

UK Answers to the Moderator's Questions

ecbi meeting at La Redoute in Bonn/Bad Godesberg, 8 Aug 2009.

QUESTION 1: *What should be the decision-making model of international financial support for climate change action in developing countries? Should decisions on financial support be **retained** by bilateral and multilateral agencies? Or should decisions be **devolved** to the countries where the funds are used? Or is a combination of both the best option?*

A combination of both. At the international level the COP will have a role in assessing the level of need, and commitments on financial support should be made in this forum. There is a need for a coordination function at the international level to manage and allocate a consolidated fund which contains a portion of climate finance (e.g. new finance generated by the Norwegian/Mexican proposal) and to coordinate with other sources of finance to ensure that different priorities (i.e. adaptation, mitigation etc) are adequately funded. At the national level, countries should make decisions about their own investment priorities through their country led and owned national strategies, using national level structures of the country's choice to support this process. International level review of these plans should be relatively light (i.e. a technical review by relevant bodies with the relevant technical expertise. Finance could be allocated against these strategies/plans or in line with pre-agreed national allocation criteria. We would expect to have different criteria for mitigation and adaptation. For adaptation priority should be given to the poorest and most vulnerable. For mitigation, international public support should prioritize the least cost options outside of those actions identified by developing countries as self funded own action.

QUESTION 2: *Are there types of financial support - such as for capacity-building and technology transfer – which are more effectively and efficiently funded and retained at the international level?*

Yes. Finance for upfront capacity building and for global/regional priorities (i.e. technology R&D and knowledge on climate impacts, global observations, etc) could be better funded at the international level. Where possible this should be done by existing institutions that have been reformed to deliver what is needed post 2012. If a new high-level body is established and is given the remit to manage a central pot of finance, this body should also be able to make allocations to relevant funds to ensure that sufficient finance is available for such priorities.

QUESTION 3: *If devolution of funding decisions is the preferred option, what are the circumstances or institutional arrangements that need to exist at the national level in order to make this option possible, feasible and viable? Against what reference instruments, if any - e.g. (thematic) national strategies, performance baselines or reference levels as for the case of REDD, will funding be directed?*

All countries are responsible for making decisions about their own investment priorities. We would suggest that a good basis for coordination at the national level is to agree a country owned low carbon development strategy and adopt a long term strategic approach to integrating climate resilience into national planning and budgeting. Such planning tools can improve efficiency and be a base for coordinating the support of various actors (private and public, domestic and international) in particular at the national level.

These strategies should be developed with the support of the international community and include all of the relevant stakeholders at national level, in particular, civil society and private sector. Countries should decide what national structures they want to use to develop and coordinate implementation of these strategies. These strategies could be based on existing national development plans, take into account national specificities and priorities (they would then allow for different starting points, means and evolution). These plans could in particular define

supportable actions, notably regarding planning, capacity building and policy reforms, technology piloting, technology deployment and transformation or forestry. Finance could then be coordinated at the national level in support of countries own planning and priorities. Finance delivered against these strategies should count towards financial commitments under the UNFCCC.

The element of national strategies, which looks at mitigation should demonstrate what portion of deviation from business as usual would be self funded and what portion they would expect to be funded by international action. They should also identify any expected carbon market flows and country level MRV procedures consistent with national practices and procedures.

Adaptation should also be addressed by national plans and should be integrated into all areas of planning and budgets. This will be necessary in both developed and developing countries if we are to ensure that our economies can address the challenges brought by a changing climate. Monitoring and evaluation will be needed for adaptation, consistent with existing processes and systems.

QUESTION 4: *Should the current “decentralized” or fragmented system of funding be continued (albeit with “better coordination”) or is there a need to strive for a consolidated system? Or is there room for a combination of both?*

The current structure needs to evolve. Different funds have different strengths; and they should look to specialise in those areas of strengths. The future architecture should build on the comparative advantages of the different funds/institutions. In particular, development actors have a strong role to play as both mitigation and adaptation to climate change are integral parts of sustainable development (all effort, including for climate purposes, must be seen as part of an overall program to promote growth and reduce poverty).

The comparative advantage of funds should be identified.

Reform should ensure consolidation, re-enforcement and focus on recognised competencies and avoid overlaps.

QUESTION 5: *What is the best way to ensure thematic balance amongst the diverse needs (mitigation, adaptation, capacity building, technology transfer, etc)?*

One way to do this is to give a new high-level forum/body at the international level responsibility for managing a central pot of finance, either new finance generated e.g. by the Norwegian or Mexican proposal or if donors choose to, they can channel their finance through this body as well. This body would make thematic allocations, taking into account availability of finance from other sources, and decide on the institutions will spend it best.

It is crucial to note that the body would not have direct control over *other* financing sources. But, it would have an important role in creating incentives for existing financing institutions and other contributors to allocate resources against national plans and improve ease of developing country access, as well as increasing the coordination and coherence of international climate financing more widely.

QUESTION 6: *How can we ensure that Parties who are entitled to funds get their fair share of the funding and those who are required to contribute shoulder their fair share of the burden?*

Finance should be allocated according to national allocation frameworks that will build on guidance from the UNFCCC as to which countries are the most vulnerable to climate impacts, and take into account the level of need, availability of finance from other sources, capacity to absorb finance etc.

QUESTION 7: *Is there a need for new institutions? And if yes, what would be the role of existing ones and how can we ensure that we build on lessons learned from these experiences? And if consolidation is the preferred option, what are the elements of design, including on the roles of existing and new institutions, which could make this option possible, effective, fair, and efficient?*

In addition to the consolidation and reform of existing institutions (question 4), there is a need for a new high-level body to ensure coherence and coordination between actors at the international level. This body should have balanced representation of developed and developing countries. This co-ordinating mechanism/body could, for example:

- interpret guidance from the COP on priorities for mitigation and for adaptation, to facilitate the direction of finance to where it is needed most, in an efficient manner;
- manage a consolidated pot of finance;
- ensure maximum coordination and prioritisation of finance to thematic areas according to need and could make proposals/recommendations on the gross allocation of resources between themes/building blocks (e.g. technology, forestry, adaptation, capacity building), or on allocations to institutions or even on regional objectives;
- oversee MRV of mitigation actions, outcomes and support, monitoring and evaluation of adaptation actions and financial support;
- hold a transparent registry of national strategies (once reviewed by the and international body or a thematic body) and finance delivered against these strategies. The Body could then report on an annual basis to the Parties on financial and mitigation commitments, and delivery of results;
- facilitate coordination between actors inside and outside the Convention (multilaterals, bilaterals, private sector);
- encourage synergies with other multilateral intergovernmental agreements (on desertification, biodiversity, water, etc).

We also think there is a need for ‘technical/thematic bodies’ - e.g. for adaptation, mitigation and forestry – to technically review national plans. These bodies should also have balanced representation of developed and developing countries. In most cases these bodies could be existing institutions which have reformed or remodelled so that they can work with the national plans effectively. These bodies could develop national allocation frameworks that take into account the level of need, availability of finance from other sources, capacity to absorb finance etc. The key will be to ensure that most of the preparatory work is done in advance of final sign off by the thematic body so that the content is robust. It will also be important to have clear transparent criteria for the assessment of plans to ensure that they are robust, but also to ensure that environmental integrity is maintained etc. There should be different arrangements for adaptation and mitigation.

All thematic bodies would report annually to the new ‘high level body/forum’ on spend and progress.

QUESTION 8: *What would be required to make existing institutions fit for purpose and tasks that they may be assigned?*

As mentioned in the response to question 4, the current structure is not fixed and there is room for it to evolve: the GEF is an operating entity of the Financial Mechanism of the UNFCCC on an ‘interim basis’; the Adaptation Fund is directly related to the Kyoto Protocol; the Climate Investment Funds have a sunset clause. All the current structures could potentially cease to play a role in climate financing post 2012. However, the reality is that a number of them are unlikely to disappear. We should look to rationalise and reform what we already have to ensure they work better.

To deliver what is needed post 2012 we believe that institutions should be able to deliver the following principles:

- a) **Improved effectiveness and efficiency:** For all Parties, there is a need to ensure our common objectives are reached for both mitigation and adaptation. For adaptation the poorest should be prioritized and for mitigation the lowest cost options consistent with national development priorities, own action and any commitments made under the UNFCCC.
- b) **Country led / country owned:** Planning consistent with national development priorities and goals in order to ensure that climate finance is delivered in a coherent manner and consistent with the wider national priorities of the recipient country. Finance should be delivered against low carbon climate resilient development strategies; these strategies would be reviewed at international level against agreed criteria. They should be the basis for the delivery of finance and should coordinate finance at the country level. Climate finance delivered against these plans should be counted towards commitments under the UNFCCC.
- c) **Climate Finance integrated with development finance:** Integrated, in particular at the national level, to maximise results and make the most effective use of existing processes and systems. It should be clear that this is distinct from the question of sources and the principle of ‘additionality’.
- d) **Scaled up:** Existing project based mechanisms for delivering climate finance are often fragmented and impacts localised. We need to shift towards more programmatic financing, in order to help developing countries transform their economies and societies, with delivery at pace and at scale according to national strategies.
- e) **Streamlined / simplified:** We need to streamline procedures for accessing finance and in particular to simplify access to resources where appropriate.
- f) The system should be reliable, accountable and credible and in this regard, **sound management of funds** should be ensured, in particular through financial standards and auditing. National budgetary rules and fiscal constraints of both developed and developing countries should be respected.
- g) **Equitable governance and representation:** Governance must be shared and representation balanced between developed and developing countries.

QUESTION 9: *What would be the role of the COP in the allocation of resources, and its relationship to any operating entity, either consolidated or not?*

The COP should remain responsible for setting and driving ambitious mitigation goals from all countries for setting global financial targets (where necessary), identifying sources of finance and agreeing the broad policy framework for climate action. The COP (with support e.g. from the IPCC) would also deliver analytical work, for example on the scale of the climate financing gap. But we should insist on there being a clear distinction between policy guidance (the UNFCCC) and execution (others). Decision making should be devolved to the national level as much as possible.

The new high level body/forum should operate under the guidance of and be accountable to the COP. The relationship between the COP and this body should be governed by COP decisions. These decisions should set out clearly which functions will be delivered by the COP, which should be delivered by the HLB and which should be delivered by other institutions as necessary. The decisions will also need to set out the composition of the HLB and how it will be appointed. The COP decisions should clearly devolve decision making to the HLB etc, but need to maintain enough flexibility that the system could be altered in future if necessary.

If during implementation questions about compliance on finance or mitigation arise - these should be referred to the COP.