CAN Finance Position Paper

Principles for Climate Finance under the UNFCCC

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Climate Action Network- International is a coalition of more than 460 environmental and development nongovernmental organizations worldwide committed to limiting human-induced climate change to ecologically sustainable levels.

Finance and technology support for developing country mitigation and adaptation actions is the lynchpin to successful global climate negotiations. The past failure of developed countries to both commit to and deliver on public financing and technology at the scale necessary, and to find an equitable and effective governance model through which to channel finance to developing countries1 has been a key stumbling block and source of mistrust throughout the history of the climate negotiations. Overcoming past failures on both fronts will be essential to a strong climate agreement in Copenhagen that can put the world on a path to avoiding dangerous climate change and keeping warming well below 2^{o}C.

Developed countries committed to provide financing for climate change mitigation and adaptation in developing countries in the climate Convention2. These commitments are based on developed countries' capabilities to pay, and their historical and current responsibilities for causing climate change through occupying a heavily disproportionate share of the "environmental space" of the planet through their emissions.

As a consequence, public climate finance is neither aid nor charity, and ought to be regarded as compensation. This understanding about the nature of the funds has an impact on their design and governance. This new dynamic is captured in the mandate and operation of the Adaptation Fund Board, which should be seen as a living example for governance design of the funds.
While climate finance will come from various sources, this paper focuses on the public financial flows that fulfill developed countries' commitments of support under the Convention. We acknowledge that the private sector will play an important role in delivering part of the support required to address climate change, and some public financial flows will support the leverage and redirections of private sector finance towards climate friendly and sustainable future. However, we recognize that public finance is crucial to ensure an equitable and sustainable outcome which takes into account the needs of the poorest and most vulnerable, it must meet the financial requirements in situations that arise out of market failures or to meet long-term strategic priorities and goals, that may not attract private investment.

CAN insists on adherence to the following principles:

Scale and Sources

Public finance for action addressing climate change must be **new and additional** to existing ODA commitments and flows. All adaptation finance must be given in the form of grants. Climate finance must not be contingent on economic policy conditionalities.

Funding must be **substantial and adequate** to meet the scale of needs identified by developing countries and should be provided based on the UNFCCC principle of "common but differentiated responsibilities" and respective capabilities. To avoid double counting and to ensure adequate mitigation commensurate to the science it must also be additional to meeting the ascribed emissions reductions efforts of industrialized countries. Offsetting cannot count toward meeting developed countries' obligation for finance for mitigation.

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1 Article 11 of the UN Framework Convention on Climate Change (UNFCCC) established a "mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology."

2 See Article 4 of the UNFCCC

Funding must also be **predictable**. Financial flows must include non-discretionary flows independent of national treasuries, stressing the importance of **innovative** sources of funding based on the polluter pays principle.

The financial mechanism must be capable of fairly and effectively disbursing the large amounts of resources required which will increase over time.

The financial mechanism must also support technical assistance for building developing countries' capacity to access larger pools of financing, in accordance with self identified development priorities.

Inclusivity

Equitable representation in political decision-making processes is essential to ensure a just outcome. **Representative governance,** based on the model of the Adaptation Fund Board, must includes majority of non-Annex 1 countries3 with specific and significant representation of most vulnerable developing countries.

Civil society and community members must be formally represented, and an outreach process must be established that enables public scrutiny of the financial mechanism. Provision must be made to ensure that local civil society and community members within developing countries have the capacity (knowledge, skills, time and resources) to engage fully and effectively in processes and decisions that affect their country and communities.

Stakeholder involvement and participatory planning that ensures the full and effective participation and decision making power of vulnerable populations and people, including women and Indigenous Peoples, with respect to how climate finance is disbursed, used, monitored and reported is essential. Civil society and affected community stakeholders must also equitably share in the benefits of funded activities

Accountability and Transparency

To ensure greater accountability, coherence and transparency, the vast majority of public climate funding must flow through a consolidated fund under the authority of and fully accountable to the COP and COP decision-making. Complete political oversight by the COP on fund policies and safeguards is essential to enabling effective accountability and political acceptance.

Any institutions delivering the funding must have **clear roles, remits and relationships** to other institutions/bodies. There must be a **clear distinction between political decision-making** based on representative governance **and non-political decision-making** based on competent non-partisan technical expertise.

Independent scrutiny of the mechanism is paramount. An independent complaints procedure or Ombudsperson, accompanied by COP approved external auditing processes must be established to ensure grievances are addressed.

Accountability must flow down as well as up. Accessible, transparent, and automatic public disclosure and timely access to information are vital to ensure effective accountability. Stakeholders and affected communities must be well-informed and able to actively participate in the design, implementation, monitoring and evaluation of activities in order to ensure just and sustainable outcomes to financed activities and programmes that have both environmental and social integrity.

Verifiability of support and implementation will be necessary to track progress towards achieving the ultimate aim of the Convention - reducing greenhouse gas emissions to limit dangerous climate change. Verifiability must be an inclusive process to ensure effective targeting, prioritisations, and use of funding and to effectively track programme performance and impacts.

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3 Because there are 41 Annex-I countries and 151 non-Annex-I countries, a developing country majority is more equitable than an equal distribution between AI and non-AI countries. See Article 11.2 of the UNFCCC which states that "[t]he financial mechanism shall have an equitable and balanced representation of all Parties within a transparent system of governance."

Monitoring and Evaluation is central to the financial mechanism, and it must happen at the national level. An independent inspection panel made up of persons with a range of experience (in finance delivery, poverty reduction, environmental sustainability, etc) and representatives from civil society and affected communities should monitor the use of funds.

Protection

Respecting the rights of all peoples to determine their own development path, decision-making processes, and activities related to climate change is critical. The financial mechanism must respect and promote fundamental human rights and basic rights as outlined in the Universal Declaration of Human Rights, International Covenant on Economic, Social and Cultural Rights, UN Declaration on the Rights of Indigenous Peoples, and International Covenant on Civil and Political Rights and other relevant declarations, conventions and treaties.

Activities and actions supported by the financial mechanism must be **consistent with the provisions of other multi-lateral environmental agreements**, in particular the Convention on Biological Diversity (CBD)

Environmental and social safeguards must be observed to avoid negative, localised impacts on the natural resource base and livelihoods of those that are vulnerable and marginalised and to ensure effectiveness and sustainability of activities. Safeguards, guidelines and policies must be established based on strong and legally binding environmental and social criteria, which will ultimately drive and provide guidance for financial disbursement. Safeguards must be regularly reviewed and evaluated for effective implementation and reviews must be subject to inclusive consultation, particularly with Indigenous Peoples and affected populations, and approved by the COP.

Disbursement of adaptation finance must prioritise the poorest and most vulnerable in developing countries.

Subsidiarity and Country Ownership

Governance of public financial resources under the UNFCCC must balance centralized oversight with decentralized implementation and decision-making, following the **principle of subsidiarity**, (matters should be handled by bodies at the most local level that show relevant competency).

Developing countries must have the right under the UNFCCC to **direct access** to funding for activities that meet the objectives of the Convention. At the same time, the international community - not only those countries providing financial support – has a vested interest in ensuring delivery, accountability and effective use of international financial support.

Country ownership should maximise national, sub-national and community level ownership in order to enable and guarantee participatory local-level planning, implementation, monitoring and evaluation, and facilitate overall effectiveness. . A percentage of climate funds at a national level must be dedicated to raising the capacity of climate planning at sub national levels, especially municipal level. For participatory processes to be effective, planning process must be representative of the local communities.

Compliance

Given the failure thus far of developed countries to deliver on current voluntary commitments, **a strong compliance mechanism** must be established to ensure implementation of developed country finance commitments, and penalties if commitments are not delivered.