

Speaking Notes for the ecbi Finance Dinner with Transitional Committee members in Mexico City, 28 April 2011

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For a number of years, I have been working on possible reforms of the Financial Mechanism of the Climate Change Framework Convention. One of the central outcomes of this work has been the conclusion that a significant consolidated fund is crucial to such a reform. This is why I am particularly pleased that the Global Climate Fund is to be an *operating entity of the Convention designed under its aegis*.

What I would like to do here is to step back for a moment and ask the question that led to this conclusion, namely:

Why do we need a Financial Mechanism?

There are many valid reasons why it is important to have some framework for climate finance flows to developing countries. Some have put forward a need for coordination to increase efficiency and effectiveness. These are no doubt valid reasons, but for me, the *raison d'être* has always been the need to ensure –at least a degree of– what I think of as *global social justice*.

To put it slightly less philosophically, we need the Financial Mechanism as a tool to rectify imbalances in the overall financial regime, be that *thematic imbalances* ('mitigation' versus 'adaptation') or imbalances in terms of *who does or does receive funding*.

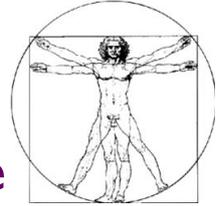
There is little doubt in my mind that a large share even of public sector finance for developing countries is going to be done *bilaterally*. The question is, what do we do if we realize that, for some reason or other, most of these flows are used for, say, mitigation, and that there is not enough bilateral adaptation funding? What do we do if we realize that there are a number of 'climate orphan' countries, countries, that – although entitled – do not get adequate bilateral climate finance?

It is, in my view, unrealistic to think that we can tell donor agencies what or who they should fund bilaterally. The only solution is what most countries have established domestically, namely a sufficiently large consolidated fund to address and rectify such imbalances in the overall regime. This is my personal vision for the Green Climate Fund.

How can this be done?

As I need not tell you, this is not an easy question, and it is complicated by two facts which I think are at the heart of the design of the Green Climate Fund. There are two sets of expectations which may seem to imply *mutually incompatible designs*. One the one hand

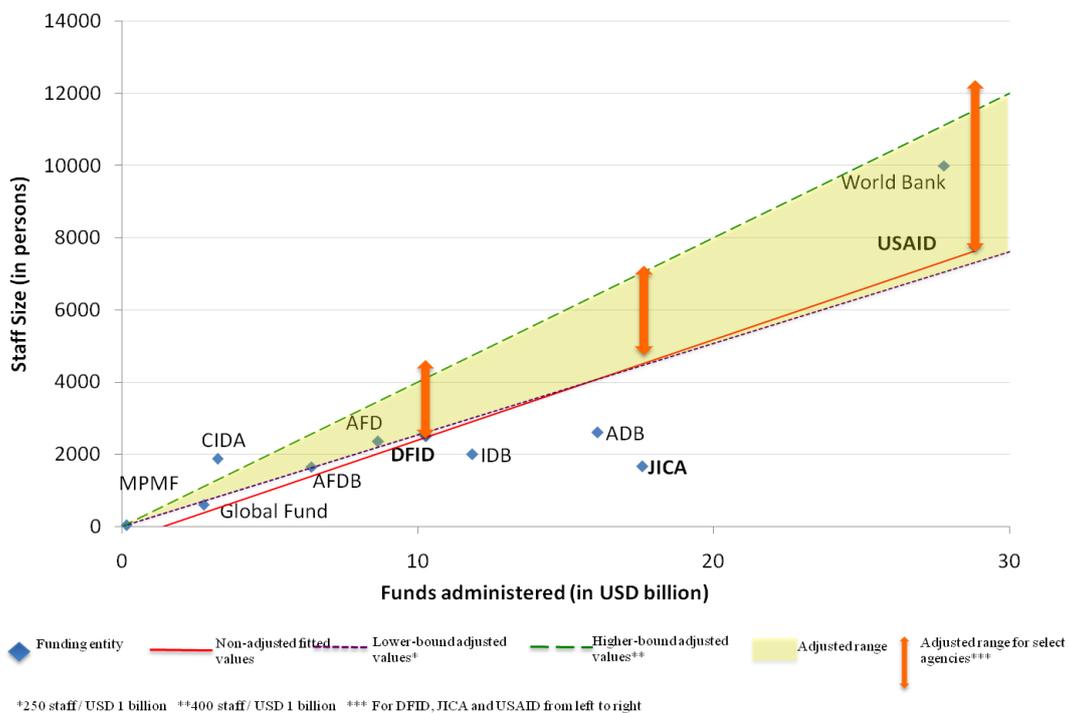
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there is the expectation that the Fund is to *start disbursing soonest possible*, preferably just after Durban, and then there is the expectation that *it is to work 'at scale'*

We do have examples of international funds that have been set up at relatively short notice, but they are all of a type which, for a number of reasons, I believe will not work effectively or efficiently at scale. Let me just highlight one of them.

A year ago, we commissioned a study to look at the question of **How many people does it take ... to administer long-term climate finance?**¹ The answer published last October was: *between 250 and 400 per billion USD*.



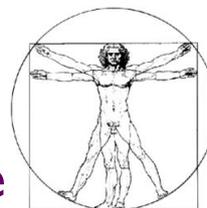
According to the authors, this is a *conservative estimate* and simply a reflection of the fact that if one does wish to spend money effectively and subject to certain fiduciary standards, then one needs people to administer that money.

Assuming that, in the longer term, the Green Climate Fund is meant to administer *\$10bn or \$20bn*, one would therefore be looking at between *2500 and 8000 people* to manage these funds.

The question for the architecture of the Green Climate Fund is:

¹ **How many people does it take ... to administer long-term climate finance?** with David Ciplet, and J Timmons Roberts. ecbi Policy Report Oct-10

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Do we really want a skyscraper of people processing climate change projects and programmes?

I believe that this would not be desirable. To be quite clear, the issue here is not the number of people needed, but the *centralized decision making model* of traditional funds. This is why we have for some time been looking at alternatives, in particular at the idea of a *'throughput' model* in which the consolidated funds are disbursed to *National Funding Entities* which not only take over the bulk of the administration, but also the funding decisions.

In this context, I would like to refer to another ecbi Policy Report which has looked at the role of such *National Funding Entities in the transition to a new paradigm of global cooperation on climate finance*.²

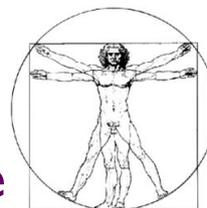
The Report looks at a number of such National Funding Entities as they have emerged over the past couple of years. From the Report it emerges that it will take *some time and a considerable institutional capacity building effort* for such a throughput mechanism to become operational.

This is where the ambition of scale seems to conflict with the wish for a speedy operationalisation of the Green Climate Fund. But the two do not necessarily exclude one another, provided the *architecture of the Fund is kept sufficiently flexible*.

In order to fly, the Green Climate Fund will in my view need two arms (or wings): A *funding arm*, which functions along the traditional funding model, and a *disbursement arm*, channelling funds directly to national funding entities.

To ensure a speedy commencement of funding activities, the current design focus would have to be on the former, but it is, I believe, essential for the blueprint of the Fund to include the concept of the latter, if it is to live up to the expectations of scale.

² Luis Gomez-Echaverrri **National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change** ecbi Policy Brief Oct-10



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