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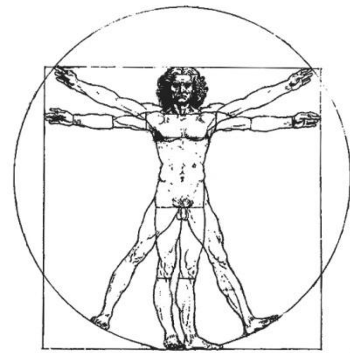

ecbi report

Climate Change Finance

Proceedings of the

2009 Oxford Fellowship and Seminar

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Compiled by Anju Sharma

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Introduction

The ecbi Oxford Seminar is an integral part of the ecbi Oxford Fellowships, which are held annually since 2005. The aim of the Oxford Seminar is to provide a forum for ecbi Fellows - senior negotiators and decision makers from developing countries - and their European counterparts to discuss global action on climate change, outside of the pressures of the political negotiations.

The sixth round of the Oxford Fellowships/Seminar took place in Oxford during the first week of September 2009. The theme – climate change finance – was determined by the Fellows, who met during the first half of the week to prepare their input for the Seminar. Apart from discussing sources and governance of climate change finance, the Seminar also touched on finance for specific elements such as adaptation, NAMAs and REDD.

This Report summarizes the discussions under the strictures of the Chatham House Rule - hence speakers are not identified.

Shared Vision

The Seminar started with a discussion on ‘Shared Vision’ on long-term cooperative action on climate change, one of the negotiating streams under the UNFCCC in the run-up to Copenhagen.

Developing country participants expressed lack of clarity on what a ‘Shared Vision’ encompassed. They said Shared Vision was sometimes interpreted narrowly as a global commitment to keep global average temperature rise to below 2 degrees. Developing country participants expressed the following two concerns with this interpretation:

- The target defines a ‘global budget’ for greenhouse gas emissions and hence indirectly sets a limit for non-Annex 1 countries - without acknowledging the need for fair and equitable burden sharing. Developing countries are not opposed to a global target based on science, as long as it is accompanied by a fair apportioning of responsibility.
- A 2-degree rise carries the risk of significant impacts for many people and countries. With even the achievement of the 2-degree goal being called into question by latest science, strong medium-term emissions reduction targets by developed countries are urgently essential to minimise impacts on the most vulnerable.

Sharing the burden of climate change is often used narrowly in the context of mitigation, but it also applies to sharing the burden of the impacts of climate change. Developing countries felt that as in the Bali Action Plan, the definition of Shared Vision should include adaptation, finance, technology and capacity building, in addition to mitigation. Goals, benchmarks and targets should be agreed for each. Unless these are agreed, there is little point in negotiating a text on Shared Vision that is full of placeholders.

A participant from Europe agreed that medium-term goals for 2020 or 2030 are essential not only to minimise impacts, but also to give the right signals to the private sector. Recognising that the 2-degree target still carries risks, the participant said it was more acceptable as a global goal because a lower target would almost certainly be overshot, setting a dangerous precedent for overshooting.

Financing Adaptation

AMOUNT AND POTENTIAL SOURCES: Developing country participants pointed to various estimates of the scale of funding needed for adaptation, up to US$ 86 billion (UNDP 2007) or several times more (Parry et al 2009). Developing country participants highlighted the importance of ensuring the funds are new and additional, and over and above aid promises of 0.7% GNI.

Given the limited potential for private sector finance for adaptation, they said most adaptation funding would have to come from public sources. A number of innovative proposals are on the table to generate adaptation financing, including the LDC proposal for an International Air Passenger Adaptation Levy with a potential for raising US$ 10-15 billion annually. It was suggested that in order to differentiate between Annex 1 and non-Annex 1 countries under this global levy, non-Annex I countries should be allowed to keep the funds raised while the proceeds from Annex I countries would go into the global fund.

CHANNELS OF FUNDING: Developing country participants said only funds channelled through the UNFCCC would be recognised. They proposed an adaptation window under a “Copenhagen Fund”, possibly managed by the existing Adaptation Fund under the Kyoto Protocol, if differences over the two separate streams of negotiations (the Kyoto Protocol and Long-term Cooperative Action) can be resolved. The needs of most vulnerable

countries, ecosystems and communities should be prioritised.

On **Near-Term Financing for Adaptation**, developing country participants said the LDCF would need about US$ 1.5-2 billion over the next 2-3 years to implement NAPAs. They proposed that each LDC would be given US$10 million to implement one or more of the projects listed under the NAPAs to begin with, and a second tranche can be looked into at the later stage. This will enable each LDC to start implementing projects immediately, enable LDCs to build capacity, and promote learning by doing. It would be a step towards moving from project to programmatic mode, and fulfil promises made by Annex I parties.

Financing Nationally Appropriate Mitigation actions (NAMAs)

In a presentation, developing country participants pointed out that there possibly differences in interpreting paragraphs 1.b.i and 1.b.ii of the Bali Action Plan relating to nationally appropriate mitigation action (NAMAs). To reach a common understanding of terms, developing country participants listed the following questions for discussion:

- What constitutes the 'baseline'? Baselines in the context of Annex 1 baselines are economy-wide relating to a target year, but developing countries do not agree on the use of economy-wide baselines. Sector-wide baselines may be acceptable.
- What actions are MRV'd internationally and what is MRV'd nationally? Developing country participant said there should be 3 categories of NAMAs:
    - Unilateral action using national funds, which can be measured and reported if the country wishes, but such action will not be open to international scrutiny, verification or conditionality.
    - NAMAs carried out with international finance. There is some difference in the interpretation of the comma, and some developing countries think only support should be subject to MRV. In any case, these are NAMAs where both support and action can potentially be subject to monitoring, reporting and verification.
    - The third category of developing country NAMAs relate to offsets by developed countries. There is lack of clarity on how these actions will be credited.
- "Review of the levels of ambition" as sometimes stated by Annex I in the context of NAMAs. Developing countries are not clear on what this means, as they do not see NAMAs taking the form of mitigation targets.
- Another term used in the context of NAMAs is the "cycle of MRV support". It is not clear whether this means that funds will be available only once the actions have been carried out, or at the point where the intention is stated. The former will run into problems if developing countries lack funds for implementation.
- How does paragraph 1.b.ii of the BAP relate to 1.b.iv (sectoral mechanisms) and 1.b.v (market mechanisms)?

Baselines: In the discussion that followed, European participants said economy-wide baselines would be preferable, so that all national sectors feel they are fairly dealt with. Otherwise, one sector could continue to pollute while another is subject to emission cuts. However, they recognise that this would present problems as credible economy-wide baselines for developing countries are a long way off. Sectoral baselines would make sense in the short term, either through setting a "common industry standard" and crediting action that does better than this standard, or on the basis of a sectoral BAU projection.

Developing country participants responded that BAU projections could be viewed as a limitation to the growth of a country – or, on the other hand, if a country does not develop

along the lines of the BAU projections, create a lot of 'hot air'. Absolute targets are appropriate only for industrialised countries. For developing countries, the important issue is to separate growth and development and develop along a low carbon path on a voluntary basis. It should be up to the developing countries to identify specific action and the sectors where they would like to make these changes, and where they will need international assistance.

NATIONAL STRATEGIES: Developing country participants expressed surprise that they were expected to come up with low carbon development strategies (LCDS), when in fact developed countries have not yet done so. It was mentioned that it took the UK 10 years to develop a plan to tackle climate change. The EU as a whole does not have a LCDS, but a climate action plan. A participant from Europe said a binding target for the EU to move to low carbon could be possible in 2-3 years. He said it is understandable why developing countries disagree when they are asked to do something that even rich countries have not yet started on. A developing country participant commented that developed countries should be expected to come up with Zero – not Low – Carbon Development Strategies.

Other European participants said LCDS for developing countries should be a long-term goal. The EU does not expect all developing countries to come up with complete LCDS, or to establish economy-wide baselines. In the short-term the focus will be on reducing carbon intensity to show development and mitigation can go hand in hand, but economy-wide baselines should be possible in the long term.

One participant commented that baselines are viewed as a slippery slope towards national binding targets by developing countries. It is unacceptable for the international community to assess national strategies for their level of ambition before financial support is forthcoming. The level of financial support available will determine the level of ambition for action in developing countries. The amount of funding needed could be decided on the basis of existing cost curves.

Developing country participants said that strategies – low carbon or otherwise – should not be a pre-condition to funding. Developing a plan or strategy could take years. As long as the mitigation action is MRV'd, international funding for developing countries should not be held back.

Developing countries could choose to develop national action plans in the context of sustainable development for mitigation and adaptation, rather than low carbon development strategies, which are poorly defined. However, the review of these national plans at the global level is impracticable for a number of reasons, including the following:

It is beyond the capacity of any group of experts to come to any determination of the adequacy of these plans even if each plan is just 100 pages.

It is politically unacceptable for the global community to claim the right to review and suggest changes to plans that have been passed by sovereign governments.

National action plans meant for submission to the global community under the other Rio conventions had not proven successful – they focus more on what was expected of them to secure funding, than on serve as a vehicle for national debate and discussion among national stakeholders.

EX-POST OR EX-ANTE FUNDING? A discussion ensued on whether NAMAs could be funded ex-post. For ex-ante payments, a business plan will be needed. But for ex-post payments, a benchmark would suffice but some countries could run into difficulties in paying for the action. It was suggested that a hybrid was probably needed, where some of the funding is upfront and some is performance-related.

EQUITY AND EFFICIENCY: A participant warned that an approach based purely on achieving the "biggest bang for your buck" will not work for NAMAs, as it will once again result in the bigger and richer among the developing countries getting most of the funds. The poorest countries, especially those with low emissions, will be expected to go through bad development first. Equity should be a key consideration in the disbursement of funds for NAMAs.

Financing Reduced Emissions from Deforestation and Degradation (REDD)

A presentation on REDD by developing country participants raised the question of whether REDD would be part of the NAMAs, or separate. Should REDD activities be funded through a special window under the financial mechanism, or should REDD be funded from the mitigation window, perhaps with specific criterion or shares? The challenge of monitoring, reporting and verifying REDD activities was highlighted.

The Brazilian Amazon Fund was proposed as a possible model for REDD. The Fund serves as a national 'pot' or hub for all finance received or earmarked to reduce deforestation in the Amazon. The funds are distributed ex-post, on the basis of performance, proportional to verified reductions in deforestation. Annual verification is carried out in relation to a baseline of the average deforestation rate over the last 10 years. This baseline is updated every 5 years. Funds are withheld if the deforestation rate has not gone down in a particular year. The rights of indigenous people are taken into account, but dealt with separately as they cannot be MRVd like deforestation rates.

It was felt that a phased approach was necessary for REDD, starting with capacity building to establish readiness, and ending with full implementation. Ex-post funding for REDD would not work in countries where funds are needed for the readiness phase – in such cases, upfront payments would also be needed. In the capacity building and readiness stage, impact cannot be simply measured on the basis of tonnes of carbon reduced – some other performance based criterion will be needed.

A participant from Europe said the European Commission had in the past opposed the use of forestry for offsetting and would rather achieve the objectives of reduced deforestation thought a treaty such as the CBD, which unfortunately lacks sufficient funds, but which takes into account the rights and role of and beneficiaries at the local level. A key challenge will be to synchronise action under REDD with the CBD, or else run the risk of money going in two different directions or of "double funding". If REDD is moved to or synchronised with the CBD, there could be interesting co-benefits.

Public funding for REDD activities may not raise sufficient funds. On the other hand, a market-based mechanism would result in cheap credits, and result in the same problem as CDM with the funds going only to a small group of countries. It was suggested that one way to overcome this might be to allow REDD credits only over and above Annex I targets, as an additional commitment. For example, if the initial reduction for a country is 20%, they could use 7% of REDD if they make a cut of 25% in total. REDD activities should be viewed as an effort to increase global commitment, rather than as cheap credits to meet existing commitments that will be agreed at Copenhagen.

The group agreed that a cautious approach was needed, rather than end up with too much of a compromise and open the door to something that may lead to a mere delusion of efforts. It was noted that there was a lot of confusion around REDD issues. This was obvious during two ecbi workshops in Senegal and Addis Ababa earlier in the year, where there were also concerns that funding REDD activities would be at the cost of funding for adaptation, given that people have always lost out to rainforests.

The group concluded that it may be difficult to get agreement on REDD issues at Copenhagen, unless it is simply made part of the NAMAs. Meanwhile, a stronger effort to inform negotiators of the issues around REDD was needed, particularly on the interface between forestry and adaptation issues.

General Issues Regarding Climate Change Finance

Developing country participants kicked off the discussion on adaptation finance with a presentation on the principles and sources of climate finance, listing the following key questions which remain to be resolved:

- Who should contribute?
- How much?
- Private/Market versus Public Sector Funding

WHO SHOULD CONTRIBUTE? It was pointed out that this question is already clearly dealt with under Article 4 of the UNFCCC, which clearly states that developed Parties should provide new and additional financial resources. Concerns were raised about the Mexican Proposal - particularly the fact that it was being championed even by countries that are otherwise opposed to assessed contributions. Such qualified championship raised suspicion that the Mexican Proposal would be used to undermine the clear principles laid out in the UNFCCC regarding who should contribute.

It was suggested that so as not to further undermine trust in the negotiations, rich countries favouring contributions from developing countries should come out in the open and propose this as an amendment to the Convention, rather than trying to bring it about in a roundabout way. Also, they should be willing to declare that they are in favour the principle of assessed contributions, and then look at the basis for the contributions.

The Mexican Proposal proposes contributions from both developed and developing countries in an attempt to overcome the donor-recipient paradigm, increase ownership and increase predictability. However, it was pointed out that the proposal gives more voice and ownership only to countries that can afford to, or are willing to, pay to be part of the process. The philosophy behind the Mexican Proposal is that countries have to buy ownership, to become shareholders. This goes against the principle that climate finance is a right and is owed to them by richer countries. In comparison, with the Adaptation Fund developing countries have a right to the funds - they don't have to buy tickets to have a voice. The Proposal suggests that LDCs are allowed to access funds without contributing, but then this raises a question of fairness - other developing countries can ask why they have to pay to get a voice, while LDCs don't.

HOW MUCH?: A presentation by developing country participants listed a number of estimates put out by different international actors, on the amount of climate finance that will be needed for mitigation and adaptation in developing countries, including the recent figure of US$600 billion in the 2009 World Economic and Social Survey. The most ambitious suggestion of a commitment so far had come from the UK Prime Minister Gordon Brown, who had announced that at least US$100 billion will be needed for climate finance in developing countries by 2020. Further clarification was sought on the announcement. A participant form the UK said the $100 billion was seen as a realistic figure of what the international system can deliver. US$50 billion would come from the carbon market and US$50 billion from innovative sources like the Norwegian proposal. Part of the US$50 billion that would qualify as public funding can come from ODA, but a maximum cap of 10% of ODA (around 10 billion currently) was proposed. 5% of existing ODA is already being used for climate change-related activities.

PRIVATE/MARKET OR PUBLIC SECTOR FUNDING: Developing country participants said the provision of finance is a national commitment, and hence should primarily be from public sources of funding. Putting the onus on the private sector is seen as a red flag, an excuse for not providing money. In addition, private sector funding is not vowed as predictable.

A European participant said private sector is providing a lot of the investments but certain policy frameworks were needed to make it possible and feasible.

A developing country Fellow responded that private investing flows will not occur in the quantities and extent required unless leveraged by public finance. It is the obligation of developed countries to provide this leverage. Aside from such leverage, private sector flows are outside the control of governments and the negotiations. Public policy changes in developing countries can attract private flows, but the cost of implementing these policy changes should not be paid by consumers in developing countries. It is therefore not right to say public policies should be altered to stimulate private flows – they should be stimulated through finance provided by developed country parties.

A participant from Europe said that as long as the underlying principles are guaranteed, including new, additional, sustainable, predictable funds, contributing countries should have flexibility on whether they use private or public sources. Public and private sectors have a complementary role to play, as current mechanism to mobilise funds are not sufficient.

It was pointed out that while the private sector is a source to some extent for technologies, it cannot be seen as a source for other activities such as capacity building etc. On the issue of technology, a participant from Europe said relevant technologies should be declared global public goods, as in the case of medication for HIV.

Another participant from Europe said a more stringent target would drive the carbon market, while weaker mitigation targets would result in a higher bill public finance bill. This must be viewed as a package, and a more stringent target is preferable. Even in the case of private sector financing, consumers end up shouldering the bill.

On the question of markets, developing country participants called for strong commitments based on domestic action by developed countries

GOVERNANCE

Developing country participants presented proposal for a reformed financial mechanism, similar to the Adaptation Fund, which would address their concerns regarding direct authority of the COP and direct access (see below), and consistent with a proposal submitted by India. One of the primary aims of the mechanism would be to consolidate, rather than simply coordination, climate finance.

The chair explained that rather than create a new international organisation, the proposal based on establishing certain criterion to allocate the global funds, leaving decision-making to the national level.

A European participant agreed that governance of climate finance was a key area where convergence was needed before Copenhagen. The reformed mechanism assumes that all funds will flow through it. However, he thought it unlikely that there will be a deal without including multiple sources. He agreed that more representative governance was necessary but asked how this could be achieved without politicising decision-making under the COP, and ensuring objective and technical decision-making instead. In relation to this, another European participant queried the relation between the COP and the Executive Board, asking how the mechanism would ensure that the COP does not get involved in micromanagement. She also said the Executive Board could become a bottleneck if it is responsible for all

funding decisions instead of the thematic assessment units.

In response to the latter question, a participant replied that bottlenecks would occur only if funding decisions are taken at the global level. The mechanism envisages that funding will be both consolidated as well as decentralised. The streams of funding are consolidated, but

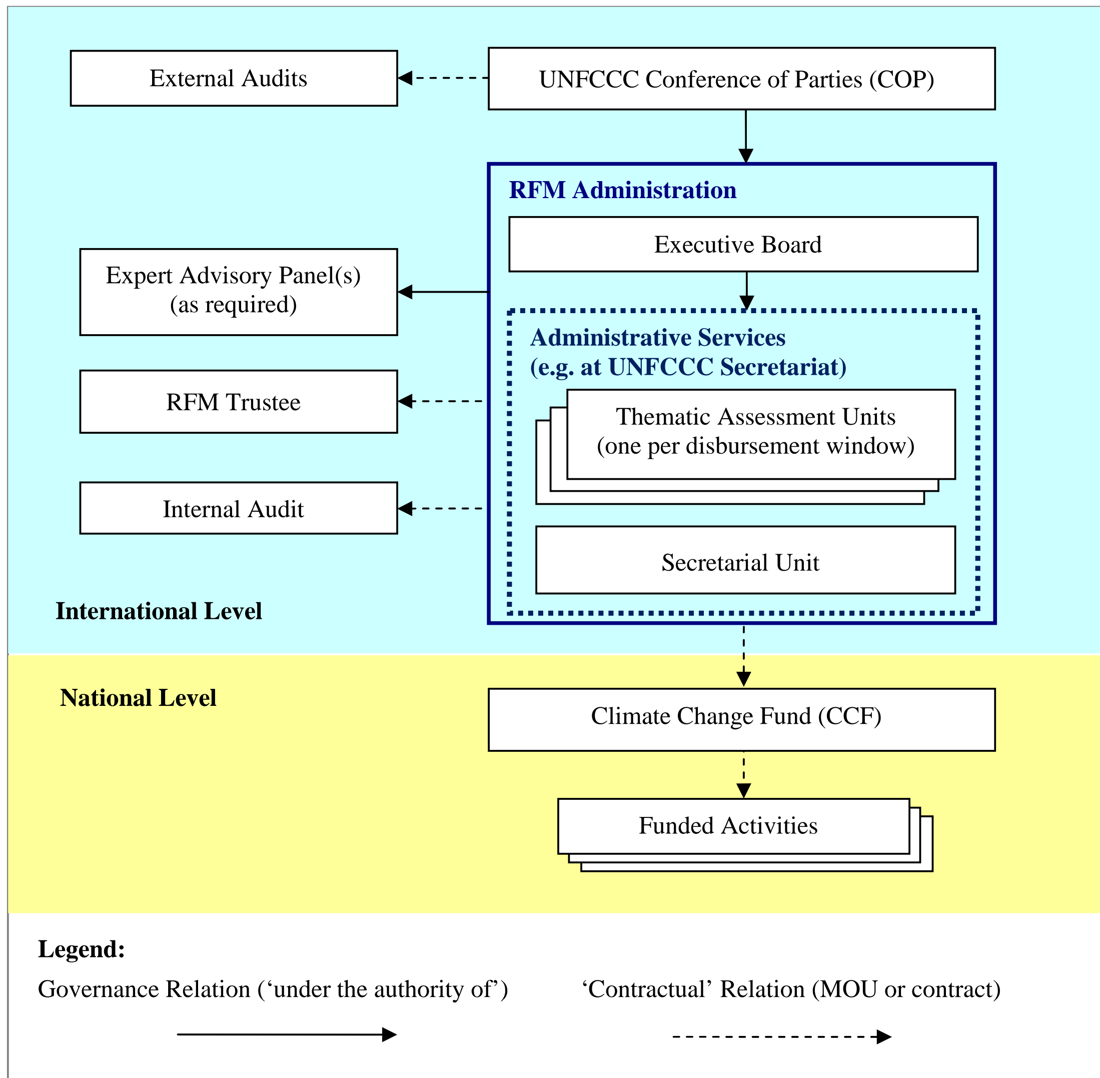


Figure 1. The RFM Disbursement Arm

decisions on specific activities are left to be taken at the national level, not by the thematic units. So there is no fear of bottlenecks. Disbursement can be based either on a formula, or be performance related.

In response to the former question, the participant said the relationship between the COP and the Executive body is an important point – where does strategic guidance by the COP end and micromanagement begin? The model proposed by the UK tries to overcome the problem of micromanagement by introducing additional institutional layers in between - existing institutions are proposed as a buffer between COP and disbursement. This may function by neutralising the COP, but it will create the problem of "double governance" as in the case of GEF, but multiplied by 5.

He said there are other ways to achieve less micromanagement by the COP without adding these additional layers, based on models of budgetary disbursements within countries. For

instance, if the COP is viewed as a sort of Parliament and the Executive Board as an implementing agency, the COP would only take macro-decisions. The Executive Board would have to write up the rules for disbursement, but they would have to be approved by COP. The Board will make recommendations on the levels of finance needed based on the needs of the thematic units, but the COP would review the levels of finance, perhaps every five years or so. A strong compliance regime will be necessary. National Funding hubs in recipient countries should certify receipt of the funds and notify the central system.

As a follow-up question, a European participant asked why the thematic units were needed if the metrics of disbursing funds for adaptation and mitigation are decided by the EB. It was pointed out that the main role of the thematic assessment units would be to carry out overall needs assessments to inform the EB/COP on the level of finance needed.

A European participant said the idea of national funding hubs sounded interesting as it promotes country ownership, but the issue of direct access and fiduciary standards could prove difficult to solve. He highlighted two other areas of difference that could prove difficult to solve: multiple sources of funding, and the use of existing multilateral institutions.

On fiduciary standards and the role of multilateral institutions, it was pointed out that the Kyoto Protocol's Adaptation Fund was already dealing with these issues and finding solutions. Under the Adaptation Fund, countries appoint National Implementing Entities, which are expected to meet the fiduciary standards agreed by the Fund Board. If the national entity lacks the capacity or cannot meet the fiduciary standards, they can choose to work with a Multilateral Implementing Entity such as the World Bank. (Developing country participants clarified that the Adaptation Fund is a mechanism under the Kyoto Protocol, and should stay a separate mechanism until all countries sign on to Kyoto Protocol – after that it could serve as the adaptation window under the Executive Board.)

One developing country participant said the World Bank has not waited for the COP to reach a decision on climate funding, but already started approaching countries and telling them how they might be able to access climate finance. If the Bank is to act as one of the sources, then it will have to be responsive to the COP, instead of issuing guidance to countries before COP.

Another European participant queried the basis of disbursing funds, if not on the basis of national plans. What distribution metric would guide the allocation of money? How will it ex-ante funding work for mitigation finance without a level of ambition? How would a performance- based allocation system work in a decentralised model, if decisions are at be taken at the national level? Finally, after this distribution metric is worked out, what happens if no one wants to fund a country?

A developing country participant replied that performance should be judged on the basis of a project or activity (not economy-wide) baseline, or the tonnes reduced, in a manner that can be MRV'd. On the question of what happens if no one wants to fund a certain country, picking and choosing would not be allowed as decisions would be based on and internationally agreed formula or criterion and how the country performs at the international level – it will not be up to the providers of money to decide who gets the money. In this way, there would be no "orphans and darlings" in a consolidated system

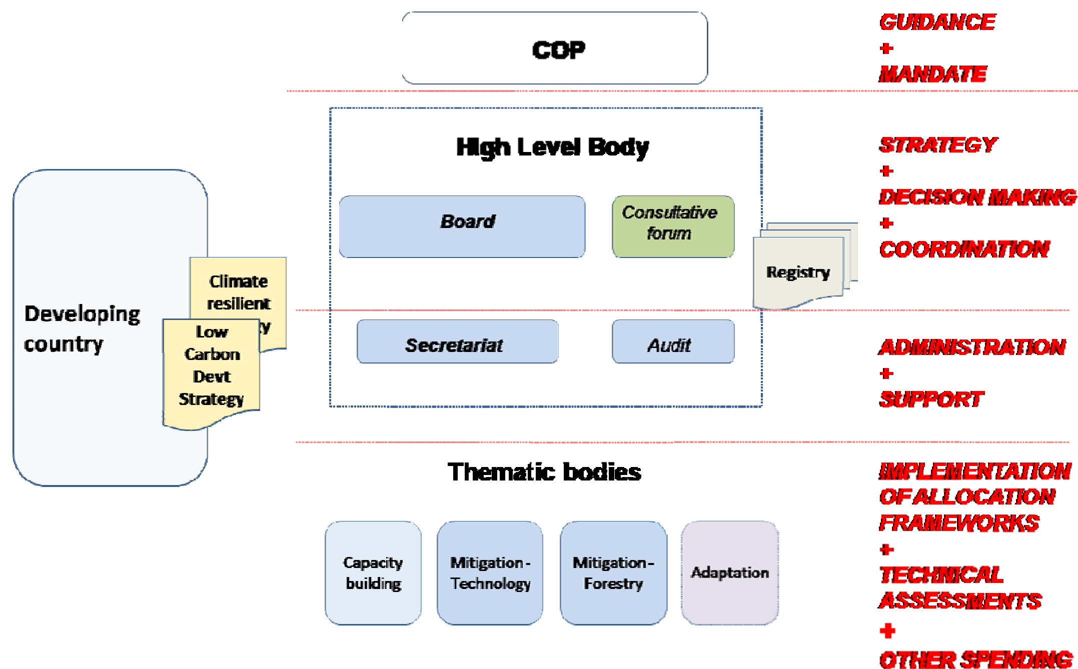
On whether mitigation funding should be ex-post or ex-ante, it was suggested that a combination of both would be needed as some countries need the money upfront. To begin with, a formula could be worked out for a flat rate per country. Thereafter, a cycle based on performance can begin, where payment for the next period is made incumbent on delivery on the preceding period.

In the case of adaptation funding, there is no clear metric or measure of performance. Disbursement should therefore be based on ensuring all countries get a fair share. The role of the global system will be limited to broad guidelines of good and bad practice. The redistribution of federal funds within countries could serve as a model, where each state is given one percent upfront, and the rest of the funds are distributed on a needs-based formula. In the case of adaptation, instead of building vulnerability indices etc, each country could get a flat component and the rest could be distributed based on the proportion of poor people. The formula has to be simple, so people can grasp what is going on and the formula is accepted as being fair.

A participant from the UK presented the Compact Model, proposed for the governance of climate finance. She said the model is based on the following principles, which are used by the EU to judge the merit of a proposal for the governance of climate finance:

- The system must be **efficient, effective and equitable**
- Governance must be transparent, **balanced** and representative
- The system must be able to **deliver at pace and at scale** – will require a shift away from projects to programmatic or economy-wide approaches
- **Country ownership** is paramount – a system based around national strategies that are integrated with development and produced in consultation with key stakeholders must be driven by countries themselves, not conducted for an international audience
- Contributors need a **firm basis on which to provide finance** (i.e. LCDS/NAMAs) and a guarantee that minimum standards of fiduciary management will be met
- The system should allow for **mix of sources** (public / private, domestic / international) and allow for a **mix of instruments** (grants, loans, risk guarantees)
- All finance provided in support of UNFCCC objectives (whether delivered **inside or outside of UNFCCC channels**) should be recognised
- MRV arrangements will be important - we need to able to **MRV** mitigation action and support; and monitor and review (MR) adaptation action and support
- As far as possible, we should **build on existing institutions**, reformed as necessary and only create something new where clear gaps exist
- The **role of the COP** should be to set the level of ambition (mitigation and finance) and provide guidance but should not be directly involved in implementation.

Compact Model



The disbursement of funds will be on the basis of national low carbon development strategies, particularly for mitigation finance, developed through a stakeholder-driven national process.

A technical check would be carried out at the global level for NAMAs. Addressing the point by one of the participants that national plans that are given the go-ahead by national Parliaments cannot be subject to change following global scrutiny, the participant said if the groundwork is done before then there are fewer chances that it will be dismissed by the global technical body.

For adaptation, the review of the plan could be done at the national level, and only some sort of checklist would have to be submitted to the global level. Future funding could be performance based. There would be no global registry for adaptation like mitigation, but there is a role for lesson-learning. This can be handled by the adaptation body.

The UK participant explained that the key areas where this model differs from the earlier model presented by developing country participants were: flexibility on how the contributions are provided (ie. including bilateral and other multilateral channels, instead of a single consolidated flow through the mechanism); and the role of the COP (the compact model proposes setting up a High Level Body (HLB) that is accountable to – not under the authority of – the COP). The UK estimates that to begin with, only about 20% or less of climate finance would go through this system. A decent amount of money would have to flow through it to give it a fair chance to prove itself. If the system works well, then the UK would be happy to go 100%.

The HLB will not control climate finance, but simply serve as a funnel making allocations to thematic bodies working on adaptation and mitigation. These thematic bodies – which will have control of the money - could be existing institutions.

Developing country participants were not clear how this system would differ from the existing one.

COMPROMISE SUGGESTION: A compromise was proposed by one of the participants, who suggested that if existing institutions such as the Adaptation Fund and GEF take on the task of adaptation and mitigation thematic bodies respectively, they should be made accountable to the Executive Board rather than the COP. Both would be independent entities, and the COP would still not be able to hire and fire the Adaptation Fund and GEF Council members but they will be under the guidance of the Executive Board, which will meet more often and have more time and capacity to ensure that they follow COP guidance.

Such as system where funds are consolidated rather than coordinated by the Executive Board would only work if significant amounts of money flow through. An agreement would be needed on how much of the overall financial flows should go through the consolidated pot. This may be lower during a transition phase, but if it works well, countries will put in money voluntarily. The Executive Body could also be asked to oversee the existing Least Developed Country Fund and Special Climate Change Fund. The main aim would be to have most of the in-country activities funded through a "throughput" model, which leaves decision-making on specific activities to the national or regional entities. One participant suggested that if national or entities funds as established, then the money need not come through one channel and can be consolidated at the national level.

Developing country participants queried how this would work with existing institutions following a donor-recipient governance model. The UK participant said that rather than the GEF, they would prefer to use the World Bank's Climate Investment Funds (CIFs) to deal with the mitigation element. The CIFs have a sunset clause in 2012, unless they are asked to continue. The World Bank plays an active role in the activities of the Fund, and is involved in decision-making. Under the Compact Model, it would be up to the High Level Body to decide whether the CIFs or the GEF are better placed to serve as the Thematic Body for mitigation.

It was pointed out that the US does not currently agree that the Adaptation Fund can be entrusted with this role.

Another European participant reiterated that the flexibility to rely on different channels to disburse the money and the flexibility to use existing institutions would be essential to the EU. A developing country participant asked if funds coming from these different channels would follow the guidance of the COP, or be outside of the UNFCCC. The European participant said this was not yet clear, it would perhaps have to follow COP guidance, and would certainly have to be MRV'd.

ADDITIONALITY TO ODA: A European participant brought up the issue of the integration of climate change funds and development assistance, particularly adaptation, as it would be difficult to differentiate between the two. One solution could be to create a source that guarantees new and additional funds, but ensure that countries and institutions integrate climate change and development activities in policies and strategies. A developing country participant responded that moving from project-based to programmatic and national funding will ensure better mainstreaming.

Another European participant said that greater clarity is needed between what constitutes development finance and adaptation finance, to avoid reallocation of committed funds. Markers could be used to track clear adaptation targets. A developing country participant agreed that clarity is needed to ensure countries meet their obligation of 0.7% as ODA and ensure ODA is not counted as adaption finance. The 0.7 target is important to ensure that developing countries build their coping capacity and develop human, technical and financial

resources. Any climate change policy that seeks trade-offs between development and mitigation is false policy.

Allocation Criteria for Adaptation Finance: A European participant raised the issue of allocating funds for adaptation, given that it is not possible to cost everything very precisely or MRV adaptation action. What sort of eligibility criteria would be considered equitable?

A participant agreed that costing every single item will not work, and one possible way of doing it would be to disburse a flat amount to begin with, and work out the remainder based on simple criteria such as the proportion of poor. The outcome has to be perceived by the group to be fair, even if it is not precise. The formula would be proposed by the Executive Board, but would have to be approved by the COP.

National Hubs or Entities: At the national level, funding hubs or national designated entities such as those already created in Bangladesh and Indonesia would receive the funds, and issue certificates of compliance. They can then decide how the money is used, whether it should be part of the national budget or not. In Bangladesh, for instance, the Multi-donor Trust Fund has been allocated US$50 million from the national budget in 2008 as well as 2009 to be used along with other funds from international sources.

A European participant said the idea of national or regional funding hubs was similar to a proposal made by SIDA in the 1990s, and was an appealing idea.

Update on EU process

A European participant presented a brief update of the EU process towards Copenhagen, specifically on-going work of the environment sub-group on climate change, on a document that will be presented to the EU Environment Council in October, dealing with a range of issues including mitigation, LULUCF, commitment periods, climate finance, governance, capacity building etc. The sub-group will also send in their input to ECOFIN, the financial council.

The EU will not be in a position to put out any new figures on climate finance at Bangkok. Some indicative figures are included in the EU Commission papers from early 2009, of about US$ 100 billion by 2030 in the form of grants, starting slowly in 2012 and building up. This has not been adopted by Council. ECOFIN is still working on the finer details, and it could come up for discussion in the October Council.

Developing country participants asked about the EU position on 15-30% cuts from developing countries when their own level of ambition was low. A European participant clarified that these cuts were compared to BAU, and hence not comparable to the EU position of 20-30% cuts from 1990 emissions. Another European participant agreed that the EU's offer of a legally binding 20% reduction is different compared to a 20% BAU reduction for developing countries - even so, the EU has to accept in all honesty that Europe has not done much since 1990, and the decrease in emissions that has taken place owes much to the collapse of the eastern European economy and Thatcher's decision to move to gas. Much of the EU's emissions are outsourced, and they are embedded in imports. It is therefore important to understand why asking developing countries for action has to be done from a position of humility.

Another European participant felt the collapse of the eastern European economy and the switch to coal in Britain were difficult structural political decisions which should not be disqualified. They carried political risk and it was a restructuring that was difficult to achieve but seen as necessary. These are the sort of structural changes and difficult political decisions that will be needed in the context of climate change. The EU should still have

humility – developing country problems are so much more difficult to solve. But at the same time what the EU has achieved is an important basis for the future.

The need for differentiated responsibility was clear, however, and it was hoped that by Copenhagen and in Copenhagen several developed countries will announce greater ambition. The need for these emission cuts to take place domestically was also underlined.

The increase in the EU's level of ambition to 30% cuts is conditional to comparable targets by other Annex I countries, and contribution by advanced developing countries. The Climate and Energy Package of the EU states that 'upto' 30% reductions will be made by the EU, conditional on other developments. The criterion by which the commitments by other Annex I and advanced developed countries would be considered comparable or sufficient to trigger the 30% cut is still under consideration by Permanent Representatives. This has been a big flaring point within the EU and little progress has been made for a long time.

The 20% reduction target, however, has already been written into law and is not conditional action by other countries. It is perhaps not as ambitious, as from an economic perspective it is building on past legislation and will probably happen as a result of that legislation. Also, not all of the 20% reduction needs to come from domestic sources – limited offsets are allowed in the form of CDM projects that are already registered.

Commenting on the fact that the EU will not have a position on finance figures even in Bangkok, one European participant said this reflects tensions within the EU. One developing country participant noted that the EU had been very active discussing these issues among its member states, but it was not at what point they would start taking on board other positions, such as those put forward by developing countries. A European participant replied that the EU process has been frustrating for many, but on the positive side it has allowed for many opportunities, like this meeting, to shape positions. Climate change has been very much part of the EU international profile and recognised at the highest political levels of the EU. So the responsibility of EU is perceived in political terms and followed closely by NGOs and parliament.

On the EU's commitment to keep global temperature rise below 2°C, one participant noted that this discussion was like a mirage, and dishonest with the public to some extent. A two degree rise would still result in damage to countries and communities. Even if it is considered sufficient, it is unlikely that the current level of ambition within the EU will achieve it.

A participant from a developing country said advanced developing countries were being put in a very difficult position – they were being asked to contribute (and the less the industrialised countries do, the more the developing countries will have to do) but they don't know what sort of funding will be available for them to take any action. When there was talk of finance, it was the needs of the most vulnerable countries that were prioritised.

OTHER DEVELOPED PARTIES TO THE CONVENTION: Various options are being addressed in UNFCCC contact groups on the form of the future agreement, including an amendment to the Kyoto Protocol, an amendment to the Annex and even two separate agreements. The EU would prefer burden sharing to be covered together in one agreement, as some countries have a problem with a burden sharing agreement without the US involved. Annex 1 countries would also have commitments along those laid out I the Bali Action Plan under the LCA. Having one agreement would make it easier than having to go through ratification for two agreements, and hence the EU is in favour of a single agreement, They are clear, however, that this should not result in unfair commitments for developing countries.

A European participant noted that only part of the Kyoto Protocol will expire in 2012 – the rest would have to be integrated the Protocol is subsumed by the new agreement. In any

case, by 2012 the targets for industrialised countries will have to be clear and ratified. Time was wasted in the case of the Kyoto Protocol because countries had to wait until after the Marrakech conference to submit the Protocol for ratification. To avoid this situation again, countries will have to achieve as much as possible at Copenhagen.

Both the developing country and EU participants agreed that the situation in the US will be a challenge. They are fully back in the negotiations and catching up by developing positions. However, the US record of ratifying treaties is poor. They can be persuaded to join various processes, but when realism sets in the agreement may not pass through Congress and get ratified. There are unrealistic expectations on how much the administration can deliver. On the other hand, the administration sometimes uses the Congress as a cover to say they cannot ensure ratification.

A developing country participant said that is one reason why the G77 and China is not convinced it's a good idea to merge the KP and LCA tracks just because of the US – after they make the compromise, the US could well walk out of the negotiations again. The Clinton-Gore administration was not acting in good faith when they signed the KP, as they had no intention of submitting it for ratification.

Another developing country participant said Parties would have to look at other ways to deal with this issue of the US. The US has suggested the option of an" Implementation Agreement" under which a country implements selective elements of the treaty. The US has a similar agreement in the case of the UN Convention on the Law of the Sea (UNCLOS) - another treaty did not pass through Congress. However, selective implementation by the US would not be acceptable to other Parties to the UNFCCC. A better option would be a "Legally Binding Unilateral Declaration", under which the US would have to make clear which parts of the treaty they undertake to implement. This would not need ratification and hence would not need to pass through Congress – the Head of State can accept and adopt such a Declaration. This would, of course, not be the best case scenario – but it might save the rest of the world from negotiating in good faith in the belief that a Party will deliver, only to find that it does not.

A European participant expressed doubts on whether such a Declaration would fly in the US, as the resulting backlash from Congress would be too much for Obama administration to survive. He felt the US is really back this time, and while they should not be given any gifts, they might need some support. He felt it was a considerable achievement that the Markey Waxman Bill has gone through the house. If they can now get 67 Senators to support its passage through the |Senate without too much watering down, then ratification should not be ruled out.

REDD AND AGRICULTURE: On the REDD debate within the EU, those in favour felt brining REDD into the market would mean more money, and help reduce emissions from deforestation and degradation. However, many others felt bringing REDD into the market would compromise the environmental integrity of the agreement, by flooding the market with credits and reducing the incentive for domestic actions by developed countries. One compromise suggestion is to deal with REDD in phases.

With agriculture, the discussion revolves around whether it deserves special treatment given its importance to poorer countries, or it should be treated like any other sector.

Priorities for Copenhagen related to climate finance

This session focused on identifying what elements of finance Copenhagen has to achieve, and what can be postponed for later.

A participant started the discussion by saying that at the minimum, Copenhagen should

result in an annex to describe the financial commitments of countries, or a formula for burden sharing of financial commitments; some degree of knowledge of the architecture. The negotiations for the Adaptation Fund could perhaps provide some guidance on the minimum architectural elements that should be decided at Copenhagen for countries to feel comfortable enough to sign on; an equitable formula for sharing and disbursement of revenues; and broad guidelines on the balance between thematic elements (such as mitigation, adaptation etc).

Developing country participants emphasised the need to abide by the principles of the UNFCCC, rather than open up discussions on issues that have already been resolved. They said attempts to violate the framework convention will simply make a good outcome impossible. The question of who contributes financial resources is already dealt with under Article 4 of the UNFCCC. Copenhagen is not the place to rewrite the convention – if changes are needed, they should be suggested as amendments. Attempts to smuggle changes through the back door will deepen distrust, they said, and make progress impossible. They listed the following elements as essential for success at Copenhagen:

- General agreement on principles
- Adequate and predictable resources for mitigation and adaptation.
- Sources of finance and means of predictability (including automatic sources such as the international air travel levy)
- Fair burden sharing. Article 4.3 states that countries listed in Annex II will provide agreed full incremental cost, and that contribution should be subject to equitable burden sharing among Annex II. The G77 formula for assessed contributions provides a basis for such burden sharing.
- An institution/ governance mechanism under the control of the COP – not simply subject to its guidance. This system should be efficient and guarantee easy accessibility, especially by the most vulnerable, and low administrative costs.
- MRV for support and action, but only action supported by the international community.
- A system of certification and compliance. If Parties fail to deliver their contributions, it was suggested that AAUs should be held back to make up the difference.

European participants listed the following elements:

- Basic principles, including a criteria or principle to calculate the scale for contributions for countries (including whether contributions should be only from Annex I or all countries);
- Level and sources of finance, including levels of public finance and the role of carbon market flows.
- An established dynamic process to reach the level of finance needed.
- Principles for disbursement.
- Architecture, including issues such as who agrees on what gets funded (COP or new body?)
- If there are any new bodies, how big will they be and where will they be based? They will take time to set up, so such initial decisions need to be part of the agreement.
- MRV of action and support.
- Programmatic or economy-wide disbursement in the case of mitigation finance?

FIGURE FOR FINANCE: There was a discussion on whether the Copenhagen agreement should mention a specific figure for the finance that will be provided, and whether this should be part of the main agreement or a Political Declaration.

Some European participants cautioned that this might end up in a repeat of the Bonn Declaration where the negotiations focused on producing a figure for finance. Promises were made by some parties to the Convention in the Declaration, but it is difficult to track whether they were kept, and to what extent they were additional.

Instead, it would be important for Copenhagen to focus on a burden-sharing formula, a dynamic review of needs and an architectural design that ensures the money will continue to be generated for tens of years to come. One European participant expressed concern that if the discussion was narrowed down to finance figures, it would degenerate to the equivalent of coming up with the money to sell the agreement. The agreement should be good enough to sell itself without promises of money. Another European participant agreed, but felt that some figures might be essential for the short-term.

A developing country participant said an idea of the scale of financing is essential, while another said the agreement should at least set down a minimum amount, and establish that adaptation and mitigation will be treated on an equal footing. A European participant said that the scale of financing for mitigation would depend on the level of ambition agreed by developing countries, and asked if they would be willing to agree to a 15-30% reduction compared to BAU, in return for a figure on finance. The scale of finance will also decide whether or not a new governance structure is needed – it would not be worth the effort to establish something new for an additional 10 billion per year.

A European participant responded that if setting down an amount was to be a condition for Copenhagen's success, then the EU will have to go prepared in order to avoid the last-minute, ad hoc decision that resulted in the Bonn declaration and a Copenhagen Declaration will probably be needed.

Another European participant reiterated his concern about another political declaration, saying the amount of finance promised in this manner is likely to be astoundingly small compared to needs assessment. The figure should not be seen as a sweetener for the deal. Instead, the focus should be on establishing a scale of finance, the financial mechanisms that will result in this scale without relying on Treasuries, and a monitoring and verification system with clear markers for climate change finance. A Political Declaration will be seen only as a side deal, at the expense of building a system to supply finance to the system for a long time to come.

A participant queried the difference between a figure written in a Protocol, a Political Declaration and a COP Decision, asking which is associated with a compliance system and penalties. A developing country participant responded that a COP decision provides greater assurance of implementation, as a legal document like a Protocol would first need to be ratified (which could take years, and may not eventually happen), and also because there is currently no system by which a country can be taken to task if they don't live up to an agreement. A COP decision may therefore have the same impact in terms of whether or not it is legally binding, but it assures prompter and more assured implementation. Another participant said that although the UNFCCC Convention is legally binding, certain commitments within it were not – hence the stabilisation target written into the convention for developed countries was not legally enforceable

PREDICTABILITY OF FUNDING: One European participant queried what predictability means, saying there could be a trade-off between having public funding and market-based funding. The latter has the potential to generate much more funding than anything that has

been raised through public finance in the past. The trade-off could be between more predictable funding with less ambition, or a little less predictability but higher potential volumes of funding. The EU is enamoured by the carbon market. The reason for that is that it makes it much easier to convince Treasuries to play along. A developing country participant said they found it difficult to sell private finance as a option to their governments. It was also pointed out that markets and private finance would play little role in financing adaptation in poor and vulnerable countries.

Another participant said predictability is about the delivery of the final agreed sum. Even assessed contributions, if they are fixed on GDP, can vary.

ALLOCATION OF FUNDS: One participant queried that if allocation of funds to countries is based on principles, would all countries get equal shares? This might work for adaptation, but in the case of mitigation funds should ideally go where there is most potential for reducing emissions. Another participant responded that the two will clearly need different disbursement criteria, but CDM has shown that if disbursement is done purely on the principle of efficiency, funds will go to where the current least-cost options are. This is unfair to other countries, who may not have high emissions for now, but its equally important that they don't continue to follow the high-emissions route and then have to change tracks later. Just going for market efficiency will not solve the problem and may not be the most efficient in the long run in any case.

NEGOTIATING TEXT: A brief discussion took place on making the text more manageable. While a European participant suggested entrusting the Chair and Vice Chair with this task, a developing country participant said this was not advisable, given the fundamental differences in position reflected in the text. He felt that one way of shortening the text would be remove everything that is inconsistent with the UNFCCC and Bali Action Plan. Another participant said this may result in throwing out all the elements that are new.

On the draft Protocols being proposed by Japan, the US and other countries, a participant said they were being tables as instruments to replace the Kyoto Protocol, and would have to be considered by all Parties in Copenhagen. He said a lot of time was being wasted in the negotiations because some countries are insisting their proposals be considered both under the LCA and KP.

On finance, a European participant said it would be logical for architecture and levels of finance to be in one section, with sources and levies integrated in the thematic section on mitigation, adaptation etc. Another participant felt all matters relating to finance should be in the core text, rather than in thematic sections.

List of Participants

ECBI FELLOWS 2009

- Ms. Branca Americano, Ministry of Environment, Brazil
- Mr. LI Xiangfeng, Mission of the People's Republic of China to the European Union, China
- Mr. Pa Ousman Jarju, Department of Water Resources, Gambia
- Mr. Chandrashekhar Dasgupta, The Energy and Resources Institute, India
- Ms. Liana Bratasida, Ministry of the Environment, Indonesia
- Ms. Alice Kaudia, Ministry of Environment and Mineral Resources, Kenya
- Mr. Limomane Peshoane, Meteorological Services, Lesotho
- Mr. Mohamed Shareef, Ministry of Housing, Transport and Environment, Maldives,
- Ms. Carolina Fuentes, Ministry of Environment and Natural Resources, International Affairs Unit, Mexico
- Ms. Lydia Greyling, Ministry for International Relations, South Africa

EUROPEAN PARTICIPANTS, 2009 OXFORD SEMINAR

- Mr. Jozef Buys, Ministry of Foreign Affairs, Belgium
- Mr. Ole Torpegaard Hansen, Ministry of Foreign Affairs, Denmark
- Mr. Nicolai Siegumfeldt, Ministry of Climate and Energy, Denmark
- Mr. Lorenz Petersen, GTZ, Germany
- Mr. Andrej Kranjc, Ministry of the Environment and Spatial Planning, Slovenia
- Ms. Ana Fornells, Ministerio de Medio Ambiente y Medio Rural y Marino, Spain
- Ms. Maria Berlekom, Sida, Sweden,
- Mr. Peter Betts, Department of Energy and Climate Change, United Kingdom
- Ms. Alice Kehoe, Department for International Development, United Kingdom
- Mr. Pedro Martins Barata, Ministry of Environment, Portugal

EXPERTS AND ECBI STAFF

- Mr. Anders Wijkman, Talberg Foundation
- Ms. Anju Sharma, Oxfam GB
- Mr. Paul McMahon, The Prince's Rainforest Project
- Mr. Axel Michaelowa, Perspectives
- Ms. Shurti Mehrotra , World Economic Forum
- Mr. Bo Kjellen, ecbi/Stockholm Environment Institute
- Mr. Benito Müller, ecbi/OCP
- Mr. Saleemul Huq, ecbi/IIED
- Ms. Izabela Ratajczak-Juszko, ecbi/OCP
- Ms. Monique Vanni , ecbi/IIED

Contact:
Postal Address: 57 Woodstock Road, Oxford, OX2 7FA, UK
Phone +44 (0) 1865 889 128, Fax: +44 (0) 1865 310 527
e-mail: admn.ocp@gmail.com