UNEP Finance Initiative
Innovative financing for sustainability

Outcomes of the United Nations Climate Change Talks
Durban, South Africa
28 November – 9 December 2011

Briefing note by UNEP Finance Initiative

OVERALL OUTCOME / Achim Steiner, Executive Director of UNEP, on the outcomes of COP17 in Durban:

"The outcomes of Durban provide a welcome boost for global climate action. They reflect the growing, and in some quarters unexpected, determination of countries to act collectively."

"The movements forward on the Cancun agreements in respect to adaptation and climate technology institutions are welcome, as is the operationalisation of the Green Climate Fund. But the core question of whether more than 190 nations can cooperate in order to peak and bring down emissions to the necessary level by 2020 remains open…"

The outcomes of the UN talks on climate change in Durban are considered a progressive step in the direction toward a global climate change agreement that is truly effective in substantively reducing greenhouse gas (GHG) emissions globally, both in the developed world as well as in those emerging economies that will soon become the largest sources of greenhouse gas emissions.

This milestone was achieved (and it could only be achieved) by the largest emitters - the European Union, the United States, China, India, Brazil and South Africa, etc., agreeing to working towards a global agreement that will put legally binding (or similar) GHG emission reduction commitments on most, if not all, large emitters, whether developed or developing.

Whether this roadmap can underpin GHG emission reductions in the timeframe necessary to keep the global temperature increase beneath a maximum of two degrees centigrade, is more than questionable: while, according to the International Energy Agency, global emissions need to peak already in the course of this decade and be in a marked downward trend by 2020, the new UNFCCC roadmap only foresees the ´coming into force´ and implementation of a new global agreement on climate change from 2020 onwards.

The central achievement of the Durban talks lies in agreeing on and establishing a process toward a global agreement that – unlike the Kyoto Protocol (KP) – will cover a significant fraction of global, man-made GHG emissions. When the KP came into force it covered roughly 30 per cent of such emissions. Today it covers roughly 13 per cent, mainly as a result of the two largest emitters worldwide, the US and China, not being part of it. Furthermore, the Durban talks have achieved to:

1. Remove a long-time deadlock in the international negotiations: the legal nature of GHG reduction commitments of those developing countries which are large emitters of GHG

2. Launch the Green Climate Fund as the central entity of the global Financial Mechanism to address climate change mitigation and adaptation in developing countries, with a clear mandate to mobilise private capital flows
3. Rescue a weakened Kyoto Protocol by initiating a second commitment period
4. Make incremental progress toward a global funding mechanism for REDD+ (reducing emissions from deforestation and forest degradation)
5. Further, within the Cancun Adaptation Framework, the Work Programme on Loss & Damage

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1. Getting rid of a long-time deadlock in the international negotiations: the legal nature of GHG reduction commitments of those developing countries which are large emitters of GHG

Before Durban, there were two non-technical and multilateral negotiating streams:

- The *UNFCCC's Ad-Hoc Working Group on Further Commitments for Annex 1 Parties under the Kyoto Protocol* which discusses the design and emissions reduction commitments of developed countries within an extended Kyoto Protocol post 2012. Only states which have ratified the Kyoto Protocol participate in this group, meaning essentially without the United States. Its agenda is limited to discussing GHG emissions reduction commitments by developed countries, with no discussions on eventual targets for developing countries.

- The *UNFCCC's Ad-Hoc Working Group on Long-Term Cooperative Action on Climate Change (AWGLCA)* which discusses global efforts on climate change that ought to take place in addition to the Kyoto Protocol. All member states to the UNFCCC participate in this group, and discussions consider eventual commitments by both developed as well as developing countries.

One of the critical problems of this set-up was the lack of integration and consolidation between both streams which often led to a fragmentation in the negotiations and difficulties in finding consensus on transcending issues. Particularly, developing countries were typically reluctant within the AWG-LCA to accept any binding commitments on their side, as long as there was a lack of clarity on the future commitments of the developed world under the Kyoto Protocol. Given the absence of the US and China – the world's two largest GHG emitters – from the KP and the resulting unwillingness of countries like Japan, Russia and Canada to commit to any further commitments under that same framework, the deadlock was perpetuated.

Against this background, COP 17 achieved a landmark decision to start negotiating a "protocol" or a "legal instrument" or an "agreed outcome with legal force" under the Convention, and **covering all countries** on mitigation, adaptation, finance, technology development and transfer, transparency of action, and capacity-building. For the first time this breaks down what has been referred to as a "firewall" between Annex 1 (the traditional industrialised countries) and non Annex 1 Parties (the traditional developing countries). By agreeing on a new process that results in binding commitments for all larger emitters, COP17 also clarifies the role of the Kyoto Protocol as a bridge towards any new, global agreement, rather than an ongoing framework. This should help further consolidate the two-tracked structure in the negotiations described above.

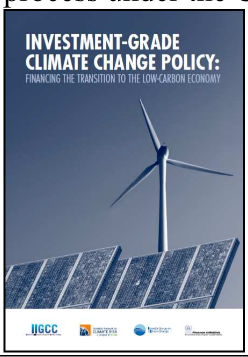
Issues of concern and open questions

- While the agreement that both developed countries as well as the large emerging emitters should all be required to commit to GHG emissions reduction commitments is a landmark step, as stated above, the timeframe envisioned for the roadmap is too long and makes the achievement of the needed GHG emission reductions within this decade unlikely. The Durban outcomes foresee a global agreement only being reached by 2015, with it coming into force by, and it being implemented from, 2020 onwards, while there is scientific consensus that global GHG emissions already need to peak well before 2020.
- In the meantime, the world and its climate system are left only with the voluntary, bottom-up pledges submitted by countries following the Copenhagen Accord and Cancun Agreements. Taken together, these pledges remain utterly insufficient, confirmed by UNEP´s Emissions Gap Report, and would take the world, in absence of any further commitments, to an average temperature increase of four degrees Celsius or above. Estimates of the emissions gap between projected emissions now and the emissions consistent with a two degree world amounts to 6 – 11 GtC02e in 2020.
- The pledges, including any conditions attached, made by developed countries to date can be viewed here: http://unfccc.int/resource/docs/2011/sb/eng/inf01r01.pdf
- The pledges, including any conditions attached, made by developing countries to date can be viewed here: http://unfccc.int/resource/docs/2011/awglca14/eng/inf01.pdf

Related UNEP FI and partners' (IIGCC, INCR, IGCC and PRI) work and positions

In the *2011 Global Investor Statement on Climate Change* close to 300 institutional investors with assets of over USD 20 trillion call for an international climate change agreement that is effective in reducing GHG emissions in line with the two degree target:

A more detailed background report, with a section dedicated to the international policy process under the UNFCCC, can be found here:



2. Launching the Green Climate Fund as the central entity of the global Financial Mechanism to address climate change mitigation and adaptation in developing countries, with a clear mandate to mobilise private capital flows

- The Green Climate Fund (GCF) was made operational in Durban and as a result climate finance will become more centralised and potentially coherent.
- The final document of the Transitional Committee (the group of countries tasked with formulating roughly the structure, governance and guiding principles of the Fund in 2011) was adopted along with a cover decision. The issues UNEP FI had been supporting throughout the year, including "readiness", multiple delivery channels and the private sector "mechanism" remain in the document.
- The UNFCCC and GEF secretariats were requested to set up the interim secretariat (in the UNFCCC premises) until the independent secretariat is established (likely in one of the interested countries).
- Many difficult decisions on operations were left to the Board of the GCF (yet to be established).

More concretely:

- **The GCF must support *transformational* change in developing countries**
  "2. ...In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change."
- **The GCF should be transparent and accountable while operating effectively and efficiently; mobilised financial resources need to be "new, additional, adequate and predictable"**
  "The Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness. The Fund will play a key role in channeling new, additional, adequate and predictable financial resources to developing countries and will catalyze climate finance, both public and private, and at international and national levels. The Fund will pursue a country-driven approach, and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders."
- **The GCF needs to be balanced between mitigation and adaptation and consider other co-benefits**
  "The Fund will strive to maximise the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach."
- **The GCF private sector facility will aim to mobilise "country-driven" public and private investment**
  "41. The Fund will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.

  42. The operation of the facility will be consistent with a country-driven approach.

  43. The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs.

44. The Board will develop the necessary arrangements, including access modalities, to operationalise the facility."

- **The GCF can and will use a variety of approaches to mobilize both public and private resources**
  "54. The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels."

Issues of concern and open questions

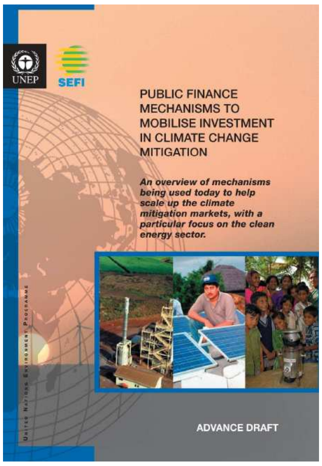
- Agreement on the operationalisation of the Green Climate Fund is a major step in the process towards a long-term financial mechanism under the UNFCCC. The fund will become truly operational only when it is equipped with public funds from developed countries, and to date no such pledges - other than for the set-up of the Fund's secretariat and initial logistical costs - have been made.

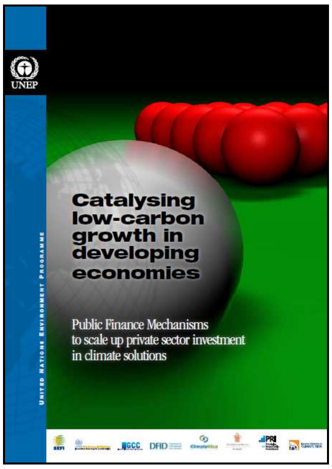
- The strong reference to the role of the Green Climate Fund in mobilising investment and finance from private sector sources is equally important. Much work will still be needed in finding agreement on how exactly the private sector facility should function operationally. As in 2011, UNEP FI will continue offering to the newly established Board of the Fund its support, and the expertise of its private sector members, towards making the facility operational.

- Strong reference is made to private sector actors, including financial intermediaries, in developing countries; it still needs to be clarified what this reference means for the mobilization of international actors or such based in developed countries. It is the latter that have much of the resources, skills and expertise needed to enable mitigation and adaptation in developing countries.

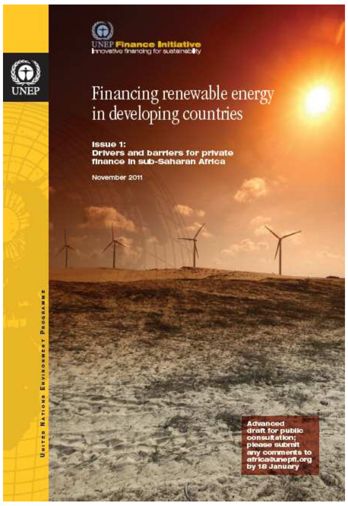
Related UNEP / UNEP FI work and positions

UNEP and UNEP FI have worked extensively on the issue of how scarce public funds can be used efficiently in order to effectively address climate change mitigation in developing countries, by leveraging greater volumes of private finance and investment. Two key publications can be found under the following thumbnails:





NEW! In addition to exploring different thinkable types of such 'public finance mechanisms', in 2011 UNEP FI conducted a survey among close to 40 energy infrastructure financiers to provide empirical evidence of the policy priorities and needs of such financiers, specifically in the context of renewable energy infrastructure in developing countries. The draft results can be viewed here:



Also in 2011 UNEP FI made submissions to the Transitional Committee of the Green Climate Fund, and organised a series of workshops bringing together international climate finance negotiators with representatives of private sector financial intermediaries and investors:

1. http://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/unep_fi_submission_on_private_sector.pdf
2. http://www.unepfi.org/fileadmin/climatechange/gcfsuggestions2.pdf

3. Rescuing a weakened Kyoto Protocol by initiating a second commitment period[1]

The Kyoto Protocol was extended into the second commitment period with Parties requested to finalise arrangements by 2012 for it to enter into force from 1 January 2013. This decision, while largely symbolic, was critical in ensuring an outcome in Durban. It is also critical for a minimum form of continuity and certainty on international ('compliance') carbon markets, which are mainly underpinned by the Clean Development Mechanism, one of the so-called Flexibility Mechanisms of the Kyoto Protocol. Not extending the Kyoto Protocol would have led to a further and substantial shrinking – or even vanishing - of this market as well as of an entire industry and value chain which, focused on reducing GHG emissions in developing countries, had emerged over the last 5-10 years and by the end of 2012 is expected to deliver more than 5,000 GHG emissions reduction projects and a reduction volume of close to three billion tons of C02-equivalent.

Issues of concern and open questions

- To date, the joint pledges of developed countries amount to reductions of GHG by 10-12% from 1990 levels, far below the 25-40% suggested by Intergovernmental Panel on Climate Change (IPCC) – see also 'issues of concern' under point 1 above.
- The second commitment period has major shortcomings: the length is not defined (5 or 8 years); the single base year (1990) is not confirmed by all; instead of a single unit (fixed QELROs – 'quantified emission limitation or reduction objectives') the extension contains ranges of pledges; and the work on the rules and procedures of LULUCF, flexible mechanisms (including the Clean Development Mechanism - CDM), carry over of surplus AAUs, methodological issues, spillover effects, etc. is unfinished.
- Without several big Annex I emitters (Russia, Canada, Japan) and with bottom-up approach to setting emission reduction commitments, the second period may only serve as a transition to the universal and comprehensive agreement to be reached under the Durban Platform (see point 1 above).
- The lack of GHG reduction ambition among developed countries active in the Kyoto Protocol, coupled with Canada's post-Durban withdrawal from the Kyoto Protocol, means that, even if they achieve to exist further, international carbon markets (which are the only international instrument to support low-carbon growth in developing countries) are likely to suffer from limited demand and low carbon credit prices. Currently, carbon prices, both for carbon credits from the CDM as well as for 'emissions allowances' in the European Emissions Trading Scheme, are at absolute historic rock bottom. There are, however, signs of hope: after COP17, on 21 December 2011 the European Parliament has voted positively on legislation allowing the European Commission to create increased scarcity of emissions allowances in the European market which will aid to stabilise prices from 2013 onwards. At the same time, a ruling by the European Court of Justice has opened the way for inclusion of air-travel into the European Emissions Trading Scheme. Emerging greenhouse gas trading systems in California, Australia as well as, possibly, in China, could in the future add demand on international carbon markets if linked with the CDM (or other emerging crediting mechanisms under the UNFCCC).

[1] First commitment period : 2008 - 2012

4. Making incremental progress toward a global funding mechanism for REDD+ (reducing emissions from deforestation and forest degradation)

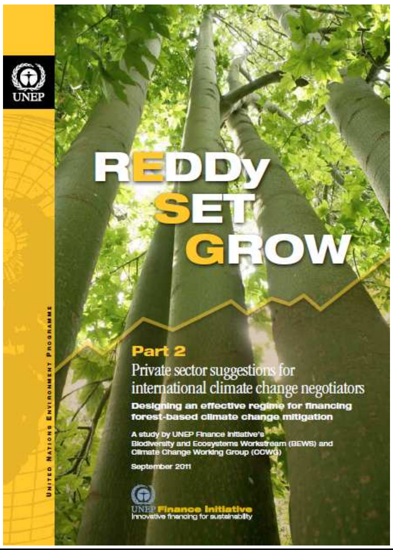
- The decision on REDD covers marks another step in the progress towards the full REDD mechanism. Having any sort of information system on social and environmental safeguards is much more than was envisaged 3 years ago.
- The LCA decision text on options for results-based financing for REDD+ goes further than originally envisaged. For the first time it is explicitly stated that 'market-based approaches' could be developed, which has been a cornerstone component in the UNEP FI proposals on REDD+ funding. It also lays out a process to COP 18 for further work on this topic. There is also an implicit linkage between financing and consistency with the safeguards.
- A link is also made between the financing of the implementation of REDD+ projects on the ground (under the so-called 'Phase 3' of REDDplus financing) and the emerging structure and 'windows' of the Green Climate Fund.

Issues of concern and open questions

- From the perspective of private sector REDD+ investors and of those who realise the urgency to quickly mobilise investment for REDD+ implementation under Phase 3, the clear reference to a market-based mechanism is a step in the right direction; the details of any market mechanism will have to be fleshed out in the course of 2012 en route to COP18.
- As stated in the UNEP FI proposals on REDD+ funding, a market mechanism is most likely to unlock private investment for the implementation of REDD+ projects and programs, if resulting carbon credits can be generated at the project level and be granted to relevant actors, both public and private, at the local or 'sub-national' level. If credits can only be generated at the national level and granted only to government at the federal level, it is likely that resulting 'country and regulatory risks' - attached to this degree of government control - will deter private investors and financiers from getting involved. What is needed for project-based or sub-national crediting, however, are forest reference emission levels and/or forest reference levels which are equally calculated at the sub-national level. A suite of such sub-national baselines can then be harmonised under a national baseline, which, coupled with a requirement that crediting only takes place when a country as a whole performs on REDD+, can address the issue of 'leakage' guaranteeing the environmental integrity of a REDD+ scheme with sub-national baselines.
- Currently, the text on REDD+ states that ultimately all forest reference emission levels and/or forest reference levels should be calculated at the national level; and that sub-national baselines should only play a role in the interim. This raises questions on the effectiveness of any future crediting mechanism in mobilizing investment from the private sector.

Related UNEP FI work and positions

Already in 2011, UNEP FI has formulated many of the views and priorities of (potential) REDD+ financiers and investors in the private sector; these views and suggestions will be central to negotiations in 2012 on the future REDD+ funding mechanism. A stronger engagement of UNEP FI and its members in the UNFCCC negotiations on the REDD+ funding mechanism has already been requested by a number of organisations and governments.



6. Furthering, within the Cancun Adaptation Framework, the Work Programme on Loss & Damage

The vast amount of experience made, and skills gathered, in recent years in the areas of disaster risk reduction (DRR), micro-insurance, weather insurance markets, parametric schemes, and alternative risk transfer instruments, have spurred thinking, initiatives and international negotiation on how the benefits and potentials associated with these concepts could be seized, more specifically, in a climate change adaptation context. In the UNFCCC negotiations, efforts and input by both Parties (country governments) as well as Observers (Munich Climate Insurance Initiative, ClimateWise, the Geneva Association, UNEP Finance Initiative, etc.) culminated in 2010 at COP16 in Cancun in a new Cancun Adaptation Framework that acknowledges these benefits and potentials and 'invites' governments to "enhance climate change related disaster risk reduction strategies, taking into consideration the Hyogo Framework for Action where appropriate; early warning systems; risk assessment and management; and sharing and transfer mechanisms such as insurance, at local, national, subregional and regional levels, as appropriate." Furthermore, the Cancun Agreements initiated a process that could lead to the incorporation of risk-management and -transfer elements into the structure of a future international climate change regime. To that end, the Cancun Agreements put in place a 'work programme', which has been confirmed by the outcomes in Durban.

Furthermore, in Durban the Work Programme on 'Loss & Damage' has been given at COP17 a more logical structure along three different "themes" and related questions:

Thematic area 1: Assessing the risk of loss and damage associated with the adverse effects of climate change and the current knowledge on the same

- What are the data and information requirements for assessing impacts and climate risk, at different levels and for a broad range of sectors and ecosystems? What data are available and where are the gaps?
- What methods and tools are available for risk assessment, including their requirements, strengths and weaknesses, and can they address social and environmental impacts?
- What are the capacity needs for applying risk assessment methods on the ground, including for facilitating their application in developing countries?
- How can the results of risk assessments be optimally formulated in order to support decision-making? What are the desired methods for presenting the results of risk assessment exercises so that they drive decision-making?

Thematic area 2: A range of approaches to address loss and damage associated with the adverse effects of climate change, including impacts related to extreme weather events and slow onset events, taking into consideration experience at all levels

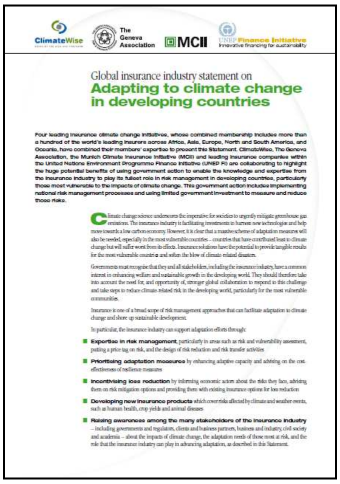
- What is the full range of approaches and tools that can be used to address the risk of loss and damage, at all levels and for a broad range of sectors and ecosystems, considering both extreme weather events and slow onset events? Such approaches and tools include, inter alia, conventional, non-conventional and innovative instruments to address specific types of loss and damage in the context of this thematic area, especially those driven by the multiplying, magnifying and intensifying effects of climate change at the national, sub-national and local levels. What is known about the relative cost-effectiveness of these tools?
- What are the foundational resource requirements (e.g. budget, infrastructure, and technical capacity for implementation) in order for different strategies and tools to be effectively applied?
- What are the lessons learned from existing efforts within both the public and private sectors, considering elements of design, limitations, challenges and best practices?
- What are the links and synergies between risk reduction and other instruments such as risk transfer? How can comprehensive risk management portfolios or toolkits be designed?
- How can risk management approaches be tailored to national contexts? How can Parties and other stakeholders evaluate which tools might be most appropriate for their particular risks and circumstances?

Thematic area 3: The role of the Convention in enhancing the implementation of approaches to address loss and damage associated with the adverse effects of climate change

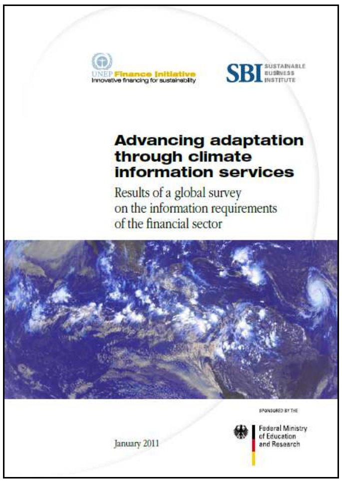
Building on its work in 2010 and 2011 (see below), UNEP FI and UNEP will continue to channel the expertise and skills of (re)insurance professionals into this work programme, with a view to contributing toward effective risk management and transfer elements in the next international climate change regime.

Related UNEP FI work and positions

Already in 2010 and 2011, UNEP FI and partners (Climate-Wise; MCII; Geneva Association) formulated – through the 'Global Insurance Industry Statement on Adapting to climate change in developing countries' - the views of the commercial insurance industry on their potential roles, contributions and policy needs in addressing loss and damage from the adverse effects of climate change:

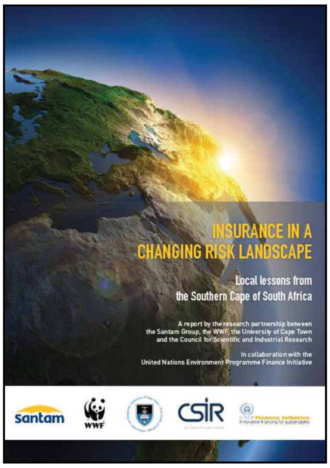


At the same time, UNEP FI, in partnership with the Sustainable Business Institute (SBI) and with the support of the German Federal Ministry of Research, embarked on a multi-year project to address --- so as to improve adaptation efforts in the private sector --- the needs of financial institutions (insurers, asset managers, banks) for climate impact forecasts, data and services. This process will continue to feed into the Thematic Area 1 of the UNFCCC's Work Programme on Loss & Damage, as highlighted above, as well as other international processes in this area:



NEW! In 2011, UNEP FI also supported partners in the development of a report that highlights, making use of the concrete example of the Eden District in South Africa, why the insurance industry should aim to work together with local and national governments in addressing fundamental risk drivers at the landscape level, including through the protection and rehabilitation of ecosystems as natural buffers for weather-related hazards and disasters. This UNEP FI work in the area of ecosystems-based adaptation will continue to feed into the

Thematic Area 2 of the UNFCCC's Work Programme on Loss & Damage, as highlighted above:



A formal submission by UNEP FI to the UNFCCC Work Programme on Loss & Damage can be found here: http://unfccc.int/resource/docs/2011/smsn/igo/110.pdf