BRIEFING PAPER
LONG-TERM FINANCE

BACKGROUND

It is estimated that developing countries will require US$100 billion per year in climate finance by 2020 to adapt to the negative impacts of climate change. In 2009, during the 17th session of the Conference of Parties (COP), the work programme on long-term finance (LTF) was launched in an effort to consolidate, mobilize, and scale-up climate change finance.

The work programme was then extended for an additional year at COP18, in Doha, until 2013; and in March 2013 the COP Presidency appointed two co-chairs, Mr. Naderev Saño (Philippines) and Mr. Mark Storey (Sweden) tasked to report back to COP19 with the outcomes of the year-long work programme.

The focus of this work programme has been twofold: first, "to inform developed country Parties in their efforts to identify pathways for mobilising scaled-up climate finance to USD$100 billion from public, private and alternative sources for meaningful mitigation actions and transparency on implementation; and second, to inform all Parties in enhancing their enabling environments and policy frameworks to facilitate the mobilisation and effective deployment of climate finance in developing countries."[1]

The extended work programme is designed to build on the 2012 work programme and take into account related funding bodies and work programmes such as the Green Climate Fund (GCF), the Adaptation Fund, the Standing Committee on Finance and finance for reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in developing countries (REDD+); loss and damage; and nationally appropriate mitigation actions.[2]

The extended work programme was divided into three phases: consultations, implementation and concluding phases. And as the three-day wrap-up event has just concluded in September 2013, the final phase will require that the two co-chairs prepare and submit their report on the outcomes of this process to COP19 in Warsaw which will also inform the Ministerial roundtable on finance. [3]

The work programme on LTF will define the future climate change financial architecture and provide developing countries with a transparent and effective financial system. For this

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[1] United Nations Framework Convention on Climate Change (UNFCCC) (2013) Background Paper on the extended work programme on long-term finance. Accessed September 2013: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/scf4_-_background_note__wp_ltf_final.pdf

[2] International Institute for Sustainable Development (IISD) (2013) A Summary Report of the Long-Term Finance Wrap-Up Event. Accessed September 2013: http://www.iisd.ca/climate/ltf/wpwe/html/crsvol205num9e.html

[3] United Nations Framework Convention on Climate Change (UNFCCC) (2013) Background Paper on the extended work programme on long-term finance. Accessed September 2013: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/scf4_-_background_note__wp_ltf_final.pdf

programme to be successful however, it must not only define and unlock a number of new sources of funding for developing countries but also create a system whereby capacity and expertise amongst developing countries is built and enabling environments are created. It is important that a clear understanding of what constitutes the challenges and constraints for developing countries requiring access be acknowledged and addressed so that the development of a new climate regime can be efficiently and effectively implemented.

CURRENT DISCUSSION

As part of the UNFCCC extended work programme mandated by COP18, the LTF Work Programme wrap-up event was held in Incheon, Republic of Korea, from 10-12 September. The meeting brought together over 100 representatives of governments, private sector entities, financial institutions, civil society, and academia.

The event consisted of three thematic sessions: pathways for mobilizing scaled-up climate finance; enabling environments and policy frameworks for effective deployment of climate finance; and enabling environments and policy frameworks for mobilizing scaled-up finance. The co-chairs and representatives then convened in plenary highlighting a number of key issues and messages they would take from this meeting and present them in a report to the COP19 in Warsaw.

The three day interactive event was a chance for experts to gain greater clarity around what constitutes the pathways for climate finance but also an understanding around what the barriers and challenges are that developing countries face when accessing these financial modalities. Furthermore, it was an opportunity for experts to tease out how best to strengthen policy environments to ensure that resilience to climate change in developing countries is achieved. This year long process has proven incredibly important as it has laid down the essential groundwork towards achieving a low-carbon and climate-resilient economy.

The following three main areas were discussed:

Pathways to Increase Climate Finance:[4]

- A clear roadmap for mobilizing scaled-up finance from developed countries is required;
- The importance of reaching consensus around key climate finance terms (e.g. pathways, effective deployment, and mobilization);
- Public as well as private sources of funding should be considered;
- Transparency on both deployment and effectiveness of climate finance are key to building trust;
- Sharing lessons learned from National experiences is valuable.

Transparency:[5]

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[4] International Institute for Sustainable Development (IISD) (2013) A Summary Report of the Long-Term Finance Wrap-Up Event. Accessed September 2013: http://www.iisd.ca/climate/ltf/wpwe/html/crsvol205num9e.html

[5] Ballesteros, A. (2013) 3 Important Messages From this Week's UNFCCC Workshop on Scaling Up Climate Finance. Accessed September 2013: http://insights.wri.org/news/2013/09/3-important-messages-week%E2%80%99s-unfccc-workshop-scaling-climate-finance

- Shared experiences and lessons learned from the fast-start finance period have shown that transparency and effective tracking are key to building relationships and creating trust amongst countries;
- Consistent and comparable data on how climate finance is deployed and how countries are meeting their financial commitments is necessary;

Creating an Enabling Environment:
The creation of an enabling environment essentially refers to the capacity of a country to attract climate investments and its ability for encouraging both the private and public sectors to investing in climate smart development projects such as solar or wind. For a country this may mean that they are required to, "strengthen a bank's capacity to lend to small businesses in low-carbon sectors" or "develop a policy to promote energy efficiency in industry."[6]
In the context of the meeting, various policies, institutional arrangements, and regulations were discussed but it is important to note that the types of solutions that are put forward will need to be country driven and respond to the specific economic and development needs of each country. Thus, a *one model suits all* approach is not suitable, and developing countries will need to flesh out their own distinctive sets of frameworks capable of achieving and supporting a low-carbon and climate-resilient future.

- To attract funding and effectively deliver climate finance, a set of enabling policies, regulations and institutions that help countries will be required;
- Coherence and coordination among contributing and recipient country institutions and processes is necessary;
- Developed countries will have to create a set of institutional arrangements and adopt laws and regulations in order to effectively mobilize climate finance;
- Developing countries will need to create an environment that is conducive to attracting both public and private investment (e.g. policies, institutional capacities, tools).

This combination of creating a strong set of enabling environments and the effective deployment of finance was referred to as the "push/pull" dynamic. "In short, the combination of these push-pull factors—together with a clear road map for scaling up climate finance—will enable a shift in investments towards low-carbon, climate-resilient economies."[7]

INTER-LINKAGE WITH THE GREEN CLIMATE FUND (GCF) AND THE AD HOC WORKING GROUP ON THE DURBAN PLATFORM FOR ENHANCED ACTION (ADP)

An important element of the extended work programme on long-term finance is its interaction with ongoing processes and bodies under the Convention. The Green Climate Fund (GCF) and Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) are two such bodies that the work programme seeks to interact with and ensure that transparency and levels of complementarity are met. However, formalized interactions to date appear to primarily revolve

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[6] WRI Insights (2013) 4 Ways the Green Climate Fund can Support Readiness for Climate Finance. Accessed September 2013: http://insights.wri.org/news/2013/03/4-ways-green-climate-fund-can-support-readiness-climate-finance

[7] Ballesteros, A. (2013) 3 Important Messages From this Week's UNFCCC Workshop on Scaling Up Climate Finance. Accessed September 2013: http://insights.wri.org/news/2013/09/3-important-messages-week%E2%80%99s-unfccc-workshop-scaling-climate-finance

around generalist information sessions or the acknowledgement by all three bodies that there should be an awareness of the other bodies within their own meetings.

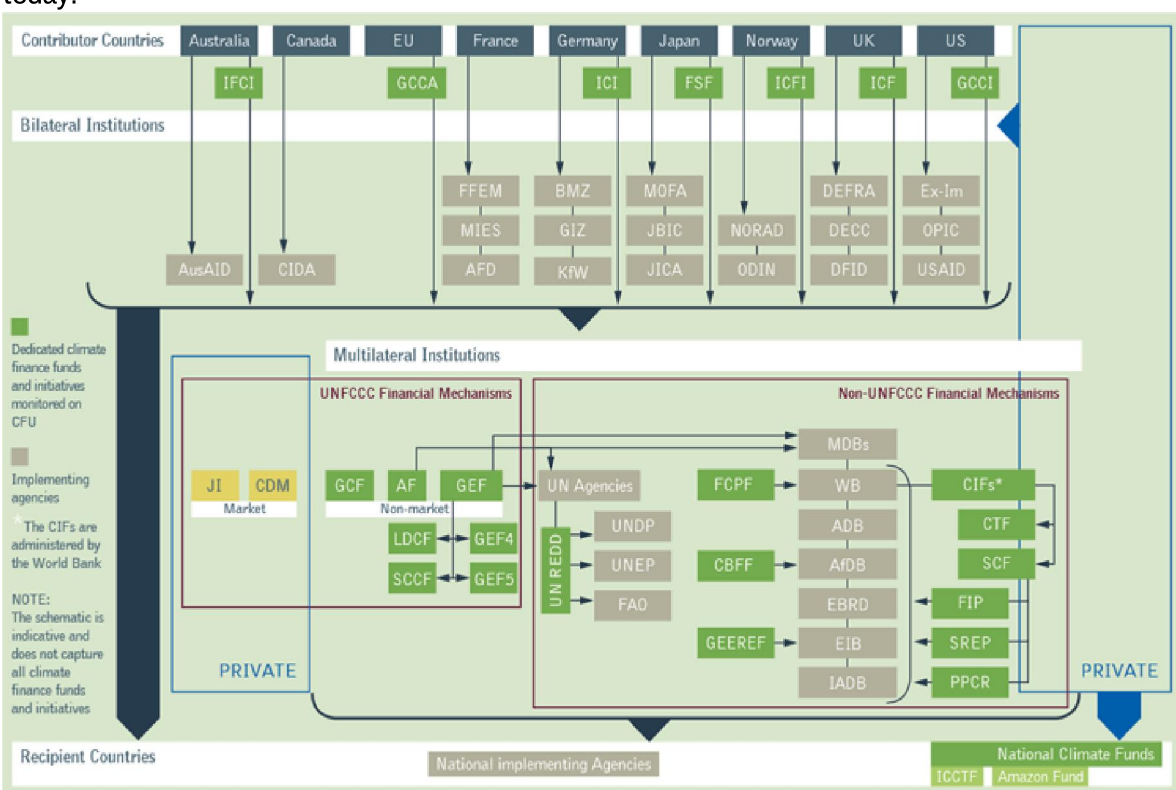
The Green Climate Fund (GCF)

The GCF was first conceived in 2009 during the United Nations Climate Change Conference in Copenhagen and was intended to become the primary multilateral funding mechanism capable of managing the vast majority of international climate flows.

Whilst the exact business framework model for the GCF is yet to be defined, the Fund will essentially act as a conduit for transferring money from developed to developing countries. The GCF will support a number of projects, programmes and policies and will act as the primary driver for raising the anticipated US$100 billion a year finance by 2020. Therefore, to carry out its mandate, the GCF will require countries to commit to long-term and scaled-up finance to the Fund.

Experts from the extended LTF work programme agree that better coordination between their work stream and the implementation of the GCF should occur and that work around the GCF should be prioritized. Many of the challenges that have been discussed within the GCF regarding alternative funding sources, country ownership, and private sector contributions have also been raised within the LTF work programme. And as the GCF is meant to catalyze climate finance from a wide range of sources, it was also agreed by LTF experts that the private sector should be encouraged to work and engage more closely with the GCF.

The global climate finance architecture is complex and as the operationalization of the GCF is set for 2014 it is important to see how various different institutions, contributing countries and financial mechanisms will work together. The image below illustrates the architecture as it stands today:



Source: Climate Funds Update Website. Accessed in September 2013: [*www.climatefundsupdate.org*](http://www.climatefundsupdate.org)

The Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP):
The Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) was established by decision 1/CP in December 2011 and provides an additional forum whereby climate finance is discussed. Specifically, Workstream 2 of the ADP aims to significantly reduce the gap between Parties' mitigation pledges of annual emissions of greenhouse gases by 2020 and ensuring that global average temperatures do not surpass 2 °C.[8]

Discussions during an ADP briefing event on June 6th 2013 in Bonn allowed the LTF co-chairs to set-out the mandate of the LTF extended work programme, the way in which it has been organized, the work that it has achieved to date and provided the co-chairs with the opportunity to express the importance of engagement and involvement during the implementation phase.[9]Points discussed during the June meetings illustrate the many points of convergence with the LTF extended work programme as well as the GCF.

The Work stream 2 roundtable discussions in June also addressed the following points:[10]

- **The role of climate finance in raising pre-2020 ambition:**
  Increase in financial support is seen as essential for developing countries to come forward with additional as well as ensure the implementation of existing NAMAs and pledges.[11]
  One of the barriers for deploying the full potential for mitigation in regard to energy are the "lack of adequate means of financial support, secured access to capital, and economic and financial instruments, in particular to address high up-front capital costs, long-payback periods and perceived investment risks"[12]

- **Scaling-up of climate finance until 2020:**
  Parties called for a firm decision to be made during Warsaw for the operationalization and capitalization of the GCF as well as the creation of a roadmap up until 2020.
  "The EU highlighted that it is ready to work within the Long Term Finance Work Programme to inform parties on efforts to identify pathways for mobilising the scaling up of climate finance to USD 100bn per year by 2020, in the context of meaningful mitigation actions and transparency on implementation" and in the views of the LDCs "under the Long-Term Finance working group, countries should focus efforts and push for practical and concrete recommendations as outcome of the Work Programme at COP19. Furthermore, at COP19 a ministerial dialogue will provide political guidance regarding progress in the mobilization of climate finance and should send a political signal that there will be no gap or reduction in the provision of support to developing countries."[13]

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[8] UNFCC ADP Briefing Event. Accessed October 2013: http://unfccc.int/files/meetings/bonn_jun_2013/in-session/application/pdf/adp2-2_briefing_long-term_finance_06062013.pdf
[9] UNFCC ADP Briefing Event. Accessed October 2013: http://unfccc.int/files/meetings/bonn_jun_2013/in-session/application/pdf/adp2-2_briefing_long-term_finance_06062013.pdf
[10] Co-chair summary, 2013: Summary of the round tables under workstream 2, ADP2, part 2, Bonn, Germany 4-13 June 2013, Note by the Co-Chairs, (July 25th 2013), Accessed September 2013: http://unfccc.int/resource/docs/2013/adp2/eng/12infsum.pdf
[11] Ibid.
[12] Ibid.
[13] Climate Finance Advisory Service (CFAS) (2013) How is climate finance being discussed in the negotiations under the Ad-hoc Working Group Durban Platform for Enhanced Action (ADP),

- **Sources of finance to scale up to the 100 billion target:**
  The importance of public sector and its ability to establish political frameworks as well as the ability of the private sector to promote innovation and commercialization of technology used was highlighted.
- **Priorities for the allocation of climate finance in the context of pre-2020 ambition:**
  It was suggested that focus should be placed on renewable energies, technology transfers, capacity building, clean energy and adaptation.
- **Channels for delivering climate finance until 2020:**
  The operationalization of the GCF was seen as one of the most important steps to providing developing countries with the necessary climate finance. Currently Parties are channeling mitigation finance through a number of channels (e.g. Global Energy Efficiency, Renewable Energy Fund, etc.) so if the GCF is to catalyze the majority of climate finance it will need to become the accepted primary channel for climate finance.

LOOKING AHEAD

The findings and recommendations from the LTF work programme will inform the negotiations at the COP19 in Warsaw this November and in particular will feed into the Ministerial roundtable discussions on finance.

What is less clear however relates to the future of the LTF programme. Proponents of an extension believe that the process should link finance with mitigation impact and that it should actively support mitigation targets. However, if an extension is likely then the process should not become static but rather continue to add value and become a catalyst for spurring global action and supporting the overall aims of the UNFCCC.

As the wrap-up workshop programme addressed issues around scaling up climate finance, it was a welcome and important decision by Korea to pledge its USD$40 million to the Green Climate Fund. For this global financial architecture to bring about transformative change, pledges such as these are primordial as a sign of strong political commitment. Thus, it is important that other countries also engage and pledge firm levels of financing in the lead up the Warsaw COP19.

In addition to the numerous activities that were organized throughout 2013 (webinars, consultations, meetings) the co-chairs, with the support of the UNFCCC secretariat, have provided a space whereby users have the option of providing and submitting a set of materials that may be forwarded to the co-chairs and/or directly uploaded to the 'Resource Library' of their web pages. This provides an open forum for users to send through the materials that they feel should be addressed or at least acknowledged by the co-chairs and extended LTF process.[14]

The year-long process has essentially been about gaining tangible results and garnering political momentum. As programme co-chair, Mark Storey expressed, the platform "has provided an opportunity for practitioners from governments to informally exchange insights to inform, and not

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Workstream 2? http://cdkn.org/wp-content/uploads/2013/07/CFAS-Query-10-ADP-WS2-finance.pdf

[14] United Nations Framework Convention on Climate Change (2013) Accessed September 2013: http://unfccc.int/cooperation_support/financial_mechanism/long-term_finance/contactchairs/index.html

replicate, the climate negotiations. I believe the resulting common understanding will allow the shift in investments to proceed faster."[15]

And as, co-chair Naderev Saño expressed, "the building blocks for scaling up climate finance are becoming increasingly clear, and our joint understanding of precisely what needs to be done is growing. It is now a matter of translating this emerging understanding into political action."[16]
But for this extended work programme to be deemed successful it will need to demonstrate to developing countries that this process and the future financial architecture will serve to benefit their needs and provide a system that gives them access to long term financial flows.

[15] UNFCCC finance talks lay groundwork for green global shift (2013) Accessed September 2013: http://www.un.org/climatechange/blog/2013/09/12/unfccc-finance-talks-lay-groundwork-for-green-global-shift-of-capital/
[16] UNFCCC finance talks lay groundwork for green global shift (2013) Accessed September 2013: http://www.un.org/climatechange/blog/2013/09/12/unfccc-finance-talks-lay-groundwork-for-green-global-shift-of-capital/

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UNFCCC Green Climate Fund Briefing Event. Accessed October 2013. http://unfccc.int/files/meetings/bonn_jun_2013/in-session/application/pdf/adp2-2_briefing_green_climate_fund_06062013.pdf

This paper was prepared with the assistance of IIED

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