

G-77 and China Proposal

Financial Mechanism for Meeting Financial Commitments under the Convention

Objective

The G77 and China proposes the operationalisation of an effective financial mechanism under the COP. This mechanism is to ensure the full, effective and sustained implementation of the Convention, in relation to implementation of commitments for the provision of financial resources. This is mandated under Articles 4.3, 4.4, 4.5, 4.8 and 4.9 of the Convention in accordance with Article 11 defining the financial mechanism.

Principles

The following are principles for enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology development and transfer. The mechanism shall:

1. Be underpinned by the principle of equity and common but differentiated responsibilities
2. Operate under the authority and guidance, and be fully accountable, to the COP;
3. Have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance (Article 11.2);
4. Enable direct access to funding by the recipients; and
5. Ensure recipient country involvement during the stages of identification, definition and implementation, rendering it truly demand driven.

The goal is to bring about coherence in the global financial architecture for financing under the authority and governance of the COP.

Elements

Elements for enhanced financial resources provided under the Convention include the following:

Aims

1. The mechanism will recognise, promote and strengthen the significance of engagement at the country level, in order to give effect to the principles of a country-driven approach, and direct access to funding and enable the implementation of this.
2. The mechanisms should enable a shift from a project-based approach when dealing with proposals for funding, to a programmatic approach, where appropriate, in order to make optimal use of the full range of means of implementation available and to allow for implementation at scale.
3. The mechanism would facilitate linkages between the various funding sources and separate funds in order to promote access to the variety of available funding sources and reduce fragmentation.
4. The mechanism would maintain consistency with the policies, programme priorities, and eligibility criteria adopted by the decisions of the COP and all “activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism” consistent with Decision 11/CP.1, op. para 2(a).

Sources of Funding

5. The main source of funding will be through the implementation of commitments under Article 4.3. The funding will be “new and additional” financial resources, which is over and above ODA. The major source of funds would be the public sector.
6. Any funding pledged outside of the UNFCCC shall not be regarded as the fulfilment of commitments by developed countries under Art. 4.3 of the Convention, and their

- commitments for measurable, reportable and verifiable means of implementation, that is, finance, technology and capacity-building, in terms of para 1.b (ii) of the Bali Action Plan.
7. It should be ensured that there be predictability, stability and timeliness of funding.
 8. The resources shall be essentially grant-based (particularly for adaptation), without prejudice to certain concessional loan arrangements in appropriate form, to meet the needs of a specific programme.
 9. The level of the new funding can be set at 0.5% to 1% of the GNP of Annex I Parties. Quantified commitments by developed countries to adequate and predictable funding for mitigation and adaptation must be addressed. The portion of funding that must be allocated to adaptation and mitigation and their respective means of implementation shall be decided by the Board and periodically reviewed, taking especially into account the historical imbalances in and the urgency of funding for adaptation.

Activities to be funded

10. The mechanism will fund the agreed full incremental costs for the implementation of developing countries' commitments under Art. 4.1, including:
 - a) Mitigation
 - b) Deployment and diffusion of low-carbon technologies
 - c) Research and development for technologies
 - d) Capacity-building
 - e) Preparations of national action plans and implementation
 - f) Patents
 - g) Adaptation in accordance with Arts. 4.4 and 4.9
11. The mechanism will fund the agreed full costs for the preparations of national communications.
12. In accordance with Art. 4.3, developing country Parties are to be provided with new and additional financial resources, including for the transfer of technology, to comply with their obligations under Art. 4.1 of the Convention. The funds can be used for (i) adaptation and its means of implementation; and (ii) mitigation and its means of implementation. Meeting these two funding objectives may include technology development, deployment and transfer, capacity building and risk management, including insurance, etc. It will cover financing the implementation of action programmes developed under the Convention, such as the NAPAs and TNAs.

Design and Structure:

1. The COP is the supreme decision-making body of the Convention, under whose authority and guidance the mechanism will operate. The COP shall decide on the policies, programme priorities and eligibility criteria.
2. The COP will appoint a Board, which shall have an equitable and balanced representation of all Parties within a transparent and efficient system of governance. The Board shall be assisted by a Secretariat of professional staff contracted by the Board.
3. The COP and Board shall establish specialized funds, and funding windows under its governance, and a mechanism to link various funds.
4. Funds would be administered by a Trustee or Trustees selected through a process of open bidding.
5. Each of the separate funds may be advised by an expert group or committee, which could also be supported by a technical panel or panels addressing specific issues addressed by the fund.
6. To ensure transparent and efficient governance, other possible components of the structure include a consultative/advisory group of all relevant stakeholders, and an independent assessment panel.
7. Modalities for the determination of the role of existing funds and entity/ies for the operation of the financial mechanism will have to be worked out.