Policy Luncheon on the
Long-Term Finance Architecture
October 7, 2010 – Tianjin, China

- Meeting Summary -

Moderators: Herman Sips (the Netherlands) and Ned Helme (CCAP)

Overview and Main Conclusions

This fourth policy luncheon of 2010, hosted by the governments of the Netherlands, Germany, and Spain and the Center for Clean Air Policy (CCAP), was attended by over 50 participants from developed and developing countries and international organizations. Discussion at the dialogue focused on the creation of a new climate fund and effective governance of the long-term financial architecture. The meeting also addressed several overview/guidance functions outlined by the negotiating text that need to be performed in the long-term architecture, in particular: (a) assessing the overall needs of developing countries for financial assistance, (b) tracking various financing channels, (c) identifying funding gaps, and (d) establishing eligibility criteria for the funding of NAMAs.

Among the major outcomes of the meeting were the following overall conclusions:

- Progress must continue toward the creation of a new fund (key deliverable in showing the UNFCCC process is not broken). There was consensus among participants regarding the need for a COP decision (with specifics) at Cancun to create a new fund. There was a lot of agreement among participants regarding a collaborative process to launch the fund.
- A small, ad-hoc body of delegates and representatives from the private sector and international financial institutions (IFIs) should be convened to recommend operating modalities of the fund.
- A standing committee on finance could be formed later in the process, after COP17 in South Africa, to increase the COP’s role. The COP should have a guidance role that could be more substantial or more effectively designed than the COP’s role in the Global Environment Facility (GEF).
- The design of the new fund should include authority to create mechanisms to encourage private-sector involvement in the long-term financial architecture, for example, authority to write down the costs of advanced technology deployment or to reduce risk.
• There is a clear linkage between reaching a decision to launch the fund and decisions on other negotiating elements like mitigation and MRV (monitoring, reporting, and verification).
• The new fund should be transparent and have a broad mandate, including regional and global initiatives and ability to support mitigation actions at the city level.

➢ Climate Fund, Governance Structure, Oversight Functions

Although participants expressed that there was emerging convergence on finance in the negotiations and progress toward creation of the fund, other issues are likely to be left for decision after Cancun, including: financing sources, how much money will be available through the fund, rules of procedure, and design functions. Some participants felt that an ambitious decision at Cancun should address key components like composition of the board, the trustee issue, and access modalities. Broad support was indicated for a balanced board membership, though views were split on the question of whether the COP would appoint board members. The view was expressed that political issues relating to the trustee and board composition should not be left to another body to decide but rather be decided in Cancun. The board would then make other needed decisions once established. One participant called for a pilot decision on finance to guide the group, with details on the overview body or standing committee to be decided later.

The moderators asked how the new fund should relate to existing bilateral financing efforts as well as how the fund could encourage private-sector involvement. Participants asserted that key uses for the new fund are mitigation, REDD+, adaptation, and capacity building and that existing finance channels would remain important even with the creation of a new fund. Two important functions to be carried out will be assessing finance gaps, both among thematic areas and geographically, and coordinating different finance channels. However, there was no consensus on who should carry out these functions. Some participants advocated for the role of a small and effective standing finance committee in addressing gaps and making recommendations to bilateral actors on coordinating delivery of finance. Respondents called for a model that goes beyond the traditional paradigm of development finance, encouraging transformative actions through a competitive element. There was broad support for incorporating a direct access option for countries that have the necessary capacity.

It was also suggested that a key role of the fund would be to use public-sector funding to reduce risk and encourage or leverage private-sector investment. There was broad consensus that linking public- and private-sector finance is a key opportunity, and that private-sector involvement will depend on profit incentives.

➢ Other Issues

Some participants suggested funding mitigation programs that go beyond country-specific NAMAs. Many participants felt that funding eligibility should be broadened to
include regions and cities (as new actors that need to be concretely involved). In some cases, participants felt that international program eligibility guidelines would be required. There was also considerable emphasis on the importance of a collaborative platform to allow for broader consultation with other players and civil society regarding the financial architecture. At least one participant, however, felt that the process should not wait for this to be established.

Participants discussed the issue of windows in the new fund. It was felt that these should be kept as simple as possible but should include, at a minimum, a mitigation window and an adaptation window. There was also concern about the backlog of capacity-building needs that will need to be met after Cancun along with the establishment of a new fund.

- Next Steps

The next policy luncheon will be held during the Cancun COP, perhaps during the second week of the conference. The next CCAP Future Actions Dialogue (FAD) will be held in March 2011.