Climate Finance

Reviving the spirit of COP 21

by Rémy RIOUX, CEO of AFD

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AGENCE FRANÇAISE DE DÉVELOPPEMENT

ABSTRACT

Three years after COP21, as we witness on a daily basis the devastating effects of climate change and the urgent need to increase ambition, climate finance issues come back strongly at the surface, within the negotiations and as a test of our collective will to implement the commitments set in Paris. Are we increasing climate finance and reorienting financial systems rapidly enough to sustain the ambition to keep the temperature increase below 1,5-2 degrees and to facilitate adaptation ? This pressing challenge will be again on top of the agenda this autumn at the Global Climate Action Summit (GCAS) in San Francisco, at the One Planet Summit (OPS) during UNGA in New York late September, at the invitation of President Emmanuel Macron, in Bali during the IMF-WB annual Meetings, then at COP24 in Katowice.

In 2015, the COP21 presidency had to address these very questions. Member of the French team, in charge of the finance track, alongside Laurent Fabius and Laurence Tubiana, I wrote a piece at the time, looking back how trust was built and consensus had been reached. I am no veteran and keep fighting against climate change, heading Agence Française de Développement (AFD) since 2016, but I feel these notes taken in the heat of COP21 could be useful to share my take widely, as food for thought and call for renewed action for all those interested and involved in climate action.

I especially highlight here four key components to make progress on climate finance :

- First, always keep in mind the need for a two-tracks approach : while Negotiators are responsible for the consistency and overall ambition of the COP process, only Ministers of Finance and Central Bank Governors can sort out the finance agenda ;

- Second, developed countries have the responsibility to keep track of the commitments made at COP21 to fulfill the 100 bn$ promise ;

- Third, the work and commitment of willing actors in the financial world, both public and private, has to be highlighted to measure and reinforce the momentum created in 2015 ;

- Last but not least, we need an alive and kicking Green Climate Fund (GCF), as a proof of concept for increased and transformational climate finance.

We, development financiers, also know that the Climate finance challenge goes way beyond climate. It is the laboratory of financing for sustainable development, where the encompassing concept - including ODA but going way beyond it to orient domestic investments and private finance -, we dearly lack since the Addis Ababa Summit is being forged. Let's never forget that Climate finance is and will remain at the forefront of the fight for implementing SDGs.

This is the reason why the International Finance Development Club (IDFC), the international group of the 23 largest national and regional development banks AFD is a member of and that I have the honor to currently chair, has decided to align with the Paris Agreement process, accompany the trajectories set by the countries and become a platform to mobilize public and private finance towards climate and SDGs. We must strive to build new, innovative alliances, that can spur multilateral efforts in the right direction, and include not only governments, but also the private sector and civil society.

We cannot afford any setback in the fight against climate change. I believe we will pull ourselves together. I hope the piece below, intending to revive COP21 fraternity, will be a step in this direction. I, with colleagues at AFD, look forward to your comments and support.

INTRODUCTION

Throughout 2015, the issue of financing the fight against climate change was most likely the focus of the greatest expectations, on the path towards a successful agreement in Paris in December. The focus of the greatest fears too. While in the negotiation, financial issues only constituted a *"means of implementation"* – in the same manner as the *"development and transfer of technologies"* and *"capacity building"* – they polarized the debates, both of States and their civil societies, due to the pledge made in Copenhagen (2009) to earmark USD 100bn of annual financial flows for the climate starting in 2020 and the legitimate fear of a decoupling between the ambition of the Agreement and the financial means for its implementation. This is to say nothing of the more ideological debates on *"climate justice"* and the role of private finance.

There were great expectations of the Presidency of COP21, held by a country from the North, over this major sticking point between developed and developing countries. The Presidency managed to surprise throughout the year by structuring with force and well in advance the financial component of COP21, by resolutely implementing the established plan and, especially, deciding to play this card in a very offensive manner. The confidence that the Presidency managed to create in this part of the agenda certainly played a major role in the success and ambition of the final text approved at Le Bourget.

1. The negotiation prior to the negotiation – an organization and strategy defined well before Le Bourget

A. The implementation of a dedicated and highly integrated organization

Negotiations over the issue of financing the fight against climate change started well ahead of Le Bourget. The meeting I attended in Berlin on 20 November 2014, which endowed the Green Climate Fund with some USD 10bn, may be considered as the first stage in this path, before COP20 in Lima, already demonstrating the international financial community's intention to implement the commitments made five years beforehand.

The French Presidency integrated *ab initio* a very specific characteristic of the *"climate finance"* agenda: while it has for a long time polarized and hindered negotiations at UNFCCC, the financial issue can only be successfully if addressed outside the Convention, by mobilizing Ministers of Finance and Central Bank Governors – who have traditionally had little involvement in the climate negotiations –, Heads of State and, more generally, the entire public and private sector.

Consequently, to succeed it was necessary to fit into the global agenda – be *"in it"* – and at the same time work separately, with many other stakeholders – be *"outside it"*, without ever giving the impression of giving priority to either sphere, notably of bypassing the official negotiators of the Convention, as the representatives of the G77 and China or NGOs constantly reminded France.

It is for this reason that Laurent Fabius, President of COP21, set up back in late 2014, a specific organization to address financial issues. He brought me at Quai d'Orsay to work alongside him and Laurence Tubiana. He appointed me Deputy Secretary General of the Ministry of Foreign Affairs in the autumn of 2014. My role included the coordination of the climate finance component. I was deeply committed to the success of COP21, since I formerly worked at the french Treasury, was at COP17 in Durban, negotiated for France the Green Climate Fund governing instrument in 2010-2012, and was a former Chief of Staff of the Minister of Economy and Finance, now EU Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre Moscovici. I ensured a careful and regular coordination of the subject throughout the year, gathering every Wednesday colleagues from the climate team (Anne-Sophie Cerisola, Delphine Eyraud, Camille Palumbo, Nicolas Dasnois), from the Ministry of Finance (Arnaud Buissé, Dominique Lebastard, Jérôme Brouillet, Frédéric Glanois, Caroline Giacomoni, Jean Giraud) from the Ministry of Foreign Affairs (Frédéric Bontems, Olivier Brochenin, Clarisse Paolini), as well as from Agence Française de Développement (AFD) (Alexis Bonnel, Pierre Forestier). Thanks to all of them for the very hard work !

Laurence Tubiana supervised, and was actively involved in, this work throughout the year, under the direction of the COP21President. Michel Sapin, Minister of Finance and Public Accounts at the time, also followed this agenda with utmost attention, mobilizing his European and international counterparts on numerous occasions (at the G7 and G20 Finance meetings) and playing a major role in obtaining specific commitments from multilateral development banks, for which he is the Governor for France.

B. Structuring of the financial agenda in three blocks

In the very first weeks of the French Presidency, this project team proposed to structure the financial agenda in three blocks:

- The first block was the *"pre-2020"* climate finance. It was essential to address very seriously the pledge made in Copenhagen in 2009, validated in Cancun in 2010 but voluntarily left as a halo, to earmark USD 100bn to climate finance, flowing to developing countries ("Non-Annex I Parties") every year starting in 2020. The President of COP21 very rapidly had the intuition that this question had to be clarified so that countries would accept to negotiate new commitments after 2020, otherwise there would ultimately be the risk of a major stumbling block. This early intuition proved to hold perfectly true through most of 2015. Up until the meeting of the Ministers of Finance in Lima in October (see below), it was impossible to make headway on the financial aspect of the agreement itself. Confidence had been lost and there was a painstaking process to rebuild it.

- The second block was the financial part of the *"Solutions Agenda "* (also called the "*Lima Paris Action Agenda"*). The strategy in this case aimed to show that in 2015 there was a marked increase in the mobilization of all the segments of the private financial sphere for low-carbon investments and to raise the issue of the price of carbon in stronger terms. Certain finance initiatives had already been launched during the Climate Summit in September 2014 organized by Ban Ki Moon, including the "*Decarbonization Portfolio Coalition"* involving institutional investors, or based on green bond issues. It was important to ensure that the commitments made before COP21 were respected, but much remained to be done to encourage all willing stakeholders to scale up their efforts. There were also initiatives that needed to be built to meet the legitimate and specific expectations of certain groups of countries, in particular the establishment of a Climate Risk Early Warning System (CREWS), involving the World Meteorological Organization (WMO), the United Nations Office for Disaster Risk Reduction (UNISDR) and the World Bank, to ensure a universal coverage of systems to anticipate climate disasters, for the poorest countries and small islands which often do not have them. An "Africa Renewable Energy Initiative" (AREI) was also the focus of very special attention by the French Presidency, intended to accelerate the deployment of renewable energies in Africa, in line with the high priority demand expressed by the Heads of State of the African Union on this subject, and with the invaluable support of the new President of the African Development Bank, Dr. Akinwumi A. Adesina, and of Egypt, which was President of the African Ministerial Conference on the Environment in 2015, through its Minister of the Environment, Khaled Fahmy.[1] The efforts of Jean-Louis Borloo and his foundation "Energies for Africa" also contributed to this progress. At the same time, our dear German colleagues, who held the G7 Presidency, pressed for a very useful initiative, with the active support of the French Presidency, to develop insurance against climate change intended as a priority for poor countries. At domestic level, France was a pioneer in the transparency obligations of companies and investors in terms of low-carbon economy, thanks to the Energy Transition Law and its Article 173.

- The third block was the negotiation of the *"financial component of the Paris Agreement"* itself, *i.e.* the financial commitments for climate after 2020, the then expected date of the entry into force of the new agreement. This component of negotiations was the subject of preliminary discussions during the intersessional negotiations in Bonn (June and September 2015) and the high-level informal discussions organized by the French Presidency (May, July and October 2015) in particular. With no serious progress on the political points up to the very end of the Le Bourget negotiations (see below and the Appendix to this document), the negotiation focused on the quantitative commitment after 2020 (what next after the USD 100bn?), on the predictability of financing, on the *ex post* transparency, on financing adaptation and on the architecture of financial instruments for the fight against climate change, in particular the role of the Green Climate Fund (GCF).

This threefold agenda was followed with method and resolution throughout the year, with regular progress reviews during each of the steering committees chaired by Laurent Fabius, in the presence of Michel Sapin on a number of occasions.

C. The milestones for the negotiation of climate finance in 2015

The main chronological milestones, whereby this finance strategy was deployed, were as follows:

- I remember it was at the Davos Forum, from 21 to 24 January 2015, that Laurent Fabius presented for the first time, during a dinner – in the presence of Mark Carney, Governor of the Bank of England and Chair of the Financial Stability Board (FSB), who was a strong driver on these issues throughout the year – the structuring that France intended to give to the discussion on climate finance: the three blocks and the work schedule. The French President, François Hollande, also attended this forum and started his yearlong work of advocacy for COP21;

- On 31 March 2015, the meeting of the International Development Finance Club (IDFC), which gathers twenty-three national or regional development banks now worth over USD 3,500bn and financing of over USD 800bn every year, 160 for Climate, allowed the accounting rules for mitigation financing to be defined and, a little later in the year,

[1] This AREI initiative was launched in Le Bourget with the mobilization of 10 countries (Canada, France, Germany, Italy, Japan, the USA, the UK, the European Union, Sweden, the Netherlands) to provide USD 10bn of public financing to the Africa Renewable Energy Initiative (AREI) by 2020 in order to supply 10 GW of additional renewable energies by 2020 (10 million KW) and 300 GW by 2030 (see http://www.cop21.gouv.fr/wp-content/uploads/2015/12/AREI-statement-final-07-12-15.pdf).

accounting principles for financing for adaptation to climate change. France's AFD and Germany's KfW played a leading role in these decisive methodological advances;

- The Finance Day of the Business and Climate Summit, organized at UNESCO in Paris on 20 and 21 May 2015, allowed a review of the commitments made by the financial sector during the New York Summit organized by the United Nations Secretary General (UNSG) in September 2014. The Caisse des Dépôts et Consignations (Pierre-René Lemas and Pierre Ducret) played a major role in this mobilization and in the organization of this event, with the teams of the UNSG of Janos Pasztor and Paris Europlace (Gérard Mestrallet and Arnaud de Bresson);

- While the G20 of Ministers of Finance and Central Bank Governors is traditionally a forum which is not very conducive to progress in the field of climate – probably partly due to the will of climate negotiators in each country to keep this field completely under their sphere of influence – the meeting of 17 April 2015 in Washington established a crucial debate on the integration of climate risks into international financial regulation, risks which go beyond the time horizons of monetary policy and banking supervision. It is this debate which led to the creation on 4 December 2015 by the Financial Stability Board (FSB) of a Task Force on Climate-related Financial Disclosures (TCFD) chaired by Michael Bloomberg, to introduce, on a voluntary basis, transparency on the risks related to climate on financial markets. This highly innovative initiative continued in 2016, with the support of the Chinese Presidency of the G20, which made green growth one of its priorities. The fact that these subjects have been put on the table of the G20 was a major step forward;

- The G7 Summit, under Germany Presidency, in Elmau on 7 and 8 June 2015 sent out a clear signal of support for the French Presidency climate finance Agenda and decisvely launched the work on the three specific deliverables mentioned above (early warning systems, renewable energies in Africa, climate insurance), which are set out in detail in the final declaration and its Appendixes. The African Union Summit, from 7 to 15 June, also allowed headway to be made on the priority to renewable energies in Africa, in connection with the G7 initiative;

- The Addis Ababa Summit on Financing for Development, from 13 to 16 July 2015, endorsed the idea of climate-development co-benefits, without opposing these two fields as had too often been the case before. This convergence of the agendas and climate and development communities was also expressed with brio during the adoption of the Sustainable Development Goals (SDGs) in New York from 25 to 27 September. It was on this occasion that the French President announced that France's yearly development assistance would increase by +EUR 4bn by 2020, including +EUR 2bn for climate, transiting through Agence Française de Développement (AFD);

- The informal meeting of the 6 and 7 September 2015 organized by the Presidencies of the COP allowed discussions to be initiated on the outline of the finance package. It was preceded by an informal meeting between donors organized by the USA on 5 and 6 September ;

- The decisive moment of the year was unquestionably the meeting on climate finance specially organized on 9 October 2015 in Lima, and prepared by a meeting of experts the day before, in the context of the IMF and World Bank Annual Meetings in Lima. It was the largest meeting on climate finance ever organized at international level, co-chaired by the Ministers of Finance and Climate of Peru (Presidency of COP20) and their counterparts from France (Presidency of COP21), largest ever in terms of the level of representation, duration and the strength of the decisions taken. This meeting allowed the lessons learned from a study[2] commissioned by the Peruvian and French Presidencies from the OECD and the think tank CPI to be shared, demonstrating that some USD 62bn of yearly climate finance could already be identified at the end of 2014. This evaluation, which was contested from a methodological point of view by certain countries (India and China in particular), was the most serious and most independent study produced to date. In this respect, it has served as a reference and starting point to collect new commitments, particularly those from development banks which had all pledged during this meeting in Lima to significantly increase their climate finance, as a number of States subsequently did in and after Lima. In Lima, the teams of the UNSG also presented a highly informed and convincing report on the developments observed in all the segments of the financial sector (investors, insurers, banks, rating agencies, etc.) for the climate, in the context of broad coalitions (see below). The Lima meeting created the confidence required to pave the way towards the negotiation of the Paris Agreement[3] as the French Presidency gradually felt it during the following meetings.

- On 6 November 2015, in Livingstone, Zambia, the Green Climate Fund, succeeded in approving, not without great difficulties but as a proof of its unique role and usefulness in the Climate finance architecture, its first set of projects worth USD 168mn$, less than a year after its initial capitalization.[4]

- During informal meetings between climate negotiators, the conversation started to make headway on post-2020 climate finance following the Lima announcements. This breakthrough was demonstrated by the contrast between two days devoted to this subject just a few weeks apart. While the day devoted to climate finance at the Major Economies Forum (MEF), on the sidelines of the United Nations General Assembly in late September, had been a fiasco, conversely, the pre-COP organized in Paris on 8 November had taken place in a more appeased atmosphere, which allowed points of agreement to start to be identified.

[2] http://www.oecd.org/env/cc/Climate-Finance-in-2013-14-and-the-USD-billion-goal.pdf

[3] See the conclusions of the Lima meeting: http://www.economie.gouv.fr/files/files/PDF/Lima-conclusions-20151009en.pdf

[4] 2 projects in Africa, 3 in Asia and in the Pacific, 3 in Latin America and in the Caribbean.

2. The negotiation on climate finance at Le Bourget

A. Overview of the forces present at the start of the negotiation at Le Bourget

On the side of developed countries ("Annex 1 countries"), throughout the year, our German partners had been steadfast allies. The key moments were the Berlin meeting on the Green Fund, the G7 in Elma, the discussions on positions within the ECOFIN Council in Brussels, and the facilitation work on the finance subject conducted by the Secretary of State for the Environment Jochen Flasbarth, with his Gabonese counterpart, now Prime Minister Emmanuel Issoze Ngondet, at the start of the second week in Le Bourget, working closely with the French Presidency team. The UK, Norway, Sweden and Switzerland also provided invaluable support to the Presidency throughout the year.

The Americans, who were for a long time very defensive with the other developed countries members of the "Umbrella" group, were more difficult to convince over the strategy and tactics of the French Presidency. The launch of the OECD study on the accounting of the USD 100bn was in particular not consensual and had to be imposed by the French Presidency. In the end, the American negotiators were highly satisfied with the results obtained – an ambitious agreement, reasonable from a financial perspective, without the need to be ratified by Congress.

On the side of developing countries ("Non-Annex 1 countries"), the French Presidency paid particular attention to the *"Group of 77 and China"*, the largest negotiation group in terms of numbers (134 countries) and political clout. At the Bonn intersessional meeting from 19 to 23 October 2015, Nozipho Mxakato-Diseko, the very brilliant South African Ambassador and President of the Group of 77 and China, had been particularly assertive over the financial subjects, strongly contesting the OECD-CPI report and the Lima meeting, conducted outside the Convention. Under her leadership, the group of developing countries had joined forces back in October and during the two weeks at Le Bourget, maintaining the unity of her large group on positions of strong negotiations on financing and adaptation. The reaction of the Africa group and AOSIS group, within the G77, had also been subject to constant attention. The AILAC Group (Alliance of Latin America and the Caribbean, which Peru belongs to) played a progressive role on finance, seeking bridges between the positions of developing countries and developed countries. Certain demands relating to financing, in particular from Turkey on access to financing, and from Africa on taking vulnerability into account, or from AOSIS on loss and damage, required specific consultations.

The importance of the *"issue of the 100 billion"* was very much in the forefront of the mind of the COP Presidency. In addition to the G77 and China, it was also the combat for a number of NGOs, which consider that the financing for climate is a promise which has not been kept since 2009. The French President had himself publicly said on several occasions that this issue would be the justice of the peace for the Paris Agreement.

Finally, and very fortunately, the work conducted beforehand by the Presidency and all the parties made it possible to avoid making this *"issue of the 100 billion"* a sticking point. A conference call with developed countries, organized by France a week before the opening of the Le Bourget meeting, brought about a new mobilization, taking the form of a draft communiqué summarizing all the announcements made by Annex II countries and international financial organizations, including those announced between the Lima meeting and the opening session of COP21. This draft communiqué was finally not necessary and was transformed into a simple page posted online at the end of the first week of COP21 on the UNFCCC website, where all the total commitments for climate finance were listed under the title "*Where do we stand on climate finance?*"[5]. Another precaution taken is that France had worked with developed countries on a draft declaration on financing for adaptation, with the mention of an overall target, in response to a demand from the Africa Group, which in the end did not materialize. The French Presidency was prepared to make a declaration in this sense, if it had found itself in a situation of deadlock, which was not the case.

It should also be noted that governments were also given confidence by the announcement of the initiatives taken by various key stakeholders in the private financial sector which, however insufficient they may still be, nevertheless surprised by their force at the start of COP21. Regarding Climate finance, the Lima Paris Action Agenda (LPAA) recalled the commitments made[6] in particular by:

- The financial regulators, with the announcement by the Chair of the FSB of the creation of a Task Force on Climate-related Financial Disclosures (TCFD) to introduce, on a voluntary basis, transparency on the climate-related risks on financial markets (see above);

- The investors committed to decarbonize their portfolios. The Portfolio Decarbonization Coalition (PDC), launched by Amundi, AP4, UNEPFI and the Carbon Disclosure Project, exceeded its objective in Paris by six times, by gathering 23 investors with USD 600bn of assets under management. The Divest-Invest Movement, including 115 not-for-profit organizations pledged to divest from the two hundred main fossil-fuel producing companies and invest 5% of their portfolios in climate-friendly solutions. The Montreal Climate Pledge, gathering investors who accept to measure their carbon footprint, was signed by some 120 investors, accounting for over USD 10bn of assets. As for France, during COP21, the Caisse des Dépôts pledged to earmark EUR 15bn to direct green investments by 2017. It also set the objective of reducing by 20% the carbon footprint of its listed portfolio of shares, *i.e.* EUR 55bn.

- The insurance sector also came to explain its efforts to address the climate impacts already in motion. In Le Bourget, the International Cooperative & Mutual Insurance Federation (ICMIF) launched the "5-5-5" initiative, which aims to protect 25 million additional people in the poorest regions by 2020, *i.e.* 20% of the commitment made by the G7 in 2015 to protect 400 million additional poor people from natural disasters, which is crucial for global growth. Insurance companies have also made commitments like investors: for example, prior to COP21, Axa announced its withdrawal from carbon by the end of 2015 and a tripling of its green investments by 2020. At the United Nations Climate Summit in September 2014, the insurance sector set the objective of doubling the level of its green investments by the end of 2015, which at the time stood at USD 42bn. In Le Bourget, the sector stakeholders announced that they had achieved an amount of USD 109bn;

- Furthermore, in 2014, the global green bond market achieved USD 37bn of new issues and again USD 38bn in mid-November 2015 (to end the year at USD 42bn), according to the announcement made at Le Bourget by the Executive Committee of the Green Bond

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[5] http://newsroom.unfccc.int/fr/flux-financiers/liste-d-annonces-recentes-de-financement-pour-le-climat/

[6] http://newsroom.unfccc.int/lpaa-fr/financements-prives/communiqu%C3%A9-de-presse-lpaa-focus-finance-priv%C3%A9e/

Principles. This is still a long way off the volume consistent with the 2 degrees scenario. Progress is also expected in the methodology for accounting for these financing instruments dedicated to the climate.

- Banks also made commitments, albeit much more modestly, towards an orderly transition of financing for sustainable development and growth. Some publicly announced that they were stopping financing highly emissive business sectors. Others pledged to issue or subscribe to green bonds to finance new projects in renewable energies or energy efficiency. Public and private institutions developed a set of five principles to mainstream climate action into financial institutions which will be launched at COP21.[7]

B. The finance negotiation at Le Bourget: A drama in three acts

1. Act I: A first undecisive phase

The first week, under the responsibility of the ADP (Ad Hoc Working Group on the Durban Platform for Enhanced Action), then under the responsibility of the Presidency of COP21, with the facilitation phase conducted by the German and Gabonese ministers from Sunday 6 to Tuesday 8 December, were certainly useful. Everyone was able to express themselves and to be listened to. That being said, with hindsight, it is difficult to say whether these days were decisive in the production of the text on the *"finance"* part itself. While they were productive, it is above all through the attitude they showed, experienced by the Parties under the sign of responsiveness, transparency and the determination of the French Presidency to bring the negotiations to fruition.

During this long initial phase, debates were especially simplified by the withdrawal of certain demands. It is the developing countries themselves which took responsability and gradually withdrew their conditions, in particular on the pre-2020 climate finance. It is the G77 negotiators which removed, in the discussions on the decisions annexed to the Agreement, at the start of the second week, the paragraphs referring to this, in particular the idea of a target for adaptation, despite the insistence of the African group on this point, to the surprise of the negotiators of developed countries. For what reason? The French Presidency consequently assumed that the field had been laid out for the pre-2020 period and that developing countries deemed that it was preferable to focus their forces on the post-2020 period. In addition, there was not in reality unanimous agreement over the idea of an adaptation target within the G77 group, with many developing countries preferring that the ultimate part of adaptation be determined by the requests of countries, even if they all wanted to see an increase in the share of financing for adaptation. This remains a pressing issue ever since.

2. Act II: The French proposal of Thursday 10 December

The turning point in the negotiation on the climate finance component came about in the evening of Thursday 10 December, when France presented the second version of the draft agreement and the related decision, the first draft being entirely under the responsibility of the Presidency.

[7] http://www.worldbank.org/content/dam/Worldbank/document/Climate/5Principles.pdf

An analysis of the developments in the text provides an understanding of how the Presidency opened up the game and shifted the lines in a very offensive manner. On climate finance (Article 9 of the draft agreement), the nine options which remained in the previous text, dated Wednesday 9 December, had disappeared, the number of brackets had been significantly reduced, and there were marked developments compared to the previous version, in particular:

- On the characterization of climate finance which developed countries are required to provide to developing countries. The brackets had not been removed and leave the discussion still largely open: "*Developed country Parties shall provide [new,] [additional,] [adequate,] [predictable,] [accessible,] [sustained] and [scaled-up] financial resources to assist developing country Parties*";
- On the mobilization of funds, the threshold of USD 100bn a year and the principle of a regular revising upwards are proposed in the Agreement itself, without brackets or options;
- Finally, developed countries accept more transparency in their financial commitments for the climate.

This wording surprised the parties, as it was clearly going strongly in the direction of the requests of developing countries. It was, in my view, the turning point in the negotiation, with the Presidency very deliberately choosing to once again be at the initiative, by placing the bar *"on the left"*, where no one was expecting it, causing a moment of acute tension with Annex II countries in the corridors and adjacent rooms, while Laurent Fabius chaired the "*Indaba of solutions",* without batting an eyelid and until the dawn of Friday 11 December.

The choice of placing such a favorable text for developing countries in the climate finance component was assumed and deliberate. The Presidency was thereby showing its partners from the South that it was willing to stretch out the negotiation with the group of developed countries in order to obtain as ambitious an agreement as possible. Because the cursor was placed so far on the *"finance"* component, the French Presidency was able to maintain a high level of requirement on the other two decisive components of the Agreement, on *"ambition"* and *"differentiation"*.

3. Act III: The landing of the finance negotiation

Yet, following the heated night of Thursday to Friday, the text was far from being acceptable to all. The bulk of the negotiation was consequently settled during the day on Friday, the last day before the third and last version of the draft Paris Agreement was posted online at lunchtime on Saturday.

On the Friday morning, the French finance negotiators were rather uncomfortable. It was still not easy to identify the *"landing zone"*, the term coined by the UNFCCC negotiators, because the discussions had made few substantive advances and in view of the high level of tension on the previous night.

My dear friend Paul Bodnar, the White House negotiator on financial subjects, a former diplomat of the State Department with whom I had established relations at COP17 in Durban in 2011, then entered the scene, at the invitation of the Presidency, late Friday morning. Accompanied by the exceptional legal expert from the US negotiation team Sue Binaz, he joined Delphine Eyraud and me for the four of them to prepare together in a small room of the French delegation a landing zone acceptable for all on the most sensitive points of the finance package.

This compromise provided that *"The developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention."* An addition was made to recognize and encourage the contributions of non-Annex I countries to the financial effort *("Other Parties are encouraged to provide or continue to provide such support voluntarily").* The Presidency especially obtained from the Americans in the decision annexed to the Paris Agreement for climate finance flows to be maintained until 2025, according to the same modalities as those provided for until 2020 *("Developed countries intend to continue their existing collective mobilization goal through 2025").* There was then an agreement on the definition *"before 2025"* to *"set a new collective quantified goal from a floor of USD100 billion per year"*, with a base of contributors implicitly extended at this date.

Following this meeting, Paul Bodnar left to discuss this text of balanced compromise with the Umbrella group and with the representatives of the European Union. At the same time, the French team discussed with the European team and with the Peruvian delegation, with whom a great relationship of trust was established throughout the year and which proposed several useful amendments that were incorporated into the final version.

Early in the evening, Arnaud Buissé, from the french Treasury, and I met around the same table with Paul Bodnar and Sandea de Wet, the highly competent number 2 of the South African Delegation and financial negotiator of the G77, to test the compromise identified on the most sensitive points and find a landing zone. Following a rather cool start to the meeting, the parties pledged to consult their mandators on the bases outlined verbally. The text was subsequently passed to the South Africans *ad referendum* with the G77 and China.

Very late in the night of Friday to Saturday, I presented the three articles (9, 10 and 11), which I was responsible for, and the paragraphs of the associated decision, to Laurent Fabius, Laurence Tubiana and the entire team responsible for drafting the final Agreement. *"This is fantastic. We have an agreement now!"*, concluded Christiana Figueres after its presentation. Laurent Fabius, who was also positively surprised, was, however, concerned about the reaction of the G77. Indeed, South Africa expressed remaining dissent on the Saturday morning, by way of simple e-mail, but in terms that were too weak to stand in the powerful way of the path towards the approval of the Paris Agreement.

But this was not without a final moment of strong tension! On the Saturday lunchtime, as luck would have it, the latest version of the text was given to me, whereas it had already been sent off to be printed. To be on the safe side, I checked the parts he was responsible for and saw that numerous paragraphs of the decision related to the Agreement were still included in a previous version, which was unacceptable to the parties, meaning that if this text was disseminated, there was a risk of setting off on a new round of negotiations, whereas the conference was already a day late. The text was urgently corrected by Delphine Eyraud and me under a lot of pressure in front of a small computer with the UNFCCC secretariat, while Laurent Fabius and the French President were already speaking in the main room. This unfortuned episode led to a delay of over an hour before the dissemination of the final text. There was more fear than harm, but what a rush of adrenaline for the entire team!

The finance negotiators were also especially extremely proud that in the final version of the text, and at the fortunate suggestion of Paul Watkinson, their subject is set out right from Article 2 which defines the objectives of the Agreement. Indeed, on a par with mitigation and adaptation, *"This Agreement (...) aims to strengthen the global response to the threat of climate change (...) by: (...) c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."* There could not have been a more wonderful conclusion possible after an entire year of efforts!

Conclusion: the importance of being offensive

Without falling into teleology and rewriting the past, and if ever there was a lesson to be learned from this year of negotiation on climate finance, it could be said that the success came about through the adoption of an integrated organization and a confident and transparent working method. It was also especially by never being defensive but, on the contrary, guiding and surprising our partners throughout the year.

Throughout the year, the conviction of Laurent Fabius, Laurence Tubiana and I was that it was wrong to *"play a defensive role"* over climate finance and that it was necessary to prevent the risk of being accused of not having sufficient ambition for the agreement. To avoid this, France deliberately and repeatedly took the initiative. If two moments were to be pinpointed, the first would be the publication in Lima of the OECD-CPI report on climate finance flows, and the second, the version of the draft agreement put on the table at Le Bourget on Thursday 10 December.

In the preparation of the Lima meeting, all developed countries, perceived by the G77 and China as allies of France, were on the defensive. According to them, it was necessary to say as little as possible, and especially avoid quantifying figures. France created a surprise by taking the risk of an independent report, the only way to put the negotiation on a sound basis. It was, of course, unaware of the figure which would result from the assessment, even though specialists from the Treasury were confident that it would be appropriate and that a lot had already been done for climate finance in previous years. The OECD's choice was important: an organization independent from both the French Presidency and also the most observed Parties, such as the USA. This quantification was contested – due to the methodology of the accounting and the element of surprise of not having consulted developing countries on the opportunity of such an assessment – but it was defensible and served as a reference. In addition, developing countries were pleasantly surprised by the fact that the French Presidency and developed countries had thereby demonstrated a level of transparency and commitment which they had not been used to in previous years and in which they had, to be honest, maybe ceased believing in. With this quantification on the table, developing countries in turn had to move.

During the last days of Le Bourget, France made the tactical choice of placing the cursor on climate finance well into the camp of developing countries, which are the largest in numbers, and symbolically the most in demand of an ambitious agreement, joined by a number of NGOs for this. This choice would have been impossible without the capital of trust built up throughout the year, strengthened at Le Bouget by a clear, open and transparent negotiation method. France kept its word on the method. On the substance, it showed collective ambition, without anyone being able to accuse it of bias, and it succeeded in convincing.

Appendix 1: The passages of the Paris Agreement concerning the finance agenda

Article 2 of the Paris Agreement

1. This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:

(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and

(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

2.This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

Article 9 of the Paris Agreement

1. Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention.

2. Other Parties are encouraged to provide or continue to provide such support voluntarily.

3. As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts.

4. The provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.

5. Developed country Parties shall biennially communicate indicative quantitative and qualitative information related to paragraphs 1 and 3 of this Article, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties. Other Parties providing resources are encouraged to communicate biennially such information on a voluntary basis.

6. The global stocktake referred to in Article 14 shall take into account the relevant information provided by developed country Parties and/or Agreement bodies on efforts related to climate finance.

7. Developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines to be adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement, at its first session, as stipulated in Article 13, paragraph 13. Other Parties are encouraged to do so.

8.The Financial Mechanism of the Convention, including its operating entities, shall serve as the financial mechanism of this Agreement.

9. The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans.

Paragraphs of the Decision related to the Paris Agreement

Finance

53. *Decides* that, in the implementation of the Agreement, financial resources provided to developing countries should enhance the implementation of their policies, strategies, regulations and action plans and their climate change actions with respect to both mitigation and adaptation to contribute to the achievement of the purpose of the Agreement as defined in Article 2;

54. *Also decides* that, in accordance with Article 9, paragraph 3 of the Agreement, developed countries intend to continue their existing collective mobilization goal through 2025 in the context of meaningful mitigation actions and transparency on implementation; prior to 2025 the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall set a new collective quantified goal from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries;

55. *Recognizes* the importance of adequate and predictable financial resources, including for results-based payments, as appropriate, for the implementation of policy approaches and positive incentives for reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks; as well as alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests; while reaffirming the importance of non-carbon benefits associated with such approaches; encouraging the coordination of support from, inter alia, public and private, bilateral and multilateral sources, such as the Green Climate Fund, and alternative sources in accordance with relevant decisions by the Conference of the Parties;

56. *Decides* to initiate, at its twenty-second session, a process to identify the information to be provided by Parties, in accordance with Article 9, paragraph 5, of the Agreement with the view to providing a recommendation for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session;

57. *Also decides* to ensure that the provision of information in accordance with Article 9, paragraph 7 of the Agreement shall be undertaken in accordance with modalities, procedures and guidelines referred to in paragraph 96 below;

58. *Requests* Subsidiary Body for Scientific and Technological Advice to develop modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Agreement for consideration by the Conference of the Parties at its twenty-fourth session(November 2018), with the view to making a recommendation for consideration and adoption by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session;

59. *Decides* that the Green Climate Fund and the Global Environment Facility, the entities entrusted with the operation of the Financial Mechanism of the Convention, as well as the Least Developed Countries Fund and the Special Climate Change Fund, administered by the Global Environment Facility, shall serve the Agreement;

60. *Recognizes* that the Adaptation Fund may serve the Agreement, subject to relevant decisions by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement;

61. *Invites* the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol to consider the issue referred to in paragraph 60above and make a recommendation to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its first session;

62. *Recommends* that the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement shall provide guidance to the entities entrusted with the operation of the Financial Mechanism of the Convention on the policies, programme priorities and eligibility criteria related to the Agreement for transmission by the Conference of the Parties;

63. *Decides* that the guidance to the entities entrusted with the operations of the Financial Mechanism of the Convention in relevant decisions of the Conference of the Parties, including those agreed before adoption of the Agreement, shall apply mutatis mutandis;

64. *Also decides* that the Standing Committee on Finance shall serve the Agreement in line with its functions and responsibilities established under the Conference of the Parties;

65. *Urges* the institutions serving the Agreement to enhance the coordination and delivery of resources to support country-driven strategies through simplified and efficient application and approval procedures, and through continued readiness support to developing country Parties, including the least developed countries and small island developing States, as appropriate;

Appendix 2: Report of the meeting in climate finance held in Lima on 9 October 2015

Climate Finance Ministerial Meeting, Lima Oct. 9th Co-Chairs' Conclusions

Alonso Arturo SEGURA VASI, Minister of Economy and Finance, Peru
Michel SAPIN, Minister of Finance and Public Accounts, France

On October 9th, on the occasion of the 2015 Annual Meetings of the World Bank Group and the International Monetary Fund, more than 50 ministers and 20 heads of international financial institutions discussed current progress and perspectives regarding climate finance. The meeting aimed to provide the climate change negotiations with useful insights and momentum, while respecting the UNFCCC as the only legitimate forum for negotiations on climate finance.

Enhanced transparency on the USD 100 billion mobilization

The necessity of meeting the USD 100 billion commitment by 2020 was reaffirmed. The report produced by the OECD at the request of the Peruvian and French governments was regarded as a very useful input to enhance transparency on this important question. Based on the latest available data and methodological developments, the OECD estimated that USD 62 billion had been mobilized in 2014 (and an average of USD 57 billion mobilized for 2013-2014). Participants recognized that building a common understanding on accounting and reporting methods would be important. To go a step further in that collective analytical effort, it is now essential that all stakeholders can reflect upon the content of the OECD report as it raised an interest for further discussions on the methodology and assumptions made. In that regard, this report could usefully inform the ongoing work of the Standing Committee on Finance of the UNFCCC. Finally, the discussion also illustrated the need for the Paris Agreement to substantially strengthen the transparency provisions for reporting climate finance.

Perspectives of increased climate finance by 2020

During the meeting, prominent announcements were made by a number of countries and international institutions. Taken together, these announcements provided encouraging perspectives for the scaling up of climate finance by 2020. Nevertheless, further work is still needed in order to precisely assess to which extent they will contribute to meet the US
D 100 billion commitment. The urgent need to raise the levels of public and private finance for adaptation, in particular for the most vulnerable countries, was widely stressed.

Innovative sources of finance, such as the potential revenue from carbon tax or taxation of bunker fuels, were also mentioned.

Several concrete initiatives were welcomed by the participants. In particular the G7 initiative for climate risk insurance and early warning systems, and the Initiative for Renewable Energy in Africa, recently endorsed by the African Union, were highlighted as promising developments. The critical role of the Green Climate Fund in promoting a paradigm-shift towards low-emission and climate-resilient development pathways was also emphasized, along with the need to strengthen it over time.

Transitioning to a low-carbon and climate-resilient development

A massive shift of capital will be required to transition towards a low-carbon and climate-resilient economy, in which the private sector must play a crucial role. The UNSG's assessment of the mobilization taking place among the finance community, in particular since the September 2014 Summit, outlined how the finance community's response to climate change had reached clear inflection points, while also stressing the need to develop appropriate strategies for sustaining and enhancing this trend. The Chairman of the Financial Stability Board emphasized that climate change can jeopardize financial stability, and announced that his institution would elaborate proposals for the G-20 to evaluate how to disclose climate risks.

The discussion highlighted that both developed and developing countries governments have a crucial role in designing policies that encourage the private sector to invest in low-carbon resilient growth. Among others, the importance of carbon pricing, elimination of fossil fuel subsidies, green bonds and clear investment strategies were stressed.

National strategies and international cooperation to support low-carbon and climate-resilient growth.

Many developing countries highlighted their national strategies, evoking in particular their INDCs, and their effort to mobilize domestic resources, access international support, and attract private investments. The profound interlinkages between climate change mitigation and adaptation, poverty reduction and sustainable development in general were clearly highlighted.

In that context, the need for continued international support was also stressed. While support from both developed and developing countries was recognized as important, it was recalled that developed countries should continue taking the lead in these endeavors.

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Overall, this unprecedented meeting demonstrated a strong involvement of Ministers of Finance of both developed and developing countries in climate finance discussions, and signaled a collective commitment and momentum for further mobilization and transparency of climate finance.

As co-Chairs, we are confident that these positive discussions will contribute to paving the way towards a successful outcome in Paris, and beyond, towards the realization of long-term sustainable development.

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The Peruvian and French Governments express their warm thanks to the World Bank Group for their logistical support in organizing this meeting.

Annex: financial announcements

The following information is a transcript of the announcements made during the meeting:

- France confirmed that it would, by 2020, increase its annual climate finance effort from €3bn currently to more than €5bn through: (i) €4bn more loans by Agence Française de Développement, of which 50% have climate cobenefits, and (ii) €370million more grants, mainly for adaptation.

- Germany recalled that it aimed at doubling its international climate finance by 2020 compared to 2014;

- World Bank announced that it would, provided support of its Governors, grow climate finance by a third, from 21% to 28% of annual commitments by 2020. If financial capacity maintained at today's level in real terms, this means reaching $16 bn/year public finance. With the intent to continue to leverage private co-financing at current levels, this would mean an additional $13 bn/year mobilized private finance.

- United Kingdom recalled that it would double annual climate finance between 2014 and 2020; this will represent £5,8bn over 2016-2021.

- In the context of South-South cooperation, China highlighted that it would make available $3,1bn through the Climate Cooperation Fund, to support developing countries including capacity-building.

- AsDB announced that it would more than double its annual climate financing, up to $6bn/year in 2020. $4bn will be for mitigation, $2bn for adaptation.

- EBRD indicated that it would increase the share of environment/climate financing from 25% to 40% of annual commitments by 2020; this will provide $20 bn over the next 5 years, vs $20bn over the last ten.

- AfDB announced that it would triple its climate financing to reach nearly $5bn annually by 2020.

- LaDB announced its aim to double the volume of its climate finance by 2020; this would mean increasing from an average of 14% of annual commitments over the last three years to 25-30% average commitment by 2020.

- European Commission announced its intention to more than double climate finance grants from EU budget up to 2020, reaching €2 bn/year on average.

- Sweden announced its intention to nearly double bilateral climate support in 2016 compared to 2015.

- Netherlands announced that it would increase its climate finance effort by €100 million in 2015 (to €440 million) and by € 100 million more in 2016 (to €540 million).

- EIB announced that it would aim to increase from 25% to 35% of annual commitments for climate change.

- Luxembourg reiterated that its climate finance contribution would reach the cumulative amount of €120 million over 2014-2020 period.