Framework Convention on Climate Change

In-session workshop on long-term climate finance in 2020 (part I)

Summary report by the secretariat

Summary

This report summarizes part I of the 2020 in-session workshop on long-term climate finance, organized by the secretariat and held virtually during the UNFCCC Climate Dialogues 2020. Participants discussed the effectiveness, including results and impacts, of climate finance and the provision of financial and technical support to developing country Parties for adaptation and mitigation.

Abbreviations and acronyms

COP	Conference of the Parties
LDC	least developed country
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
SIDS	small island developing State(s)

I. Introduction

A. Mandate

1. COP 20 requested the secretariat to organize annual in-session workshops on long-term climate finance through to 2020 and to prepare a summary report on each workshop for annual consideration by the COP and at the biennial high-level ministerial dialogue on climate finance.[1]

2. The in-session workshops on long-term climate finance in 2019 and 2020 were mandated to focus on:

(a) The effectiveness of climate finance, including the results and impacts of finance provided and mobilized;

(b) The provision of financial and technical support to developing country Parties for their adaptation and mitigation actions in relation to holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels.[2]

B. Scope of the report

3. Chapter II presents the key findings that emerged from part I of the 2020 in-session workshop on long-term climate finance; chapter III provides a summary of the scene-setting presentations delivered; and chapter IV summarizes the open discussion that took place.

C. Background

1. Preparatory activities

4. The secretariat invited Georg Børsting (Norway) and Zaheer Fakir (South Africa) to co-facilitate the workshop. Under their guidance, the secretariat prepared a provisional workshop programme and set out the approach to the workshop.

5. Jane Ellis from OECD and Tracy Carty from Oxfam were each invited to provide a scene-setting presentation at the workshop. In addition, Amar Bhattacharya from the Brookings Institution, Preety Bhandari from the Asian Development Bank, Peter Damgaard Jensen from the Institutional Investors Group on Climate Change and Mariama Williams from the South Centre were invited to share their views on the two mandated topics (see para. 2 above) and the scene-setting presentations as expert panellists at the workshop.

2. Workshop objectives

6. The in-session workshop was designed to be held in two parts. The objectives of part I were to provide an overview of the state of mobilization and delivery of climate finance, as well as insights and lessons learned from the long-term climate finance process; and to facilitate a discussion on the wide range of information that the long-term climate finance workshops have generated, how climate finance issues have evolved, and actions to further address those issues for consideration by the COP.

7. The outcomes of the deliberations at part I of the workshop will be further explored at part II, to be held in 2021.

D. Proceedings

8. Part I of the 2020 in-session workshop on long-term climate finance was held virtually on 27 November 2020 during the UNFCCC Climate Dialogues 2020. It was open to all

[1] Decision 5/CP.20, para. 12.
[2] Decision 3/CP.24, para. 9.

Parties and observers attending the Climate Dialogues and attracted approximately 90 participants.

9. The workshop began with opening remarks by the Head of the Chilean delegation at COP 25, Julio Cordano, and the UNFCCC Executive Secretary, Patricia Espinosa. Both emphasized that, while the USD 100 billion per year by 2020 that developed country Parties committed to jointly mobilizing may cover only part of developing countries' total climate finance needs, its delivery will provide a crucial political signal and assurance that commitments made under the Convention and the Paris Agreement will be fulfilled.

10. The co-facilitators provided a short introduction to the workshop and history of the long-term climate finance process and outcomes to date.

11. In the two scene-setting presentations, the views of providers and recipients of climate finance in the context of decision 1/CP.16 paragraphs 98 and 99 were put forward, before the panel of experts was invited to share their views in response to three guiding questions:

(a) What is the current state of mobilization and delivery of climate finance compared with in 2010, when decision 1/CP.16 was adopted?

(b) What insights can be drawn on the effectiveness, results and impacts of climate finance mobilized and delivered?

(c) What challenges and opportunities does accessing financial and technical support for adaptation and mitigation present for developing countries?

12. After the panel discussion, the workshop participants engaged in an open discussion on key issues.

13. In closing part I of the workshop, the co-facilitators provided short concluding remarks. Final remarks were provided by Archie Young, representing the incoming Presidency of COP 26, who highlighted that the USD 100 billion goal is of "totemic importance" in view of Parties calling for an increased focus on the reliability, delivery, mobilization and accessibility of climate finance.

14. The workshop programme, presentation slides and webcast are available on the UNFCCC website.[3]

15. Participants' deliberations during the workshop were captured by a graphic artist (see figure 1).

II. Key findings

16. Key findings from the workshop concerning the mobilization and delivery of the USD 100 billion goal include that:

(a) Mitigation finance continues to represent over two thirds of total climate finance provided and mobilized, while loans represent the larger proportion of public climate finance provided and mobilized. In addition, middle-income countries have benefited most from the climate finance provided and mobilized, and the LDCs and SIDS have received the larger share of adaptation finance;

(b) The net financial value of climate finance provided to developing countries may be less than half of that reported by developed countries after adjusting for grant equivalence.

17. In their reflections on the key issues, participants discussed, among other things:

(a) The importance of providing adequate climate finance support tailored to the needs, priorities and circumstances of developing countries;

(b) The assessment of delivery on the USD 100 billion goal;

(c) The low levels of grants and finance for adaptation available;

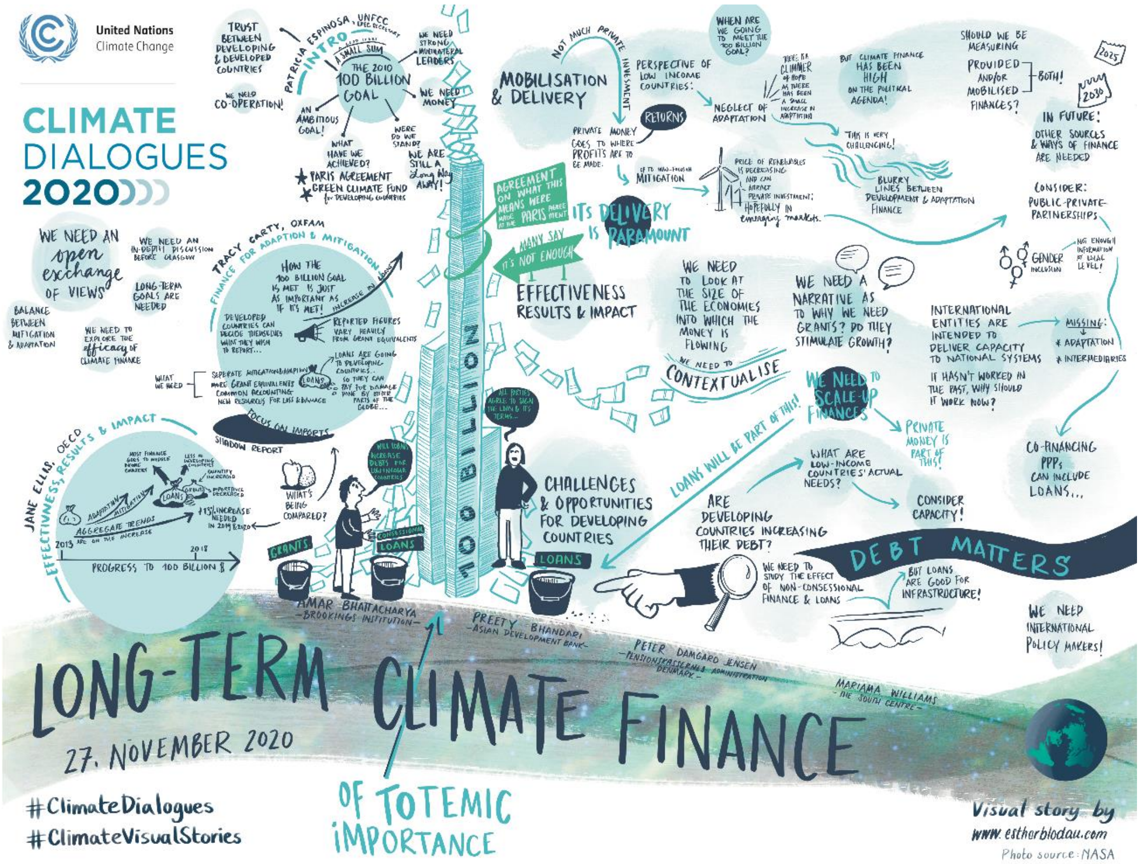
[3] See https://unfccc.int/event/in-session-workshop-on-long-term-climate-finance-part-i.

(d) The disproportionate levels of climate finance accessed across regions and ways of addressing this;

(e) The role of public finance in crowding in private investment for adaptation and mitigation.

18. It was emphasized that the delivery on the USD 100 billion goal will provide a political signal that commitments made under the Convention and the Paris Agreement will be fulfilled.

Figure 1
Graphic artist's rendering of the proceedings of part I of the 2020 in-session workshop on long-term climate finance



III. Scene-setting presentations

19. The presentation by the representative of OECD provided an overview of the OECD report on annual volumes of climate finance provided and mobilized by developed countries for developing countries in 2013–2018.[4] It is estimated that:

(a) Total annual climate finance provided and mobilized reached USD 78.9 billion in 2018, up by 11 per cent from 2017;

(b) The growth in total climate finance provided and mobilized is due to public climate finance, whereas private climate finance and climate-related export credit finance mobilized shows little growth;

(c) Bilateral public climate finance accounted for the largest share of the total climate finance in 2018, up by 21 per cent from 2017;

[4] OECD. 2020. Climate Finance Provided and Mobilised by Developed Countries in 2013-18. Paris: OECD Publishing. Available at https://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-18-f0773d55-en.htm.

(d) Of the total climate finance provided in 2018 (USD 55 billion), 70 per cent was for mitigation and 21 per cent for adaptation, with adaptation finance rising by 29 per cent per year on average over the period 2016 to 2018 (amounting to USD 16.8 billion in 2018);

(e) Finance for cross-cutting objectives rose to USD 7.1 billion in 2018 (an increase of 15 per cent since 2016);

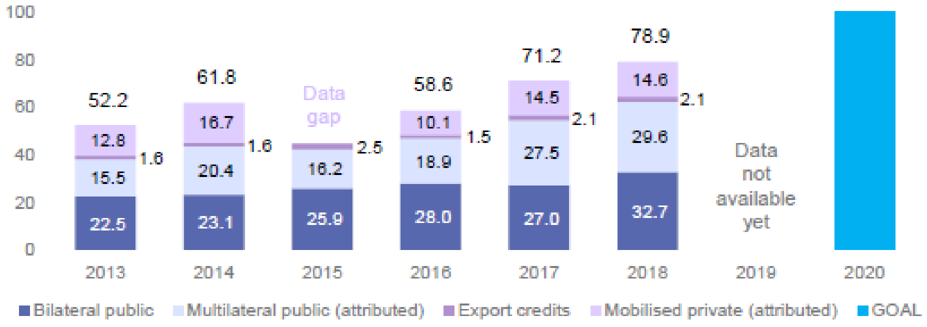
(f) The share of loans in the total public climate finance provided grew from 52 in 2013 to 74 per cent in 2018;

(g) In total, 93 per cent of private climate finance mobilized in 2016–2018 was for mitigation and mostly aimed at middle-income countries;

(h) The LDCs and SIDS received 14 and two per cent, respectively, of the total climate finance provided in 2018.

20. According to OECD, a 13 per cent average annual increase in climate finance in 2019 and 2020 was needed to reach the USD 100 billion goal by the end of 2020 (see figure 2).

Figure 2
Climate finance provided and mobilized in 2013–2018
(Billions of United States dollars)



Source: OECD. 2020. *Climate Finance Provided and Mobilised by Developed Countries in 2013-18*. Paris: OECD Publishing. Available at https://www.oecd.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-18-f0773d55-en.htm.

21. Lastly, the representative of OECD pointed out that the process of tracking finance for climate change adaptation remains challenging.

22. The presentation by the representative of Oxfam was based on the Oxfam assessment report[5] on progress towards the USD 100 billion goal. The representative emphasized that "how" the goal is met is as important as "if" the goal is met, and outlined the following points of note in that regard:

(a) The net financial value of climate finance provided to developing countries may be less than half of that reported by developed countries after adjusting for grant equivalence and owing to over-reporting of the climate relevance of projects. For example, climate finance provided for climate-specific net assistance through bilateral channels could be up to one third lower than reported (see figure 3);

(b) Loans and other non-grant instruments account for 80 per cent of reported public climate finance, whereas only 40 per cent of all reported finance is non-concessional;

(c) There is an imbalance between finance for mitigation and adaptation with an estimated 25 per cent of reported public climate finance was allocated to adaptation compared with 66 per cent for mitigation in the period 2017 to 2018;

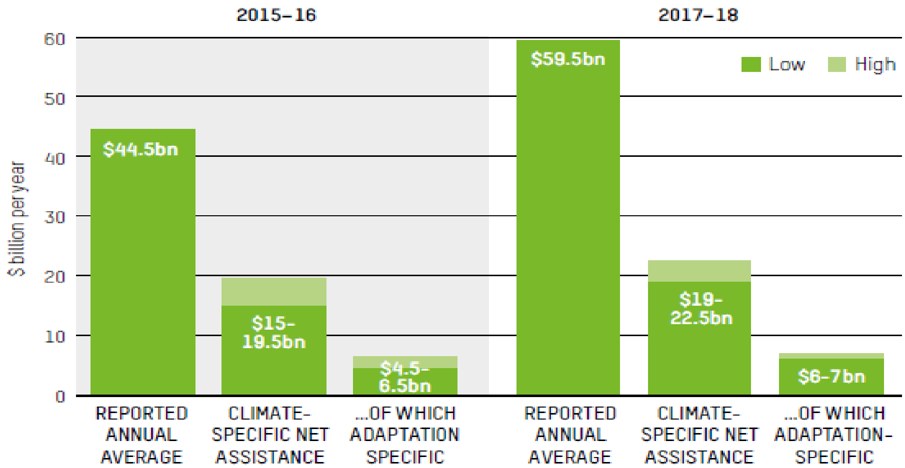
[5] Oxfam. 2020. *Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment*. Oxford: Oxfam International Publishing. Available at: https://www.oxfam.org/en/research/climate-finance-shadow-report-2020.

(d) An estimated 20.5 per cent of reported finance was provided to the LDCs and three per cent to SIDS in the form of loans and other non-grant instruments between 2017 and 2018;

(e) An estimated one third of climate finance projects take gender equality into account;

(f) Accessible climate finance at the local and community level remains insufficient.

Figure 3
Climate finance reported by developed countries versus the Oxfam estimate of climate-specific net assistance (annual averages for 2015–2016 and 2017–2018)



Source: Oxfam. 2020. Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment. Oxford: Oxfam International Publishing. Available at: https://www.oxfam.org/en/research/climate-finance-shadow-report-2020.

23. Lastly, the representative of Oxfam emphasized the need for grant-equivalent reporting of climate finance to enhance comparability of reporting and improve the analysis of climate finance provided by developed countries.

24. In response to the scene-setting presentations, some workshop participants highlighted that non-concessional loans cannot be treated as climate finance without an agreed definition of climate finance. They also pointed out that the increase in non-concessional climate finance provided on commercial terms increases country debt, which runs counter to the spirit of Article 4 of the Convention and jeopardizes implementation of transformative action, especially in the LDCs and SIDS.

25. Furthermore, workshop participants enquired as to whether the needs of developing countries are reflected in the above-mentioned OECD and Oxfam reports; whether the figures reported reflect finance both mobilized and provided or only provided towards achieving the USD 100 billion goal; how countries are reporting on gender-related climate finance; the extent to which ODA is being reported as climate and adaptation finance; and whether climate finance provided as loans to the LDCs and SIDS exacerbates their existing high levels of debt.

IV. Open discussion

A. Climate finance in the context of decision 1/CP.16

26. In the open discussion, the panellists reflected on the current state of mobilization and delivery of climate finance compared with in 2010, when the Cancun Agreements were adopted and developed country Parties committed to the USD 100 billion goal. They highlighted the importance of delivering on that goal and the need to scale up climate finance,

especially for adaptation. Some panellists highlighted the opportunity to link recovery packages post the coronavirus disease 2019 pandemic with climate finance commitments and make the packages greener, more inclusive and resilient.

27. Several workshop participants were of the view that there should be a clear distinction between the climate finance mobilized in the context of the USD 100 billion goal and that in relation to the Sustainable Development Goals. One participant, supported by one presenter and one panellist, expressed the view that commercial loans, guarantees and export credits should not be counted as finance towards the USD 100 billion goal.

28. Other participants underscored that, while the provision of loans (concessional and non-concessional) to developing countries is increasing, provision of grants remains limited in comparison. Some panellists highlighted that the mobilization of these two forms of finance can be mutually reinforcing if transparency is ensured. To clarify the difference between ODA and climate finance, one presenter explained that for ODA the emphasis is on how the finance is delivered, whereas for climate finance the emphasis is on what the finance is for.

29. One panellist stated that international development banks use debt sustainability as a criterion for determining which finance instrument to use in a developing country. However, one presenter noted that, even though international climate finance institutions have policies in place for ensuring that their lending is sustainable, they often do not guard against recipients' accumulation of debt. In this context, one participant highlighted the importance of providing adequate climate finance support that is tailored to the needs, priorities and circumstances of the recipient developing countries.

30. Despite an observed upward trend in the provision of public financial support to developing countries through both bilateral and multilateral channels, some participants pointed out the need to further scale up private climate finance, particularly for adaptation. Participants reaffirmed the important role of public finance in crowding in private investment for both adaptation and mitigation, and that public institutions, including multilateral, regional and national development banks, should continue to scale up their support for public and private partnerships.

31. Participants exchanged views on the challenges associated with scaling up private climate finance. Firstly, it was noted that, because adaptation projects are often not profitable, attracting private sector funding for such projects is a challenge. Secondly, despite the private sector's growing interest and involvement in climate projects globally, the LDCs and SIDS still face challenges in harnessing both domestic and international private sector involvement. Thirdly, one participant questioned why private sector finance mobilized via bilateral channels is lower than that via multilateral channels. One presenter responded that this could be due to bilateral channels prioritizing the provision of grants for adaptation.

32. Lastly, several participants noted the importance of financial innovation, such as the application of special drawing rights for financing climate action.

B. Effectiveness, results and impacts of climate finance

33. The panellists discussed the effectiveness, results and impacts of climate finance mobilized and delivered and considered how these could be assessed. Suggestions from participants included assessing the provision of climate finance relative to the size of the economy of the respective developed country or on the basis the overall climate finance needs of the developing country.

34. Panellists highlighted that the assessment of the effectiveness of climate finance should be linked to the extent to which it leads to emission reductions or enables climate change adaptation. It was pointed out by one participant that, although assessing the impact of climate finance provided is important, reporting on its effectiveness is not obligatory in the current climate finance reporting system.

35. Participants noted that the climate finance provided to developing countries for adaptation is still low compared with the finance for mitigation, but one panellist noted that

separating finance provided for mitigation from that for adaptation could result in less funding being approved and thereby provided to developing countries, as some project proposals would be rejected on the basis of an imbalance between mitigation and adaptation components.

C. Challenges and opportunities in accessing financial and technical support for adaptation and mitigation

36. Participants discussed the challenges and opportunities that accessing financial and technical support for adaptation and mitigation presents for developing countries. While the inadequate level of climate finance available to support countries' needs is being addressed, barriers to accessing finance remain, particularly for women's groups, indigenous peoples and local communities. The disproportionate levels of climate finance accessed across regions was also raised by some participants as a concern.

37. One panellist noted that most projects in developing countries are undertaken by international accredited entities, many of which have the means and capacity to comply with a fund's requirements for accreditation. Participants identified an opportunity for accreditation of local entities, which are often better equipped to deal with local needs and financing conditions and may be able to react quicker than international accredited entities.

38. Lastly, participants pointed out the need to scale up provision of technical support to assist developing countries in formulating robust country programmes and national adaptation and investment plans. They underscored that South–South cooperation among developing countries could be strengthened to enable them to share experience and knowledge, and that additional resources could be made available for that purpose.