

Negotiations on financing issues under the Ad-Hoc Working Group on Long-term Cooperative Action: An overview

Background document

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A. Background

The Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) undertook intersessional informal consultations from 10 to 14 August 2009 in Bonn. The objective of the informal consultations was to further revise the negotiating text (FCCC/AWGLCA/2009/INF.1), reflecting its consideration by the Parties and modifying it in the direction of consolidation and convergence. The Chair of AWG-LCA requested the respective facilitators to launch the work of each group with an overview of the structure and content of the text assigned to it and make suggestions on the manner in which the Parties could start work on issues in the text.

B. Overview of the chapter on finance in the revised negotiating text

The chapter on finance in the revised negotiating text¹ (RNT), prepared for the session presents a diversity of ideas and proposals by Parties on means of generating and delivering new and additional finance, including facilitation of access, and the design of effective institutional arrangements for provision of finance. The chapter has been structured along the following sections:

1) Objective, scope and guiding principles:

The section on “objective, and scope and guiding principles” highlights the context of enhanced action on provision of financial resources vis-à-vis the Convention and the Bali Action Plan (BAP), and presents guiding principles for enhancing the provision of finance, as proposed by Parties. The chapeau of the section highlights the objective and scope of financing negotiations under the LCA, which calls for operationalisation of the financial mechanism of the Convention. The principles proposed by Parties include (a) overarching principles; (b) principles to guide generation of resources; (c) principles to guide institutional arrangements; (d) and principles to guide access and disbursement of financial resources.

2) Generation of financial resources:

This section presents: principles and criteria to reflect the need for predictability, adequacy, sustainability and the scale of financial resources; the criteria for defining responsibilities of Parties to contribute financial resources; and various proposals for generating financial resources. The proposals on generation of financial resources highlight the following key questions: which Parties should contribute; and, criteria to assess contributions, such as, GDP, emissions, etc. Proposals for generation include:

- Assessed contributions ; and
- Options to generate funds from market mechanisms and levies on international transactions.

3) Institutional arrangement, including funds:

¹ FCCC/AWGLCA/2009/INF.1;

http://unfccc.int/documentation/documents/advanced_search/items/3594.php?rec=j&preref=600005358#beg

The section on institutional arrangements, including funds is divided into following sub-sections: options for operationalisation of the financial mechanism; specialized funds; funds for multiple uses; and institutional arrangements at the national level. Different proposals for these institutional arrangements, including funds present a hierarchy of institutional functions relating to governance, operation and technical advice.

The key question presented in this section relates to the choice between strengthening existing mechanisms and establishing new ones, including new specialized funds for particular purposes.

The text on compliance presents proposals by Parties to ensure the fulfilment of financial commitments by Parties and define various parameters of a compliance framework. The structure of different sections of the finance chapter is presented in Annex 1.

C. Linkages of financing issues with other chapters of negotiating text

The chapter on financing, with its respective sections has direct linkages with all other chapters of the revised negotiating text, in particular with means of implementation as presented in chapters on enhanced action on adaptation and mitigation and financing for development and transfer of technology. Some of the overall principles related to provision of financing are also in the chapter on shared vision as well as mitigation and adaptation. Further, various institutional arrangements proposed in these chapters have linkages with the section on institutional arrangement, including funds in the finance chapter.

D. Summary of changes made during June session of AWG-LCA

The text added by the Parties during the June session of AWG-LCA can be categorized into following categories: paragraphs that are either simplification of existing paragraphs or combination of two or more paragraphs; repetition of a particular concept with either different phrasing or placing it in a different section within the chapter; and, addition of completely new concepts. Following is a summary of the textual additions:

- 1) Addition of a preamble to the finance section, and addition of text to “objective, scope and guiding principles”. The text added as preamble is similar to text on objective and scope .
- 2) Generation of financial resources:
 - New concept added on responsibilities of all Parties to implement and report on policies and instruments to mobilize public and private financial resources;
 - Some new proposals for generating resources such as set aside reserves and debt relief.
- 3) Institutional arrangements, including funds:
 - Further elaboration of G77 & China proposal by members of the group;
 - New proposals for establishing funds for specific uses;
 - Proposals to place institutional arrangements and funds together.

E. Structural proposals made during June session of AWG-LCA

Parties also proposed two types of structural changes: structural proposals that call for consolidation of finance and institutions related content in the finance chapter; and, structural proposal for organizing the finance chapter.

F. Progress during the August intersessional informal consultations

Parties had substantive discussion on the guiding principles that define objective and scope of the climate finance architecture and the principles that guide the governance of institutional arrangement and delivery of financial resources, including access and disbursement in this session. They also focused their deliberations on generation of resources and institutional arrangements.

A table of common elements and areas of divergence on the some of the key issues was prepared and discussed at this session to enhance clarity of positions of different Parties, (Annex 2.). Common elements were interpreted where the Parties have proposed similar ideas, whereas divergence highlights areas where Parties have explicitly stated their objection, or where there are significant alternatives with opposing ideas.

A reordered and consolidated has been prepared for the next session of AWG LCA, to be held in Bangkok. In line with the approach agreed by Parties, parts of the text referring to similar concepts have been reordered and consolidated with an attempt to retain the original language used in the revised negotiating text. The consolidation of text has been undertaken in such a manner that the full rationale of Parties' proposals is reflected as an alternative. To this extent use of brackets in the text of alternatives has been based on submissions from the Parties, and on the understanding that this entire text is subject to scrutiny and discussion by the Parties.

Annex 1: Outline of the Chapter on Enhanced action on provision of financial resources and investment in Revised Negotiating Text (FCCC/AWGLCA/2009/INF.1)

Section	Paragraph Number	Key issue/theme
Section 1: Objective, scope and guiding principles	166-170	
Chapeau and Key principles	166 (a) -(i)	Principles on generation, governance and delivery of financial resources
Option 1 and 2	167-168	Role of public and private sector financing
Option 1 and 2	169-170	Role of bilateral, multilateral and regional channels for delivery of financial resources and fulfilment of commitment on the provision of financial resources
Section 2: Generation of financial resources	171-173	
Chapeau and criteria	171-172	Chapeau of the section principles and criteria for generation of financial resources
Various options for generating financial resources(Options 1-8)	173	Various options on assessed contribution, international levies, market-based mechanisms and revenue generated from fines and penalties for non-compliance
Section 3: Institutional arrangements, including funds	174-176	
Operationalisation of financial mechanism	174	Contextualizes the operationalisation of financial mechanisms to the Convention and options for operationalisation
Options for Specialized funds	175	Include options for individual funds and funds for multiple uses
Modalities of funds proposed in paragraph 175	176	Describes the roles and functions to operate the fund
Institutional arrangements at the national level	177	Describes national level institutional set up to coordinate with international institutional set up.
Compliance	178 -179	Mechanism and elaboration of the mechanism

Annex 2: Enhanced action on the provision of financial resources and investment

- Common elements are interpreted where Parties have proposed similar ideas. Divergence is interpreted where Parties have explicitly stated their objection, or where there are significant alternatives with opposing ideas.
- The content of the table follows the existing structure of the text. Parties may have other perceptions and the table may not reflect all common elements and divergence issues.
- The text in *italic* format represents repetitions of the common element within the sections of the Finance chapter.

1. Objective, Scope and Guiding Principles (Pages 147-154)

Common elements	Divergence
<p>Overarching principles:</p> <ul style="list-style-type: none"> • Provision of financial resources to further enhance the full, effective and sustained implementation of the UNFCCC and fulfilment of the Bali action plan; • Substantial gap between the financial resources required for enhanced action on adaptation and mitigation in developing countries and the level of financial resources currently available; • Commitments entailed in Article 4 and Article 12.1 of the Convention. 	<ul style="list-style-type: none"> • Alignment of the text with principles and provisions of the Convention; • Commitments of developed country Parties to provide financial resources to meet agreed full incremental cost and agreed full costs; • Action by all Parties to foster investment and financial flows for climate change response.
<p>Principles to guide generation of resources</p> <ul style="list-style-type: none"> • Need to provide scaled-up, new, additional, predictable and sustainable financial resources; • Financing would be derived from multiple sources; • Principle of equity and common but differentiated responsibilities. 	<ul style="list-style-type: none"> • Scale of adaptation financing provided is linked to mitigation commitments and actions by developed country Parties; • Additional to ODA; • Roles of the public and private sectors in generating financial resources to support enhanced action; • Polluter pays and historical responsibility.

Common elements	Divergence
<p>Principles to guide governance of institutional arrangements</p> <ul style="list-style-type: none"> • Full transparency, efficiency, effectiveness, equitable and balanced representation of all parties; • Financial mechanism shall function under the guidance and be accountable to the COP; • Coherence and coordination between financing under the COP and various financial mechanisms and individual funds to reduce fragmentation in the implementation of the Convention and promote access to the variety of available funding. 	<ul style="list-style-type: none"> • Appropriate representation of all Parties; • Financial mechanism, in accordance with Article 11.1 and 11.2 of the Convention, shall function under the authority of the COP; • Coherence and coordination through programme priorities and eligibility criteria decided by the COP; • Governance of financial resources provided through bilateral, regional, and other multilateral channels.
<p>Principles to guide delivery of financial resources, including access and disbursement:</p> <ul style="list-style-type: none"> • Simplified and improved access to financial resources; • Delivery of financial resources to follow a programmatic approach, using a project approach when appropriate; • Country driven; • All developing country Parties are eligible for the funding, with special consideration for the needs of vulnerable countries; • Funds shall be allocated for adaptation, mitigation, technology transfer and capacity-building, in a balanced manner; • Financial resources be provided in from of grants and/or concessional basis. 	<ul style="list-style-type: none"> • Financial resources provided through bilateral, regional, and other multilateral channels or other institutions outside the Convention shall/shall not be regarded as fulfilment of commitments by developed country Parties; • Direct access by recipient countries, provided that the fiduciary standards of the in-country recipient entities are effective; • Criteria to define eligibility and vulnerability; • Financial allocation for enhanced action to be based on decided ratios; • Form of support provided for adaptation and mitigation; • Mutual accountability, consistent with the principles of aid effectiveness as set out in the Paris Declaration on Aid Effectiveness; • Delivery of financial resources shall strive to leverage private sector financing.

2. Generation / Provision of Financial Resources (Pages 154-158)

Common elements	Divergence
<ul style="list-style-type: none"> • <i>Need to provide scaled-up financial resources;</i> • Assessed contribution as a key source of finance; • Right to develop of developing country Parties. 	<ul style="list-style-type: none"> • Options of sources other than assessed contributions; • All countries contribute except LDCs/ Annex I countries contribute; • Burden sharing criteria/requirements; • All Parties report on policies to create enabling environment for mobilization of public and private financial resources.
<ul style="list-style-type: none"> • <i>Resources need to be new, additional, sustained, predictable, adequate and stable.</i> 	<ul style="list-style-type: none"> • Reliability of market based instruments; • Understanding of what constitutes adequate financial resources; • <i>Diversion of ODA.</i>
<ul style="list-style-type: none"> • <i>Financing would be derived from multiple sources.</i> 	<ul style="list-style-type: none"> • <i>Roles of the public and private sectors in generating financial resources to support enhanced action;</i> • Scale of public resource contribution; • Penalties imposed by COP as a sources for resource generation; • The use of: levy on international bunkers, auction of AAUs, debt relief, extension of the levy on flexible mechanism, global tax on fossil fuels emissions, etc.

3. Institutional Arrangements, Including Funds/ Institutional Structure (Pages 158-169)

Common elements	Divergence
<ul style="list-style-type: none"> Financial mechanism shall function under the guidance and be accountable to the COP. 	<ul style="list-style-type: none"> Financial mechanism shall function under the authority of the COP.
<ul style="list-style-type: none"> Full transparency, efficiency, effectiveness, equitable and balanced representation of all Parties. 	
<ul style="list-style-type: none"> Establishing an institutional framework for provision of financial resources. 	<p>Three main areas of partial convergence among groups of Parties:</p> <ol style="list-style-type: none"> 1. An Executive Body with the supporting structures to operationalise the financial mechanism under the full authority and guidance of the COP. Resources would be made available through direct access, would have in place prudent fiduciary norms, and be subject to external and internal oversight. Modalities of determining the role of existing funds and entities for the operation of the mechanism shall be developed; 2. Establishment of a Board, comprised of participant countries (contributors and beneficiaries grouped in a balanced and practical way), that will report to the COP; 3. Make effective and efficient the use of existing institutions and periodically assess the fulfilment of key functions. The role of the COP will be to provide advice and strategic guidance.
<p>Key functions of the financial architecture:</p> <ul style="list-style-type: none"> Measurement, reporting and verification of financial resources; Effective use of resources. 	<p>Key function of the financial architecture:</p> <ul style="list-style-type: none"> Executive body for management of the financial mechanism; Approval of guidelines and procedure for use of funds Coordination with existing funds and entities; Certification and registry of financial contributions; Assessment of the needs for financial resources; Measurement reporting and verification for the use of resources.