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Fact sheet 1

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Key questions in long term climate financing

Finance is one of the key issues in the ongoing negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) and will be a critical issue at the sixteenth Conference of the Parties (COP 16) in Cancún, Mexico in December 2010. There is general agreement in the negotiations on the need to increase financing for climate change mitigation and adaptation. However, divergent views remain concerning many of the key issues. They will be discussed during the Geneva Dialogue on Climate Finance from 2 to 3 September in Switzerland.

Role of the new climate fund

Parties to the UNFCCC generally agree that a new climate fund is needed, but many issues require further negotiation in order to reach agreement. Outstanding issues include: sources of funds; governance, including board and trustee modalities; funding windows; access to funds; and the need for priority assistance.

- How should the new climate fund be financed? How prominent a role should be given to innovative financing options?
- What should be the relationship between existing funds and any new funds? What role should existing multilateral institutions play in a new climate fund?
- Are specialised funding windows needed? Can these funding windows be designed to be sufficiently flexible to respond to changing needs and circumstances?
- Should there be differentiation in access to funding? Should priority be given to particularly vulnerable countries, such as least developed countries?
- Should non-Annex I countries have direct access to funds? How would that be governed to ensure adequate accountability?

Improving oversight and coordination of public financing for climate change

The need for a better system of overseeing and coordinating climate financing is important in the international climate negotiations and is a prerequisite to build trust, ensure accountability, and foster efficiency and effectiveness. Efforts are under way to improve coordination and coherence, and to identify new sources of funds and track finance pledges from countries; but countries have yet to agree on institutional arrangements and an overall framework to oversee and coordinate finance for climate change.

- What are priority considerations for an improved oversight system for finance? What information is needed to take informed decisions?
- What are the priority issues to be addressed by an overarching governance body? What structure would best allow the overarching body to address these priority issues?
- Are thematic bodies on mitigation, adaptation, technology and capacity building needed? Should these bodies function in an advisory or technical role?
- Should new guidelines for financial support reporting be developed? If so, how can this effort be successfully launched at COP 16?
- Should the UNFCCC rely on existing (and improved) systems for compiling and accessing information on public finance, or should a complementary system be implemented under control of the UNFCCC?

Role of the private sector in long term climate financing

The private sector will be a significant source of the needed investment for mitigation and adaptation. Governments will need to explore ways to overcome barriers that hold back private sector participation, and consider means to leverage increased investment through coordinated international action and national initiatives. This could include policy certainty regarding the post-2012 regime, private sector participation in the climate change policy process, using public funds to leverage private investment, and scaling up the carbon market.

- What is the role of the private sector in long-term financing, and what might it encompass?
- How would (and should) the oversight of private financing differ from that of public financing?
- How to account for the profit factor in the discussions of private sector financing for climate change?
- Is there a role for public finance to link with and leverage private investment?
- What instruments and incentive frameworks to increase private investments and financial flows to non-Annex I countries could be established at the international level?

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