ecbi report

ecbi Oxford Seminar 2010

Proceedings

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Introduction

Starting in 2005, the European Capacity Building Initiative (ecbi) has organized annual Oxford Fellowships for senior developing country climate negotiators. The primary purpose of these Fellowships is to build trust and exchange procedural and institutional knowledge both among the developing country participants (Fellows), and between them and their European colleagues.

The Fellowship sessions includes a Fellowship Colloquium, where the Fellows have the chance to exchange views and experiences among themselves in 'closed session'. This is followed by a two-day Oxford Seminar to exchange views with their European counterparts. The following Report summarizes the discussions that took place at the Seminar this year, on 30 and 31 August 2010. Only participants who made presentations and session Chairs are identified in the Report - the Chatham House Rule is followed while summarising discussions.[1]

The role of the Fellowship Colloquium and Seminar in promoting frank discussions on many complex issues that hold up the climate negotiations has been widely acknowledged. This year, several senior negotiators from key negotiating blocks were present – including the Chairs of the Ad Hoc Working Group on Long Term Cooperative Action, the Africa Group and the Adaptation Fund Board.

As a direct outcome of the Fellowship and Seminar this year, a proposal put together by the Fellows for the governance of climate change finance formed the basis of a presentation by one of the Fellows at the High Level Geneva Dialogue on Climate Finance.[2]

I. Fast Start Finance as measure of trust, and indicator of the future

Presentation

The 2010 ecbi Seminar kicked off with a discussion of Fast Start Finance (FSF) to fund climate change activities in developing countries. Yi Xianliang, Head of the Climate Change Office of the Ministry for Foreign Affairs, China, made a presentation based on discussions among developing country Fellows during the 2010 ecbi Fellowship which took place during the previous week.

Yi said the promise of US$ 30 billion FSF made in the Copenhagen Accord is a crucial test of the intent of developed countries to stick by their commitments in the global climate negotiations. The figure is a fraction of the needs of developing countries as estimated by a number of global organisations. The UNDP, for instance, has put forward a relatively conservative figure of US$ 200 billion for mitigation, and US$49-171 billion for adaptation by 2030.

He said there were several issues to resolve on the Copenhagen pledge. For instance, it was not clear which elements of developed country contributions would count towards meeting the 30 billion commitment − will private sources be included, and will contributions made by developed countries towards the GEF fifth replenishment be counted as part of FSF?

Yi said only the EU had reiterated the intention to keep the promise for FSF made at Copenhagen, and their promise of US$ 7.2 billion is appreciated. A similar commitment from

[1] At the request of some participants, masculine pronouns are used throughout the Report to reinforce the Chatham House Rule and protect the anonymity of the speakers.

[2] See also Section II on Reforming the Finance Mechanism to Manage Long Term Finance.

other developed countries will be welcome. However, the commitment should not be passed off to private sources − there were indications of backtracking on contributions from public sources. Passing on the commitment to private sources will be seen as failure to meet commitments made under the Copenhagen Accord.

He concluded that the FSF pledge was meant to be an act of trust building. The broad perception among developing countries so far, however, is that it is not being met. Unless countries can get their act together in getting FSF to flow, there will be no outcome at Cancún − possibly none from Durban. Yi put forward the following list of questions prepared by the ecbi Fellows, to focus the Seminar discussion:

- What outcomes regarding FSF are possible at Cancún? Should the pledge made under the Copenhagen Accord be translated into a UNFCCC decision?
- How to ensure that the pledge is actually being met?
- Should access to FSF be conditional? Some countries make it conditional to accession to the Copenhagen Accord.
- What does "new and additional" mean?

Discussion

Translating the Copenhagen pledge into a COP decision

In the discussion that followed, a European participant said the Copenhagen pledge was meant to be a declaration of unconditional trust building, which was included in the Accord because there was no other place for it. He said the US is troubled by the idea that it may be transferred into an official decision of COP, with reporting requirements. This would change the nature of the pledge from a goodwill gesture to an official commitment. He asked developing country negotiators not to make it difficult for developed countries to keep the pledge, given that the pledged amount is considerably more than what has been on the table in the past. He agreed there were problems with coherence and reporting, but said the EU is working on building a reporting system. He did not think there should be talk of compliance committees and sanctions before any commitments from the other side of the table, for instance on NAMAs and MRV. As to when the funds will be made available, he said it might be in the second or even third year.

Another participant said the Copenhagen Accord was originally designed to be a COP decision, so it was difficult to understand why the US should be opposed to its becoming a COP decision at Cancún. He said a transparent tracking and compliance system for financial contributions was necessary for trust, and it was equally important that such a system should be designed and constructed by both sides by mutual agreement − not by the EU on its own.

A developing country participant said the Copenhagen pledge is seen as an indication of future process. The pledge was initiated by the developed countries, and was unrelated to what developing countries were asking for, or to needs-based estimates. Developing countries view the pledge as an indicator of what the future system will be, and are therefore waiting to see whether the funds will be new and additional, what sources they derive from, how they are disbursed, and whether access will be conditional. For instance, he said, some of the announcements made so far towards the pledge were neither new nor additional, but merely a recycling and re-branding of earlier announcements.

A European participant reflected that the US$ 30 billion was proposed as a trust building exercise to break the deadlock at Copenhagen. The commitment came late in the year, so the EU had to react quickly to decide what they were going to do with the funds and identify recipient needs. He said it takes time to find the most useful ways of using FSF − the European Commission has carried out a scoping study for capacity building needs through 2010, and a capacity building programme based on this study will be launched in 2011.

He also said it was challenging to get all the information they need from European Member States for reporting contributions. He was not sure to what extent Cancún should address FSF − he felt it would be better to recognise that the commitment exists in parallel and have a technical panel to discuss gaps and how to make the best use of the funds.

Conditionality

A developing country participant said some countries such as Japan and the US are making access to the funds conditional to signing of the Copenhagen Accord, and this is not helping the trust building process.

Another developing country participant quoted a US negotiator as saying that he didn't see why countries that do not sign the Copenhagen Accord should receive funds. The participant called this "checkmate diplomacy", whereby conditions were being laid on countries that have to face the adverse affects of a problem that they did not cause. He said the funds promised by the Accord are grossly inadequate − and it would only further distrust if contributions were recycled. Finally, he said US$ 7.5 billion should have been disbursed by the end of 2010, but there are no signs of it yet.

A European participant said the EU is on track with keeping the Copenhagen pledge, and has kept its promises in the past (for instance, the US$ 400 million promised in the Bonn Declaration). However, he said, it may not be a good idea to look so closely to the FSF as an indicator of long term performance as the developed countries want to have money on the table, but are learning by doing. When the FSF pledge was made in Copenhagen, the EU had already finished working on its budget for 2010. The EU is also trying to develop a system to register and report contributions. A side event on the latter was held in the June 2010 meeting in Bonn, and a full report will be presented at Cancún. The EU intends to keep its pledge, and demonstrate how a voluntary pledge is honoured. He said there would be no conditionality linked to the EU's contributions.

Another European participant said the EU was prepared to meets its commitments in an open and transparent manner, and will present how it plans to go about this in Cancún. The EU cannot, however, influence parliaments in other industrialised countries to take a certain decision. They can have a dialogue to urge them to do what they have committed to, and they are already doing that. This is the responsibility not only of the EU but also of all Parties.

A developing country participant said it was not helpful to start talking about how budgets work, and the problems they pose for developed countries to meet their commitments. Agreement on the wording around the 30 billion had been taking budgetary and Congressional constrains into account − that is why the Copenhagen Accord mentions the word "approaching" 30 billion instead of just 30 billion. Conditionality was not part of the agreement. The Accord does, however, mention that the funds should be "new and additional", and that the counting of such finance will be "rigorous, robust and transparent".

New and additional

A European participant said the concept of "new and additional" funds is difficult and not properly defined, and reduced to a mantra. He said at least part of the GEF contributions will count towards FSF − many European countries increased their contribution to include FSF contributions, resulting in a 34% overall increase in contributions.

Another European participant agreed that the concept of new and additional was problematic. He said the EU has already reported in Bonn on the first steps towards making FSF available, the dynamics of their contributions, and the projects they are aiming for.

A developing country participant said he agreed that the term "new and additional" was confusing and needed to be better defined, but he said it is not helpful to call the term a "mantra", especially after it is included in the text of an Accord signed by Heads of State. Given that the FSF was proposed by Annex I countries, he said the onus is on them to propose what is meant by "new" (as in not something that has already been promised before, including a date from which contributions will start to count) and by "additional" (where the acceptable norm is that contributions are additional to overseas development assistance, or ODA − but it is not agreed whether they are additional to present ODA contributions, or to the 0.7% commitment).

Another European participant said in the interests of efficiency, the EU had to use bilateral as well as multilateral channels and work with different partners to disburse climate finance. Under these circumstances, it was not always easy to establish what was new and additional, particularly when trying to mainstream climate activities into existing development processes.

A participant agreed that it would be difficult to distinguish activities related to climate change from development activities, and hence the additional cost of climate change. But, he said, developed countries should meet their financial obligation by contributing to a multilateral pot. This would remove the problem of having to distinguish climate activities from development activities for the sake of funding decisions. The European participant agreed that this might be the case once the multilateral pot for climate change has been established, but in its absence, existing channels have to be used for FSF.

A developing country participant pointed out that such multilateral funds already exist under the UNFCCC (the LDC Fund, Special Climate Change Fund, and Adaptation Fund). He said LDCs had already submitted National Adaptation Plans of Action, and contributions of the US$ 2 billion needed to implement them could easily classify as new and additional.

Another developing country participant said most developing country Parties think the funds promised under the Copenhagen Accord will be additional to ODA, and to GEF contributions. He said if the funds are disbursed bilaterally, developing countries must be told the criteria used to make decisions on which countries and activities will be funded. He agreed with the earlier suggestion that the existing funds under the convention should be used to disburse the funds.

A developing country participant proposed the idea of "overseas sustainable development assistance − OSDA" to differentiate contributions under the three Rio conventions from ODA. He said this idea had already been proposed at the second meeting of the Commission for Sustainable Development. He also suggested that one concrete outcome from Cancún could be to transfer the US$ 30 billion commitment to a COP decision, along with the mechanisms, rules and functions of the money. The text could be drafted in the forthcoming meeting in Tianjin.

Absorptive capacity

A European participant said his government was disbursing FSF already − but the recipients were not prepared to put them to use. He said the FSF contributions have caught recipients by surprise.

BALANCED PACKAGE FOR CANCÚN

A European participant said trust building was needed both ways, and a balanced package was needed to reach agreement. He said the EU is trying to report on where the funds are going, but equally developing countries could have focal points to report when they receive it. He said there were problems with the absorption capacity in developing countries. He felt it would be opening a Pandora's box to discuss the "new and additional" element of FSF at Cancún, as discussions involving ODA commitments would also have to go into whether developing countries kept their side of the bargain.

A developing country participant said a minimum requirement at Cancún would be to establish the link between the UNFCCC process and the pledge made in the Accord. He and another developing country participant agreed that discussions on FSF should be kept light so as not to overwhelm the conference. Another participant suggested that a minimum would be to ensure transparency in where the money is coming from and where it is going.

A European participant said that if the FSF issue was considered important for Cancún, it should be explored − but not without counterbalancing it with a discussion on MRV of developing country actions. He said it was clear that some of the FSF funds would be channelled through the GEF climate funds. A pledge meeting is scheduled for November.

The chair of the session, Bo Kjellen, agreed to an earlier suggestion that Cancún should address two major areas − issues that are "ripe" to be transferred into COP decisions, such as REDD+, financing, MRV and technology transfer; and a process decision, laying out a roadmap for the future of the negotiations, perhaps to replace the Bali Action Plan with a Cancún Action Plan. He said clarity was certainly needed on the status of the FSF, if is it is to serve its purpose as a trust building exercise.

II. Reforming the Financial Mechanism to Manage Long Term Finance

Presentation

The discussion on managing long term climate finance started with a presentation by Farrukh Khan, leading climate negotiator for Pakistan and Chair of the Adaptation Fund Board. He said that the Mechanism to manage long term finance should be one that all parties can trust; improves the delivery of finance; recognises there are a diversity of actors and weaves their roles together; and gives both developed and developing countries a role in running the system.

He then presented a proposal for a reformed financial mechanism discussed by the Fellows in the previous week, aimed at building bridges between the different proposals made by Parties in the negotiating text. The proposal envisages three key elements for the mechanism – a *Finance Committee of the COP*, a *Climate Fund,* and *National Funding Entities*. The structure and function of these two bodies was elaborated in a brief written proposal circulated among the Seminar participants and diagram, both of which are reproduced below.

The Fellows' Proposal – A General Blueprint for reforming the UNFCCC Financial Mechanism[3]

FINANCE COMMITTEE OF THE COP

A standing committee ('Finance Committee') of the COP is created.

The role of the Finance Committee is to provide support to the COP in exercising its functions with respect to the Financial Mechanism (FM) of the UNFCCC, and to carry out any other task related to climate finance the COP chooses to assign.

Functions of the Finance Committee

The Finance Committee is, in particular, charged with supporting the COP in

- *providing guidance to the operating entities of the FM and recommendations to other actors;*
- *assuring the accountability of the operating entities of the FM;*
- *rationalizing the FM;*
- *assessing the adequacy of climate change finance for developing countries, including MRV of support; and*
- *verifying the fulfilment and reviewing the scale of assessed contributions.*

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[3] This proposal was subsequently used as the basis of a presentation by Farrukh Khan to a meeting of high-ranking representatives from 46 countries and the European Union in Geneva, Switzerland from 2 to 3 September 2010 (available at http://www.eurocapacity.org/downloads/Presentation_Geneva_Dialogue.pdf). The meeting focused exclusively on climate finance. The Draft Co-Chairs Summary notes: "While there was considerable interest expressed in further exploring this proposal, some were more cautious about the need to create new institutions and suggested using an existing body, such as the Subsidiary Body for Implementation, might well suffice. Another proposal argued for the establishment of a 'platform' that would account for the activities of all relevant existing financial and implementation bodies addressing climate change, thereby ensuring that unnecessary duplication was avoided and effective financial and programmatic 'matching' maximized, while minimizing the costs associated with establishing new institutions. Some discussion centred on whether oversight responsibilities should go beyond government delegates to include business/finance/development experts. Many participants also highlighted the importance of guidelines for Monitoring, Reporting and Verification (MRV) and suggested that agreement on MRV – both with respect to meeting financing and mitigation commitments/actions should be a key deliverable in Cancún."

Implementation

The Finance Committee will draft guidance to the operating entities for approval by the COP, and submit regular reports to the COP on the performance of the operating entities, and on the financial needs of and flows to developing countries.

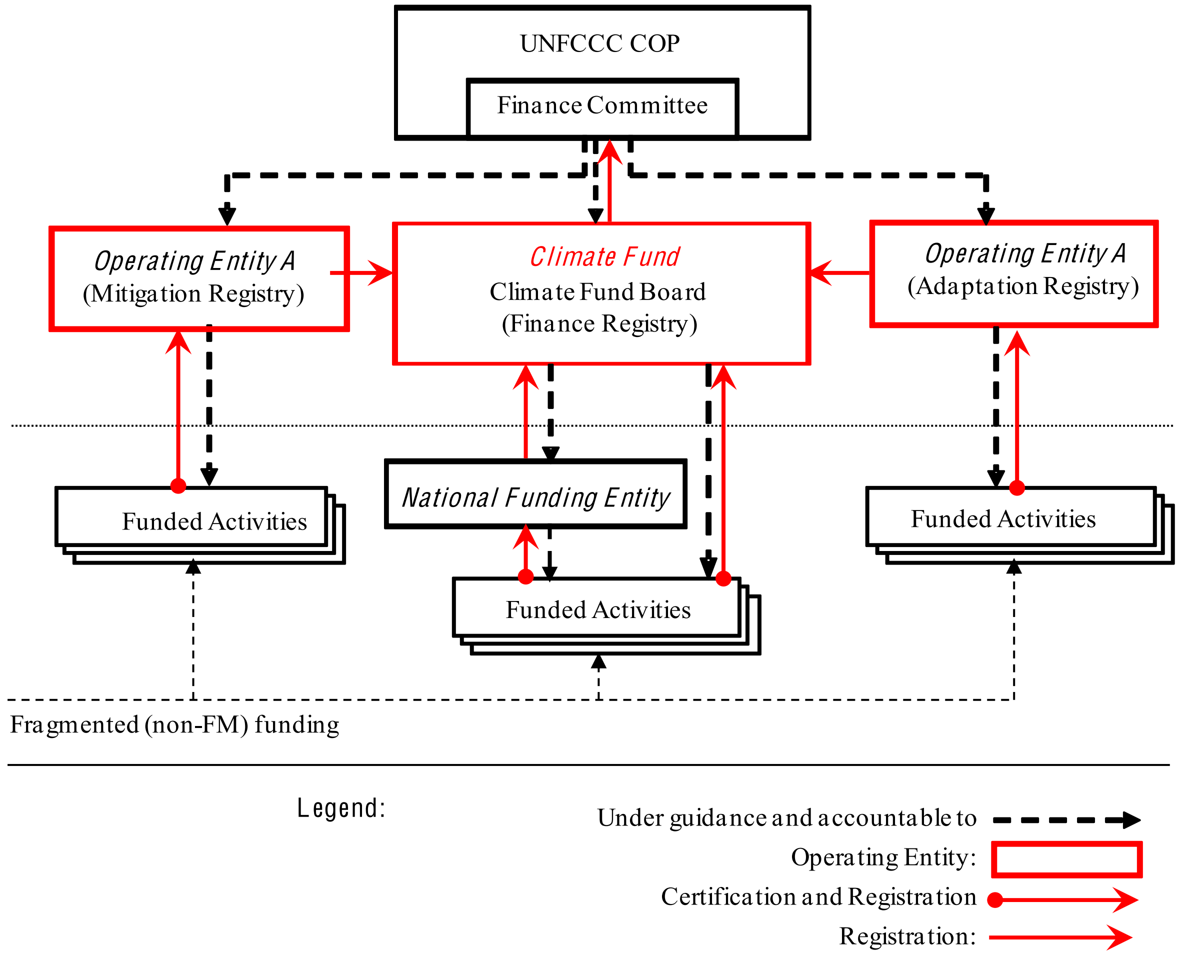
The Finance Committee will draft and periodically review the procedures for registration of financial flows and the system of certification of payments to be counted against financial obligations by Parties.

Structure

The Finance Committee is composed of XX member Parties and XX alternatives selected by the COP, taking into account equitable geographical representation.

Member Parties of the Finance Committee are requested to appoint representatives with relevant expertise.

The general rules of the Climate Fund – including the Board' rules of procedure of the Board, the operational guidelines (including criteria for project/programme funding and for resource allocation and disbursement) – are formulated and periodically reviewed by the Finance Committee of the COP.



Climate Fund

A Climate Fund is created by the COP as an operating entity of the FM. The Climate Fund is guided by and accountable to the COP.

The Climate Fund is to provide climate finance to developing countries in a manner which respects the principle of equity.

Implementation

The COP may, inter alia, provide guidance to the Climate Fund on the thematic balance of its portfolio.

The Fund is to promote direct access to its resources through National Implementing and Funding Entities.

Structure

The Climate Fund is to be headed by a Board of Executive Directors (the Board). The members of that Board are appointed by the COP, according to criteria formulated by the Finance Committee and approved by the COP.

The Board takes all operational decisions, subject to these general rules and COP guidance.

The Board has a new dedicated Secretariat located at the seat of the Board, with a Secretary to the Board appointed by the Board.

A trustee is selected through open bidding according to criteria determined by the COP. The Climate Fund has finance windows.

Discussion

During the discussion that followed, ecbi Fellows elaborated on the structure and role of the Finance Committee, saying it will include a mix of specialists and political actors selected by the COP. It will support the COP in making its decision, rather than taking decisions itself. The role of the committee will be similar to smaller oversight bodies sometimes set up national Parliaments, which make a report to the Parliament rather than issuing sanctions themselves. The Committee would also serve as an information-sharing platform, collating an overall picture of climate change finance based on feedback from key actors including, for instance, multilateral development banks.

Basis of contributions

A European participant said it was very difficult for them to start negotiating the sources of funding, and the basis of contributions. He felt it was not helpful for the developing countries to make suggestions such as using a percentage of GDP as a guide for contributions.

A developing country participant said developing countries have proposed the GDP percentage guide to ensure adequacy and predictability. He asked what basis his European counterparts were considering, given that a pledge and review system - where countries contribute as much as they wish - was unlikely to deliver adequate resources, or ensure predictability. A European participant responded that the EU was open to the idea of assessed contributions applicable to *all* countries, but the question was whether it would be acceptable to other groups. He said the G77 and China opposed the idea of assessed contributions under other UN negotiations.

Sources: A European Participant said innovative sources of funding will be needed to raise the US$100 billion needed by 2020 − particularly in face of the huge deficits following the financial crisis, which had made national Parliaments and Treasuries less willing to commit to contributions.

Another European participant said the US$ 100 billion for 2020 agreed in the Copenhagen Accord will be from public and private sources, as agreed in the Accord. He said the private sector can play a key role in leveraging additional resources, as can market mechanisms such as cap and trade. A better understanding was needed of the potential of private sources in generating funds. He said the challenge was to ensure that everybody is on board for both mitigation and financing efforts - just a second commitment on the Kyoto Protocol would not solve the problem.

A developing country participant voiced his concern on the unequal geographical distribution of funding from private sources and market mechanisms such as the CDM. He said suggestions for REDD to be a market mechanism were worrying for countries in Africa. He added that the private sector is unlikely to contribute to adaptation efforts, where there will be little or no profit.

Governance

A European participant said although it was felt at one point that a more specialized body than the SBI was needed to look at finance issues more closely and intersessionally, some Parties were opposed to a body with a strong oversight function and felt the SBI was enough. He said establishing a new COP body would be expensive, and would have to be justified by an assurance that savings would be made in terms of the time spent by the SBI in dealing with these issues. There also has to be an assurance that it is the COP, not the Finance Committee, which makes the decisions and gives instructions to the Fund. On the Climate

Fund, he felt it should be formed with the invitation of the COP, and through an MOU with the COP, rather than under the direct authority of the COP.

Another European participant said creating a new finance mechanism such as the one proposed will take time, and the COP might have to spend a lot of time drafting TORs, which will be very complicated for a body that will be legally and financially complex. A developing country participant pointed out that the proposal is for the governance of long-term finance, not FSF, and therefore there is time to develop it. Another participant said the task is not as difficult as it seems, as the creation of the Adaptation Fund Board (AFB) has already shown. The AFB took two and a half years to start disbursing funds, and no other process could be quicker.

He said the biggest advantage of having the financial mechanism under the authority of the COP, with an equal role for developed and developing countries, is the level of trust such an arrangement will generate, making it much easier to agree on terms. For instance, the decision on fiduciary standards for the Adaptation Fund went through the COP without disagreement. That was mainly because both sides trusted the representation on the body (the Adaptation Fund Board) that drafted them.

A European participant said a governance structure like that of the Adaptation Fund would not be acceptable to his government, because this would take away national decision-making powers over public funds. Other issues in the proposal that European governments will find difficult include the idea of assessed contributions, and the idea that the Finance Committee will verify, review and assess the adequacy of finance.

A European participant sought clarification on the role of the Registry, which was proposed under the Climate Fund, asking whether private sources would also be counted. He asked who would put together the information related to multiple flows of funds to reach a judgment on adequacy of resources - this would require a lot of work and resources. A developing country Fellow responded that as the Mechanism would be under the direct authority of the COP, the UNFCCC Secretariat would service it. Alternatively, it could commission the work. He said the details could be worked out once there was general agreement on the broad proposal.

DIRECT ACCESS, AND FUNDING CRITERIA

A European participant felt giving developing countries direct access to the funds would bypass the helping hand of the UN and Bretton Woods institutions. He also said that funding should be directly linked to MRV of actions.

Developing country Fellows agreed that linking MRV action to finance would make the fund more performance based. It was proposed that to begin with, all countries would get a flat sum from the Fund. Thereafter, future disbursements will be linked to performance, as in the case of the Brazilian Amazon Fund. Supporting Nationally Appropriate Action Plans in this manner will directly link disbursements and results.

A developing country participant said it will be problematic if contributing countries want to continue to decide which countries receive the funds, based not on need but on the national priorities of contributing countries, and bilateral relations.

TRANSLATING THE PROPOSAL INTO THE NEGOTIATIONS

Developing country Fellows said several informal discussions were taking place, but few were being translated into the negotiations. If the three broad elements of the current proposal (the Finance Committee, the Climate Fund and the National Funding Entities) were acceptable to their European colleagues, they would be willing to work towards agreement on differences on individual elements, and to promote the proposal among the rest of the Parties, including the G77 and China in order to translate it into negotiation text. They stressed that the proposal did not represent their national position, but was proposed in an attempt to take the discussion further and take each other's concerns on board.

A European participant said there were many common areas where agreement might be possible. He said his country, at least, agreed with the need for a COP decision on the Fund, to bring it into the fold of the UNFCCC. There should be no problem with having the Fund under the guidance and directly accountable to the COP, as was already specified in the text of the UNFCCC. The Fund would provide funds to developing countries, on the basis of the principle of equity, which will have to be elaborated further. He said it is also clear that the COP will provide guidance to the Fund. Because the fund is a new entity, his country would like to see some added value, and avoid duplicating roles that already exist. The management of massively scaled up resources could be seen as one such new added element.

On governance, he said it was clear the Fund would need a Board. His country would prefer equal representation of developed and developing countries on the Board, given that contributions will be from public sources. The need for a Secretariat and a Trustee is also clear, as is the need for different thematic windows. All these were common areas, and could be developed further.

However, he felt the need for a Finance Committee was less obvious, particularly its role in the oversight and verification of contributions. He agreed on the need for a periodic overview in order to identify gaps, but felt it was less clear who should carry out this function. He felt the Subsidiary Body for Implementation (SBI) or a contact group could take on the role of gathering relevant information, digesting it and then providing guidance to the COP.

He concluded that the proposal was a good basis and many elements could be taken forward.

A developing country participant said this was a step in a positive direction, and requested the European participants to consider putting their own thoughts on paper, so that they could take it back to their capitals and try to arrive at common ground. He said none of them were talking about national positions, but rather trying to establish a starting point for the discussions.

Another developing country participant said the value of a permanent Committee rather than contact group or the SBI was to institutionalize the role of the committee and ensure continuity, rather than have a group with erratic membership and hence varied results. He said a common ground on the contentious issue of MRV would have to be sought, and the Committee would provide a good starting point. But he expressed willingness to consider other proposals on how the issue of verification and certification should be dealt with, and invited his European colleagues to suggest alternatives.

III. National Funding Entities

Presentation

The second day of the Seminar started with a discussion on the role of National Funding Entities (NFEs) in the transition to a new paradigm of global cooperation. Luis Gomez Echeverri from the International Institute of Applied Systems Analysis, Vienna, made a presentation based on his survey of existing national funding entities.[4]

[4] For more information, see Luis Gomez-Echeverri, *National Funding Entities: Their Role in the transition to*

Echeverri said the quantum leap in resources for climate change will bring about some challenges for developing countries in terms of absorption capacity, but they can be addressed quickly. In the past, institutions have been set up quite quickly. He said the success and effectiveness of the new wave of funds would depend on the mechanisms that are in place to allocate, disburse and manage the funds at the international, national and local levels.

Echeverri said there is gradual acceptance of the need to shift responsibility to recipient countries to increase the impact of funding. Several NFEs already exist in developing countries, with promise to transform global cooperation by ensuring that there is a greater sense of ownership, the funds are managed better, and that they go to the right places. Such entities are good not only for climate change but also for development, as they offer greater opportunities for incorporating climate activities into development, in a way that will be more conducive for multiple benefits. A weakness of the current system has been the approval of projects at the central (global) level.

Existing NFEs represent a new breed of institutions specifically designed to capture funds from international institutions, to mobilize and leverage local funds, and to mainstream funding into development. The many NFE's that exist share very few commonalities, and are mainly designed to meet specific national needs and "politics". Most of them operate off–budget to avoid local complexities and local politics of national budgets. Echeverri listed several existing NFEs, including the following:

- Amazon Fund of Brazil
- Bangladesh Climate Change Resilience Fund (BCCRF)
- Brazilian National Fund on Climate Change
- China CDM Fund (CDMF)
- China Funds for the Environment
- Ecuador Yasuni ITT Trust Fund
- Indonesian Climate Change Trust Fund (ICCTF)
- Maldives Climate Change Trust Fund
- Thailand Energy Efficiency Trust Fund

He said the concept of direct access to finance is often misunderstood, as trying to undermine performance and monitoring. He described an ongoing REDD initiative by the UN in 9 pilot countries, where arrangements have been put in place are specifically geared to handle performance based financing. Thirteen other countries have been identified to join as full members as resources become available.

Echeverri suggested that fast start finance should be used to get developing countries ready to receive climate resources. He said international institutions would continue to play role, but a different one, helping countries to build capacities.

Following Echeverri's presentation, Benito Müller, Director of Oxford Climate Policy, presented the results of a recent study carried out to estimate how many people will be needed to administer the increased level of climate change finance.[5] The study analysed a number of existing International Financial Institutions (IFIs), such as the World Bank and the Montreal Fund, and bilateral donor agencies such as the UK's Department for International Development (DFID), USAID and the Japanese International Cooperation Agency (JICA) to establish a co-relation between the amounts of funding processed, and the number of people

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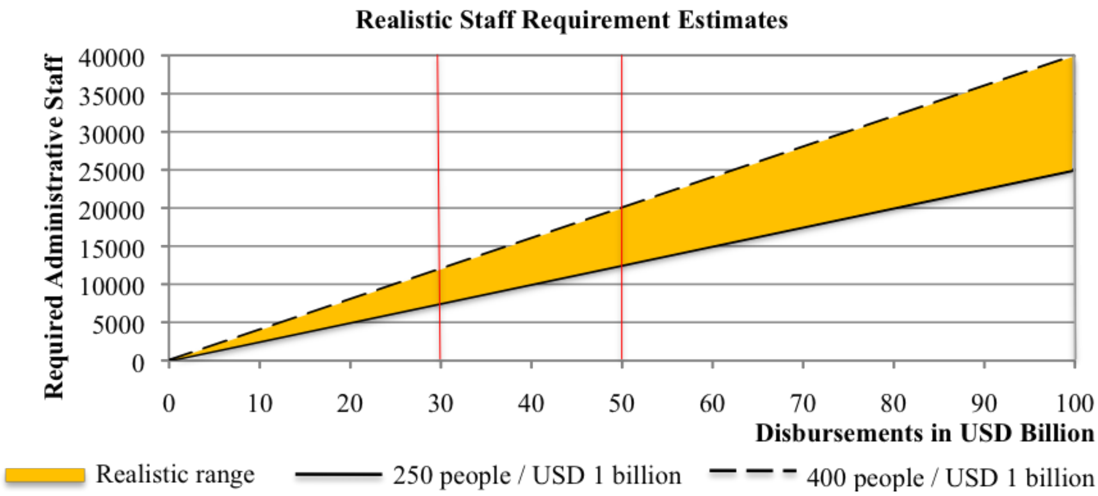
a new paradigm of global cooperation on climate change, ecbi Policy Report, forthcoming

[5] For more information, see David Ciplet, Benito Müller and J. Timmons Roberts, *How many people does it take ... to administer long-term climate finance?*, ecbi Policy Report, forthcoming.

needed to process it. It found that between 250 and 400 people are needed per billion US dollars. Müller said that on this basis, tens of thousands of people would be needed at the global level to administer climate change finance (*see Figure below*).

These estimates, he claimed, raise crucial questions about what institutional arrangements would be most effective and where new and additional administrators should be located: in wealthy nations or those receiving the funding. Given the expense of hiring development agency staff in wealthy nations, considerations of cost-effectiveness suggest that the administration of these funds should be delegated as much as possible to *funding entities in the countries that receive the funds* for climate mitigation and adaptation projects and programmes. Apart from considerations of cost-effectiveness, such *devolution of funding decisions* and management would also result in greater country "ownership" and thus facilitate the mainstreaming of climate finance into their national development planning.

He said the idea was not to create a gigantic global bureaucracy, but rather to have a lean central fund, which still has the capacity to deal with large amounts of funds.



Discussion

In the discussion that followed, Echeverri said although he had only analysed international contributions to NFEs in his paper, some of them relied on national sources, including taxes and levies.

A developing country participant said the exiting negotiating text already mentions National Coordinating Bodies in the section related to finance, and this could be used to develop the idea of NFEs. He said countries should be allowed flexibility, based on the level of their level of institutional development. Echeverri agreed, saying that in some of the examples he had looked at, the best use was made of existing institutions. For instance, in one case Brazil chose to create a virtual body and entrust the Brazil National Bank for Economic and Social Development with managing the funds and ensuring the fiduciary standards are met.

Another developing country participant gave the example of Bangladesh. The UK had committed to a contribution of around US$ 100 million to the BCCRF, but had insisted on a role for the World Bank in managing the funds. The World Bank would charge 15% of the total amount for managing the funds. This resulted in protests from civil society. The Government of Bangladesh was divided – the Ministry of Environment was opposed to the

World Bank's involvement, whereas the Ministry of Finance was supportive. The Prime Minister of Bangladesh set up a committee to resolve the issue. It was finally agreed that the Government of Bangladesh will manage the funds, but the World Bank will be invited as a management consultant to set up systems for a fee of 2% of the total amount.

A European participant agreed with the need for building national and local capacities, seeking ways for better integration with development, and working with existing mechanisms and channels. Another participant recalled that the Swedish International Development Cooperation Agency (SIDA) had proposed idea of NFEs in the 1990s. He emphasized the need for local participation in the management of NFEs, particularly people with direct knowledge of local needs.

Another European participant agreed with the need for flexibility in national arrangements. He said the problem of absorption capacity was unlikely to be solved through the creation of institutions. Capacity building aimed at strengthening the ability of people to manage funds was needed. He said the Global Fund for AIDS, Tuberculosis and Malaria provided important lessons − it created a parallel sector in countries, rather than integrating with the existing health and development sector.

Echeverri said rather than looking at the institutions that need to be in place, one approach is to focus on the capacities and minimum functions that are needed for an effective performance-based system. He said the idea that developing countries don't have capacity to manage funds and adhere to fiduciary standards is slightly misguided. As long as the controls are set, the expertise often already exists. He said this would not be the first time that a performance-based system operates in developing countries.

One of the participants said many of the European countries were already providing support for national entities, and said putting in place something too centralised could be harmful. He was concerned, however, that putting together a system based on NFEs would take too much time.

A European participant said it was important to link such a system to national strategies.

IV. Possible outcomes from Cancún (1)

Based on the previous sessions, a number of potential issues and outcomes for the next UNFCCC Conference of Parties in Cancún, in November/ December 2010, were identified. These include a potential decision on FSF; a decision to establish a Climate Fund and possibly a Finance Committee; some elements of adaptation; REDD; and MRV. (A European participant cautioned against assuming that there was agreement on the need for a Finance Committee, saying they would like to consider what added value this would bring, and the possibility of using existing institutions.)

MRV

Many of the European participants felt that an outcome on mitigation and MRV was essential to ensure a more balanced outcome at Cancún. One participant said the voluntary mitigation pledges made under the Copenhagen Accord were a big step ahead on mitigation and MRV, and it should be possible to capture them in some form under the UNFCCC. The pledges currently on the table are not sufficient to meet the 2°C target, but they represent a start.

A European participant said the issue of finance and mitigation/MRV is linked. A developing country participant said the current negotiating text calls for a balance of action on adaptation and mitigation. However, he felt that a balanced approach would not be possible if contributing countries make decisions on the use of funds, and choose to invest their contributions mainly for mitigation action - particularly CCS and REDD. He said a single 1 MW CCS plant in a developed country could cost as much as €40 million.

A developing country participant asked what colleagues from Europe would consider a balanced and feasible outcome at Cancún. A European participant said a mitigation package would include setting up of rules and registries, and clarifying how market-based mechanisms in both developed and developing countries could work. He felt it would not be possible to have quantitative targets, but it would be a good idea to anchor what already exists, in order to get an idea of what more is needed. He felt a lot could be made operational on MRV in the short term.

A developing country participant from Africa said that even a full-fledged mitigation approach in his country, which contributed a small part of the global emissions, would not help reign in the impacts of climate change and the armed conflicts that will follow. He said the African Group is committed to a two-track approach, and would like to see the Kyoto Protocol carry on into a second commitment period, with much more ambition. He felt the issue of REDD+ was ripe for a decision at Cancún. He said he understood that MRV was a very important word for his Northern partners, and developing countries had agreed to the MRV of action funded from global sources. If there could be a common understanding on this, it would open the door to something legally binding in future.

A European participant said the Copenhagen Accord includes MRV of unsupported action. He felt Cancún should focus on fleshing out the MRV and mitigation elements agreed in the Copenhagen Accord, to bring them into the multilateral context. Another European participant agreed, saying capturing these elements in a formal agreement would provide a benchmark for future work.

A European participant stressed the importance of transparency on both sides, in order to enhance trust. He said the flow of information on both sides needs improvement, and balanced rules for reporting were essential.

A developing country participant said his country hoped to get an extension of the mandate of the AWGLCA. He felt one window of opportunity to come to a global agreement had closed in Copenhagen. He felt the sense of urgency has left the room, and it currently seemed unlikely that a global agreement will be possible even in the 2011 COP in Durban. In order to move the process ahead, he proposed having a group to lead the process and 'negotiate without borders'.

Another developing country participant said his country favoured the two-track approach, and felt the negotiations under the AWGKP need to be revitalized.

LESSONS FROM COPENHAGEN

One participant said that following Copenhagen, there was a dangerous trend to run down the ability of the UN negotiations to deliver while suggesting that economic actors outside of the negotiations will solve the problem of climate change. Participants discussed the dangers of this trend, and agreed that a multilateral rule-based treaty with common rules was necessary. Although technological solutions were important, an exclusive focus on funding technologies will not be enough.

A European participant cautioned against describing 'success' in the negotiations only in terms of a global treaty, saying that although Copenhagen had some positive results, the fact that the media and economic actors perceived it as a failure was extremely risky. Another European participant agreed and said that instead of raising expectations for a treaty in

Cancún, it would be better to describe possible results, such as getting the rules and architecture right, and kick-starting action. He felt it would be useful if the next meeting in Tianjin, in October 2010, could identify a balance of issues that could be agreed upon in Cancún.

V. Possible outcomes from Cancún (2)

The Chair of the AWG-LCA chaired the second part of the discussion, focusing on outcomes from Cancún. He said after the last negotiating session in Bonn, a "Parties' Text" was created to replace the "Chair's Text". The fact that it had grown from 40 to 70 pages was a cause for concern as the Cancún meeting drew closer. He felt Cancún should have two types of outcomes: one related to specific issues that were "ripe" for agreement, as discussed in the previous session; and the other related to future process, laying down a roadmap and mandate for issues that cannot be resolved at Cancún.

Another participant agreed that a roadmap was essential, citing the example of the Berlin Mandate and its importance in reaching agreement on the Kyoto Protocol. He said that if an agreement is not forthcoming even in Durban in 2011, it is necessary to think of some sort of transitional agreement, which includes a deadline for a global agreement. He felt the latest deadline for a global agreement would have to be 2016. The Rio+20 conference in 2012, the IPCC fifth assessment report and the deadline for the MDGs in 2015 should all serve to underline the need for global change.

The Chair said the idea of a transitional period was an interesting one, but it would be necessary to see what happens to the Kyoto Protocol during this time. Moreover, if the transitional agreement is based on a system of pledge and review, will it take place under the LCA? If so, what will happen to the second commitment period of the Kyoto Protocol?

Open and transparent process

A developing country participant said that Cancún should avoid a repeat of what happened at Copenhagen at all cost. He said the way in which the Copenhagen Accord was formulated was unacceptable, and UN procedures must be followed, to keep the process transparent. He said a little bit of inefficiency is preferable to an agreement that does not take everyone along. He said Cancún should avoid secret texts and meetings with a select few.

The Chair said it was often easier to get agreement in small groups, but it was important to make sure that the deliberations of the small group are presented to the larger group for decisions. Another participant said the key issue is to make sure the smaller groups are fully representative, with the representatives selected by their own groups, and to have a good system of reporting back, so everyone is kept informed and the process is transparent.

A European participant highlighted the need for Cancún to move to negotiation - rather than compilation - mode. The Chair agreed, saying it was much easier to put in brackets into the text than remove them.

One of the participants flagged the relatively recent practice of having co-chairs from both developed and developing countries. He said in the past, it had worked better to have a single Chair that both sides trusted for his/her objectivity, and who was committed only to achieving an end result.

VI. Concluding session

The final session of the Seminar discussed ways to promote the chances of success in Cancún, and avoid a crisis/chaotic situation.

A developing country participant said one way of using the FSF to promote trust would be to use the existing UNFCCC funds, and provide more clarity on how much of the FSF would be allocated for adaptation. He said the projects listed under the NAPAs need US$ 2 billion for implementation, and an assurance that this money will be made available as and when it is needed will go a long way in building trust. A European participant said a pledging meeting for the UNFCCC funds would take place in November 2010, where a fair amount of money would be pledged to these funds.

Another European participant said he was under the impression that the main concern with the FSF was to get the money out of the door quickly, without worrying about it flowing through a ‘steady state’ system and schematising it in a decision.

A developing country participant asked whether the pledge of US$ 30 billion would be kept, or whether developing countries will be told they lack the absorptive capacity. Several European participants responded that they intended to keep their share of the commitment, and a recent analysis had shown that 95% of the EU’s share of 2.4 billion for 2010 had been secured. One participant said his country was channelling the funds through multilateral systems, because the system for bilateral disbursements took much longer. Another participant said his country recognised that some of the multilateral channels they were using were considered to be slow and bureaucratic, and this problem would have to be addressed.

A European participant agreed that some system to track the amount of funding channelled to mitigation and adaptation and allows more transparency and better communication would be useful but preferred opting for a tool such as a website, rather than a COP decision.

Another participant asked whether a decision on MRV would be possible only if MRV of both mitigation and adaptation was considered. A developing country participant said a MRV package would have to cover not just mitigation but also other elements such as adaptation and technology transfer. He said the issue of adaptation was already neglected - for instance, the UNFCCC lacked a separate Body to deal with, define or issue guidelines for adaptation funding. The Adaptation Fund is under the Kyoto Protocol, while the LDC Fund caters only to LDCs. He said other developing countries also have adaptation needs - particularly those that are not going to attract much mitigation finance, because they have a lower potential for mitigation reductions. He felt a smaller Body such as a standing committee, with suitable representation from vulnerable countries, could be more successful at addressing these issues. He said a MRV package has to cover the concerns of all developing countries.

A European participant said an allocation framework for funding would be difficult to agree, and asked whether the proposal that all countries receive a portion of the funding would address the concerns. A participant said that a resource allocation framework is not necessarily a bad thing - depending on how the criteria are agreed. He said many countries have a formula for allocating resources to sub-state actors and cited the example of the US, where the Federal government does not allocate money to states, but funds programmes. Every state is assured one percent of the total amount, and the rest is allocated funds on a needs basis. The important element in that example is that for the allocation system to be considered fair, all the states have to receive a portion of the funds.

Another participant said the Adaptation Fund Board is in the process of grappling with a similar issue, on how to ensure that all developing countries receive funding and the rest is allocated on the basis of certain vulnerability parameters.

A developing country participant said currently, the only assured funding for adaptation is from the Adaptation Fund, which is resourced from a portion of funds from projects developed and hosted by developing countries. A proposal to introduce a similar system for market mechanisms among developed countries during the COP in Poznan had not succeeded. A European participant responded that he was surprised that the Norwegian Proposal, which was aimed at generating funds by setting aside a portion of the developed countries assigned units and monetising them, had not been supported by developing countries. He added that the proposal did not stand a chance of success at Cancún, but his country had tried quite hard to have it accepted in the run-up to Copenhagen.

Another participant said it was very important to identify such automatic sources of truly 'international finance' (as opposed to tax-payers money) as it allowed more flexibility. A European participant said the High-Level Advisory Group on Climate Change Financing (AGF) is exploring several such sources, and following its report in October 2010 there is a chance that these sources would be considered more seriously under the COP over 2011. There were several options on the table, including for instance aviation and maritime taxes, which could provide more stable long-term finance, although they were not without controversy.

In the discussion that followed on such automatic sources, the main problems identified were: the opposition of some governments to the hypothecation of funds; concerns that many developed countries would not support such proposals leading to unfair and unsustainable burden sharing with only a few countries paying their share; and fears that some countries might inflate their targets to generate the funds for free. European participants said funds raised from a system similar to the Norwegian proposal would be considered public, not private, finance.

Another European participant said that the EU had already agreed a system whereby a portion of the funds from Emission Trading within the EU would be set aside to fund climate change activities internally, with a small portion going to the global pot. He agreed that the recommendation of the AGF might give impetus to the discussion on such automatic sources.

Some developing country participants were not, however, very optimistic about the recommendations of the AGF, saying such automatic sources had been on the table for a long time in the discussions related to finance for development. A European participant felt it would be useful to have a discussion similar to the one underway on the recommendations of the AGF, to reach common understanding. He felt it was also important to discuss the role of private finance, as many had doubts and suspicions while others considered it an important source; and ways and means to ensure a more equitable distribution of funds from sources such as the CDM.

A European participant said he felt the EU and developing countries were close in their thinking of how the Climate Fund should be structured, but not so much on the Finance Committee. But having heard recent comments, he felt they might be able to reach a common understanding. He said such a committee might be useful in carrying out periodic reviews of climate change finance, reviewing gaps, and formulating guidance to actors outside the convention to address these gaps. The EU had discussions along these lines, but had not arrived at a decision on who should perform this function.

However, he said there were some functions of the proposed Finance Committee, included in the proposal circulated on the first day of the Seminar, which were problematic − including assessed contribution, and the review and verification of contributions. He said these were redline issues for his government, and very likely for other developed countries as well. He said agreeing on a set of functions of such a body could be a starting point, and other functions could be added subsequently. However, he had two concerns. The first was that he was not convinced that the recommendations of such a body would pass through the COP without all the issues being reopened for discussion. Second, would the body have sufficient political weight to influence outside actors, including bilateral and multilateral agencies, to act on its recommendations? He was also concerned that the body would duplicate the role of the SBI, and asked whether it was being proposed that the SBI be abolished and replaced by a number of smaller committees.

A participant said the idea of the Body was to ensure a better oversight and assessment function than the COP is able to provide through its annual meetings. He said the composition of the Body would decide whether the COP accepts its recommendations. If the Body is representative and the Parties have faith that their concerns have been taken into account, it is more likely that they will not re-open issues for discussion at the Plenary. He cited the instance of the Adaptation Fund Board, saying that because the Board was considered representative, the COP passed its recommendations for the rules of procedure, operational guidelines and fiduciary standards without re-opening debate. This would not have been the case if a body of indeterminate composition had formulated the rules.

On the question of whether the Body will have sufficient weight to influence actors outside of the UNFCCC, one developing country participant said that was precisely the problem with the existing system, where the COP did not have sufficient influence on actors such as the GEF and World Bank. Another participant said the main difference between a ‘board’ and a ‘committee’ is that the latter cannot take decisions like the former, but only make recommendations.

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