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Fact sheet 3

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Role of the new climate fund

Countries in the UNFCCC negotiations have moved toward general agreement on the establishment of a new climate fund to support mitigation and adaptation actions in non-Annex I countries. The Copenhagen Accord included a Green Climate Fund, and several countries have put forward proposals for a new fund. Many issues related to a new climate fund remain outstanding in the UNFCCC negotiations.

Source of funds

The source of funds includes consideration of the specific level of funding for a new climate fund, and how to provide some certainty that these funds will be available over time. Determination of how public financial support will be provided is also required, such as in the form of grants or loans; and consideration regarding the mix of dedicated climate change funding, official development assistance (ODA), revenues from innovative new sources of funds, and whether countries will have flexibility to raise funds using different sources. In this regard, the roles of the public and private sector will need to be clarified.

Many non-Annex I countries emphasise the need for new, additional, adequate, and predictable public financing for climate change and support the idea of assessed contributions by Annex II countries (such as a percentage of their GDP). Annex II countries generally stress the importance of mobilising the private sector, arguing that the public sector will not be able to deliver the amount of financing needed to address climate change. The carbon market and the possible establishment of new market-based mechanisms are ways to increase private sector participation in climate financing, but some non-Annex I countries are opposed to the use of markets.

In this context, it is useful to note that the UN Secretary-General established a High Level Advisory Group on Climate Change Financing in February 2010. This group is not a negotiating forum, but is intended to provide valuable input for the financing negotiations. The Group's objective is to study potential sources of revenue for climate change financing and develop practical proposals on how to significantly scale-up long-term financing from various public as well as private sources. The Group is co-chaired by the Prime Ministers of Norway and Ethiopia and includes three Heads of State, several ministers, and representatives of development banks and academia. The Group will submit its report in November 2010, aiming to contribute to an appropriate decision at COP 16 in Cancún.

Parties have proposed several options for generating additional funds, which can be divided into three broad categories:

- National budgetary allocations – Annex II countries provide public funding to the climate change fund. Some non-Annex I countries have called for mandated commitments, such as a certain percentage of Annex II countries' GDP, or the development of a scale for assessed contributions.
- National market-based levies – levies that would be generated independent of national budgetary processes, but the revenues would be collected by national governments. One option is to set aside and monetise a percentage of Assigned Amount Units (AAUs) for auction in Annex II countries.
- International market-based levies – collection of levies at the international level. Options include a levy on international air travel; a levy on emissions from international aviation and maritime transport; a share of proceeds on flexibility mechanisms, such as the two per cent levy on CDM projects to raise funds for the Adaptation Fund; and auctioning of AAUs at the international level.

Governance of the fund

Governance of the new climate fund is a controversial topic in the negotiations. Key issues include the new climate fund board, trustee of the fund, thematic bodies, specialised funding windows, access to funds, and priority assistance.

Most Parties view any new climate funds as operating entities of the financial mechanism of the UNFCCC, but the composition of and criteria for the board of a new climate fund is an issue of discussion. Non-Annex I countries generally see any new funds as being under the supervision of a new oversight body, the proposed new Finance Board. Many have called for a new climate fund board that has equitable and balanced representation of Annex I and non-Annex I countries. A proposal from a non-Annex I country suggested 19 members, with three from each UN regional grouping, two from small island developing states, and two from least developed countries (LDCs).

Annex II countries, in general, want to establish a new climate fund that is complementary to other funds under the Convention. They prefer to use and strengthen existing institutions such as the World Bank and the Global Environment Facility (GEF), and to foster synergies between and better coordinate the use of existing institutions. Many Annex II countries envisage the new climate fund board under the guidance of COP, with a secretariat serving as an independent dedicated fund manager reporting to the board. Some Annex II countries have expressed preference for a membership that is balanced between net contributors and net recipients.

For further information:

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