



ecbi policy brief

Climate Finance after Tianjin

How to reach a deal at Cancún?

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Executive Summary

What would be a successful outcome of COP 16 in Cancun as concerns climate finance?

Fast Start Finance: Agreed Voluntary Reporting Framework

To renew trust between developed and developing countries; and – more importantly – to avoid a further erosion of what little trust remains; transparency in all aspects of fast-start climate change finance (FSF) is vital. Given the 2012 Copenhagen Accord deadline for FSF, COP 16 should launch a process to design a pilot framework for voluntary reporting of FSF, in order to improve transparency related to developed country contributions.

The design of the framework should be made available to Parties approval by the 2011 COP in South Africa. A Transitional Expert Panel (TEP) should be set up to design the framework, under terms of reference set by the COP. Given the highly technical nature of the task, the work should be reported to, but be carried out at arm's length from, the COP. The Panel should avail itself of best available expertise both from within governments, and from without.

Longer-term Finance: Launching the balanced package

Tianjin saw the emergence of the contours of a deal on longer-term finance under the UNFCCC. Three key elements of such a deal emerged: a new fund; an instrument to strengthen the role of the COP in managing the Convention's financial mechanism and supporting the overall climate finance regime; and a revenue schedule for the new fund. These elements are seen by many Parties as intimately linked and part of a (balanced) *package deal*. The time to adopt this package will therefore be determined by its 'slowest link', most likely the decision on the revenue schedule for the new fund.

GLOBAL CLIMATE FUND. A decision should be taken in Cancún *to operationalise* a new Global Climate Fund,¹ by drafting the required framework documents (such as operational rules and guidelines, rules of procedure, of selection of board members, of a trustee etc.). The task of drafting these documents should be delegated to a dedicated Transitional Expert Panel, of the same nature as the one mentioned above, with a view of submitting the draft documents for approval as part of the finance package by COP at its 17th Session.

STANDING COMMITTEE ON FINANCE. A decision should be taken in Cancún to prepare the terms of reference for a representative Standing Committee on Finance as an instrument to strengthen the COP in carrying out its oversight over (operating entities of) the financial mechanism. The decision should contain a mandate for the AWG-LCA (Chair) to launch the drafting process with a view of submitting a draft decision for COP 17 establishing the Standing Committee as a subsidiary body of the Convention.

REVENUE SCHEDULE. Probably the most difficult, but certainly the most political of the three elements of the envisaged finance package is the *revenue schedule for the new fund*. A decision should be adopted in Cancún to give a mandate to the AWG-LCA (Chair) to launch the negotiations on establishing a revenue schedule for the new fund for the period of 2012 to 2020, setting not only its annual revenue levels but also identifying its revenue sources, with a view of adopting it as part of the package deal at COP17.²

¹ It is unlikely that a decision to establish a fund would be possible in the absence of a decision on its revenue schedule. However, deciding to design its framework documents should, for all intents and purposes, send the same political signal, without prejudice to the said inter-linkages.

² Note that this is not the same as negotiating a 'directive' for the overall financial flows in that period (the US\$ 100bn of the Copenhagen Accord). It is 'merely' to provide revenue predictability for the new fund.

I. Introduction

The recent UN climate change conference in the Chinese town of Tianjin (2-9 October 2010) was the final preparatory UN meeting for the annual UN Climate Change Conference to be held in Cancún, Mexico in December 2010. After the disappointment of last year's conference at Copenhagen, which – in stark contrast to expectation and international hype – delivered less than any of its 14 predecessors in terms of decisions, the expectations for Cancún are exceptionally, even artificially, low. Yet, it has become generally acknowledged that unless Cancún delivers a package of significant decisions, the UN climate change process could unravel, or drift into irrelevance.

It is therefore encouraging that the Tianjin meeting saw unexpectedly good progress on the subject of climate change finance, one of the two key areas of the negotiations along with mitigation, where little headway was made. The discussions in the Ad-Hoc Working Group on Long-Term Cooperative Action (AWG-LCA) drafting group on finance, technology and capacity building were generally constructive, following a number of submissions by Parties – in particular by Belgium on behalf of the EU, and by the Philippines on behalf of the G77 and China. The difference in progress in the two key areas led some Parties to issue a warning on the final day of Tianjin that a deal on finance in Cancún would only be possible if a deal was also reached on mitigation.

The proceedings of the drafting groups in Tianjin were mostly closed. The following analysis is therefore primarily based on Party submissions, a Note circulated by the Co-facilitator of the LCA finance drafting group, statements made during the sessions that were open. The aim of this paper is to assess how the momentum achieved in Tianjin can be harnessed to deliver the sort of outcomes required for a comprehensive deal.

The analysis is divided into two sections – the first elaborates *what* needs to be done, while the second focuses on *how* to achieve it. It is preceded by a short summary of some of the relevant positions and submissions made in Tianjin.

II. Positions and Submissions

During the Tianjin meeting, a number of Parties made written submissions to the Secretariat that were subsequently published on the UNFCCC website.³ This aim of this section is to provide a brief description of some of⁴ the key proposals and ideas discussed in Tianjin.

2.1. United States

After Copenhagen, the US put forward some ideas of how to establish the Copenhagen Green Climate Fund of the Copenhagen Accord. The US vision of how the new Fund should be established involves three distinct sequential steps.

2.1.1. STEP 1 – A COP DECISION. The first step is a COP decision, possibly at Cancún, that a new fund is to be established as an operating entity of the UNFCCC Financial Mechanism, under the guidance of, and accountable to, the COP. That decision would also include (i) the basic composition and criteria for the Board, (ii) the identity of the Trustee, (iii) the thematic areas to be funded.

2.1.2. STEP 2 – OPERATIONALIZING THE FUND THROUGH A WORKING GROUP. Noting this COP decision (Step 1), a temporary multidisciplinary Working Group (WG) of experts from all interested countries is to be convened, led by finance ministries in a fully inclusive manner (but outside the UNFCCC). The task of the Working Group is two-fold: (i) to develop a framework document for the Fund, setting forth key issues including funding criteria, financial instruments, role of the secretariat, access modalities, and (ii) to select, at its final meeting, the founding Board of the Fund, which is then to adopt the framework document.

2.1.3. STEP 3 – AN MOU BETWEEN THE COP AND THE FUND. Once the Fund is established (Step 2), it is to formalize its relationship with the COP as an operating entity of the Financial Mechanism by agreeing an MOU which sets out the terms of ‘guidance and accountability’.

2.1.4. AWG-LCA 12 (TIANJIN). In Tianjin, the US made a short submission clarifying that the ‘Transitional Working Group’ meant to draft the instrument and select the Board was to be convened by the Finance Ministry/ies of one or two Parties with the aim of preparing *a governing instrument and other necessary documents establishing the Fund and a process for Board selection.*

³ Preparation of an outcome to be presented to the Conference of the Parties for adoption at its sixteenth session to enable the full, effective and sustained implementation of the Convention through long-term cooperative action now, up to and beyond 2012, Submissions from Parties: Addendum (9 October 2010); FCCC/AWGLCA/2010/MISC.6/Add.1

⁴ Given the space limitations, there necessarily needs to be a selection of what is to be included, and as such the choice here is purely personal.

2.2. European Union

At Tianjin, the EU Presidency and the European Commission tabled a submission somewhat curiously referred to as a *Strawman COP Decision on the Copenhagen Green Climate Fund (CGCF)*.⁵

2.2.1. PROCEDURE

Unlike the US, the EU Strawman does not insist on establishing the new fund at Cancún. It also envisages the possibility of simply starting the process for establishing the fund *with a view to deciding on the establishment* of the fund in 2011 at COP 17. This is to be achieved by the COP establishing an *Ad Hoc Committee* (AHC), with Annex I and non-Annex I Parties asked to designate an equal number of experts with the *necessary expertise*, to be supplemented by experts from climate finance institutions and the private sector. In addition, the AHC would have the right to *include additional expertise when needed, e.g. from financial institutions, including the MDBs, the private sector and civil society and will make use of experiences of other global funds*. The AHC would be reporting to the SBI in June 2011, and forward its final report and design proposal to COP 17 in South Africa for decision, in particular with regard to the operating modalities of the new fund.

2.2.2. SUBSTANCE

The EU's CGCF, as described in the proposal, is an operating entity of the Financial Mechanism, operating under the guidance of, and accountable to, the COP. It is to be managed by a Board with *equal representation between net contributors and net recipients*, supported by a Secretariat, with the World Bank as trustee. It will report annually to the COP.

The CGCF is meant to *support projects, programmes, policies and other activities in developing countries, covering mitigation, REDD-plus, adaptation, capacity-building, technology development and transfer* through thematic windows. Access to the CGCF is to be country-driven, and *where quality and fiduciary standards of the implementing/executing entities are guaranteed*, may include direct access through *accredited national entities*.

⁵ According to wordnetweb.princeton.edu/perl/webwn, the term 'straw man' can refer to (i) a front man: a person used as a cover for some questionable activity; (ii) a weak or sham argument set up to be easily refuted, or (iii) scarecrow: an effigy in the shape of a man to frighten birds away from seeds. According to a footnote added, however, the only reason for this terminology was to indicate that this is not an agreed EU position.

2.3. Group of 77 and China

The G77 and China submission goes beyond the establishment of a new fund, as described in the US and EU proposals above. It also envisages a new ***Standing Committee on Finance*** as a tool to support the COP in managing the Financial Mechanism. The (establishment of the) Standing Committee and the new Fund are to be incorporated into any future legally binding framework.

2.3.1. THE STANDING COMMITTEE

According to the G77 proposal, a Standing Committee on Finance is to be established *to provide regular support to the COP in exercising its functions with respect to the Financial Mechanism of the UNFCCC*. As such, the Standing Committee shall:

- Exercise the functions enumerated in paragraph 14, Chapter III of the AWG-LCA negotiating text (FCCC/AWGLCA/2010/14);
- ***Provide guidance*** to the operating entities of the Financial Mechanism;
- ***Make recommendations*** to other multilateral/bilateral entities/organizations dealing with climate change finance to ensure coherence in delivering of climate finance;
- ***Assure the accountability*** of the operating entity/ies of the FM;
- ***Assess the adequacy of climate change finance*** for developing countries;
- ***Manage the registry*** for measuring, reporting and verifying the fulfilment of contributions/assessed contribution, flow of total financial resources/commitments to the developing countries through all sources/channels, and review the scale of contributions/assessed contribution;
- ***Act as a central platform*** for consultation/cooperation with the private sector and multilateral/bilateral entities in channelling climate finance to the developing countries;

2.3.2. THE FUND

PROCEDURE. According to the G77 proposal, the COP should establish a new fund, or decide that a new fund is to be established at Cancún under the Convention. The Fund is to be operationalised by the Standing Committee (or by a separate Ad Hoc Committee). The member Parties of this operationalising committee are to appoint representatives with the relevant expertise (to be specified by the COP). The committee is to:

- make arrangements to operationalised the Fund, including *inter alia* its ***rules of procedure; criteria for project/programme funding and strategic priorities; policies and guidelines; direct access modality; and legal arrangements*** for adoption by the COP;

- develop recommendations for the COP on the composition and criteria for the *membership of the Board* to be elected by COP 17 in December 2011;
- develop recommendations *to rationalize* the Financial Mechanism;
- develop recommendations for effective cooperation between the Fund and *other thematic bodies* (e.g. the proposed adaptation committee, technology mechanism, capacity building committee);
- Establish a framework for recipient country involvement to ensure *country drivenness*; and
- develop recommendations on *balanced allocation* of resources between all thematic areas.

The Committee is to report to the COP at its 17th session in South Africa.

SUBSTANCE. The Fund (or its Board) is to be an (the) *operating entity of the Convention*, and is to *channel financial resources* through thematic windows *to developing country Parties to enable and support enhanced action on mitigation, adaptation capacity-building and technology development and transfer.*

The Fund is to be managed by a board with equitable and balanced representation, to be elected at COP 17 and supported by a trustee, and a dedicated or contracted secretariat.

2.4. Facilitator's Note and Appraisal

On 8 October, the co-facilitator of the LCA drafting group on finance, Ambassador Burhan Gafoor (Singapore), circulated a Note listing his views of what might be elements of a draft decision on the '*Establishment of a new fund and a new body with reference to paragraphs 8,9,10,11,12, and 14 of UNFCCC/AWGLCA/2010/14, Chapter III*'

2.4.1. THE NEW FUND

POINTS OF CONVERGENCE. According to the Note, there is convergence on a number of issues concerning the nature of the new fund, and the process of establishing it. Among the points of substantive convergence are a number of principles, namely that the new fund should:

- (a) have new and additional, adequate, predictable and sustainable financial resources;
- (b) be under the guidance of, and accountable to, the COP;
- (c) be efficient and effective;
- (d) give direct access where fiduciary standards of the implementing/executing entities are guaranteed;
- (e) ensure a balanced allocation between mitigation and adaptation, and prioritize the needs of countries that are most vulnerable to the adverse impacts of climate change and unable to bear the costs.

According to the note there was also a degree of convergence on the following architectural elements:

- The new fund is to be governed by a Board comprising an equal number of members and alternates, with relevant expertise.
- The operations of the fund are to be supported by a secretariat.
- The fund is to have a trustee complying with criteria for sound financial management and internationally accepted fiduciary standards.

The Note also suggests there is convergence on the following points regarding the process of establishing the new fund:

- Whoever is charged with operationalising the Fund is to *draw upon additional expertise when needed, including from financial institutions, inter alia the MDBs, the private sector and civil society, and will make use of experiences of other global funds.*
- The process should result in recommendations regarding, *inter alia*: rules of procedure; criteria for funding projects, programmes, policies and other activities; strategic priorities, policies and guidelines; recipient country involvement to ensure country driven priorities; balanced allocation of resources across all thematic areas; cooperation between the fund and thematic bodies; and criteria for membership of the Board.

While these areas are all key issues, not all are essential to the task of operationalising the new fund. For instance, the issues of balanced thematic allocation and cooperation with thematic bodies could be dealt with separately – say by the new body proposed to strengthen the COP in its functions regarding the financial mechanism, in particular, and the financial regime, in general.

POINTS OF CONTENTION. The note lists the following two key remaining disagreements regarding the new climate fund:

- (i) whether it should be established under the Convention, or as an independent body operating the financial mechanism of the Convention by virtue of an MOU with the COP; and
- (ii) who is to carry out the task of operationalising it, namely a working group convened by (a group of) Party(ies); or a committee (*ad hoc*, or the envisaged Standing Committee on Finance) convened by the COP.

2.4.2. THE NEW BODY

While the Note suggests that there are still differing opinions as to whether a new body is needed to assist the COP *in exercising its functions with respect to the financial mechanism of the Convention*, the functions themselves are not presented as particularly

contentious (for a summary, see ‘Longer-term Finance: The Finance Standing Committee’ below).

III. The Way Forward: Cancún and beyond

Having looked at some of the key finance positions of and submissions by Parties at Tianjin, we now turn to the question of how the Tianjin momentum could be harnessed to produce a satisfactory outcome in Cancún and beyond. The analysis is divided into two parts, focusing first on *what* should be done, and then turning to *how* it could be done.

3.1. What?

3.1.1. AWG-LCA CHAIR’S LIST

On 6 October 2010, Margaret Mukahanana-Sangarwe, Chair of the AWG-LCA, put together a one-page note on the *Possible Elements of the Cancún Outcome*. The items listed under climate finance were:

- Reporting on fast-start finance (FSF) for 2010-2012.
- Establishment of a new fund and process for its design.
- Arrangements to improve coherence and coordination in climate change financing.
- Mobilization of long-term finance.
- Measuring, Reporting and Verification (MRV) of support.

This was superseded by the *Report of the Chair of the AWG-LCA on consultations on elements of the outcome* issued on 9 October.⁶ The earlier version was, however, more specific and informative than the Report, which is why it was used to structure the analysis below, as reflected in the section sub-headings (in bold italic type face).

3.1.2. FAST START FINANCE

Reporting on fast-start finance for 2010-2012

Fast Start Finance (FSF) is based on a ‘political commitment’ undertaken collectively by developed countries last December at a climate change summit held in parallel to the Copenhagen COP. According to paragraph 8 of the Copenhagen Accord, [T]he collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012.⁷

⁶ http://unfccc.int/resource/docs/awglca/possible_elements_of_the_cancun_outcome.pdf

⁷ Copenhagen Accord, as reproduced in FCCC/CP/2009/11/Add.1.

THE BONN DECLARATION

This was not the first time that developed countries have made a ‘political commitment’ to increase of funding, in an attempt to rescue the multilateral climate change regime from unraveling. At the resumed session of COP 6 in Bonn in 2006, the UN negotiations were in a similar state of peril. Ministers from the EU15, together with Canada, Iceland, New Zealand, Norway and Switzerland, issued a similar political commitment in the *Bonn Declaration*, promising that they would collectively provide US\$ 410 million annually to developing countries by 2005 for climate change activities.

According to the terms of the Bonn Declaration, the overall level of funding promised could be contributed in four ways: (i) contributions to *GEF climate change related activities*, (ii) any *additional bilateral or multilateral funds* provided against funding levels of 2001, (iii) any funds directed towards either the *Special Climate Change Fund* (SCCF), the *Least Developed Country Fund* (LDCF) or the Kyoto Protocol *Adaptation Fund* (AF), and (iv) funding deriving from the *share of proceeds of the CDM*.

THE PALLEMAERTS AND ARMSTRONG THESIS

In 2009, four years after the deadline set by the Bonn Declaration, Marc Pallemmaerts and Jonathan Armstrong from the Institute for European Environmental Policy published a paper on their attempts to track whether Declaration’s political commitment.⁸ They found that while they were able to ascertain easily how much was paid into the dedicated multilateral climate change funds and instruments, they faced considerable *difficulties in tracking fragmented bilateral transactions*. Assessing climate-related bilateral funding was problematic both methodologically and practically because of a lack of data in the National Communications; varying quality of reporting of bilateral funding; inadequate compliance with the requirement of reporting guidelines; a lack of clarity in defining what constitutes new and additional funding; and a lack of clear uniform criteria for determining the bilateral aid projects which are directly relevant to climate change mitigation or adaptation. The authors speculate that countries could easily have taken advantage of these ambiguities, and could have included contributions not entirely relevant to the implementation of the UNFCCC in order to meet their commitments.

The authors were forced to conclude that the *‘average annual level of financial support to developing countries collectively provided by the 15 EU Member States ... through specific multilateral climate change related funding channels falls well short of the level ... to which they committed themselves. Whether or not the EU is complying with its political commitment under the Bonn Declaration depends entirely on these Member States’ bilateral aid efforts and any additional contributions through other multilateral*

⁸ Marc Pallemmaerts and Jonathan Armstrong, *Financial Support to Developing Countries for Climate Change Mitigation and Adaptation: Is the EU Meeting Its Commitments?* Institute for European Environmental Policy, January 2009.

channels. Unfortunately, the information on such efforts ... is insufficient to enable even an informed observer to make a reliable judgment about the volume of aid additional to 2001 levels that is effectively being provided at the present time.'

AN EU ANTITHESIS

The preceding account was first published in 2009 as part of a paper on oversight of compliance with financial commitments under the UNFCCC.⁹ In response, the author received personal feedback from a senior EU finance negotiator criticizing some of the conclusions put forward by Pallemmaerts and Armstrong. Emphasizing that it was never the idea that funding should be channeled only through multilateral agencies, the critique focused on the claim that there was insufficient information on bilateral flows to form a judgment on compliance. It stated that the EU15 member states had themselves carried out an assessment of the climate relevance of their bilateral cooperation, resulting in a total figure of around US\$ 1.7bn (for 2005-2007). Conceding that *methodologies of different Member States differ, that they are not easy to compare, that there may be flaws (not ill-intended as the authors seem to suggest)*, the critique suggests that *a more objective conclusion or "reliable judgment" would have been "all the un-clarity notwithstanding there is a good chance that donors have lived up to the promise in the Bonn Declaration"*.

SYNTHESIS

The key lesson from the experience of the Bonn Declaration, particularly with regard to the Copenhagen Fast Start pledges, is that contributions and compliance must be assessed with certainty, not merely probability. Any uncertainty will automatically be interpreted in terms of trying to avoid payments by 'doctoring the figures.' As concerns trust-building, or rather further trust-erosion, this would be worse than transparent non-compliance.

It is therefore paramount that a common and transparent reporting framework, agreed by the COP and available for anybody who wishes to use it, should be in place by the end of the political compliance period in 2012. In order for this to happen, it is necessary that Cancún results in a COP decision calling for the development of such a framework in time for COP-17 in South Africa.

⁹ Benito Müller, *On the Need to Certify: Oversight of compliance with financial commitments under the UN Framework Convention on Climate Change*, Oxford Energy and Environment Comment, December 2009. Available at <http://www.oxfordclimatepolicy.org/publications/mueller.shtml>

3.1.3. LONGER-TERM FINANCE I: THE GLOBAL CLIMATE FUND (GCF)

Establishment of a new fund and process for its design

The debate on longer-term finance in Tianjin focused on the idea of a new fund ('Global Climate Fund'¹⁰). While there are other elements that need to be addressed in a 'balanced' package of finance decisions – such as the sources of funding for the new fund, and the issue of improving the management of the finance mechanism by the COP – the formation of this new fund will be at the heart of such a package.

Cancún will therefore also have to deliver a COP decision setting out the framework for operationalizing the GCF. Such a framing decision will have to set out the general architectural elements and principles for the fund. It will also need to agree on a clear roadmap listing the documents that need to be drafted, who will approve these documents, and by when.

KEY PRINCIPLES

Following the above-mentioned Note of the LCA finance drafting group co-facilitator, the principles of the GCF are that it (i) has new and additional, adequate, predictable and sustainable financial resources; (ii) is under the guidance of, and accountable to, the COP; (iii) is efficient and effective operation; (iv) gives direct access where fiduciary standards of the implementing/executing entities are guaranteed; (v) ensures balanced allocation between mitigation and adaptation with priority for countries most vulnerable to the adverse impacts of climate change and unable to bear the costs.

In addition, consensus seems to be emerging that the new fund is (vi) to support projects, programmes, policies and other activities in developing countries, (vii) covering mitigation, REDD-plus, adaptation, capacity-building, technology development and transfer (viii) through thematic windows.

KEY ARCHITECTURAL ELEMENTS

Again, following the Co-facilitator's Note, the GCF should (i) be governed by a Board comprising an equal number of members and alternates with relevant expertise; (ii) be supported by a Secretariat; and (iii) have a Trustee that complies criteria for sound financial management and internationally accepted fiduciary standards.

FRAMEWORK DOCUMENTS

The Co-facilitator's Note lists the following documents required for operationalising the new fund:

¹⁰ As there is as yet no consensus regarding the name of the new fund, the following discussion shall use the LDC Group designation 'Global Climate Fund' (GCF), as a compromise terminology.

- **Rules of Procedure**, including procedures for (i) selecting members of the board, (ii) selecting a Trustee (for instance, through tender among MDBs), and (iii) establishing a Secretariat.
- **Operational Rules**, including (i) criteria for funding projects, programmes, policies and other activities, and (ii) modalities for direct access by national implementing and funding entities.
- **Strategic priorities, policies, and guidelines**.

3.1.4. LONGER-TERM FINANCE II: SOURCES

Mobilization of long-term finance

The Copenhagen Accord famously committed developed countries *to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries*. The Accord stipulated that *this funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance*, and, most controversially it made the commitment conditional on *meaningful mitigation actions and transparency on implementation*.

The Accord also envisaged a **High Level Panel**, to be established under the guidance of and accountable to the COP, to study the contribution of the potential sources of revenue, including alternative sources of finance, towards meeting this goal.

In February 2010, the UN Secretary General established a High-Level **Advisory Group on Climate Change Financing** (AGF) for a 10 month duration. The AGF was to *study potential sources of revenue that will enable achievement of the level of climate change financing that was promised during the United Nations Climate Change Conference in Copenhagen in December 2009*.¹¹ The Group is co-chaired by the Prime Ministers of Norway and Ethiopia.

According to its terms of reference, the AGF was to *conduct a study on potential sources of revenue for the scaling up of new and additional resources from developed countries for financing actions in developing countries, in the spirit of the political commitments contained in the Copenhagen Accord, with a view to contributing to an appropriate decision of the UNFCCC Conference of the Parties at its 16th session in Mexico*. The final report is to be submitted to the UN Secretary-General and to the current (Danish) and future (Mexican) COP Presidents by November 2010.

One of the effects of establishing the AGF was, to all intents and purposes, a freeze of negotiations on sources until the submission of the final Report, which some seem to regard as a *deus ex machina* (a plot device used in ancient Greek tragedy, whereby a seemingly inextricable problem is suddenly and abruptly solved by contrived divine

¹¹ <http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup>.

intervention). It is difficult to see how such divine intervention could be considered possible, beyond wishful thinking. To expect that an issue as political as who pays how much could be delegated – if only in part – to any group, without a mandate from the UNFCCC or even the UN General Assembly is, at best, fanciful.¹² It was certainly not what the AGF saw itself doing. According to the AGF draft report, [t]he *focus of the Advisory Group was to identify technically sound and politically feasible potential sources and options available for significantly scaling up long-term finances to developing countries by 2020. In undertaking this task, the Group emphasized its advisory role. It was neither a negotiating nor a decision-making body.*¹³

The report of the AGF merely lists a number of options for sources of funding (see Box) with an assessment of their pros and cons,¹⁴ much as a report commissioned from an expert or consultant might do.¹⁵

The AGF Report will therefore not do away with the need for serious negotiations on sources of funding as some might have hoped. The key issue here is not so much how to reach the magical figure of \$100bn by 2020, but how to **source the new fund adequately**, if and when it is established. The last thing anyone needs at this stage is to create (another) climate change ‘placebo fund’, i.e. a ‘pot’ created to buy-in developing countries into some overarching deal that remains empty.¹⁶

¹² The AGF is an advisory group to the UN Secretary General, funded by voluntary contributions.

¹³ AGF draft report (4 October).

¹⁴ It is unfortunate that unlike the Norwegian Prime Minister who managed to get his country’s proposal in pole position, the Ethiopian co-chair failed to get the Least Developed Country (LDC) Group proposal for an International Air Passenger Adaptation Levy (IAPAL included in the the AGF assessment of sources . The LDC proposal was *to establish a small passenger charge for international flights – differentiated with respect to the class of travel – to raise between \$8bn and \$10bn annually for adaptation in the first five years of operation, and considerably more in the longer term.* [Source: LDC Group submission, available with Q&As at www.oxfordclimatepolicy.org/publications/documents/ecbiBrief-IAPAL13Q&As.pdf]. The IAPAL compares favourably with the carbon-price-based option regarding revenue from international aviation that is assessed by the AGF, which delivers revenue in the range between \$1bn and \$6bn per annum by 2020, depending on the carbon price scenario.

*The [IAPAL] calculations of the near-term revenue estimates of \$8bn to \$10bn are based on a travel class differentiation of \$6 (€4) per international economy class ticket, and \$62 (€40) per business/first class ticket – in line with the French solidarity levy, as well as IATA figures and estimates for current international passenger numbers (760m) and annual demand forecasts (5.1% p.a.). The calculations also assume 93% coverage of all international scheduled air traffic, as reflected in International Air Transport Association (IATA) membership, and 99% collection efficiency. This revenue, by its very nature, will be **new and additional** to the traditional flows of bilateral funding for adaptation. Given its nature, the revenue will also not be subject to the problems of bilateral replenishment, and it will be **predictable** due the stability of the airline sector.* [LDC Group submission]

¹⁵ Indeed one could be forgiven for asking why such a report needed the involvement of heads of government or state?

¹⁶ The creation of the Special Climate Change Fund and the LDC Fund at COP6bis (Bonn 2001) when the Kyoto Protocol had to be saved from the impacts of its repudiation by the US, is seen by many in exactly that light.

A balanced Cancún package will therefore have to include a decision to draft a medium term '*revenue schedule*' for the envisaged new fund, in particular with a portfolio of funding sources and levels, for adoption together with the other elements of the finance package by COP 17 in South Africa.

Excerpt on public sources of climate finance from the 4 October Draft AGF Report

53. The AGF formed eight work streams on different sources (six public and two private). Each work stream group carried out detailed analysis of the different sources, assessing them against the criteria laid out in the terms of reference. Each of the sources was considered and analysed carefully:

These public sources could be grants or loans (via MDBs or elsewhere) but are, in principle, available to be used directly for grants.

- a) Revenues from *international auctioning of emission allowances* (such as Assigned Amount Units (AAU) under the Kyoto Protocol) – this would involve retaining some allowances from developed countries and then auctioning them to raise revenues;
- b) Revenues from *auctioning of emission allowances in domestic emission trading schemes* – this would involve auctioning of domestic credits (as in the EU Emission Trading Scheme phase III) and earmarking some part of associated revenues;
- c) Revenues from *offset levies* – this would involve withholding a share of offset revenues as a global source as currently done in the Clean Development Mechanism (CDM);
- d) Revenues generated from *taxes on international aviation and shipping* – this would either involve some *levy on maritime bunker/aviation jet fuels* for international voyages or a separate *Emission Trading Schemes* for these activities, or a *levy on passenger tickets of international flights*;
- e) Revenues from a *wires charge* – this involves a small charge on electricity generation, either on kWh produced or linked to carbon emission per kWh produced;
- f) Revenues generated by *removing fossil energy subsidies* in developed countries – this comprises budget commitments freed by removal of fossil energy subsidies which can be diverted towards climate finance;
- g) Revenues from *fossil fuel extraction royalties/licenses* – which could be earmarked in part to international climate finance;
- h) Revenues from *carbon taxes* – this is based on tax on carbon emissions in developed countries raised on a per ton emitted basis;
- i) Revenues from a *financial transaction tax* – this builds on existing proposals on global financial transaction tax (with a focus on foreign exchange transactions);
- j) *Direct budget contributions* – this involves revenues provided through national budgetary decisions.

3.1.5. LONGER-TERM FINANCE III: THE FINANCE STANDING COMMITTEE

Arrangements to improve coherence and coordination in climate change financing; MRV of support

ITS NATURE

The Note by the co-facilitator of the AWG-LCA drafting group on enhanced action on finance, technology and capacity-building (of 8 October, 21:00h) regarding the *Establishment of a new fund and a new body* lists two options for the operational arrangements to improve coherence and coherence in climate financing. Option 1 lists the

establishment of either a Standing Committee on Finance, or a new body in order to perform a certain set of functions (listed below). Option 2 is to strengthen existing institutions or bodies of the Convention, to carry out the same functions.

While the two options may appear to be mutually exclusive, they are actually compatible. Option 2 leaves open the possibility of strengthening existing institutions or bodies of the Convention – such as the COP – by establishing a new (subsidiary) body, such as the proposed Standing Committee. This may not be the reading of those Parties who have endorsed Option 2, but it is difficult to see how the COP (or for that matter the SBI) could be made fit for performing the said functions without the help of some such small group.¹⁷

Moreover, the proposed Standing Committee on Finance could be considerably weaker than the new body envisaged in Chapter III, paragraph 14 of the existing LCA negotiating text.¹⁸ The new body (a.k.a. ‘Finance Board’) would be a decision-making body, with a *transparent system of governance in accordance with Article 11, paragraph 2, of the Convention*,¹⁹ and a secretariat.²⁰ A move away from such a decision-making body to a purely advisory entity akin to a parliamentary standing committee would be a considerable concession to those who oppose the creation of a ‘new body’.

ITS FUNCTIONS

What are the functions that the proposed Standing Committee is meant to carry out? According to the Co-facilitator’s Note, they are to be the ones listed in paragraph 14 of Chapter III of the AWG-LCA negotiating text,²¹ plus paragraph 5 of the G77 and China submission dated October 7, 2010 entitled “Elements of a Draft Decision on the New Fund/Financial Mechanism.”²² The functions listed in these two documents can roughly be divided into the following categories:²³

- Provide *oversight over*, and make *recommendations on rationalizing* the FM.
- Foster *coherence within the FM* (including coherence with other convention bodies) and *within the overall financial regime*.
- Provide *oversight over (MRV of) financial support*.
- Carry out *financial needs assessments*.

¹⁷ For more on the reason why this is so, see Benito Müller, *Why Reinvent the Wheel?: On establishing new funds while guiding and holding accountable operating entities of the UNFCCC financial mechanism*, OIES Energy & Environment Comment October 2010, available at www.oxfordclimatepolicy.org/publications/mueller.shtml

¹⁸ FCCC/AWGLCA/2010/14

¹⁹ FCCC/AWGLCA/2010/14, Chapter III, paragraph 14bis.

²⁰ FCCC/AWGLCA/2010/14, Chapter III, paragraph 14quater.

²¹ FCCC/AWGLCA/2010/14

²² Submission by the Philippines on behalf of G77 & China in FCCC/AWGLCA/2010/MISC.6/Add.1

²³ A function not mentioned in these two documents which might all the same be of some ‘cross-cutting’ use is to scrutinize nominations of candidates for membership on the Board of the Global Climate Fund.

- Mobilize *financial resources*.
- Give advice and provide guidance on *distribution of finance* (including *thematic balance*), and *direct access*.

3.2. How?

Having considered *what* needs to be done with regard to climate finance in Cancun, let us turn to the question of *how* this can be achieved – including, more specifically, *who* needs to carry out the tasks considered above, and *when* this should be done.

3.2.1. WHO?

The first part of our analysis on what is to be done in Cancún and beyond identified four distinct tasks:

- (i) Designing a common reporting framework for fast start finance.
- (ii) Designing a COP Standing Committee on Finance to strengthen the COP.
- (iii) Designing a new Climate Fund.
- (iv) Identifying sources of finance and a revenue schedule for the new fund.

All of these tasks principally involve drafting a number of documents for approval by a governing body, which, for reasons explained elsewhere,²⁴ must be the COP.

Who should carry them out depends very much on the particular task in question. Some of them are more technical, others more political in nature, but all of them require a degree of ‘political expertise’, i.e. expertise of what is politically feasible/acceptable, and of technical expertise of the subject matter. It is clear that the best way to foster COP ‘buy-in’ is to have the political expertise provided by representatives selected by the COP. As to the need to supply additional (technical) expertise from outside government circles, that really depends on the subject matter.

TRANSITIONAL EXPERT PANELS

Of the four identified drafting tasks above, two are clearly more technical and time consuming than the others – namely, designing the framework documents (Instrument, etc.) of the new fund, and designing a common reporting framework for fast start funding. For these two tasks, it would be advisable to constitute small ***Transitional Expert Panels*** (TEPs), akin, say, to the Technical Working Group that was used in establishing the Global Fund for Malaria and AIDS.

²⁴ Benito Müller, *Why Reinvent the Wheel? On establishing a new fund while guiding and holding accountable operating entities of the UNFCCC financial mechanism*, Oxford Energy & Environment Comment, October 2010.

Composition. In order, once again, to enhance the likelihood of having the documents adopted by COP, Parties should be chosen as TEP members by the COP in accordance with the usual principles of balanced and equitable representation. In order to enhance the TEP's technical expertise, these member Parties should then be invited to delegate panelists with a relevant expert profile.²⁵

However, as there is no guarantee that the chosen member Parties will be able or willing to follow this request, it is crucial for equipping the TEP with the necessary technical expertise, that TEPs should be allowed to co-opt panelists with the required technical skills from outside government circles. The modalities of how these non-government panelists are chosen and how they are to participate in the work of the TEP should be decided as part of the process of establishing them. However, it is important for the efficiency of the process that all technical expertise be given the same status, and be admitted to genuinely participate in carrying out the task at hand.²⁶

Relation to the COP. While TEPs should be under the guidance and accountable to the COP,²⁷ they should function at arm's length of the current negotiating processes, much like the Adaptation Fund Board (AFB), which performed the same sort of drafting task at arm's length of the CMP. The key is that they be given a specific task, to be performed within a specified timetable, and that they are small enough that all individual panelists have sense of personal responsibility for achieving the task in question.²⁸

AD-HOC DRAFTING GROUPS

The tasks of establishing the Terms of Reference for a Standing Committee on Finance and of identifying the sources and revenue schedule for the new fund are, by contrast, predominately political in nature. As such, they are best kept 'in-house', to be carried out through traditional negotiating tools such as Ad-hoc Drafting Groups under the AWG-LCA. The key to the success of such a drafting group will be sufficient political will for these negotiations to progress, with a concrete timetable and deliverables.

²⁵ What sort of profile that should be obviously depends on the task at hand. As concerns the establishment of the new fund, see for example Benito Müller and Achala Chandani, *What Expertise? On who should be drafting the framework for the new Global Climate Fund*, Oxford Energy and Environment Comment, forthcoming.

²⁶ In other words, while it makes sense to give the last word to the political representatives on the TEP – say, by giving them a vote and not to the others – it would be inefficient not to let all panellists participate as equals in the work of the TEPs.

²⁷ Formally, TEPs would presumably have to be time-limited non-open-ended subsidiary bodies of the COP.

²⁸ The problem with large working groups is that individual members can easily lose this sense of personal responsibility for the performance of the group as a whole.

3.2.2. WHEN?

The task of establishing a common reporting framework is largely dictated by the expiry date for fast start funding, namely the end of 2012. In order to be useful, the reporting framework would have to be operational by the beginning of that year, and would hence have to be approved by COP 17 in South Africa.

The question of when the other three tasks related to longer-term finance need to be completed is largely a matter of relative timing. Given past experiences with operating entities and establishing funds without predictable funding, it is unlikely that there is much appetite among many Parties to deal with these issues other than as a package, to be adopted simultaneously.

In particular, it is unlikely that there could be a COP decision to establish a new fund in the absence of a COP decision on establishing a Standing Committee (and vice versa). This still leaves the question whether these decisions should be taken *ex ante*, i.e. whether the COP should decide to establish either entity (at Cancún) in the absence of any idea of how they will be operationalized. This may be less of an issue if it is the COP that is ultimately to adopt the framework documents – in which case there really is no need to have an *ex ante* decision on establishing at all, but simply one to start the process of drafting these documents. However, if the framework documents are adopted by some other body, then there is a genuine danger that the COP would find the fund it had decided to establish unacceptable, a situation that really needs to be avoided.

The most promising way forward would seem to be a (set of) decision(s) at Cancún to initiate the establishment of the Standing Committee and the new Global Climate Fund, and the process of identifying sources for the latter, with a deadline for the tasks to be completed before the 2011 COP-17 in South Africa.

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