Fast-Start Finance Dialogue
April 12, 2010 – Bonn, Germany

- Meeting Summary -

Hosts/Moderators: Alicia Montalvo (Spain), Hugo von Meijenfeldt (the Netherlands), Ned Helme (CCAP)

- **Executive Summary**

- **Reporting of plans** – Transparency/visibility of plans for the fast-start finance (FSF) phase will be key to building trust and making the phase a success (clarity in where funds will end up will lend to credibility). There was broad consensus that, while coordination of substance would not be likely during the FSF phase, donors should coordinate on reporting their financing plans.
- **Web-based clearinghouse** – A majority of participants were enthusiastic about a web-based clearinghouse that serves as a standardized approach for communicating donors' financing plans. This website would list uncommitted funding, as well as where and how each donor country's funds are being spent. The moderators called for countries to volunteer to help with this process directly to avoid leaving this to the UNFCCC.
- **Matching** – Including Project Idea Notes (PINs) by recipient countries in the web-based clearinghouse would allow for streamlined matching of projects/NAMAs and adaptation proposals with funding and obviate the need for full proposals initially. Recipients could then elaborate details and move forward on projects once donors show interest. The database for REDD funding and actions in the French/Norwegian partnership on forests could serve as a model.
- **Additionality narratives** – There was considerable debate over whether donors should have a common narrative on additionality criteria. The general sense was that this would not be helpful and that donors should simply report on funding plans and avoid the topic of additionality.
- **Embassy-based information sharing** – Participants suggested that donors could increase transparency and visibility by communicating FSF plans to developing countries through donors' embassies and by briefing potential recipient agencies and climate negotiators in developing-country capitals. This would help build faith in the FSF process in developing countries.
- **Other issues** that were discussed during the dialogue were: bilateral versus multilateral fund disbursement; absorptive capacity of developing countries and institutions; conditionality of funding; criteria for disbursement of mitigation funds; and aggregation/disaggregation of EU member countries' funding plans.

➢ Donor-Country Perspectives: Plans, Goals, and Challenges

The morning session of the Fast-Start Finance (FSF) Dialogue convened over 45 participants from the European Union and other donor countries, with the objective of fostering a candid discussion of **donors' plans** for the fast-start phase. Donors also brainstormed goals, priorities, and possible challenges that could arise during this phase. Countries shared planned funding amounts over the three-year fast-start period; whether funding would be through grants, concessional loans, etc.; the ratio of money to be directed toward mitigation versus adaptation activities; regional focuses (target countries, continents, least-developed countries, etc.); functional focuses (technology, REDD, etc.); and whether funds would be distributed through existing/new and bilateral/multilateral channels (including through which ministries). A confidential draft summary table of what delegates mentioned can be found at the end of this report.

With some exceptions, countries had quite developed plans for the FSF phase. Because a large percentage of funding will be going through bilateral channels, countries expressed an interest in **transparent/visible reporting** of funding plans. While coordination of substance seems unlikely during this phase, most participants agreed that a coordinated and transparent approach for communicating funding plans would be desirable. Participants stressed that the message donors convey is crucial in building trust and credibility with developing countries, which are experiencing "trust fatigue." This would foster success during the FSF phase and advance climate negotiations. One idea for increasing transparency and visibility would involve donors communicating FSF plans to developing countries through **donors' embassies** in those countries and briefing both likely recipient agencies and climate negotiators in developing-country capitals. This would help to avoid misunderstandings during the FSF phase.

Another tangible and feasible suggestion for transparent communication was to create a central **web-based clearinghouse** that lists donors' financing plans. This clearinghouse could be based on the French/Norwegian-led global partnership on forests, which serves as an interim platform for quickly scaling up REDD+ actions and mobilizing finance. Under this emerging partnership, a voluntary REDD+ database is being developed to communicate multilateral and bilateral funding and forest actions with the goal of improving transparency and coordination of REDD+ efforts. With the exception of one participant from the development community, participants were enthusiastic about getting this process underway with the help of countries that volunteer to take the lead, as France and Norway have for REDD.

There was also consensus that fast-start money must be **mobilized quickly** and not be delayed by efforts to coordinate policies between donors. Instead of "waiting for rules," it is better to get money disbursed to developing countries, which are increasingly skeptical that money will flow. Donors had varying definitions of **additionality** – ranging from going beyond 2009 funding to going above the 0.7% of GDP goal for development aid. Some donors expressed concerns about being "attacked" by recipient countries over not proving that FSF money is additional to previous funding. There was considerable debate over whether a **common narrative** on additionality would be useful, but the general sense was that this would not be a good idea and that criteria for additionality should not be imposed on donors during the FSF phase. Instead, many donors felt they should start disbursing money, clearly report what they are doing, and not address additionality. Most countries disagreed with the suggestion that the main **criterion** for mitigation funding should be the "biggest bang for the buck" in NAMAs, with funding flowing to the biggest emitters.

Participants discussed the concept of **conditionality** as a criterion in the disbursement of funds. Some parties have expressed that only those countries that associate with the Copenhagen Accord would be eligible for fast-start funds. Several participants felt that funding conditionality was not the best way to get parties on board and that funding should not be connected to the negotiations. Finally, participants discussed whether EU funding information should be aggregated for the 27 member countries or delivered in a disaggregated form to show what each European country is funding. Although **aggregated information** offers some benefits, the sense of the participant group was that the EU should strive for doing both, as it may be more helpful to recipient countries. One participant suggested that donors should make a collective decision about how much money should be for adaptation and how much for mitigation. However, others demurred, feeling that fast-start funds are already earmarked in many cases. Several countries suggested trying to coordinate the choice of criteria for selecting NAMAs for funding.

- **Recipient-Country Perspectives: Needs and Views**

The second session of the dialogue introduced the participation of several developing-country participants, who shared their perspectives on **recipient countries' needs** during the FSF phase (especially adaptation issues like food security, water security, sea walls, etc.). Two recipient countries gave impassioned explanations of their overwhelming vulnerability to the effects of climate change and negligible contribution to its causes. Recipient countries also highlighted several **concerns** for the FSF phase and offered suggestions for overcoming those concerns.

As a first concern, countries highlighted current difficulties in **accessing climate funds**, citing cumbersome requirements and lack of developing-country capacity. They called for a re-examination of the impediments to funding during the FSF phase, increased South-South conversations, and development of low-carbon/high-growth plans, as well as capacity building and pilot projects that combine mitigation and adaptation benefits. Participants stressed the need for a more standardized assessment of NAMAs that could be used by developing countries when developing NAMAs, as well as a streamlined mechanism for matching projects with available funding. Discussion turned again to the concept of a **web-based clearinghouse** for FSF plans. It was suggested that in addition to listing financing in this clearinghouse, developing countries could submit for the record short Project Idea Notes, or PINs (as in the CDM), with descriptions of potential NAMAs and adaptation activities (based on the REDD database in the French/Norwegian partnership on forests). This would facilitate streamlined **matching** of actions with funding while avoiding the need for full project proposals initially. Once donors expressed interest in funding projects based off these PINs, details would be elaborated bilaterally.

Second, one recipient country was concerned that FSF money would not be **additional** and that official development assistance (ODA) could even be diverted away from some countries. One participant pushed for a bigger say in how money is spent and highlighted the benefits of **direct access** to funds. One developing-country representative asserted that the perception that funds are not flowing would be politically disastrous and also called for linkages between the FSF phase and the Copenhagen Green Climate Fund. One donor-country participant suggested that a hybrid bilateral/multilateral approach to fund disbursement would also be helpful and that delegates must decide on a process that is acceptable to all parties.

Third, participants were concerned about a structure that requires **small-country competition** with larger, more capable developing countries. Participants suggested that small, vulnerable countries could publish a list of projects (especially adaptation) that must be done immediately, in order to match these with funding through bilateral arrangements. They agreed that a web-based clearinghouse offered an opportunity for doing so. One donor country also suggested donors focus on recipients' priorities instead of programming all money beforehand. A final concern of recipient countries was that of "**paycheck diplomacy**," in which countries would receive money conditional upon association with the Copenhagen Accord. This was considered unproductive.

Participants expressed that one **measure of success** will be donors' ability to standardize their approaches (baselines, assessments, comparing ton to ton, etc.) using existing and proven tools and by going through existing funding channels. One participant also discussed tools for developing NAMAs, including standard methods for projecting emissions, cost analyses by sector, and development of low-carbon growth plans. The advantages and disadvantages of bilateral and multilateral disbursement in terms of speed of action were also discussed. In this session, participants stressed the need for pilot projects that can be moved forward quickly. The speed with which funds are disbursed and used will be a major factor in the success of the FSF phase. The goal should be to identify win-win opportunities that consider both adaptation and mitigation benefits. Donor participants suggested that **transparent developing-country priorities** would help donors make better funding allocation decisions.

Participants highlighted that the FSF phase is an important step toward an ambitious level of financing, but it must be scaled up to **prepare for the long term**. They agreed the FSF phase should be a testing ground where countries can **learn by doing**. Many participants felt that, in the initial phase, countries should rely on existing institutions, work to make the structure less fragmented, and begin to dispel developing-country fears. One participant asserted that donors should get the resources "out there" first, and then address what is wrong in the long term ("perfect is the enemy of good"). During the FSF phase, international organizations must see climate change (particularly adaptation) as a cross-cutting issue and focus on climate change and development equally in developing countries. Establishing trust through a successful FSF phase will be crucial to an effective transition to the post-2012 architecture.

- **International Organizations' Perspectives: Absorption Capacity and Plans**

The next session called on the participation of representatives from the World Bank, UNDP, and UNEP to share their plans for the FSF phase, discuss **absorption capacity**, and highlight options for **private-sector leveraging** of funds. The World Bank declared they are in high gear on implementation of the Climate Investment Funds (CIFs) and exploring how they can be more innovative in raising private capital. Key issues for the Bank are forestry, adaptation, building climate resilience into the development context, and strengthening **bilateral/multilateral coordination**. The UN agencies acknowledged that a great deal of effort is going into capacity building, national communications, national mechanisms for coordination/transparency, issues of equity, carbon-resilient development plans, REDD readiness, dealing with NAPA implementation, and overcoming the challenge of private investments. They also raised the concept of a multi-donor trust fund that could be operationalized quickly and used more on the basis of direct access.

Participants highlighted that the FSF phase is an opportunity to change the development paradigm toward more **program-based approaches** and expressed reluctance to revert to the project path (referring to matching funding with individual projects). However, one admitted that matching has resonance and is frequently discussed. Absorptive capacity of institutions and developing countries, as well as ability to disburse funds, will be key challenges of international organizations more than a lack of funds. Finally, participants felt investments should flow through multiple channels in different institutions based on demand, institutional ability, and reducing transaction costs.

* Dialogue participants discussed getting together again during the June UNFCCC session to follow up on the FSF topic.

- **Draft Summary Table of Funding Plans (<u>CONFIDENTIAL, NOT DEFINITIVE</u>)**

Donor Country	**FSF Amount**	**Other Details**
All of EU	€7.2bn over 3 yrs	€2.4bn/yr
Australia	TBD	Committed to "fair share"; 20% REDD+; $120mn over 3 yrs; focus on AOSIS/most vulnerable; 50/50 mitig'n/adapt'n
Belgium	€150mn over 3 yrs	Disbursement TBD; LDC focus; adapt'n/REDD+ focus; mix of multi-/bilateral; some equity participation
Czech Republic	€12mn over 3 yrs	70% adapt'n, rest REDD+/capacity building; certain countries
Denmark	1.2bn Kroner	Additional to ODA; existing multilateral channels, bilateral pilots; adapt'n, technology, REDD+
Estonia	€3mn	Details TBD
Finland	€110mn over 3 yrs	40% multilateral, 60% bilateral (60% of which to Africa)
France	€420mn over 3 yrs	Focus on REDD+; mulit-/bilateral; grants, concessional loans
Germany	€420mn/yr	Existing channels; 20-30% for REDD+; 40% mitig'n, 30% adapt'n; auction revenues; additional to 2009 funding
Ireland	€100mn over 3 yrs	Mitig'n and adapt'n; focus on Africa most likely

Italy	600mn over 3 yrs	Details TBD
Japan	15bn over 3 yrs	7.2bn ODA and GEF; 7.8bn from unofficial/private funds; public and private sources
Malta	€800k	Focus on adaptation capacity building, small islands
Netherlands	€310mn	Beyond 0.8% ODA; €95mn for adapt'n, €195mn for REDD+; mostly bilateral channels
New Zealand	TBD	Committed to "fair share"; 60% adapt'n, 40% mitig'n; focus on Pacific Islands; existing channels
Norway	TBD	$1bn over 3 yrs for forests; separate adapt'n/mitig'n; adapt'n thru ODA style approach
Poland	TBD	Money from AAU sales, 10% to fast start
Portugal	€36mn over 3 yrs	Existing bilateral programs w/ more than 3-yr life
Romania	TBD	Details TBD
Slovakia	€9mn over 3 yrs	€1mn in 2010, €4mn in 2011, €4mn in 2012
Slovenia	€10mn	Bilateral concrete projects, forestry, capacity building for LCDS
Spain	€150mn over 3 yrs	Mostly multilateral channels (AF, CIFs); capacity, adapt'n, REDD
Sweden	€800mn over 3 yrs	Existing multi-/bilateral channels; focus on adaptation in Africa; additional to 1% of GDI in ODA
Switzerland	$150mn over 3 yrs	Must pass thru parliament; multi-/bilateral channels
UK	£1.5bn over 3 yrs	50% adapt'n, 30% mitig'n, 20% REDD; leverage private sector; additional to 0.7% ODA
US	$1.3bn in 2010, $1.9bn requested for 2011	$1bn core climate budget 2010 (triple 2009), $300mn food security, water, adapt'n; US development finance $700mn in 2010, $873mn in 2011; 40% bilateral, 60% multilateral