Analytical Note
May 2008

SC/GGDP/AN/ENV/3
Original: English

FINANCING THE GLOBAL CLIMATE CHANGE RESPONSE: SUGGESTIONS FOR A CLIMATE CHANGE FUND (CCF)

SYNOPSIS

This South Centre Analytical Note stresses that the provision of financing to developing countries to implement the UN Framework Convention on Climate Change (UNFCCC) is required of developed countries under the Convention. But such financing has not yet been provided. This Analytical Note suggests that the COP directly operate the Convention's financial mechanism by setting up a Climate Change Fund (CCF) that would fully respond to the requirements of the Convention as part of the global community's response to climate change.

May 2008
Geneva, Switzerland

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EXECUTIVE SUMMARY

The provision of new, additional, adequate and predictable financing by developed country Parties to developing country Parties to implement the UN Framework Convention on Climate Change (UNFCCC, hereafter the Convention) is a legally binding commitment under the Convention. It is at the core of the balance of commitments between developed and developing country Parties that is reflected in Art. 4.7 of the Convention.

Current levels of voluntary financing available to developing countries from developed countries are neither adequate nor predictable to support their climate change adaptation and other responses in the context of the Convention. The use of the joint World Bank-UNDP-UNEP Global Environment Facility (GEF) as currently the sole operating entity for the Convention's financial mechanism has been fraught with many implementation challenges which developing countries have also long critiqued, as well as with challenges with respect to its compliance with the requirements of the financial mechanism under Art. 11 of the Convention. The COP in its decisions has been consistent in recognizing that the Convention does not limit the choice of operating entities for the financial mechanism to only the GEF.

The COP could become the operating entity for the Convention's financial mechanism by setting up a Climate Change Fund operating directly under its authority and guidance. The CCF should serve as the comprehensive funding mechanism that would:

(i) enable the full implementation by developed country Parties of their financing commitments under Arts. 4.3, 4.4 and 4.5 of the Convention; and
(ii) provide new, additional, adequate and predictable financing for the full implementation by developing country Parties of their commitments under Art. 4.1 of the Convention.

It would have an Intergovernmental Board that has equitable and balanced representation of the Parties (similar to the Adaptation Fund, perhaps), and should have a transparent system of governance. It would be serviced by a secretariat and the funds would be kept by a Trustee financial institution selected through open and competitive bidding.

The CCF's eligibility criteria and priorities for financing would be determined by the COP.

Its sources of funding would primarily be from mandatory assessed contributions on a scale to be agreed to from developed country Parties, but it would also be open to other sources consistent with Art. 11.5 of the Convention.

It would be able to finance activities relating to the implementation by developing country Parties of their commitments under the Convention, including: national communications; measures under Art. 4.1 of the Convention; adaptation, risk management and risk insurance; technology development, deployment, diffusion and transfer; and capacity-building.

FINANCING THE GLOBAL CLIMATE CHANGE RESPONSE: SUGGESTIONS FOR A CLIMATE CHANGE FUND (CCF)

I. THE NEED FOR ENHANCED FINANCING FOR THE GLOBAL CLIMATE CHANGE RESPONSE

1. The provision of new, additional, adequate and predictable financing by developed country Parties to developing country Parties to implement the UN Framework Convention on Climate Change (UNFCCC, hereafter the Convention) is a long-standing issue that developing country Parties have often raised. In this regard, Art. 4.3 (provision of new and additional financial resources), 4.4 (assistance to meet the costs of adaptation), and 4.5 (promotion, facilitation and financing of the transfer of, or access to, environmentally sound technologies and know-how) of the Convention, all lay down legally binding commitments on the part of developed country Parties to provide such financing.[1] Art. 4.8 (on funding for response measures) and 4.9 (on funding for least-developed countries) of the Convention also contain commitments to provide financing.

2. Such provision of new, additional, adequate and predictable financing is at the core of the balance of commitments between developed and developing country Parties that is reflected in Art. 4.7 of the Convention, which states that:

> 7. **The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology** and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties. (emphasis added)[2]

3. At the 13th session of the UNFCCC Conference of the Parties (COP 13), the COP adopted Decision 6/CP.13 which, among other things, invited Parties to submit their views with respect to the following reports in the context of the fourth review of the UNFCCC's financial mechanism:

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[1] The fact that Art. 4.3 of the Convention speaks of "new and additional" financial resources implies that such resources must not be from existing official aid flows of developed country Parties. Additionally, the fact that these are legally binding commitments which

[2] This balance is also reflected in the Bali Action Plan (Decision 1/CP.13), paragraph 1(b)(ii) of which states that "[e]nhanced national/international action on mitigation of climate change" would include consideration of, inter alia, "[n]ationally appropriate mitigation actions by developing country Parties in the context of sustainable development, **supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner**." (emphasis added)

> " (a) The technical paper [FCCC/TP/2007/4] on the review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries;
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> "(b) The report [FCCC/SBI/2007/21] prepared by the secretariat, in collaboration with the GEF secretariat, on the assessment of the funding necessary to assist developing countries, in accordance with the guidance provided by the COP, in meeting their commitments under the Convention over the next GEF replenishment cycle; taking into account paras 1 (a)-(d) of the annex to the memorandum of understanding between the Conference of the Parties and the Global Environment Facility Council (decision 12/CP.3);
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> "(c) The report [Dialogue Working Paper 8, 2007] on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to the climate change;

4. In the context of the fourth review, views with respect to the reports above have to be made on the basis of whether the data and information presented in these reports provides a clear picture of the extent of the funding gap between the financial resources currently made available and the financial resources required for the full and effective implementation of the UNFCCC with respect to mitigation, adaptation, technology transfer, and capacity-building in the light of the Convention's sustainable development objective.

5. All three of the reports clearly indicate that there is a big gap between the financial resources globally required (including in particular those required by developing countries) to address climate change and the financial resources that are currently available or to be made available – whether in the context of the UNFCCC's financial mechanism or outside of it.[3] Also, all of the papers show that most financial flows go to mitigation and much less to adaptation, which is where developing countries place higher priority, but they do not explain why this is the case.

6. The UNFCCC secretariat's paper on the assessment of the funding necessary to assist developing countries in meeting their commitments under the

[3] "The UNFCCC background paper on analysis of existing and planned investment and financial flows relevant to the development of an effective and appropriate international response to climate change concludes that the additional global investment and financial flows needed in 2030 to address climate change are large compared with the funding currently available under the Convention and its Kyoto Protocol, but small in relation to their share in estimated global gross domestic product (GDP) (0.3–0.5 per cent) and global investment (1.1–1.7 per cent) in 2030." See UNFCCC, Review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries (FCCC/TP/2007/4, 21 November 2007, para. 8.

Convention over the next GEF replenishment cycle[4] shows that the resources that are available through the GEF as an operating entity for the Convention's financial mechanism fall short of what is estimated to be needed. Furthermore, the amount of donor-provided funding for climate change in the GEF after 2010 is also not clear, as replenishment of the GEF comes from voluntary contributions and the amount of funding will depend on the result of the negotiations for the 5th replenishment of the GEF.[5] This means that the GEF does not, and cannot, be compliant with the criteria of predictability and adequacy of financing that is required under Art. 4.3 of the Convention. Furthermore, the nature of voluntary contributions is directly inconsistent with the mandatory nature of the financing commitments for developed country Parties under Art. 4.3, 4.4, and 4.5 of the Convention. This means that the GEF, in relation to what is needed by developing country Parties with respect to financing, will continue to be underfunded and that developed country Parties, in channeling financing through the GEF, will not be complying with their financing commitments under the Convention.

Table 1: Comparison of Requirements for and Availability of Financial Resources

Funding Area	Estimates of Investments and Financial Resources Needed in Developing Countries by 2030	What is Currently Available or Estimated to be Made Available to Developing Countries under the GEF as an Operating Entity for the UNFCCC's Financial Mechanism
Mitigation	**US$ 176 billion** (FCCC/SBI/2007/21, Table 5)	**US$ 990 million** from the GEF 4th Replenishment for the period 2006-2010, with **co-financing to amount to US$ 1.6518 billion**[6] (see FCCC/SBI/2007/21, Table 1)
Adaptation	**US$ 28-67 billion** (FCCC/SBI/2007/21, Table 3 and para. 51)	**US$ 20.4 million** – GEF Trust Fund: Strategic Priority for on Adaptation **US$ 23.5 million** – Special Climate Change Fund (GEF administered) **US$ 147.0 million** – Least Developed Countries Fund (GEF administered)

[4] UNFCCC, An assessment of the funding necessary to assist developing countries in meeting their commitments relating to the Global Environment Facility replenishment cycle (FCCC/SBI/2007/21, 14 November 2007).
[5] Id., para. 145.
[6] This requirement for co-financing needs to be studied and analyzed, with respect to its impacts on access to GEF financing for those developing countries who may not be able to, or may wish not to, have access to co-financing. In many instances, the co-financing requirement has meant that GEF funding is made conditional to co-financing from the World Bank which, with its associated policy conditionalities, may have adverse impacts on the developing country's policy space.

Funding Area	Estimates of Investments and Financial Resources Needed in Developing Countries by 2030	What is Currently Available or Estimated to be Made Available to Developing Countries under the GEF as an Operating Entity for the UNFCCC's Financial Mechanism
		US$ 80–300 million per year for the period 2008-2012 from the 2% share of the proceeds of annual sales of certified emissions reductions from CDM projects – Adaptation Fund (see FCCC/SBI/2007/21, Table 2 and para. 62)
Technology transfer Emissions reduction-related technology deployment Deployment of renewables, biofuels, and nuclear energy technologies Public energy R&D	**US$720 billion** (an average of US$24-26 billion per year) – (FCCC/SBI/2007/21, para. 93 – no breakdown for developing countries; figures based on IEA estimates) **US$33 billion per year** (FCCC/SBI/2007/21, para. 94 – no breakdown for developing countries; figures based on Stern Review) **US$20 billion** (FCCC/SBI/2007/21, para. 94 – no breakdown for developing countries; figures based on Stern Review)	The GEF estimates that **80-100 per cent of GEF climate change mitigation funding** fits the technology transfer definitions used by the Convention (see FCCC/SBI/2007/21, Table 2 and para. 62) As at April 2007, **US$ 10.7 million** were available from the SCCF for the programme for transfer of technology (FCCC/SBI/2007/21, para. 90)
National communications under the UNFCCC	The need for resources recognized but no estimate provided (FCCC/SBI/2007/21, para. 109)	**US$60.08 million** – GEF (FCCC/SBI/2007/21, para. 107)
Capacity-building	The need for resources recognized but no estimate provided (FCCC/SBI/2007/21, para. 121)	More than **US$ 1.46 billion allocated as at June 2002** – GEF support for capacity-building activities in all its focal areas, but no indication as to future amounts (FCCC/SBI/2007/21, paras. 114-116)
Public awareness and outreach	The need for resources recognized but no estimate provided (FCCC/SBI/2007/21, para. 128)	GEF indicated that "it is not possible to quantify the amount that might have been dedicated to such activities under the GEF." (FCCC/SBI/2007/21, para. 126)

7. Outside of the UNFCCC's financial mechanism, it is also clear that the funding available from multilateral financial institutions for climate change-related activities or projects also fall short of what will be needed by developing countries.[7] Furthermore, it is not clear to what extent such multilaterally-sourced financing complies with the COP's guidelines on the consistency with COP policies, programme priorities and eligibility criteria, and on non-introduction of new forms of conditionalities.[8]

8. Private sector funding and investment will play important roles in meeting the need for additional investment and financial flows relating to climate mitigation and adaptation. However, the implications of private sector investment into developing country Parties with respect to the extent to which such investment promotes the transfer of carbon-polluting industries into developing country Parties should be addressed. This means that such investments must have clear regulatory frameworks to prevent the dumping of carbon-intensive or –polluting industries into developing country Parties. In this regard, the "Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to the climate change" [9] points to some steps which governments as market regulators can take to help shift private sector investments and financial flows into lower GHG, more climate-proof alternatives, as well as steps that the Convention's financial mechanism and the international financial institutions can also take to influence private sector investment decisions.[10]

9. It also stresses that "[a]dditional external funding for climate change mitigation and adaptation will be needed, particularly for sectors in developing countries that depend on government investment and financial flows"[11] and points to steps which governments, the Convention's financial mechanism, and international financial institutions can take with respect to

[7] See e.g. UNFCCC, Review of the experience of international funds, multilateral financial institutions and other sources of funding relevant to the current and future investment and financial needs of developing countries (FCCC/TP/2007/4, 21 November 2007), para. 53 (World Bank), 74-77 (AfDB), 87 and Table 9 (ADB), para. 106 and Tables 10 and 11 (EBRD), 119 (EIB), 134 and Table 13 (IDB), and 149 and Tables 14 and 15 (IFC).

[8] Decision 11/CP.1, paragraph 2(a) states as follows: "**Consistency should be sought and maintained between activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism and the policies, programme priorities and eligibility criteria for activities as relevant, established by the Conference of the Parties**. Towards this end and in the context of Article 11.5 of the Convention, the secretariat should collect information from multilateral and regional financial institutions on activities undertaken in implementation of Article 4.1 and Article 12 of the Convention; **this should not introduce new forms of conditionalities**." (emphasis added)

[9] UNFCCC, Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to the climate change (Dialogue working paper 8, 2007), para. 166.

[10] Id., paras. 168-170. See also para. 175, stressing the need for "expansion of the international carbon markets or provision of other economic incentives to invest more in specific sectors, particularly in developing countries."

[11] Id., para. 6.

governmental investment flows.[12] It recommends with respect to public investment that "expansion of the climate-focused funding from Annex II Parties (in accordance with Article 4, paragraph 3 of the Convention), as well as other potential sources of funding to address climate change, will be needed."[13] The paper also suggests that "the level of funding available to the Adaptation Fund would be small compared with the estimated needs for adaptation" and that, therefore, the Fund "could be further expanded with additional sources of funding."[14] This of course implies that in-depth analysis of the amounts needed will need to be made. The paper hence clearly shows that funding and investment shortfalls, both within and outside of the Convention's financial mechanism, are likely to occur in the absence of:

(i) the compliance by developed country Parties with their legally binding treaty commitment to provide the new and additional financial resources needed for developing countries in accordance with Art. 4.3 of the Convention;

(ii) a more coherent and comprehensive approach to climate change-related funding and investments by all relevant bilateral, regional or other multilateral providers consistent with the principles and objectives laid down in COP decisions with respect to the Convention's financial mechanism[15];

(iii) the development of other options (including other operating entities) that may be considered under the financial mechanism through which the financial resources needed for strengthening the implementation of the Convention may be channeled under the authority and governance of the COP, and meeting the criteria laid down in Art. 11 of the Convention.

10. The reports described above all clearly indicate that current levels of **voluntary** financing from developed countries available to developing countries are neither adequate nor predictable to support their climate change adaptation and other responses in the context of the Convention. Furthermore, the use of the joint World Bank-UNDP-UNEP Global Environment Facility (GEF) as currently the sole operating entity for the

[12] Id., para. 171-173.

[13] Id., para. 175.

[14] Note that Decision 5/CMP.2, para. 2(e) states that the Adaptation Fund has the "[a]bility to receive contributions from other sources of funding." This is also reflected in Decision 1/CMP.3, para. 24 which states that "a trust fund shall be established under the management of the trustee, to be funded by the monetized share of proceeds of certified emission reductions, to meet the costs of adaptation and other sources of funding."

[15] Note that Art. 11.5 of the Convention allows the financial mechanism to be much broader in scope by stating that "[t]he developed country Parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels." Decision 11/CP.1, para. 2(a), requires consistency of the financing from such channels with the COP's guidance on the financial mechanism.

Convention's financial mechanism has been fraught with many implementation challenges which developing countries have also long critiqued. The COP in its decisions has been consistent in recognizing that the Convention does not limit the choice of operating entities for the financial mechanism to only the GEF.[16]

11. The GEF is currently **an** operating entity for the UNFCCC's financial mechanism, first on an interim basis under Art. 21.3 of the Convention and subsequently pursuant to COP 1's Decision 9/CP.1 which continued the interim arrangements subject to a review every four years that would include looking at the status of the GEF in the context of the Convention.[17] COP 2's decision 11/CP.2 also reiterated the interim nature of the GEF's serving as an operating entity for the UNFCCC's financial mechanism. The operational modalities for the GEF serving as an operating entity for the UNFCCC's financial mechanism were defined in a Memorandum of Agreement entered into by the COP and the GEF Council in 1996.[18]

12. The COP in Decision 2/CP.12 noted that while the GEF "has effectively performed its role as an operating entity of the financial mechanism … as reported in the third overall performance study" of the GEF, the study had made recommendations for improvements in the GEF's operation procedures.[19] Indeed, the fact that the COP has had to issue additional guidance at virtually every session to the GEF indicates that qualitative deficiencies in the GEF's performance as an operating entity for the UNFCCC's financial mechanism continue to persist. Critiques of the GEF's performance as an operating entity generally relate to, inter alia, the simplicity and efficiency of its funding procedures and the equitable distribution of GEF funding to developing country Parties, especially LDCs and SIDS.[20] [21]

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[16] See e.g. Decision 11/CP.1 and Decision 3/CP.4, which refer to the GEF as "an" entity tasked with making the financial mechanism operating. The use of the word "an" as opposed to "the" in referring to the GEF as an entity reflects Art. 11.1's text which states that the operation of the financial mechanism can be "one or more existing international entities" as the word "an" indicates that the GEF is only one among other possible entities that can operate the financial mechanism. Other COP decisions which expressly indicates or reflects the understanding of the COP that the financial mechanism can have more than one operating entity by considering the GEF as "an" operating entity for the financial mechanism include Decisions 10/CP.1, 12/CP.2, 13/CP.2, 3/CP.4, 5/CP.8, 7/CP.8, 2/CP.12, and 6/CP.13.

[17] Decision 9/CP.1 was adopted by the COP pursuant to Art. 11.4 of the UNFCCC.

[18] See UNFCCC COP decision 12/CP.2 adopting the Memorandum of Understanding (MOU) between the COP and the GEF Council (see also UNFCCC Doc. FCCC/CP/1996/15/Add.1, pp. 55-59, for the text of the Memorandum of Understanding).

[19] Decision 2/CP.12, last preambular paragraph.

[20] These critiques are implicitly reflected in, for example, COP Decision 3/CP.12's paragraphs 1(a) and (b) and 2(a), (b) and (d) with respect to the COP's request and invitation to the GEF to further simplify and improve the efficiency of its procedures and processes as well as the last preambular paragraph of the same Decision "noting the concerns expressed by developing country Parties over the implications of the requirements for co-financing, in particular in adaptation project activities", and paragraph 3 urging the GEF "to provide

13. Given the shortfalls of financing revealed in the reports discussed above, and given the difficulties that have arisen with respect to the GEF as an operating entity for the Convention's financial mechanism, exploring the option of using the COP itself – operating through a fund that it establishes – as an operating entity for the financial mechanism could be a good way of addressing some of the financing problematique with respect to climate change adaptation, technology transfer, and other response measures.

II. ELEMENTS OF THE CLIMATE CHANGE FUND (CCF)

A. Objective

14. The CCF should serve as the comprehensive funding mechanism that would:

(i) enable the full implementation by developed country Parties of their financing commitments under Arts. 4.3, 4.4 and 4.5 of the Convention; and

(ii) provide new, additional, adequate and predictable financing for the full implementation by developing country Parties of their commitments under Art. 4.1 of the Convention.

B. Institutional Structure

15. The CCF should have a structure that is as flexible and non-restrictive as possible with respect to the sources of funds and the use thereof. Such

further funding, in a more timely manner, to the developing country Parties, in particular the least developed countries and small island developing States …" The difficulties that developing country Parties have with the GEF were already being experienced since the beginning, as can be seen in the fifth preambular paragraph of COP Decision 11/CP.2 (which was adopted in July 1996, the second year after the UNFCCC entered into force), which expressed concern over the difficulties encountered by developing country Parties in receiving the necessary financial assistance from the Global Environment Facility owing to, *inter alia*, the application of the Global Environment Facility operational policies on eligibility criteria, disbursement, project cycle and approval, the application of its concept of incremental costs, and guidelines which impose considerable administrative and financial costs on developing country Parties."

[21] Part of the problem with the GEF in terms of ensuring the equitable allocation of funding resources to developing country Parties is that "higher levels of funding have typically been assigned to the countries with the highest overall potential for GHG mitigation" which means that many other developing country Parties whose priority is adaptation more than mitigation (because of the low levels of their emissions or low mitigation capabilities) often find it difficult to obtain GEF funding. Many African countries, for example, are sinks rather than sources of emissions. Some of the GEF's stakeholders, particularly in the Pacific region, have, in fact, suggested that "the GEF must fund activities in the area of adaptation to climate change because it is in the guidance from the UNFCCC and, because they are smaller emitters, the mitigation of GHG emissions is not a high national priority." See GEF, OPS3: Progressing Toward Environmental Results – Third Overall Performance Study of the GEF (June 2005), pp. 36-40.

structure will have to be developed by the COP on the basis of the Convention's provisions and previous decisions made by the COP with respect to policies, eligibility criteria, and programme priorities.

16. There is only one financial mechanism under the UNFCCC – that which is established under Article 11 of the Convention. It is to be the mechanism "for the provision of financial resources on a grant or concessional basis, including for the transfer of technology," functioning "under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria related to" the Convention. Finally, while there is only one financial mechanism, its operation is entrusted to "one or more existing international entities."[22]

17. The review guidelines[23] as laid down by the COP with respect to reviews of the Convention's financial mechanism give full scope for Parties to consider the option of looking at other existing international entities, whether in addition to or in replacement of the GEF, to serve as operating entities for the financial mechanism. Perhaps having more operating entities that are not subject to some of the institutional difficulties faced by the GEF could help scale up the international financial response to climate change and thereby move Parties closer to meeting the objective of the Convention.

18. The COP under Art. 11 of the Convention serves as the guidance and accountability authority for the financial mechanism. The operation of the financial mechanism is to be entrusted to one or more existing international entities. As such, the COP could, aside from its existing mandate to the GEF for the latter to serve as an operating entity, also designate itself to be another operating entity for the financial mechanism for the purpose of setting up and implementing the CCF.[24]

19. To operationalise such self-designation, the COP could create a CCF Intergovernmental Board (similar to what it did with respect to the Adaptation Fund) that would be composed of a subset of COP members in which Parties would be represented in an equitable and balanced way.[25] The Adaptation Fund Board, for example, is composed of "16 members representing Parties to the Kyoto Protocol, taking into account fair and balanced representation among these groups as follows:

[22] UNFCCC, Art. 11.1. Note that Art. 21.3 of the UNFCCC identified the Global Environment Facility (GEF) of the UNDP, UNEP, and World Bank as "the international entity entrusted with the operation of the financial mechanism referred to in Article 11 on an interim basis."
[23] These include the initial guidelines laid out in the Annex to Decision 3/CP.4 and additional guidelines indicated in paragraph 6 of Decision 2/CP.12 and in Decision 6/CP.13.
[24] Note that Art. 11 of the Convention does not specify what the nature of the "existing international entity" should be for it to be eligible as an operating entity for the financial mechanism. The COP is an existing international entity considering that it is established as a treaty body under Art. 7.1 of the Convention with the power to exercise such functions as may be required for the achievement of the objectives of the Convention (Art. 7.2(m)).
[25] See UNFCCC Art. 11.2.

"(a) Two representatives from each of the five United Nations regional groups;
"(b) One representative of the small island developing States;
"(c) One representative of the least developed country Parties;
"(d) Two other representatives from the Parties included in Annex I to the Convention (Annex I Parties);
"(e) Two other representatives from the Parties not included in Annex I to the Convention (non-Annex I Parties)."[26]

20. The CCF Intergovernmental Board (hereafter the Board) would oversee the operations of the CCF, and would be functioning under the guidance of and be accountable to the COP. This would allow the COP to ensure that the operation of the CCF would be consistent and coherent with the COP's guidance with respect to the financial mechanism. Following such COP guidance, it will be the Board that will be responsible for fund policies and guidelines, deciding on applications for funding support for country programmes and projects, entering into contractual arrangements with the implementing agencies,[27] if any, of programmes or projects to be funded, reporting to the COP, and serviced by a secretariat and a Trustee.

21. The Board would be supported by an executive secretariat unit (CCF Secretariat) – possibly coming from or housed within the existing UNFCCC secretariat. The CCF funds would be entrusted to a trustee institution selected by open and competitive international bidding and supervised by and accountable to the Board. The Trustee may be a public or private sector financial institution that can provide cost-effective, efficient, and international standard financial investment services to the CCF for its funds, and should certify that it does not have any conflict of interest with any other climate change-related funds that it may be handling.

22. These institutional arrangements for the CCF secretariat and Trustee would be subject to review during the regular reviews of the financial mechanism under Art. 11.4 of the Convention.

C. Sources, Amounts and Replenishment of Financing

23. In view of their commitments under the Convention to provide adequate and predictable financing, the core funds of the CCF should be sourced from periodic mandatory contributions from developed country Parties to the Convention, consistent with the provisions of Art. 4.3 thereof. Various proposals with respect to the scale of contributions have been suggested, ranging from basing such contributions on the basis of existing membership contributions to the United Nation's regular budget or on some other basis as

[26] See Decision 1/CMP.3, para. 6.
[27] These implementing agencies could be multilateral, regional, or national institutions, with priority to be given to applications where the implementing agency or agencies would be developing country institutions.

may be agreed to by the COP taking into account the determination of funding needed[28].

24. However, the COP must ensure that the total amount of contributions to the CCF to be provided by developed country Parties would be adequate to meet the total amount of financing required to meet the costs described in the previous section and would also reflect an appropriate level of burden sharing among such developed country Parties. This means that the total amount of the funds to be injected into the CCF from developed country Parties' contributions will necessarily not be fixed but will depend on an assessment of the funding required. Such assessment could be done through having an independent assessment be commissioned by the Board or using existing mechanisms under the UNFCCC's Subsidiary Body on Scientific and Technological Advice (SBSTA)[29] to determine the amount of funding required to be injected into the CCF.

25. Developed country Party contributions to the CCF should be, as provided for in Art. 4.3 of the Convention, "new and additional" to, and not be counted as part of, their official development assistance (ODA) flows. Neither should existing ODA funds be shifted to pay for such Parties' mandatory contributions to the CCF.

26. The CCF should also be open to and should encourage voluntary contributions from other Parties who deem themselves to be in a position to do so, as well as other intergovernmental and non-governmental institutions. Other sources of funding, such as from market-based activities or mechanisms, to add on to the CCF's funding (including income earned from investments made by the Trustee institution using CCF funds) could also be considered.

27. Under Art. 11.5 of the Convention, "developed country Parties may provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels." This envisions having the Convention's financial mechanism serve as the framework that such financial resources should respond to. Hence, the CCF could serve as the means through which the Convention's financial mechanism could serve as the primary conduit for bilateral (including developed country Parties' ODA), regional and multilateral funding to support all climate-related activities that are intended to meet the objective of the Convention. Bilateral ODA-based funding channeled through the CCF could be limited to a specified percentage of the total funding available in the CCF and could also be subjected to the approval of the Board.

[28] See, for example, Mexico's proposal for the creation of a Multinational Climate Change Fund.

[29] Such as the Expert Group on Technology Transfer (EGTT) with respect to the funding requirements for the fulfillment of technology transfer commitments under the Convention.

28. Channeling funding from outside the financial mechanism under Art. 11.5 of the Convention through the CCF, subject to COP authority and guidance, would ensure that such bilateral, regional and multilateral funding would be consistent and coherent with the Convention and the various COP guidance on the financial mechanism. This would also help effectively address the long-standing problem of having a multiplicity of governance structures relating to climate-related financing (such as the World Bank, regional development banks, the GEF, the UNDP and UNEP, bilateral agencies). This has resulted in a fragmentation of the provision and use of such funding, and thus may have adverse implications on the consistency of such funding with meeting the objective of the UNFCCC.

29. Similar to the Multilateral Fund for the Implementation of the Montreal Protocol (MLF), the CCF should be periodically replenished every three years by developed country Parties, with their scale of contributions to be readjusted to reflect changing economic or fiscal circumstances that may have an impact on the parameters that may be agreed to by the COP as the basis for their mandatory contributions to the CCF.

D. Eligibility Criteria and Priorities for Financing

30. The eligibility criteria for developing country Parties to access the CCF and the priorities for financing would have to be developed by the COP on the basis of the Convention's provisions and previous decisions thereon.

E. Activities and Costs to be Financed

31. Activities that could be financed by the CCF would include those that developing country Parties would undertake to implement their commitments under Art. 4.1 of the Convention, taking into account their common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances, and the balance of commitments embodied under Art. 4.7 of the Convention in which economic and social development and poverty eradication are the first and overriding priorities of developing country Parties. This means that the CCF should be able to provide financing to support developing country Parties' adoption and implementation of national sustainable development policies and measures undertaken consistent with their Convention commitments.

32. The CCF should also finance the transfer of technology from developed to developing country Parties. The provision of financing for the transfer of and access to technology is explicitly stated in Arts. 4.3, 4.4, 4.8, and 4.9 of the Convention as among the commitments of developed country Parties.

33. Other activities that can be financed by the CCF would be joint technology research, development, commercialization, acquisition and deployment activities undertaken by entities from developed and developing country

Parties consistent with the provision in Art. 4.5 of the Convention under which developed country Parties are committed to supporting "the development and enhancement of endogenous capacities and technologies of developing country Parties." The CCF could set up a Joint Venture Research and Development Grant Window that Parties could access to support joint R&D activities to support piloting, demonstration, and commercialization of new climate-friendly technologies in various sectors – including in agriculture, forestry, transportation, industry, energy, the built environment – in developing countries.[30] The CCF could also have a grant facility which developing country Parties can avail of to support their acquisition of existing privately-owned technologies.

34. The costs to be covered by the CCF should include:

- the agreed full costs for developing country Parties' national communications;[31]
- the agreed full incremental costs of developing country Parties' implementation of measures under Art. 4.1 of the Convention.[32] These should include, among other things:
    - financing for strengthening national institutional focal points for climate change-related mitigation, adaptation, technology transfer, and capacity-building;
    - supporting the preparation of nationally-appropriate country climate change-related programmes;
    - preparing and implementing nationally-appropriate climate change-related policies, regulations and measures relating to mitigation, adaptation, conservation and enhancement of greenhouse gas sinks and reservoirs, agriculture, environment and natural resource management, land use management, waste management, risk management, area protection and rehabilitation, public health, relevant sectors (such as energy, transport, industry, forestry), scientific observation, information exchange, education and awareness raising;
- the costs of adaptation by developing country Parties to the adverse effects of climate change;[33]
- the costs for transfer of, or access to, environmentally sound technologies and know-how to developing country Parties to support their implementation of the Convention (especially Art. 4.1), and to support the development and enhancement of endogenous capacities and technologies of developing country Parties. [34] [35] These should include, among other things:

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[30] Joint R&D activities with respect to climate-friendly technologies can hold great potential for enabling Parties to side-step technology transfer barriers that intellectual property rights (IPRs) may pose by allowing for the sharing of the IPRs arising from jointly developed technologies.
[31] UNFCCC Art. 4.3.
[32] Id.
[33] UNFCCC Arts. 4.4 and 4.1(e).
[34] UNFCCC Art. 4.3.

    - covering the costs of licensing fees of such technologies where these are held by the private sector;
    - the costs for the commercialisation of new or emerging climate-friendly technologies, especially those developed by developing country Parties, including through the financing of demonstration or pilot projects or programmes;
    - the costs of deploying existing technologies in developing country Parties by meeting the incremental costs for the acquisition and operation of both the hardware and software for such technologies;
    - the costs for research and development into climate-friendly technologies in developing country Parties, especially in sectors of development interest to them;
    - the costs for technology transfer and other measures to meet the specific needs and special situations of the least developed countries;[36]
- the costs for insurance, technology transfer, and other measures to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and/or the impact of the implementation of response measures;[37] and
- the costs for the implementation of the Capacity Building Frameworks for developing countries and countries with economies in transition (EITs) reflected in Decisions 2/CP.7 and 3/CP.7 respectively. These should include, among other things, capacity-building, awareness-raising, and training of developing country and EIT policymakers.

35. CCF-sourced funding for the costs above should be in the form of grants, with no or minimal levels of concessional loans.

F. "Measurable, Reportable and Verifiable" (MRV) Modalities

36. Paragraph 1(b)(ii) of the Bali Action Plan contemplates having the provision of financing and the transfer of technology be done in a "measurable, verifiable and reportable manner." Hence, the provision of financing by developed country Parties to the CCF must, consistent with the provisions of the Convention, be measurable, reportable, and verifiable in line with existing modalities thereon.[38]

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[35] UNFCCC Art. 4.5.
[36] UNFCCC Art. 4.9.
[37] UNFCCC Art. 4.8.
[38] For a discussion of these existing modalities, please see e.g. South Centre, "Measurable, Reportable and Verifiable": Using the UNFCCC's Existing MRV Mechanisms in the Context of the Ad Hoc Working Group on Long Term Cooperative Action under the Convention (South Centre Analytical Note SC/GGDP/AN/ENV/3, May 2008), at http://www.southcentre.org/publications/AnalyticalNotes/GlobalSocialEnvGov/2008May_MRV_in_the_Bali_Action_Plan.pdf

37. Under Art. 12.3 of the Convention, developed country Parties (under both Annex I and II) are required to "incorporate [in their national communications] details of measures taken in accordance with" Art. 4.3 (provision of new and additional financial resources), 4.4 (assistance to meet the costs of adaptation), and 4.5 (promotion, facilitation and financing of the transfer of, or access to, environmentally sound technologies and know-how) of the Convention.

38. Furthermore, Art. 11.4 of the Convention requires the COP to undertake a review of the financial mechanism every four years. Reviews of the financial mechanism (including the operations of its operating entity or entities) are undertaken on the basis of guidelines adopted by the COP.[39] These include the initial guidelines laid out in the Annex to Decision 3/CP.4 and additional guidelines indicated in paragraph 6 of Decision 2/CP.12 and in Decision 6/CP.13. The review guidelines as laid down by the COP give full scope for the COP during the fourth review of the financial mechanism to consider, inter alia:

- an assessment of the funding necessary to assist developing countries, in accordance with the guidance provided by the Conference of the Parties, in meeting their commitments under the Convention;
- options for scaling up the international financial response to climate change, based on national experiences and on available relevant documents;
- the effectiveness of the financial mechanism in providing resources to developing country Parties to support and enable them to undertake nationally appropriate mitigation actions
- looking at other possible institutional arrangements that may be done under the financial mechanism to make it more effective in the delivery of the required financing to developing country Parties

39. Key COP decisions with respect to the conduct of the reviews of the financial mechanism are listed below:[40]

- **Decision 6/CP.13:** Review of the financial mechanism
- **Decision 2/CP.12 :** Review of the financial mechanism
- **Decision 9/CP.10:** Assessment of funding to assist developing countries in fulfilling their commitments under the Convention
- **Decision 5/CP.8:** Review of the financial mechanism
- **Decision 3/CP.4:** Review of the financial mechanism
- **Decision 12/CP.3:** Annex to the Memorandum of Understanding on the determination of funding necessary and available for the implementation of the Convention
- **Decision 11/CP.3**: Review of the financial mechanism
- **Decision 13/CP.2:** Memorandum of Understanding between the Conference of the Parties and the Council of the Global Environment

[39] See Decision 3/CP.4, Annex.
[40] See http://unfccc.int/cooperation_and_support/financial_mechanism/items/3658.php.

Facility: annex on the determination of funding necessary and available for the implementation of the Convention

- **Decision 12/CP.2:** Memorandum of Understanding between the Conference of the Parties and the Council of the Global Environment Facility
- **Decision 9/CP.1:** Maintenance of the interim arrangements referred to in Article 21, paragraph 3, of the Convention

40. The MRV modalities with respect to financing described above should be used as the MRV modalities for the CCF so as not to reinvent the wheel.

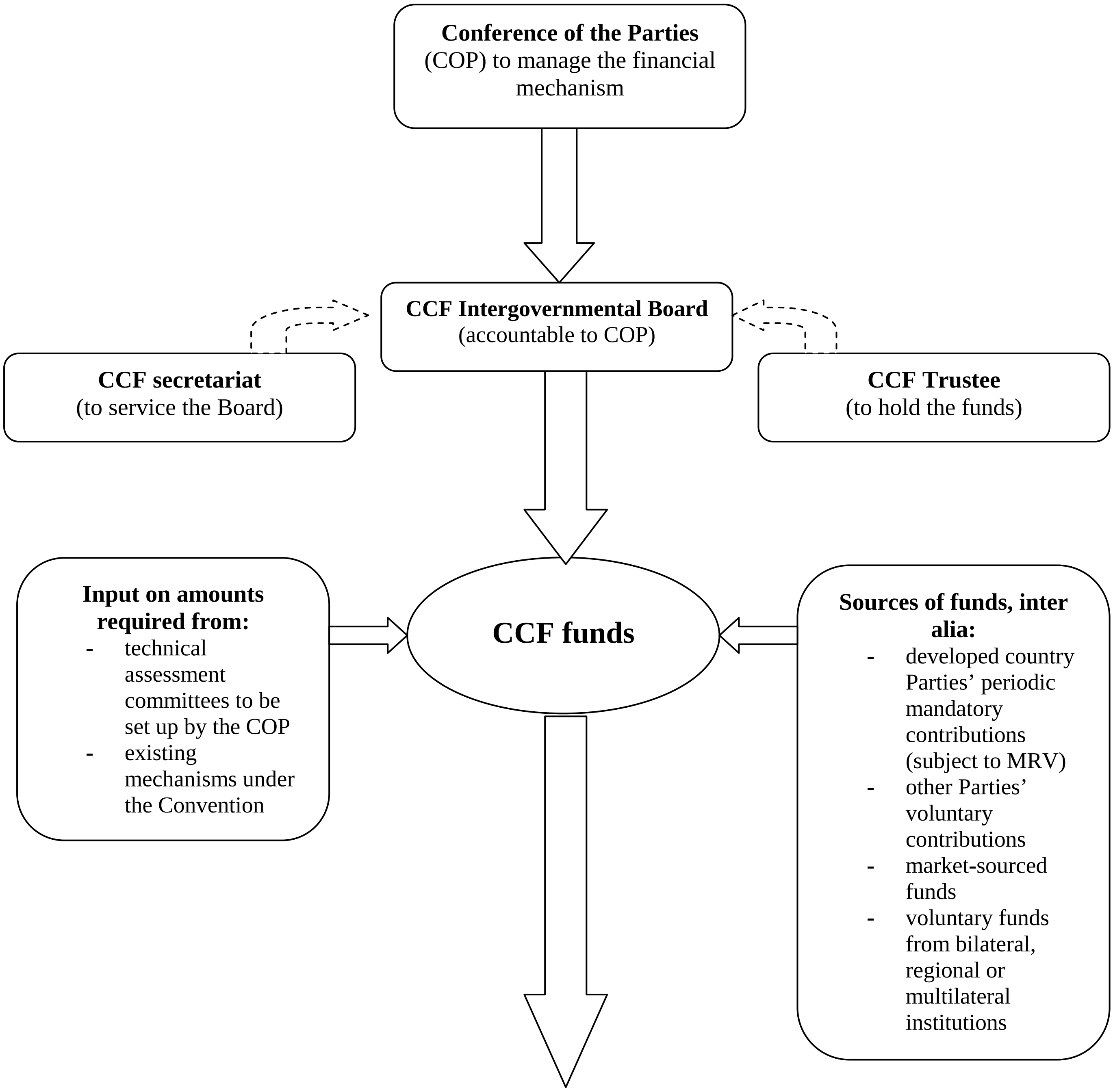
III. CONCLUSION

41. In the end, the question of financing the global climate change response comes down to ensuring that the Convention's financial mechanism is able to generate an enabling environment for technology development, deployment, diffusion and transfer, and for capacity-building implementation, especially in developing country Parties, leading towards the more effective implementation by all Parties of their respective commitments under the Convention.
42. The advantages of having the CCF under the Convention's financial mechanism as discussed above are manifold:

- it could provide for more consistent and coherent financing for activities to meet the objective of the Convention;
- it responds fully and directly to the requirement in Art. 11.2 of the Convention with respect to having balanced and equitable representation within a transparent system of governance;
- it provides for flexibility in financing which could encourage innovation and home-grown solutions by developing country Parties;
- it provides for predictability which could underpin long-term sustainable development planning and implementation by developing country Parties;
- it supports the possibility of having cooperative technology research and development activities which could effectively address issues relating to proprietary IPRs; and
- it draws on the successful experience of the Montreal Protocol's Fund in terms of enhancing and encouraging developed and developing country Parties' cooperation.

43. The need to enhance financial flows under the Convention's financial mechanism is urgent as part of the global response to climate change. The CCF as described above would be a viable mechanism for delivering such financial flows consistent with the provisions and objective of the Convention.

Figure 1: CCF Architecture



Possible activities to be funded				
National communications	Art. 4.1 implementation	Adaptation, risk management, insurance	Technology transfer (including R&D, acquisition, commercialization, deployment)	Capacity building

READERSHIP SURVEY QUESTIONNAIRE
South Centre Analytical Note

FINANCING THE GLOBAL CLIMATE CHANGE RESPONSE: SUGGESTIONS FOR A CLIMATE CHANGE FUND (CCF)

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