

Political Functions under the Financial Mechanism

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Is there a need for additional ‘political’ functions to be carried out under the Financial Mechanism? Is there a need for new entities to carry out political functions?

1. What are ‘political’ functions?

For the present purposes, the epithet ‘political’ is used for functions with outcomes that require political buy-in. In the context of the FM, this means *approval by the COP*.

2. What are the existing political functions (under the aegis of the FM)?

(i) Provision of guidance to operating entities; (ii) oversight over operating entities inasmuch as they can be held accountable. Both functions are carried out by (the SBI on behalf of) the COP.

3. Could the implementation of these existing functions be improved through the introduction of a new body?

The drafting of guidance – for approval by the COP – might benefit if it were carried out by a smaller group of people, selected by the COP to carry out this work. The same could be true of the scrutiny required to keep the operating entities accountable to the COP, i.e. that draft recommendations are made by a dedicated COP standing committee. This does not necessarily mean that the COP delegates its powers to this standing committee.

4. What are possible new political functions?

Given that the new Climate Fund is meant to be an operating entity of the FM, the process of setting up the Fund clearly has the hall-marks of a political function in the above mentioned sense. In contrast to the existing functions, this one, however is transient and would probably not warrant the setting up of a permanent new entity. At the same time, it is clear that someone would have to be charged with designing the new fund, but who?

Two distinct political functions can be discerned: (i) drawing of a governance blue-print for the Fund; (ii) operationalizing the blue-print (not the same as operating the fund!).

A precedent which has worked (as regards to generating the necessary political buy-in) was the creation and operationalization the Adaptation Fund. Accordingly a contact group of the COP would be charged with designing the blue-print, to be adopted as COP decision(s), and a panel, selected by the COP, could be charged with operationalizing the blue-print, in as much as the operationalization requires COP approval (e.g. Rules of Procedure, Operational Guidelines, to follow the AF example).

Alternatively, the blue-print and operationalization of the Fund could be carried out outside the remit of the COP, with a view to setting up of the Fund outside the COP by a ‘constitutive working group’ and to enter into an MOU with the COP after the Fund is established, in order to have it accepted as an operating entity of the FM. In order to judge such an ‘independent’ process, one would need to know who exactly selects the membership of the constitutive working group.

In both cases one will have to decide on procedures for (s)electing members of the Fund Board.

5. Who can change the operational rules and modalities of the Fund?

In case of the COP-route it is clear that the rules and modalities which were submitted for approval to the COP could only be changed by the COP. The question remains to be answered

in the case of the ‘independent’ route. To be noted is that this function – i.e. changing the operational modalities of the fund – is not temporally limited. It has to be a permanent function.

6. *Are there other permanent political functions that should be carried out under the FM?*

If the FM is to recognize a number of operating entities, the COP may wish to introduce criteria which need to be satisfied to obtain and retain this status. In that case, the oversight of the COP would have to include a review of these terms and conditions, which again should be done by the above mentioned standing committee.

Given the envisaged size of financial flows that are meant to be recognized by the Financial Mechanism, it can be argued that there should be an assessment of the funding needs for the different funding themes. Moreover, there may be a need to assess whether the flows of funding adequately reflect the needs of recipient countries, in particular to redress the potential distributional shortcomings of bilateral funding (the ‘darlings’ and ‘orphans’ problem). This again would have to be done on a continuing basis, and as such would have to be delegated to a body which has the political buy-in which assures that its recommendations would be carried by the COP.

The issue of assessing the thematic and distributional balance of climate change funding is politically delicate. Countries which are meant to contribute funds to multilateral funding schemes such as the new Climate Fund may find it difficult to delegate the relevant decisions to the multilateral level, but at the same time the decision of which countries receive funds for what activity cannot be left solely to the domestic legislatures of the contributing countries.

In as much as climate change funding – in particular funding for adaptation and costs imposed by climate change impacts – can be seen as a matter of restitution, there is a legitimate distributional concern of whether countries receive a fair share of the available funding. The question then has to be: who should be charged with ensuring that this concern is adequately addressed?

Because it is unlikely that bilateral flows could be directed ‘from outside’, i.e. by directives other than those emanating from the paying country – be that from donor agencies or domestic legislatures – the only tool available to redress potential imbalances and injustices seems to be the Financial Mechanism. Indeed, in a sense this is main *raison d’être* for such a mechanism, and as such the responsibility has to be with the COP.

In order to enable the COP to discharge this responsibility, it will not only need a body to carry out the relevant assessments and to provide advice, it will also need to be able to issue general directives to at least some of the operating entities of the Financial Mechanism concerning the flows of funding under it. Whether or not these directives could be in the form of ‘guidance’ depends very much on the degree to which COP guidance can be ensured to be effective.

It may be difficult for some contributing countries to relinquish the ability to micro-manage their (assessed) contributions to the Financial Mechanism with respect to who is to receive the funds and for what purpose, which is why it may only be possible for the COP to discharge the above-mentioned responsibilities in the context of significant innovative international funding sources.