



United Nations

FCCC/CP/2013/7



Framework Convention on
Climate Change

Distr.: General
1 November 2013

Original: English

Conference of the Parties

Nineteenth session

Warsaw, 11–22 November 2013

Item 11(a) of the provisional agenda

Matters relating to finance

Work programme on long-term finance

Report on the outcomes of the extended work programme on long-term finance*

Note by the co-chairs

Summary

This report contains a summary of the technical discussions relating to the pathways for mobilizing scaled-up climate finance and enhancing enabling environments and policy frameworks for facilitating the mobilization and effective deployment of climate finance in developing countries, as well as the co-chairs' reflections on the way forward.

* This report was submitted late due to internal review and co-chairs consultations.

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I. Introduction

A. Mandate

1. The Conference of the Parties (COP), by decision 4/CP.18, paragraph 2, decided to extend the work programme on long-term finance for one year, to the end of 2013, with the aim of informing developed country Parties in their efforts to identify pathways for mobilizing scaled-up climate finance to USD 100 billion per year by 2020 from public, private and alternative sources in the context of meaningful mitigation actions and transparency on implementation, and informing Parties in enhancing their enabling environments and policy frameworks to facilitate the mobilization and effective deployment of climate finance in developing countries.

2. Furthermore, COP 18 invited the President of the COP to appoint two co-chairs for the work programme, one from a developing country Party and one from a developed country Party, and requested the co-chairs to report back on the outcomes of the work programme at COP 19.¹ The COP President appointed Mr. Naderev Saño (the Philippines) and Mr. Mark Storey (Sweden) as co-chairs of the work programme.

B. Scope of the note

3. This report contains information on the implementation of the work programme on long-term finance in 2013, including information on both in-person and web-based activities. It also contains the reflections by the co-chairs on the way forward of the work programme. Further information and materials from the activities of the work programme are available on the UNFCCC website.²

C. Possible action by the Conference of the Parties

4. COP 19 may wish to consider this report, particularly the reflections of the co-chairs on the way forward, and agree on the next steps by adoption of a decision.

II. Outcomes of the extended work programme on long-term finance

A. Structure and process

5. In line with the aim of the work programme and the views expressed by Parties and stakeholders, the co-chairs decided to organize the analytical and technical work around the following two pillars:

(a) Pillar I: to inform developed country Parties in their efforts to identify pathways for mobilizing the scaling up of climate finance to USD 100 billion per year by 2020 from public, private and alternative sources in the context of meaningful mitigation actions and transparency on implementation;

¹ Decision 4/CP.18, paragraphs 3 and 4.

² <<http://unfccc.int/6814.php>>.

(b) Pillar II: to inform Parties in order to enhance enabling environments and policy frameworks to facilitate the mobilization and effective deployment of climate finance in developing countries.

6. The work programme was further structured into three topics, recognizing that enabling environments pertain to both developed and developing countries and that it is necessary to distinguish discussions on enabling environments for mobilizing climate finance from those on enabling environments for ensuring effective deployment of climate finance. These enabling environments were also often described as “push” or “pull” factors:

(a) Pathways for mobilizing scaled-up climate finance relating only to developed country Parties and their efforts to implement policies and further map out their intentions to mobilize scaled-up climate finance;

(b) Public policy and financial instruments that facilitate the mobilization of climate finance in developed countries, for developing countries, focusing on a mix of “push” and “pull” policies that both mobilize climate finance and attract it;

(c) Enabling environments in developing countries to deploy climate finance effectively.

7. Funding for the work programme on long-term finance was provided by the European Commission and the Governments of Norway and the United Kingdom of Great Britain and Northern Ireland. Funding and logistical support were also provided by the Government of the Philippines for the hosting of the first meeting of experts on long-term finance, and the Government of the Republic of Korea for the hosting of the event entitled “Scaling-up Climate Finance: Work Programme on Long-term Finance Wrap-up Event”.

B. Summary of the activities

1. In-person activities

8. To ensure a transparent, open and inclusive work programme, the co-chairs undertook a series of consultations with Parties and relevant stakeholders during the second session of the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) from 1 to 3 May in Bonn, Germany. At an information event on long-term finance held on the last day of the second session of the ADP, the co-chairs informed the Parties on how they intended to organize the work in 2013 and on what the overarching themes would be. The technical and analytical discussions on the overarching themes started with a two-part event on the pathways (pillar I) and enabling environments (pillar II), held during the thirty-eighth session of the subsidiary bodies.

(a) Meeting of experts on long-term finance

9. The first meeting of experts on long-term finance took place in Makati City, Philippines, from 16 to 17 July 2013,³ and brought together 45 experts on climate finance from finance and planning ministries, environmental and related agencies, the private sector, and international organizations and civil society, mainly from Asia-Pacific and East Africa. The second meeting, held from 19 to 20 August in Bonn, brought together 60 experts from North America, Latin America and the Caribbean, Europe and West Africa.

10. The issues addressed by the experts include the challenges in defining pathways for public, private and alternative sources of finance, experiences with long-term planning for international climate finance including the fast-start finance period, enabling environments, policy frameworks and mechanisms for attracting flows from international and domestic

³ Information on this meeting is available at <<http://unfccc.int/7566.php>>.

sources of finance for low-carbon and climate-resilient development in developing countries, and issues related to the effectiveness of deployment of climate finance in developing countries.

(b) Wrap-up event of the work programme on long-term finance

11. The event entitled “Scaling-up Climate Finance: Work Programme on Long-term Finance Wrap-up Event” took place from 10 to 12 September in Incheon, Republic of Korea. The event brought together 120 participants representing Parties, public and private financial institutions, international organizations, civil society, think tanks and academia. The event focused on the key outcomes of the meetings of experts. The co-chairs provided an overview of the issues around the two pillars of the work programme, which the participants discussed at the plenary and breakout groups. The work programme benefited extensively from the use of social media as it enabled continued interaction with stakeholders in the wrap-up event through virtual participation; 1,552 people viewed the webcast and more than 3 million Twitter impressions were generated. Views and insights shared during the event are captured in chapters III, IV and V below.

2. Webinars

12. The co-chairs organized two webinars, on 18 April 2013 and 2 September 2013. The first webinar sought views from Parties and relevant stakeholders on the expected outcomes of the work programme, on modalities for conducting the work programme and on how to advance the discussions on pathways for mobilizing scaled-up climate finance, enabling environments and policy frameworks. The second webinar discussed insights that emerged from the two meetings of experts. There were a total of 257 participants in the two webinars.⁴

III. Pathways for mobilizing climate finance

13. The strategy of the co-chairs for advancing the work on pathways for mobilizing climate finance, seen by many as a very political issue, was to break it down into elements that allow for a more technical discussion. As such the work programme focused on the important issues of providing greater predictability and assurance around climate finance by 2020.

14. The following were identified as examples of the challenges encountered by developed country Parties in identifying and mapping out information on pathways:

- (a) Lack of agreement on common definition[s] of what comprises climate finance;
- (b) Lack of agreement on how to track and report private sector finance, specifically its attribution to a particular country;
- (c) Absence of any agreement on burden-sharing among developed country Parties in achieving the USD 100 billion target;
- (d) Limited ability to project financing for sources that are beyond an individual Party’s influence;
- (e) Constraints imposed by budgetary practices, rules and laws in relation to public finances.

⁴ Information on the two webinars is available at <<http://unfccc.int/7435.php>>.

15. The co-chairs observed, and the participants generally concurred, that the issue of burden-sharing among developed country Parties is a political issue that does not warrant further discussion within this work programme. The following focus areas were identified in order to advance the discussions on pathways for mobilizing climate finance:

- (a) Conceptual issues including when and where to identify pathways at an aggregate level versus at a country-level;
- (b) Transparency;
- (c) Defining climate finance;
- (d) National experiences with budgetary practices, rules and laws and their implications for the ability of developed countries to provide information on future public finance expenditures.

A. Conceptual issues related to identifying pathways

16. One of the key issues identified in the pathway discussions was the appropriate level of aggregation. Some participants highlighted the difficulties countries face individually in specifying or predicting future financial flows from potential sources on which they exercise only limited influence, such as international levies on transport emissions or private sector financial flows for which attribution at country-level may be difficult. This led to a discussion as to whether some financial flows are more easily tracked, reported and projected at an aggregate level, for all developed country Parties. It was generally acknowledged that there are several methodological questions that need to be addressed concerning the tracking and attributing of private sector finance. The ongoing work of organizations such as the Organisation for Economic Co-operation and Development (OECD) in these areas was acknowledged and brought up in the discussion on several occasions.

17. Another issue that was discussed was whether a pathway can be defined quantitatively or qualitatively. An example of a quantitative pathway would be target amounts adding up to USD 100 billion for specified years prior to 2020. Conceptually, such targets could be disaggregated into public, private and alternative sources; the public share could further be disaggregated by country. Many developing country Parties were of the view that the key to providing greater predictability and assurance is for developed countries to provide some degree of quantification, for example an agreed set of midterm milestones. Other participants questioned the feasibility of providing such quantified pathways for a number of reasons, such as the lack of an operational definition of the overall goal, diversity of sources of finance (some of which are beyond any single Party's control), budgetary rules in relation to public finance and the political infeasibility of providing quantified pathways.

18. A qualitative pathway is a description of the policies and programmes that a country/countries has/have in place and that are aimed at mobilizing climate finance.

19. A further alternative approach to defining pathways that was discussed is to build a 'bottom-up assessment' by clarifying where a country stands today in terms of climate finance, including by determining which adaptation, mitigation and other climate measures are counted, assessing the total or incremental costs and the private flows mobilized. Participants noted that pathways are tools for measuring progress, not an end in themselves. The overriding priority is that sufficient finance becomes available as soon as possible to support mitigation and adaptation actions consistent with keeping the global average temperature below 2 °C above pre industrial levels.

B. Transparency

20. Transparency was mentioned throughout the work programme as a vital ingredient for building trust and confidence regarding how developed countries are meeting their commitments to provide climate finance. It was acknowledged that reporting on climate finance has evolved considerably in recent years and continues to evolve. For the past three years, developed countries have reported on the fast-start finance they have provided. There were no agreed frameworks for these reports and, accordingly, countries used different methodologies. Several developing countries identified apparent discrepancies between the levels of fast-start finance reported to have been provided, and that received. However, it was generally acknowledged that many improvements in the reporting were made during the fast-start finance period, including an increase in the level of detail provided, thus leading to improved transparency. The fast-start finance period ended in 2012 and developed countries have subsequently submitted their final reports.

21. While the fast-start financing reporting has drawn to a close, it was noted that the first biennial reports on climate finance by developed countries are due in January 2014 and should help further enhance transparency. These reports will provide similar information on what was provided during the fast-start finance period, but in a standardized format. Several participants suggested that it would be useful for developed country Parties to continue to provide annual reports on climate finance at least until it is clear that the biennial reports provide sufficient information. Other participants noted that the biennial reporting process is only in its infancy and should be given a chance before adding further levels of reporting requirements. The first biennial reports from developing countries on climate finance received are due in 2014 and these should help to further increase transparency.

22. Improved transparency on climate finance will require timely, detailed and consistent information on support committed, support deployed, and the results of this support. Some of this information will be included in the biennial reports. Regular reporting by developed countries of budget projections or intentions to provide scaled-up climate finance could also enhance transparency. In the near term, transparency could be enhanced by the continued, voluntary provision by developed countries of information on climate finance additional to what will appear in national communications and biennial reports, until those reports are deemed to be sufficient or are modified to address the remaining information gaps.

C. Defining climate finance

23. Many of the concepts and terms being used in the climate finance discussions lack clear definitions. At one level there are definitional issues concerning how Parties (and other stakeholders) track and report climate finance. At another level there is a set of definitional issues to be addressed when attempting to define what can be counted as climate finance in the context of the Convention, and the USD 100-billion-goal.

24. The USD 100-billion-goal, for example, is not clearly defined and therefore the sources and flows of climate finance that can be regarded as contributing to meeting this goal have not been agreed on. Furthermore there is no agreement on the system of burden sharing between developed countries, on how to determine the private flows mobilized, on whether the USD 100 billion covers the total cost of mitigation and adaptation measures or only the share related to climate change (incremental cost), nor is there a clear definition of 'alternative sources'. This lack of clarity on what comprises the financial commitment of a particular Party makes it difficult for developed countries to develop pathways and has been cited as the reason why developed countries are being asked to come forward with information on pathways.

25. Some of the participants, such as multilateral development banks, regional development banks and other international organizations, expressed the view that reaching an agreement at the international level on some of these definitional issues would facilitate tracking, reporting and maintaining transparency. However, others were sceptical as to the prospects of making headway on such definitional issues.

26. Nonetheless, there was a call to improve transparency by identifying definitional issues where there was a greater chance of reaching consensus. An example would be defining what is meant by mobilized private sector finance in the context of the USD 100-billion-commitment. It was noted that work being done in other forums, such as the OECD, could inform discussions in this area, including the future work of the Standing Committee on Finance.

D. Lessons learned from national experiences

27. This sub-theme focused on national legislations, policies, rules and practices that determine or influence the extent to which countries are able to provide information on budgets and/or forecasts of public expenditures in future years.

28. National budgetary processes typically limit the scope for quantitative trajectories for public finance to one year. Case studies of budgetary processes in Colombia, France and the United Kingdom were presented. Budgets are typically annual, but the fiscal year varies from country to country. While each country is unique, several countries calculate short-term projections, for example for periods of 1 to 3 years. These projections are indicative of, rather than binding for, future budgets.

29. A government budget is a process of allocating scarce resources, so climate finance must compete with other priorities. To increase public funding for climate finance the responsible agencies must be able to demonstrate a need for public funding (a market failure) and that the funds are being deployed efficiently and effectively. Effective enabling environments in recipient countries are important for this purpose.

30. The mix of public and private funds mobilized may not meet the needs for adaptation finance. Private finance is generally considered to be better suited to mitigation measures while adaptation measures typically need public support. Currently, adaptation measures receive only a small share of the total climate finance flows. Some participants were of the view that increasing the allocation and shifting public finance to adaptation may be a way of balancing mitigation and adaptation finance.

31. The participants discussed country practices in the preparation of public expenditure forecasts and projections and whether countries would be willing or able to internationally report projections of climate finance expenditures. Some participants were of the view that providing information such as mid-term projections could be a way forward, as they could provide some assurance, albeit non-binding, as to countries' intentions to continue providing finance in coming years. Some participants in particular were in favour of projections being provided relative to the average annual level of the fast-start finance period 2010–2012. Other participants did not see providing information on budget projections as a solution for various reasons, including the following: reporting on such projections in an international setting would be regarded as a de facto commitment; such government budget projections are not necessarily undertaken at the required level of aggregation; and such projections would be subject to too much uncertainty to be useful indicators of future expenditures.

IV. Enabling environments and policy frameworks for mobilizing scaled-up finance

32. Building on the work undertaken in 2012 and informed by case studies, the extended work programme took a closer look at public policies and financial mechanisms and instruments that can mobilize increased levels of finance for low-carbon and climate-resilient investments within developing countries.

33. While enabling environments related to effective mobilization of scaled-up climate finance are generally understood in the context of support provided by developed countries to developing countries, there was a general sense that any discussion on enabling environments and policy frameworks must contemplate both developed and developing countries, in order to cover the entire spectrum of push and pull factors that influence the mobilization of scaled-up finance. In this context, it was emphasized that it would be necessary to examine policies, regulations and instruments in developed countries that directly or indirectly help mobilize climate finance and investments for use in developing countries. The discussion also focused on enabling environments that are needed to attract both public and private sector finance for developing countries.

A. Barriers to mobilization

34. For mitigation, developing countries need, between now and 2050, an estimated USD 531 billion per year of additional investment in energy supply and demand technologies in order to limit the global temperature rise to 2 °C above pre-industrial levels,⁵ noting however that estimates of the financing needs of developing countries vary significantly. For adaptation, the challenge of planning under uncertainty makes it difficult to assess the likely costs of adaptation. During the work programme, the following challenges were highlighted:

(a) The need for upfront investments in energy efficiency and renewable energy in order to avoid a long-term lock-in of fossil fuel-dependent technologies;

(b) The need to manage risk: investments in low-carbon technologies are often perceived as having higher political, technological, and policy risks compared with other technologies. This is because low-carbon technologies can be less mature and unproven and often rely on policy mechanisms to ensure a return on investment;

(c) The need for regulatory reforms that facilitate the integration of low-carbon and climate-resilient technologies into ongoing infrastructure investments in cities, water systems, industrial clusters, energy grids, etc.

35. During the work programme, the co-chairs heard about the various approaches and policies that are in place to address the financing challenges and remove the barriers to mobilization. There are various ways of categorizing such approaches and policies. The discussion revolved around: (a) policy frameworks that can support mobilization of climate finance in general, and (b) specific financial instruments for leveraging private finance.

⁵ Polycarp C, Brown L and Fu-Bertaux X. 2013. *Mobilizing Climate Investment*. Washington, D.C.: World Resources Institute.

B. Policy frameworks and regulatory environments

1. In-country coordination

36. Many examples were given of how developed countries can improve coordination among their various government departments and agencies to mobilize climate finance, including examples of country-led approaches to developing and implementing green economy transition strategies.

2. Coordination among contributing countries

37. Improved coordination among contributor countries with the aim of mobilizing climate finance was recognized as being very important and can take place among various institutions. Examples discussed include coordination among multilateral development banks in developing common guidelines for investment decisions and methods for tracking climate finance, coordination among development finance institutions of developed countries to prioritize investments in clean energy, and coordination among export credit agencies. The co-chairs noted that discussions on these issues among contributing countries took place during 2013.

3. Getting the fundamental signals right

38. The importance of domestic policy measures that either reflect a public commitment to reducing emissions or support a transition to low-carbon technologies was highlighted as a key factor for both mobilizing finance and, as discussed in chapter V below, ensuring finance is deployed effectively. Specific examples include:

(a) Setting renewable energy targets in developed countries: it increases the scale of deployment and could lead to further reductions in the costs of renewable energy technologies globally. This is another example of how enabling environments in developed countries can benefit markets in developing countries;

(b) Carbon-pricing mechanisms, policy measures that seek to internalize the cost of carbon or put a price on it, were seen to have an important role in increasing incentives for investors in the short term, as well as in sending a long-term policy signal to investors. For example, institutional investors will start to reallocate away from high-carbon into low-carbon assets if they see a commitment to a clear time frame/regulatory environment. There are various examples of such policies in developed (and some developing) countries at present, such as those related to emissions trading schemes and carbon taxes. Given the importance of such measures for influencing investment decisions, many participants noted with concern the relatively low current carbon prices on the international market. Carbon-pricing mechanisms can also serve as potential sources of revenue for climate finance. For example, in 2008 the German Federal Environment Ministry raised funds by auctioning 9 per cent of its nationally allocated carbon allowances for the second phase (2008–2012) of the European Union Emissions Trading System. Around 50 per cent of this revenue is allocated for climate-related activities, with around 30 per cent of this going to developing countries;

(c) Reform of fossil fuel subsidies: Similar to the above measures, reducing and/or reforming policy measures that subsidize investments in the production of fossil fuels or subsidize the consumption of fossil fuels was seen by many participants as a critical enabling environment for ensuring that finance is mobilized towards green and not brown technologies. Many participants, however, noted the political sensitivities around such policy reforms as they can increase the costs of energy used for households.

39. More generally, it was emphasized that delivering transformational change requires that the public sector support investments in low-carbon technologies in order to ensure that these decline in cost in the long run. International climate finance therefore needs to prioritize transformational approaches that incentivize innovation, development and deployment of new technology.

C. Financial instruments

40. The discussion on financial instruments available for leveraging private sector investments covered a wide range of instruments. Most of the discussion focused on instruments that have a strong public policy component such as public–private partnerships and loan guarantees. Other instruments, such as climate/green bonds, are being taken forward by the private sector while crowd funding is being driven by community-level engagement.

1. Public–private financing mechanisms

41. OECD has identified three key investment conditions important for attracting private sector investment that can be addressed through public interventions, notably the following:

- (a) Providing investment opportunities;
- (b) Boosting return on investment, including by limiting the costs of investment;
- (c) Reducing risks faced over the lifetime of the project.

42. While paragraph 41(a) above generally refers to enabling environments within developing countries, boosting returns on investments and reducing risks, referred to in paragraphs 41(b) and (c) respectively, can be done by developed countries through various sorts of public and private financing mechanisms.

43. Participants shared various experiences from the past decade on the use of international and national public climate finance for mobilizing investors' capital into new sectors and in different countries. Examples given referred to the private equity fund of the United Kingdom's Climate Public Private Partnership and to the work of the International Finance Corporation, the Asian Development Bank and to Germany's new Global Climate Partnership Fund.

44. Participants also shared their experiences in mobilizing climate finance through public–private partnerships, including case studies on the use of alternative financing mechanisms involving regional and national development banks, such as the Petrocaribe mechanism in Latin America and the Caribbean.

45. Participants also exchanged views about the deployment of various financial instruments that are being made available via multilateral channels (e.g. Climate Investment Funds), bilateral channels (e.g. Germany's KfW Entwicklungsbank and France's Agence Française de Développement) and national development banks. A good number of participants, especially representatives from financial institutions, see multiple benefits from the alignment of existing financial instruments with climate action. In general, it is necessary to distinguish between targeted financial instruments that reduce risks for investors and instruments that offer access to capital, such as public–private partnerships, credit lines, loan guarantee instruments and equity investments in projects or companies.

46. Further examples of instruments that can be designed to address risks include feed-in tariff risk insurance, credit enhancement of project debt, and first-loss public/private funds. Generally, these instruments enhance investor confidence and lower the cost of capital and of investment.

47. Some participants argued for the use of a wider range of instruments in order to supplement the use of debt and equity instruments. These instruments could be made available via existing or new funds and financing mechanisms that are mandated to pilot innovative financing approaches.

2. Private sector instruments

48. Among the most frequently mentioned instruments were climate/green bonds, owing to their ability to leverage relatively low-cost capital from institutional investors. However, as these investors are particularly risk-averse, leveraging will likely be feasible when concessional public/climate finance is used to reduce risk levels. Deploying climate finance through these instruments to leverage capital from institutional investors will be important for mobilizing affordable finance in the immediate and medium term.

3. Other approaches

49. In addition, crowd funding for climate change was also highlighted as a possible community-driven approach to mobilize climate finance in developed countries. Crowd funding is an approach by which a large number of individuals can collectively invest in climate change-related projects through internet-based platforms. It can help scale up mobilization of bottom-up climate finance to complement the current top-down climate finance flows. According to proponents of crowd funding, this approach has successfully channelled over USD 400 million dollars to over a million micro-borrowers in developing countries, and it can be a source of climate finance from largely untapped private sources.⁶

50. Many participants were of the view that grants have a particular role in the start-up phase of a given project and that no single instrument can provide funding over the entire project cycle.

51. Risk-mitigating instruments were largely seen by private sector financial institutions as key to channelling private capital into climate change projects which are typically characterized by relatively higher costs and lower returns compared with competing carbon-intensive projects.

52. Generally, it was acknowledged that financial instruments should be tailored and designed to ensure public climate finance is used in a targeted way to overcome specific barriers. Furthermore, many of the public-private financing instruments may not necessarily require a budgetary outlay but instead may involve the State taking on some credit risk. National considerations will therefore determine which instruments are preferred.

53. In summary, there is a real opportunity to increase private sector investments and create a longer-term signal for institutional investors through the following:

- (a) Shift the risk-reward ratio in core sector policies;
- (b) Integrate climate into financial policy frameworks;
- (c) Use a menu of public finance mechanisms to reduce risk/enhance returns;
- (d) Mainstream climate into practical and familiar funding channels such as bonds.

⁶ Von Ritter K and Black-Layne D. 2013. *Crowd-funding for Climate Change*. Oxford: European Capacity Building Institute.

V. Enabling environments and policy frameworks for effective deployment of climate finance

54. The discussions on enabling environments for the effective deployment of climate finance focused on the ‘pull’ factors, that is policies and regulations in the recipient countries that help to attract investments and to ensure successful implementation of programmes and projects. Discussions included national, regional and international experiences in the deployment of climate finance, the challenges encountered and mechanisms being established to address these challenges. The participants also addressed broader issues of how to define and evaluate the effectiveness of climate finance more generally by looking at the life cycle of the financing from commitment/pledge to delivery, deployment and eventually evaluation of results achieved.

A. Climate finance effectiveness

55. There was a rich discourse on the importance of learning from the principles of aid effectiveness and how it has resonance with climate finance effectiveness. Several countries emphasized the need to differentiate between aid provided as traditional development assistance and climate finance provided as part of commitments under the Convention. While there was rich discussion on lessons to be drawn from internationally agreed principles on development finance effectiveness, there were some diverging views as to the applicability of the aid effectiveness principles for discussions on climate finance effectiveness. Work undertaken by international organizations has been useful in identifying indicators of effectiveness of climate finance such as:

- (a) Strengthening of national climate change policy and planning;
- (b) Use of national government systems where appropriate;
- (c) Systems for sharing lessons in host countries;
- (d) Accountability at the project and programme level;
- (e) Monitoring and evaluation frameworks.

B. Tracking climate finance

56. Participants highlighted the importance of tracking and monitoring public and private climate finance for ensuring transparency. Furthermore, the tracking and monitoring encourages countries to direct finance to areas or sectors that offer the greatest potential mitigation and adaptation impact. This instils a sense of accountability and increases the confidence of stakeholders. Monitoring results, particularly at the sector, program and project levels is critical and goes beyond tracking. In this context, participants identified the need to track performance indicators at the project level (e.g. clean development mechanism projects) and sector level (e.g. REDD-plus⁷ projects).

57. Participants underlined the need to further develop tools to track climate finance deployed, delivered and received. In this light, specific suggestions were made to develop methodologies for tracking private climate finance. Finally, the issue of lessons learned from fast-start finance was discussed extensively by participants. Participants noted the improvements in the reporting of information from the fast-start finance period.

⁷ Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

Suggestions were made to document lessons learned from the fast-start finance period of 2010–2012 in order to improve the delivery of climate finance in the long term.

C. Policy and institutional enablers

58. Throughout the extended work programme, there were rich exchanges between countries on how national policies have resulted in more public and private sector investments and on where domestic resources were generated to help achieve climate-compatible development objectives. Below are examples of these various policy frameworks or ‘enablers’ that contribute to effective delivery of climate finance.

National policy, regulatory and governance frameworks

59. Countries continue to put in place national policies and are adopting various forms of legislation, regulatory measures, frameworks and action plans for climate change mitigation and adaptation. Information on new initiatives around the budget process was shared, such as on the establishment of climate fiscal frameworks, on costing climate change strategies as part of the national budget process, on setting local climate expenditure targets and on integrating national climate change strategies into national development plans. Countries also shared experiences in translating national frameworks into action plans that help to formulate modalities for effective climate finance. A few examples of what countries have done include:

- (a) Formulation of modalities to deploy climate finance based on the country’s context, such as a market-based green banking system, public–private partnerships or promoting private investment;
- (b) Development of a legal framework to improve deployment of climate finance and access to climate finance and facilitate financing from the private sector;
- (c) Monitoring of deployed finance;
- (d) National climate legislative frameworks such as renewable energy or mitigation targets.

60. Participants exchanged experiences regarding how they have overcome barriers to climate finance and enhanced access, management and accountability by formulating national or sectoral plans that include costs and budget. Specific measures include:

- (a) Improving planning and budgeting capacities across different ministries;
- (b) Clearly tagging climate finance needs in the budget;
- (c) Establish results-based management frameworks as part of reporting practices while recognizing that this can be difficult and take time to implement;
- (d) Dialogue with the international and regional community to maximize effectiveness.

61. Country Ownership: the perception of climate finance being supply-driven rather than being based on needs was noted by many participants. Participants exchanged views on how to balance country ownership with accountability. Concerns that developed countries can ‘pick and choose’ projects to support were raised. To address this, developing countries affirmed that, in order to address those concerns, financing should be based on needs and domestic priorities. Furthermore, many participants stressed the importance of determining the priorities of a country and its national development plans and strategies in a way that integrates national adaptation and mitigation planning, such as national adaptation plans, national adaptation programmes of action, nationally appropriate mitigation actions, technology needs assessments and low emission development strategies.

62. Stable fiscal policies develop confidence within the private sector and help to remove some of the barriers to investment. Many countries have come forward to share their experiences in developing national plans, including in setting ambitious targets with time frames. The importance of participation of civil society and private sector stakeholders in the development of national plans was also highlighted as a way to ensure the integrity and robustness of actions identified in the plans. The early engagement of stakeholders as part of a continuous process was viewed by many as critical to ensuring support for climate actions.

63. Some developed countries shared, as part of their fast-start finance experiences, how they have tackled risks by setting clear policies to attract investments, tailoring instruments to local conditions, learning from best practices and facilitating support to increase the absorptive and delivery capacity of host countries. In addition participants put forward the following proposals to overcome barriers to investment and effective delivery of climate finance:

- (a) Develop national climate financing strategies and platforms that identify opportunities for use of climate finance to effectively mobilize and track public and private sources of finance;

- (b) Build capacity of national public and financial institutions, including national development banks and hosts of green funds, to blend, direct and track climate finance;

- (c) Create investment opportunities in order to facilitate and develop a pipeline of financeable projects.

64. Institutions: throughout the extended work programme, much had been learned about numerous developments in different countries in terms of in-country institutional arrangements (i.e. national structures, mechanisms, and related arrangements) that implement climate policy and administer and effectively deploy climate finance. These developments include the establishment of national climate change ministries, inter-agency committees on climate change and national climate change trust funds. These diverse institutional arrangements within countries are envisioned to better contribute and more effective delivery of finance at the local level by pooling and blending domestic and international funds in order to support national priorities.

65. Capacity: critical enabler identified by participants is to build institutional and technical capacity of receiving countries in order to effectively absorb, channel, administer and deploy climate finance. Some of the factors highlighted that hinder deployment of financial resources in developing countries include:

- (a) Lack of awareness about the different procedures and requirements by government officials and stakeholders, including the private sector, to access global climate funds;

- (b) Hampered ability to formulate and submit bankable climate projects that meets country needs and the needs of various funds;

- (c) Lack of technical capacities, weak mechanisms for coordination between agencies and inefficient distribution of responsibilities;

- (d) Lack of public financing management capacities to deal with new and existing climate financing instruments and hampered ability to keep track of the flow of these funds into countries owing to poor financial management systems.

66. Several participants shared their experiences in overcoming some of these capacity issues, including in the implementation of readiness activities with government agencies (e.g. their respective ministries of finance), as well as their experiences with the private sector and civil society.

67. While there was recognition that national enabling environments and policy frameworks are key for effective deployment of climate finance in developing countries, the issue of access to climate finance was also highlighted by several countries as a major capacity issue. Some examples of what is seen by many participants as constraints faced by developing countries in accessing climate finance include:

- (a) Contributing countries' focus on larger economies;
- (b) Burdensome access criteria and lack of capacity and in-country expertise;
- (c) Under-financing of regional priorities;
- (d) High transaction costs;
- (e) Lack of understanding of issues related to smaller economies (such as the small island developing States).

68. Coherence and coordination: the issue of coherence and coordination was a recurring theme throughout the discussions. This is relevant to both contributing and recipient countries, although the focus of the discussion this year was mainly on contributing countries. While there are coordination mechanisms that may enable climate finance contributors to harmonize their contributions, there is a need for climate finance contributors to engage in a sustained and consistent dialogue among themselves and with their respective partner countries. Many participants considered that there is a proliferation of different channels and intermediaries that lead to fragmentation and overlap in financing programmes and projects. The role of finance and planning ministries in ensuring coordination and coherence was highlighted. Finally, participants emphasized the importance of regional integration and strengthened coordination, especially in regions with smaller countries, which are particularly vulnerable.

VI. Reflections and way forward

A. General reflections

69. The long-term finance work programme for 2013 has sought to build on the work of the previous programme and focus on the specific mandate given in the COP 18 decision. Specifically, the programme has focused on (a) issues to assist developed country Parties in their efforts to identify pathways for mobilizing scaled-up climate finance to USD 100 billion per year by 2020; and (b) to inform Parties in enhancing their enabling environments and policy frameworks to facilitate the mobilization and effective deployment of climate finance in developing countries.

70. Overarching issues which were common to all of the discussions included: (a) the need for continued enhanced transparency of finance that is committed, deployed, and of the eventual results achieved; (b) the need for greater agreement on how to define, track, and account for, various financial flows; and (c) the need to address challenges specific to adaptation financing.

71. The work programme was intended to be a non-negotiation space in order to develop a shared understanding of technical issues, which, in turn, should advance discussions within the negotiations. We, the co-chairs, have actively sought to involve a wide spectrum of stakeholders from the public and private sectors. Furthermore, with regards to government representatives, we have actively sought to encourage wider participation of colleagues from finance, development and planning ministries. We note that technical level discussions have their place and can therefore add value. At some stage and in some but not all instances they need to be brought into the political dialogue on climate finance both within the UNFCCC process as well as, potentially, in other forums.

The co-chairs are likewise acutely cognizant of the strong link between the work programme on long-term finance and the process leading up to the 2015 agreement.

72. The challenge we as co-chairs faced in making recommendations on the next steps is to distinguish between issues that are mostly technical and issues that are more political in nature, in other words, issues that can be advanced within the UNFCCC context and issues that are best taken forward in other forums. In this context, we provide the following recommendations as to the potential next steps, for deliberation at COP 19.

B. Pathways to scaling up climate finance

73. Discussion on the concept of pathways in the context of climate finance is relatively new and carries a significant political dimension. The approach we as co-chairs have taken in this year's work programme was to: (a) clarify what is meant by pathways and what the key expectations of developing countries are (e.g. greater transparency, greater predictability); (b) to identify different elements of the pathways (e.g. public and/or private sources of finance, channel for delivery, time frames); (c) to identify the barriers/challenges faced by developed countries in meeting these expectations; and (d) to identify some possible solutions or next steps.

74. It is our view that regular and standardized reporting of climate finance from developed countries has a major role in providing assurance that developed countries are taking steps to meet their commitments. Many developing country participants have called for a continuation of reporting from developed countries at a similar level and periodicity now that the fast-start finance period has ended. We note that developed countries will soon be providing information in standardized form in their biennial reports. While we are wary of making recommendations that would create an additional level of reporting requirements, COP 19 could consider requesting developed countries to provide, on voluntary basis, supplementary annual information until 2015 by which time there would be a greater familiarity with the content of the biennial reports.

75. We also see some value in pursuing further discussion of definitional issues. In particular, one area where there may be possible to reach a common understanding is what is meant by "private sector finance" in the context of the USD 100 billion commitment.

76. Several participants in the work programme mentioned the fact that their national budgetary rules constrain their ability to give firm indication of availability of public finances more than one year in advance, and in the case of countries with multi-year budget cycles, a few years in advance. In recognition of this, a suggestion was brought forward that developed countries could submit information on projections or scenarios of climate finance which would not be regarded as binding. There was, however, no consensus of opinion on this. Some participants questioned the practicality and value of providing projections, while others regarded this as a very political issue.

77. As the political dynamics of identifying a 'pathway' have proven to be a complicating factor in the process, an option for going forward is to focus on identifying segments of such a pathway with a view to clarifying the starting point, in other words, clarifying what the current levels of climate finance are. We note that the biennial reports from developed country Parties and the overview of climate finance to be undertaken by the Standing Committee on Finance will have an important role in providing this information.

C. Enabling environments for mobilizing and deploying climate finance

78. The discussions on enabling environments were very different from the pathways discussion, as the former very much focused on identifying best practices in terms of policy and regulation that help to both mobilize and deploy climate finance.

1. Enabling environments for mobilizing climate finance

79. The importance of getting the fundamental signals right through the use of instruments such as carbon and energy pricing is a crucially important factor for enabling climate-friendly investments. Efforts to reform or reduce fossil fuel subsidies can also be extremely important in this context.

80. Many different instruments are being used to catalyse private sector investments. Many of these involve a strong public policy component. Some interventions can be taken forward by multilateral and even private entities (e.g. green bonds are less dependent on public action), while others, such as crowd financing, are driven more by community-level engagement. With such a variety of instruments available there is no single best approach, and instruments will need to be chosen so as to best meet national circumstance and priorities.

81. A key issue that arose from the discussions on mobilizing finance was the implication of the role of private sector finance, for the balance of financial flows between mitigation and adaptation. Currently, adaptation continues to receive a minor share of total climate financial flows. Concerns were expressed that an emphasis on private sector finance, which is generally considered to be inclined towards mitigation measures, is likely to further tip the balance to the disadvantage of adaptation. Recognizing these concerns, we stress the continued importance of public sector financing for adaptation. Furthermore, we recommend that further analysis on specific measures needed to ensure scaled-up private sector finance be made available to adaptation and climate resilience programmes.

2. Enabling environments for effectiveness

82. There was broad consensus that being able to assess whether climate finance is being used effectively is in the best interests of climate finance providers, recipients and other stakeholders and therefore is critical with regard to the challenge of mobilizing scaled-up finance, in order to be able to meet our global climate change mitigation and adaptation goals.

83. This year's work programme received considerable input in the form of country case studies and analytical assessments from organizations. There was general agreement as to what the key enabling environments to ensure effective deployment are. They include country ownership, in-country coordination among climate finance providers, national tracking systems, well established planning procedures, and building up the technical capacity of receiving countries to absorb, channel, administer and deploy climate finance.

84. There is, however, in our view, still scope for, and a need to, reach a greater understanding as to what various stakeholders mean by climate effectiveness at the various stages of climate financing, from commitment (or pledge), through deployment in the recipient country, to the measurement of results. Recognizing the importance of coordination among climate finance contributors and recipients, further work is needed on climate finance effectiveness in order to address the full life cycle of climate finance. This work could usefully draw on lessons learned during the fast-start finance period and consider the relevance of the principles of aid effectiveness.

85. The overall process would also be greatly helped by continued dialogue between climate finance contributors and recipients.
