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POSITION STATEMENT

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Climate Finance Architecture at a Crossroads

How the negotiations on the climate fund and fast start finance process could build trust for an emerging financial architecture

Introduction

In order to ensure sustainable climate financing beyond the fast start funding, Parties need to create a robust yet flexible post-2012 financial architecture[1]. It is also crucial to explore the need and effectiveness for a long-term comprehensive architecture for sustainable development financing that responds to the financial needs of implementing the three Rio Conventions as well as the Millennium Development Goals (MDGs). Hence, the new emerging financial mechanism for climate change should be complementary to the broader architecture of sustainable development financing.

In this regard, there is a continuing need to enhance cooperative efforts between countries and also within countries to strengthen and build institutions as well as institutional frameworks to cope with the challenges climate change, biodiversity loss and sustainable development pose. In light of the recently decided decisions on finance of the 10th Conference of the Parties to the Convention of Biological Diversity (CBD) as well as the Rio+20 process, financing for climate change responses, biodiversity conservation and sustainable development should take advantage of those measures that achieve complementary and incremental impact and provide multiple benefits in all areas.

In the same light, it also has become clear that global negotiations on institutions and frameworks are a prime vehicle that can potentially spur trust building and transformational momentum beyond the realms of the climate finance issue or even the UNFCCC negotiations. From our perspective, this could perfectly be the case of the ongoing negotiations on the establishment and design of

[1] The financial architecture, as referred in this paper, is defined as the suite of institutions, funds and initiatives, both bilateral and multilateral, among which the financial mechanism under the UNFCCC plays a central role, which currently or in the future will provide financial resources to address climate change challenges.

a fund and the financial mechanism and the impact those negotiations could have on the broader financial architecture for climate change. As such, we need to consider a vision of the emerging financial architecture where the new fund and the financial mechanism are their cornerstones. Parties should therefore widen the discussion on principles and functions of the financial mechanism to allow a new financial architecture to emerge.

Institutional Arrangements

The proposals on institutional arrangements submitted by Parties reflect more areas of convergence than those of divergence, which is an extraordinary starting point from where trust between countries could be built. Hence, issues such as balanced representation, direct access, levels of centralization, coordination, transparency, reporting of flows and results, are as relevant to the negotiations on the fund and the financial mechanism as they are to the eventual reshaping of the financial architecture for climate finance (see Table 1 below).

Principles

Within this process, it is essential that the principles and functions of a new financial architecture for climate change are matched with the necessary and most efficient forms and governance structures in order to ensure that it is adequate and acceptable to all Parties. Accordingly, we propose the following set of principles and functions.

- Cost-effectiveness
- A clear division between policy guidance and implementation for governance structures, particularly to avoid over-politicization at the operational level;
- Effective and simplified delivery to ensure developing countries can access the funds they need and, most importantly, do so quickly enough and where they are needed the most;
- Support for bottom-up approaches, through which targeted flows are invested in building the technical and institutional capacity of developing countries to (i) cope with climate change impacts; (ii) absorb and leverage financial resources for climate mitigation, adaptation and technology

Table 1: Paradigm Shift

Current characteristics	➲	Towards a new paradigm
Decentralized	➲	Some centralized functions under UNFCCC
Donor-driven	➲	Balanced representation and direct access
Voluntary pledges/commitments	➲	Reliable and sustainable sources
Lack of reporting systems	➲	Measurable, Reportable and Verifiable systems
Low level of coordination	➲	Some level of coordination: requirements, procedures, geographies, end-uses

development in the future and (iii) strengthening country ownership;

- A strong country-led approach, married with transparency from both the donor and recipient countries, to enable decision making at the country level and to prioritize and establish ownership over those decisions.

Functions

- Assessing the needs for, and sources and flows of international finance to support climate change related activities;

- Setting guiding principles for developing countries on identifying needs and implementing activities[2];

- Strengthening capacity of national and local institutions to efficiently and effectively channel financial flows and implement climate change related activities. This would also include, upon request, providing advice and information to assist developing countries in matching financial support for their mitigation and adaptation needs;

- Facilitating the flow of resources to ensure that financial support is delivered at sufficient scale, where it is needed the most, as well as in accordance with national priorities. This could also include recommendations for allocation of funding across thematic areas of the operating entities of the financial mechanism;

- Securing Annex I financial flows to support and enable climate change related activities in developing countries to be measured, reported and verified. In addition, setting guidelines for measuring, reporting and verifying results on mitigation activities that receive external funding, in the case of adaptation setting guidelines for measuring and reporting on results only;

- Registering Nationally Appropriate Mitigation Actions (NAMAs) and National Adaptation Programs of Action (NAPAs), other national adaptation plans and national submissions to address climate change in compliance with standards set by the COP so that these plans become eligible for financing.

Conclusions

Some early analysis of how the fast start finance is shaping up shows that the financial architecture on climate finance may be mirroring the same characteristics (and the same shortcomings) of the current UNFCCC financial mechanism as well as those from the financial architecture for development aid. Hence, the need for Parties to see the process for establish and design the new climate fund not as an end in itself, where the final output is the fund, but as a means to catalyze further change and reform on existing institutions and the institutional framework shaping up the financial architecture for climate change. Parties should strive to overcome some of these shortcomings such as the proliferation of new funds and the reduced coordination among existing funds both in terms of roles to play, priority setting (region wise and end-use wise) and procedural requirements.

Multilateral and bilateral institutions as well as in-country policies and mechanisms should continue playing a crucial role, by permeating the existing silo-approach that separates climate funds from funds for other related purposes (forests,

[2] This may include: (i) guidelines for the preparation, funding, implementation and reporting of results of their Nationally Appropriate Mitigation Actions (NAMAs) and National Adaptation Programs of Action (NAPAs) and NAPA-like programs; (ii) specific guidelines on ways to main-stream these set of actions into developing countries' national development programs; (iii) guidelines for implementing low-carbon development strategies.

adaptation) or from the broader sustainable development agenda, and also facilitating the design of innovative sources in a way that they serve multiple purposes and establish payments for a range of ecosystem services.

The process unfolding before our eyes - that Parties are conducting to establish and design a fund and the financial mechanism - could have more far-reaching and long-term ramifications over the ever-evolving financial architecture for climate change than what has been considered so far. In addition, ensuring that the fast-start pledges are fulfilled is essential to catalyzing near-term and long–term action in developing countries, and to cultivating trust necessary for developing and developed countries to further strengthen climate cooperation in the near term.

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