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Multilateral Financial Structure for Climate Change: Key Elements

Submission by Third World Network

The Third World Network proposes the establishment of a Multilateral Financial Structure (MFS) for Climate Change, to be located in the UNFCCC, under the authority and guidance of the Conference of the Parties (COP).

The following is a summary of some elements of the proposed Multilateral Financial Structure.

Mandate: The UNFCCC establishes a Financial Mechanism (Article 11). The Global Environment Facility (GEF) is mandated as an operating entity, on an *interim basis*, to be reviewed every four years. The Financial Mechanism thus remains open to other financial resources and institutional arrangements. Decision 6/CP.13 calls for a draft decision on the review of the mechanism for adoption at COP 15.

Multilateral Financial Structure for Climate Change: A MFS would provide the comprehensive funding mechanism for implementation of:

- Article 4.3 on provision of new and additional financial resources, including for the transfer of technology, for developing countries to implement their obligations under Articles 12.1 and 4.1 of the Convention;
- Article 4.4 to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects;
- Article 4.5 on the promotion, facilitation and financing of the transfer of, or access to, environmentally-sound technologies and know-how, to enable them (other Parties, particularly developing country Parties) to implement the provisions of the Convention.
- Article 4.8 on ensuring consideration for 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; and
- Article 4.9 on the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology.

Scope: The MFS would support developing countries by funding the agreed full incremental costs of implementing relevant obligations under the Convention (including those set out in Article 4.1) *inter alia*:

- Implementation of national and regional plans for mitigation and adaptation;
- International cooperation in preparing for adaptation to the impacts of climate change;
- International cooperation for the development and transfer of technologies, practices and processes for mitigation in all relevant sectors; and
- International cooperation for the conservation and enhancement of sinks and reservoirs.
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It would also fund the agreed full costs of the preparation of national communications by developing countries.

Relationship to the COP: The MFS would operate directly under the authority of the COP and be guided by the

policies, programme priorities and eligibility criteria adopted by the COP.

Executive Committee or Board: the MFS would be operated by an Executive Committee reflecting an “equitable and balanced representation of all Parties within a transparent system of governance” (Article 11.2), drawing on a model similar to that of the Adaptation Fund (balanced regional representation, and Annex I, non-Annex I representation).

Secretariat: The Executive Committee would be supported by a small secretariat of professional staff responsible for managing day-to-day operation, developing plans and budgets, reviewing project applications, disbursing financing, overseeing implementation and reporting to the Executive Committee.

Trustee: Funding would be administered by a trustee (e.g. a commercial bank) selected through a process of open bidding and serving under the direct guidance of the Executive Committee and COP.

Expert Groups: The MFS would be supported by Expert Groups on finance and related matters (e.g. technical assistance, capacity building) comprising experts providing an evaluation of the state-of-the-art policies and practices to enhance financing and investment to support action on mitigation, adaptation, technology etc. It would serve the various Funds as well as the COP and the developing countries.

Technical Assistance Programme: The MFS will also establish a Technical Assistance Programme that will provide assistance and advice on financial, technical and policy matters to developing countries, and to the various Funds established.

Eligibility: Non-Annex I countries, and Non-Annex II countries that meet agreed criteria, would be eligible for assistance from the MFS. Parties could evaluate ways to ensure the specific needs and special situations of the least developed countries in actions regarding funding and technology transfer are taken into consideration (Article 4.9).

Implementation of activities: The MFS would be the focus of all activities conducted through bilateral, regional and multilateral funding sources and institutions, ensuring coherence of these activities with those undertaken by developing countries in implementation of their commitments under the Convention, and avoiding confusion and duplication of activities.

Funding full incremental costs: The MFS would fund the incremental costs of measures to implement the Convention, criteria for which would be defined by the COP with input from the Technical Expert Groups and other bodies in their respective areas of expertise (i.e. costs categories may differ for different areas).

Sources of financing: Developed countries would contribute according to the ratio of their UN contributions or another basis agreed by the COP to ensure appropriate burden sharing as per Article 4.3. Bilateral agencies could spend an agreed proportion of their contributions directly in recipient countries or regions with approval of the MFS Executive Committee. Innovative funding sources – e.g. auctioning emission permits of Annex I Parties – could be agreed to ensure replenishment.

Replenishment: The funds required for replenishment of the MFS would be periodically determined by an independent study (e.g. by the Technical Expert Groups) and negotiated and agreed by the COP every three years.

Measurable, reportable and verifiable: The MFS would provide a key means for ensuring that the technology, financing and capacity building required to enable the implementation of nationally appropriate mitigation actions by developing countries are measurable, reportable and verifiable.

Additionality of finance: Funding to the MFS would be assessed to ensure it is additional to ODA and other sources of finance currently provided by Annex I Parties. Funding pledged outside of the MFS shall not be regarded as fulfilment by Annex I Parties of commitments under Article 4.3 of the Convention.

Relationship to other bodies: The MFS would provide financial guidance and support to existing and new institutional arrangements established to enhance action on mitigation, adaptation and technology. It could partly draw from the experience of the Montreal Protocol’s Technology and Economics Assessment Panel (TEAP), with input provided by technical panels in these areas advising on various policy matters as well as capacity building

measures and other relevant matters (in energy, transport, industry, agriculture, forestry, waste management and other areas).

Support technology development and transfer: Building on the Technology Needs Assessments, the MFS would actively support a technology mechanism to promote, facilitate and finance the transfer of technology, and support the development of endogenous capacity through technical panels, links to a Technology Clearing House, and other means agreed by the COP.

Link with the Adaptation Fund: The MFS would address adaptation in a manner complimentary to the activities of the Adaptation Fund under the guidance of their respective Executive Committees and the COP. Similar membership on the MFS and Adaptation Fund executive bodies would ensure coordination.

Link with the GEF: The role of the GEF as an operating entity of the Convention's Financial Mechanism would be reviewed on an ongoing basis to ensure consistency with the MFS. Funding under GEF climate window could be focused on supporting full costs of national communications, with other funding running through MFS.

Links to other financial mechanisms: The MFS would maintain consistency between the policies, programme priorities, and eligibility criteria for activities established by the COP and all "activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism" as per decision 11/CP.1

Links to private funding: The MFS would be supported by contributions from Parties. Financial contributions by companies, banks and other private institutions could be made available through complementary vehicles established along side the Convention's Financial Mechanism, in accordance with policies, programme priorities, and eligibility criteria established by the COP.

Ensure flexibility: The MFS would adopt flexible, simple, clear streamlined procedures and remain responsive to the expressed needs and goals of developing countries. It would not be subject to conditionalities such as those used by the World Bank or established through performance indicators under the Convention or otherwise.

Provide direct access to funds: The MFS would enable countries to have direct access to funds to ensure a cost-effective and country-driven approach, and to avoid "double-dipping" by designated entities/trustee or other potential conflicts of interest in the administration of funds.

Catalyze additional finance: The MFS would serve as a catalyst to leverage additional financing but would not formally require co-financing from other agencies thereby preventing it from being used by multilateral agencies as a "sweetener" for loans on a non-concessional basis.

