

Report of the thematic dialogue on climate technology financing

Langer Eugen, Bonn, Germany
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I. Introduction

A. Background

1. COP 18 agreed to further elaborate, at COP 20, the linkages between the Technology Mechanism and the Financial Mechanism of the Convention, taking into consideration the recommendations of the Board of the Green Climate Fund (GCF), developed in accordance with decision 3/CP.17, paragraph 17, and of the Technology Executive Committee, developed in accordance with decision 4/CP.17, paragraph 6.
2. The TEC, at its 8th meeting, had an initial exchange of views on possible linkages between the Technology Mechanism and the Financial Mechanism of the Convention and a process for the TEC to develop its recommendations on this matter. The TEC agreed to undertake a number of activities to prepare its recommendations on linkages between the Technology Mechanism and the Financial Mechanism, as part of its workplan for 2014-2015.
3. The rolling work plan of the TEC for 2014–2015 includes the organization of a thematic dialogue on climate technology financing with a view to identify how the TEC can assist the financial community, based upon experiences and lessons learned in financing climate technologies, and to understand how to enhance the implementation of the results of technology needs assessments (TNAs).

B. Scope of the note

4. This note provides a summary report of the thematic dialogue on climate technology financing. It contains a summary of the presentations made, the discussions conducted during the panel discussion and the general discussion with participants and observers.
5. While this information note provides a summary of the thematic dialogue, full presentations and discussions are available on the UNFCCC website.¹

II. Proceedings

6. The thematic dialogue on climate technology financing was held on 19 August 2014 at the United Nations Campus in Bonn, Germany.
7. The overall objective of the dialogue was to identify linkages between the Technology Mechanism and the Financial Mechanism of the Convention. More specifically, the thematic dialogue aimed to:
 - (a) Highlight issues surrounding climate technology financing;
 - (b) Identify challenges and opportunities, good practises and lessons learned from financing climate technologies;
 - (c) Identify opportunities for enhancing the implementation of technology needs assessments.

¹ Available at: <http://unfccc4.meta-fusion.com/kongresse/tec09/templ/ovw_small.php?id_kongressmain=274>.



8. The agenda of the thematic dialogue consisted of three sessions: (i) presentation on issues surrounding climate technology financing; (ii) panel discussion with representatives from relevant organizations and (iii) general discussion with observers present at the meeting.

9. The thematic dialogue was attended by 63 participants, comprising 19 members of the TEC, seven experts directly involved in the thematic dialogue, 10 Party observers, four representatives from United Nations organizations, and 23 representatives from intergovernmental or non-governmental organizations. In addition, online observers were able to participate in the meeting via social media.

III. Summary of the dialogue

A. Welcome and introduction

10. The thematic dialogue was chaired and opened by Mr. Gabriel Blanco, Chair of the TEC, who presented the background, objectives and format of the thematic dialogue. He also encouraged all participants to engage in the discussion, including through social media.

B. Session I: Issues surrounding the topic of climate technology financing

11. Ms. Amal-Lee Amin, Associate Director, Third Generation Environmentalism (E3G), presented on the challenges, opportunities, good practises and lessons learned from climate technology financing. She elaborated on the scale of climate technology investments required to remain below a global temperature rise of 2 degrees Celsius. She highlighted that this would require transformational changes by aligning public policy and public finance in all countries and a specific role of climate finance to support developing countries.

12. She stressed the need for understanding the specific challenges and risks to climate technology investments, including technology risks, market risks, policy and regulatory risks, capacity constraints, financial challenges and the scale of investment challenges. She further elaborated on the specific financial challenges within a developing country context, such as scarce availability of capital for public investment, poor credit-worthiness and lack of guarantees and lack of access to appropriate forms of credit.

13. She highlighted that successful innovation requires a balance between ‘push’ and ‘pull’ factors along the innovation chain, with varying levels of public - private finance and policy interventions at different stages, aimed at system-wide capacity building to improve internal innovation and absorption systems and overcoming challenges of new technology and market risks. However, she noted that there is no single way of designing a successful incentive scheme or financial instrument - the use of public resources should be designed to ensure the most appropriate allocation of risk between actors.

14. She further elaborated on the experiences and lessons learned from one multi-donor Trust Fund within the Climate Investment Funds, the Clean Technology Fund (CTF), including:

(a) While the CTF has not prioritised support for technology innovation, its experience emphasises the importance of working with national institutions who can champion and foster necessary innovation.

(b) CTF experiences reinforce the importance of embedding programs in country contexts and attention to institutional capacity and preparedness.

(c) Importance of robust processes to engage diverse stakeholders and for ensuring strong country ownership and domestic implementation capacity.

(d) There is a case for strengthening recipient country capacity to ensure coordination between different sources of funding and support, but the current dynamic of competition for resources between international climate and/or technology funds can impede such operational collaborations.

15. She also provided initial thoughts on synergies between the Technology Mechanism and the Financial Mechanism. She noted that the Technology Mechanism could provide inputs into the work undertaken by the Financial Mechanism, including by:

- (a) Providing information on key elements to stimulate RD&D investment to encourage effective support by the GCF (e.g. encouraging entrepreneurship through the GCF-PSF).
 - (b) Providing advice on the specific technology needs of developing countries, which could assist the Financial Mechanism in prioritizing investments in relevant projects.
 - (c) Providing advice on the enabling environments identified, which could support the Financial Mechanism in prioritizing system-wide capacity building initiatives for effective technology transfer.
 - (d) Providing advice on technology risks across the different bodies of the Financial Mechanism, including financial intermediaries and programmes/project designers.
 - (e) Support the development of programmes/project pipelines in-country.
16. In her concluding remarks she noted that:
- (a) Financing climate technology will require the combination of Long, Loud and Legal policy incentives, market facilitation and public finance.
 - (b) Relatively small amounts of public finance compared to the scale of investment, hence the need to use it smartly through instruments for sharing risks between public-private sectors.
 - (c) Identify and address real and perceived risks within the specific country context and tailored financing instruments (avoid potential crowding out).
 - (d) System wide capacity building and support for national champions is important for effective climate technology financing and technology transfer.
 - (e) Facilitate market development through providing information, data and business support for (potentially) new entrants and business models.
 - (f) Wide and early stakeholder engagement helps reduce risks and barriers to investment in relatively newer technology.
 - (g) Important to ensure integrated approach between technology and climate finance related plans and programmes.
 - (h) Differing criteria and evaluation of international climate finance and technology support mechanisms can lead to fragmentation of international ecosystem, which can increase burdens on limited developing country institutional capacity, lead to inefficient use of public resources and reduce transparency and predictability for investors – undermine growth of new climate technology markets.
 - (i) Important to enhance coherency between international mechanisms.
 - (j) Equally important that countries have capacity and support to integrate TNAs with other relevant national and sectoral plans and programmes.

17. In the ensuing discussion participants considered the financing needs for adaptation, role of the Technology Mechanism in providing advice on technology risks to the different bodies of the Financial Mechanism, importance of stakeholder involvement and understanding the barriers/risks to climate technology finance, financial/economic barriers as identified in the TNA syntheses report and the perception that finance is a barrier for climate technology investments.

C. Session II: Panel discussion on climate technology financing

18. The second session of the thematic dialogue consisted of a panel discussion on issues surrounding climate technology financing and linkages between the Technology Mechanism and the Financial Mechanism guided by guiding questions. The six panellists were:

- (a) Mr. Zhihong Zhang, Senior Program Coordinator, Clean Technology Fund and Program for Scaling up Renewable Energy in Low Income Countries, Climate Investment Funds (via webex).
- (b) Mr. Robert K. Dixon, Head, Climate and Chemicals, Global Environment Facility.

- (c) Mr. Casper van der Tak, Senior Climate Technology Policy Specialist, Asian Development Bank (via webex).
- (d) Mr. Marcelo Jordan, Secretariat of the Green Climate Fund (via webex).
- (e) Ms. Diann Black-Layne, Co-Chair, Standing Committee on Finance.
- (f) Mr. Fred Onduri, Chair, Advisory Board of the Climate Technology Center and Network.
- (g) Mr. Secou Sarr, Director, Environment and Development Action in the Third World, Senegal.

1. What type of challenges do financial institutions face with regard to financing climate technologies in Developing Countries and could you share some success stories with us in overcoming these challenges?

19. Mr. Dixon elaborated on the experiences and lessons learned from the activities supported by the GEF through the Trust Fund, the Least Developed Countries Fund and the Special Climate Change Fund. He noted that a recent evaluation of the impact of GEF activities revealed that comprehensive approaches are needed to address market barriers, product quality and more and better suppliers, more demand and cost reduction and specially targeted to support policy frameworks.

20. Mr. van der Tak shared experiences of ADB in supporting the pilot Asia-Pacific Climate Technology Finance Centre, which works on public sector interventions (planning and development of pipelines of climate technology investments, ADB pipelines) and private sector interventions (matching technology suppliers and demand, working with venture capital and private equity firms to attract climate technology investments). He highlighted the importance of early engagement of financial experts in the project development stage to structure the financing to make sure that additional investment costs are covered. In addition, he stressed the need to focus on the soft aspects of climate technologies (e.g. how to use the technologies most effectively? What type of models to use? How to organise the use of technologies? How to improve the actual deployment of technologies already identified?).

21. Ms. Black highlighted some of the findings of the biennial assessment and overview of climate finance flows report undertaken by the Standing Committee on Finance. She noted that the assessment revealed that some of the barriers in getting access to grant financing are related to the project cycle. In addition, the assessment found that the size of subsidies for fossil fuels is high compared to the subsidies for renewables. She referred to the Clean Development Mechanism as an example of successfully overcoming some of the barriers in an efficient manner. She indicated that the CDM mobilized more than USD 17 billion worth of investments from 2004-2013, without major changes in enabling environments.

22. Mr. Onduri focussed on the challenges of climate technology financing from the supply and demand side. From the demand side he highlighted the following challenges of climate technology financing: limited awareness and understanding due to lack of/or limited information and exposure; limited capacity to understand and appreciate some concepts such as co-financing and co-benefits, which affect access to finances and limited ability to quantify and monetize needs, especially from developing countries.

23. From the supply side he highlighted the following challenges: limited will and commitment to provide finance for climate technology; distortions and misinterpretation and diversion of the principles and provisions of the Convention and the Kyoto Protocol; persistent and continuous introduction of new phenomena and terminologies; global financial and economic crisis; establishment and operationalization of various fragmented finance baskets; use of principles of voluntary nature rather than mandatory contributions and preference by some countries for bilateral funding.

24. In overcoming these challenges he highlighted: generate political will, commitment and determination; acceptable and clear principles and guidelines; consolidated financial baskets with a specific technology window; agreed compliance and enforcement mechanism; capacity building and awareness efforts in developing countries and simplify the access to financing.

25. He noted that the Technology Mechanism could support countries in attracting funding for climate technologies. In addition, he highlighted other opportunities for climate technology financing, including the private sector, GEF, regional development banks, GCF and bilateral donors.

2. What are the key elements a climate technology proposal should have to be supported by the financial mechanism and other funding sources?

26. Mr. Dixon noted that the demonstrated capacity to deliver impact, the projects sustainability and ability to be replicated and scaled-up to have global impacts were among the key elements of climate technology proposals to be supported by the GEF.

27. Mr. van der Tak highlighted the importance of creating an appropriate enabling environment by addressing the key barriers in getting investments in climate technologies on the ground, by focussing on those climate technologies that have bigger replication potential. He noted that demonstrating successful cases by showing that climate technologies are viable both in environmental and economic terms, by showing how to best use these technologies and by indicating what type of policy support would be needed, are important elements for creating opportunities for replication and scaling up of climate technologies.

3. What are the challenges faced by project developers in Developing Countries in getting access to climate technology financing and how could these be overcome?

28. Mr. Dixon noted that building confidence, capacity, knowledge and enabling activities are important to lay the foundation for technology transfer among multiple stakeholders and to get the incentives, policies and regulatory framework right.

29. Mr. Secou Sarr focussed on the demand side of technology deployment. He noted that one of the barriers is the disparity between the high cost of climate technology and the level of income of vulnerable communities. He highlighted the role micro-finance could play in overcoming this barrier.

30. Mr. Onduri elaborated on ways and means to enhance the implementation of TNAs, including through:

- (a) Translating TNA outcomes into requests for implementation through the CTCN;
- (b) Sharing TNA outcomes with potential funders, such as the developed country Parties and financial institutions;
- (c) Encouraging bilateral communication among Parties on funding the implementation of TNA outcomes,
- (d) Replicating success stories.

4. What role could the TEC and the CTCN play in overcoming the barriers to getting access to climate technology financing in Developing Countries?

31. Regarding the participation of financing institutions in the CTCN, Mr. Dixon noted that modalities could be developed to enable financing institutions, such as development banks, to respond to requests sent to CTCN by National Designated Entities. In addition, the CTCN could include in its workplan activities aimed at helping countries identify relevant financial institutions for the climate technology activities they have identified, support the application to access financial support from these institutions and to share the results of CTCN request responses with financing institutions.

32. Mr. Onduri highlighted some good practises in providing technical assistance to developing countries based upon the experiences with the CTCN, including:

- (a) Establishment of the NDE network provides a good link between providers and users of climate technology;
- (b) Direct interaction between CTCN and technology users and providers makes it easier to address key issues;
- (c) Direct link between CTCN and private sector financial institutions and Parties helps in mobilizing more resources;
- (d) Country ownership of technology requests.

33. Mr. Sarr noted that the TEC and the CTCN could play an important role by acting as an incubator mechanism for investment and projects from LDCs to assist countries in developing bankable projects and act as an interface between project developers and financial institutions.

5. How the Technology Mechanism and the Financial Mechanism could work together in a coherent and complementary manner in supporting action on mitigation and adaptation on the ground?

34. Mr. Jordan elaborated on the work undertaken by the GCF which focusses on finalising the key elements of the institutional governance and operational guidelines of the Fund, including the results management framework, performance measurements framework and investment framework. These areas of work could benefit from inputs from the TEC in the short term, as these areas will be considered at the 8th meeting of the Board (October 2014). Insights into the technology needs of recipient countries could also be relevant for the readiness work programme to address the needs of recipient countries or national implementing entities. He further noted that the issue of relationship with relevant UNFCCC thematic bodies, such as the Adaptation Committee and the TEC, will be on the agenda for the 8th meeting of the Board.

35. Mr. Dixon, informed that the GEF CEO recently approved a project to provide financial support for the CTCN, which will act a pilot to highlight possible options for future CTCN related outputs to be further developed as GEF-6 projects using GEF country allocations.

36. Mr. Zhang highlighted the importance of linking the Technology Mechanism to finance and the Financial Mechanism in order to be effective. He also noted the importance of communication between the Technology Mechanism and the Financial Mechanism at the international level to enhance coherence and synergy. At the country level, interaction between technology entities and financing entities also need to be strengthened to avoid fragmentation. He also elaborated on the TNA process and the importance of integrating finance into the TNA process to enhance the implementation of the results of TNAs, including through closer collaboration with multilateral development banks.

37. Ms. Black-Layne highlighted the importance for the TEC and the CTCN to interact with the operating entities of the Financial Mechanism, the CDM and the Adaptation Fund. She noted that the TEC and the CTCN could provide inputs into the draft guidance for the operating entities of the Financial Mechanism through the SCF.

38. Mr. Sarr proposed to institutionalize the thematic dialogue by replicating it at regional and national level to support countries in strengthening the platform for the CTCN.

D. Session III: General discussion and wrap up

39. The third session of the thematic dialogue consisted of a general discussion involving panellists, TEC members and observers followed by a wrap-up by the Chair.

40. Participants discussed the risk management practises of financial institutions for new and innovative technologies. Panellists noted that financial institutions use multiple tools to manage project risks, including in-depth project review processes to deal with financial risk, and environmental safeguards and risk assessment on a project-by-project basis to manage environmental risks.

41. Participants elaborated on the challenges of getting access to finance for small-scale distributed energy projects in developing countries. Some highlighted the challenges faced by these type of projects in terms of the projects sustainability and the impact at scale and the importance of the policy and regulatory framework and the replication potential to overcome these challenges. Others highlighted the role micro-finance could play in facilitating access for small-scale community projects.

42. Participants elaborated on the evolution of the German renewable energy market and the role private sector incentives, feed-in tariffs and overcoming legal and regulatory issues played in developing this market.

43. In wrapping up the thematic dialogue, the chair noted that the thematic dialogue contributed to enhancing understanding on the linkages between the Technology Mechanism and the Financial Mechanism. He highlighted that the dialogue generated concrete ideas for areas for collaboration between the bodies of the Technology Mechanism, the operating entities of the Financial Mechanism and the SCF.