REGIONAL CONSULTATIONS ON CLIMATE CHANGE FINANCING

Singapore, 1-3 September 2011

OVERVIEW AND OBJECTIVES

With support from the Governments of Japan and Australia, in cooperation with the Governments of Samoa and Singapore, and in collaboration with the World Resources Institute (WRI), the Asian Development Bank (ADB) organized on 1-3 September 2011 in Singapore a series of consultations on current issues relating to the financing of climate change programs and design of a new global architecture for climate finance.

The purpose of the consultations was to allow representatives from Asian and Pacific countries and stakeholders from civil society and the private sector the opportunity to discuss emerging arrangements for global climate change financing – especially relating to design of the Green Climate Fund (GCF). The consultations were meant to facilitate dialogue and build mutual understanding on future directions for climate change finance, creating greater awareness of global and regional implications of and options for GCF design among country representatives and interested stakeholders. Members of the Transitional Committee (TC) for Design of the GCF who attended had the opportunity to hear differing perspectives on what is needed in design of the GCF from representatives drawn from three perspectives: (i) government finance, economic, environment and foreign affairs agencies, (ii) the private sector, and (iii) civil society.

Participants exchanged views in an open and informal setting covering the topics of current climate financing needs and the purpose, governance, operational modalities and other structural elements of the GCF – including relationships with other sources of climate finance. Special attention was given to discussion of the measures needed to use public funds effectively in leveraging and mobilizing the private sector for additional capital and knowledge. There were 32 countries represented, with a total of 51 government officials in attendance. They were joined by more than 20 private sector and civil society representatives at the meetings.

PROGRAM

Pacific Countries Dialogue on Climate Finance and GCF Design. Held on 1 September 2011, the meeting brought together representatives from 8 Small Island Developing States (SIDS) of the Pacific as well as Australia, Japan, New Zealand and Singapore. This was in recognition of the special difficulties these countries face in gaining access to information on climate finance and the limited forums for their perspectives to be expressed. Participants received a briefing GCF design and current issues, and they developed a set of views during a session chaired by the TC member from Samoa, representing SIDS.

Regional Stakeholder Consultations on Climate Finance and GCF Design. Held on 2 September, the meeting began with remarks by TC members from Australia, Japan, Pakistan and Singapore. Special emphasis was given in the program to the topic of mobilizing private sector investment for climate action and opportunities for wider engagement with the private sector, with panels of private sector representatives serving as the basis for an active discussion. The final session centered on identifying roles for civil society in the design and implementation of international climate financing.

Regional Dialogue on GCF Design. Held on 3 September, the meeting brought together government representatives from 32 countries from across Asia and the Pacific. Discussions focused on current issues in the GCF design, including especially access modalities, country resource allocations, windows and the role of the private sector. A desire was expressed for further dialogue as GCF evolves.

Summary points from each of the three meetings follow.

SUMMARY POINTS
Pacific Countries Dialogue on Climate Finance and GCF Design
1 September 2011, Singapore

Objectives

The day began with participating members of the Transitional Committee (TC) and other participants setting out their expectations for the consultations. They included:

- To clarify the Pacific island countries' expectations from the Green Climate Fund (GCF) individually and collectively
- To identify barriers and challenges on the ground in addressing climate change in the Pacific small island developing states (SIDS) and to point to the instruments are needed to overcome them
- To clarify the extent to which the Pacific island countries are 'ready' to absorb climate financing at scale, including the policy and regulatory environment, the integration of climate issues into development strategies, and the availability of project and program pipelines
- Identify how private sector investments can be mobilized directly by the GCF for the benefit of the Pacific SIDS, and how government actions can incentivize the private sector to ensure that GCF-funded activities are sustainable
- Identify how the fund can be made accessible to the countries, but also to public, private, regional and national institutions active in creating change on the ground
- Demonstrate collective will and leadership as a group to work together to solve the identified climate change challenges in the region

Key messages that emerged from the day's consultations

- The Pacific Island States have in place a regional action plan to address climate change, and this plan can serve as an entry point for Green Climate Fund support.
- The plan identifies priority for adaptation and mitigation measures, as well as knowledge and capacity building, that already includes a number of concrete activities across the region (e.g. climate proofing roads in coastal areas of Micronesia and Vanuatu; and private-sector led CDM activities).
- There remain a number of challenges to increasing public climate finance flows to the region, including the complex architecture and onerous 'direct access' accreditation processes of current international climate funds, donor fragmentation, and absorptive capacity constraints, which place an unnecessary strain on the human capital available.
- One of the ways in which the region is looking to address these challenges is by creating regional pools of technical expertise or a 'skills bank', and participants called for technical support for this approach
- Enhanced access to climate finance in the region would benefit from a number of approaches at the national and regional level, including:
    - The use of budget and sector support modalities where robust accountability systems exist or can be combined with capacity support to strengthen these systems, noting that this would not preclude parallel support through national projects
    - The creation of trust funds at both the national and regional levels, although there remains the challenge of deciding who to entrust with their management
    - The designation of implementing entities at the national and regional levels
- The Pacific island countries generally, but not exclusively, prefer to rely on existing regional institutions they have created to address climate change in the region to access funds from the Green Climate Fund, and felt that other mechanisms of could coexist
- They especially emphasized the need for adequate adaptation funding
- They strongly identified the need for capacity building support either through a separate window, or by firmly embedding it in the adaptation and mitigation windows

- They also emphasized the need for resource allocation frameworks so that they are assured a minimum amount of available funds from the GCF, to be supplemented by additional funds available either as global or regional 'set asides' or on a performance basis
- Finally, they also emphasized the need for balancing actions to address climate change with avoiding harm to the environment and communities, the need for representation for the Pacific Island States across all bodies created under the GCF, and also incentivizing the *domestic* private sector in the region

SUMMARY POINTS
Regional Stakeholder Consultations on Climate Finance and GCF Design:
2 September 2011, Singapore

Key Private Sector Views

General

- No matter where the GCF invests, propositions must be **sustainable over time**, so the GCF should take a long view, avoiding one-off demonstrations unless they are a part of a wider global, regional, national or sub-national market transformation strategy
- Green investments are strongly driven by policy incentives, and so the GCF should **support the creation of a policy environment** that encourages private investments that help fulfill adaptation and mitigation objectives
- The private sector in Pacific small island developing states (SIDS) is very different from the rest of Asia, so engaging with them and **overcoming their investment barriers will require targeted approaches**
- The GCF should **focus on strategic investments with catalytic impact** for development of key sectors, establishing a track record to attract future entrants to compete at market rates
- Intermediary financial institutions, whether the multilateral development banks (MDBs) or others, need **flexibility to use concessional funds** to tailor instruments to specific contexts, as no one size fits all, which creates a strong preference for grant from the GCF to these institutions
- The GCF should consider creating **positive lists of low-carbon technologies** that would hold large greenhouse gas emission reduction or climate resilience potential but require additional resources to cover the incremental costs of switching from business-as-usual to the low-carbon or climate-resilient alternatives
- The OECD Business and Industry Advisory Committee may serve as a **model for institutionalizing dialogue** with the private sector

By investor classes

- The GCF should consider making investments with a share of up to 20 percent in a number of **private equity** funds, serving as an equal Limited Partner, and taking a '**fund of funds' approach**; while not all investments may succeed, at a portfolio level there will be net returns to reinvest in the grant portion of the GCF
- To attract **institutional investors** or asset owners (e.g. pension funds, insurance companies, sovereign wealth funds, etc.) or even **commercial banks and financial institutions** in emerging economies, the GCF will need instruments that fit within the investment classification frameworks of the sector (e.g. are climate bonds like sovereign bonds?)
- Institutional investors and commercial banks in Asia typically invest quite heavily in liquid assets, lack the capacity to evaluate technology risks, and are concerned about regulatory risks; **transaction costs** can be too high to justify their investments in a few small projects though they will be attracted to invest if initial projects can be seen leading to a long-term and wider portfolio of projects
- Climate-related investments by the MDBs have demonstrated that **risk-sharing facilities** often offer the highest leveraging effect

By sector/industry type

- **Energy efficiency** projects require bringing cash flows forward; securitizing future flows through bond structures is an option where a part of the coupon is paid in future emission reduction credits; the role of the GCF could be one of guaranteeing these future flows
- In the case of **REDD+**, up-front investment costs are very high and land tenure security is crucial to attracting investments; so if the GCF can support countries to adopt appropriate policy frameworks – including tenure and other legal recognition of REDD+ inestments – this will help induce private sector investment

Adaptation

- When the private sector faces direct benefits or losses from climate change impacts, it will optimize its investments, provided it has reasonably accurate **information on climate risks**
- Where the private sector lacks capacity to alter current investment patterns, **incentivizing a critical mass of actors to change their behavior** will change their risk-reward perceptions
- Where the insurance industry is operating efficiently, premiums and availability can change behavior, and the GCF should **avoid moral hazard or creating incentives for mal-adaptation by covering economic losses**

Key Messages Emerging from the Session on Civil Society Issues

- It is important for finance from **innovative sources** to flow into the GCF to provide predictability of flows
- **Direct access** is important to enhance country ownership and is consistent with aid effectiveness principles
- **Access at sub-national levels and to non-state actors** is also important, to help local governments and municipalities implement, monitor and evaluate projects; this can alleviate accountability pressures from national level institutions by relying on institutions that have stronger capacities
- GCF should support the efforts of companies to make their business models more environmentally sustainable (e.g., following WWF's Climate Saver's program)
- There are good examples demonstrating emerging payments for ecosystem services worldwide (covering forest carbon, water, biodiversity conservation), but the challenge lies in scaling them up
- Multistakeholder processes to **mainstream climate change** into national and sub-national planning processes need to be supported by the GCF
- It is important to give **voice to civil society organizations** in the institutional architecture of the GCF, as they will bring valuable perspectives and practical on-the-ground experience to the discourse
- All investments by the GCF must be held to high standards of **transparency and accountability**, including the application of internationally agreed policies and procedures for environmental and social safeguards

SUMMARY POINTS
Regional Dialogue on GCF Design:[1]
3 September 2011, Singapore

Access modalities and national/regional institutions

- The access modalities for the GCF need to be flexible enough to respond to the diversity of needs and capacities in countries, and countries also need the flexibility to choose one or multiple institutions to access the GCF whether at national, sub-national or regional levels

[1] Key messages from dialogue among 51 government representatives from 32 Asian and Pacific countries.

- While most countries prefer ‘direct access’ to national level institutions, many of the smaller Pacific Islands prefer using sub-regional or regional mechanisms
- Some participants feel confident that they have the institutional structures in place, reasonably adapting to changing circumstances without technical assistance, to effective deploy resources and report on its use
- Other participants see the need for building the capacity of institutions to enable ‘direct access’ but it was noted that supporting these institutions is the most effective way of building the capacity of the country to address climate change
- ‘Direct access’ is seen to be more cost efficient in some cases and less so in others; in some cases, it will carry with it the additional costs of building institutions at the national level, but in the case of the Adaptation Fund, the management fee of NIEs is approximately 5 percent, while it is 8-12 percent for MIEs

Allocation and thematic windows

- Besides adaptation and mitigation windows, there were calls for windows for research and development, capacity building, insurance and one for the SIDS
- There remain concerns that if there were thematic windows, it would give donors options to earmark their contributions to certain types of activities, which has resulted in adaptation getting short shrift in the past
- Participants were divided on the need for a private sector window, with some concerned that the private sector would not act in accordance with national strategies and priorities, but others were concerned that if resources were to only flow through governments, they could be politicized
- Participants called on the GCF to take a programmatic approach and focus on readiness, and they were open to having a small amount being earmarked for civil society organizations

Private sector

- Many participants noted that the private sector will need ‘commercial’ incentives to invest in cleaner technologies, and that it was primarily the responsibility of national governments to provide the incentives, including by creating an enabling policy framework to encourage investments
- Participants noted that the private sector does not usually make its investments in accordance with national strategies and priorities, are unlikely to focus investments in knowledge creation, and even less likely in adaptation activities
- Some participants noted that the SME sector was important and needs to be engaged by the GCF; others noted the importance of considering public-private partnership (PPP) approaches and the need to build capacity for PPPs
- One participant noted that if some GCF flows are to flow to developed country organizations, then this must be coupled with technology transfer
- There were mixed views on whether the GCF should directly provide resources to the private sector; some felt that they would not act in accordance with national priorities, while it was also noted that receiving climate financing through partnership with the private sector would not add to government debt pressures

Other issues

- Many participants expressed concern that the resources promised, including under the CIFs, are not yet flowing to projects
- The slow delivery of climate financing is partly related to weak national capacities; one participant noting that although they were not yet ready, they were pushed into taking resources from the Climate Investment Funds

- Using a diversity of instruments, including results-based instruments, is good so that it is tailored to needs on the ground; but using multiple instruments can also add to the complexity, and it may be desirable to start with grants only
- There is a need for greater in-country coordination of contributing country programs, and a need to align GCF and other resources with national strategic development and climate change action plans
- Countries will most likely need to have development plans and strategies that integrate climate change considerations, including investment plans that delineate the climate change component of the investments needed to attract GCF funding
- The participants expressed a desire to see equitable representation on the GCF Board

Next steps

- A summary report of the consultations will be submitted to the Transitional Committee for GCF design
- The organizers were encouraged to consider reconvening the group to continue the dialogue in 2012, and possibly as soon as COP-17 in Durban