The Geneva Dialogue on Climate Finance took place in Geneva, Switzerland, from 2 to 3 September 2010. At the invitation of Switzerland and Mexico, a group of ministers and government representatives from 46 countries and the European Union, the Chair of the Ad Hoc Working Group on Long-term Cooperative Action under the United Nations Framework Convention on Climate Change (AWG-LCA) and the Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC) met in an informal setting to discuss current themes related to finance in the ongoing UN climate negotiations. The issues discussed included finance architecture, the new climate fund, private sector’s role and sources of long-term finance.

A BRIEF HISTORY OF THE UNFCCC CLIMATE NEGOTIATIONS

The international political response to climate change began with the adoption of the UNFCCC in 1992, which sets out a framework for action aimed at stabilizing atmospheric concentrations of greenhouse gases to avoid “dangerous anthropogenic interference” with the climate system. The UNFCCC entered into force on 21 March 1994 and now has 194 parties.

In December 1997, delegates to the third Conference of the Parties (COP 3) in Kyoto, Japan, agreed to a Protocol to the UNFCCC that commits industrialized countries and countries in transition to a market economy to achieve emission reduction targets. These countries, known as Annex I parties under the UNFCCC, agreed to reduce their overall emissions of six greenhouse gases by an average of 5.2% below 1990 levels between 2008-2012 (the first commitment period), with specific targets varying country by country.

The Kyoto Protocol entered into force on 16 February 2005 and now has 190 parties.

In 2005, the first Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (COP/MOP 1), held in Montréal, Canada, established the AWG-KP on the basis of Protocol Article 3.9, which mandates consideration of Annex I parties’ further commitments at least seven years before the end of the first commitment period. In addition, COP 11 agreed in Montréal to consider long-term cooperation under the Convention through a series of four workshops known as “the Convention Dialogue,” which continued until COP 13.

BALI ROADMAP: COP 13 and COP/MOP 3 took place in December 2007 in Bali, Indonesia. Negotiations resulted in the adoption of the Bali Action Plan (decision 1/CP.13), which established the AWG-LCA with a mandate to focus on key elements of long-term cooperation identified during the Convention Dialogue: mitigation, adaptation, finance and technology transfer. The Bali conference also resulted in agreement on a two-year process, the Bali Roadmap, which established two negotiating “tracks” under the Convention and the Protocol, and set a deadline for concluding the negotiations at COP 15 and COP/MOP 5 in Copenhagen in December 2009.

FROM BALI TO COPENHAGEN: In 2008, the two AWGs held four parallel negotiating sessions: April in Bangkok, Thailand; June in Bonn, Germany; August in Accra, Ghana; and December in Poznań, Poland. In 2009, the AWGs met in April, June and August in Bonn, Germany; October in Bangkok, Thailand; November in Barcelona, Spain; and December in Copenhagen, Denmark.

AWG-LCA: For the AWG-LCA, the first part of 2009 focused on developing draft negotiating text. This process resulted in a text that was nearly 200 pages long and covered all the main elements of the Bali Action Plan (BAP). Because of the length of the text, delegates began producing non-papers, reading guides, tables and matrices aimed at making the negotiating text more manageable. The outcome was a series of non-papers, forwarded to Copenhagen as an annex to the meeting report. Heading into Copenhagen, many felt the AWG-LCA had made satisfactory progress on adaptation, technology and capacity building, but that “deep divides” remained on mitigation and certain aspects of finance.

AWG-KP: For the AWG-KP, the focus in 2009 was on the “numbers,” namely Annex I parties’ aggregate and individual emission reductions beyond 2012, when the Protocol’s first commitment period expires. Parties also discussed other issues in the AWG-KP’s work programme, including the flexibility mechanisms, land use, land-use change and forestry (LULUCF), and potential consequences of response measures to climate change. The discussions were based on documentation divided into proposals for amendments to the Protocol under Article 3.9 (Annex I parties’ further commitments) and text on other issues, such as LULUCF and the flexibility mechanisms.

A BRIEF HISTORY OF THE UNFCCC CLIMATE NEGOTIATIONS
Most felt that insufficient progress had been made on Annex I parties’ aggregate and individual targets, and differences also surfaced between developed and developing countries concerning whether the outcome from Copenhagen should be an amendment to the Kyoto Protocol or a single new agreement under both AWGs.

**COPENHAGEN CLIMATE CHANGE CONFERENCE:**

The UN Climate Change Conference in Copenhagen, Denmark, took place from 7-19 December 2009, and included COP 15 and COP/MOP 5, the 31st sessions of the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA), as well as AWG-KP 10 and AWG-LCA 8. Over 110 world leaders attended the joint COP and COP/MOP high-level segment from 16-18 December.

The event was marked by disputes over transparency and process. In particular, differences emerged on whether work should be conducted in a small “Friends of the Chair” format or open contact groups. A proposal by the Danish COP Presidency to table two texts reflecting the work done by the AWGs also caused divisions. Many parties rejected the Danish text, urging that only texts developed in the AWGs by parties should be used. During the high-level segment, informal negotiations took place in a group consisting of major economies and representatives of regional and other negotiating groups. Late on Friday evening on 18 December, these talks finally resulted in a political agreement: the “Copenhagen Accord.”

After the Accord had been agreed by this small group, delegates from all parties reconvened for the closing COP plenary. Over the next 13 hours, they discussed the transparency of the process and debated whether the COP should adopt the Copenhagen Accord. Many supported its adoption as a COP decision in order to operationalize it as a step towards securing a “better” future agreement. However, some developing countries opposed the Accord, which they felt had been reached through an “untransparent” and “undemocratic” process. Ultimately, parties agreed that the COP “takes note” of the Copenhagen Accord. Parties also established a process for indicating their support for the Accord and, by 2 September 2010, 138 countries had indicated their support. More than 80 countries have also provided information on their emission reduction targets and other mitigation actions, as agreed under the Accord.

On the last day of the Copenhagen Climate Change Conference, the COP and COP/MOP also agreed to extend the mandates of the AWG-LCA and AWG-KP, requesting them to present their respective outcomes to COP 16 and COP/MOP 6 in Cancún.

**BONN CLIMATE TALKS (APRIL AND JUNE 2010):**

Negotiations resumed in 2010 with AWG-LCA 9 and AWG-KP 11, which took place from 9-11 April. Their focus was on the organization and methods of work in 2010 to enable each AWG to fulfill its mandate and report its outcome in Cancún. In the AWG-LCA, delegates mandated the Chair to prepare text for the June session. The AWG-KP agreed to continue considering Annex I parties’ aggregate and individual emission reductions, as well as various other issues.

Discussions continued in Bonn from 31 May to 11 June. This event included AWG-LCA 10 and AWG-KP 12, as well as the 32nd sessions of the Subsidiary Bodies. The SBSTA meeting was noteworthy for a dispute over a proposal for a technical paper on options for limiting global average temperature increase to 1.5°C and 2°C from pre-industrial levels. The proposal from the Alliance of Small Island States (AOSIS) garnered widespread support, but was opposed by Saudi Arabia, Oman, Kuwait and Qatar. As a result, the issue did not move forward.

AWG-LCA 10 focused on the Chair’s new draft text. Late in the evening on 10 June, AWG-LCA Chair Margaret Mukahanana-Sangarwe (Zimbabwe) circulated the advance draft of a revised text, which she said could be considered at AWG-LCA 11. Some developing countries felt that the advance draft was “unbalanced” and should not be used as the basis for negotiations in August unless their views were reflected more fully. A revised version of the text was circulated in July.

AWG-KP 12 focused on Annex I emission reductions and the underlying assumptions for using the flexibility mechanisms and LULUCF in the post-2012 period. They also addressed ways to avoid a gap between the first and subsequent commitment periods, and requested the Secretariat to prepare a paper on legal options.

**BONN CLIMATE TALKS (AUGUST 2010):** AWG-LCA 11 considered a text circulated by the Group’s Chair in July 2010 (FCCC/AWGLCA/2010/8). The text was intended to facilitate negotiations in preparation for an outcome at the sixteenth Conference of the Parties (COP 16) to the UNFCCC in Cancún, Mexico, in December 2010.

The AWG-KP focused on the scale of emission reductions from Annex I parties to the Protocol. It also considered legal issues, including a possible gap between the Protocol’s first commitment period (2008-2012) and subsequent commitment periods. In addition, delegates addressed LULUCF, the flexibility mechanisms and potential consequences of response measures of climate change. The AWG-KP closed with an agreement to forward a Chair’s proposal (FCCC/KP/ AWG/2010/CRP.2) for further discussion at its next session. The text contains various draft decisions for the sixth Meeting of the Parties to the Kyoto Protocol (COP/MOP 6), setting out many different options and proposals from parties. The AWG-LCA and AWG-KP texts that were developed in Bonn are expected to form the basis for negotiations in Tianjin, China, in October, where delegates will seek to narrow down options and produce outcomes to be considered in Cancún.

**REPORT OF THE MEETING**

During the opening session of the Geneva Dialogue on Climate Finance on Thursday afternoon, 2 September, the informal nature of the meeting was highlighted, together with its objective of facilitating the ongoing negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) and contributing towards a successful outcome at the UN Climate Change Conference in Cancún, which will be held in Mexico from 29 November to 10 December 2010. The opening addresses highlighted, *inter alia*, the critical importance of finance in the negotiations, the need to ensure the availability of financial resources for developing countries and the role of long-term finance in the fight against climate change.

After the opening session on Thursday, participants discussed finance architecture. This was followed by two breakout groups, focusing on the new climate fund and the role of the private sector, respectively. On Friday morning, 3 September, discussions continued on finance architecture with a focus on oversight. In the afternoon, a session on sources of long-term finance took place, followed by a wrap-up of the meeting.

This report provides a brief chronological summary of these discussions and follows the Chatham House rules. More information on the Dialogue, including background papers to guide the discussions and opening speeches are available online: http://www.bafu.admin.ch/dokumentation/fokus/10001/10710/index.html?lang=en
FINANCE ARCHITECTURE

Discussions on finance architecture first took place on Thursday afternoon. Participants heard brief presentations outlining the current state-of-affairs in the UNFCCC negotiations, developed and developing country perspectives, and private sector views on climate finance.

On the current state-of-affairs under the UNFCCC negotiations, it was emphasized that the next negotiating session in Tianjin needs to achieve significant progress, especially regarding the establishment of a proposed new fund and on how to improve coherence, coordination and transparency of climate financing. On long-term financing, active engagement and clarity on the role of the private sector were called for.

A developed country perspective on finance architecture was provided, which highlighted that long-term finance would come from many different sources and flow from private and public channels, some under the guidance of the COP. The need to build on existing mechanisms like national communications in order to bring information together to map the financial landscape was highlighted. Regarding short-term finance, a new website (www.faststartfinance.org) was launched and presented as an initiative aimed at enhancing transparency of fast-start financing by providing an overview of contributors and recipients.

Ministers were also provided with a developing country perspective, where financing was underscored as an "indispensable guarantee for combating climate change." The need for climate finance discussions to adhere to the basic framework of the UNFCCC, the Kyoto Protocol and the BAP mandate by respecting the principle of common but differentiated responsibilities and sustainable development was emphasized. Consideration of the special concerns and aspirations, particularly of small island developing states (SIDS), least developed countries (LDCs), and landlocked and African countries, was also stressed.

Another speaker focused on the views of the private sector, stressing that "dramatic measures" are needed to create a sustainable world for nine billion people in 2050, emphasizing the need for cooperation between governments and the private sector, and advocating for clear policy frameworks. The speaker commended the fact that many large economies have already recognized the need for a "green race" in order to transform the market and generate green solutions.

NEW CLIMATE FUND

On Thursday afternoon, a breakout group convened to address the new climate fund. Discussions were launched with a presentation of a proposed three-step process for establishing a new climate fund consisting of: a COP decision on establishment consistent with the Copenhagen Accord; subsequent consideration of key technical design details with the envisaged involvement of finance ministries; and, finally, a Memorandum of Understanding between the COP and the new fund board. Regarding the trustee, the World Bank was highlighted as the only institution with fiduciary standards, safeguards and experience to serve in this role.

During the discussions, ministers expressed general agreement on the establishment of a new fund with a board, trustee and secretariat to ensure timely, predictable and adequate financing on an unprecedented scale. It was noted by some, however, that the decision on a fund would be part of an overall package in Cancún and that the new fund should not be seen in isolation.

Procedural steps for operationalizing the new fund were also discussed, including a possible COP decision in Cancún and then subsequent steps to finalize the details of the fund. Participants also discussed who should design key technical components, and some parties proposed the involvement of finance ministries.

Many participants noted that the new fund should be complementary, add value and not replace or duplicate existing funds and institutions. It was pointed out that the new fund should be designed to address deficiencies in the prevailing financial architecture under the UNFCCC. It was also suggested that lessons should be drawn from experiences both within and outside the Convention, including the establishment of the Global Fund for HIV, Malaria and Tuberculosis, and the Multilateral Fund for the Implementation of the Montreal Protocol.

On governance, many ministers emphasized that the new fund should be under the Convention and accountable to the COP and that board membership should be balanced. The equal treatment of adaptation and mitigation was emphasized by some and the possibility of specific funding windows was also discussed. Direct access was mentioned by some as a prerequisite for facilitating easier access to funds. Many supported giving vulnerable countries preferential treatment with regard to funding. Some views suggested, however, that all developing countries should be treated equally. The need for the fund to meet international fiduciary standards was also discussed. A concern was raised regarding possible micro-management of the fund by the COP.

On sources, many highlighted the commitment of developed countries to provide new and additional funds, with some suggesting that it should comprise 1.5% of the Gross Domestic Product. Clarity was requested on how much developed countries would contribute from public funds and the role of private finance and innovative sources. Many looked forward to the report of the UN Secretary-General’s High-level Advisory Group on Climate Change Financing (AGF), while others pointed out that this is a process conducted outside the Convention.

Issues identified as requiring agreement were highlighted as: the fund’s accountability to the COP; appointment of the fund board; design of the fund; and a clear definition of the next steps following a decision to establish the fund.

ROLE OF THE PRIVATE SECTOR

On Thursday afternoon, a breakout group convened to address the role of the private sector and discuss ways in which the private sector can contribute to the climate change agenda. Participants addressed, inter alia:

• the role of the private sector;
• ways to incentivize private investment;
• barriers to private investment;
• cooperation between the private and public sectors; and
• the carbon market.

On the role of the private sector, many delegates highlighted the need to engage the private sector. There was general agreement that private sector engagement should be complementary to public finance, rather than an alternative or substitute for it. Many delegates emphasized that public finance should be the main source. Some stressed the private sector’s potential to mobilize significant new finance. Several indicated that the proper term in the context of the private sector is “investment,” while the term “finance” should be used in reference to public money from developed countries.

Concerning ways to incentivize private investment, many stressed the importance of sending clear policy signals and creating a strong and credible international framework that will support appropriate national policies. Some also stressed the need for ambitious mitigation commitments and emphasized the role of public finance in leveraging private sector investment. Others mentioned the role of low-carbon
development strategies in providing incentives for long-term investment. Some also noted the role and power of consumers in influencing private investment decisions.

Several participants highlighted the need to consider barriers to private investment. A number of participants drew attention to problems encountered by developing countries in trying to attract private investment. Some recalled experiences with the Clean Development Mechanism (CDM), indicating that CDM investment has concentrated on a limited number of countries. Some participants also raised concerns with the lack of predictability.

Many recognized the role of risk in determining private investment decisions and highlighted the need for enabling investment environments. Several participants identified the need to assist developing countries in generating such investment environments. Several speakers highlighted the profit-seeking nature of the private sector, indicating, for example, that financing adaptation is not attractive to the private sector. Other participants provided examples illustrating that the private sector could play a role in some aspects of adaptation finance. Some raised concerns over loan-based adaptation funding, saying this dilutes developed countries’ responsibility for climate change.

On cooperation between the private and public sectors, many participants stressed the importance of sending clear investment signals and creating a predictable international policy framework. Many called for enhanced dialogue and closer cooperation.

Participants also exchanged views on the carbon market. Some delegates stressed the carbon market as one of the most effective tools to mitigate climate change and generate financial resources for developing countries. Others questioned, however, whether the carbon market has been successful and whether it can generate the necessary resources for mitigation. Some identified energy efficiency and land transport as areas where the market does not provide efficient solutions and where public policy is needed.

Many highlighted the need for clear policy frameworks and new mechanisms, such as crediting for nationally appropriate mitigation actions (NAMAs) to stimulate the carbon market. However, some participants opposed the creation of new market mechanisms. Many stressed the link between the ambitiousness of Annex I countries’ mitigation commitments and the carbon market. Some delegates proposed that a country’s contribution to a public fund could be an eligibility criterion for participating in market mechanisms.

**FINANCE ARCHITECTURE: OVERSIGHT**

On Friday afternoon, discussions continued on finance architecture with three presentations on: lessons learned and prospects for oversight on climate funding; a compensation initiative for avoided emissions in a biodiverse area; and the private sector perspective on the finance architecture.

Many participants welcomed the proposal for a standing committee that would exercise an oversight function on: providing support to the COP; providing a blueprint for operationalizing the new climate fund; maintaining an overview of the level of required financing; monitoring contributions and the different sources of funding; providing regular reports to the COP on the performance of all operating entities and the financial needs of and flows to developing countries; and developing and implementing guidelines on measuring, reporting and verifying (MRV) financing.

Many participants encouraged further elaboration of the proposal. Some others, however, warned against creating new bureaucratic structures. Some preferred focusing on functions before determining the form. It was also suggested that the Subsidiary Body for Implementation (SBI) could exercise an oversight function. Another proposal was made concerning a platform for international financial cooperation, which would register funding requests and assist financial institutions of developing countries.

A compensation initiative for the avoided emissions of oil kept underground in a biodiverse area was presented. It was noted that human, social and environmental considerations had resulted in a decision not to exploit oil in this particular park and trade credits on the voluntary carbon market.

Some participants expressed support for the compensation initiative for avoiding emissions on the supply side, indicating that such ideas are similar to reducing emissions from deforestation and forest degradation in developing countries (REDD), and highlighting the need for equal treatment of carbon capture and storage.

Participants also addressed other aspects of institutional arrangements. Some emphasized the need for a new fund in light of deficiencies in the existing financial mechanism, including: the lack of easy access; lack of MRV of support; insufficient information flow; and governance. On eligibility for funding, a proposal was made that funding for developing countries should be based on a principle, such as per capita greenhouse gas emissions. Inclusion and country ownership of the new climate fund facility was emphasized, with countries designing their own rules regarding eligibility for accessing funds.

On sources, many highlighted the role of public funding and predictability. Others emphasized the importance of multiple sources, noting that public funding can also be unpredictable given that it comes from sovereign states with national parliaments exercising budgetary oversight.

Many participants also stressed the importance of fast-start finance. Some raised concerns over the implementation of short-term pledges made in Copenhagen. Others stressed that these were being implemented. Some highlighted the need for reporting of fast-start and long-term finance, noting that well-functioning oversight is not possible otherwise. Some stressed the importance of transparency and data gathering, and suggested depoliticizing the process by involving international public and private institutions. Some also outlined ongoing efforts to enhance transparency, including through the new website www.faststartfinance.org.

Participants also addressed the private sector and the carbon market. While there was general agreement on the need for private sector involvement, some participants expressed concern over the carbon market, doubting its ability to achieve mitigation objectives, opposing shifting responsibility to developing countries and warning against creating a new financial bubble related to carbon.

There was also general support for closer cooperation with the private sector. Some participants identified the need to also strengthen social actors’ participation in the process. Several stressed that significant investments will take place in the next 20-30 years, mainly through the private sector. They highlighted the need to consider how these could be influenced, for instance, with public money.

On the way forward, some participants proposed that the co-chairs develop text illustrating areas of agreement on issues, such as basic principles, a new fund and its complementary role. Others, however, opposed the idea of a select group developing a document on behalf of all UNFCCC parties. Some reiterated that the exercise was informal and the intention was not to engage in formal negotiations. Several interventions stressed the need to capture the proposals made and bring them into the formal negotiating process. Identifying key issues where agreement in Cancún might be possible was proposed by some. The need for simple decisions in Cancún on financial architectural elements that can be improved on later was also highlighted. Some stressed the need to ensure
that discussions also continue multilaterally after Cancún. Some called for a successful outcome and warned that ineffectiveness of the UNFCCC process would lead to its irrelevance. It was also highlighted that finance is a pillar of an overall package.

**SOUCES OF LONG-TERM FINANCE**

On Friday afternoon, participants met in plenary to consider sources of long-term finance. They heard an update on the work by the AGF, which is scheduled to submit its report to the UN Secretary-General at the end of October. Participants also heard a presentation on private sector investment, stressing the need for urgent step change and for in-depth discussion between governments and the private sector. The Marshall Plan was also used as an example of a financing challenge with similarities to the climate challenge.

The third presentation addressed ways to scale up the carbon market’s contribution, highlighting the need to look beyond low-cost options and to create a new market mechanism for advanced developing countries that is more ambitious than the CDM. It was also noted that the size of the carbon market’s contribution cannot be fixed in advance but that a stable policy framework will induce financial flows in the long term.

**On the role of the markets**, a well-functioning market to support action, particularly on mitigation, was highlighted during the ensuing discussion. The need to set a price for carbon was emphasized, as well as expanding the carbon markets by moving from a project-based to a more sectoral approach. It was suggested that the certainty the carbon markets require is a political signal that the Kyoto Protocol would continue beyond 2012, since the Protocol is the foundation of the market mechanisms. It was noted that mitigation actions are often less conducive to public financing and that the carbon market was the most effective way to address this. It was also suggested that discussion on carbon markets should only take place under the Kyoto Protocol.

Markets were also highlighted by some as an inefficient way of distributing resources and a means of transferring responsibility for reducing emissions to developing countries.

**On sources**, several interventions noted that public financing would have to be supplemented by private sources. Clarity on Annex I contributions for long-term financing from public sources was also requested. The utility of bringing the competence and knowledge of the private sector and risk mitigation principles, funding windows and its relationship to existing institutions. The role of the private sector and risk mitigation instruments was also mentioned, together with the use of public money to leverage private investments. Access to resources by vulnerable developing countries and engagement of the private sector were also identified as areas where many participants held similar views. The need to carry on the constructive “spirit of Geneva” was also highlighted, together with the need for a successful multilateral outcome in Cancún.

Participants were also informed that they would be provided with a Co-Chairs’ summary of the discussions. The meeting was adjourned at 6pm.