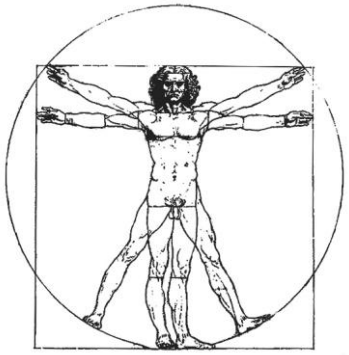
European Capacity Building Initiative
www.eurocapacity.org



ecbi policy brief

Climate Financing for developing countries

A post-Copenhagen Synopsis

Momodou Njie

with contributions by
Benito Müller

June 2010

Acknowledgments:

This work has been made possible through core funding support to the ecbi from the **UK Department for International Development.**

About the author and contributor:

Dr. Momodou Njie is an independent scholar and scientist providing consulting services in environmental, natural resources, and risk management to public and private sector clients. He is a part-time lecturer in water supply and protection studies at the University of the Gambia, and advisor to leading Gambian IT Company, Unique Solutions.
njaaye@hotmail.com

Dr. Benito Müller is Director, Energy & Environment, Oxford Institute for Energy Studies, a Recognised Independent Centre of the University of Oxford. He is also Managing Director, Oxford Climate Policy, where he directs the European Capacity Building Initiative (ecbi).
benito.mueller@philosophy.ox.ac.uk

Table of Content

1. Introduction

Climate change is not a scientific myth or a phenomenon occurring in the distant future. Expert assessments published every five to six years since 1990 by the Intergovernmental Panel on Climate Change (IPCC), and most recently in 2007, demonstrate that climate change is already with us.

In the past two decades, governments' response to the prospect of global and long-lasting climate change has taken the form of a universal treaty on climate change. In its Article 2, the 1992 United Nations framework Convention on Climate Change (UNFCCC) clearly states its ultimate objective and that of related legal instruments (*viz.* the Kyoto Protocol) as the: *"…stabilisation of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system… within a time frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner."*

In view of unrelenting carbon dioxide (CO_2) and other greenhouse gas (GHG) emissions into the atmosphere in the last 150 years, the discourse, until recently, has been centred on what constitutes "dangerous anthropogenic interference with the climate system". Informed by work of the IPCC and independent research teams across the world, most governments espouse the conviction that stabilization of still-rising atmospheric GHG concentrations at 450 parts per million CO_2equivalent (ppm CO_2-eq). in the long-term will result in an average global temperature increase of 2°C. However, latest research and earth system observations call for precaution in aiming for a lower threshold is echoed by calls from drought-prone African countries and Small Island Developing States (SIDS) for a 350 ppm CO_2-eq. stabilization level, consistent with an average temperature rise of 1.5°C. Be that as it may, achieving the ultimate objective of the UNFCCC requires a two-pronged global approach spearheaded by governments: 1) reduction of GHG emissions and enhancement of carbon sinks ("mitigation"); and 2) attenuation of current/emerging/anticipated impacts of climate change ("adaptation").

For developing countries, both actions signify reliance to varying degrees on external sources of climate finance. As opposed to official development assistance (ODA), climate finance draws on a wider array of sources including private investments. Additionally, multi-lateral climate change finance aims to achieve equitable outcomes based on specific disbursement criteria, whereas oveseas development assistance (ODA) is often driven by foreign policy/geopolitical considerations of donor countries. Furthermore, the relative contribution of public and private sectors to financing mitigation and adaptation actions is often mired in circular debates.

This policy brief looks into the scale of financial resources needed to implement the UNFCCC, the potential contribution of different sources of climate finance featuring in the AWG-LCA negotiations, and options for a post-2012 climate finance architecture.

2. Needs and Sources

2.1 How much is needed to implement mitigation and adaptation actions?

The implementation cost of climate policy at global and national level depends on multitudinous variables. In particular, costs are strongly correlated with the rate and timing of GHG emission reductions. Adaptation costs, which depend on measures undertaken to attenuate climate change impacts, also co-vary with the magnitude of climate change impacts, mainly driven by atmospheric GHG concentrations.

A meta-analysis of relevant studies suggest that, in order to stabilize atmospheric GHG concentrations at 450ppm CO_2-eq. in the long term, around ***USD200 – 210 billion are required to meet an intermediate target of 45% reduction of GHG emissions (relative to 1990 levels) by 2030.*** Approximately USD77 billion from this amount would be required by developing countries to undertake mitigation actions.[1] Global costs of adaptation estimated at USD4 to 171 billion reflect uncertainties about climate change impacts and ripple effects, non-comparable scenarios and partial analyses of impact receptors.[2] ***According to the UNDP 2007/8 Human Development Report, which brings poverty reduction strategies and disaster preparedness costs into the costing framework, the cost of adaptation in developing countries is revised upwards to between USD86 – 109 billion, by 2030.*** Economic costs of mitigation lie between 0.25 and 1% global GDP, with values for developing countries at the lower end of this range. For adaptation, economic costs are forecast to be around 0.2% global GDP, no distinction being made between developed and developing countries.[3]

Concerning urgent and priority adaptation needs that have been articulated in Least Developed Countries (LDCs) national adaptation programmes of action (NAPAs), the Stern Review projects a total of USD1.3 billion. NAPA costing methodologies and cost computations discussed elsewhere by the one of the authors suggest the upper bound of NAPA implementation to be around USD4.5 billion.[4]

Pending availability of robust country-level estimates of investments and financial flows (I&FF), one may argue that double-counting and disregard of adaptive learning could inflate reported costs of adaptation. On the other hand, selective sectoral analyses, and 'climate mark-up' based on low levels of investment buttress the argument that current estimates are probably on the lower side by a factor of two to three. Analysts invariably point out that published cost estimates for both mitigation and adaptation are indicative, and need updating at regular intervals

---

[1] UNFCCC (2007). Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change, Vienna Dialogue, Working Paper #8. Downloadable at following URL. http://unfccc.int/files/cooperation_and_support/financial_mechanism/financial_mechanism_gef/application/pdf/dialogue_working_paper_8.pdf

[2] Martin Parry, Nigel Arnell, Pam Berry, David Dodman, Samuel Fankhauser, Chris Hope, Sari Kovats, Robert Nicholls, David Satterthwaite, Richard Tiffin, Tim Wheeler (2009). *Assessing the Costs of Adaptation to Climate Change: A Review of the UNFCCC and Other Recent Estimates*, International Institute for Environment and Development and Grantham Institute for Climate Change, London

[3] Stern, N. (2006). *Stern Review: Economics of Climate Change*. Executive Summary. London: UK Treasury. Downloadable at URL: http://www.hm-treasury.gov.uk/d/Executive_Summary.pdf

[4] Njie, M. (2008). Costing priority adaptation. A view from NAPAs. Paper presented at OECD Experts Workshop on Economics of Adaptation, Paris, 7 and 8 April 2008.

as the future unfolds and relevant information on the science and economics of climate change becomes available.

2.2 Where should financial resources come from?

Consonant with the role of the modern state in promoting peaceful pursuit of sustainable livelihoods, and mediating quality-of-life improvements for its citizens, it is the responsibility of governments, within their respective capabilities, and through international solidarity, to mobilize financial and technical resources needed to address climate change challenges.

To put the issue in context, Articles 2 of the UNFCCC establishes the principle of differentiated responsibilities for tackling climate change and its impacts among Parties. Article 4.3 spells out developed country obligations to provide financial resources for developing country implementation of common responsibilities; and Article 4.4 further affirms the obligation of developed country Parties to "*to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those effects".*

From the foregoing, developing country Parties need to put in place policies that make public finance work towards building resilience to climate change, and incentivize private investments that support adaptation in vulnerable communities and mitigation generally, without jeopardising their economic growth and development objectives. ***It is a daunting task at present to gauge the scale of domestic revenue sources earmarked by developing countries for climate change actions, but it is generally accepted that tax revenue, debt repayments, and sectoral prioritization are key variables in national budget allocation decisions***. Social transfers through workers' remittances are increasingly enhancing household assets/entitlement portfolios, thereby building resilience to climate shocks and extremes. In principle, all developing countries are entitled to funds generated under the financial mechanism of the UNFCCC. This has generated some unspoken discomfort with developed country Parties who want to see "major developing countries" take on a greater share of responsibilities for full and effective implementation of the UNFCCC.

External sources to draw upon to implement climate change actions include an array of international financial instruments and current/new developed country Party initiatives. With the benefit of hindsight and experience, the essential attributes of external sources of finance contemplated are: additionality (separate from current ODA commitments), predictability, and sustainability. The use of 'adequacy' of sources as a judgment criterion however is too much to ask for, simply because individual sources are likely to fall short of funding needs, but provide substantial resources when pooled together. In the present circumstances, inflows of external capital and domestic resources are unlikely to match the financial resources needed to tackle causes and effects of climate change within developing country Parties' jurisdiction.

Under a post-2012 global climate governance regime, a small portion of ***assigned amount units (AAU)***, or ***emission allowances***, auctioned through an appropriate international institution could generate USD50 billion by the year 2015 for implementation of climate change policy based on a 450 ppm CO_2-eq. stabilization level. Auctioning the ***aviation*** sector's emissions allowances would generate between to USD8 – 28 billion, whilst USD11 – 37 billion would come from the ***maritime shipping*** sector. At comparable carbon prices, an international maritime emission reduction scheme (IMERS) based on a carbon levy on fuel used in international shipping is expected to generate at least USD30 billion. A uniform ***global tax on CO_2 emissions***,

exempting LDCS, promises around USD48.5 billion per annum.[5] A global financial transactions tax scheme has the potential to generate at least USD100 billion per annum.[6] ***Top-up fees on international air tickets*** differentiated according to passenger class of travel is expected to generate USD8 – 10 billion per year. Penalties imposed on Parties for defaulting on their financial obligations could bring in some money but not much to the UNFCCC consolidated fund. If anything, penalties, like reputational losses, are more effective for dissuading potential defaulters than for raising revenue.

Assessed contributions of developed country Parties are proving to be a major stumbling block in climate finance negotiations. Developing and developed country Parties each argue their case for financial burden-sharing on the principle of "*common but differentiated responsibilities and respective capabilities*", making it extremely difficult to resolve the matter. If Parties are able to put aside differences of opinion/interpretation and take a panoramic view of climate finance landscape however, the authors believe there is a possibility of a breakthrough on this issue.

Table 1. Balance sheet of external climate finance for developing countries

Budget variable	**Low Scenario**	**High Scenario**	**Rosy* Copenhagen Accord Regime**
Turnover			
Public Sector	74	185	p ·100
Private Sector	147	205	(1- p) ·100
Total Turnover	221	390	100
Expenditure			
Mitigation	200	210	200
Adaptation	86	109	86
Total Expenditure	286	319	286
Balance = Turnover – Expenditure (USD billion)	-65	71	-186
Balance (% of Expenditure)	-22.7	22.2	-65.0

- Mitigation and adaptation costs are kept at same levels as in the low cost scenario. The proportion p lying between 0 and 1 ($0 < p < 1$) is not explicitly articulated in the "Copenhagen Accord", or in any other official document since this agreement was hammered out by a sub-group of the COP in December 2009.

Sources: Stern, 2006, UNFCCC, 2007; UNDP, 2008; Perry et. al, 2009, APF, 2009.

[5] APF, 2009. Carbon Finance in Africa. Presented at a Special Session on Climate change, Addis Ababa, 3 September 2009.

[6] USCAN, 2010. Investing in the future: Options for climate finance the US can support. Issues Paper.

Table 2. Visual summary of external financial resources streams

Financial instrument	Emissions trading/Cap and trade			International Air Passenger Adaptation Levy (IAPAL)	Financial Transactions Tax (FTT)	Assessed contributions
	AAUs (excluding aviation and shipping)	AAUs (Aviation)	AAUs (Shipping)			
			IMERS			
	Carbon tax					
Market segment	Carbon trading			International air travel	Financial trading and money transfers	None
Expected turnover (USD billion)	39 - 95			8 - 10	100	185
Source	Private sector					Public sector

Additional earmarked ODA equivalent to 0.5% of developed country Parties' GDP could provide USD185 billion per annum. Put in its historical context, these resource transfers may be too much to expect, but are fully consistent with the resources that need to be mobilized for implementation of global mitigation and adaptation actions under the aegis of the UNFCCC. Affordability is not an issue because developed country Parties' stand to reap hundreds of billions of US dollars from domestic cap and trade schemes.

It is important to note that revenues generated through alternative financial instruments such as a global tax on CO_2 emissions on one hand, and cap and trade schemes on the other, are not additive. Many economists believe that taxes are a better way of reducing GHG emissions compared to emissions trading, but greater flexibility, promises of higher return, and political acceptability of the latter are difficult to ignore. It is self-evident that developed countries' commitments under the 'Copenhagen Accord' (CA) to mobilize USD100 billion per annum from public and private sources, by 2020, do not respond to the financial needs of developing countries. Surprisingly, the CA does not even acknowledge the full potential of markets despite abundant evidence.

Based on financial resource estimates compiled, markets are expected to generate 46 to 72% of financial resources needed for implementation of global climate change policy. In this regard, stability of carbon prices would be crucial for meeting revenue targets. Proposals to increase the share of proceeds from the clean development mechanism (CDM), or expand the principle to other flexible mechanisms under the Kyoto Protocol, are generally opposed by country Parties hosting projects. These Parties argue that higher levies would create market disincentives for investors. In the final analysis, core funding for climate change actions should come from assessed contributions and financial instruments that promise increased turnover in the longer-term.

2.2 What does the IAPAL contribute to international climate finance?

Desirable attributes of climate finance sources frequently recalled in negotiations and recent publications on the subject include: novelty, additionality, predictability, sustainability, and adequacy. This is all well except that Parties have not defined or agreed on (measurable) criteria that allow them to evaluate the comparative merits of individual proposals. Notwithstanding, the International Air Passenger Adaptation Levy (IAPAL) possesses all requisite attributes, and

medium to high political acceptability as well. To put matters into context, collection of USD8 - 10 billion per annum, but notably in the first year of the IAPAL becoming operational, is sufficient to fund the LDC NAPAs and Work Programme. Notably, IAPAL is not sensitive to fluctuations not to say volatility of carbon prices.

Besides contributing 4 – 7% to resources generated through market-based instruments, IAPAL's main strengths and selling points are its reliability and future potential in terms of resource generation, collection efficiency, and ease of integration into an measurement, reporting and verification (MRV) mechanism.

Ultimately, the (larger share of) climate change policy implementation costs will be borne by households. IAPAL elegantly brings this fact out in its articulation of the link between air travel (pressure), climate change (impact), and adaptation funding (response), and targeting of individuals/households based on their ability to pay for the impacts of air travel emissions.

3. Architecture and Governance

3.1 Is consensus out of reach?

Probably the biggest obstacle to reaching a consensus on the architecture of international climate finance for developing countries is the disagreement over who should be in control of the international financial flows to pay for climate change activities in developing countries. Many industrialized countries hold the view that financial flows should largely be directed through the private sector, with market forces controlling the flows. Public sector funding is viewed as akin to ODA, that is, it is seen as grant funding or concessional loans. As such, the assumption is that the provider of the funds should have the control over who gets the money and decides its use. The architectural paradigm is that of bilateral ODA flows with some consolidation in international financial institutions where the donors have control for a number of reasons, not least the threat of non-replenishment. Given the emphasis on private sector finance and bilateral flows, the system is highly fragmented and as such seen to be in need of some form of coordination, mostly in the form of some registry or matching facility.

By contrast, many developing countries see climate change finance in general, and adaptation finance in particular, as a restitution for costs imposed by industrialized countries. As such climate change finance is taken to represent compensatory transfers and the view is that recipients should be in control of the flows. The view is also that the best way to exercise this control is through full consolidation of international funding streams under the UNFCCC financial mechanism.

This Section tries to put forward some ideas on how this divide in opinion might be bridged through reform of the UNFCCC Financial Mechanism.

3.2 What is the most suitable configuration of the UNFCCC financial mechanism?

At the conclusion of the Ministerial Climate Dialogue held earlier this year in Petersberg[7] , the Co-Chairs' Summary reported that "Striking a balance between a centralized and decentralized governance structure was regarded as a promising way forward." This section presents some of the key arguments for reform/re-alignment of the UNFCCC financial mechanism, and summarizes a reform proposal that is meant to strike this balance.

Some Key Arguments: The need for Consolidation and Devolution

Two key functions of any international climate finance regime are ensuring (i) sufficient ***distributive justice*** concerning not only the sharing of ***payment obligations*** but also of ***payment entitlements***, and (ii) that there is ***no unacceptable imbalance*** in payments for the different thematic purposes (mitigation, adaptation, technology transfer, etc.).

Just as it is not possible to achieve similar ends domestically without a central fiscal budget (consolidated fund), this requires a degree of ***consolidation*** of international funding streams. 'Consolidation' however, must not be confused with centralization, in particular if the latter is interpreted as referring to ***funding decisions*** in the sense of decisions needed to approve activities (projects/programmes).

International funding streams can be consolidated without centralizing funding decisions, by devolving these funding decisions to the (recipient) country level, as envisaged not only in the

[7] 2-4 May 2010, Bonn, Germany. www.bmu.de/english/petersberg_conference/doc/45916.php

reformed financial mechanism (RFM) proposal below, but also in proposals put forward by India and the UK. There are at least two important ***arguments for devolution***.

(i) It has been estimated that the management of the funding cycle (call, appraisal and approval of project proposals, and monitoring of activities) for the sort of annual throughput envisaged in the Copenhagen Accord alone (USD50 billion per annum) would take between 10 and 25 thousand administrative personnel,[8] and it is doubtful whether one would wish to have them as part of a centralized international institution, whether existing or new.

(ii) One of the mantras of climate change finance for developing countries is that it needs to be 'mainstreamed' into developing country policies. It stands to reason that this is more likely to happen if the relevant policy makers are actually involved in the funding decisions.

In short, there are good reasons for arguing that the international climate finance system must have a significant degree of consolidation of international financial flows coupled with devolution of funding decision to the recipient countries. But it would be unrealistic to think that fragmented (bilateral) funding activities would disappear from the climate finance landscape, thus requiring some specific management tools, usually referred to in terms of 'coordination' and 'verification.' The next section discusses a proposal which would accommodate all of these features.

3.3 How should financial resources be allocated between operating entities and major thematic activities?[9]

The Copenhagen Outcomes and the resulting AWG-LCA Chair's texts[10]

The Copenhagen Climate Conference (COP/CMP/Summit) had two substantive 'outcomes': the Decision to continue the work of the twin Ad-hoc Working Groups (with the draft decisions by the respective Chairs) and the 'Copenhagen Accord' (CA).

The CA consists of 12 paragraphs concerning mitigation, finance, technology transfer, and adaptation, with a clear focus on mitigation and finance. The issue of finance is treated in several places in the Accord. The key language on finance however, is to be found in three consecutive paragraphs, creating a ***Copenhagen Green Climate Fund*** (CGCF), a ***High-level Panel*** to advise on potential sources of revenue, and ***'collective' commitments*** to provide fast-start funding of (on average) USD 10 billion annually for the period of 2010–12, rising to USD100 billion annually by 2020 (around half of which from the public sector[11]).

The proposal of a CGCF raises at least three important questions: Is it meant to manage the fast-start money, or is it intended to manage the mentioned *significant portion* of the medium

---

[8] Based on 0.2 (0.5) employees per $ million annual throughput of the Multilateral and Global Funds (World Bank Group).

[9] This Section is based on Benito Müller, The Reformed Financial Mechanism of the UNFCCC Part II. The Question of Oversight: Post Copenhagen Synthesis Report, Oxford Institute for Energy Studies, EV52, April 2010.

[10] For more on the Copenhagen Accord, and on its role in the future negotiations, see Benito Müller, *Copenhagen 2009: Failure or final wake-up call for our leaders?*, Oxford Institute for Energy Studies, EV49, February 2010.

[11] While the proportion of private versus public sector funds is not explicitly stated in the CA, the 50-50 assumption stems from the original proposal made by UK Prime Minister Gordon Brown.

term funding?, and how does it relate to the ***Climate Fund/Facility*** that is to be established according to the draft AWG-LCA finance decision?[12]

At the first post-Copenhagen UNFCCC meeting (April 2010 in Bonn), Margaret Mukahanana the new Chair of the AWG-LCA was charged with drafting a text that amalgamates these outcomes to facilitate the forthcoming LCA negotiations. As concerns governance and architecture of climate finance, the new Chair's text essentially uses the previous Chair's draft Copenhagen decision, with the one important change, namely to give a proper name to the former 'Climate Fund/Facility'[13]

THE FINANCE BOARD (FB) AND THE COPENHAGEN GREEN CLIMATE FUND (CGCF)

According to this draft text, the FB of the Financial Mechanism (FM) shall be ***under the guidance of and be accountable to the COP***. It shall be serviced by a secretariat. Pursuant to Article 11.2 of the UNFCCC, it shall have a ***balanced and equitable representation*** of Parties and a transparent system of governance. Its remit is roughly:

(a) to assess the needs for, and sources and flows of international climate change finance, and recommend a balanced allocation across thematic areas;
(b) to recommend provisions for keeping track of the support provided to developing countries;
(c) to provide guidance/assistance and ensure accountability of the operating entities of the FM, and review their operating modalities;
(d) to assist in matching financial support with needs.

The CGCF, in turn, is to be established as an ***operating entity*** of the FM. It shall governed by a Board with an equitable and balanced representation and be serviced by a secretariat. It may establish specialized funding windows.

The LCA Chair's draft text reflects quite closely the set up envisaged under the latest (Mark II) version of the Reformed Financial Mechanism proposal (see below), except for the fact that (i) coordination is outsourced to other operating entities, and (ii) that the 'main' operating entity is meant to operate the system of throughput resource disbursement to devolved national funding entities. The fact that no mention is made of this sort of resource throughput is probably the greatest lacuna in the LCA Chair's text.

The Reformed Financial Mechanism (RFM) Proposal

The architecture of the Reformed Financial Mechanism (RFM) proposal (see Figure 1) combines the principles of international consolidation and devolved decentralization with the needs to provide a degree of coordination and oversight for traditional fragmented funding.

The ***Climate Facility*** proposed in the initial AWG-LCA text is given the task of disbursing/allocating funds collected from the consolidated international funding streams to ***National Funding Entities***, which are in charge of project/programme approval/funding. The disbursement is in accordance with a number of simple (rule or performance based) disbursement criteria.

Since some countries may not have the capacity to immediately take part in such disbursements, and some actions – possibly certain technology transfer and capacity building activities – do not lend themselves to an in-country devolution, the RFM also envisages ***further***

[12] FCCC/AWGLCA/2009/L.7/Add.2/Rev.1.
[13] UNFCCC, "Text to facilitate negotiations among Parties: Note by the Chair", FCCC/AWGLCA/2010/6, 17 May 2010, pp.12-4.

operating entities which, in contrast to the Climate Facility, are to be involved in the international funding of activities. As there are two 'existing entities' that currently have the status of being *an operating entity* under the current international climate change regime − the ***Adaptation Fund Board*** (AFB) under the authority of the COP/MOP, and the ***Global Environment Facility*** (GEF) under the guidance of the COP − it might therefore make political sense to retain them as ***Adaptation Funding Entity*** and ***Mitigation Funding Entity***, respectively.[14]

Consolidation and coordination: The grand RFM compromise?

[14] This comes out of the idea that they would also cover funding for technology transfer and capacity building in their themes.

There is a broad recognition that the current system is not fit to manage the required financial transfers, but opinion on how this is to be remedied roughly divides into two camps:[15]

The 'Consolidation Camp'. At one end of the spectrum, there are those (mainly from developing countries) who believe that coordination through existing institutions will not remedy current shortcomings, and call instead for reform of the ***consolidation of funding*** under the UNFCCC financial mechanism, to be managed by a ***new operating entity***.

The 'Coordination Camp'. At the other end of the spectrum, there are those (mostly from

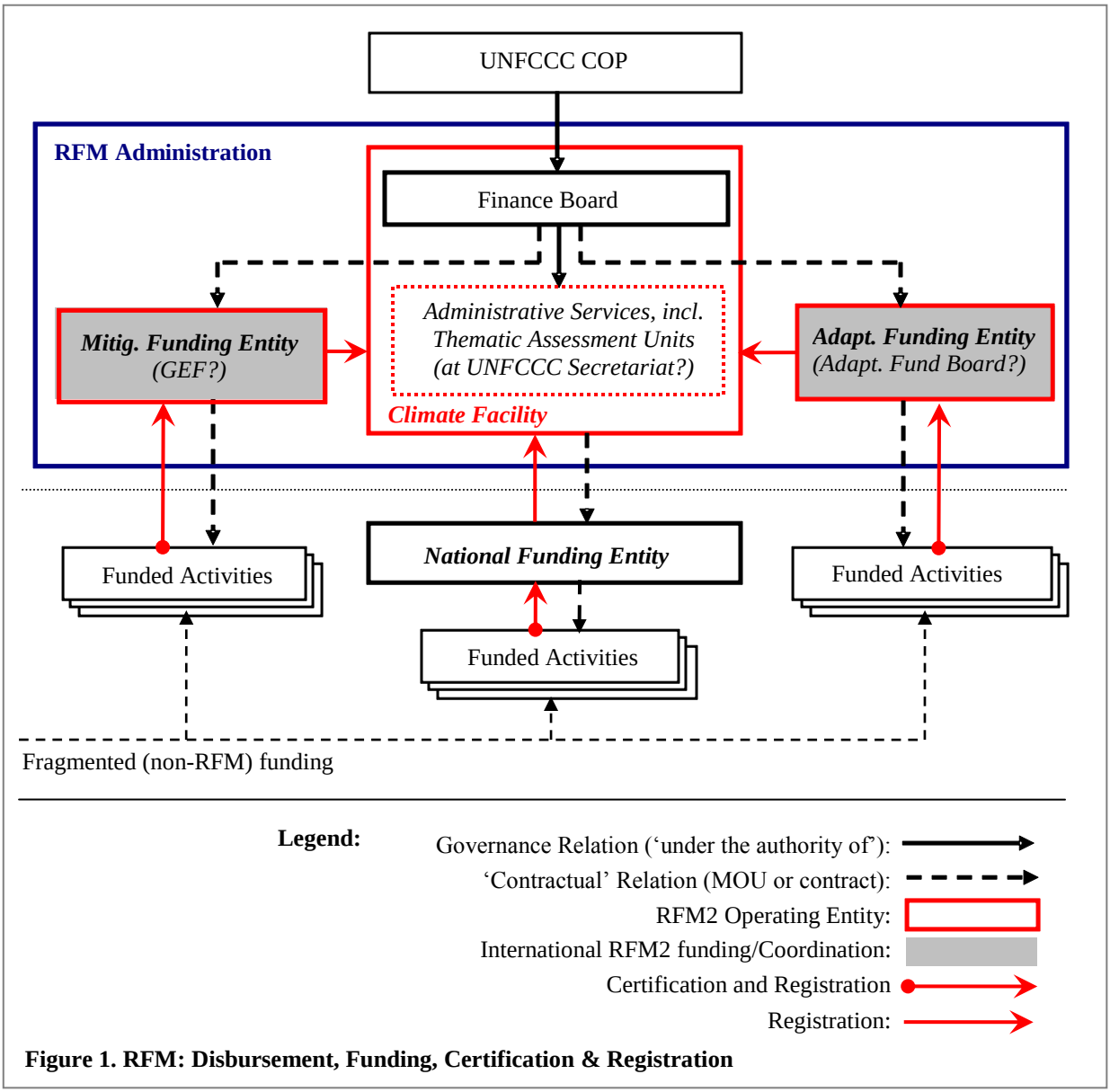


Figure 1. RFM: Disbursement, Funding, Certification & Registration

developed countries) who believe that what is needed is ***enhanced coordination*** through ***existing***

[15] This polarized characterization is not exhaustive: there are a number of intermediate positions that can and have been put forward.

institutions (possibly reformed to become ***fit for purpose***). This side rejects both the need for new institutions and for consolidating funding streams.

The proposal coming out of the AWG-LCA negotiations for a Finance Board allocating consolidated funding across thematic areas and operating entities, matching financial support with needs, and coordinating global climate change financing, elegantly bridges the positions of the two camps.

Probably the best worked out proposal of for a coordinating 'one-stop information exchange and matchmaking' system would operate is the ***Climate Registry Model*** proposed in Reed *et al.*, (2009).[16] In that model, an ***Adaptation Board*** and a ***Mitigation/Technology Transfer (TT) Board*** are to operate an ***Adaptation Registry*** and a ***Mitigation/TT Registry***, respectively. An ***Operating Body***, in turn, is meant to: (*i*) oversee these two Boards, (*ii*) set standards, (*iii*) manage COP-mandated funds, and (*iv*) report to the COP.

In setting up new boards for all disbursement windows, Parties could consider using the recently created Adaptation Fund Board to serve as the Adaptation Board. In equal measure, Parties could consider reforming the Clean Development Mechanism Executive Board or reforming the GEF [Global Environment Facility] to become the Mitigation/TT Board.

One of the key functions of the Finance Board is to expedite, through the public pooling and sharing of information, the ***matching of needs*** of country governments and the ***availability*** of financial resources and products offered by financing institutions. The Climate Registry serves as an international ***bulletin board*** that lists developing country programs and projects.

In the light of these institutional suggestions for the Climate Registry 'enhanced coordination' model, the proposed institutional architecture of the RFM model will fit perfectly with the Climate Registry ideas, with the Finance Board performing the role of the 'Operating Body', and the two other operating entities taking on the role of the two Boards, operating the two thematic registries.

The LCA-Chair's and RFM Proposals

Apart from the elements related to a throughput disbursement facility and the assignment of coordinating functions, the recent LCA-Chair's text differs from RFM proposals primarily in the number of Boards and Secretariats. As suggested in Figure 2.b, the RFM proposal essentially amalgamates the Finance Board and the Copenhagen Green Climate Fund as put forward in the Chair's text (Fig. 2.a).

[16] David Reed, Andrea Kutter, Athena Ballesteros, Edward Fendley, Maria del Socorro Flores Liera, Jochen Harnisch, Saleemul Huq, and Hans Olav Ibrekk, *The Institutional Architecture for Financing a Global Climate Deal: An Options Paper*, June 2009 (available at: www.usclimatenetwork.org/resource-database).

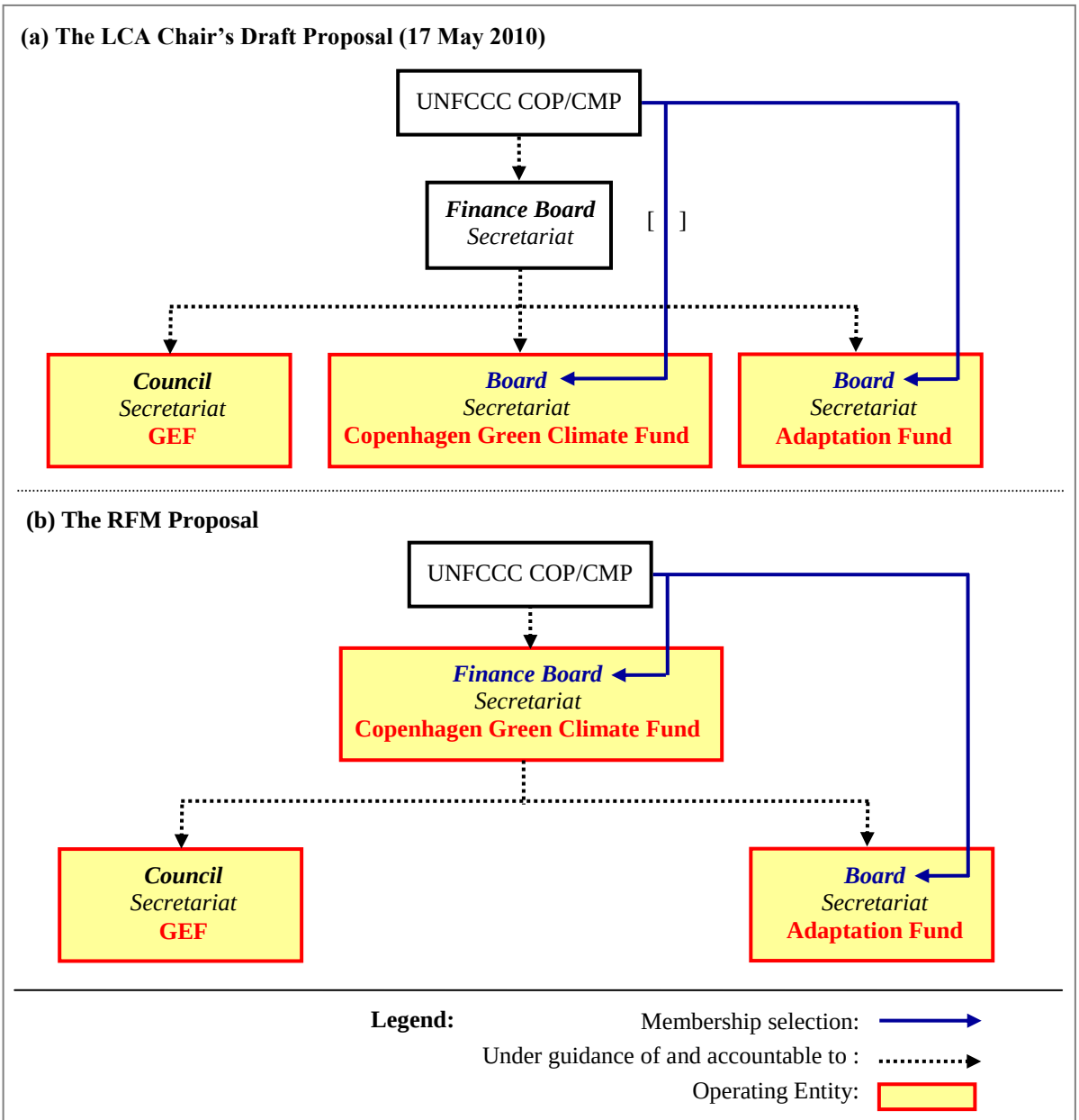


Figure 2. The Role of the Finance Board and the Copenhagen Green Climate Fund?

The fact is that both versions have their merits and draw-backs, mostly depending on what one envisages as the optimal functions of the CGCF. Based on the fact relected in the Chair's text that, the CGCF is meant to *provide simplified, improved and effective access to financial resources in a timely manner*, the CGCF could clearly operate such a disbursement facility. And, if the main purpose of the CGCF were to operate such disbursements, it would be sufficiently different in character to allow for the sort of amalgamation envisaged in the RFM proposal, i.e. to have the Finance Board as the board of the CGCF.

However, if the CGCF is conceived to be 'just' another fund – albeit on a presumably larger scale than other existing operating entities, then one could argue that giving the CGCF

oversight of other operating entities would not be appropriate due to a clear potential for conflict of interest. In that case, it would indeed be more appropriate to have a separate Finance Board. Crucially, it has to be said that in order for the CGCF to operate under the UNFCCC financial mechanism, a formal COP decision, meaning consensus of the Parties is required.

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