TWN Bonn News Update 6
www.twnside.org.sg
Published by Third World Network
3 June 2010

AWG-LCA discusses Finance Board, quantum, links between Fund and thematic issues, etc…

Bonn, 3 June (Meena Raman) – Developed and developing countries were divided on the need for a Finance Board under the United Nations Framework Convention on Climate Change. Led by the G77 and China, developing countries expressed support for the establishment of a Finance Board, while developed countries were opposed to the idea, stressing the need for country-driven approaches.

This exchange took place during the meeting of the contact group under the Ad-hoc Working Group on Long-term Co-operative Action (AWG-LCA), which met on 2 June to discuss issues relating to finance.

Another issue that drew attention was the amount of funds needed, with the G77 and China (supported by other groupings and countries) calling for assessed contributions from developed countries amounting to 1.5% of their GNP. China, agreeing with this, said that USD100 billion was not an adequate figure. (1.5% of developed countries' GNP is about USD600 billion).

Other issues included the role of the UN Secretary General's High Level Advisory Group on Climate Change Financing (AGF), which is a process outside the UNFCCC, as well as the proposal for the Copenhagen Green Climate Fund under the Copenhagen Accord. While several developed countries supported the CGF, other countries were more cautious, with Tuvalu warning that the Copenhagen Green Climate Fund was being used for coercive political purpose to force countries to sign up to the Copenhagen Accord

Margaret Mukhahana Sangarwe of Zimbabwe, the Chair of the AWG-LCA also chaired the contact group. She provided a list of questions to guide Parties in the discussions.

Among the questions included the following – how to ensure new, additional, predictable and adequate financing to support enhanced action in developing countries; what should be the relationship between the financial mechanism (proposed to be established under the UNFCCC) and the proposed institutional arrangements for adaptation, technology, capacity building and mitigation; should the facilitation for provision of financial support be performed by a Finance Board or by the proposed bodies for mitigation, adaptation, technology development and transfer and capacity building; how the matching of action and support works; should the proposed registry mechanism (for registering the Nationally Appropriate Mitigation Actions [NAMAS] of developing countries) be housed under the financial mechanism or should it be a stand-alone mechanism and how would it work; how to ensure coherence in policy recommendations of the Finance Board and thematic institutional arrangements related to the issues of financing; what should the relationship of a new climate fund be with existing institutional arrangements under the financial mechanism (like the Global Environment Facility); how can governance of the financial mechanism be made equitable and balanced?

On the issue of the sources of finance, **Pakistan**, speaking for the for **G77/China** said that additional resources can only be assured if it comprised of an assessed scale of contribution from developed countries. It said that this could be 1.5% of the GDP of developed countries. Given the scale of funding needing, Pakistan said that financing from supplementary sources could be considered but the primary source of funding was through public funding.

On the issue of the relationship between the thematic bodies and the financial mechanism, Pakistan said that this was an important component of the overall strategic picture. The relationship had to be strong and direct. Thematic bodies provide the guidance to the Finance Board. It said that the Group was of the view that the Finance Board should be facilitating the matching of actions and support.

Pakistan added that the role of the governance body of the operating entity of the financial mechanism should be to receive funds and determine the allocation and disbursement of the funds. On the question of how to ensure coherence in policy recommendations of the Finance Board and the thematic institutional arrangements, it said that this aspect needs to be evolved.

Brazil speaking for the **G77 and China** (as it coordinates matters related to mitigation for the Group) provided additional views on the issue of the recording mechanism of mitigation actions and of support relating to the registry. It said that this has to do with certain characteristics of the NAMA process and hence has implications for where the mechanism is placed.

It said that the Group had a strong view of the country ownership of NAMAS both in its formulation and in its implementation. The process of recording of a NAMA and of deciding on the financing of it should ensure the guarantee of financing. Once a NAMA is planned and once it is placed and recorded in some fashion, there has to be a guarantee in the flow of financing.

Brazil drew from the experience of the National Adaptation Program of Action (NAPAs), where the NAPAS were drawn up with the expectation of financing but this was then not met. It said that there was need for a direct link between planning, presentation and implementation of the NAMAS.

The mechanism for recording of NAMAS would have to dialogue with many of the institutional structures not only related to funds, but also with the Technology Executive Committee. Technology inputs and capacity-building inputs are all necessary. NAMAS are specific to country conditions. There has to be institutional relationship with not only the funds but with also other institutions in the design.

Brazil speaking for itself said that the creation of a new fund with an improved governance structure was needed. There was need for coordination and coherence in the system as a whole. Coordination was necessary and the concept of the Finance Board comes in because of this need. It was the structure that has the responsibility of looking at the big picture of different activities in financing, presenting of information and organising information on this, as well as in considering the adequacy of what is being done in the different spaces.

In a multi-entity space, there is variety and fragmentation but coherence and coordination is then needed. This is the first function of the Finance Board. There is a distinction between the Finance Board and the specific funds including the board of the new fund. Disbursement decisions are for the specific funds rather than one specific single board for the system as a whole.

Brazil said that countries decide on what they are doing in mitigation and adaptation and this is country driven. The measurement, reporting and verification of support is one of the functions identified for the Finance Board. In a system where there are different entities, there is need for the collection of information from many entities. This is the role of the Finance Board.

The Board also has a role in the assessment of the financial needs and of sources and flows. There is a difference between the general assessment of needs and a specific assessment of proposals. There is a consideration of the general level of financing that is offered vis-à-vis the financing that is needed. The Finance Board looks at the big picture and its accountability is to the Conference of Parties.

Zambia, speaking for the **Least Developing Ccountries** stressed the need for funding from public sources, with a minimum level of at least 1.5% of the GDP of developed countries. Private sector sources can be complementary. On the issue of the relationship between the thematic bodies and the financial mechanism, it said that Parties should be able to submit requests for funding to the thematic bodies. Facilitation is done by the thematic bodies while the overall supervisory role is that of the Finance Board. It said that the registry mechanism should be under the financial mechanism.

Egypt speaking for the **African Group** said that the financial architecture under the Convention should consist of the Finance Board that functions under the supervision of the COP and is accountable to it. The Finance Board's functions include to assess sources of finance, measure and verify the flows of international finance to support activities to address climate change, assess the contributions of Annex I Parties to provide financial support to non Annex I countries, for approval by the COP.

The architecture also consists of the different funds under the Convention including the new Green fund, as operating entities that are under the supervision of the Finance Board. There should be specialized funding windows for the different thematic areas under the operating entities. A committee under the Finance Board that will measure, report and verify the financial support to ensure the fulfillment of financial commitments.

On the question on how to ensure scaled up, new and additional, predictable and adequate funding. the African Group was of the view that to ensure the adequacy and predictability of the funding, this new and additional funding should come from developed countries public sources that amount to at least 1.5% of GDP of Annex I countries based on assessed contributions from Annex I and through COP decisions. Other private sector sources of funding shall supplement the provision from the public. On the relation between the financial mechanism and the relevant mechanisms in the other thematic areas, the African group was of the view that the Finance Board will allocate finance based on the technical recommendation conveyed by the different structures in the thematic areas.

Barbados, speaking for **AOSIS** stressed the need for provisions for ensuring compliance of financial commitments by developed countries. On the issue of the financial mechanism and its relationship to the thematic bodies, each body has its own governance structure. The Adaptation Committee for example deals with guidelines for the approval of adaptation projects and the financial mechanism would be making disbursements rather than doing the technical work. It said that the registry for NAMAS should be a stand-alone mechanism with clear links to the financial mechanism. The registry could perform many other functions. It also drew reference to the Adaptation Fund Board as a good model to be used in considering new entities.

The **United States** said that the Copenhagen Accord was a big step for the post-2012 architecture and stressed the Copenhagen Green Climate Fund (CGCF) under the Accord. It said that the new fund and the GEF had complementary roles. It said that there was need to also consider the roles of other multilateral funds as well as the private sector.

The US was not in favour of a Finance Board. It said that there cannot be coherence as country ownership was important and the Board was not consistent with a country-driven approach. It did not want new body for the allocation of resources. It said that existing institutions needed to be more effective. It added that the Subsidiary Body on Implementation conducts reviews of the financial mechanism and provides guidance. Parties need to look at that process. The new Finance Board will consist of the same people considering the same issues in another forum. The Finance Board was not necessary.

On the issue of the sources of financing, the US referred to the UN Secretary-General's AGF and said that Parties should wait for the report of the Group to provide additional inputs. On the issue of the registry, it said that this was a tool to access finance and was not a database. It was not a new bureaucratic step but had a facilitative function to match actions and money.

Norway also supported the AGF. It also said that climate change financing should be additional. **Australia** said that it was committed to the Copenhagen Green Climate Fund. It also welcomed the UN SG's AGF initiative and proposed a placeholder to reflect its work and expert advice. **New Zealand** said that before deciding on the Finance Board, there was need to look at the functions of the Board. There was need to strengthen the existing funds and bodies. It also suggested waiting for the outputs of the SG's AGF work.

Japan stressed the need for avoiding of overlap and red tape. It also supported the Copenhagen Green Climate Fund and said it was best to use existing institutions that can implement climate finance. It said that there was no need for an oversight organization and a country-driven process was necessary for effective and speedy implementation of delivery of finances. It was not in favour of the Finance Board as it would be an obstacle between the COP and the CGCF. It also support the work of UN SG's AGF.

Spain, speaking for the **EU** referred to the Copenhagen Accord for the quantum of funds to be USD 100 billion to be mobilized in the context of meaningful mitigation actions and transparency. It said that sources could include public, private, the carbon market and other innovative sources. The EU said the SG's AGF could provide advice in this regard. On a new fund, the EU said that it was not in favour of this before but was now supportive of the establishment of the Copenhagen Green Climate Fund.

It also expressed caution in relation to other bodies that were being proposed such as that dealing with forests (REDD-plus) as these were advisory and not disbursing funds. It found the Finance Board problematic. It said that the functions should be looked at to see how these functions can be performed. It also said that there should be a role for the multilateral development banks and the private sector.

Singapore said that that while it was the UNFCCC that had authority to make decisions on the financial mechanism, it was open to 'outside' ideas which are helpful, referring to the UN SG's AGF group. It said that it was useful for the AGF be integrated in formal way.

On the link between the technical bodies and the financial mechanism, it said that the technical bodies focus on what to fund, while the financial entities focus on how to fund them. It also stressed the need for co-ordination. It said that there were two types of entities envisaged. One is for oversight like the Finance Board and the other the operating entity like the Copenhagen Green Climate Fund. It said that there was need to address the idea of the Finance Board and not exclude this option.

Pakistan speaking for the G**77 and China** in response said that it found the session constructive and that it was willing discuss with the Group on role of SG's AGF and what relationship that can with UNFCCC. On the issue of coherence, it said that there was a role for the Finance Board for this and its functions can be looked at.

Venezuela, referring to the UN SG's AGF said that it was outside the UNFCCC. It was a closed group of 13 countries and involved private banks. It said that the recommendations of the panel could not automatically be assumed as binding on the Parties under the UNFCCC. It said further that the issue of financing was a long-term one and is about governance. There was lack of coordination between the bilateral and multilateral processes and governance was a major concern. In this regard, coherence cannot be done at the national level.

Bolivia said that the predictability of the financial mechanism is important and there cannot be variables. The financial mechanism must receive funds from the public sources at a certain percentage of the GDP of developed countries. Private funds and markets are not predictable and do not have commitments under the UNFCCC as governments do. **Nicaragua** also echoed similar views.

Antigua and Barbuda said that when the GEF was formed, it was done from the point of view of donors. In GEF 5 (5th replenishment), there is talk of country ownership which was encouraging, although 16 years later. The GEF project cycle was 4 years and this was ridiculous. If the GEF was placed under the control of the Convention, it would not change the governance structure of the GEF. Access to finance must be simple and easy and the poorest and the smallest must have a say in the governance

Guatemala said that the current composition of the International Financial Institutions do not have a representative board, unlike the proposed Finance Board whose voice and representation is not determined by economic weight.

Tuvalu, said that there were problems with the current financial arrangements which did not have representation of all countries, and therefore there was need for a new financial arrangement. Referring to others' references to the Copenhagen Green Climate Fund, it saw the fund a political promise. It does not provide for long-term scaled up predictable funding. Parties were already seeing an uncoordinated scramble for the use of the fund, referring to forest funding pledges as an example. Countries are also claiming existing bilateral pledges as part of the contribution to the fund. The CGCF is also being used for coercive political purpose to force countries to sign up to the Copenhagen Accord. This is an unsavory carry over from Copenhagen. The UN has higher ideals than this sort of coercion. Referring to the UN SG's AGF, it said that it was outside the UNFCCC and is an ad-hoc process that is unlikely to provide long-term solutions.

China supported the G77 view that the scale of funding required should be an assessed contribution of the GDP of developed countries such as 1.5%. It said that USD 100 billion was inadequate to address climate change. The funding should be new and additional and managed by the financial mechanism of the Convention. There was also a strong and direct link between the Finance Board and the thematic bodies. The Finance Board allocates resources. On the US SG's AGF, it welcomed the initiative but said that it should be clear that all decision-making over finance is for Parties under the UNFCCC.

On the question of the relevance of the UN SG's AGF, **Philippines** said that the question of resources for implementation is under the mandate of the COP. Any process outside the Convention that looks into mobilization of resources can only inform Parties. It was concerned that the process outside of the UNFCCC would have a life of its own. There were also resources being used to do this which can be better used to implement the Convention. On the issue of the Finance Board, it said that its role was to ensure coherence and coordination. There is no way that coherence is ensured if governance is outside the Convention, it said.

India questioned if USD 100 billion was adequate to address climate change. It said that was no alternative to public funding as the private sector can only play a supplementary role and that too is uncertain in future. Support through multilateral efforts outside the Convention cannot be seen as fulfillment of obligations for funding commitments under the UNFCCC. India also stressed that the differentiation between developed and developing countries cannot be diluted.