Co-Chairs' Summary of the Geneva Dialogue on Climate Finance

Following an invitation by Switzerland and Mexico, high-ranking representatives from 46 countries and the European Union, the Chair of *Ad Hoc* Working Group Long-term Cooperative Action under the United Nations Framework Convention on Climate Change (UNFCCC) and the UNFCCC Executive Secretary met in Geneva, Switzerland from 2 to 3 September 2010. Following up on the Petersberg Climate Dialogue, the meeting focused on issues around financing climate action and took place in an informal setting with the objective of generating dialogue to facilitate agreement at the UN Climate Change Conference in Cancún, which will be held in Mexico from 29 November to 10 December 2010. Ministers and other high level Party representatives had an open and fruitful exchange in Geneva. The Co-Chairs have laid out a summary of the main messages below. These have been drafted in a non-exhaustive fashion, intended to facilitate continuing constructive negotiations towards Tianjin, Cancun and beyond. As the Co-Chairs noted, we are in an 'evolutionary' stage of the negotiations, working towards constructive decisions at Cancun that will demonstrate progress towards a comprehensive agreement.

New climate fund

There was a broad recognition on the need to establish a new climate fund, which would be part of the UNFCCC's financial mechanism and be given guidance by the Conference of the Parties (COP). That said, specific issues under discussion regarding the new climate fund were numerous, including whether it would necessitate the formation of a new body/committee to oversee its activities; the scope of its mandate and whether membership should be expanded to non-Party representatives, such as inter-alia, experts from the private sector and public lending agencies; the fund's complementary role and its relationship with existing institutions; its accountability to the COP; access to the fund and possible prioritization of vulnerable countries; the role of internationally agreed fiduciary standards; and the creation of specific funding windows (e.g. for mitigation and adaptation). There was a general recognition, that the fund should be viewed in the wider context of the negotiations and not addressed in isolation from the overall package that would be addressed in Cancún.

Many participants indicated that the new climate fund should be developed to address perceived deficiencies in the existing financial architecture, including limited accessibility, ineffective governance, inefficient information flows as well as unclear rules and regimes on measuring, reporting and verifying (MRV) financing activities. Participants also addressed procedural steps to establish the new fund, such as a COP decision in Cancún and agreement on the subsequent steps. The importance of Cancun as a forum on building confidence was emphasized, indicating support for decisions that would focus on being at a sufficient level of simplicity and acceptability with further elaboration on more detailed issues following Cancun.

Role of the private sector

Participants also exchanged views on the scope and profile of the private sector in climate financing. There was broad recognition that while the private sector's engagement is important, its role should be complementary. It should not represent a substitute for public financing, while recognizing that it has the ability to mobilize significant resources and help in the design of financial risk management tools. Areas requiring further clarification included how private sector activities, in collaboration with public policy signals, can best work to provide transparency, longevity, certainty and availability as relevant aspects on which to focus.

The role of public policy signals working to leverage private financing was emphasized. Providing strong public investments along with a robust international framework, including ambitious mitigation commitments and actions were elements thought to be critical in sending the right signal to the private sector to make sustainable investments. The role of low-carbon development strategies and national policies in providing incentives for long-term investment was stressed, highlighted by the fact that most clean technologies are the purview of the private sector side. It is not so much an issue of the public or the private sector playing a role in financing but the scope of how to best establish a link between public and private sectors that is both functional and equitable.

In that regard, many participants recognized the need to promote public-private sector partnerships and to continue the dialogue for both sides to better understand each others' 'modus operandi'. Barriers to private investment were also discussed: some stressed problems experienced by many developing countries in attracting financing from the private sector and emphasized the need to ensure that funds are accessible to all. Many participants emphasized the role of enabling investment environments and the need for capacity building to enable developing countries to effectively deploy funds and investments in their transition to low carbon and resilient economies. Several speakers highlighted the profit-seeking nature of the private sector, indicating, for example, that financing adaptation is mainly a publicly funded activity, while others noted that a role should nevertheless be explored for such activities, citing examples on public private cooperation in large infrastructure investments. Finally, it was noted that the power of the private sector in responding to consumer behavior should not be underestimated, and that public policy can play a critical role in influencing consumer behaviour.

Views on the carbon market were also exchanged. Some delegates were of the view that the carbon market, if properly designed, could become one of the most effective tools in financing climate change activities, while others questioned its current record in effectively reducing greenhouse gas emissions. Some identified different areas, such as energy efficiency and land transport, as areas where the market does not provide efficient solutions and where different sorts of public policy signals were needed. Many highlighted the need for new mechanisms, such as crediting for nationally appropriate mitigation actions (NAMAs) to stimulate significant new and additional investments. Others, however, indicated that they did not support the establishment of new market mechanisms.

Many stressed the link between the ambition of Annex I countries' mitigation commitments and the carbon market and the need for more countries to step into the market. Some delegates proposed that the extent to which a country's financing support came from public funds could also be used as an eligibility criterion for participation in the market mechanisms.

Finally, and perhaps most significantly, there was a general recognition that we are at the beginning of a significant and global green technology race, notwithstanding the recent shocks to the global market place. Stimulus packages from the vast majority of major economies, for example, focused on investing in sustainable energy, environmental and land use activities. Clear policy signals, including a carbon price, were mentioned as critical elements in maintaining the impetus of the 'green race'.

Finance architecture and oversight

During discussions focusing on finance architecture and oversight of climate financing, there was general recognition and support of the basic UNFCCC principles, including that funding must be new and additional as well as transparent. Issues under discussion included the role and scope of the private sector as a contributor to the new fund.

In introducing the session, a proposal was made to establish a standing committee to perform, *inter alia*, the following functions:

- designing a blue print for operationalization of the new climate fund;
- elaborating on the fund's relationships with other institutions, inside and outside the UNFCCC;
- providing guidance to operational entities;
- developing and implementing guidelines on measuring, reporting and verification (MRV) of finance; and
- assessing adequacy of financing.

While there was considerable interest expressed in further exploring this proposal, some were more cautious about the need to create new institutions and suggested using an existing body, such as the Subsidiary Body for Implementation, might well suffice. Another proposal argued for the establishment of a 'platform' that would account for the activities of all relevant existing financial and implementation bodies addressing climate change, thereby ensuring that unnecessary duplication was avoided and effective financial and programmatic 'matching' maximized, while minimizing the costs associated with establishing new institutions. Some discussion centred on whether oversight responsibilities should go beyond government delegates to include business/finance/development experts. Many participants also highlighted the importance of guidelines for Monitoring, Reporting and Verification (MRV) and suggested that agreement on MRV – both with respect to meeting financing and mitigation commitments/actions should be a key deliverable in Cancún.

Presentations were also made on innovative financing mechanisms, including a compensation initiative for avoided emissions associated with not extracting oil from a biodiversity rich area. Discussions around the proposal revealed that while participants may not agree on all the sourcing options for financing, all were willing to discuss creative options for financing activities that would effectively address climate change, particularly if they would provide substantial co-benefits such as also helping to enhance/protect bio-diverse areas.

Sources of finance

On new sources of financing, there was general agreement on the core role of the public sector, particularly in the start up phase, but also in defining the overall architecture of the financing regime over the long term. In the discussions around fast-start financing one participant provided information on a new website (www.fastrack.org), which aims to enhance transparency by providing an overview of contributors and recipients of fast-start financing, thereby demonstrating intent to actively follow up on the commitments agreed to in the Copenhagen Accord.

Participants were provided a brief summary of the work by the UN Secretary-General's High-level Advisory Group on Climate Change Financing (AGF). It was highlighted that the Group plays an advisory role and explained that it would aim to provide a shared analytical perspective on what would be entailed with the sourcing options concerned. The exercise was framed into four broad source categories: grants, multilateral development banks, carbon market and private capital. The criteria used to evaluate specific measures included scale of revenue, potential, efficiency, incidence, practicality, reliability and political acceptability. It was explained that mobilizing US$ 100 billion per year will be challenging but feasible and that a combination of sources is likely to be needed. Participants were also told that it will be for the governments to decide how they wish to act based on the AGF's report, which is scheduled to be submitted to the UN Secretary-General at the end of October. Many participants emphasized the importance of the AGF's report, while some highlighted that the process is taking place outside the UNFCCC.

Follow up presentations and interventions argued that the private sector can be an effective vehicle in raising significant funds but that this calls for a strong commitment out of the public policy sphere. One presentation highlighted that the efforts required to finance a green energy revolution are of a scale akin to the Marshall Plan. It was pointed out that effective private sector participation in a venture of this scale would require a strong and clear global carbon price signal, via, inter alia, implementation of strong emission reduction targets by Annex I countries, meaningful mitigation actions by non-Annex I countries and effective investment environments in all countries that would further enhance private sector interest. Above all, the public policy sector should seek to provide an investment arena for the private sector that would work to minimize investment risks. It was suggested that pilot projects be launched to explore and demonstrate how collaboration between the public and private sectors might actually be able to work. While the enormous scale and complexity of the task were highlighted, it was also recognized that without such an effort, all attempts to effectively address climate change would be significantly less effective.

While it was generally recognized that effective participation of the private sector would be a critical component in addressing climate change, it was noted that there needed to be considerably more elaboration on the details of how such financing would operate as part of the Climate Fund. For example, while many emphasized the role of public finance in leveraging funding from the private sector, there were few details to follow: how, in fact would such leveraging occur, and how to account for private sector participation as part of the MRV regime? Other participants expressed concern that parties were forgetting their commitments under the UNFCCC, namely that Annex II parties have the full responsibility to finance developing country efforts to address climate change. They also stressed the need to know, at the very least, how much Annex II parties will be willing to contribute to the long-term financing from their public resources before discussing the role, scale and profile of private sector engagement. Transparency by Annex II countries in terms of both, emission reductions and financial pledges were emphasized as a bottom line, together with predictable funding on adaptation and developing the financial architecture of the UNFCCC.

The way forward

The meeting was constructive both in tone and substance and demonstrated that informal settings are useful for an open and constructive exchange. While it was emphasized that the outcome in Cancún will be a package and that finance discussions should be seen in that overall context, broad agreement emerged during the Geneva Dialogue on the need to establish a new climate fund, define its principles and explore whether defining funding windows and its relationship to existing institutions, inter alia, could be concluded in time for Cancun.

Participants also felt that it is important to capture the points of convergence and proposals made during the discussions, and feed the constructive spirit that characterized the Geneva Dialogue back into the formal negotiations under the UNFCCC. To achieve a successful multilateral outcome in Cancún, it will be important to look for clear solutions in areas where parties are fairly confident that progress can be made. In other words, mentioned in the introductory section, the negotiations are in an ‘evolutionary phase’, with the expectation that a level of decisions made at Cancun that would serve as a strong basis for an eventual comprehensive agreement.