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In-session workshop on long-term climate finance in 2020*

Summary report by the secretariat

Summary

This report summarizes parts I and II of the in-session workshop on long-term climate finance for 2020, organized by the secretariat and held virtually in conjunction with the UNFCCC Climate Dialogues 2020 and the May–June 2021 subsidiary bodies sessions, respectively. In line with decision 3/CP.24, the workshops focused on the effectiveness of climate finance, including the results and impacts of finance provided and mobilized, and the provision of financial and technical support to developing country Parties for adaptation and mitigation. This report will inform the fourth biennial high-level ministerial dialogue on climate finance, to be convened at the Conference of the Parties at its twenty-sixth session.

Abbreviations and acronyms

COP	Conference of the Parties
COVID-19	coronavirus disease 2019
LDC	least developed country
OECD	Organisation for Economic Co-operation and Development
SIDS	small island developing State(s)

* This document was submitted after the due date because technical preparations took longer than expected.

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 key findings that emerged from parts I and II of the 2020 in-session workshop on long-term climate finance, and chapter III summarizes the key issues raised in the scene-setting presentations and discussions at the workshop.

C. Background

1. Preparatory activities

4. The in-session workshop was held in two parts. The secretariat organized part I of the workshop virtually in 2020 with a view to holding part II in conjunction with the in-person sessions in Bonn in 2021. Owing to the continuation of the COVID-19 pandemic and the uncertainty of holding in-person meetings in 2021, part II of the workshop was organized virtually in the May–June sessional period.

5. The secretariat invited Georg Børsting (Norway) and Zaheer Fakir (South Africa) to co-facilitate both parts of the workshop. Under their guidance, the secretariat prepared a provisional programme of work for the two parts and set out the approach for the entire workshop.

2. Workshop objectives

6. The objectives of part I of the workshop 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 information shared at the long-term climate finance workshops, including on challenges and opportunities encountered by developing countries in accessing financial and technical support for adaptation and mitigation actions, and on actions to further address those issues for consideration by the COP.

7. The objective of part II of the workshop was to facilitate a more inclusive and participatory conversation on the outcomes of part I of the workshop in breakout group sessions and on feedback received during the workshop.

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

D. Proceedings

1. Proceedings of part I

8. Part I of the workshop on long-term climate finance was held virtually on 27 November 2020 during the UNFCCC Climate Dialogues 2020. It was open to all 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, the delivery thereof 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. Scene-setting presentations by Jane Ellis from OECD and Tracy Carty from Oxfam provided the context of decision 1/CP.16, paragraph 98. A panel of experts, namely 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 mandated topics (see para. 2 above), scene-setting presentations and the following 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]

2. Proceedings of part II

15. Part II of the workshop on long-term climate finance was held virtually on 7 June 2021 during the subsidiary bodies sessions. It was open to all Parties and observers attending the sessions and attracted approximately 190 participants.

16. It began with opening remarks by Mr. Cordano and Ms. Espinosa. Overshadowed by contention over whether developed countries are meeting or have met their commitment to mobilize and deliver USD 100 billion per year for developing countries, Mr. Cordano emphasized that needs-tailored, effective and predictable finance is needed to retain trust and credibility in the UNFCCC process. The Executive Secretary expressed consternation that the USD 100 billion target agreed in 2009 had not yet been met.

17. The co-facilitators provided a short introduction and recount of the outcomes of part I of the workshop.

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

18. Three co-moderators were invited to co-moderate one breakout group each. Rebecca Lawlor from the Department of Treasury of the United States of America, Philip Owens from the Directorate-General for Climate Action of the European Commission, and Amr Osama Abdel-Aziz from Egypt’s Ministry of Environment facilitated discussions guided by the following three questions:

(a) What are important lessons that can be drawn from the provision and mobilization of climate finance in the last 10 years?

(b) How can the provision and mobilization of financial support be aligned with, and responsive to, the needs of developing countries, and what efforts are being made towards this?

(c) How do we scale up adaptation finance to achieve balance between support for adaptation and mitigation?

19. The co-moderators then provided a short summary of the group discussions to the plenary, followed by a question and answer session and an open discussion among workshop participants on key issues.

20. In closing **part II of the workshop**, the co-facilitators provided short concluding remarks. Final remarks were provided by Mr. Young, who reiterated his call for greater reliability, delivery, mobilization and accessibility of climate finance for developing countries.

21. The workshop programme, presentation slides and webcast are available on the UNFCCC website.[4]

II. Key findings

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

22. Key findings and statements from the workshop concerning the mobilization and delivery of the USD 100 billion goal include the following:

(a) Mitigation finance continues to represent over two thirds of total public climate finance provided and mobilized, with loans being dispersed more than grants. In addition, some developing countries have benefited more 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;

(c) Meeting the USD 100 billion goal will provide a political signal that commitments under the Convention and the Paris Agreement will be fulfilled. But, while progress has been made in the last decade on provision and access, the goal has not yet been met;

(d) A multilaterally agreed definition of climate finance and a synthesis report on the achievement of the USD 100 billion goal could aid the development of an updated climate finance goal. The Standing Committee on Finance was mentioned as a potential candidate for this work;

(e) Views were exchanged on the status of the long-term climate finance agenda item beyond COP 26, including that its continuation is useful for trust-building in the process. Other participants expressed the view that it is redundant, as its activities are now covered by the agenda item on Article 9, paragraph 5, of the Paris Agreement.

[4] See https://unfccc.int/event/cop-in-session-workshop-on-long-term-climate-finance-part-ii-1.

B. Effectiveness, results and impacts of climate finance

23. In reflecting the key issues of climate finance, participants discussed the following, among other things:

(a) Importance of providing adequate and demand-driven climate finance support tailored to the needs, priorities and circumstances of developing countries;

(b) Low levels of grants and finance for adaptation available and the need to increase them;

(c) Disproportionate levels of climate finance accessed across regions and ways of addressing this;

(d) Role of public finance in crowding in private investment for adaptation and mitigation;

(e) The need for more focus on the effectiveness and impact of climate finance and less on the amounts of climate finance provided and mobilized.

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

24. Growing developing country debt on account of disasters and the pandemic, exacerbated by the predominance of climate finance loans over grants, is challenging the development of and investment in climate projects.

25. Increasing financial assistance from developed countries is not being matched with quality project pipelines and proposals from developing countries.

26. Developed countries are focusing on efforts to increase funding, create enabling environments for private sector investment and mainstream climate finance.

III. Summary of the discussions

A. Presentations

27. In **part I of the workshop** 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.[5] 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;

(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 in 2016–2018 (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);

[5] 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.

(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 2 per cent, respectively, of the total climate finance provided in 2018.

28. 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.

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

30. The presentation by the representative of Oxfam was based on the Oxfam assessment report on progress towards the USD 100 billion goal.[6] The representative emphasized that "how" the goal is met is as important as "if" the goal is met, and noted the following 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, owing to the 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;

(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 allocated for adaptation compared with 66 per cent for mitigation in 2017–2018;

(d) An estimated 20.5 per cent of reported finance was provided to the LDCs and 3 per cent to SIDS in the form of loans and other non-grant instruments in 2017–2018;

(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.

31. 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.

32. In response to the scene-setting presentations, some workshop participants highlighted that non-concessional loans cannot be considered 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.

33. 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 count both mobilized and provided finance or only provided finance towards achieving the USD 100 billion goal; how countries are reporting on gender-related climate finance; the extent to which official development assistance 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.

[6] 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.

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

34. In the open discussion of **part I of the workshop**, the panellists reflected on the current state of mobilization and delivery of climate finance compared with 2010, when developed country Parties committed to the USD 100 billion goal as part of the Cancun Agreements. 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 after the COVID-19 pandemic with climate finance commitments and make the packages greener, more inclusive and resilient.

35. Several workshop participants were of the view that there should be a clear distinction between climate finance mobilized in the context of the USD 100 billion goal and in the context of 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.

36. 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 official development assistance and climate finance, one presenter explained that for official development assistance the emphasis is on how the finance is delivered, whereas for climate finance the emphasis is on what the finance is for.

37. 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.

38. Despite an observed upward trend in the provision of public financial support to developing countries through bilateral and multilateral channels alike, 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.

39. 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 domestic and international private sector involvement. Thirdly, one participant questioned why private sector finance mobilized via bilateral channels is lower than that mobilized via multilateral channels. One presenter responded that this could be due to bilateral channels prioritizing the provision of grants for adaptation.

40. Lastly, several participants in part I of the workshop noted the importance of financial innovation, such as the application of special drawing rights for financing climate action.

41. In the group discussions at **part II of the workshop**, participants indicated that without a clear and agreed definition on climate finance, it will be challenging to determine achievement of the USD 100 billion goal. Furthermore, the diversity of accounting methodologies makes it difficult to assess and compare climate finance flows and differentiate climate finance from official development assistance and therefore creates uncertainty about these flows.

42. Several participants were of the view that in moving forward from the current generic definition of climate finance put forward by the Standing Committee on Finance, a more detailed and complete definition could be introduced.

43. One participant reminded that inconsistencies between the OECD and Oxfam reports meant there is a need to assess achievement of the USD 100 million goal using comprehensive data such as how much has been provided in loans and how much in grants, and how much is going to mitigation and how much to adaptation. A coherent synthesis that includes lessons learned, offers clarity on provision and mobilization via multilateral development banks and includes information on the impact on receiving countries could serve as input for setting the updated collective mobilization goal. Other participants indicated that owing to the lag in data availability and issues with transparency and accountability, such an assessment can only be conducted in the coming years.

44. It was mentioned that since developing countries will be facing significant challenges in the coming years, raising ambition and advancing from ambition and targets to implementing mitigation and adaptation action on the ground hinges on climate finance mobilized and delivered by developed countries.

45. Participants once again reiterated that comparatively less finance is provided for adaptation, and support to address loss and damage is low. It was acknowledged by several participants that provision of adaptation finance needs to be increased, especially in the form of grants. Others indicated that adaptation finance is related to development finance and therefore more difficult to differentiate when reporting. There was a suggestion to agree on a fixed amount or percentage of the updated goal to be set aside for adaptation and to address loss and damage.

46. Finally, participants discussed the status of the long-term finance agenda item beyond COP 26. Several called for its continuation, noting the importance of continuing consideration of the commitment of developed countries to mobilize USD 100 billion by 2020 and through 2025. Others expressed the view that many aspects of the work programme are already under the agenda item on information provided under Article 9, paragraph 5, of the Paris Agreement.

C. Effectiveness, results and impacts of climate finance

47. The panellists in **part I of the workshop** 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 of the overall climate finance needs of the developing country.

48. 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.

49. Finally, 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 for mitigation from that for adaptation could result in less funding being approved and provided to developing countries as some project proposals would be rejected because of an imbalance between mitigation and adaptation components.

50. In the group discussions at **part II of the workshop**, participants elaborated on experiences in receiving climate finance such as the low level of funding that reaches the local level, the lack of inclusion of local communities in project development, especially for adaptation, and the lack of capacity for implementation.

51. Participants further indicated that climate finance should be demand driven and should therefore respond to needs. It was discussed whether these were the needs of governments, business or stakeholders and whether they were required to be elaborated on in the applications for funding from funds and donors. Others expressed hope that guidelines for countries on how to align financial support with needs will be forthcoming.

52. Several examples were cited by participants on ways to improve the effectiveness, results and impact of climate finance, including a deeper exchange on lessons learned and best practices on the ground; further assessment based on recent science and data and inclusion of cultural considerations; improved coordination among donors; and collaboration, partnership and dialogue with recipient countries to ensure funding is based on needs (the NDC Partnership was cited as a good example of how to target support and engage in dialogue).

53. Finally, participants felt that the provision of finance is not the end objective but the means for and enabler of impact on the ground, and that more focus could be given to the effectiveness and impact of climate finance.

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

54. Participants in **part I of the workshop** 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.

55. 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 more quickly than international accredited entities.

56. 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.

57. At **part II of the workshop**, participants discussed a number of challenges related to financial and technical support, namely a lack of an investment pipeline and enabling environment; absorption capacity of recipient countries; insufficient policy frameworks; alignment of climate finance needs with national interests; increased levels of external or internal debt due to disaster recovery and the pandemic; requirements to demonstrate co-financing; lack of support or funding for loss and damage; the low levels of grant finance needed for adaptation; long application and approval processes of the Green Climate Fund and requirements in terms of data and science to confirm effects are caused by climate change (e.g. coastal erosion); building capacity to access sources; lack of flexibility on requirements for approval; inability to meet eligibility criteria by local organizations; the growing complexity of the climate finance landscape that has to be navigated to access finance; and lack of direct support initiatives to help the LDCs and SIDS with access.

58. Several participants were of the view that the mobilization of private sector finance faces a broad set of challenges, and there was a call to gain a better understanding of why the private sector is not investing as required.

59. It was cited that in many countries the private sector is not well developed or does not understand climate or adaptation issues sufficiently, making incentivizing the private sector to provide funding difficult.

60. Others mentioned that despite the alignment of financial decisions and investments with the objectives of the Paris Agreement by many in the private sector, including through divestment from fossil fuels, private finance is still lagging. Important steps towards alignment with the Paris Agreement are being taken by governments by removing subsidies, shifting investment and pricing carbon.

61. One participant posited that introducing financial regulatory measures that lead to investment pipelines that are aligned with the objectives of the Paris Agreement can help scale up levels of climate finance. It was further stated that public policies have the potential to mobilize private finance for climate action, and that developed countries could set ambitious and clear signals in that direction.

62. Many participants listed opportunities for improving the access to and mobilization of climate finance, such as mainstreaming climate finance; aligning development cooperation, national planning, budget planning, infrastructure investment planning and interministerial planning with climate considerations; having a wide variety of instruments and blending grants with other forms of finance including loans, guarantees, equity, payments for environmental services and carbon finance.

63. Other opportunities, especially for adaptation, lie in various areas, including natural assets such as oceans, agriculture and water; investment in human resources, education and the development of indigenous capacities; and alternative technologies.

64. Furthermore, developing countries already have plans in place such as nationally determined contributions and national adaptation programmes of action that reflect their needs and costs, giving providers of finance the opportunity to initiate implementation immediately. Finally, it was stressed by some that climate finance must support a just transition and climate justice.