

Rationale for a Finance Board and Domestic/National Funding Entities

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- What is a finance board? Is it not the same as the board of the new fund?
 - The finance board is not the same as the board of the new fund. The finance board, if created, would be placed above the fund board within the financial mechanism of the convention
- What functions would the fund board perform that the finance board does not?
 - A fund board would typically be engaged in project or programme funding as well as monitoring the utilization of that money based on guidelines that either it could itself draw up, or would be handed down to it. A fund board would also govern the new fund and set fiduciary standards and implement them for the fund. However, given that the new fund will not be the only operating entity of the financial mechanism, and that climate financing is expected to flow through many other channels outside of the UNFCCC there is a need for as para 14 of Chapter III of the new LCA text says “improve coherence, coordination, efficiency and effectiveness among operating entities and other delivery channels...” It is for this reason that a finance board is required.
- What could be the possible functions of a finance board?
 - The functions of a finance board could include
 1. Disbursements. This is distinct from funding, which involves project evaluation and implementation as well as monitoring of progress and utilization typically performed by a Fund or operating entity Board/Body like the functions that would be performed by the board of the new fund to be established under the convention.
 2. Setting of standards, guidelines and rules
 3. Ensure compliance of financial commitments
 4. Maintain registry or conduct MRV
- Would the COP not perform these functions? Why create another layer of bureaucracy in the form of a finance board?
 - The COP meets only once in a year and cannot be expected to do the hands on functions listed above efficiently. It is for this reason that a body having the necessary devolved powers of the COP needs to be created in order to perform these functions on behalf of the COP. In a national governance context, it would be akin to the Parliament (COP in the UNFCCC context) as a whole

that has an oversight duty over the administration. Each ministry in the administration in a national governance context corresponds to an operating entity in the UNFCCC context. Parliament will typically constitute Parliamentary oversight committees (Finance Board in the UNFCCC context) to carry out the oversight on its behalf.

- Why not just create a coordinating mechanism for sharing of information and coherence?
 - The financial mechanism needs to be able to ensure equitable distribution of resources between countries and balanced financing of thematic issues. In addition, in any case there is a need to create a institutional mechanism within the convention that would maintain a MRV registry in which there would be information regarding climate related financial flows that are taking place outside the convention. It is desirable that the MRV as well as financial governance functions are combined within the same institution. Hence the need for a finance board.
- Must there be domestic or national funding entities in countries that are enabled to receive funds from the financial mechanism of the convention?
 - For the sake of efficiency, the Finance Board should explicitly not be involved in funding activities. They are to be undertaken by the operating entities like the new fund, and -- this is important -- by ***Domestic [National/Regional] Funding Entities***. This is where 'disbursement' comes in: The finance Board may well be the best place to decide on allocations of funds to these DFEs -- without getting involved in actual funding decisions 'on the ground'. The Finance Board, in other words would have a treasury function, with the role spending-entities in domestic hands. The Finance Board would also have to take on the effective oversight role both of (international) operating entities and the DFEs. This would have to involve minimally the right to impose fiduciary standards and to review operating modalities. The COP, and for that matter the SBI, by their very nature, cannot exercise effective oversight. This can only be achieved by a smaller, permanent oversight organ, under the authority of the COP (i.e. with members elected by the COP)

Based on the discussion above, it is suggested that we lobby with country delegations at Bonn III to suggest that the following text be added to the LCA Chair's text of July 9, 2010.

Suggested Amendments to LCA Text Chapter III, Para 14 onwards

14. The Financial Mechanism, established under the Convention, will be managed by a Finance Board appointed by the COP in accordance with the Convention. The Finance Board shall have an equitable and balanced representation of all Parties within a transparent system of governance and shall function under the guidance of and be accountable to the COP which shall decide on its policies, program priorities

and eligibility criteria. The Finance Board will be supported by a professional Secretariat.

15. The Financial Mechanism, established under the Convention, shall have separate specialized windows for funding projects, programs and actions aimed at mitigation, adaptation and technology transfer. Each of the funding windows shall be assisted by a specialized thematic assessment unit. The thematic assessment units shall be under the authority of the Finance Board and, together with the professional secretariat of the Finance Board, and a fund that shall be established under the guidance and authority of the COP, shall constitute the operating entity of the Financial Mechanism.
16. The Funding provided by the Financial Mechanism established under the Convention should be demand driven and enable direct access to funds by the ultimate beneficiaries.
17. A Trustee selected through open competitive bidding among reputed pre-qualified institutions would administer the funds of the Financial Mechanism established under the Convention.
18. The national entities, designated by the developing country Parties, shall approve funding for projects, programs, actions, subject to the guidelines and procedures established by the specialized thematic assessment units duly approved by the Finance Board. The thematic assessment units under the Finance Board shall carry out the relevant assessments for disbursement of funds to the designated national entities under their respective specialized funding windows.
19. A transparent, efficient and competitive procurement regime with conditionalities limited to those warranted by prudent fiduciary norms and the MRV regime foreseen under Decision 1/CP 13 should characterize funding from the Financial Mechanism established under the Convention.
20. The Financial Mechanism established under the Convention shall manage a certification and registry system for receiving and deploying financial resources to enable developing country Parties to count their financial contributions and technology support towards compliance of their commitments under the Convention and under paragraph 1(b) (ii) of Decision 1/CP 13.
21. The designated national funding entities could also accept contributions directly, as per guidelines agreed in the COP, from and facilitate linkages with other private or official national, regional, subregional, international bodies and/or stakeholders that may seek to implement actions relating to mitigation, adaptation and technology transfer and related activities directly.
22. The Finance Board of the Financial Mechanism, with approval of the COP, shall institute suitable external independent oversight as well as internal monitoring and evaluation of the management and operation of the Financial Mechanism established under the Convention.
23. The resources of the Financial Mechanism established under the Convention shall be used to meet the costs associated with the functioning of the Finance Board, the Secretariat and the thematic assessment units, subject to the approval of the COP.