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 group by one Party delegate designated to report on the discussion. During these discussions, Parties discussed concepts that would have to be anchored in the draft Agreement as well as in draft Decisions.
- In this context, Parties addressed the issue of level/scale of support, with some 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; and some Parties see scale in the context of a set of action.
- 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.
- Other views that Parties put forward 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 some 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 that some Parties would see as essential in the context of scale and scaling up, included: 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, as raised by some Parties, 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.

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<sup>8</sup> Available at: <<http://unfccc.int/bodies/awg/items/9158.php>>.

Work on sources of climate finance

- 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 reported to the group on the discussions. 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 mentioned 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 some 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 areas, particularly adaptation.
- Further specific concepts that were mentioned by some 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, with other Parties not seeing the need for the inclusion of 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 of climate finance.

Work on objective/guiding principles/thematic funding

- In an informal meeting of the facilitated group on finance, Parties discussed the issues of objective, guiding principles and thematic funding on Thursday, 3 September 2015, with Parties focusing their interventions, also due to lack of time, on the former two issues. A Party representative reported to the facilitated group on finance on Friday, 4 September 2015, on the outcome of the discussions, indicating that a large number of Parties, however not all Parties, were of the general view that there is a need to capture the objective, as well as guiding principles, of climate finance in the Agreement.

- With regard to the objective of finance, four elements were outlined by some Parties, which could be summarized as follows:
  - To do what? And by whom? The overall aim or purpose of climate finance, including who should be contributing under the Agreement. Specific concepts that were raised included: financial resources as an enabler of enhanced actions by developing countries; and by developed countries only or developed and developing countries;
  - In which areas? The thematic areas that would have to be addressed by climate finance include adaptation, loss and damage, mitigation, capacity-building, and technology development and transfer;
  - The context? The achievement of the temperature goal and the transformation required to that end;
  - To what end? To achieve effective climate change action and outcomes.
- Within this discussion, the following concepts were raised: the direct proportionality of enhanced ambition and support; the importance of meeting the costs of adaptation; the need for scaling up, predictability and accessibility; and the need for action to be taken by all to mobilize climate finance.
- On the issue of guiding principles, some Parties indicated specific concepts that would have to be addressed; however, it was mentioned that greater clarity is needed to distinguish between guiding principles and commitments, as well as where specific concepts should be captured (i.e. in the Agreement or in the Decisions). Specific concepts identified that many felt would have to be addressed in guiding principles included, for example: that guiding principles would have to address all means of implementation, speak to the special needs and circumstances of LDCs, SIDS, and Africa, and address the need for country-ownership, the delivery of mitigation and adaptation results that are able to be measured, reported and verified, and the building of a partnership among governments, development partners and the private sector; as well as access, allocation and instruments related matters.
- In the context of the facilitated group on finance, and in response to the report of the Party delegate, various concepts were raised by some Parties that would additionally need to be addressed, which included: a gender-sensitive approach, gender balance and gender equity; a reference to REDD-plus; and a reference to sustainable development.
- An informal meeting of the facilitated group on adaptation and loss and damage took place on Thursday, 3 September 2015, on the issue of what countries do in relation to support for adaptation. The outcome of this discussion was reported by a Party delegate on Friday, 4 September 2015. The working document of section E of Friday, 4 September 2015, will reflect this report.
- During an informal meeting of the facilitated group on finance, Parties further engaged on the issue of thematic funding, indicating which thematic concepts they would see need to be captured, either through a reference in the Agreement, or decisions, or both, with various Parties indicating that a general reference to such areas in the Agreement may be sufficient, with further details to be provided in the Decisions. Particularly, Parties made reference to the need for referencing the thematic areas, inter alia, of: those identified in Article 4, paragraph 1, of the Convention; financing for forests and REDD-plus finance, including the Warsaw Framework for REDD-plus, with a few Parties also making reference to the need to include the joint mitigation and adaptation approach in this regard; adaptation finance; loss and damage; support for readiness; scientific and technical cooperation; response measures; Article 6; technology development and transfer; and capacity-building. Another concept raised referred to the need for further discussions with regard to measurement, reporting and verification, particularly with regard to the methodologies relating to the goal of USD 100 billion per year.

#### Work on commitments/obligations/action

- 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, or that they see the commitments/obligations/actions as building blocks that will add value to the Convention and allow to enhance collective action. 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 some 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 some 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 would 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.
- During an informal meeting of the facilitated group on finance on Friday, 4 September 2015, Parties engaged in in-depth discussions on the concept of “dynamism”, with Parties outlining their understanding of how this concept could be addressed in the Agreement.
- Various Parties pointed out that the notion of dynamism could tackle: the need for an increase of contributing Parties; and recognition of the fact that all Parties need to enhance, regularly update or scale up their actions/efforts, or play a role. Proposals put forward in this context included, inter alia, the need to address, in the Agreement, the dimension of evolving capabilities and the ability of Parties to mobilize and facilitate climate finance on the one side, and the changing needs, also in the context of mitigation and adaptation ambition, on the other side. Another notion referred to the need for a commitment for all Parties in a position to do so, but in a differentiated manner, depending on their respective capability, which would entail a progression over time in a non-numerical manner. Yet another proposal referred to the need to continue the enhancement of commitments under the Convention, whilst also referring to actions to be taken over time in order to increase climate finance and to make the necessary transition, which would also include the need for support to enhance enabling environments. A further concept identified referred to the need for the various principles underlying climate finance to work together in a dynamic way, including, for example, the need for enabling environments, country-ownership and the need for effectiveness.
- Possible tools or elements identified as to how this notion of dynamism could be addressed included: the replenishment of the operating entities of the Financial Mechanism; the biennial assessment and overview of climate finance flows conducted by the Standing Committee on Finance; the strategies and approaches to be submitted by developed country Parties; needs assessment to be conducted on a developing country basis; ex-ante information, with, for example, donors providing qualitative information on their strategies for mobilizing support, and recipients providing qualitative information on efforts to improve their domestic enabling environments; and ex-post information/measurement, reporting and verification of

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support/transparency, which would include an overview of a ‘menu of options’, in which all countries would select the relevant elements depending on whether they are identified as: (a) providers of climate finance; (b) recipients of climate finance; or (c) both providers and recipients; and the need for continued leadership by developed country Parties.

- Many Parties raised concerns with regard to the notion of dynamism and some of the proposals that were outlined, including with regard to: the need for adequacy and predictability; existing commitments under and principles of the Convention; capacity constraints that developing country Parties are faced with, including with regard to institutional capacity, particularly in terms of possible increased transparency and reporting requirements; lack of clarity around the issue of enabling environments; the need for sustainable development; as well as the link between the notion of dynamism and the issue of differentiation. In this context, various Parties also pointed to the already existing efforts undertaken by developing countries in terms of mobilizing climate finance, contributions to multilateral channels, trilateral flows and South–South cooperation.
- Many Parties pointed out that further discussion would be needed at the ADP session in October in order to reach a better understanding of the underlying concept.

#### 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 reported 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.
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