THIRD WORLD NETWORK

Compilation of articles on the Meetings of the Board of the Green Climate Fund

(October 2012 to November 2015)

and

on GCF's Transitional Committee in 2011

Part 1

From GCF's Transitional Committee in 2011
to B06 Meeting of the Board in Bali, Indonesia

I. Preface

This is a compilation of articles on the Green Climate Fund (GCF) written by Third World Network. These articles reflect discussions on some of the key decisions taken by the GCF's Transitional Committee in 2011, and GCF Board Meetings held until 2015. The compilation also includes other articles relevant to the GCF Board, which have been published either prior to or between GCF Board Meetings.

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Process to design climate fund gets underway

Geneva, 28 Jan (Meena Raman) -- Efforts are underway to constitute the Transitional Committee responsible for the design of the Green Climate Fund, which was agreed to be established under the United Nations Framework Convention on Climate Change (UNFCCC) by Parties at the 16th session of the Conference of Parties (COP16) held in Cancun, Mexico last month.

Since 2008, the G77 and China had been calling for the operationalisation of an effective financial mechanism under the COP to ensure the full, effective and sustained implementation of the Convention and among other things, to give effect to the principles of a country-driven approach and enable direct access to funding.

The proposal was mooted following incessant complaints by developing countries about the difficulties in obtaining adequate, sustained and easy access to funding for adaptation and mitigation activities.

A major cause of concern for developing countries is whether the new Climate Fund will be designed in a manner that works for the benefit of developing countries or if it will serve the interests of donor countries.

Therefore, which countries and who will constitute members of the Transitional Committee responsible for the design of the Green Climate Fund is an issue of much importance.

(The decision in Cancun on the outcome of the work of the Ad-hoc Working Group on Long-term Cooperative Action under the Convention -- AWG-LCA –- was adopted despite objections from the government of Bolivia for various reasons involving issues of substance and process. See SUNS #7060 dated 14 December 2010).

According to the Cancun decision, Parties agreed to establish a Green Climate Fund, which is "to be designated as an operating entity of the financial mechanism of the Convention under Article 11."

The Fund is to be accountable to and functions under the guidance of the Conference of the Parties, to support projects, programmes, policies and other activities in developing countries, using thematic funding windows.

The Cancun decision also provided that the Green Climate Fund "be designed by a Transitional Committee, in accordance with the terms of reference in annex III to this decision" (which is set out below).

The Transitional Committee is to have 40 members, with 15 members from developed country Parties and 25 members from developing country Parties -- seven members from Africa, seven members from Asia, seven members from the Group of Latin American and Caribbean States, two members from Small Island Developing States and two members from the Least Developed Countries.

In a notice from the Executive Secretary of the UNFCCC issued on 21 January 2011 to governments, Parties were reminded that their confirmed nominations for members should be transmitted to the secretariat by the Chairs and Coordinators of groups and constituencies represented on the Transitional Committee by 31 January 2011.

The Minister of Foreign Affairs of Mexico, Patricia Espinosa, as President of COP16, also issued a communication to Parties on 18 January 2011 stating that "in order to ensure the best possible expertise within the Committee", she encouraged the governments to consider and discuss within their regions and groups "how to ensure the participation of the best qualified persons in it."

"A combined approach, with experts from the fields of finance, development banking, climate change and sustainable development, will undoubtedly benefit and advance our design work and will make the Green Climate Fund a reality in South Africa," said Espinosa in her letter.

Responding to Espinosa's communication to Parties, one very senior developing country negotiator told Third World Network that the COP President appeared to be "encroaching in the sovereign rights of States to name their candidates and that this smacks of undue interference in the internal affairs of States."

Said this negotiator further, someone had informed him that on the nominations to the Transitional Committee, "the developed countries are taking out their big guns and heavy artillery", indicating that a big fight is underway for developed countries to ensure control of the Climate Fund.

It was agreed in Cancun that the first meeting of the Transitional Committee is to take place by March 2011.

According to the Cancun decision, the terms of reference of the Transitional Committee are as follows:

"1. The Transitional Committee shall recommend to the Conference of the Parties for its approval at its seventeenth session and shall develop operational documents that address, inter alia:

"(a) The legal and institutional arrangements for the establishment and operationalization of the Green Climate Fund;

"(b) The rules of procedure of the Board and other governance issues related to the Board;

"(c) Methods to manage large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of achieving balanced allocation between adaptation and mitigation;

"(d) The financial instruments that the Fund can use to achieve its priorities;

"(e) Methods to enhance complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions;

"(f) The role of the secretariat and the procedure for selecting and/or establishing the secretariat;

"(g) A mechanism to ensure periodic independent evaluation of the Fund's performance;

"(h) Mechanisms to ensure financial accountability and to evaluate the performance of activities supported by the fund, to ensure the application of environmental and social safeguards, as well as internationally accepted fiduciary standards and sound financial management to the fund activities;

"(i) Mechanisms to ensure appropriate expert and technical advice, including from relevant thematic bodies established under the Convention;

"(j) Mechanisms to ensure stakeholder input and participation."

Parties in Cancun also agreed that developed country Parties "commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD100 billion per year by 2020 to address the needs of developing countries."

(Several senior negotiators from developing countries have expressed their unhappiness over the language in the paragraph above, as it weakens the commitments of developed countries to only a goal of mobilizing financial resources and which is conditional "in the context of meaningful mitigation actions" of developing countries. They have also expressed that the USD100 billion per year is inadequate, as according to the World Bank, at least USD100 billion is needed for adaptation and USD300-500 billion per year for mitigation. Other studies have shown that up to USD500 billion is needed for adaptation. The G77 and China had earlier been calling for scaled up, new, additional, and predictable funding to be provided without any conditions and which was supposed to be an assessed contribution of at least 1.5% of the GDP of Annex 1 Parties. This was disregarded in the final decision.)

The Cancun decision also agreed that the Fund will be governed by a board of 24 members comprising an equal number of members from developing and developed country Parties.

Representation from developing country Parties are to "include representatives from relevant United Nations regional groupings and representatives from small island developing States and the least developed countries."

(The G77 and China had previously been calling for an "equitable" representation of members, which was disregarded by the Cancun decision and replaced with "equal" representation.)

The Cancun decision also decided that the Green Climate Fund will have a trustee which "shall have the administrative competence to manage the financial assets of the Green Climate Fund, maintain appropriate financial records and prepare financial statements and other reports required by the Board of the Green Climate Fund, in accordance with internationally accepted fiduciary standards."

The decision also states that the "trustee shall be accountable to the Green Climate Fund Board for the performance of its fiduciary responsibilities."

Parties in Cancun had agreed that the World Bank "will serve as the interim trustee of the Green Climate Fund, subject to a review three years after operationalisation of the fund."

(The G77 and China had earlier proposed that the trustee of the Fund be determined through an "open-bidding" process.)

The Cancun decision also agreed that "the operation of the fund shall be supported by an independent secretariat."

The decision also requested the UNFCCC secretariat, "in consultation with President of the Conference of the Parties, to make arrangements enabling relevant United Nations agencies, international financial institutions, and multilateral development banks, along with the secretariat and the Global Environment Facility, to second staff to support the work of the Transitional Committee for the design phase of the Green Climate Fund."

Further, the decision also agreed to establish a Standing Committee under the COP to assist the Parties "in exercising its functions with respect to the financial mechanism of the Convention in terms of improving coherence and coordination in the delivery of climate change financing, rationalization of the financial mechanism, mobilization of financial resources and measurement, reporting and verification of support provided to developing country Parties."

Published in SUNS #7077 dated 31 January 2011

TWN Info Service on Climate Change (Apr11/01)
30 April 2011
Third World Network

Green Fund meeting preceded by debate on election of officers

Mexico City, 29 April (Meena Raman) – The first meeting of the Transitional Committee (TC) to design the Green Climate Fund (GCF) established under the United Nations Framework Convention on Climate Change (UNFCCC) kicked off on Thursday, 28 April in Mexico City, following protracted discussions behind closed doors over election of officers of the meeting.

Parties also had an intense exchange of views on the agenda of the meeting, with the African Group proposing an alternative agenda and the Alliance of Small Island States asking for an amendment to the agenda proposed by the Executive Secretary of the UNFCCC. While the AOSIS proposal was accepted, the African Group proposal was not accepted despite several proposals by some countries to take into account the issues raised by the Group.

There was a lively exchange on the purpose, principles and scope of the GCF. Many countries, both developed and developing, stressed the need for a new financial architecture in climate financing which brings transformational changes in developing countries in addressing climate change and that also enables developing countries to have direct access to funds.

The TC meeting ends on 29 April.

The meeting was supposed to begin at 10 am but got delayed for more than 6 hours, as informal consultations among TC members took place behind closed doors and was closed to observers.

According to sources, Mexico, the host of the TC meeting (and which was also the President of the 16th Meeting of the UNFCCC Conference of Parties) insisted on wanting a key role as Chair or co-chair of the process. Its representative on the TC is its Minister of Finance and Public Credit, Mr. Ernesto Cordero Arroyo.

Several Parties had wanted two co-chairs to steer the TC meeting - one from an Annex 1 (developed) country and another from a non-Annex 1 country, as is commonly the practice under the UNFCCC.

Mexico, though an OECD country, is a non-Annex 1 Party under the UNFCCC but is not a member of the G77 and China.

It was also learnt that South Africa (which will host the next meeting of the Conference of Parties in Durban later this year) had wanted its representative, Mr. Trevor Manuel, the Minister in the Presidency in charge of the National Planning Commission, to be also considered as Chair or co-chair of the process. Mr. Manuel was however not present at the meeting in Mexico City.

This would have meant two co-chairs from non-Annex 1 Parties, which was not acceptable to some developed countries.

The Asian Group had also proposed a representative from Asia to be considered as a possible co-chair, given that none of the existing subsidiary bodies under the UNFCCC and the Kyoto Protocol are led by a member from the Group.

Following intense consultations, a compromise was finally reached with Parties agreeing to the TC being led by three co-chairs, comprised of Mexico, South Africa and Norway, with the last represented by its State Secretary from the Ministry of Finance, Mr. Kjetil Lund.

The delegations of the Philippines and Pakistan, during the formal session of the TC, expressed the extreme flexibility shown by the Asian Group in the discussions in agreeing to the compromise reached.

The Philippines said that its understanding was that the role and mandate of the co-chairs will emanate from the TC members and also that there would be roles for other TC members to also drive the process forward.

Ms. Christiana Figueres, the Executive Secretary of the UNFCCC declared open the meeting in the late afternoon, and explained that at Cancun (last meeting of the COP in 2010), Parties had agreed that the GCF would be designed by a Transitional Committee comprised of 40 members, with 15 members from developed countries and 25 members from developing countries.

She stressed that the task of the TC was to design the GCF in time for its approval at the South African COP meeting in Durban and the Fund spelt a new era for climate change financing. Figueres also said that the GCF would benefit from a robust, transparent and flexible design to deploy climate funding both for adaptation and mitigation.

Once the Parties confirmed the election of the 3 co-chairs, Mexican Finance Minister Cordero conducted the meeting. He said that the work of the TC would be conducted in an inclusive and transparent manner to achieve satisfactory results.

When it came to the consideration of the agenda for approval of Parties, **Samoa, speaking for AOSIS,** wanted an additional agenda item to consider the "purpose, principles and scope" of the GCF. The proposal by AOSIS was accepted by members of the TC as an exchange of views on this matter. An interesting discussion followed under this agenda item.

Egypt submitted the proposal of the African Group for an alternative agenda for the consideration of Parties. The African Group proposal was more detailed than that provided by the Executive Secretary. Egypt said that its proposal was for a work programme that was taken from the operative paragraphs of the Cancun decision and would encompass the work needed for the lifetime of the TC. The agenda provided by the Executive Secretary included the following items: working arrangements for the TC; work plan of the TC and other matters.

The African Group proposal included agenda items on procedural matters (relating to rules of procedure for the TC meetings; designation of a secretariat of the TC; budget for the TC meetings, secretariat etc; division of work of the elected TC officers); 2011 work programme of the TC (including legal arrangements, institutional arrangements, financial matters relating to resources of the GCF, modalities of contributions to the Fund etc, role and responsibilities of the Fund's trustee, advisory and technical expertise of the Board, complementarity between the Fund's activities and those of other funding mechanisms and institutions); monitoring and evaluation of the operation of the GCF and modalities for involving stakeholders in the Fund operations.

(The World Bank is the interim trustee of the GCF.)

In the Mexican co-chair Cordero's response to the African Group proposal, while saying that the comments of Group were well taken, he said that Parties had to be practical to advance discussions. Cordero said that the agenda proposed by the Executive Secretary was general enough to capture the suggestions of the African Group and these issues could be added when the specific agenda items were being addressed.

Several delegations expressed support for consideration of the African Group proposal, including Nicaragua, the Philippines, Bangladesh, India and Singapore and no objections were raised by any TC member. Singapore in fact suggested that the African Group's listing of issues could be an annex to the agenda with the understanding that it was an indicative list of issues though not exhaustive, as the general agenda by the Executive Secretary did not give the assurance that all the issues were on the table.

Despite these interventions, Cordero insisted that the agenda be adopted as proposed by the Executive Secretary, with the additional amendment made to include the AOSIS proposal. Cordero said that there was no consensus to accept the African Group proposal. He said this despite the fact that there were no objections to considering them.

In fact, as shown above, several delegations had supported the listing of the issues for consideration of the TC.

The TC members then adopted the agenda as proposed by the Mexican co-chair.

The meeting proceeded to deal with the agenda item on an exchange of views between Parties on the purpose, principles and scope of the GGF.

Brazil said that the fund should be governed by the principles of the Convention. Among them was the primary responsibility of the developed countries to provide financial resources to developing countries. There was a need to balance the resources for mitigation and adaptation. Brazil also said that there was need to promote through democratic governance the developing countries' sense of ownership of the fund.

Samoa, speaking for AOSIS said that the purpose of the Fund was to enhance implementation of the Convention and its ultimate objective by scaling up the delivery of new, additional, predictable and adequate multilateral climate financing to catalyze transformational changes in developing countries in accordance with their sustainable development priorities, as well as to support adaptation actions. It said that the Fund functions under the guidance of, and is accountable to, the COP and supports projects, programmes, policies and other activities in developing countries related to mitigation, adaptation, capacity-building, technology development and transfer. It also stressed the need for the Fund to operate as a financial instrument with implementation responsibilities, including direct access.

The United Kingdom said that it was important to ask what the objective of the Fund was and how to ensure value for money. It also asked the question of the purpose of the Fund and the problem it was trying to fix in terms of the existing architecture. Some of the problems it identified included the issue of fragmentation of the funding, the responsiveness and ability to respond at a speed and scale to deliver finance to where it needs to go quickly and to address direct access. It also stressed the need to leverage private sector financing.

The United States said that it was useful to have a short statement of purpose which related to the need to address the challenge of addressing climate change through deploying financial instruments that leverage private sector investment. It said that there was need to refer back to what was decided to Cancun and not to re-litigate what was decided but to focus on the mechanics of the GCF.

Pakistan said that the principles and provisions of the Convention must apply. It stressed the importance of the Fund having an international legal personality, which was capable of getting into contracts with member states and operationalising direct access of the funds to developing countries. It said that there was need for a transformation and a new business model that also ensured sufficiency of funds, predictability and delivery.

Nicaragua referred to the Cancun decision and said that Parties had agreed to scale up new and adequate funding, taking into account the urgent and immediate needs of developing countries. It also stressed that direct access was important to operationalising the GCF. There was also need to operationalise the need to derive funds from a wide variety of sources, including alternative sources. It said that there was need to operationalise the GCF to be accountable to, and function under the authority of, the COP and to enable thematic funding windows. It said that the work of the Board of the Fund should be Party-driven.

China said that the objective of the GCF was to establish support to developing countries to combat climate change. The mandate of the TC is from the Cancun decision. On the principles of the GCF, as an operating entity of the financial mechanism of the Convention, it should be consistent with principles of the Convention, the Kyoto Protocol and the Bali Action Plan (adopted at the COP meeting in 2007 as the mandate for the ongoing negotiations). It also stressed the need for easy access with no conditionality.

Australia said that there was need for private sector involvement and the funding should be results-based, with strong country ownership and that enable direct access. The GCF should be flexible to a range of finances and financial instruments. It should also be based on robust fiduciary standards and effective use of funds.

Germany said that there was need to assist developing countries for a low carbon path which cannot be business-as-usual and must ensure transformational change in energy, land use and forestry management. The purpose must be to build resilience to existing impacts in all areas. It said that there was need to build on existing efforts and experience, and merge these into better design and framework.

The Philippines said that there was need to learn from lessons from the past. It referred to the G77 and China proposal for establishing a new financial mechanism which was underpinned by the principles of the Convention relating to equity, common but differentiated responsibility, operate under the authority and guidance of the COP, have equitable and balanced representation in the governance and be transparent and ensure direct access of funding for developing countries. It should be flexible and free from conditionality and be predictable as well as adequate.

France said that the GCF should help scale up climate financing and support the effort of existing institutions. There was need to address the missing links and cover all thematic windows and streamline and reduce fragmentation.

Japan stressed the need to operationalise the Cancun decision and said that the GCF provided an historic and unique opportunity to address climate change and can be a game-changer. It said that there was need to stock-take on why existing funds cannot bring transformational change and also address fragmentation and the governance structure. It asked if Parties were respecting ownership and if the voices of stakeholders were being heard. It said that there was need to address the missing links and to address why there were problems and how to address them.

Saudi Arabia also stressed the need to adhere to the principles of the Convention and for the Fund to be comprehensive in serving the needs of all developing countries, including in addressing response measures and the need for diversification.

Spain said that the objective of the GCF should be to resolve the current problems of the financial architecture and that there was need for a new financial architecture. There was need for a new approach to adaptation and mitigation financing and to consider the needs of developing countries. The added value in governance was in having new actors; in identifying new sources and new financial instruments. There was need for huge amounts of money for transformation.

Denmark asked what it would take the Fund to be a success and said that Parties needed to look at this when comparing with other institutions. There was need to deliver results at speed. There was also need for national institutions to ensure direct access (to funding).

Barbados said that it would like to see transformational change and that the GCF was established after experiencing frustration. It hoped that the GCF would be transformational and ambitious.

India reiterated that the GCF should be demonstrably new and additional. The funds should be primarily in the form of grants. It said that it must be recognized that the overriding priority for developing countries is to overcome poverty and that there are trade-offs for developing countries in the short-term in addressing climate change. It stressed that there should be no conditionality for financing and that the institutional mechanism should be innovative with a new architecture and governance.

Singapore said that the GCF must make a difference in achieving the ultimate objective of the Convention in stabilizing greenhouse gases. It must also be a model of efficiency in terms of administration with no wastage.

TWN Info Service on Climate Change (May11/01)
3 May 2011
Third World Network

World Bank's conflict of interest in Green Fund design?

Geneva, 3 May (Meena Raman) – Developing countries on the Transitional Committee for the design of the Green Climate Fund (GFC) under the United Nations Framework Convention on Climate Change (UNFCCC) raised concerns that there could be a conflict of interest if World Bank personnel are seconded to the Technical Support Unit to help in the design of the GCF.

This issue of the conflict of interest was raised during the second day of the meeting of the Transitional Committee on Friday, 29 April in Mexico City, by developing countries including the Philippines, Nicaragua and India, when the working arrangements for the TC and the role of the TSU were discussed.

They said that since the World Bank has been invited to serve as the interim trustee for the GCF under the December 2010 Cancun decision [of the Ad-hoc Working Group on Long-term Cooperative Action under the UNFCCC], staff connected to the World Bank could not be involved in providing consultancy services related to the design of the GCF which is about its governance.

Nicaragua said that this would be contrary to international fiduciary standards, citing the case of Arthur Andersen, the audit firm involved in the Enron Corporation scandal in the United States, where as auditors of Enron, Arthur Andersen was also involved in providing consultancy services to the company and this was found to be a conflict of interest.

Nicaragua said that it is not internationally acceptable for the World Bank to be involved both in a consultancy function (in designing the GCF) as well as in being a trustee of the GCF.

This would be a violation of international fiduciary standards, as there is an apparent conflict of interest to be involved in role of designing the GCF that relates to the governance structure of the GCF when the World Bank is a trustee of the GCF. In such a situation, any World Bank personnel should excuse themselves from such a role as in the designing of the GCF, said Nicaragua.

The Philippines referred to the "sunset-clause" under the World Bank's Strategic Climate Fund (SCF) that provides for the cessation of the SCF once a new financial architecture becomes effective under the UNFCCC.

It referred to the 'sunset clause' of the Climate Investment Funds (CIF) of the World Bank as contained in paragraphs 57 and 58 of the Strategic Climate Fund (SCF) where the World Bank as the trustee of the SCF is involved in decisions about the continuity of the SCF. (The SCF is one of the two funds of the CIF, the other being the Clean Technology Fund).

The Philippines said that anybody who is connected with the CIF and the SCF would be in a conflict of interest situation if they were also involved in the design of the GCF. It also referred to the 'Arthur Anderson syndrome' (in the Enron scandal).

(Paragraphs 57 and 58 of the Strategic Climate Fund of the World Bank's "sunset-clause" are as follows:

> *"57. Recognizing that the establishment of the trust fund is not to prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture, the SCF will take necessary steps to conclude its operations once a new financial architecture is effective. Specifically, the Trustee will not enter into any new agreement with donors for contributions to the trust fund once the agreement is effective. The Trust Fund Committee will decide the date on which it will cease making allocations from the outstanding balance of the Trust Fund.*
>
> *58. Notwithstanding the above paragraph, if the outcome of the UNFCCC negotiations so indicates, the Trust Fund Committee, with the consent of the Trustee, may take*

necessary steps to continue the operations of the SCF, with modifications as appropriate.")

In response to this, **the United States** did not agree that there was a conflict of interest involved and said that any determination relating to the sunset-clause as to whether the CIF was to continue or not would be done by the Governing Body of the CIF and not the trustee (the World Bank).

(Paragraph 58 above clearly shows that the consent of the World Bank as trustee of the SCF is necessary in determining the continuation of its operations.)

Germany also disagreed that there was a conflict of interest and said that there was no need to overstate the issue as the Technical Support Unit was not an independent consulting body but is working through the Transitional Committee and therefore, it did not have independent judgment.

On the sunset-clause of the CIF, it said that Bank worked under the direction of governments and did not have an independent role. It was the governments that decided what the priorities are.

Sweden agreed that the issue of conflict of interest must be taken seriously and there was need to ensure impartiality on the part of members of the Technical Support Unit.

Nicaragua in response to the interventions by developed countries, said that it could not agree that there was an abdication of a situation of conflict of interest just because the Technical Support Unit functioned under the Transitional Committee. It said that if Parties were applying international fiduciary standards, then a consultancy function (of persons in the Technical Support Unit) could not be combined with a fiduciary function of being a trustee of the GCF (as in the case of the World Bank).

India said that the issue was not just of whether a conflict of interest existed in reality but whether there was also a perception of such a conflict and this must be prevented.

The Cancun decision requested the UNFCCC secretariat to make arrangements enabling relevant United Nations agencies, international financial institutions and multilateral development banks, to second staff to support the work of the Transitional Committee for the design phase of the GCF.

Pursuant to this, the Executive Secretary, Ms. Christiana Figueres, informed Parties that arrangements have been made for establishing the Technical Support Unit, which is to be operational immediately after the initial meeting of the Unit. The Unit consists of the secretary to the Transitional Committee and a substantive team drawn from the UNFCCC secretariat staff and staff seconded from relevant organizations to support the work of the Committee.

In an information note by the UNFCCC secretariat, Parties were informed that a fund design specialist will be seconded from a multilateral development bank (MDB) and will inter alia, coordinate the preparation of design options papers, including assessment of governance options.

The Philippines requested the deletion from the information note any reference to a fund design specialist being seconded from an MDB.

Another issue of controversy that arose during the meeting related to how decisions are to be made by the Transitional Committee and what the meaning of consensus was.

Developing countries led by **the Philippines** and supported by **China, Saudi Arabia, India, Egypt, Pakistan, Nicaragua and the Democratic Republic of Congo (DRC)** wanted the existing United Nations rules of procedure to continue and for consensus to mean that no single member has made a formal objection to adopting conclusions.

They did not want a repeat of what happened in Cancun where despite the express objection by Bolivia, decisions were adopted.

The DRC and **Pakistan** also said that since the Transitional Committee was a body created by the Conference of Parties (COP), the rules of procedure of the COP applied, and this could be modified as necessary but there was need for explicit consensus in this regard which must be clearly reflected under the working arrangements of the Transitional Committee.

Developed countries such as the United States, Spain and Canada wanted a more flexible approach. The US said that it was possible to have "consensus voting" and that it was not appropriate to use the UNFCCC rules wholesale and there could be important modifications and Parties can look to the UNFCCC rules for guidance.

Spain said that there was need for flexibility on the consensus rule according to the work that was needed and would not support a strict definition of consensus.

Canada said that a hard rule on consensus could lead to "filibusters" (referring to tactics used in the US Congress to prevent a measure from being brought to vote).

Italy said that the Transitional Committee was not a decision-making body and could provide options that can be brought to the decision-making bodies, while ensuring a transparent process.

A further matter that was controversial was in relation to a request by members of the Asian Group of the Transitional Committee to have a representative from the region to serve as Vice-Chair to the Committee, in addition to the three Co-Chairs that were agreed to through a compromise reached on the first day of the meeting on April 28 (see TWN Info. Service on Climate Change April 11/01 dated 30 April 2011 for a report of meeting held on 28 April).

The current 3 Co-Chairs are Mr. Enersto Cordero Arroyo of Mexico, Mr. Trevor Manuel of South-Africa and Mr. Kjetil Lund of Norway.

Saudi Arabia, speaking for the Asian Group said that that the Group had shown great flexibility on the issue of the election of the Co-Chairs. It said that the Group deserved a seat on the leadership of the Transitional Committee and would like to be assured that there was a place for it in the process as vice-chair.

Pakistan supported Saudi Arabia and said that at the time of the election of the 3 Co-Chairs of the Transitional Committee, the issue of the vice-chair was not addressed and this did not mean that the position was precluded. It said that before the next Committee meeting, the Asian Group needed a chance to be represented.

The Philippines said that when the Asian Group agreed to the suggestion for the 3 Co-Chairs, it was made clear several times that the Group would also have a role. The Asian Group wanted Singapore's Transitional Committee representative, Ambassador Burhan Gafoor to be considered as vice-chair of the Committee.

The request by the Asian Group was supported by the Democratic Republic of Congo for the African Group, Nicaragua, El Salvador and Brazil.

The developed countries, led by the US, did not want the discussion on the matter to continue.

The US suggested that the matter be left to the Co-Chairs to decide when and how additional vice-chairs can be allowed and that this issue be brought to the next meeting.

The UK and **Australia** echoed the US suggestion and the Mexican Minister of Finance Mr. Cordero who was chairing the Transitional Committee meeting, said that discussion on this issue should be resumed at the next meeting of the Committee.

An interesting exchange also followed on the kind of experts needed for the Technical Support Unit with the Alliance of Small Island States (AOSIS) setting out principles for its staffing and operation, including a call for an additional expert familiar with the specific constraints faced by developing countries in accessing climate finance.

Barbados, speaking for AOSIS, said that among the principles that should operate for the staffing and operations of the Technical Support Unit should be included the guarantee of independence and impartiality of each member; it should be composed of experts and specialists who have demonstrated and recognized technical expertise in the relevant field of work; the selection of experts and specialists should be made through a transparent and fair process; no dominance or over-representation of one single institution in the Unit; avoidance of conflict of interest; and the need for geographical balance in the representation of regional development banks.

Several developing countries including Nicaragua and the Democratic Republic of Congo also stressed the importance of the work of the TSU to be mandated by the TC. Nicaragua said that the TC should not be a "rubber-stamp" of the TSU.

The Transitional Committee meeting also considered a revised discussion note prepared by the Co-Chairs which was entitled *'Revised draft work-plan for the TC (Transitional Committee)"* with a proposal for 4 work-streams on (1) scope, guiding principles and cross-cutting issues; (2) governance and institutional arrangements; (3) operational modalities; and (4) monitoring and evaluation.

Nicaragua said that the document was not a work-plan for the TC but was a proposal for work-streams. The co-chairs were requested by Parties to revise the document following inputs received during the meeting.

There was also disagreement between developed and developing countries over whether the Transitional Committee should address the roles and functions of the Standing Committee (SC).

Under the Cancun decision, Parties decided to establish the SC to assist the Conference of Parties in exercising its functions in relation to the financial mechanism in terms of improving coherence and coordination in the delivery of climate change financing etc.

Under work-stream 2, the Co-Chairs' note referred to the relationship between the Green Climate Fund and other bodies including the SC. The US wanted the reference to the SC to be removed as it said that the SC was yet to be established.

The Mexican Co-Chair agreed with the US that the SC had not been created.

The Philippines, Pakistan, China and India all insisted that the Cancun decision established the SC and that it was an integral part of the Transitional Committee process. India said that the Cancun decision established the SC but what remained to be done was for the SC to be operationalised. The Philippines opposed the removal of any reference to the SC as suggested by the US.

The Mexican Co-Chair also proposed that two facilitators facilitate each work-stream, with one from an Annex 1 country and one from a non-Annex 1 country. Work-stream 1 would be facilitated by Barbados and Spain; work-stream 2 by the Democratic Republic of Congo and Switzerland; work-stream 3 by Pakistan and Australia and work-stream 4 by Bangladesh and Sweden.

The UNFCCC Parties at the meeting also expressed support for workshops to learn the lessons from the (UNFCCC) Adaptation Fund as well as from other existing funds, including from beneficiaries of the funds.

The Parties also agreed that the second meeting of the TC would be held in early July in Japan, while further meeting venues were offered by Switzerland (Geneva), Singapore and South Africa.

Published in SUNS #7142 dated 4 May 2011

TWN Info Service on Climate Change (Jul11/02)
14 July 2011
Third World Network

Disagreements in Green Fund design committee over conflict of interest issue

Tokyo, 14 July (Meena Raman) – The second meeting of the Transitional Committee (TC) to design the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC) kicked off in Tokyo, Japan, on Wednesday July 13, with an intense exchange between members on the issue of conflict of interest in the appointment of staff seconded to the Technical Support Unit who are from the World Bank Group.

The Technical Support Unit (TSU) was set up to support the work of the TC, while the Cancun decision adopted last year by the Conference of Parties to the UNFCCC decided to invite the World Bank to serve as the interim trustee of the GCF.

The issue of conflict of interest was raised by Dr. Paul Oquist, the TC member from Nicaragua, who presented a detailed written submission which he read out, calling on the TC "to apply conflict of interest rules and principles at least as stringent as those contained in the United Nations System and World Bank Guidelines." He said that "the Secretary of the Transitional Committee should take due cognizance of these rules and principles and immediately apply them with due diligence to the Green Climate Fund design process in all of its dimensions, including the Technical Support Unit."

The proposal by Nicaragua, which received support from the Philippines and Egypt, was opposed by the United States, Japan and Denmark, leading the Mexican Co-chair, Mr. Enersto Cordero, who chaired the session, to conclude that there was no agreement on the matter. Nicaragua wanted the record of the meeting to reflect that the Co-chairs could not approve his proposal for application of the UN rules on conflict of interest to the TC as the proposal was rejected as there was no consensus on the matter.

The first day of the TC meeting, which ends on 14 July, also saw the election of two new Vice-chairs to the TC: Mr. Burhan Gafoor from Singapore and Mr. Ewen McDonald of Australia. (At the first meeting of the TC in Mexico City in March this year, the Asian group had proposed Mr. Gafoor as Vice-chair and was supported by the African Group and several Latin American countries.)

The Tokyo meeting of the TC also saw the presence for the first time of all the three Co-chairs, who, in addition to Mr. Cordero from Mexico, are Mr. Trevor Manuel from South Africa and Mr. Kjetil Lund of Norway. The Minister of Finance of Japan, Mr. Yoshihiko Noda, also made a brief appearance at the meeting in the afternoon to address the TC members and said that the GCF must have value added and it was important to show clearly how it was different from other existing funds. He added that the financial resources to the GCF should be new and additional to the developed countries' official development assistance (ODA) commitments in addressing poverty in developing countries.

The provisional agenda for the TC meeting was adopted following an amendment to include an agenda item for the adoption of the "draft report of the meeting" by the TC (which was raised by the Philippines and Egypt) and on the understanding that the agenda item on "next steps" will be more explicit on the roadmap to Durban, including the dates and venue of the next TC meetings. (The Philippines and Egypt had previously raised concerns that the first TC meeting did not have a report of the meeting, other than a Co-chairs' summary, which contained inaccuracies and did not reflect important suggestions from developing countries.) The TC meeting also considered the working arrangements for the TC, which included an update on the arrangements for the TSU.

The meeting also discussed issues relating to work-stream I on "scope, guiding principles and cross-cutting issues" and work-stream II on "governance and institutional arrangements." The issues relating to the remaining two work-streams on "operational modalities" and "monitoring and evaluation" will be addressed on Thursday, 14 July.

Conflict of interest

On the conflict of interest issue, Dr. Oquist of **Nicaragua** recalled the first meeting of the TC held in Mexico City, Mexico from 29-30 March, where he had advised that participation of the World Bank, World Bank staff or World Bank seconded staff in the design of the GCF would constitute conflict of interest, potential conflict of interest, and the appearance of conflict of interest as the World Bank had been invited to be the interim trustee of the GCF under the decision adopted in Cancun last year.

He said that despite having been duly advised, the UNFCCC Secretariat proceeded to form the TSU with World Bank participation. Oquist referred to the Co-chairs' summary of the Mexico meeting and said that the summary ignored the ample discussion undertaken on this issue and instead included the UNFCCC Executive Secretary's position that there is no problem due to the existence of a Memorandum of Agreement with the seconded staff which addresses the issue of conflict of interest, impartiality and independence as it relates to members of the TSU.

In addition, Oquist drew attention to the Executive Secretary's update on arrangements for the TSU where she refers to the World Bank conflict of interest issue and stated that "concerning the question about a possible conflict of interest between staff from the World Bank seconded to the TSU and the possible functions of the World Bank as the interim trustee for the GCF, … it has been verified that the part of the World Bank that performs the trustee functions and the part which has seconded staff to the TSU are institutionally independent".

Oquist said that "it is clear that the Secretariat is not fulfilling its fiduciary duty to avoid conflict of interest in the TSU in accordance with internationally accepted fiduciary standards" and that "the Secretariat is rather improvising its own rules that fail to meet those standards."

Oquist stressed that "a Memorandum of Agreement signed with a seconded individual cannot obviate institutional conflict of interest derived from the fact that the said individual is in the employment of an entity with current or future fiduciary responsibilities in relation to the organization to which the individual has been seconded. Thus, the aforesaid Memorandum of Agreement has no bearing whatsoever on the issue of institutional conflict of interest".

"The World Bank Group … has a single Board of Governors, a single Board of Executive Directors and a single President with full authority and responsibility over the entire organization. Conflict of interest is inherent in any employee or seconded employee, permanent or temporary, of the World Bank Group being involved in design activities of an entity for which the World Bank exercises, or will exercise, fiduciary responsibilities. The location of said individual in the organizational structure of the World Bank Group is completely irrelevant to the issue of institutional conflict of interest," he added.

"A trustee cannot participate in design, decision making, administration or evaluation of an entity for which it exercises, or will exercise, a fiduciary responsibility," said Oquist, referring to the US case of Enron Corporation and Arthur Andersen in which a conflict of interest was found between fiduciary responsibilities and consultancy functions by Arthur Andersen in the firm Enron.

He said further that "conflict of interest ethics and law are not a matter of opinion nor of convenience, but rather enshrined in the ethical codes of both the United Nations System and that of the World Bank Group, as well as in international and national corporate governance best practice. The TC objective must be a GCF design process characterized by transparency, accountability, probity and integrity that proactively avoids conflicts of interest, potential conflicts of interest and the perception of conflicts of interest, at the institutional, and individual levels. The means are internationally accepted fiduciary standards."

Oquist then called for the TC to apply conflict of interest rules and principles at least as stringent as those contained in United Nations System and World Bank Guidelines.

Ms. Bernarditas Mueller of **the Philippines** supported the Nicaraguan intervention and asked for clarification about the institutional affiliation of all the TSU staff and experts as this was not disclosed by the Executive Secretary. Ms. Carol Mwape Zulu of **Zambia** also wanted disclosure of the institutional affiliation of the TSU staff and experts. Mr. Omar El-Arini of **Egypt** also supported the Nicaraguan intervention and suggested reflection of the language proposed by Nicaragua to be in the report of the meeting.

The United States representative to the TC, Ms. Marisa Lago, in response to Nicaragua, said that there was no actual nor appearance of a conflict of interest. She said that arrangements had been made between the UNFCCC Secretariat and the Multilateral Development Banks to ensure impartiality and avoid conflict of interest. She said that the Enron case had no relevance here. She said that other institutions such as UNEP and UNDP could have a greater potential for conflict of interest than the World Bank as these UN agencies could be implementing agencies of the GCF funds, while the Bank was only playing a limited role as the interim trustee. Implementing agencies involved in project design and supervision would have incentives to design safeguards (in the GCF) which are easy to satisfy, she added. Lago said that national authorities too could find themselves in a similar situation. She said that if this logic is to apply, then all implementing agencies and recipients of the GCF funds would be excluded from the design of the GCF.

The Japanese representative to the TC, Ms. Naoko Ishii, and Mr. Per Callesen of Denmark supported the US.

In response to comments, Mr. Henning Wuester, the secretary of the TC, explained that the Memorandum of Agreement between the UNFCCC and the staff of the TSU as well as the undertakings the staff have to sign were based on legal analysis provided by the UNFCCC's legal advisors and were based on UN guidelines and that the issue of conflict of interest had been taken care of and could be made more explicit. On the request for disclosure regarding the institutional affiliation of the TSU staff, Wuester said that the information could be provided to the TC members on a confidential basis but he did not want it to be made public as this was not the practice within the UN system.

In response to the comments by TC member, Mexican Co-chair Cordero, who was chairing the session, said that his impression was that not all members were in agreement with the Nicaraguan proposal and that this should be reflected in the report of the meeting. He also asked the TC secretary to circulate the legal note that there was no conflict of interest in the arrangements made between the UNFCCC Secretariat and the TSU staff.

Nicaragua in response said that it was not for the TC members or the Co-chairs to choose if the UN rules were accepted as members were subject to them. Oquist asked the Co-chairs to study the matter less defensively so that the issue could be resolved and not glossed over.

Cordero said that not all members were in agreement with Nicaragua and they were comfortable with the handling of the matter by the Executive Secretary in this regard and the concerns of Nicaragua would be reflected in the report of the meeting.

Work-streams

South African Co-chair Trevor Manuel chaired the session in the afternoon which dealt with work-streams I and II. He said that there was a need to leave the meeting on Thursday with something that lays the basis for a document to be drafted and to be finalized at the fourth meeting of the TC. TC members proceeded to discuss issues under the two work-streams, highlighting where more work was needed, given differences of views among members. (Further reports on this will follow.)

TWN Info Service on Climate Change (Jul11/03)
16 July 2011
Third World Network

Developing countries submit document for Green Fund establishment

Penang, 15 July (Meena Raman) – A group of 13 developing countries formally tabled a document on the operational elements for the establishment of the Green Climate Fund on the final day of the meeting on 14 July 2011 of the 2nd meeting of the Transitional Committee (TC) in Tokyo, to design the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC).

The document was tabled by Egyptian member of the TC, Dr. Omar El-Arini on behalf of Argentina, Burkina Faso, China, the Democratic Republic of Congo, Egypt, El Salvador, Gabon, India, Morocco, Nicaragua, Philippines, Saudi Arabia and Zambia. Brazil, Pakistan, Singapore and Peru gave support to the document from the floor, and Japan welcomed the initiative of the developing countries as an input to the work of the TC.

(The TC was established under the Cancun decision adopted last year by the Conference of Parties (COP) of the UNFCCC to develop and recommend to the 17th session of the COP for its approval operational documents relating to the design of the GCF. The TC is comprised of 40 members, 25 of whom are from developing countries).

In formally tabling the document on behalf of the 13 developing countries, Dr. El-Arini of Egypt said that he hoped that "the submission at this stage in our discussions will help to advance our work by collecting the views of a number of Parties, and encapsulating these in a form that can contribute to the operational documents we are mandated to prepare for consideration of the Conference of the Parties."

He explained that "the first part, entitled 'Operational Elements for the Establishment of the Green Climate Fund' sets out our collected views on the items described in our terms of reference, including those we are addressing in each of the work-streams. It addresses issues such as: 'Objectives, principles and scope'; 'Governance and institutional arrangements (including the Board, Secretariat, Trustee, expert and technical input)'; 'Financial and operational modalities'; as well as 'Arrangements for monitoring and evaluation.' The document also responds to our specific mandate to develop rules of procedure for the Board, which are set out in an Annex."

"In preparing this contribution to our work, we have drawn extensively on the experience of developing countries with a wide range of funds, including the Global Environment Facility, the Adaptation Fund, Multilateral Fund (of the Montreal Protocol) and other funds. We have also sought to draw on many of the excellent submissions by various TC Members as well as information prepared by the Technical Support Unit and observer organizations including civil society," added Dr. El-Arini.

Dr. El-Arini stressed that "this document is a draft document and compilation of initial views and proposals by many TC members, and it does not preclude any further submissions by the TC members supporting it. In this regard we note good alignment between some of our proposals and those put forward by members and co-facilitators."

Dr. El-Arini also wanted the formal tabling of the document reflected in the report of the TC meeting and requested that copies of the document available to all TC members.

Some of the highlights of the document (which was made available to TWN) are as follows:

On the **legal status** of the GCF, "The Fund, as a body under international law, shall be endowed with a juridical personality. Consequently, the Fund shall enjoy such legal capacity as is necessary for the exercise of its functions and the protection of its interests, in particular the capacity to enter into contracts, to acquire and dispose of movable and immovable property and to institute legal proceedings in defence of its interests."

As regards the **objectives**, "The Fund will contribute to the full, effective and sustained implementation of the UNFCCC, in relation to implementation of commitments for the provision of financial resources to developing country Parties, as mandated under relevant provisions of the Convention, including its Articles 4.3, 4.4, 4.5, 4.8 and 4.9 and in accordance with Article 11 of the Convention."

"The Fund will manage the large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of providing adequate and predictable financial resources to developing countries for the implementation of climate-related policy measures, activities and actions, and achieving a balanced allocation between adaptation and mitigation. The Fund will contribute to the goal of achieving coherence in the global financial architecture for the financing of climate-related activities, under the authority and governance of the Conference of Parties."

Among the **principles** to guide the Fund include: "The Fund will operate under the authority and guidance of, and be fully accountable to, the Conference of Parties; The Board of the Fund will have an equitable and geographically balanced representation of all Parties within a transparent and efficient system of governance; The Fund will enable direct access to funding by the recipient countries; The Fund will be country-driven and demand-driven, with recipient countries being involved during the stages of identification, preparation and implementation, and responding to the needs and circumstances of the developing countries. The Fund will recognize, promote and strengthen the significance of engagement at the country level, in order to give effect to the principles of a country-driven approach, and direct access to funding; The Fund will make optimal and appropriate use of the full range of means of implementation available to allow for large scale of implementation; and the Fund would facilitate linkages between the various funding sources and separate funds in order to promote access to the variety of available funding sources and reduce fragmentation."

On **governance**, "The Fund shall be governed by a Board which shall supervise and manage the Fund, under the authority and guidance of the Conference of the Parties, and shall be fully accountable to the Conference of the Parties which shall decide on its overall policies in line with relevant decisions. In implementing the principle of accountability to the COP, the Board shall submit annual reports to the Conference of the Parties for its consideration and deliberation, on various operational matters…"

"The **functions of the Board** shall include: "To administer the Fund in accordance with the policies, programme priorities and eligibility criteria related to the Convention as decided by the Conference of the Parties; To develop specific operational policies and guidelines, including programming guidance and administrative and financial management guidelines, and to report to the Conference of the Parties; To decide on projects, including the allocation of funds, in line with the Fund's principles, criteria, modalities, policies and programmes; To oversee the operation of all relevant organs of the fund including the trustee, secretariat, sub-committees, implementing agencies, and expert, advisory and evaluation panels; To develop draft legal and administrative arrangements for secretariat services and the interim trustee for approval by the Conference of the Parties."

In relation to ensuring a **country driven approach**, "The Fund shall adopt an approach that is driven by recipient countries to support them to more effectively implement climate policies, measures, actions and activities. Consequently, the Fund shall allocate resources in the most appropriate forms and for the most appropriate uses that are suitable for the recipient countries. The Fund shall tailor its strategy and approach to the needs and circumstances of each country; therefore a country driven approach is required, with the full participation of the countries concerned."

On the **scope and mandate**, "The scope and the thematic areas of the Fund is shall be based on the mandate established in the Convention, as well as relevant decisions of the Conference of the Parties, and any future decision relating to the Fund. The Fund, as an operating entity of the financial mechanism of the Convention, shall address the following thematic areas: (a) Adaptation activities; (b) Mitigation activities; (c) Technology development and transfer; (d) Capacity building of and institutional development in developing countries; and (e) Information and processes taken to implement the Convention. The COP and the Board can designate sub-themes linked to the above.

On the **size and scale of the Fund**, "The Fund shall manage a large scale of financial resources from a number of sources and deliver through a variety of financial instruments. The Fund shall take into account the various commitments made in relation to climate financing, including the commitment by developed countries to provide new and additional resources, approaching USD 30 billion for the period 2010–2012; that scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties; that developed country Parties commit to a goal of mobilizing jointly USD100 billion per year by 2020 to address the needs of developing countries; and that a significant share of new multilateral funding for adaptation should flow through the Fund."

"The Fund shall make arrangements to determine in a predictable and identifiable manner the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed taking into financial needs identified by the developing country Parties in accordance with Article 11 of the Convention. The Fund will also seek to mobilize financial resources...".

As regards **full and incremental costs**, "The Fund shall provide information relevant to the determination of the amount of funding necessary for the implementation of the Convention including, *inter alia*, through an evaluation, in relation to each of the thematic areas covered by the Convention and collectively, of the type of costs to be covered including those which are to be financed at agreed "full costs" and at agreed "full incremental costs", as well as financing required to address other commitments described in the Convention for consideration by the COP. Drawing on recommendations by thematic bodies on the areas and types of costs to be covered, and on the methodologies and guidelines established…, the Fund may estimate the scale of financing needed in accordance with Article 11.3(d) of the Convention. The Fund shall make a plan for the phasing in of the volume of resources, including activities that require funding in the initial phase of the Fund, and the next phases."

On the **operational modalities** in relation to the **sources of finance**, "The financial contributions should be principally in the form of grants. To the extent concessional finance is provided, only the grant or concessional element should be counted as new and additional (as is the historical practice of key donors)."

"In accordance with Article 4.3 and relevant decisions of the COP, the provision of financial resources shall reflect appropriate burden sharing among the developed country Parties. The Fund shall develop a more systematic method for assessing and allocating the responsibility among the developed countries to provide adequate and predictable, new and additional financial resources."

"The Fund shall utilize a systematic method in evaluating the level of financial resources required to implement the Convention, which shall address: (a) consideration of the scale of financing required in aggregate to reflect the total scale of financing necessary for the implementation of the Convention by developing country parties to the Convention; and (b) consideration of the means for the appropriate burden sharing among developed country Parties which can be assured through the development of a scale of assessed contributions, similar to the practice adopted within the United Nations."

On the **delivery and uses of funds**, as regards **direct access**, "Eligible Parties shall be able to submit their project proposals, prepared in accordance with project preparation eligibility criteria agreed by the

Board, either directly to the Fund Board or through an implementing or executing agency chosen by them."

"In accordance with the Convention, including its Article 4.3, all developing countries, without discrimination or any form of exclusion, are eligible to receive financial resources for the implementation of measures set out in Article 4.1 of the Convention…"

On **fiduciary standards and financial management**, "The implementing entities designated to receive the funds and to allocate and use them shall abide by the principles of financial accountability and good fiduciary standards. These principles and standards may cover financial integrity and management, institutional capacity and implementation."

In engaging with the **private sector and other economic entities**, "The private sector in developed countries is encouraged to make supplementary contributions and donations to the Fund. However, resources of the Fund should not be used for subsidizing corporations or financial institutions of developed countries (as the Fund is established to provide resources to developing countries). Such contributions shall not include payments by companies for offsetting in the carbon trade, as financial resources provided by carbon markets are to enable developed countries to implement their mitigation commitments and are not contributions towards the financing commitment of the developed countries in accordance with the Convention."

"The Fund will encourage governments in developing countries to make use of a variety of instruments to engage with their economic public and private institutions and units, including major companies, small and medium enterprises, the urban informal sector, and the rural farmers, and to support their engagement in national efforts for mitigation, adaptation, technology development, capacity building and institutional development. A variety of financing instruments such as subsidies, tax breaks, concessional loans, public investment in agricultural programmes, may be employed at the national level in order to incentivize the economic units of developing countries. The incremental cost to the public and private sector to make changes for mitigation or adaptation, and various types of the relevant public-sector expenditure in incentivizing the private economic units, may be eligible to be financed through the Fund."

On **monitoring and evaluation**, "The Board is responsible for the strategic oversight of projects and programmes implemented with resources from the Fund. The Board or a designated sub-committee of the Board, with support of the Secretariat, will monitor the Fund's portfolio of projects and programmes… There shall be periodic independent evaluations of the performance of the Fund, which shall address factors including, *inter alia*, the performance of the Fund; evaluation of the Secretariat and the interim Trustee; assessments of the appropriateness of Fund's structures, operations and policies; the effectiveness of the work of the thematic windows and areas, and the impacts on the recipient countries of the activities and programmes supported by the Fund."

On '**environmental and social safeguards**' "The programmes and projects to be funded should be environmentally and socially appropriate, and in line with the objectives and principles of the Fund. However, the assessment and procedures to ensure they meet minimum environmental and social standards should not become conditionality. The Fund through the technical and expert panels provided by the thematic bodies under the Convention will ensure the applications of environmental and social safeguards to the funds activities, including for the technology transfer and development."

The tabling of the document took place in the afternoon session of the TC meeting, which was chaired by South African Minister, Mr. Trevor Manuel. Mr. Manuel, referring to Dr. El-Arini said that "If you look around the room, anyone of us could have drafted the document." He said that what was needed was an inclusive process that takes collective ownership through a process that is open and transparent. He said that it was important to work through the document in stages and that the document distributed by Dr. El-Arini could be considered but "members were not there yet in the level of detail".

Manuel had earlier in the afternoon suggested a work-plan for the TC that was circulated in a note by the Co-chairs, which was supported by members of the TC. The work-plan provides for the drafting of a report of the TC, including operational documents by the Co-chairs, Vice-chairs and Co-facilitators (which is a team of 12 persons).

According to the work-plan, TC members are encouraged to make further submissions by 29 July 2011. Based on the discussion at the discussion of the 2nd TC meeting (in Tokyo) as well as written submissions, the Co-chairs, the Vice-chairs and the co-facilitators will prepare draft outline of the report of the TC. This will include the key issues to be covered and where appropriate, substantive content where there is convergence among TC members or options where there is divergence. Documents will be circulated two weeks before the third meeting on 28 August 2011.

There would be a second technical workshop in Geneva on 11 September for further interactions with representatives from civil society and private sector. The 3rd meeting of the TC will take place in Geneva from 11-13 September where the TC will discuss the draft outline of the report and focus on areas that require further discussion among members and the process for finalizing the report of the TC to the 17th COP. The Co-chairs, Vice-chairs and the Co-facilitators will prepare a draft report of the TC, based on discussions at the 3rd TC meeting and this will include any operational documents that the TC deems appropriate. The 4th meeting of the TC will then discuss the draft report and adopt it and this meeting will take place in Capetown, South Africa, tentatively proposed to be from 19-21 October

TWN Info Service on Climate Change (Sept11/03)
12 September 2011
Third World Network

Green Climate Fund design committee to focus on key issues

Geneva, 12 September (Meena Raman) – The third meeting of the Transitional Committee (TC) to design the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC) kicked off in Geneva, Switzerland on the afternoon of Sunday, September 11, with members identifying what are key issues for the focus of further work.

A workshop held in the morning to discuss the engagement of the private sector in the GCF drew sharp criticisms from some members of the TC from developing countries as well as major civil society coalitions who were opposed to proposals by several developed countries to establish a special funding window for the private sector under the GCF.

Mr. Trevor Manuel of South Africa and Mr. Kjetil Lund of Norway co-chaired the meeting, which is scheduled to end on Tuesday, September 13.

Mr. Lund proposed that TC members focus discussions on 5 key issues viz. (i) the relationship between the GCF and the Conference of Parties (COP), involving the accountability and reporting of the GCF components to the COP and relationship with relevant thematic bodies established under the Convention; (ii) legal status of the GCF, which involves the issue of the legal personality or legal capacity, as well as privileges and immunities for the GCF and/or its officials; (iii) issues related to the establishment of an independent secretariat including the selection of its head; (iv) the use of funding windows (for example, funding windows for adaptation, mitigation and forest-related activities) and substructures; and (v) the structures and processes for the engagement of the private sector.

For the meeting in Geneva, the Co-chairs and Vice-chairs of the TC had prepared a "Draft outline of the report of the Transitional Committee for the design of the Green Climate Fund to the Conference of the Parties" which contained various elements such as - objectives; guiding principles; scope; governance and institutional arrangements which included the board of the GCF, observers, rules of procedure, secretariat and trustee; relationship to the COP; legal status; participation and membership; financial inputs; financial instruments; operational modalities which covered eligibility, funding windows, access modalities, accreditation (of implementing entities), allocation and fiduciary standards; environmental and social safeguards; engagement of the private sector; monitoring and evaluation; accountability mechanism and stakeholder input and participation.

In response to Mr. Lund's listing of the key issues, members of the TC generally agreed with the approach proposed while some suggested additions to the list.

Mr. Wu Jinkang of China wanted the issue of the board of the GCF and trustee to also be added. China's proposal was supported by Mr. Jorge Ferrer from Cuba (who is the alternate member to Nicaragua), Ms. Bernarditas Muller of the Philippines and Ambassador Sergio Serra of Brazil.

Dr. Yaga Venugopal Reddy of India was of the view that the approach proposed by the co-chairs was workable with the most critical issues being identified first while the remaining issues be addressed later. He also suggested the need for a checklist of the Terms of Reference (TOR) of the TC to ensure that they were being addressed by members.

Ms. Bernarditas Muller also agreed with the approach proposed by the co-chairs as identifying the key issues, which would unlock other issues. She stressed the importance of the issue of legal status of the GCF, the board, the secretariat and the trustee. She was of the view that the issue of funding windows and the engagement with private sector were secondary. She suggested that the issue of the private sector could be subsumed under stakeholder participation and noted that there was no reference to the private sector in the TOR.

Ambassador Burhan Gafoor of Singapore, who is also a Vice-chair of the TC, agreed with the 5 issues proposed by the co-chairs, stressing that all the issues were still on the table. He said the key issues represented the minimum necessary to get the GCF up and running by January next year. He supported the idea of the Philippines that the private sector engagement could be dealt with together with civil society engagement.

On the issue of the legal status, Mr. Nick Dyer of the United Kingdom wanted this to be discussed last, saying that "form needs to follow function." His view was supported by the United States representative, who also wanted the issue of fiduciary standards as well as environmental and social safeguards to be also listed.

Mr. Alexey Kvasov of Russia stressed the importance of the selection of the head of the secretariat, saying that the independence of the secretariat was important.

The representatives of Poland and Switzerland wanted discussion on financial instruments while Japan wanted discussion on financial inputs.

Discussion on these key issues is to continue on Monday, September 12. Mr. Lund also informed members that further discussion on the process for further work of the TC would be discussed informally at a dinner on Sunday evening for TC members.

On another agenda item related to the adoption of the report of the second meeting of the TC meeting held in Tokyo from 13-14 July this year, Mr. Omar El-Arini of Egypt wanted the report to reflect the names of all the 13 countries who made a joint submission entitled "Draft instrument for the establishment of the Green Climate Fund" as this was not contained in the report. The amendment proposed by Egypt was accepted by the meeting. (The 13 countries involved in the joint submission were Argentina, Burkina Faso, China, the Democratic Republic of Congo, Egypt, El Salvador, Gabon, India, Morocco, Nicaragua, Philippines, Saudi Arabia and Zambia.)

Earlier in the morning of Sunday, a workshop was held for half a day on "The role of the GCF in fostering transformational change, engaging civil society and leveraging the private sector". The workshop heard presentations for some NGOs and representatives of the private sector from developed countries. One of the questions posed during the workshop by the facilitators of the session was whether there was a need for a dedicated window or facility for the private sector.

Ms. Carol Mwape Zulu of Zambia said that there should be no private sector window as this would present problems for LDCs as the private sector was not interested in adaptation but only in mitigation. She said that the private sector should be engaged at the national level.

Mr. Jorge Ferrer of Nicaragua said that the TC members should not overestimate the need for private sector engagement and called for more caution and balance in addressing the question. He was also opposed to the establishment of a separate window for the sector. He drew attention to how the private sector in developed countries had to be rescued by governments in some developed countries during the financial crisis.

Two major civil society coalitions from Climate Justice Now! (CJN!) and Climate Action Network (CAN) also poured cold water on proposals for engagement with the private sector.

Ms. Lidy Nacpil for CJN! called for caution in addressing private sector engagement. She said that "private sector participation is best decided, managed, regulated and incentivized at the national level, according to national strategies that were identified through the participation of people who are most impacted by climate change."

She urged the TC not to establish a stand-alone private sector window, nor to provide finance or incentives directly to the private sector. "The establishment of a private sector window would most certainly be a boon for rich country-based multinational corporations, but it would most certainly circumvent the interests of poorer countries. The proposal for a private sector window in the GCF is worryingly reminiscent of the World Bank Group's International Finance Corporation (IFC), which performs poorly in relation to the Bank's stated mission of alleviating poverty and promoting sustainable development in developing countries. Alarmingly, almost two-thirds of IFC investments in low-income countries go to companies based in the richest countries."

"The over-emphasis on leveraging private investment could lead to a fund that depends heavily on financial intermediaries. As demonstrated by the IFC, the greater the use of financial intermediaries, the more intrinsically difficult it will be for the Green Climate Fund's board and beneficiaries to ensure implementation of and compliance with environmental and social standards. Similarly, the financial sector's desire for less disclosure, less liability, and less accountability for environmental and social outcomes will pose a significant challenge for global efforts to promote sustainable development and climate stabilization. Therefore, the Green Climate Fund should not disburse money directly through financial intermediaries."

"The TC should design the Green Climate Fund in a manner that ensures the GCF steers clear of excessively risky investments from a financial or environmental perspective. The parceling of bonds into derivatives, and investments in carbon markets are examples of these excessively risky instruments. The volatility that we are currently observing on the world's stock exchanges provides a clear reminder, should one be needed, that such tools are hardly a basis for the kind of stable, sustainable approach to financing that the GCF requires if it is to meet its aims. Moreover, a strict firewall must be enacted between financial flows resulting from international offsetting schemes and the provision of climate finance for, and the use of climate finance by, developing countries," added Nacpil.

Ms. Mahlet Eyassu of CAN told the TC that a private sector window designed to support individual projects is unlikely to be the proper mechanism to catalyze transformation in low-carbon and climate resilient development. "Support for private sector initiatives should be provided through national institutions and in accordance with country-led strategies and plans. Engaging the private sector should not add to unsustainable debt or pass significant risk burden from the private to public sector in developing countries. The GCF should engage private sector actors only when they can guarantee transparency and accountability for complying with robust standards on environmental, social, and development effectiveness, and the implementation of robust due diligence processes designed to address financial, social, and environmental risks, and produce effective mitigation and adaptation outcomes. The TC must think carefully about how GCF support for the private sector would interact with the carbon markets, and ensure that its private-sector finance does not result in any double-counting of mitigation action by developed countries," she added.

Strong call for Green Climate Fund to have legal personality

Geneva, 13 Sept (Meena Raman) – Several members from both developed and developing countries of the Transitional Committee (TC) to design the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC) called for the Fund to be endowed with legal personality so as to enable it to fulfill its objectives and functions effectively.

This call was made during the third meeting of the TC in Geneva on Monday, 12 September.

Most of the developing countries on the TC including Egypt, Pakistan, Philippines, Brazil, China, India, the Democratic Republic of Congo (DRC) and Barbados called for the GCF to have legal personality, learning from the experiences of other funds such as the Multilateral Fund under the Montreal Protocol.

Barbados drew reference to the Global Environment Facility (GEF) which was disadvantaged by not having a legal status and depended on the World Bank for its legal capacity.

Some developed countries echoed the sentiments of developing countries and this included Sweden, Switzerland and Russia. Sweden said that if the TC members were serious about the GCF being ambitious, then the issue of it having legal personality could not be avoided.

The United States wanted more consultations with its lawyers on the matter, saying that the issue was complex. This drew sharp criticisms from DRC, Brazil and China, while Russia said that the problem was political and not legal.

Day two of the meeting saw an intense exchange of views on 4 of the 5 issues identified as key by the co-chairs. The four issues discussed were (i) the relationship between the GCF and the Conference of Parties (COP); (ii) legal status of the GCF, which involves the issue of the legal personality or legal capacity, as well as privileges and immunities for the GCF and/or its officials; (iii) issues related to the establishment of an independent secretariat including the selection of its head and (iv) the use of funding windows.

The 5th issue on "the structures and processes for the engagement of the private sector" is expected to be discussed on 13 September, which is the final day of the meeting.

In considering the issue of the legal status of the GCF, Mr. Trevor Manual of South Africa who co-chaired the meeting with Mr. Ketjil Lund of Norway provided 3 options.

Option 1 is for the GCF not to have any legal personality, in which case the Fund would depend on another body for its legal capacity as is the case with the GEF and the World Bank.

Option 2 is for the GCF to have legal capacity but not juridical personality as is the case with the Adaptation Fund (established under the Kyoto Protocol) where legal capacity is derived through German law. (The Adaptation Fund Board has been granted legal capacity by the Government of Germany under its national laws) and option 3 is for legal personality to be endowed through a decision of the Conference of Parties (COP) or through a new treaty or the national law of a Party.

Dr. Omar El-Arini of Egypt (who served as the first Chief Officer of the Secretariat of the Multilateral Fund of the Montreal Protocol from 1991 till 2003) stressed the need for the GCF to have legal personality so that it has capacity to enter into agreements with international, regional and national organizations; have capacity to enter into contracts with implementing entities and with the trustee; to enable the Fund to be able to borrow or lend money; issue guarantees; to employ staff; acquire property and institute legal proceedings in defence of its rights. It was necessary for the GCF to act as an independent entity. He said that it was not difficult for the GCF to be conferred juridical personality and referred to the experience of the Multilateral Fund (MF) where a simple decision of the Meeting of Parties of the Montreal Protocol conferred such personality.

Mr. Farrukh Khan of Pakistan (who was former Chair of the Adaptation Fund Board) also supported the call for the GCF to have legal personality, as this would enable the GCF to enter into contractual agreements with the private sector and have capacity to float climate bonds. This was also important to ensure direct access for to enable direct contractual agreements with entities. He stressed the need to identify the host country of the GCF and for criteria to be developed to determine this.

Mr. Jan Cedergren of Sweden said that if members were serious about the GCF's objectives of being ambitious, then the issue of the Fund having a formal legal personality could not be avoided. The TC should declare its intent to create the legal personality and how this was to be done was another matter.

Ms. Bernarditas Muller of the Philippines also echoed the need for the GCF to have legal personality and referred to the joint submission of 13 countries in Tokyo which supported this. She also said that there was no need for a memorandum of understanding between the GCF and the COP as suggested by some developed countries as it was the COP that established the GCF and the legal personality of the GCF could be conferred through a COP decision.

Ambassador Sergio Serra of Brazil echoed support for the call for the GCF to have legal personality, stressing that it was the only route to achieve the objectives of the Fund. He said that legal personality should be conferred by a decision of the forthcoming COP.

Dr. Yaga Reddy of India also echoed the call for the GCF to have legal personality.

Mr. Selwyn Hart of Barbados agreed with Sweden and said that it was clear, from the experience with the GEF that the GCF needed legal personality. He said that members had heard from a senior official of the GEF that one of its disadvantages or failings was the absence of legal personality and TC members should not replicate this mistake in the case of the GCF.

The representative from Switzerland made similar comments as Barbados in relation to the disadvantages of the GEF and supported the need for the GCF to have legal personality.

Alexey Kvasov of Russia said that there were many legal options but the issue was a political. He said that there was need for an interim solution as a full fledged international treaty to confer legal status was not possible. There was need for high aspirations and he was "inspired" by "hints of a solution" by Dr. El-Arini.

Mr. Andrzej Ciopinski of Poland said that it was premature to decide on the issue of legal personality and the best way to enable such personality was through an international treaty.

Mr. Gilbert Metcalf of the United States US said that the issue was complex and wanted more time for consultations with lawyers before deciding on the issue. He said that legal attributes of GCF would depend on the key operational attributes of the Fund. If legal personality is to be through a treaty, this could take years as there would have to be negotiations with every country.

In response to the US, **Mr. Tosi Mpanu Mpanu of the Democratic Republic of Congo** (who is also Chair of the African Group) said that it was unacceptable that members were being asked to go home and consult their lawyers before deciding at this 3rd meeting of the TC and delay the possibility of a successful outcome. He said that much reference has been made to the example of the establishment of the Multilateral Fund and members can learn from that.

Ambassador Serra of Brazil supported the DRC representative saying that the decision is political and as suggested by Sweden, if the TC members were serious, a decision can be made to confer legal personality on the GCF.

Mr. Wu Jinkang of China echoed the sentiments of DRC, Brazil and Sweden that if members were serious about the GCF, legal personality can be conferred and a way out for this could be found, as suggested by

Egypt. This was an issue for the TC members and not for lawyers.

Germany also wanted more information and clarity on the issue. **Ms. Alicia Santamaria of Spain** said that there was no need for a legal discussion now as form-followed functions, but it was open to all options and possibilities. Bangladesh also echoed similar concerns as Spain and the US. France also was not ready to take a decision on the issue and wanted more clarity.

Mr. Manuel said that it was clear that members knew what was wrong with the GEF and do not want to take that route. He wanted the issue of the legal personality to be concluded at this meeting in Geneva. He proposed that the matter be discussed further on 13 September.

(Discussions on the other issues will be reported in forthcoming articles).

TWN Info Service on Climate Change (Sept11/05)
15 September 2011
Third World Network

Meeting of Green Fund design committee ends with roadmap

Geneva, 14 Sep (Meena Raman) - The third meeting of the Transitional Committee (TC) to design the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC) ended in Geneva with the adoption of a roadmap that sets out the process for the preparation and adoption of a draft report of the Committee for the 17th meeting of the Conference of Parties (COP) to be held in Durban, South Africa, late November this year.

The fourth and final meeting of the TC is to be held in Cape Town, South Africa, from 16-17 October, where the members will consider and adopt the draft report, which will include any operational documents that the TC deems appropriate for the approval of the COP.

Given the strong and divergent views among TC members on several key aspects in the design of the GCF and with only two negotiating days set for the final meeting in Cape Town, some members of the TC from developing countries have expressed grave concerns over the process for the drafting of the final report.

Ms. Bernarditas Mueller of the Philippines stressed the need for a transparent and inclusive process that will ensure a balanced outcome.

The 40-member TC was mandated by the decision in Cancun last year to develop operational documents according to its terms of reference for the design of the GCF and make recommendations for the COP's approval.

For the meeting in Geneva, the Co-chairs and Vice-chairs of the TC had prepared a "Draft outline of the report" which contained various elements.

From the start of the meeting on 11 September till the morning of the final day (on 13 September), TC members had intense discussions on five key issues: (i) the relationship between the GCF and the COP; (ii) legal status of the GCF; (iii) the establishment of an independent secretariat including the selection of its head; (iv) the use of funding windows; and (v) engagement of the private sector.

There were major disagreements among TC members in several key areas as in the relationship between the GCF and the COP, the legal status of the GCF and the engagement of the private sector. (See TWN Information Service on Climate Change, #Sept11/03 dated 12 September 2011 and #Sept11/04 7217 dated 13 September 2011).

The Co-chairs, Vice-chairs and Co-facilitators (of four work-streams) presented a document in the afternoon on their "reflections", which they said was "based on the work done in previous sessions, discussions held and submissions presented". The document states that "it reflects areas that would be included in the final outcome of the TC and, to the extent possible, provides guidance on the content without prejudice to the specific language, placement or final format. It is expected that this document be complemented by the TC members, through further discussions and interactions, and serves to facilitate the preparation of the draft report that would be considered" at the next TC meeting in Cape Town.

The "reflections" document is basically similar to the earlier "draft outline report" prepared by the Co-chairs for the Geneva meeting, with some changes in the details.

The main headings of the elements in the document are: objectives, guiding principles, scope, governance and institutional arrangements, legal status, participation/membership, financial instruments, operational modalities, engagement of the private sector, environmental and social safeguards, monitoring and evaluation, accountability mechanism and stakeholder input and participation.

There were strong initial reactions from several TC members, both from developed and developing countries, on critical aspects of the elements which showed a clear divergence of views on areas such as the objectives, guiding principles, governance and institutional arrangements, legal status and engagement of the private sector. (Further details will be in a forthcoming article).

According to the roadmap, the Co-chairs, Vice-chairs and the Co-facilitators (comprising a group of 12 persons) will prepare an initial draft report by 23 September, based on the discussions held at the Geneva meeting and submissions received.

From 23 September to 5 October, the group of 12 persons "will consult all TC members, individually or in groups, on elements of the draft. The draft will reflect the outcome of these consultations."

The draft report will then be circulated on 7 October for consideration at the fourth TC meeting.

At the fourth meeting in Cape Town from 16-17 October (with an informal working dinner for TC members on 15 October), the draft report will be considered for adoption.

The Co-chair of the current meeting, Mr. Trevor Manuel from South Africa (who co-chaired the Geneva meeting with Mr. Ketjil Lund from Norway) described the process as "putting members in a pressure cooker" so that the final meeting will have a document for members to consider.

Ms. Bernarditas Mueller from the Philippines, in response to the roadmap, stressed the need for a transparent and inclusive process to ensure the participation of TC members in the development of any text of the report.

She said that the co-facilitators had an important role to play in ensuring this. Referring to the joint submission by 13 countries on the design of the GCF, she said that it covered all aspects of the elements and hoped that the Co-chairs, Vice-chairs and Co-facilitators would produce a balanced document, reflecting all the submissions.

Mr. Jorge Ferrer of Nicaragua expressed concerns over how the process was going to incorporate the views of 40 TC members. He was also worried about the duration of the final meeting (which was only set for two days), as the draft report will have serious legal implications.

Published in SUNS #7218 dated 15 September 2011

TWN Info Service on Climate Change (Sept11/06)
15 September 2011
Third World Network

Divergences emerge on design of Green Climate Fund

Geneva, 14 Sept (Meena Raman) - Views from members of the Transitional Committee (TC) to design the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change (UNFCCC) who met in Geneva from the 11-13 September, revealed clear disagreements on critical aspects of the elements for the design of the Fund.

There was divergence of views on elements such as the objectives, guiding principles, governance and institutional arrangements, legal status and engagement of the private sector.

The Co-chairs, Vice-chairs and Co-facilitators (of four work-streams) presented a document on the final day of the meeting on September 13, which contained their "reflections", "based on the work done in previous sessions, discussions held and submissions presented".

The document states that "it reflects areas that would be included in the final outcome of the TC and, to the extent possible, provides guidance on the content without prejudice to the specific language, placement or final format. It is expected that this document be complemented by the TC members, through further discussions and interactions, and serves to facilitate the preparation of the draft report that would be considered" at the next TC meeting in Cape Town to be held on 16-17 October 2011.

The main headings of the elements in the document are: objectives, guiding principles, scope, governance and institutional arrangements, legal status, participation/ membership, financial instruments, operational modalities, engagement of the private sector, environmental and social safeguards, monitoring and evaluation, accountability mechanism and stakeholder input and participation.

Co-chair Mr.Trevor Manuel from South Africa told members that the document was "not for adoption but for enrichment". He asked for reactions to the document, which saw many TC members expressing their views.

Mr. Gilbert Metcalf of the US and **Mr. Remy Rioux of France** expressed strong reservations over the whole document.

Metcalf said that the "reflections" document did not reflect a consensus or convergence. He said that there were many issues that were not discussed. Rioux said that he could not agree to a "standalone instrument" and that he could not agree to the "package" and "had strong reservations".

Among the elements that drew much reaction from developing countries was reference to "transformational change" in several parts of the elements including the objectives, guiding principles, and funding windows.

Mr. Wu Jinkang of China said that "contribution to transformational change" as an objective was not in the Convention and asked for deletion of the phrase. He noted a similar reference in the "guiding principles" which referred to "catalyze transformational changes". He said that trillions of dollars would be needed to make this happen which is more than what the GCF could handle. He also called for the deletion of reference to "activities for transformational change" under the element of "funding windows".

Mr. Jorge Ferrer of Nicaragua said that there was no definition of what is meant by "transformational change" and that everyone had a different interpretation. **Ambassador Sergio Serra of Brazil, Dr. Yaga Reddy of India, Ms. Bernarditas Mueller of the Philippines and Dr. Omar El-Arini of Egypt** all expressed similar views in this regard.

On the "guiding principles", some members had concerns over the term "results-based approaches". **Serra of Brazil** said that "results-based approaches" should not be a principle as this could hinder access to funds, especially for adaptation and it was better for this to be reflected under "monitoring and evaluation". **Muller of Philippines** also expressed similar concerns, adding that several aspects of the "guiding principles" appeared to be conditionalities.

In relation to the "scope" which had a reference to "mobilizing and leveraging of private sector investment and other finance, especially domestic private sector", **Wu of China** questioned what "other finance" was and whether the reference "to domestic private sector" meant that the private sector in developing countries are expected to make contributions to the GCF. **Serra of Brazil** said that there was no mention at all under the scope to "public funds" and this was "an obvious imbalance."

On the "engagement of the private sector," the document provided three elements which were: the "GCF to engage the private sector through a private sector facility; advisory committee of private sector actors and non-voting members of the Board". These proposals were mainly advanced by developed country members of the TC.

Mr. Ahmad Abdulkader of Saudi Arabia said that there was no consensus on the engagement of private sector in the GCF.

Ferrer of Nicaragua said that the Cancun decision made no reference to "non-voting members" and to call for this now would "open a Pandora's box." He said that some developed countries had called for the private sector to be a non-voting member of the Board but there was no consensus on this as the issue of private sector engagement had been controversial during the discussions.

Wu of China had similar views, saying that the Cancun decision had no reference to the private sector being represented on the Board. In his earlier intervention during the day, Wu referred to comments from some developed country delegates who talked of the private sector being involved in "bankable activities". He said that climate change projects are not bankable nor are they all economically viable. Mitigation, technology development and transfer are not necessarily economically viable or financially bankable unless supported by governments. He referred to the Chinese government's decision to close some coal power plants which involved the government having to pay for this. Wu said that the role of the private sector should not be over-emphasised. On the suggestion by some developed countries that the GCF should be attractive to pension funds, he said that if such funds could have done the job in the first place (in climate financing), there was no need for the GCF.

Reddy of India clarified that during the discussions, the proposal for an advisory committee for the private sector was an alternative proposal to the private sector being a non-voting member of the Board. **Serra of Brazil** expressed concerns over the suggestion for an advisory committee for the private sector. He suggested both the private sector and civil society could be called for advice if the Board needs it. **El-Arini of Egypt** also said that he did not understand what an advisory committee for the private sector was.

Mueller of Philippines said that the engagement of the private sector should be considered under the element of "stakeholder input and participation" along with civil society.

(Several developed countries including the US had also suggested that CSO's have a seat on the Board as a non-voting member but this was not reflected in the document).

In contrast to the views of developing countries, **Metcalf of the US** wanted more modalities to deal with the private sector. He said that a funding window for the private sector should be part of this. **Ms. Naoko Ishii of Japan** stressed the need for private sector engagement and asked how the private sector facility related to the GCF. **Mr. Nick Dyer of the United Kingdom** also echoed the need for the right modalities for the engagement of the private sector. He said that "engaging the private sector must signal to business that we mean business."

Another problem issue was the "relationship of the COP" to the GCF, which is addressed under "governance and institutional arrangements".

Mueller of Philippines was of the view that this element was the "weakest part of document." She said that the GCF must be guided by and be accountable to COP and this means a "strong relationship and touches upon the activities of the GCF". "Ensuring accountability is not simply about reporting by the GCF to the COP and there was need to address this."

Similar sentiments were expressed by **Wu of China** who said that the Board of the GCF was accountable to the COP and the Board therefore must have clear obligations in relation to its role and functions in decision-making. **El-Arini of Egypt** said that the Geneva meeting did not conclude discussions on the relationship between the Board and COP.

While developing countries stressed the need for a strong relationship between the GCF and its Board with the COP, **Metcalf of US** expressed concerns. In his earlier intervention during the meeting on this issue, Metcalf said that the COP should have no role in choosing the members of the Board, on issues related to the trustee or in the hiring of the head of the secretariat. The accountability mechanism is for the Board to report to the COP as is the case with the Global Environment Facility. This view was supported by several other developed countries including France, the UK, Germany and Australia.

In relation to the legal status of the GCF, the document refers to two elements: the GCF to be endowed with legal status and form of legal identity to be based on specific functions of the GCF. It states that the form of the legal status of the GCF should be discussed.

Most developing country members of the TC want the GCF to be endowed with legal status, while many developed countries including the US, UK and France want its "form to follow function," and not decide the issue at this stage.

In his reactions to the document, **Reddy of India** drew attention to the proposals from several developing countries to follow the model of the Multilateral Fund of the Montreal Protocol and said that this should be flagged as an option.

(See TWN Info Service on Climate Change (Sept11/04), 13 September)

Another area of contention related to the issue of "financial instruments". The document has two elements in this regard: the GCF to provide grants, non-grant instruments, including concessional loans, guarantees and others; and results-based financing mechanisms, including payment for verified results.

El-Arini of Egypt said that he was unclear as to what "results-based financing mechanisms, including payment for verified results," was and added that this was outside the scope of the terms of reference of the TC. Mueller of Philippines expressed similar views and said that if this element was to be applied, then there could be no adaptation funding, and this concept was totally contrary to the provisions of the Convention.

Serra of Brazil said that there was convergence among members that grants would be the most important instrument and suggested that the GCF should provide mainly grants. Reddy of India said that in dealing with "financial instruments" it was important to consider the type of risk that the GCF would bear and there was need to address what risks are permitted and what are not. He said that there should not be "currency risks" and there were also "reputational risks". Hence, there was need to introduce the concept of risk and to address who bears what.

The representative from **Zambia** said that the GCF should not be another institution that leaves LDCs in debt and stressed the importance of grants.

Given the lack of convergence on key issues relating to the design of the GCF, there are concerns among some developing country members as to how the drafting of the final report by the Co-chairs, Vice-chairs and Co-facilitators is going to reflect a balanced outcome for the consideration of the members at their final two-day meeting in Cape Town in October.

TWN Info Service on Climate Change (Oct11/01)
20 October 2011
Third World Network

Non-consensus report of GCF design committee sent to Parties

Cape Town, 19 Oct (Meena Raman) - In a night of drama at the meeting of the Transitional Committee to design the Green Climate Fund (GCF) under the UN Framework Convention on Climate Change (UNFCCC) held in Cape Town, South Africa on 18 October, the US withheld consensus to the adoption of the report of the Committee, which was transmitted to the 17th meeting of the Conference of Parties (COP17), to be held in Durban, South Africa in late November this year, for its consideration and approval.

At the meeting, Saudi Arabia also did not give its consent to the adoption of the report.

Despite several attempts by the co-chairs of the meeting and pleas by several countries in the final hours to persuade the US to not withhold consensus to the adoption of the report, the US remained firm in its position.

Several senior negotiators and observers, in response to the US withholding of consensus, commented after the meeting along the corridors that the US was not prepared to agree to a deal in Cape Town until the overall deal in Durban was done, as the GCF issue was a key "bargaining chip" in the negotiations in South Africa.

Germany expressed frustration and disappointment, and said that anything short of sending a report of the Transitional Committee (TC) by consensus to COP17 "is a failure and will likely result in not having the GCF this year or the next."

Mr. Trevor Manuel of South Africa, who co-chaired the meeting with Mr. Kjetil Lund of Norway, called the outcome "sub-optimal".

A number of TC members both from developed and developing countries also expressed concerns over the governing instrument of the Green Climate Fund, which was appended as an annex to the report of the TC, but they did not block consensus.

It is learnt that had the US chosen to adopt the report with reservations and not block the consensus, some developing countries would have also put in their reservations.

The final decision was for submission to COP17, for its consideration and approval, of the report with the governing instrument in the annex without adoption, as it did not enjoy the consensus of all TC members.

The fourth and final meeting of the TC, held from the afternoon of 16 October to 18 October, saw intense negotiations on the governing instrument of the GCF.

The TC, which comprised 40 members (15 members from developed countries and 25 members from developing countries), was mandated by the Cancun decision last year to design the GCF.

On the evening of the final day of the TC meeting at close to 8 pm, TC members were presented with a draft report by the co-chairs. The draft report included recommendations of the TC to COP17 in the main part of the report and the draft governing instrument for the GCF in an annex to the report. Mr. Manuel, in presenting the draft report for adoption, said that the governing instrument document was a compromise document and invited members to give their general comments.

Many TC members expressed their views, including the US and Saudi Arabia.

At this session, the **US** expressed its concerns in some areas and wanted further work to be done. Among the issues raised included the relationship between the COP and the GCF.

It referred to paragraph 15(h) of the main report, which contained a recommendation by the TC to COP17 to "consider the process for selection of trustee of the GCF", and questioned the role of the COP in relation to the selection of the trustee.

(This refers to the permanent trustee, as in Cancun, it was agreed that the World Bank would be invited to serve as the interim trustee. Throughout the Cape Town meeting, the US wanted the COP to have a very

minimal role in relation to the GCF and wanted the Board of the GCF to have a greater role).
The US also referred to paragraph 22 of the governing instrument and said that this paragraph "undoes" the Cancun agreement and was a problem.
(Paragraph 22 states that: "The selection of the host country of the Fund will be an open and transparent process. The selection of the host country will be endorsed by the COP").
It also referred to paragraph 72 of the instrument and said that this paragraph also went beyond what was agreed to in Cancun as regards the involvement of the COP.
(Paragraph 72 states that: "Termination of the Fund will be approved by the COP based on a recommendation of the Board").
As regards the legal status of the GCF (as contained in paragraphs 7 and 8 of the instrument), the US said that the essential technical issues needed to be addressed.
(Paragraph 7 states that: "In order to operate effectively internationally, the Fund will possess juridical personality and will have such legal capacity as is necessary for the exercise of its functions and the protection of its interests").
On the operational modalities, the US said that the provisions were too heavily weighted on direct access (by recipient countries to the Fund) and restricted the ability of private sector engagement in transformational activities.
(The instrument in paragraph 41 provides that: "The Fund will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels". Paragraph 42 states that: "The operation of the facility will be consistent with a country-driven approach".)
Another key concern that the US had was with paragraph 29 of the instrument, which states that "The Fund will receive financial inputs from developed country Parties to the Convention."
The US said that this was a restriction of financial inputs from only developed countries. (The US wanted developing countries to also contribute to the Fund).
The US wanted further work to be done to complete the document.
Saudi Arabia said that it could not endorse the text on the governing instrument, as the views of developing countries were not reflected and its reservations expressed during the negotiations were not taken into account. It said that its call for language on the impact of response measures was ignored.
It expressed concern as regards paragraph 14 of the instrument on decision-making (which states that "Decisions of the Board will be taken by consensus of the Board members. The Board will develop procedures for adopting decisions in the event all efforts at reaching consensus have been exhausted").
Saudi Arabia said that the language was inconsistent with the UNFCCC's procedures on decisions by consensus.
It was also concerned about paragraphs 29 and 30 of the instrument on financial inputs which did not reflect that contributions from public sources from developed countries is supposed to be the primary source of financing, while contributions from the private sector was supplementary.
It was also concerned about references to "alternative sources" of funding and preferred the use of the term "innovative sources" instead.
When co-chair Mr. Manuel wanted to move the report for adoption, the US said that it took objection to the document moving forward, as it wanted more work done, and Saudi Arabia said the document did not enjoy consensus.
Brazil said that at least two members of the TC had shown reluctance to give consensus and suggested to the co-chairs that the only way to move forward was to send the document to the COP and say that there was no consensus.
Finally, following various attempts in finding a way forward, the TC members agreed to an amendment to paragraph 14 of the report which reads as follows: "The draft report was discussed at the fourth meeting of the TC in Cape Town, South Africa, and the text contained in Chapter III below was considered on 18 October 2011. It is

submitted by the TC to COP 17 for its consideration and approval...".

This was agreed to by members. (The earlier version of this paragraph had the word "adopted" in place of "considered".)

The report also made the following recommendations in Chapter III to the COP, that it: (a) takes note of the report of the TC as mandated by decision 1/CP16; (b) approve the governing instrument of the GCF contained in the annex of this report; (c) requests the Executive Secretary (of the UNFCCC) to invite regional groups and constituencies to nominate their Board members; (d) request the Executive Secretary of the UNFCCC to invite Parties to submit expressions of interest to host the GCF; (e) invite voluntary contributions for the start-up of the GCF; (f) request the UNFCCC Executive Secretary to set up an interim secretariat immediately after COP17 to provide technical, administrative and logistical support to the Board, in particular in the preparation of materials for and organization of Board meetings until an independent secretariat of the GCF is fully operational. The interim secretariat should be composed of staff with the relevant expertise and be fully accountable to the Board and function under its guidance; (g) set the date for the first meeting of the Board; and (h) consider the process for selection of trustee of the GCF.

Published in SUNS #7243 dated 20 October 2011

TWN Info Service on Climate Change (Oct11/02)
22 October 2011
Third World Network

Mixed reactions to Green Fund design

Geneva, 21 October (Meena Raman) – Members of the Transitional Committee (TC) of the Green Climate Fund (GCF) expressed mixed reactions and concerns over the design of the GCF, which was finalized in Cape Town, South Africa on 18 October.

The United States and Saudi Arabia had withheld consensus to the adoption of the TC report and the non-consensus report was transmitted to the 17th meeting of the Conference of Parties (COP 17) to be held in Durban, South Africa in late November this year for its consideration and approval.

The report included recommendations of the TC to COP 17 which was in the main part of the report and the governing instrument for the GCF which was annexed to the report. The governing instrument sets out the design of the GCF.

Late evening of the final day of the TC meeting on 18 October, TC members were presented with a draft report by the co-chairs, Mr. Trevor Manuel of South Africa and Mr. Ketjil Lund of Norway.

Manuel, in presenting the draft report for adoption, said that the governing instrument document was a compromise document and invited members to give their general comments but called on them to be brief, repeatedly saying that the meeting room needed to be vacated to prepare for another function. While many countries took the floor to give their views, when Moroccan delegate Mr. Rachid Firadi raised his flag during the session, Manuel did not allow him to speak, saying that the list of speakers was closed and time was running out.

It was learnt from several developing country members of the TC that they were under the impression that changes to the document could be entertained and this was not a "take-it or leave-it" document. However, following the general comments, Manuel proposed the report with the annex to be adopted and it was then that delegates realized that there was no opportunity for further changes.

It was then that US and Saudi Arabia withheld consensus in the adoption of the report. It is learnt that had the US chosen to adopt the report with reservations and not block consensus, some developing countries would have also put in their reservations. (See TWN News dated 20 October).

Among the issues of concern raised by developing countries were the limited role of the COP in relation to the GCF; the Fund's role in promoting coherence at the national level when this was the job of the national entities; the watering down of the role of the national designated authority (NDA) of the recipient countries in not approving all funding proposals; the private sector facility having direct access to the Fund for financing activities at the national level without the approval of the NDA; lack of clarity on the voting procedure to be adopted by the Board in decision-making in the event of no consensus among Board members and leaving this to the Board to decide; the authority of the Board to remove or modify funding windows without the approval of the Parties and the absence of providing the procedure for the selection of the permanent trustee and leaving this to the COP to resolve.

Dr. Omar El-Arini of **Egypt** said that he would like the COP to confirm the selection of the GCF's Board members. (Paragraph 9 of the instrument does not provide any role for the COP in confirming or endorsing the composition of the Board, which was what many developing countries had called for.) He also wanted the appointment of the Executive Director of the secretariat to be confirmed by the COP. (Presently, this is not the case and it is the Board that appoints the ED and there is no role for the COP). He also wanted the selection of head of the evaluation unit to be confirmed by the COP.

(There instrument does not provide for any role for the COP in this regard and leaves it to the Board to do the appointment).

El-Arini was also concerned that there was no provision for voting as regards decision-making by the Board. (The instrument in paragraph 14 states that "decisions of the Board will be taken by consensus of the Board members. The Board will develop procedures for adopting decisions in the event all efforts at reaching consensus have been exhausted." The earlier version of the instrument in this regard had provision for voting in the event effort at reaching consensus was exhausted. It provided that " …decisions will be taken by a two-thirds majority of the Board members present and voting, representing a two-thirds majority of Board members from developed country Parties and a two-thirds majority of Board members from developing country Parties. Developing country members of the TC had been concerned about a proposal by Japan which was supported by Germany for the voting procedure to be similar to that of the World Bank Board, the Climate Investment Funds and the Global Environment Facility (GEF) which is a weighted system of voting based on the contributions of countries to the Fund.)

On the issue of the national designated authority (NDA), he wanted the approval of the authority for all funding proposals before they are submitted to the Fund. (Paragraph 46 of the instrument provides that the NDA recommends to the Board on funding proposals in the context of national climate strategies and plans, but the NDA will only be consulted on "other funding proposals for consideration prior to submission to the Fund to ensure consistency with national climate strategies and plans).

In relation to the private sector facility, El-Arini preferred to have a window for the private sector instead of a facility. He also wanted to add further recommendations by the TC to the COP as he said that this was missing in the instrument viz. (i) on the process to confer international juridical personality on the GCF and (ii) the procedure for the selection of the permanent trustee of the Fund.

Ms. Carol Mwape Zulu of **Zambia** on behalf of the **LDCs** said that in this process, members would not get all that they want and expressed satisfaction. She expressed concern over the power of the Board to modify or remove funding windows especially that for adaptation, adding that Parties should be consulted prior to any modification, removal or addition of funding windows. (Paragraph 37 of the instrument provides that the Fund will have windows for adaptation and mitigation and paragraph 39 provides that the Board will consider the need for additional windows and will have the authority to add, modify and remove additional windows and substructures/facilities as appropriate). Mwape also supported Egypt in relation to concerns over the NDA which she said must approve all funding proposals.

Mr. Dipak Dasgupta of **India** said that there was need for further balance in the instrument as regards the national entities at the country level. In relation to paragraph 34 which provides that "the Fund will promote coherence in programming at the national level through appropriate mechanisms", Dasgupta said that it is not the Fund that promotes coherence at the country level but that was the job of the national authorities. He said that the same was the case with paragraph 36 in relation to "supporting programmatic approaches in accordance with climate change strategies and plans…" In relation to the "private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities…", he said that this must be subject to the approval of the national entities. He also wanted the NDA role to be strengthened in approving funding proposals. India supported Egypt on the issue of decision-making by the Board (referring to the issue of voting).

Mr. Wu Jinkang of **China** said that the instrument was balanced in some areas but was less balanced in others. He referred to paragraphs 2 and 36 of the where there were references to "low-emission development strategies and plans" and that China had insisted that the language must be consistent with the Cancun decision which refers to "low-carbon development strategies or plans in the context of sustainable development".

On the issue of decision-making by the Board, he said the final text took a step backward, as he thought that there was agreement among members to have the earlier language in the text referring to the need for a double majority in the event the Board did not have consensus. This issue was too important to leave to the Board and the principle of one-country one vote was important. If the Board could not reach agreement on this issue, the Fund would be in trouble.

On the funding windows, Wu said that there was no agreement to have a private sector facility and as a compromise and in the spirit of cooperation, he could support the facility if there were separate windows for capacity building and for technology transfer as this was important for developing countires. (The instrument does not provide for separate windows for capacity building and technology transfer but in paragraph 38, it provides that "the Board shall also ensure adequate resources for capacity building and technology development and transfer.")

Ambassador Sergio Serra of **Brazil** said that he was unhappy with the instrument but recognized that it was big effort on the part of the co-chairs and vice-chairs in the preparation of the document. He pointed some areas of "unhappiness" where he said there was compromise. On the "legal personality", he said there was no firm position reached. On some aspects of accountability between the COP and the Board, there was compromise (as Brazil and several other developing countries wanted the COP to play a role in the endorsement of Board members, in the selection of the head of the secretariat and the head of the evaluation unit). On the private sector facility, he said Brazil was very hesitant as regards this proposal and had compromised on that too. He also referred to reference to "low-emission development strategies and plans" and said that this was not the correct wording (in the Cancun decision) and the previous provision in the earlier text for a multi-year replenishment process for financial inputs "had gone down the drain".

In the light of the compromises made, Serra, supported India and wanted changes to be made as regards paragraphs 34 and 36 of the instrument as it was unacceptable for the Fund to promote coherence at the national level as this was for the national governments to do so. He said that for the private sector to have direct access at the national level, the funding proposals must be approved by the NDA.

Mr. Jorge Ferrer of **Nicaragua** expressed concern that the private sector could have direct access to funding without the endorsement of the NDA. In relation to paragraph 43, he said that the private sector facility should support private sector involvement "from" and not "in" SIDs and LDCs. He was also concerned with paragraph 46 where the NDA will only be consulted on other funding proposals and not to give its approval. He was also concerned that the Board has powers independent of the COP as for example in decision-making.

Ms. Bernarditas Mueller of the **Philippines** supported the views of developing countries and emphasized the weakness in the relationship between the COP and the Fund. She also had concerns over the weak language in relation to the NDA and stressed that it was the NDA that needs to be in control and not the Board. She also wanted provision on the procedure for the selection of the permanent trustee through an open and transparent process.

Mr. Farrukh Khan of **Pakistan** also drew attention to paragraph 43 in relation to the private sector facility, which should support activities to enable private sector involvement "from" developing countries and not "in" developing countries. In relation to the quorum for the meeting of the Board, he expressed preference for the earlier text that what was in the instrument. (Paragraph 15 of the instrument states that "a two-thirds majority of Board members must be present at a meeting to constitute a quorum", while the earlier text provided for "a simple majority of Board members from developed country Parties and a simple majority of Board members from developing country Parties must be present at a meeting to constitute a quorum.")

Mr. Idrissa Ouedraogo of **Burkina Faso** said that the GCF was very important and there should be no room for it to fail. He also stressed the need for COP endorsement of the Executive Director of the secretariat and the head of the evaluation unit.

The representative from **Gabon** also expressed concern over whether the private sector should have direct access to the Fund for activities in developing countries when they should work with the national entities at the country level.

Mr. Tosi Mpanu-Mpanu of the **Democratic Republic of Congo** said that there were many issues of importance to the African Group which had not been taken into account in the instrument but he was happy to live with it as it was a good illustration of finding middle ground. Given that the Durban was an African COP, there was need for a concrete deliverable on the GCF.

Ambassador Ali'ioaigi Elisaia of **Samoa** representing the **Alliance of Small Island States** said that it would be naïve to expect all our issues to be reflected in totality in the document and as imperfect as it may be, he was prepared to live with the report and not disappoint his constituency.

Mr. Manfred Konukiewitz of **Germany** expressed unhappiness with a few provisions. He regretted that there was no window for reducing emissions from deforestation and forest degradation in developing countries (REDD-plus) and was not happy that carbon capture and storage could be eligible for funding by developing countries. He also was concerned that financial inputs for the Fund were restricted to only be from developed countries and was contradictory with indications of interest from various countries that are not developed countries to contribute to the Fund. He said this ignores major changes in world where a lot of wealth has moved to new regions and urged for this restriction to be lifted.

Mr. Jan Cedergren of **Sweden** said that the document was balanced with a lot of compromising. He did not like the reference in the selection of the staff for the secretariat to take into account geographical balance. He also said that need for geographical balance in paragraph 52 on the allocation of resources for adaptation contradicted the need to take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and Africa.

Mr. Nick Dyer of the **UK** congratulated the co-chairs for the document. He was however not in agreement with paragraph 22 where the selection of the host country of the Fund would be endorsed by the COP.

Mr. Per Callesen of **Denmark** said that paragraph 41 and 45 are inconsistent as paragraph 41 provides for the private sector to directly access the Fund while paragraph 45 states that access to the Fund's resources would be through entities.

Mr. Bruno Oberle of **Switzerland** said that the document was not perfect but he appreciated the balance in the text.

Mr. Hyung-Hwan Joo of the **Republic of Korea** also said that the provisions restricted donations from developing countries.

TWN Info Service on Climate Change (Oct11/03)
25 October 2011
Third World Network

Setback in designing Green Climate Fund

by Martin Khor (Executive Director, South Centre)

The Green Climate Fund which developing countries are relying on to support their actions against global warming suffered a setback when a committee designing the fund could not agree on recommendations to give to the United Nations Climate Convention.

Last week, the transition committee held its final meeting in Capetown, South Africa. A draft of the instrument of the Fund (containing its aims, governing structures and functions) prepared by the committee's Co-Chairs was not agreed to by two members, the United States and Saudi Arabia. Earlier, several others of the committee's 40 members also criticized parts of the report. But they did not reject the document.

The committee's failure to reach a consensus could deal a blow to the climate conference in Durban (South Africa) in November. It was hoped that the launching of this fund would be one of meeting's few bright spots, if not the only one.

The Durban conference needs a success, following the disastrous 2009 Copenhagen conference and the only partial recovery in Cancun last year.

But on the main issue – actions by countries to cut or minimize emissions that cause global warming – there is a lot of disagreement.

The Kyoto Protocol, under which all developed countries (except the United States) make binding commitments to reduce their emissions, may not survive because key members like Japan and Russia have stated they do not want to continue with it.

They and the US want it replaced by a system of voluntary pledges by developed countries, while developing countries are also pressed to take on more commitments (such as pledges and strict reporting on actions taken) than previously.

This has angered the developing countries. They have pledged that the Kyoto Protocol must be saved and not buried at Durban. But few are optimistic.

If the climate regime unravels, the consolation could be the operationalising of the Green Climate Fund, established last year in Cancun. The transition committee was tasked with recommending the objectives, governing structures, working methods, sources and uses of the funds.

The Conventions' conference of parties was expected to endorse the report, and the fund could get down to business early next year.

It was thus a great disappointment that after four meetings the committee could not reach an agreement on the fund's design.

The committee's Co-Chair Trevor Manuel, South Africa's economics minister, presented a draft report towards the end of the three-day meeting on 18 October.

The developing countries were generally happy with some points in the draft, especially that the Fund would have its own legal personality and an independent Secretariat. For them, the rationale for a new Fund is that it would be able to operate on its own, and not borrow the legal personality or its Secretariat from other organizations such as the Global Environment Facility and the World Bank.

There were also many points that developing countries such as Egypt, China, India, China and the Philippines disagreed with, including:

- The report did not state how voting would be done if the Fund's Board is unable to have a consensus, leaving it to the Board itself to decide. An earlier draft stating that voting would require a majority vote had been replaced. Some developed countries had proposed that votes be weighted by the amount of funds contributed by countries, a principle that is strongly opposed by developing countries.

- The report gave too little authority to the Fund's general membership, its Conference of Parties, in which developing counties have a large majority, and too much to the Board, in which the developed countries will tend to dominate (although there are to be 12 members each from developed and developing countries).

- A special facility is created to finance the private sector, including at international level. This may divert funds away from developing counties towards developed countries' companies and financial institutions which may then have direct access both to the funds and to the developing countries (by-passing the governments). Special "access modalities" and other "necessary arrangements" for the private sector are also to be established later by the Board; this text is diluted from an earlier draft that mentioned a separate system of governance and modalities for the private sector facility, which was criticized by some as being a "fund within a fund."

- The Fund was expected to provide mainly grants to developing countries, supplemented by concessional loans. However developed countries also want instruments such as loan guarantees for and joint equity with companies in order to "leverage" the private sector's funds. These instruments and especially the term "leverage" were objected to by some developing countries for encouraging the Fund to engage in risky activities and for setting up a different model for the Fund. The final draft has changed the terms but the Board is still tasked with developing such instruments.

- The Fund has only windows for mitigation and adaptation initially, while many developing countries also wanted technology and capacity building windows. Developed countries (backed by some developing countries) also wanted a window for forests.

Except for Saudi Arabia, the developing countries did not explicitly object when the Co-Chair proposed that the draft be submitted by consensus to the Durban conference.

However, the US clearly objected to the Chair's proposal. It had earlier indicated several disagreements with the draft, including that the general membership was given too many functions; that the Fund would receive funds from developed countries (it wanted developing countries to also contribute); and that the draft restricted the ability of the private sector to engage. It also questioned the section on the Fund having its own juridical personality.

Saudi Arabia also mentioned a few issues to which it wanted changes and could not accept the draft.

Eventually it was agreed that the draft would be submitted to the Conference, but not as a consensus document. The Conference can consider the report.

There is a distinct possibility that the Conference of Parties (the full membership of the Climate Convention) will "open" the report and re-negotiate the text of the Fund's instrument.

That may not necessarily be a bad thing, since the draft can then be improved. However, if the 40 members of the committee could not agree, it would be even harder for the 190-plus members of the Convention to reach a consensus.

Since so much is at stake, there were appeals by some committee members to prolong the meeting or to hold another meeting to try to get an agreed report. However, there was no agreement for the committee to prolong its work.

This was first published in *The Star* (Malaysia), 24 October 2011

TWN Info Service on Climate Change (Oct12/07)
29 October 2012
Third World Network

South Korea to host Green Climate Fund

Seoul, 25 Oct (Marjorie Williams) – Songdo, Incheon City, in the Republic of Korea has been selected to be the home of the Green Climate Fund (GCF) by its Board.

The second meeting of the Board was held in Songdo from October 18-20, where this decision was taken, and which is expected to be endorsed by the 18th meeting of the Conference of Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) to be held in Doha, Qatar in late November this year.

Six countries had offered to host the GCF which were Germany (Bonn), Mexico (Mexico City), Namibia (Windhoek), Poland (Warsaw), Switzerland (Geneva) and South Korea (Songdo).

The GCF was established at COP 16 in Cancun 2010 and its governing instrument was approved in Durban in 2011 at COP 17. The selection of a host country brings the GCF one step closer to its operationalization to help disburse climate funds to support mitigation and adaption efforts of developing countries.

At its first meeting in Geneva in August 2012, the GCF Board set in place a host country Evaluation Committee to conduct an open and transparent process to assess the proposals received, based on the evaluation criteria. The Committee was chaired by Ms. Audrey Joy Grant (Belize).

At its second meeting in Songdo, the Committee reported on the outcome of the evaluations criteria agreed by the Board. The Board, through a series of confidential balloting, (with ballots casted only by Board members) and the voting process supervised by the representatives of the Global Environment Facility (GEF) and the UNFCCC secretariat, the options were narrowed down to one candidate. During each round of balloting, the country with the least support was eliminated, with the final selection based on the country with the majority support of the Board members.

On Saturday, October 20, 2012, the Board by consensus agreed on Songdo as the permanent home of the Green Climate Fund. The outcomes of the initial balloting rounds were not made public.

During the course of the three-day meeting, the Board discussed a wide range of issues including, additional rules of procedure, its work plan and priorities, arrangements for the interim trustee, arrangements for an independent secretariat and the selection of its' Executive Director, the status of the resources and administrative budget of the GCF and arrangements between the COP and the Fund.

The work plan and priorities of the Board

The Board agreed to work with a listing of 25 indicative priority matters in the work plan until the end of 2013. The top five of these were: the business model framework, private sector facility-related matters, resource mobilization, results management framework and the establishment of the independent secretariat. These items also are the key agenda items proposed for discussion at the first Board Meeting in the year 2013.

The work plan and priorities of the Board were hotly debated.

Many developing countries wanted to focus on the structural and institutional issues they saw as critical to fully operationalizing the GCF such as the arrangements for the establishment of the independent secretariat, including hiring of the Executive Director and host country arrangements and resource mobilization (all items which were initially set to be discussed in the later part of 2013), with other members placing emphasis on the private sector facility and business model in the first meeting. Small Island Developing States also wanted the issue of readiness and preparatory support to have priority.

In the end, agreement was reached in principle on the elements of the Board's work plan and the indicative priority matters. The interim secretariat, working with a 6 member board team, was requested to prepare a set of five documents for the first Board meeting in 2013 viz. -

(1) *business model framework*, covering the issue of structure and organization of the Fund (including structural options for the business model, models for the delivery of the Fund's resources, structural options and financial instruments in terms of leveraging potential of additional public and private sector finance, complementarity of the Fund with other channels of climate finance and linkages with thematic bodies of the Convention); private sector facility and related matters; access modalities and result management framework);

(2) *Resource Mobilization,* including policies and procedures for public contributions and other contributions, including from alternative sources; process and policies, participants and timeframes for resource mobilization and subsequent replenishments;

(3) *Modalities for readiness and preparatory support,* including priority areas for readiness and preparatory support, mechanisms for allocation, delivery and simplified approval process for readiness and complementarity of modalities for readiness and preparatory support with other channels of climate finance;

(4) *Establishment of the independent secretariat,* including selection of the Executive Director, review of staffing of the interim secretariat and guidance on administrative policies; and

(5) *Host country agreement* – relating to provisional legal arrangements for privileges and immunities for the establishment of the independent secretariat.

As regards the document on the business model framework, a 6 member committee/team is to facilitate its preparation. The interim secretariat will also solicit input from consultants, experts and stakeholders, including private sector and civil society organizations on specific matters.

Mr. Dipak Dasgupta (India) proposed the sponsoring of three stand- alone papers that will offer independent views in support of what the Board team will be doing on the vision of GCF, resource mobilization and how can instruments be matched with outcomes on the ground. He was of the view that these papers would complement and help to deepen the discussions.

Additional rules of procedure of the Board

Under this agenda item, three challenges confronted the Board.

First, was the issue of funding the participation of advisers, in particular, for developing countries representatives. Developing countries argued for funding for the participation of advisers from developing countries and flexibility for the participation of more than one adviser per member and for alternate members to be present in the Board meeting room in the case of multi country seats. (Presently observers, including some advisers, are sequestered in a separate meeting room from where the Board members meet. Four 'active observers', [two from civil society organisations and two from the private sector] are allowed in the Board meeting room). There was no final decision on this matter.

A second issue raised was the matter of working language of the Board. Many developing countries argued that effective representation and transparency dictate the use of the UN languages, or at a minimum, the provision of interpretation on an individual or request basis, in particular for French speakers. There was no consensus on this matter as some Board members were concerned about the cost implications of interpretation and translation of documents.

A third issue was the role and nature of participation of observers in the GCF Board meetings, which was an important topic of discussion. The matter of "active observers" was well debated, in particular, whether funding should be provided for active observers. The Board agreed that funding for active observers should not go beyond funding travel and daily subsistence .There was no consensus as to whether active observers could sit at the table with Board members. This issue was particularly contentious as it was linked to the question of the parity of alternate Board members and their effective participation in the Board meeting.

On the issue of accreditation of observers to the meetings of the Board, it was proposed that provisional accreditation of accredited UNFCCC and GEF observers be agreed to until the Board approves its own process. There was some discussion to expand the list of potential observers to include national development financial institutions.

As regards the process for selection of active observers, there was a general understanding that civil society and private sector organizations would decide themselves who would represent their constituencies.

A team of six Board Members was established to further deliberate on the additional rules of procedure and aim to seek consensus and report back to the Board.

Arrangements for the interim trustee

The representative of the World Bank (which is the interim trustee of the GCF) in presenting its report to the Board questioned whether the interim trustee could enter into legal arrangements with the GCF or the Board as this related to the juridical personality and legal capacity of the GCF.

In response, while not questioning the legal status of the GCF, (which was conferred juridical personality by the Durban COP), **Mr. Omar El-Arini (Egypt)** raised the issue of consistency of practice by the World Bank. He said that he had forwarded a document to the Bank that verified that the Bank had in fact signed an agreement with another entity before that entity had egal personality conferred upon it or had concluded a host country agreement.

El Arini wondered why this should not be the same with the GCF. He said that the President of the World Bank had signed a similar agreement with the Multilateral Fund under the Montreal Protocol (on ozone depleting substances) prior to the conclusion of it attaining juridical personality and the host country agreement. In this case, he said that the Bank did not see any impediment to finalizing that agreement with the Multilateral Fund and it was very odd that the Bank was adopting a different posture on the same arrangements with the GCF. El Arini expressed concern with the insistence by the Bank that it could not conclude arrangements with the Board until the Bank had evidence of the host country agreement that verified the GCF's legal status, as this could cause delay with the operationalization of the Fund. He pointed out that having a different approach to the matter would save the GCF time as it was not yet clear when the host country agreement (which in some cases could take up to a year) would be concluded. Hence the current posture of the World Bank, as the interim trustee regarding an interim agreement with the GCF and the Board, raised a question mark. El Arini argued that based on past precedent, such an agreement could be concluded now.

Mr. Gilbert Metcalf (US) was of the view of that the host country will have to confer legal personality under domestic law for ensuring the GCF is on sound legal footing in that country. He argued that legal clarity is important and if there is legal uncertainty, it raises legal risks and puts at risk contributions to the GCF. Hence, the need for a solid approach to the legal arrangements under domestic law is critical, he said.

El-Arini requested that questionable references to the legal personality of the GCF are removed from the document presented for approval to the Board by the interim trustee. This was accepted.

Arrangements for independent secretariat

There was consensus that the Fund needed to look for a highly qualified Executive Director for the GCF.

Ms. Zou Jiayi (China) argued that the candidate should have experience working in developing countries. This point was also supported by other developing countries members, noting that the person should also have experience working on development issues and/or working in developing countries.

There was some tension over whether or not to hire a search firm to participate in the selection process for the Executive director, given an anticipated cost of about $200,000. Most developed countries were in support of a search firm search driven process. Many developing countries, on the other hand, were of the opinion that the process could be managed internally and be cost effective.

In addition, there were concerns that the interim secretariat, (without instructions from the Board or oversight and knowledge of the Co-Chairs), had already initiated and concluded a request for proposal process involving the identification of 14 search firms, submission of 6 proposals and apparently culminating in a short list of one search firm. This action had been undertaken even before the first Board Meeting but was not communicated to the Board or the Co-chairs until this meeting.

Many developing country members of the Board queried the basis for the proposal for the search firm when the terms of reference for the Executive Director had not been established by the Board. Developed countries on a whole were supportive of the actions taken by the interim secretariat as a 'proactive' step to be welcomed.

The Board proceeded to establish an "Executive Search Committee" of six of its members to explore these issues, including the terms of reference for the Executive Director; to decide on whether or not a search firm should be contracted as part of the selection process and if so, to develop terms of reference for contracting such a firm. The Committee would ultimately recommend a short list (not ranked) of three names to be considered for the Executive Director position to the Board. Up to $200, 000 including, potentially covering of the cost of a search firm, was allotted for this selection process.

The budget of the interim secretariat and interim trustee

The budget issue was also a hotly debated agenda item on two grounds: (1) The limited amount of resources currently available to the GCF Trust Fund (established by the interim trustee under its Financial Intermediary Fund arrangement, to receive and disburse contributions for the GCF) and (2) the financial gap between resources available and the proposed expenditures in the budget.

Board members especially from developing countries had a great deal of difficulty with the presentation of the budget which they said lacked clear explanations of the assumptions behind the proposed budget lines for items such as staff travel (especially the relative costs for GEF staff versus UNFCCC staff), information technology, Board meetings and consultants (over 200 hours budgeted for this item).

Many developing country members such as El-Arini, Dasgupta, Zou and Mr. Paul Gomes (Guinea Bissau) raised issues over the request to approve a budget with a large resource gap and which was primarily based on pledges. While developed country members such as Metcalf, Mr. Kjetil Lund (Norway) and Mr. Rod Hilton (Australia) expressed their comfort with this practice, several developing country members raised the issue of principles and best practices used by international organization and multilateral funding institutions.

Gomes said that approving a budget based on pledges goes against the best practice at multilateral levels. He highlighted that with the IFIs, a developing country will not have its programme approved unless its resource gap is closed. He further argued that for the GCF to be driven on pledges to close its budget will not look good and said that the

Board should seek to adopt what is the current best practice.

Dasgupta said the GCF needed valid resources and that pledges are not resources, given all that that is known about pledges in practice. He said that approving the present 14 months budget was not prudent fiscal management.

The budget and related documents were revised to reflect the input and requests made by Board members.

Given that approval of the budget was also necessary in order for the trustee to approve and disburse funding, including to the Interim Secretariat, the budget was approved with the recording of funds available for disbursement at $2.7 million; previous pledges amounting to $2.5 million; pledges made at the meeting of $1.5 million and strong commitments for additional pledges. The administrative budget of $7,481,000 was approved for 1 November 2012 to 31 December 2013.

Arrangements between the COP and the GCF

There were differences of opinion among Board members as to whether or not the Board should initiate the arrangements between the COP and the GCF or if this was the prerogative of the COP.

Developing country members on the Board such as Mr. David Kaluba (Zambia), Zou (China), El-Arini (Egypt) and Dasgupta (India) strongly argued that based on the provisions of the Convention as well as the GCF's governing instrument, and the Durban COP decision, the arrangements should be determined by the COP.

Kaluba pointed out the COP is the superior organ or body that gives the guidance and it should be left to form its mandate and its role. He said that the Board should not assume the role of the COP on how the arrangements should be handled. Zou agreed that the Fund is a mechanism under the guidance of the COP and so, the arrangements should be initiated by the COP not the Board.

On the other hand, Metcalf (US) supported by Hilton (Australia), Mr. Nick Dyer (UK) and Mr. Amaud Buisse (France) were of the opinion that the Board should take the initiative and undertake the draft arrangements.

Given the disagreements, the Co-Chairs concluded that there was no consensus on the issue.

The Board also established the practice of subcommittee or teams as useful working modalities.

Thus, far there have been four operational six-member teams: (1) the Evaluation Committee for the selection process for the host country; (2) a team for working on additional rules of procedure: (consisting of Mr. Per Callesen (Denmark), Dasgupta (chair), El-Arini, Ms. Beata Jaczewska (Poland) , Metcalf and Mr. George Zedginidze (Georgia); (3) a team to deliberate the work plan: (consisting of Buisse (France), Dyer, Mr. Derek Gibbs (Barbados), Lund, Mr. Tosi Mpanu Mpanu (Democratic Republic of Congo) and Ms. Adriana Soto (Colombia who is also the Chair); (4) an Executive Director Selection Committee (also with 6 Board members whose names are to be announced) to oversee the selection process and make recommendations to the Board.

The next meeting of the Board of the GCF will take place in Berlin, Germany, March 12-15, 2013, hosted by the German government.

TWN Info Service on Climate Change (Mar13/02)
19 March 2013
Third World Network

Green Climate Fund Board meeting concludes after lively exchanges

Berlin, 19 March (Meena Raman) – The third meeting of the Green Climate Fund (GCF) Board took place in Berlin, Germany, on 13 – 15 March, 2013.

The Board adopted several decisions during the three day meeting which included decisions on the Fund's business model framework, resource mobilisation, establishment of the Fund's independent secretariat, modalities for readiness and preparatory support, arrangements between the Conference of Parties of the United Nation's Framework Convention on Climate Change (UNFCCC) and the Fund, logo of the Fund, the headquarters agreement (with the Republic of Korea), communication and representation, and additional rules of procedure of the Board including that relating to observers.

Among the most controversial issues, which saw divergence of views among board members were those related to the business model framework, resource mobilisation and the administrative policies of the independent secretariat.

The main issues that occupied the attention of board members on the business model framework were on the meaning of "wholesale" and "retail" functions of the GCF as well as that of resource mobilisation. Several Board members stressed the importance of the GCF being "country-owned and driven". India advocated this to be a core principle for the GCF

Several developed country Board members were of the view that the issue of resource mobilisation should not be the subject of the business model framework while several developing country members thought otherwise.

Another issue discussed under the business model framework was that of the leveraging of funding resources. Developing countries wanted a more comprehensive approach, with the leveraging of funds, programmes and policies within a country-led context. How to address the private-sector facility was also discussed, with several developing country Board members expressing concern that it was being over-emphasised. They expressed concerns that a parallel fund was being set up for the private-sector facility.

(The GCF Board is comprised of 24 members, composed of an equal number of members from developed and developing countries).

The Board meeting was co-chaired by Ewen McDonald (Australia) and Zaheer Fakir (South Africa). Two "active observers" from civil society organisations (CSOs) and two from private sector organisations (PSO) representing developed and developing countries were allowed to participate in the meeting. The Third World Network and the Sierra Club represented CSOs while the PSO representatives were from Carbon Markets and Investors Association (CIMA) and the International Chamber of Commerce.

Business model framework (BMF)

In a background document prepared by the interim secretariat for the Berlin Board meeting on the issue of the BMF, Board members were reminded that at their last meeting in Songdo, Republic of Korea in October 2012, a team of six Board members were tasked with preparing documents on the BMF. According to the secretariat's background document, the team, assisted by the interim secretariat conducted a series of teleconferences and developed the terms of reference (TOR) for a consultancy on the BMF.

The TOR for the document to be prepared by the consultancy was to have four components: a first overarching component on the 'Structure and organisation' of the Fund, private sector facility-related matters, access modalities, and results management framework.

The team of Board members requested that an institutional contractor be engaged for the work and suggested a number of possible institutions to undertake the work. The interim secretariat executed a fast-track procurement process. According to the background document, two proposals were evaluated by the interim secretariat. "Given that the anticipated cost of the consultancy was higher than the overall consultancy budget presented to the Board at its second meeting (in Songdo), the Co-chairs recommended that the work be divided in two stages and sought the approval of the Board on a no-objection basis to award the consultancy for the work associated … The Co-chairs subsequently received objections from two Board members (from developing country Board members)," said the background document.

The Berlin meeting was invited to provide guidance on how to take the work forward. When the agenda item on the BMF issue arose for consideration on the second day of the meeting (on 14 March), co-chair Ewen McDonald asked Board members to consider a draft decision which was emailed to members the night before on 13 March.

McDonald said that following discussions at an informal meeting held on 12 March, the co-chairs agreed to provide a draft decision on the BMF. (He was referring to an informal meeting held on 12 March for Board members/alternates/advisors to discuss mainly the BMF issue. According to sources, the informal meeting saw an airing of views about the BMF, including information provided by Board member Dipak Dasgupta of India on the outcomes of a meeting held in New Delhi from February 15 -16, 2013. The Delhi meeting was attended by a small group of Board members or their alternates and representatives from India, Egypt, the Philippines, Saudi Arabia, Sweden and Zambia and resulted in a document called a 'Delhi Vision Statement for Enhanced Operationalization of the GCF'. According to the Delhi statement, at the Board meeting in Songdo, Dasgupta had offered to prepare a 'vision statement' to help frame for Board members and stakeholders some key issues and options in operationalizing the GCF. The 'Delhi Vision Statement' was also submitted by Dasgupta on 11 March as an input to the discussion on the BMF).

McDonald referred to the draft decision drafted by the co-chairs which initially read as follows: "The Board….

(b) Notes that the following areas of convergence on the business model framework of the Fund are consistent with the Governing Instrument, namely that the Fund will be ambitious, flexible and scalable, have a country-driven and owned approach, employ direct access, and leverage the private sector through its Private Sector Facility;

(c) Further notes convergence that the Fund should also:

> (i) Use a phased approach by commencing as a wholesale fund for the interim period and to transition to retail functions upon further assessment by the Board;
>
> (ii) Leverage funding, including from other multilateral funds; and
>
> (iii) Focus initially on grants and concessional lending, and employ additional financial instruments as necessary to effectively achieve the objectives of the Fund; …"

The draft decision also had two annexes – with a list of documents on the BMF to be prepared for the June and September 2012 meetings of the Board respectively.

Dasgupta (India) said that it was important for the Board to have high order convergence and suggested that part (c) (i) be deleted as the focus was on wholesale and retail functions. He said that the Board should agree on a devolved country-led model and country-led framework for the GCF work.

On the issue of leveraging [referring to (c)(ii)], Dasgupta said there was need to be more comprehensive, with the leveraging of funds, programmes and policies with the approach first of all being within a country-led process, involving both the public and private sector. He said that there was need to also ensure that the Fund was transparent and accountable.

Dasgupta also wanted inclusion of raising resources which were sufficient given the urgency and scale of the funding needed.

Hong-Sang Jung (Republic of Korea) raised questions about the GCF commencing as a wholesale fund, saying that it could make it much weaker as it could not just be a wholesale provider, using the same channels and process. There was need for direct access and country ownership, he added.

David Kaluba (Zambia) stressed the need for the Fund to involve local actors, small and medium enterprises who should be the beneficiaries of channels in the private-sector facility. He asked what "wholesale" or "retail" was, saying that it would take a long time to agree on a definition. It was better to stick to what is in the Governing Instrument of the GCF and not add new language. He asked how enhanced direct access is supposed to be achieved.

Kjetil Lund (Norway) said there was need to have a top-down discussion of the "whole house", including a look at the existing infrastructure (on climate financing) and what has worked and what has not worked so well.

Jan Cedergren (Sweden) wanted reference to the Fund being "decentralised"; he did not want reference to "wholesale" and "retail". On the issue of leveraging, he supported the views of Dasgupta. He also stressed that country ownership was an essential feature of the Fund.

Omar El-Arini (Egypt) also said that he could not understand the terms "wholesale" and "retail" saying that this was "mercantile terminology". On the list of documents for further work, he said there was need to address what are performance indicators; what are incremental costs and what the Fund would disburse and on what basis. He said that the private-sector facility was being over-emphasised as if we are creating a parallel fund and we are not addressing funding windows which are part and parcel of adaption and mitigation.

El-Arini added that as regards access modalities, there is need to develop the "no-objection procedure" in relation to the national designated authorities (NDA).

(In Durban at the 17th meeting of the UNFCCC Conference of Parties, it was agreed that the Board will develop a transparent no-objection procedure to be conducted through the NDAs, in order to ensure consistency with national climate strategies and plans and a country driven approach and to provide for effective direct and indirect public and private sector financing by the GCF. The Board was requested to determine this procedure prior to approval of funding proposals by the Fund.)

The Egyptian Board member also stressed other areas of importance such as the development of fiduciary standards, environmental/social safeguards, and the need for accountability mechanisms. He also suggested the organizing of a workshop for Board members/alternates where the papers produced could be discussed.

Yoshiki Takeuchi (Japan) was not sure that the issue of resource mobilization is part of the BMF and said that there was no convergence on this.

Nicholas Dyer (UK) said as regards "mitigation", we are chasing the lowest abatement costs as regards CO2 emissions that will determine what type of investments are needed. This might not be in low-income countries. There was need for policy choices. As regards "wholesale" and "retail", Dyer said the difference is between funding a project directly by the GCF or via an intermediary; retail meant funding a project directly while wholesale is through the NDAs. He asked if members wanted the GCF to fund individual projects which would require a different structure.

Manfred Konukiewitz (Germany) welcomed the need for country ownership and leadership. Referring to Dasgupta's proposal for a devolved model, Manfred said that the term 'devolution' was too ambiguous. On the issue of resource mobilisation, he said that this was not an element of the BMF. He said that developed countries had a commitment from the Cancun (UNFCCC Conference of Parties) decision (to mobilise USD 100 billion per year by 2020) and that all had agreed to channel substantial amounts. He said developed countries need to convince "their constituencies" that the GCF had added-value.

Audrey Joy Grant (Belize) also expressed concerns over the use of the terms "wholesale" and "retail."

Matthew Kotchen (US), referring to paragraph (b) of the draft decision said that the private sector should be leveraged through all aspects and not just through the private sector facility. On measuring performance at the programme and project level, he said efforts should be compared to business-as-usual, as we want transformational effect.

Tosi Mpanu Mpanu (Democratic Republic of Congo) expressed support for Zambia, Egypt and India. Referring to donor countries stressing the need to pass the "tax-payer test", he said there is the other side of the transaction as recipients of the money which is the "efficacy test". The recipients must be able to access the funding and must have capacity to do so. On the issue of devolution of the Fund to the country-level, this is counterbalanced by the need for accountability, he said.

Arnaud Buisse (France) supported a decentralized approach but with a global and strategic perspective.

Per Callesen (Denmark) said that the BMF was only a sub-component of all the work that needed to be done by the Board. He also supported the idea of having workshops for Board members.

Adriana Soto (Colombia), who was the leader of the team that drafted the TOR for the BMF, said the draft TOR provided a good basis for the work ahead. Ernesto Cordero (Mexico) expressed disappointment that the TOR drafted by the BMF team was not on the table anymore.

Beata Jaczewska (Poland) said that discussions were going on internally (in Poland) on the effectiveness of using public money for ecological investments. There needed to be a certain set of rules and vision in this regard.

Alexey Kvasov (Russia) said that whatever "wholesale" and "retail" means, members were dealing with different "species". What is missing is the need for "safety nets" – safeguards, audits, inspections, and remedies to correct irregularities, as misappropriation of funding could derail the Fund, he added.

Rod Hilton (Australia) said that the BMF is critical to the credibility of the Fund in order to show his treasury what the funding support is for. He added that 'devolution' and 'decentralization' could be hard to define but there is already the notion of "country ownership".

Dasgupta (India) in response to the various comments said that "country-owned and driven" is a core principle for the GCF. He added that on the access modalities, from the Governing Instrument, international access comes after enhanced direct access. It is important to devolve responsibilities to where they belong and this is a fundamental design principle, he stressed.

On the issue of "leveraging", there needed to be a broader definition, said Dasgupta, through the use of national policies and programmes to strengthen the base for private sector and civil society engagement to get results. Referring to questions posed by the co-chairs in the run-up to the Berlin meeting, he said there seemed to be an extraordinary emphasis on the private-sector facility. He asked what it was that members wanted to achieve. He said there was need to focus on the outcomes that use instruments including the private sector but in a context with country-ownership being the core of the BMF.

The active observers from the private sector and CSOs were invited to give their views. The CIMA representative said that the focus on grants will only mobilize private sector funding to bridge specific risk or cost gaps and there was need to allocate grants for partial risk guarantees. Grants and concessional lending is not what normally engages the private sector, said the representative further.

The representative from Sierra Club (speaking for CSOs) said there was need for further analysis on how the private-sector facility can further a country-driven approach. He said leveraging the private sector is not an objective in itself. It was important to view the leveraging of the private sector in the context of sustainable development and the impact that would have on the poor. He added the need to consider role of safeguards and accountability mechanisms. The **Third World Network** representative stressed the need to consider the overall direction of the outcomes of the GCF in serving the interest of the poorest in developing countries. She also supported the view that resource mobilization was a key issue in the design of the GCF and the BMF.

Following these comments, co-chair McDonald introduced a revised version of the draft decision and solicited further reactions.

Dasgupta (India) wanted reference to a Fund that operates through funding entities and transitions to direct access. He also wanted reference to resource mobilisation and to allow for a mechanism for additional sources of funding, enabling resource mobilisation at a larger scale. Readiness and capacity building were also important elements, he added further.

El-Arini (Egypt) did not want reference to operating through intermediaries as this implied financial intermediary. He preferred operations through funding entities.

Kjetil Lund (Norway) in response to Dasgupta did not want reference to resource mobilisation. He said Norway wanted to contribute to the Fund but needed to politically explain how the GCF worked so that contributing to it could be defended.

Dasgupta (India) in response insisted reference be made to mobilising sufficient resources in addition to the rest of the words in paragraph (c)(iii) (in the revised draft) which were "leverage funding, knowledge and expertise from public and private sources both at national and international level." (Dasgupta's proposal was as follows: "Mobilise sufficient resources and leverage funding, knowledge and expertise from public and private sources both at national and international level.")

Matthew Kotchen (US) could not support Dasgupta's proposal as he did not want resource mobilisation to be addressed before members looked at other design elements of the GCF.

Tosi Mpanu Mpanu (DRC) also wanted reference to resources being mobilised.

Dasgupta (India) in response said that if the GCF wants to get to the large changes needed in developing countries towards addressing climate change, it is clear from literature that costs have to be upfront for policies to be designed to achieve the goal of ambition and scale to deliver the global public good. He asked if developed country members were saying they do not have resources.

When asked by co-chair McDonald if there was convergence on Dasgupta's proposal on referencing resource mobilisation in the sentence regarding "leverage funding …" Manfred Konukiewitz (Germany) responded that there was need to keep the issues of the BMF and resource mobilisation separate. One issue should not be held hostage to the other, Manfred added. In response, Dasgupta called for the deletion of the entire sentence in paragraph (c)(iii) if there was no convergence on the issue of resource mobilisation.

The final decision that was adopted as regards the BMF was as follows-

"The Board, having reviewed document GCF/B.01-13/11, Business model framework of the Green Climate Fund:

(a) Took note of and welcomed the work of the business model framework team, comprised of six Board members/alternate members formed at its second meeting under decision B.02-12/03, in the preparation of the detailed terms of reference for a consultancy on the business model framework of the Green Climate Fund, as contained in the annex of document GCF/B.01-13/11;

(b) Noted that the following areas of convergence on the business model framework of the Fund are consistent with the Governing Instrument, namely that the Fund will be ambitious, flexible and scalable, have a country-driven and owned approach, employ direct access modalities and other access modalities, and leverage additional public and private resources through the operational modalities of the Fund, including through the private sector facility;

(c) Further noted convergence that the Fund should also:

(i) Recognise that a country driven approach is a core principle to build the business model of the Fund;

(ii) Commence as a fund that operates through accredited national, regional, and international intermediaries and implementing entities;

(iii) Focus initially on grants and concessional lending, and employ additional financial instruments as necessary to effectively achieve the objectives of the Fund;

(iv) Enhance transparency and accountability;

(d) Decided that the areas of the business model framework set out in Annex XXX to this report should be the focus of further analysis and work to develop options for consideration by the Board at its June 2013 meeting;

(e) Decided that the areas of the business model framework set out in Annex XXX to this report should be the focus of further analysis and work to develop options for consideration by the Board at its September 2013 meeting;

(f) Requested that, the Interim Secretariat, under the guidance of the Co-Chairs, to draw from and build on the work of the terms of reference for a consultancy on the business model framework of the Green Climate Fund to develop the parameters for the work set out in (the) Annexes ;

(g) Requested the Co-chairs to work with the Interim Secretariat to ensure that there is overall coherence within the development of the business model framework work, as well as coherence within the development of the business model framework work and the broader work plan of the Board;

(h) Requested thereafter that the business model framework team provides guidance on the work set out in Annexes … to this decision and coherence, and report to the Board at its June and September 2013 meetings;

(i) Decides to authorise the Interim Secretariat, if necessary, to organise one or several meeting/s of the BMF team to review the Board documents, under the guidance of the Co-Chairs, prior to the June and September Board meetings;

(j) Approves, from the administrative budget of the Fund for the period from 1 November 2012 to 31 December 2013 as amended in this decision, an allocation of US$ 600,000 for the completion of the work set out in Annexes …;

(k) Requests the Interim Secretariat, under the guidance of the Co-Chairs, to ensure that expenditure under this decision is efficient and cost-effective and to seek the Co-Chairs' approval if there is a requirement to exceed this amount, noting the Co-Chairs may approve a larger allocation of funding for this work provided that it can be accommodated within the administrative budget of the Fund for the period from 1 November 2012 to 31 December 2013 as amended in this decision;

(l) Decides that the overall administrative budget for the Fund for the period from 1 November 2012 to 31 December 2013 as adopted in decision B.02-12/06 for the Interim Secretariat, and specifically the amount allocated for consultancies, be increased by US$ 150,000;

(m) Invites contributions to the Green Climate Fund Trust Fund; and

(n) Authorizes the Interim Trustee to make additional cash transfers of US$ 150,000 from the Green Climate Fund Trust Fund to the UNFCCC secretariat for the Interim Secretariat for this purpose, subject to available resources."

(The annexes to the above decision are not reproduced here.)

The issue of resource mobilisation was a separate agenda item that the Board addressed on the final day of the meeting on 15 March. This issue once again was mired in controversy. (Another article in this regard is forthcoming).

TWN Info Service on Climate Change (Mar13/03)
19 March 2013
Third World Network

Disagreement over mobilising resources

Berlin, 21 March (Meena Raman) – The issue of how to mobilise resources for the Green Climate Fund was a source of much disagreement at the recently concluded meeting of its Board.

The third meeting of the Green Climate Fund (GCF) Board took place in Berlin, Germany, from 13th to 15th March, 2013. Among the several decisions adopted by the Board during the three day meeting included a decision on resource mobilisation which was agreed to on the final day of the meeting. However, there were major disagreements among Board members from developing countries and some developed countries, especially the United States.

The Board is co-chaired by Ewen McDonald (Australia) and Zaheer Fakir (South Africa).

The Board members were asked to consider a draft decision that approved the scope of work set out in an annex to a document prepared by the interim secretariat on resource mobilisation for the GCF. According to the annex, from March to September 2013, "the interim secretariat will prepare a resource mobilisation strategy document for consideration by the Board at its meeting in September 2013. In doing so, the interim secretariat will operate under the guidance of the co-chairs, and take into consideration the guidance on the Fund's resource mobilisation provided by the Board during its meeting in March 2013, as well as the guidance provided by the Board on the Fund's business model framework. The strategy document will lay out key elements and a timeline for organising the initial resource mobilisation for the Fund."

Further, according to the annex, the "board meeting in September 2013 will consider the resource mobilisation strategy and take decisions on the Fund's approach to resource mobilisation and key factors determining how the approach will be implemented".

The US, supported by Japan, was strongly against any timeline for resource mobilisation. The US finally accepted the draft decision proposed after giving its own interpretation on the issue of the timeline and the decision to be taken in September. The US Board member said it was hard to make a compelling case that the GCF was an entity worth putting the money into. It was also opposed to having any burden-sharing arrangements among developed countries for financial contributions and was not ready for any timelines for the mobilisation of resources.

The interim secretariat document also provided three options for the Board to consider as follows: option 1: to follow an ad hoc resource mobilisation process; option 2: to start the Fund with an ad hoc resource mobilisation process, with a goal to transition to a periodic replenishment process; and option 3: to immediately move into a periodic replenishment process.

Dipak Dasgupta (India) said there is need to talk about the scale of the resources required upfront which is predictable and significant in size and ambition. As regards predictability, there is need for upfront contributions and the GCF was neither a donor programme nor a charity. It is also not a multilateral development bank. It is about contributions to get the actions done in developing countries; these actions cannot be committed to by developing countries unless they know what the actual resources there are. There is need to support policies and investments in the long term. There could not be a voluntary approach to contributions. If one country feels that it wants to make a contribution and others do not, that will make it difficult for everyone to come and board and free-riding needs to be prevented, elaborated Dasgupta further.

Dasgupta said the Board needed to define the scale and process of mobilisation of resources which was significant and ambitious. If it was difficult for some countries to raise resources to the scale needed, the developed countries as a group could go to the bond markets and raise resources collectively. Global bond markets were ready to finance if developed countries wished to go to it. The costs could be covered later by fiscal measures or other steps like national lotteries, he said further. There were plenty of existing instruments and special purpose vehicles to raise the resources needed. Climate change is here and was ahead of the Eurozone and financial crisis, he added.

Hong-Sang Jung (Republic of Korea) said that having periodic replenishment of resources and appropriate burden-sharing sharing arrangements (among developed countries) is most effective for stability and predictability of financial resources.

David Kaluba (Zambia) supported Dasgupta and said that members were familiar with the extent of resources needed for the paradigm shift. Developing countries did not have the luxury to wait and some LDCs are already taking climate action. Kaluba said that predictability of resources is needed to meaningfully respond to challenge; hence a periodic replenishment of resources is needed.

Omar El-Arini (Egypt) said that resource mobilisation for the GCF is in the context of the United Nations Framework Convention on Climate Change (UNFCCC). He was surprised that document prepared by the interim secretariat on resource mobilisation had not referred to the Convention's relevant articles or to the decision of the Conference of Parties in Cancun (where the GCF and the mobilisation by developed countries of the USD 100 billion per year by 2020 was agreed to.)

El-Arini also reminded members to be mindful of on-going negotiations for the new agreement under the Durban Platform which is to conclude in 2015. He said that the agreement would be impossible if the Fund was not functioning well and with appropriate scale of resources. He stressed the importance for the Board to agree to an initial capitalisation of the GCF for a stable amount of funding over 3-5 years. Members could discuss how the capitalisation could be funded, he added.

Kjetil Lund (Norway) said that while Norway remained committed to making contributions, it is unable to talk about resource mobilisation without knowing what the business model of the GCF is.

Nicholas Dyer (UK) said that in order to attract resources into the Fund, there is need for objectives and results; pledges to demonstrate performance and to score well based on multilateral aid criteria. He said a periodic replenishment cycle would allow for planning and a more strategic approach, while ad-hoc mobilization which gives flexibly and can be fast. Dyer also supported limited earmarking of funds.

Yoshiki Takeuchi (Japan) said that while resource mobilisation is important, he needed to see the business model of the GCF to view its value addition. He said a unique aspect is the private sector facility. He suggested starting the GCF with a pilot phase approach with resources mobilised on an ad hoc basis. The GCF should not close its door to contributions from developing countries and the private sector. The type of contribution should be open and flexible, he added, referring to the World Bank's Climate Investment Funds, where a wide variety of financial support is provided through grants, loans, guarantees and equities. He also supported earmarking of funds.

Manfred Konukiewitz (Germany) said that ambition is not just to mobilise the GCF but to also get the results, which is to limit or reduce greenhouse gas emissions. He preferred periodic replenishment of financial resources that allowed for better predictability and was willing to consider ad hoc pledges for initial funding. Konukiewitz also favoured a transparent and fair burden sharing arrangement (in determining the financial contributions) that should be based on ability to pay and responsibility for the emissions. He said further that it was difficult to explain to the average person that (developing) countries which are wealthier than the EU and which have more emissions per capita should not be requested to pay.

Rod Hilton (Australia) said that there could be no pledging session before the business model framework, standards and safeguards policy and procedures are in place. A key issue for Australia was for resources to be allocated to SIDs and LDCs. Engagement with the private sector was also important, he added. Hilton supported option 2 referred to in the interim secretariat document as regards resource mobilisation.

Derek Gibbs (Barbados) also supported option 2 and said the ad hoc approach should start in 2013, given that a number of donors are ready to contribute to the Fund.

Arnaud Buisse (France) supported option 3 and was open to option 2 for a short period of time since the Fund was just starting. On the financial inputs, he said there must be flexibility. He expressed strong reservations against earmarking of funds.

Jan Cedergren (Sweden), referring to the vision of the GCF, said the "animal" needs to be seen before we can put the money in it. He preferred option 3 as this is a periodic replenishment process which can give predictability related to the objectives. He also wanted peer pressure to be exerted (on developed countries to make contributions) and to push free riders. Resources trickling in, in bits and pieces should be avoided he said, and was against earmarking as this would be negative for the Fund.

Per Callesen (Demark) supported option 2 to start with ad hoc resource mobilisation and to move to periodic replenishment later. He also said it would be productive to work out a burden-sharing arrangement. He also had reservations about earmarking the funds.

Matthew Kotchen (US) said that while the US was committed to the GCF, it was premature to discuss resource mobilisation as the work on the business model framework was just beginning. He was against moving forward with the draft decision as proposed. He was against having a timeline in organising the initial resource mobilisation for the Fund as there was too much design work (of the GCF) to do and a short timeline would be counter- productive. It was also a challenge to disburse money through the GCF as there was too much uncertainty, he added. He said it was hard to make a compelling case that it was an entity worth putting the money into. The US was also opposed to the notion of burden-sharing and was not ready for any timelines for the mobilisation of resources.

Anna Fornells de Frutos (Spain) supported an ambitious timeline and was for option 2. Tosi Mpanu Mpanu (Democratic Republic of Congo) said that option 3 is the most attractive and that the prospect for the 2015 deal (under the Durban Platform) was very bleak if there is no clarity on finance.

Responding to the comments by developed countries, **Dasgupta (India)** suggested the need for a document from developed countries on timelines and processes for resource mobilisation. He said that developing countries too have Parliaments and they were being asked questions.

When McDonald asked members if they had any objections to the draft decision, the US Board member, Matthew Kotchen, reiterated his objection to formulating a specific timeline as it was premature to commit to resource mobilisation before clarity on the business model framework.

Dasgupta (India) in response said that asking the interim secretariat to resolve questions which are political was unfair, as it for developed countries to answer this. He said that all we hear is that developed countries want to see the business model framework and then only address resource mobilisation. This he said, sounded like only one side (of the bargain). He suggested that important financial source countries look at issues of burden sharing, their internal processes, and what guidance is needed from their Parliament which can be made known to members. He wanted to know what developed countries had in their mind between now and the next meeting in June on timelines which address the ambition and scale of resources needed.

Yoshiki Takeuchi (Japan) shared the US view that it was premature to talk about the timeline on resource mobilisation.Nicholas Dyer (UK) said there was no need for more papers. There were options for mobilisation of resources which can be worked on further.

The US once again insisted on deleting any reference to the timeline for organising resource mobilisation. India, in response insisted it would like to see a timeline as there was a close link between the business model framework and resource mobilisation.

At this juncture, McDonald proposed a short break. When the meeting resumed, McDonald once again asked members if they had any objections on the scope for further work on resource mobilisation as contained in the document prepared by the interim secretariat.

Matthew Kotchen (US) said that he did not have an objection but wanted to clarify why he had objected earlier. He said that the draft decision tasked the interim secretariat to lay out a timeline (for organising the initial resource mobilisation for the Fund) for the September meeting and that a decision would be taken in September when the business model framework would be seen for the first time. It wanted to avoid setting specific markers.

The US then said then agreed to the sentence on the timeline if it was interpreted as referring to "a set of possible timelines". (The actual language in the document was "The strategy document will lay out key elements and a timeline for organising the initial resource mobilisation for the Fund).

As regards the decision which states that "Board meeting in September 2013: The Board will consider the resource mobilisation strategy and take decision on the Fund's approach to resource mobilisation and key factors determining how that approach will be implemented," the US said the word "consider" meant "consider taking decisions and not taking decisions on resource mobilisation."

The decision was the adopted by the Board. In welcoming the decision, Dasgupta (India) wanted developed countries as a group to address the specifics in relation to the process of responding to: "the scale, predictability, upfront contributions; appropriate sharing of responsibility; relationship to other funds and the GCF; probable timelines, their intentions and processes; and innovative ways by inviting an 'open' architecture for contributions by private and public sources."

During the session, civil society was also invited to give their views. **The Sierra Club representative** said that GCF should focus effort on an ambitious paradigm shift so resources could be scaled-up in accordance with Articles 4.3 and 11 of the Convention. Developed countries should put forward an initial pledge as a matter of urgency in 2013 and prepare the way for disbursement, said the representative. He supported the approach in option 2 and wanted rapid mobilising of resources. This did not have to wait for a burden sharing arrangement and should not prejudge the option of burden sharing. The resources needed to be adequate and predictable and could come from public sources and direct contributions from financial transaction taxes, aviation levies etc. The issue was political scarcity and not economic scarcity, he added.

The representative from the **Third World Network** said that the discussion of the Board members appeared to be a chicken and egg problem. She cautioned that the "chickens had come home to roost" and it was called "climate change". She stressed that the GCF is about enhancing the implementation of the Convention, which was ratified in 1994 and it was now 2013, and very little money had been channelled under the Convention. It was immoral for developed countries to continue to delay making their commitments to the GCF, as the poor are already paying the price. She also supported the need for appropriate burden sharing arrangements among developed countries. She cautioned against the proposals by some Board members for the GCF to provide loan guarantees and other instruments that would put the GCF at risk. The TWN representative referred to a quote by a great leader who once said that if the climate was a bank, it would have been bailed out!

TWN Info Service on Climate Change (Mar13/04)
22 March 2013
Third World Network

Poser over administrative framework for independent secretariat

Berlin, 22 March (Meena Raman) - The issue of what administrative framework the independent secretariat of the Green Climate Fund (GCF) should opt for, became a matter of controversy at the recently concluded meeting of its Board, which took place in Berlin, Germany from 13th to 15th March.

In a document prepared by the interim secretariat on the 'Administrative policies of the independent secretariat', three options were provided for the Board's consideration as follows: (a) United Nations (UN) common system administration; (b) multilateral development bank (MDB) –type administration or (c) non-UN/MDB administration.

In what appeared to most observers to be a 'UN vs. MDB fight', many developing country Board members supported option (a) which is for a UN system, while most developed country Board members, (with the exception of Sweden), supported option (b) for an MDB-type system.

A very lively exchange ensued when this matter was discussed on the second day of the meeting, with some developed countries like the US arguing that an MDB-type system would attract "financial experts", given higher remuneration for employees as compared to the UN-system. In response, developing country Board members, led by India stressed that the GCF was not a "Wall Street institution".

Jan Cedergren (Sweden) was supportive of following a UN common system of administration. Others who also were in favour of this option included Omar El-Arini (Egypt), Dipak Dasgupta (India), and Tosi Mpanu Mpanu (Democratic Republic of Congo),

Matthew Kotchen (US) preferred the MDB-type system. Hong-Sang Jung (Republic of Korea) also supported the MDB-type system, saying that the UN system pays 40% lower salaries than the MDBs and it was important to secure quality staff. Others who preferred this option included the representatives from Australia, Norway and Japan.

Tosi Mpanu-Mpanu (DRC) in response did not agree that giving better pays will ensure better talent. He said that it was surprising that developed country Board members talk about 'best value for money' and the need for developing countries to pass the 'tax-payers test' but were prepared to pay 40% more salaries for the staff of independent secretariat.

Omar El-Arini (Egypt) said that the UN system can provide more benefits than the MDBs if one took into account staff with families. Setting up a UN common system will require very little time and bureaucratic procedure which could be implemented immediately, compared with the MDB-type system, he argued further.

Matthew Kotchen (US) stressed that the Board was creating a financial institution with hundreds of billions of dollars. Since it is a financial institution, the second option was needed to have experts in the financial sector. Dasgupta (India) responded saying that the Board was not creating a "Wall Street institution".

Rod Hilton (Australia) while proposing the second option suggested that perhaps a hybrid option should be considered. Nicholas Dyer (UK) said that based on what he heard, he was more attracted to the idea as to what works in the (Asian) region and there could be a further option. (The independent secretariat will be located in Songdo, Republic of Korea).

Bambang Brodjonegoro (Indonesia) said that the GCF was similar to the International Fund for Agriculture Development (IFAD), which is based in Rome. It was called a 'fund' and is part of the UN system and is managed similar to an MDB.

Manfred Konukiewitz (Germany) responded that the Board may want to look at the IFAD system to find a solution. He said further that the GCF would be competing for "experts". There was lower job security in the MDBs but the pay packet was higher.

Alexey Kvasov (Russia) said that it might be good to look at a regional development bank (referring to the Asian Development Bank) as a reference point as it might be closer to the second option while "removing the stigma of the World Bank", making the discussions easier.

At this juncture, co-chair Zaheer Fakir (South Africa) invited a representative from the civil society organisations to speak.

A representative of the **Third World Network** took the floor and said that it appeared as if some Board members were under-valuing the UN system which had much expertise, including in disbursing large amounts of money to developing countries such as the United Nations Development Programme (UNDP) that managed a multi-donor trust fund. She added that the GCF was an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), and it was only natural to follow the UN common system of administration. She agreed with India that the GCF was not a "Wall Street" institution.

Fakir then suspended discussions on the issue, and tasked the Japanese and Indonesian Board members who were from the Asian region to have a discussion on what was in the best interest for the GCF and take up the matter again the following morning on the final day.

When the meeting resumed on March 15, **Bambang Brodjonegoro (Indonesia)** reported that IFAD followed the UN system of administration. He said that he and the Japanese Board member discussed various options and would like to propose a hybrid model combining the characteristics of IFAD and the ADB. He said that the GCF independent secretariat could follow an ADB remuneration package, with the benefits of the UN system of subsidies.

In response, Omar El-Arini (Egypt) asked if it was feasible for the independent secretariat to follow such a hybrid system. He also wanted members to be mindful of the fact that the GCF was not a bank which is in the business of making money, while the GCF is about spending money.

Matthew Kotchen (US) reiterated that it was very important to get the right high quality staff and strongly supported the MDB-type system. He said this was not a political issue of "MDBs vs. the UN" but was about getting high qualified staff. He said there was need for more information in respect of how the ADB compared with the MDB standards. He was unclear about the hybrid system.

The interim secretariat clarified that a hybrid model would require the development of a completely new administrative system, which would be intensive work, as it was not just about adopting a remuneration package of rules and regulations. As regards the ADB structure, he said it comprised 98% of the MDB remuneration scale with additional benefits as support for the families of staff members. He said the ADB sits between the UN and MDB system.

Fakir then asked Board members if they could look at a hybrid option. He said that more information could be got if this was feasible and for the co-chairs, through the intersessional process to get agreement on the matter.

Omar El-Arini said he was prepared to go along with the proposal but stressed that it was important for the secretariat to start as an "independent secretariat". Matthew Kotchen (US) also supported the proposal of the co-chairs for more information.

Fakir clarified that if there was no agreement during the intersessional session, then members can decide at the next board meeting in June.

The Board then adopted a decision requesting the interim secretariat to further explore the feasibility of the options presented in its document, including a UN common system, a MDB system and a UN-MDB hybrid option based on IFAD and the ADB, in its further work on preparing the administrative policies of the independent secretariat and prepare a working document for an intersessional decision by the Board on a no-objection basis.

They also agreed that should the Board not agree instersessionally to an option for the administrative policies of the independent secretariat, the matter will be brought forward to the Board for consideration at its June 2013 meeting.

TWN Info Service on Climate Change (June13/03)
20 June 1213
Third World Network

UNFCCC's Finance Committee tussles over Green Climate Fund arrangements

Bonn, 20 June (Marjorie Williams) – After working two whole days and nights on a draft decision on arrangements to be concluded between the UNFCCC's Conference of the Parties and the Green Climate Fund (GCF), the Standing Committee on Finance ended its fourth meeting in a tense stand-off between developed and developing country members of the Committee due to fundamental differences over key elements of the arrangements.

The meeting of the UNFCCC Standing Committee on Finance (SCF) took place on 15-17 June 2013, in Bonn, Germany.

The elements included the purpose of the draft arrangements between the UNFCCC Conference of Parties (COP) and the GCF, the role of the COP in the reconsideration of funding decisions/independent redress mechanism to be created by the GCF and the necessity and content of termination clause in the arrangements between the COP and the GCF.

(The governing instrument of the GCF mandates its Board to establish an independent redress mechanism that will report to the Board. The mechanism will receive complaints related to the operation of the Fund and will evaluate and make recommendations.)

At the 18th meeting of the COP in Doha, Qatar in 2012, Parties agreed to request the SCF and the GCF Board to develop the arrangements between the COP and the GCF. The arrangements are to be agreed by the GCF Board and the COP, by COP 19 in Warsaw this November.

The issue was discussed by the SCF at its third meeting and a proposal which listed the elements of the arrangements, procedural options and a timeline for the joint work was presented to the GCF Board which mandated its co-chairs to work on the arrangement with the SCF. A draft of the arrangements concluded by the SCF at this fourth meeting was to be presented to the GCF board for consideration in their upcoming meeting in late June 2013.

The members of the SCF deliberated on a revised co-chair's text on the arrangements between the COP and the GCF that reflected inter-sessional work (via teleconference) by some members of the committee and which drew on submissions and discussions between the co-chairs of the SCF, Ms. Diann Black Layne (Antigua and Barbuda) and Mr. Stefan Schwager (Switzerland) and the co-chairs of the GCF, on the basis of elements submitted by the SCF.

The SCF members' preparatory work on the draft arrangements included submissions from members (Ms. Outi Honkatukia (Finland), Mr. Paul Bodnar (US), Mr. Gregory Andrews (Australia) and Mr. Paul Oquist (Nicragua) and Ms. Bernaditas Muller (Philippines) which seemed to have some common grounds on the arrangements. During the initial discussions at the meeting there seemed to be much give and take on the draft arrangements with developing countries showing flexibility in seeking to arrive at a final text.

However, ultimately, the SCF members could not reach a consensus on the draft arrangements and there was no consensus either on sending the document with options to the GCF for consideration. In fact, developing country members of the SCF strongly objected to any such text being forwarded to the GCF. Developed countries members on the other hand were comfortable with sending a non-consensus, text with options to the co-chairs of the GCF (who had indicated to the co-chairs of the SCF that they would like to receive a clean text, not a text with options).

Developing country members resisted attempts by developed country members, led by the United States and supported by Australia, to engage in what many saw as a de facto renegotiation of the GCF's governing instrument, with the specific intent of narrowly circumscribing the role of the COP as well as ensuring as wide as possible latitude for the involvement of the private sector in the GCF.

Some developing country members expressed the view that they were being faced with a last minute package and explicit threats of the GCF not being funded, if the dictates of developed countries were not met.

This was in part a reaction to the triple stipulations by Mr. Gregory Andrews (Australia) that Australia could not accept: (i) anything that undermines the independence of the board of the GCF or asserts the authority of the COP over the GCF, (ii) pre-empting decision on things the GCF Board have not decided yet, and (iii) any role for the COP in determining GCF funding especially language about needs assessment and mobilization. Later in the discussion, he also made specific remarks that his government could not put money in the Fund unless it was consistent with Australian law.

Developing country members of the SCF argued that the purpose of the arrangements between the COP and the GCF was specifically laid down in the governing instrument of the GCF, which was agreed language viz that: *"the purpose of the arrangements is to ensure that the GCF is accountable to and functions under the guidance of the COP to support projects, programmes, policies and other activities in the developing countries Parties…".*

Developed countries, however, in particular, the US and Australia, sought to qualify this with ambiguous references to the roles and responsibilities of the COP and the GCF. They also did not want reference to 'thematic funding windows' in the section on the purpose of the arrangements. The US and Australia, in particular, argued that this would constrain the GCF.

In the section of the draft arrangements dealing with an independent redress mechanism, both countries also objected to reference to the COP having a role in reviewing (on the request of an affected Party) a particular funding decision after it had progressed through the independent redress mechanism and reported to the COP.

While upholding the understanding that funding decisions are the responsibility of the GCF and its board, developing countries favored inclusion of a provision that allowed a Party that availed itself of the independent redress mechanism and was not satisfied that its concerns were addressed in an open and transparent manner, to appeal to the COP to review the matter on its behalf [on the basis of Article 11, paragraph 3(b) of the Convention]. It further stipulated that the COP, after considering the request of the Party, may then take appropriate measures via the provision of further guidance to the GCF. However, the US and Australia raised objections to this provision, arguing that this would adversely impact investor rights, create political risks for investors and detract from investors investing in the Fund.

On this issue of the independent redress mechanism and the role of the COP, Mr. Paul Oquist (Nicaragua) noted that this 'is not a north-south issue'. He said that in a world of audits and compliance and professional standards, it was not good practice to have a mechanism that is entirely formed and control by a board of directors as a redress mechanism. Such a mechanism, he argued, is not an independent mechanism; rather it is an internal compliance audit. He said that while an internal compliance mechanism is useful for CEOs and managing directors, for example, to optimize the performance of organization, this must be bolstered by an independent external mechanism. Mr. Oquist further noted that the policies that the GCF are implementing and applying emanate from the COP so the COP must be in the picture as to whether there is compliance with its directives.

The other two high priority items on the agenda of the SCF were briefly discussed: the fifth review of the financial mechanism and draft guidance to the operating entity of the Convention's financial mechanism, the Global Environment Facility (GEF):

- The matter of the review of the financial mechanism had some preliminary airing of views. The COP at Doha also requested the SCF to amend the guidelines for the review of the financial mechanism and to provide draft updated guidelines for consideration and adoption by COP 19, with a view to finalizing the fifth review by COP 20 (2014).
- Draft guidance to the operating entity of the financial mechanism will be more substantively discussed in a future SCF meeting. COP 17 had requested the SCF to provide to the COP starting in 2013, draft guidance for the GEF, based on the annual report of that entity to the COP and views submitted by Parties as well as to provide initial guidance to the GCF at COP 19.

The SCF also deliberated on issues arising from its third meeting, including measurement, reporting and verification (MRV) of support, expert input into the work programme on Long-term Finance, the Code of Conduct for the SFC, and linkages with the UNFCCC Subsidiary Body for Implementation (SBI) and the thematic bodies of the convention.

- The SCF is mandated to tackle the issue of MRV of support provided to developing countries through preparing a biennial assessment, overview of the climate finance flows, including information on the geographical and thematic balance of such flows, drawing on available sources of information. COP 18 requested the SCF in its initiation of the first biennial assessment and overview of climate finance flow to take into account other works by other bodies and entities on MRV of support and the tracking of finance, and to consider ways to strengthen methodologies for reporting climate finance. At this meeting the SCF was to initiate consideration of the modality of work regarding MRV of support. There was some initial discussion on this item which will be taken up more substantially in future meetings.
- The co-chair of the work programme on Long-term Finance, Mr. Naderev Sano (he Philippines), gave a brief update on the programme and participated in small group discussions of the SCF on the issue. The SCF also held discussion on its mandate to support the work programme on Long-term Finance by providing expert inputs on the design and conduct of the work programme through 2013.The extended work programme on Long-term Finance is aimed at informing developed country Parties in their effort to identify path ways for mobilizing the scaling up of climate finance to USD 100 billion per year by 2020 form public, private and alternative sources, and informing Parties in enhancing their enabling environments and policy framework to facilitate the mobilization and effective development of climate finance in developing countries.

The SCF also had discussions and a report back on the first forum of the Committee which was held in Barcelona, Spain, 28 May, 2013. Members of the Committee felt that the forum had been a successful event. It was noted that there was need for further discussion to draw on lessons learned in planning for the 2014 forum.

The next SCF meeting will be held in August 2013 coinciding with the GCF meeting in Songdo, the Republic of Korea.

TWN Info Service on Climate Change (Jul13/01)
2 July 2013
Third World Network

Director appointed, decisions made at GCF Board

Beijing, 1 Jul (Meena Raman) - The fourth meeting of the UN Framework Convention on Climate Change's Green Climate Fund (GCF) Board, which began on 26 June in Songdo, South Korea, concluded on 28 June with the selection of its Executive Director as well as the adoption of decisions on the 'business model framework', which included the private sector facility.

A decision was taken to set up three new structures under the private sector facility, to determine the terms of engagement with the private sector, exert due diligence and manage risks, as well as to review investment proposals and instruments.

Selection of the Executive Director

The GCF Board selected Ms. Hela Cheikhrouhou as the Fund Secretariat's first Executive Director (ED), following a global recruitment process.

Cheikhrouhou is a Tunisian national, and is currently Director of the Energy, Environment and Climate Change Department at the African Development Bank, and has spent the last ten years working in multilateral development banks, first in the Latin America and Caribbean region of the World Bank, and then for the African Development Bank.

The selection of the ED was done on 26 June, in a long session of the Board meeting on the first day, which was closed to observers. It was learnt that the final short list of candidates for the ED comprised of three persons, including Cheikhrouhou and two others from the Netherlands and Colombia.

The Dutch candidate was Mr. Jules Kortenhorst, the former Chief Executive Officer of the European Climate Foundation (which is a philanthropic organisation in Europe, and according to its website, helps Europe play a "strong international leadership role in mitigating climate change").

The Colombian candidate was Mr. Juan Pablo Bonilla, who was appointed Chief Advisor to the Executive Vice President of the Inter-American Development Bank (IDB) in February 2011. Previously, Mr. Bonilla coordinated the IDB's activities related to climate change.

In a closed informal meeting of the Board held on 25 June, the three candidates were presented to the Board members and according to sources, the selection was done the following day via a voting-cum-elimination process.

Business Model Framework

Decisions on the business model framework (BMF) were taken after lengthy and intense debates, with some developing countries taking a cautious approach, with most developed countries wanting swift decisions to operationalise the Fund.

Among the issues addressed on the BMF were the GCF's objectives, results and performance indicators, country ownership, access modalities, financial instruments, the private sector facility (PSF) and the structure and organisation of the Fund.

As regards the private sector facility (PSF), the meeting began with decisions based on a paper by the co-chairs and the Interim Secretariat with many details and options on how to operationalise the facility. The initial proposals, especially the creation of a separate governance structure detached from the GCF, were opposed by several developing countries. Also opposed was the creation of a powerful Private Sector Advisory Group with vast powers of decision-making.

On the last day of the meeting, a decision was taken to set up three structures under the PSF: an Advisory Group to determine the terms of engagement with the private sector; an Investment Committee that will review investment proposals and instruments; and a Risk Management Committee that will enable the Fund to exert due diligence and manage risks prudently.

The membership and terms of reference of these structures are to be discussed at the next Board meeting in September.

During the discussion on the PSF, several developing countries also raised the issue of how the Fund's financial resources would be distributed between the public and private sector and how much will be allocated to the PSF.

This issue has yet to be determined and was not concluded.

Generally, developing countries wanted to ensure funds are channelled in the form of mainly grants and some as concessional lending to and through the public sector. They wanted funds to go to and through the public sector (direct access) rather than having to go through "international intermediaries and international implementing entities" such as the World Bank and other international organisations, with developing countries choosing the appropriate entities themselves.

In fact, the issue of direct access and country ownership were among issues that occupied a significant part of the Board's consideration.

On a related issue on financial instruments, a debate ensued whether to adopt a decision for the Fund to make use of instruments other than grants and concessional lending. The Interim Secretariat's/co-chairs' paper pushed for the use of loan guarantees, equity investments and other instruments. This led to a lengthy discussion on the risks of such instruments, including reputational risks associated with their use.

Eventually, a decision was taken that the Fund would consider the terms and criteria of the grants and concessional lending to be deployed by the Fund for mitigation and adaptation, through accredited national, regional and international intermediaries and implementing entities at its next meeting in September.

However, a decision was also taken under the PSF that the facility will initially focus on grants and concessional lending, and will also draw on a broad range of other financial instruments and modalities to achieve its objectives. What the other instruments and modalities would be was not specified.

On the issue of direct access, the Board decided to consider at its first meeting in 2014, additional modalities that further enhanced direct access (devolution of fund management to the national level), including through funding entities, with a view to enhancing country ownership of projects and programmes.

This issue saw much controversy as the Board member from the United States, Mr. Alexander Severens, could not agree to having enhanced direct access, saying that it was "not logical", given that the GCF had not "experimented with direct access". He said further that this was a "big decision" for the US.

This prompted co-chair Zaheer Fakir (South Africa) to say that if this could not be agreed to, there could be no other decisions on the business model as there was need for balance in the overall BMF decisions. He and other developing country Board members urged the US to be flexible, which eventually led to the final decision being adopted on enhanced direct access.

As regards the issue of country ownership, the Board decision noted that countries may designate a national designated authority (NDA), or mandate a country focal point to interact with the Fund. The NDA/focal point will, among other things, recommend to the Board funding proposals in the context of national climate change strategies and plans and act as the focal point for the Fund's communication.

Another issue which saw an intense exchange during the final hour of the meeting was about who would be the co-chairs for the next meeting of the Board in September, which will be held in Paris. This was because the term of office of the current co-chairs, Zaheer Fakir (South Africa) and Ewen McDonald (Australia), expires on 23 August following a one year tenure.

The Board member from India, Dipak Dasgupta, notified the Board that there was an expression of interest from Asia for the seat of the developing country co-chair. He also said that there would be four new Board members from developing countries replacing some of the current members who will need to make the decision about their nominee.

The Board members from developed and some members from developing countries wanted the current co-chairs to continue their term for another one year, even when the Governing Instrument of the GCF prescribed the duration of the co-chairs to be for only a period of one year.

Following exchanges among Board members and the co-chairs, it was agreed that the current co-chairs will continue to preside over the September meeting, with the election of new co-chairs scheduled for the end of that meeting.

(Further reports on the GCF meeting will follow.)

TWN Info Service on Climate Change (Jul13/02)
3 July 2013
Third World Network

GCF Board debates objectives, results and indicators

Beijing, 2 Jul (Meena Raman) - An intense exchange of views ensued among Board members of the UN Framework Convention on Climate Change's Green Climate Fund (GCF) on the issue of its 'objectives, results and performance indicators' at its fourth meeting in Songdo, South Korea, which met from 25 to 28 June 2013.

Intense exchanges between Board members from developing and developed countries began with strong criticisms of a paper by the co-chairs/Interim Secretariat on the Fund's 'objectives, results and performance indicators'.

Several Board members, especially from China, Egypt, India, and the Democratic Republic of Congo (DRC), expressed concerns over the detailed prescription of result areas in mitigation and adaptation, as well as the performance indicators set out in the paper, saying that they were not in line with a country-driven approach.

They also stressed that some result areas for the Fund (such as mitigation in agriculture) pre-judged on-going negotiations under the UN Framework Convention on Climate Change (UNFCCC).

Several developed country Board members, on the other hand, wanted an initial list of priority result areas and performance indicators to be agreed to during the meeting.

The final decision that was adopted postponed the determination of the initial result areas (which will be considered at its September meeting) of the Fund and the core performance indicators to be employed to measure performance against the objectives of the Fund.

Several developing countries, including China, India and Egypt, also expressed concerns that the 'objectives' of the Fund did not address the mobilisation of resources although this was in the governing instrument of the Fund.

The final decision, which was agreed to, is as follows: "The Board: (a) noted convergence that the Fund will have a strategic focus on climate mitigation and adaptation, and also seeks to maximise sustainable development; (b) reaffirmed that country ownership will be a core principle of the business model framework of the Fund and that countries will identify their priority result areas in line with their national strategies and plans; (c) decided to consider further the initial result areas of the Fund, with an aim to achieve substantial progress at its September 2013 meeting: (d) further decided to consider the core performance indicators to be employed by the Fund to measure performance against the objectives of the Fund and the mitigation and adaptation results to be considered by the Board at its September 2013 meeting; (e) further decided to consider the expected impacts and role of the Fund in the initial result areas at its second meeting in 2014."

The initial draft decision that the Board was supposed to adopt as set out in the paper by the co-chairs/Interim Secretariat, provided detailed options for priority mitigation result areas in order to enable low-emission development pathways; options as cross-sectoral results of the Fund; and options as the priority adaptation result areas of the Fund in order to enable climate-resilient development pathways.

The draft decision also noted convergence on the performance indicators for project and programme outputs for mitigation and adaptation and on the performance indicators for transformative impact of the Fund activities.

The draft decision also requested the Interim Secretariat to prepare a document outlining the core performance indicators to be employed by the Fund to measure performance against the objectives and results as agreed by the Board, and to be considered by the Board at its meeting in September.

It also requested the Interim Secretariat to ensure that the document on the results management framework, which will be considered by the Board at its September meeting, is aligned with the proposed core performance indicators.

Following a strong push back by developing country members, the co-chairs produced a draft decision for the consideration of the Board members which referred to an annex entitled 'initial result areas' that listed 15 areas related to mitigation and adaptation.

The draft decision also referred to performance indicators linked to these initial result areas.

This again led to another round of concerns being raised by developing country Board members which led to the deletion of the annex listing the initial result areas.

Several developed country Board members, in response to the final decision adopted, expressed disappointment and regret that the initial result areas and performance indicators for the Fund could not be agreed to.

Below are some highlights of the exchanges that took place in relation to the paper by the co-chairs/Interim Secretariat (paper).

Dipak Dasgupta (India) said there was no mention in the paper of the scale and mobilisation of resources under the objectives of the Fund and that 'country-ownership' was mentioned minimally.

Omar El-Arini (Egypt) said the paper neglected one of the major objectives of the GCF, which is to "play a key role to channel new, additional, adequate and predictable financial resources."

There is no mention of the need for high scale of resources. The short-term vision and the results sections also do not deal with scale or mobilisation of financial resources. This is a major shortcoming. It gives many details on low-emission development pathways and priority mitigation result areas but there is no mention how these proposed results were formulated, and whether from sources or documents that governments have agreed on. They do not seem to be from UNFCCC agreed documents nor the Intergovernmental Panel on Climate Change (IPCC) agreed summary for policymakers.

The authors of this paper do not have the mandate to set the mitigation priorities for developing countries and nor can the Board adopt these proposed priorities without reference to what has been agreed to under the Convention, said El-Arini.

On performance indicators, El-Arini said the paper proposes a set of several performance indicators for mitigation and adaptation but the indicators and other items for measuring, reporting and verification (MRV) and for biennial update reports of developing countries are being negotiated in the Convention's subsidiary bodies. The adoption of indicators now in the GCF independently without even reference to the processes taking place in the Convention would cause serious problems, as they would in a way supplant or pre-empt those negotiations.

He expressed caution against adopting the draft decision as presented.

Zou Jiayi (China) commented that the paper was very complicated and that she was not in a position to make a decision based on the paper. She said there is need to simplify the approach in relation to performance indicators. The more detailed they are, the less is the ability to get consensus.

Zou said that instead of this, the Board could formulate some simple guidelines for performance indicators and leave the details to the project or programme funding level. Most confusing are the elements of the "transformation" concept, she added, calling for definition of low-carbon development pathways.

She said there were some misleading judgements regarding transformation, as transformational change and country ownership go together and there could not be a trade-off. She added that the performance indicators mentioned overlap with the UNFCCC negotiations and the Board should not pre-judge them.

Jorge Ferrer (Cuba) said the performance indicators were focusing on recipient countries and asked about performance indicators on the delivery of resources and technology transfer. He said this was the approach applied in the area of development assistance, which was repeated here.

Tosi Mpanu-Mpanu (DRC) said a lot of the options on mitigation in the paper did not have any relevance for his country from sub-Saharan Africa. He gave an example of the reference to reduction of emissions from agriculture which is mentioned. This prejudged the outcome of negotiations on this issue. In Africa, when there is a problem of having food security and feeding the hungry, the priority is not about reducing CO_2 emissions. In the area of adaptation, it is difficult to come up with one yardstick as regards performance indicators.

Farrukh Khan (Pakistan), referring to calls for making a transformative impact, said the paper limits transformation to the policy level when it should involve three dimensions, which, when pulled together becomes the paradigm shift. The "triple transformation" involves transformation in policies, resource mobilisation and in access modalities with enhanced direct access.

On the issue of indicators in distinct sectors, he said this is linked to country-ownership and could not be top-down. Countries should decide on the level of transformation that they want to achieve. The GCF cannot impose an aggregate emissions reductions target, but needs to provide incentives for transformation at the national level, with a higher level of support to be provided.

Feturi Elisaia (Samoa) said that resources mobilisation is important and needs to be at a scale that can make an impact.

Adriana Soto (Colombia) said the GCF should respond to the priorities identified by recipient countries to strategically focus interventions on low-carbon development and climate resilience.

Manfred Konukiewitz (Germany) said the Fund should have a clear focus; it is not a broad development fund, but needs to keep in view the co-benefits of actions and have synergy with broader sustainable development objectives. All areas of results are important and prioritisation can be done at a later point. The performance indicators mentioned in the paper entailed a lot of technical specifications and there is need for more technical advice. At this point, it is probably too early to make those choices.

Arnaud Buisse (France) raised the question of how the Fund's priorities are articulated with the priorities of developing countries. This is not to prevent the Fund to have some priorities but is about how to bring the two together. In the short-run, progress is measured on a case-by-case basis.

Highlighted below are reactions from several Board members on the draft decision proposed by the co-chairs which referred to an annex of 'initial result areas' (annex) that listed 15 areas related to mitigation and adaptation. The draft decision made no reference to the paper by the co-chairs/Interim Secretariat.

Dipak Dasgupta (India), referring to the annex, said that the areas listed pre-judged on-going negotiations in the UNFCCC. He said developing countries had red-lines, for instance, in agriculture which is a sensitive area.

Similar sentiments were echoed by **Tosi Mpanu-Mpanu (DRC)** who reiterated that the mitigation in the agriculture sector was a sensitive area for the African Group in the light of food security concerns. Other areas mentioned had no relevance for countries from sub-Saharan Africa. Since there could be no convergence on the annex, he asked for it to be deleted, including the relevant decision where this was reflected.

Manfred Konukiewitz (Germany) said that the annex was a good start, as the Fund needs to have a more prescriptive area of 'collective intentions'.

Arnaud Buisse (France) said that there is need for priority or initial result areas which can evolve or be revised to enshrine the idea of the Fund with some priorities.

Anton Hilber (Switzerland) was not happy with the ex-ante prioritisation of the result areas, particularly on the basis of what is presented in the paper. He said there was not enough information to come up with the list of areas, which need to match the interests of the Fund and the recipients. He said the problem was one of sequencing.

Nick Dyer (UK) said that his country was not in a position to discuss contributions (to the Fund) if there is no discussion on the priority areas to be funded and deleting the annex was a step backwards. He suggested reference to an 'initial' or 'indicative' list to start with.

Zou Jiayi (China), in response, said that if there is no convergence on the issue, there is no convergence. This did not mean that members are not willing to discuss result areas or indicators, but at the moment, there was no agreement on the scope of the result areas.

Responding to the UK Board member, she said that it was extremely unproductive to make agreement on the result areas in the annex a pre-condition for meeting financial commitments.

Dipak Dasgupta (India) agreed with China and said that he did not know if the result areas were right. He added that there is also need for a proper assessment of the indicators and this is not merely an academic exercise. He said he needed to further consult with other ministries in India before any decision is reached in this regard.

Rod Hilton (Australia) and Alexander Severens (the US) said that the list of result areas is needed. Severens added that the list may not be perfect and could be refined but it should not be lost as an 'indicative' or 'initial' list.

The US and Australian Board members expressed regret and disappointment that no agreement was possible on an indicative list of result areas. This was also echoed by **Kjetil Lund (Norway).**

Published in SUNS #7618 dated 3 July 2013

TWN Info Service on Climate Change (Jul13/03)
4 July 2013
Third World Network

GCF moves forward on Private Sector Facility

Beijing, 3 Jul (Meena Raman) - The recently concluded fourth meeting of the Board of the UNFCCC's Green Climate Fund (GCF) made advances on having a Private Sector Facility (PSF), by agreeing to set up three new structures to determine the terms of engagement with the private sector, exert due diligence and manage risks, as well as to review investment proposals and instruments.

A decision on the PSF was adopted on the final day of the meeting on 28 June in Songdo, South Korea.

There was a 'battle' during the Board meeting on the PSF. Several developing country Board members wanted a more cautious approach in adopting decisions in this regard, while some developed country members preferred quick operationalisation of the PSF.

Several Board members from developing and developed countries were opposed to an option in the co-chairs/Interim Secretariat's paper to have a separate governance structure for the facility, detached from the GCF.

The Indian Board member of the GCF was adamant that there be a careful consideration of risks when deciding on what financial instruments to use and which projects to fund, especially if investment banks and funds are used. This was supported by other Board members.

There was a very lengthy discussion and as a result, the proposal for a totally independent governing structure was defeated. However, the Board decided to set up a Private Sector Advisory Group and an Investment Committee. As a response to India and other Board members, it also decided to set up a Risk Management Committee.

The question now is who will be on the Private Sector Advisory Group (PSAG). The private sector will have 8 representatives (4 from developed and 4 from developing countries) and 4 Board members who are government representatives (2 from developed and 2 from developing countries) and up to 2 civil society representatives.

Hence, the government and the CSO representatives will be in the minority. The terms of reference and criteria for its composition will be determined at the Board's September meeting.

There was also a controversy about whether civil society groups (CSOs) should be represented in the PSAG, with some Board members from developed countries, especially from the United States, Australia and Norway, arguing against CSO participation. They were of the view that CSOs may not have the financial expertise needed.

This was countered by several members from developing countries who were surprised by the stance of developed country members in this regard.

The Board member from the Democratic Republic of Congo (DRC) in particular, expressed surprise over the US response against CSO participation in the PSAG, especially when the US, during the discussions of the Transitional Committee responsible for the design of the GCF, pushed for CSO participation on the grounds of ensuring transparency.

In general, several Board members from developing countries were very concerned that there would be continued big pressure on the part of developed countries to push for big companies and financial institutions to have a big say in the development of the PSF and also in the entire GCF.

Another very pertinent point raised by the Board member from India was about the proportion of funds in the GCF that will go to the PSF and what will go to developing countries. In addition, of the funds that go to the PSF, he was concerned about what proportion of this will go to the international private sector as contrasted with the domestic private sector.

A further concern expressed was about the extent that international private companies will be directed by the developing countries themselves or if these companies would have their own autonomous plans on what and where they will invest in.

During the meeting, some of the developing country Board members raised the issue of the danger that the PSF may become a conduit for subsidisation of international companies; lead to the creation of moral hazard and a source of windfall profits for the private sector.

There was some support generally from the Board members including from developed country members that this was not the purpose of the PSF. However, there was no discussion on how these problems can be prevented and other negative effects be prevented too.

Concerns were also raised by developing country Board members about the credibility and reputation of the GCF which would be affected if the PSF is not well handled. This prompted the creation of a Risk Management Committee.

Several observers from CSOs expressed concerns in the corridors of the meeting as to whether the Board will be able to control and regulate financial instruments and corporate institutions as well as the risks involved, given the financial crisis of the last few years had given rise to many questions as to whether regulation is able to keep pace with financial instruments and activities.

Highlights of the final decision of the Board on the PSF are as follows:

"The Board: decided that the PSF will operate efficiently and effectively under the guidance and authority of the Board as an integral component of the Fund;

"- the PSF will address barriers to private sector investment in adaptation and mitigation activities ; this will include facilitating and enhancing the participation of national, regional and international private sector in developing countries;

"- the PSF will promote the participation of private sector actors in developing countries, in particular local actors, including small and medium sized enterprises and local financial intermediaries;

"- acknowledged the need to mobilise funds at scale from, inter alia, institutional investors, such as pension funds and sovereign wealth funds, and to design modalities to that end;

"- decided that the PSF will seek efficient solutions that minimize market distortions and moral hazard in the use of the Fund's resources by using, inter alia, competitive processes;

"- decided that the PSF will initially focus on grants and concessional lending and will also draw on a broad range of other financial instruments and modalities to achieve its objectives;

"- decided to establish a PSAG that will make recommendations to the Board on Fund-wide engagement with the private sector and modalities to that end;

"- decided that an appropriate risk management framework will be developed, enabling the Fund to exert due diligence and manage its risks prudently. For this purpose, the Board decided to establish a Risk Management Committee;

"- decided to establish an Investment Committee that will review investment proposals and instruments and recommend their approval in accordance with social and environmental safeguards and the Fund's objectives and the risk management framework;

"- decided that the PSF, in accordance with non-objection procedures and in order to ensure consistency with national climate strategies and plans and a country-driven approach: (i) will commence its operations through accredited national, regional and international implementing entities and intermediaries, and (ii) may over time, work directly with private sector adaptation and mitigation actors at the national, regional and international levels, subject to consideration by the Board of a phased approach."

Some highlights of interventions by Board members is set out below in response to the paper on the PSF by the co-chairs/Interim Secretariat as well as the draft decision placed before the Board by the co-chairs.

Dipak Dasgupta (India) said that the paper was "extra-ordinary" given the option for the PSF to have its own governance, which would hire senior management from banks and investment companies, without accountability and even to out-source some of its functions. He questioned what the GCF was getting into.

Zou Jiayi (China) said the PSF cannot operate in an independent way. It has to be completely integrated in the GCF.

Alexander Severens (the United States) said the PSF is inherent to the GCF and it should have the flexibility to have a wide range of financial instruments other than loan and grant instruments. He suggested the need for a credit committee to consider the creditworthiness of proposals. The PSF is an entity within the GCF with the ability to attract capital.

Manfred Konukiewitz (Germany) was also not in support of a separate governance structure for the PSF and wanted it to be integrated in the Fund. It could have features that could be unique to the facility such as a credit committee, an advisory board etc.

He said the limited availability of public funds is not the rationale for private sector involvement. If we want to have the transformation, we need to have different kind of investment decisions by millions of investors in many areas that require private actors to do things differently.

Arnaud Buisse (France) did not support the PSF with a separate governing body. He also supported the creation of an advisory group and a credit committee. He did not want the PSF to subsidise the private sector.

Anton Hilber (Switzerland) said it is not enough to begin with just grants and concessional lending for the PSF and there is need to go beyond them.

Rod Hilton (Australia) said the PSF is a transformational part of the GCF, and was supportive of the facility having its own governing body to which the Board delegates authority. This, he said, was important for the credibility of the Fund on how best to utilise private sector expertise.

Kjetil Lund (Norway) was also in favour of having a separate governance structure for the PSF.

Jorger Ferrer (Cuba) said that consistent with the principle of country-ownership, the GCF needs to be country-driven and not private-sector driven. He was opposed to having a separate governance structure for the PSF.

On the use of the financial instruments, he said the Convention only allows grants and concessional lending and not other financial instruments.

Omar El-Arini (Egypt) said the PSF is meant as an enabling unit or sub-structure within the Fund and there cannot be the creation of another separate fund for the PSF. He said there was no information in the paper on how the PSF is financed or how the funds will flow into the facility.

He was against creating something new that will compete with the public money in the GCF which is yet to come.

Ana Fornells de Frutos (Spain) said that expertise was needed to ensure that the GCF is not subsidising the private sector. The PSF should comply with the objectives of the Fund and must also be open and transparent.

Tosi Mpanu-Mpanu (DRC) did not support a separate governance structure for the PSF and said that it should not be a subsidy scheme for companies from abroad.

Dipak Dasgupta (India) said that risks come in many sizes and shapes. The problem in financial institutions relates to that of governance and no credit committee can take care of this. He asked who was going to bear the risk of dealing with financial instruments and how to prevent moral hazard.

He also raised the issue of the allocation of resources between mitigation and adaptation; between country- driven programmes and international/regional institutions; the allocation to the private sector and within the private sector, the allocation between the small and medium sized enterprises and international corporations.

He stressed the need for strategic discussion in this regard and said there was a deep disquiet "out there" on what the intention of the GCF is.

Alexander Severens (the United States) said that with the PSF, risks in projects can be identified and it could mobilise finance (from institutional investors). It was not about giving subsidies to the private sector. There is also need to do risk analysis.

Jan Cedergren (Sweden) also supported Dasgputa's call in addressing risks as well as to be clear about the terms and conditions of the PSF. Nick Dyer (the United Kingdom) also agreed on the need to address risks.

Per Callesen (Denmark) stressed that risk management was extremely important and there was need to have persons on the Risk Management Committee with substantial knowledge about this matter. An Investment Committee is needed to deal with the issue of how to use or apply a financial instrument, which the Board need not deal with.

The representative from the private sector said that the PSF can be the bridge between the GCF and institutional investors. On the issue of governance, the PSF needs to have credibility and expertise. On the issue of risks in terms of the use of new financial instruments, the private sector needs to have expertise to manage that.

Brandon Wu of ActionAid USA, speaking as a CSO observer, said that the PSF should not have a separate governance structure and that the PSF paper is overly biased towards international capital markets.

He said there is need for an exploration of what private sector interventions can support the efforts of small and medium enterprises in developing countries, taking into account the gender differences in the current access to financing options.

Published in SUNS #7619 dated 4 July 2013

TWN Info Service on Climate Change (Oct13/04)
14 October 2013
Third World Network

Agreement on steps to mobilise resources for Green Climate Fund

Paris, Oct 12 (Meena Raman) – The Board of the Green Climate Fund (GCF) adopted several key decisions to further its operations, including steps to mobilise resources for the Fund in 2014, at its 5th meeting in Paris, France on 7-10 October, 2013.

The Board agreed that it will commence an initial resource mobilization process as soon as possible and transition subsequently to a formal replenishment process. It was agreed that the first two meetings of the Board next year, in February and May, will focus on completing the essential requirements for the Fund to receive, manage, programme and disburse financial resources.

No later than three months after the essential requirements for the Fund have been met as decided by the Board, the Secretariat is to make arrangements with all interested contributors, facilitating a collective engagement in the initial resource mobilization process. This will be followed by the first formal replenishment meeting.

There was a tug-of-war between among Board members on the "requirements" to be in place before contributions could be made to the Fund. Agreement was eventually reached on the "essential requirements" (see below for details).

Some developed country members of the Board indicated their willingness to contribute to the GCF, with Germany signalling that initial capitalisation of the Fund needs to be a "serious number with several billion dollars".

Manfred Konukiewitz (Germany) said that there are contributors ready to put money in the Fund when it is ready to receive the money, adding that the first sum of capitalisation needs to be a serious number, with several billion dollars. He added that donors are ready to provide their fair share of funds but there needed to be a fair burden sharing among them. This, he said, was important to Germany and he called on others to also commit to resource mobilisation.

Anton Hilber (Switzerland) also said that his country was ready to contribute its "serious fair share" to the GCF once certain essential requirements were in place. **Henrik Harboe (Norway)** expressed hoped for serious resource mobilization by 2014 and wanted the Fund to be large.

Kwang-Yeol Yoo (South Korea) said that it was contributing USD 1 million this year and another USD 1 million next year, and called on other countries to mobilise resources for the GCF.

The United States however indicated that it had no resources in the 2014 budget for the GCF. **Matthew Kotchen (United States)** said there are no resources in the 2014 budget for this and resources need to be requested now for 2015.

Developing country Board members especially from Zambia, the Democratic Republic of Congo (DRC), Egypt, China, Belize, Brazil and Saudi Arabia called for urgency in resourcing the GCF, and not wait for a "perfect" Fund to be in place.

David Kaluba (Zambia) who represents the Least Developed ountries (LDCs), made an emotive plea, as he struggled to contain tears, sending a strong and powerful message for urgent action. He said that his constituency was in desperate need of funds for adaptation, as people are dying now; time has run out and the desperation is real. He said that it was a moral imperative to ensure a decision that enables the Fund to have serious resources that make a difference. Kaluba called for symmetry in approach in mobilising resources and having the essential requirements for the GCF's operations.

Tosi Mpanu Mpanu (DRC) said he understood Kaluba's emotion. He said that

African countries are eager to see the Fund operational and were worried about the lack of political commitment. Some developed countries had said three years ago that the GCF was the main channel for climate finance but are now asking if the GCF is the best channel. He said there is need to have some number and date for the initial capitalization of the Fund and to ensure no delay tactics.

Liang Ziqian (China) said that the mobilisation of resources is a political decision and called on developed countries to provide the funds as soon as possible. He said that conditions were in place for this and if they waited for the GCF to be a "perfect" institution, it will never be initiated. He stressed the need for specific targets as regards the scale of the resources and that it should be "big-sized" and "meaningful". He wanted the GCF to be the primary operating entity of the climate finance architecture and to be the most prominent environmental Fund. (See below for more interventions from Board members.)

The Board also made other decisions which included agreement on initial areas for its funding and performance indicators at the project and Fund level, readiness and preparatory support, types of financial inputs for the Fund, the way forward on determining allocations, accreditation of entities for access to the Fund and the terms of reference for the Fund's Risk Management Committee, Investment Committee and the Private Sector Advisory Group.

The meeting was co-chaired by Ewen McDonald (Australia) and Zaheer Fakir (South Africa). It also saw, on its final day, the election of two new co-chairs, Jose Maria Clemente Sarte Salceda (Philippines) and Manfred Konukiewitz (Germany). Also present at what was her inaugural meeting of the Board, was Hela Cheikhrouhou, the Executive Director of the GCF.

Resource Mobilisation

On the mobilisation of resources for the Fund, following discussions during an informal reception held on the evening of 7October as well as at the formal Board meeting the following day, it was agreed that:

(a) The Fund's resource mobilization process will commence through an initial resource mobilization process as soon as possible and transition subsequently to a formal replenishment process;

(b) That the first two meetings of the Board in 2014 (to be held in February and May) will prioritize and focus on working towards completing the essential requirements for the Fund to receive, manage, programme and disburse financial resources;

(c) The Secretariat will be requested to make arrangements with all interested contributors, facilitating a collective engagement in the initial resource mobilization process no later than three months after the essential requirements for the Fund to receive, manage, programme and disburse financial resources, have been met as decided by the Board;

(d) The policies, procedures and documents necessary to trigger the first formal replenishment meeting will be decided upon at the first Board meeting following the completion of the process outlined in paragraph (c) above.

The essential requirements for the Fund to receive, manage, programme and disburse financial resources were identified as follows:

(i) An initial Fund structure and Secretariat structure, including administrative policies, best-practice fiduciary principles and standards and environmental and social safeguards;

(ii) The Fund's financial risk management and investment framework;

(iii) Initial results areas, initial core performance indicators and an initial results management framework of the Fund;

(iv) Procedures for accrediting national, regional and international implementing entities and intermediaries;

(v) Policies and procedures for the initial allocation of Fund resources, including results-based approaches;

(vi) Initial proposal approval process, including criteria for programme and project funding;

(vii) Initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility;

(viii) The terms of reference of the Fund's Independent Evaluation Unit, the Independent Integrity Unit and the independent redress mechanism.

The decision was viewed generally as an improvement over the initial draft presented by the Secretariat for consideration which did not have clear timelines for the resource mobilisation process.

Omar El-Arini (Egypt) stressed the need for the process to be simple and strategic. He called for its capitalisation and replenishment and reminded members of the pledges made by developed country leaders in Copenhagen (in 2009 to mobilise USD 100 billion per year by 2020).

Audrey Joy Grant (Belize) said that the developing world was really losing its enthusiasm for the Fund unless something happens. There was need to discuss the minimum threshold to get the Fund started to move forward on funding decisions, and called for funding of readiness activities. She also stressed the need for concrete time-lines, as without that, there would be no urgency.

Sergio Serra (Brazil) stressed the need for a simple decision, which reflects urgency, scale of ambition and political commitment.

Irfa Ampri (Indonesia) said that GCF should be different and not replicate the failures of others climate funds.

Ayman Shasly (Saudi Arabia) reminded Board members that that use of the term "donors" was not appropriate as under the United Nations Framework Convention on Climate Change (UNFCCC), developed countries have an obligation to fulfil their commitments. He said the GCF was not about doing charity. He said further that if developing countries do not get support for their actions, they will not be able to make any commitments under the 2015 agreement which is now under discussion in the UNFCCC. He said developed countries could easily mobilise USD 22 million for the UNFCCC's Climate Technology Centre and Network but that was not the case for the GCF.

Manfred Konukiewitz (Germany) emphasised the need for the Fund to have proper standards to not allow misappropriation. He added, however, that not everything needed to be perfectly in place for mobilisation to happen. He said there should be funding for "readiness" activities.

Anton Hilber (Switzerland) said it was important that all interested contributors are called upon to make the contributions. He stressed the need for certain essential requirements to be in place. On the issue of fiduciary standards, environmental and social safeguards, Hilber was of the view that there was no need to reinvent the wheel but to borrow best practices from other institutions.

Jan Cedergren (Sweden) expressed the need for urgency in getting resources for the GCF, adding that readiness and preparatory support activities could be taken care of immediately. He too stressed the need for fiduciary standards, and environmental and social safeguards to be in place and to learn from the experiences of the Adaptation Fund and the Global Environment Facility (GEF). He added that as regards long-term replenishment of the GCF, efforts need to start immediately, because a replenishment system will take some time.

Rod Hilton (Australia) said that several conditions or incentives needed to be in place before one dollar could flow into the GCF: fiduciary standards and safeguards; policies for accreditation; Secretariat to be in place; and an appropriate risk management procedure. Once money goes through the door, for the good use of money, there is need for results areas, performance indicators and allocation procedures. For scale and transformation to happen, there is need for a very clear pathway on how results will be delivered with the Private Sector Facility, how to leverage private sector finance, and having financial instruments with a lot of flexibility. He said there is also need to accept funding from everyone.

Frederic Glanois (France) also stressed the need to have serious initial pledges because the formal replenishment will take a few years. He shared the view that the list of requirements for the GCF to receive money should not be exhaustive. He cited the initial results areas, results-management framework, the Secretariat structure, fiduciary standards and safeguards and accreditation procedures and core criteria for allocation as being important.

Henrik Harboe (Norway) said that he also shared the need for urgency. He did not expect every requirement to be in place. He said there were a "lot of channels" for climate financing but the ambition should be for the GCF to be the best choice.

Nick Dyer (United Kingdom), while agreeing with Kaluba of Zambia that time was running out did not agree that there were no other options to the GCF. He cited the GEF and the Climate Investment Funds of the World Bank. He said decisions were needed to have assurances for the pledging of resources to the GCF.

Matthew Kotchen (United States) said the GCF is not the only "climate fund out there" but hoped that it would be one of the leading funds. As regards the process for resource mobilisation, he said that specific time-lines with dates are not useful. He said pledging resources is up to the legislative bodies and needed public support.

The active observer representative for civil society organizations from developing countries, who was from the **Third World Network**, also expressed the need for urgency in the mobilisation of resources. She called for an initial capitalisation of at least USD 20-30 billion by 2014, adding that a phased approach could be adopted with grants for readiness support and adaption being a priority for meeting the needs of especially the poor countries. She also said that developed countries could resort to raising money through financial transaction taxes and Special Drawing Rights, stressing that if banks could be bailed out, there was no reason why the poor and the planet could not be saved.

Election of Co-chairs

The election of the Co-chairs was held behind closed doors as it was deemed an 'executive session'. According to official sources, the election of the Co-chair from the developed countries was without problems. However, the election of the developing country Co-chair had some hiccups.

Around lunchtime on Thursday, 10 October, the final day of the meeting, developing country Board members and their alternates met to confirm their candidate. It seems that initially, South Korea was opposed to the Philippines being the candidate, although all the other members from the Asian Group were in support. South Korea apparently wanted Fakir of South Africa to continue as Co-chair, although his tenure of one year had ended. [South Korea (alternate to China) is part of the Asian Group, whose other members include Philippines (India is the alternate), China, and Saudi Arabia (Pakistan is the alternate)].

Following interventions from fellow Asian Group members, South Korea relented and agreed to the Philippines being the developing country Co-chair.

When the developed and developing country members met in their groupings respectively to reaffirm their nominees at around 5 pm the same day, according to official sources, Colombia (who is an alternate member to Ecuador) wanted more time to have further consultations within its region, and indicated that there could be a nominee from the Group of Latin America and the Caribbean (GRULAC) region. Ecuador was not present at the meeting although it was the principal member, and Colombia took its place. Along the corridors of the meeting, the Colombian representative was seen making phone calls.

According to sources, when the official Board meeting convened at around 5.30 pm, Dipak Dasgupta (India) informed members that the Philippines candidate was agreed to by most developing countries, including members from Asia, LDCs, Africa, and some members of GRULAC.

When the presiding Co-chair McDonald asked if there was a consensus over the Philippines and Germany as the Co-chairs, no one expressed objections, leading to the formal election of the new Co-chairs.

(More reports will follow).

TWN Info Service on Climate Change (Oct13/05)
16 October 2013
Third World Network

Board agrees on initial result areas and indicators

Geneva, 16 Oct (Meena Raman) – The Board of the Green Climate Fund (GCF) has reached agreement over the 'initial result areas' of the Fund, its 'performance indicators' and its 'results management framework.'

This was one of the key decisions reached at the 5th meeting of the Board in Paris, which took place on 7 – 10 October, and took more than six hours to reach a compromise.

Various concerns were raised by developing country Board members, especially those from Zambia, the Democratic Republic of Congo, China, Brazil, Egypt and Saudi Arabia over some result areas and indicators initially identified by the GCF Interim Secretariat in two documents prepared for the Board's consideration.

The concerns included issues such as 'agriculture' and 'REDD-plus implementation' (matters relating to reducing emissions from deforestation and forest degradation in developing countries) which are the subject of on-going negotiations under the United Nations Framework Convention on Climate Change (UNFCCC); uncertainty over the scale of financial resources available to undertake and deliver the results indicated; the capacity of developing countries to verify the results and the apparent tension between the Fund's priorities and the priorities of developing countries.

On the issue of agriculture, following intense discussions, in the final decision on the 'initial result areas', the phrase 'sustainable land use management to support mitigation and adaptation' was agreed to in place of 'agriculture and related land use management'.

As regards 'REDD-plus implementation', the Secretariat document had included this issue in the 'initial result areas' of the Fund, with an indicator under 'mitigation' that made reference to 'decrease in rate of deforestation tCO2e [tonnes of CO2 equivalent] reductions from deforestation.'

Norway wanted 'REDD-plus implementation' to be included in the result areas together with initial performance indicators. Brazil, while accepting that 'REDD-plus implementation' should be on the list, it did not want the indicators specified since negotiations in the UNFCCC were on-going. Following informal discussions between the Board members from the two countries, it was agreed that 'REDD-plus implementation' be included in the list of 'initial result areas' but the performance indicators are not to be specified now. This was agreed to by the whole Board.

The 'initial result areas' of the Fund which was agreed to by the Board are as follows:

a. Design and planning of cities to support mitigation and adaptation;

b. Energy efficiency of buildings and appliances;

c. Energy efficiency of industrial processes;

d. Low-emission transport;

e. Low-emission energy access;

f. Small, medium and large-scale low-emission power generation;

g. Sustainable land use management to support mitigation and adaptation;

h. Sustainable forest management to support mitigation and adaptation including afforestation and reduction of forest degradation;

i. REDD+ implementation;

j. Adaptation activities to reduce climate-related vulnerabilities;

k. Selected "flagship" activities cutting across adaptation result areas;

l. Readiness and capacity building for adaptation and mitigation activities;

m. Scaling up of effective community-based adaptation (CBA) actions;

n. Supporting the coordination of public goods such as "knowledge hubs".

Further details of the decision and the indicators are provided below. Highlights of the discussions around the decision are as follows.

David Kaluba (Zambia) emphasised the importance of sustainable development and country ownership in the determination of the result areas and indicators. Following a low carbon and climate resilient pathway will mean looking at a country's current funding to enable it to move away from 'business-as-usual'. It should be the objective of the GCF to promote that.

Tosi Mpanu-Mpanu (Democratic Republic of Congo) agreed that there is need to identify priority areas as to what the Fund should invest in. He expressed concerns in relation to some issues and indicators which were under discussion in the negotiations under the UNFCCC such as nationally appropriate mitigation actions (NAMAs), measuring, reporting and verification (MRV), REDD-plus and agriculture. He also expressed caution over the list of 'initial result areas' becoming prescriptive. Agriculture is a sensitive issue for Africa, as it touches on food security, sustainable development and poverty eradication, said Mpanu-Mpanu. Talking about 'low emissions' in this context did not make sense, he added.

Liang Ziqian (China) suggested that all performance indicators should be project based. He added that any country-wide indicator would be problem, in an apparent reference to the indicator on 'carbon intensity of economy' in the Secretariat document which was later revised to 'carbon intensity of nationally determined sectors' in the decision. He also expressed concerns over the reference to 'agriculture' in the result areas in relation to mitigation and wanted it removed.

Omar El-Arini (Egypt) said that countries define their priorities in line with their national development plans. Looking at the results stated in the Secretariat document, he said there is need for lots of money to achieve these results. There is need to be clear about who defines the results and if there is money to achieve them. In reference to the initial performance indicators, he expressed serious concerns and asked if developing countries would have the capacity to verify the results.

Sergio Serra (Brazil) said that members were operating in a vacuum as there is need to know the magnitude of funding resources available. The results will depend on the amount of money made available. Serra also referred to the Secretariat document on the description of activities related to the 'initial result areas'. He was opposed to reference to 'carbon offsets' as an activity area saying that Brazil is against carbon offsets in relation to deforestation as it relates to questions about their environmental integrity. Serra also had concerns over REDD-plus implementation which was still being discussed in the UNFCCC negotiations, in particular in relation to the performance indicators in this regard.

Ayman Shasly (Saudi Arabia) in response to a comment from Manfred Konukiewitz (Germany) on the harmful effects of fossil fuel subsidies, said that it is the USD 400 billion agriculture subsidies a year that developed countries use, including providing to big food and agriculture corporations that are harmful to the poor in developing countries and are market distorting. Shasly also stressed that in looking at result areas and the criteria, it was important to focus on key areas of sustainable development like providing energy to the poor. He said the 'initial result areas' are important for the Fund at the global level to show impact but also stressed the importance of country ownership. He said further that on some important issues, it was important not to prejudice the negotiations.

Derek Gibbs (Barbados) supported the need for a broad set of objectives and parameters. He said climate change is not waiting for the negotiations (in the UNFCCC), stressing that adaptation is important.

Jose Maria Clemente Sarte Salceda (Philippines) questioned the use of the term 'results management framework' when the Governing Instrument of the GCF refers to 'results measurement framework'.

Pedro Garcia (Dominican Republic) wanted the 'initial result areas' to be limited to 'small scale low-emissions power generation' and wanted 'large-scale' to be deleted. (As a compromise, the Board agreed to 'small, medium, and large-scale low-emission power generation.)

Manfred Konukiewitz (Germany) said that indicators that refer to policy areas are sensitive for countries. However, there is need to raise awareness about low emission approaches. He cited the example of harmful fossil fuel subsidies that should be eliminated. He said that the GCF cannot ignore the policy environment which can have immediate effect on results and impact. He added that if the policy environment is poor, the impact will be lower. He wanted the GCF to be committed to impacts and a results oriented approach, while recognising national sovereignty to decide on policies. This, he said, is a challenge for the Board.

Beata Jaczewska (Poland) said the GCF sets priorities from the perspective of the institution while countries develop their own strategies. These two processes have to meet and there needs to be an ex-ante and ex-post assessment and more clarification is needed in this regard.

Nick Dyer (United Kingdom) said that whatever is decided is an evolving process. The real test of the GCF is its ability to articulate what it is about. There needs to be consistency with how proposals are assessed and how progress is measured, he added.

Rod Hilton, speaking for Australia and New Zealand said the result areas are critical in defining the sense of purpose of the Fund. He also stressed the importance of country ownership and that the list of result areas was not exhaustive, but needs to be flexible. He added that more work is needed to be done in relation to adaptation.

Jan Cedergren (Sweden) stressed the importance of spelling out country ownership in the decision and to refine the initial result areas and indicators.

Arnaud Buisse (France) said that the Fund should also be able to contribute to the transformation of the economy.

Matthew Kotchen (United States) said that the initial result areas are indicative of where the Fund wants to focus on, adding it is not prescriptive. He said that further work could be done in relation to the indicators for adaptation.

Henrik Harboe (Norway) wanted REDD-plus implementation to be included in the result areas together with initial performance indicators in this regard.

Hela Cheikhrouhou (Executive Director of the GCF) in response said the negotiations cover a lot of sectors and the Fund should work with countries even if the negotiations are happening. She added that the Fund should be able to work on areas delinked from the political level negotiations. She said that any institution trying to make a difference needs to show results. The Fund is to help the country strategies. The Executive Director also said that the result areas are a menu of options, which are not exhaustive. The activities referred to are only examples.

Speaking for the civil society groups, the representative from **Third World Network** said enabling transformative impacts requires large-scale resources. In defining results and performance indicators, it was important for the GCF to link with the various thematic bodies of the UNFCCC like the Adaptation Committee and the Technology Executive Committee.

Brandon Wu (ActionAid, US), also speaking for civil society organisations said that if the GCF is serious about a 'gender-sensitive approach', then having 'gender-disaggregated' data in relation to adaptation is important. He also expressed concerns over support for 'carbon capture and storage projects' in relation to support for negative emissions technologies as a performance indicator.

The Board decision

The main part of the decision adopted is as follows:

(a) The Board noted convergence that the Fund will have a strategic focus on climate change mitigation and adaptation, and also seek to maximize sustainable development;

(b) It reaffirmed that country ownership will be a core principle of the business model framework of the Fund and that countries will identify their priority result areas in line with their national strategies and plans;

(c) It noted convergence that ownership and access to Fund resources could be enhanced by inclusion of indicators capturing country-driven policies that have the potential to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development as set out in the Governing Instrument;

(d) It further noted convergence on key criteria that may be considered through the results management framework when measuring performance of Fund activities, where appropriate, in addition to the core performance indicators, including potential for paradigm shift towards low-emission and climate-resilient development pathways; development co-benefits; environmental co-benefits; potential for replication and scalability; cost-effectiveness; avoidance of lock-in to high-emission, low climate-resilient alternatives; and finance mobilized from non-public sources;

(e) It adopted the initial result areas of the Fund, … as initial areas of funding, in order to enable low-emission and climate-resilient development pathways; (referred to above);

(f) It adopted the initial performance indicators of the Fund, …; (see below for details);

(g) It decided that the Fund's results management framework will:

(i) Enable effective monitoring and evaluation of the outputs, outcomes and impacts of the Funds' investments and portfolio, and the Fund's organizational effectiveness and operational efficiency;

(ii) Include measurable, transparent, effective and efficient indicators and systems to support the Fund's operations, including, inter alia, how the Fund addresses economic, social and environmental development co-benefits and gender sensitivity;

(h) It decided that the Fund, as a continuously learning institution, will maintain the flexibility to refine its results management framework, result areas and performance indicators, based on Fund experience in implementation and monitoring, and as evaluation outcomes become available, and that the lessons learned will feed back into the design, funding criteria and implementation of Fund activities, based on results;

(i) It further decided that the Fund will assess project and programme proposals in each result area using the same impact indicators;

(j) It decided that national and sector-wide indicators will be used only at the discretion of the recipient country;

(k) It decided that in designing a logical framework for results management, the Fund will develop indicators to measure the impact of the Fund on strategic improvements at a country level;

(l) It decided that in designing its results management framework, the Fund will use the experience of other relevant entities, and, where appropriate, align the framework and indicators with existing best practice models;

(m) It requested the Secretariat to develop, for consideration by the Board at its second meeting in 2014, a detailed operational results management framework of the Fund, based on the initial result areas and core performance indicators and key criteria decided upon by the Board…

(n) It further requested the Secretariat to develop additional result areas and indicators for adaptation activities for consideration by the Board at its first meeting in 2014.

Performance indicators for the initial result areas

It was agreed that there be two types of performance indicators – (i) related to project and programme outputs and (ii) and that related to transformative impact of the Fund's activities.

In relation to the 'project and programme outputs', as regards mitigation, the following indicators were agreed to:

(a) tCO2-eq reduced through improved governance and planning systems for sustainable cities; (b) Reduced emissions from buildings and appliances (tCO2-eq/m2); (c) Increased access to transportation with low-carbon transportation options (tCO2/passenger km); (d) Reduced emission intensity of industrial production (tCO2-eq/year); (e) Households with access to low-carbon modern technologies (Number of households served by off-grid or clearly identifiable on-grid renewable technologies); (f) Deployment of low-carbon power generation technologies (tCO2/kWh); (g) Reduced emissions from sustainable land use management (tCO2-eq/year); (h) Support to development of negative emission technologies

(Number of carbon capture and storage projects, tCO2 sequestered)

In relation to adaptation, the following indicators were agreed to: (a) Environmental effectiveness: including units of human health (disability-adjusted life years (DALYs)) and units of wealth (US$) saved and enhanced; (b) Cost-effectiveness: US$/DALY and US$ saved; (c) Co-benefits: US$/unit of co-benefit; (d) Institutional feasibility: level of acceptance

On the 'transformative impact of Fund activities' the performance indicators agreed to are as follows: In the case of 'mitigation', (a) Carbon intensity of nationally determined sectors (tCO2/gross domestic product) and (b) Facilitating the design of sustainable cities (tCO2/capita)

In relation to 'adaptation', the indicators are: (a) Environmental effectiveness: including units of human health (DALYs) and units of wealth (US$) saved and enhanced; (b) Cost-effectiveness: US$/DALY and $ saved; (c) Co-benefits: US$/unit of co-benefit; (d) Institutional feasibility: level of acceptance.

TWN Info Service on Climate Change (Oct13/06)
17 October 2013
Third World Network

Board agrees on financial inputs, instruments and allocation

Geneva, 17 Oct (Meena Raman) – The Board of the Green Climate Fund (GCF) at its recent 5th meeting in Paris, France, adopted several key decisions including the types of financial inputs that the Fund should receive, the nature of the instruments to be used as disbursements, and the way to allocate the financial resources.

Below are the key parts of the relevant decisions and some highlights of the related discussions.

Financial inputs

On the issue of financial inputs, the main decision of the Board was that "the Fund will receive grants from public and private sources, and paid-in-capital contributions and concessional loans from public sources, and may receive additional types of inputs at a later stage to be decided by the Board".

The Interim Secretariat of the GCF, "when developing the Fund's risk management framework and investment strategy", was also requested "to include the specific risks associated with accepting concessional loans to the Fund, including the risk of cross-subsidization." It was also tasked "to prepare a document for understanding and defining alternative sources of financial inputs to the Fund for consideration by the Board at its second meeting in 2014."

During the discussions prior to the adoption of the decision, various issues were raised. Most Board members adopted a more cautious and conservative approach (at least in the initial phase of the Fund) on the type of financial inputs to be received by the GCF, focusing mainly on grants. However, the United States, Japan and the United Kingdom wanted to expedite going beyond grants and concessional loans to other types of inputs which could involve the private sector.

France and Germany had concerns over the receipt of concessional loans as inputs and wanted consideration of the risks involved in this regard. France and Chile also raised concerns over the receipt of paid-in-capital contributions which could have drawbacks and conditions.

During the discussions, several developing countries including the Democratic Republic of Congo (DRC), Egypt and Zambia stressed the point that the GCF was a 'fund' and not a 'bank'.

The issue of alternative sources of financial inputs was also raised. When some Board members from developed countries proposed that financial inputs be also received from developing countries that are in a position to do so, some developing country Board members reacted strongly saying that it was a commitment of developed countries to do so, under the United Nations Framework Convention on Climate Change (UNFCCC) and the Governing Instrument of the GCF.

Arnaud Buisse (France) said that concessional loans are complicated and have a lot of implications which need to be studied. This, he said, was the experience of the World Bank's International Development Association (IDA) and there is need for risk management. The same, he added, applied to paid-in-capital contributions and he wanted the drawbacks to be addressed.

Manfred Konukiewitz (Germany) said that financial inputs will come from governments and that other than developed countries, it must also come from developing countries that are in a position to do so. While supporting the receipt of grants as inputs, he expressed concerns over the receipt of concessional loans as there are special risks, from his experience.

Matthew Kotchen (United States) said that while grants are important, other financial inputs are also important. The scope needed to move beyond grants and he looked forward to the recommendations of the Private Sector Advisory Group. He added that grants and concessional loans have different risk tolerance and the GCF should address this.

Kentaro Ogata (Japan) wanted the GCF to be open to all types of financial inputs but agreed that for the initial phase, it had to be more conservative. He referred to the need for resources from the private sector in future. He expressed concerns over the issue of 'cross subsidisation' and wanted it addressed under the risk management framework.

Nick Dyer (United Kingdom) could not agree that the GCF will only receive grants, paid-in- contributions and concessional loans in the first 5 to 7 years.

Beata Jaczewska (Poland) said that the Governing Instrument did not forbid voluntary contributions from developing countries.

Rodrigo Rojo (Chile) expressed concerns over the 'paid-in-capital contributions' as an input (where contributors could impose conditions).

Tosi Mpanu-Mpanu (DRC) in response to comments over the need for more financial inputs beyond grants and concessional loans, said that the needs of African countries must be considered in this context, adding that they needed support for adaptation and readiness, which involves grants. He also stressed that the GCF is a 'fund and not a bank' and reminded members that the GCF Governing Instrument states that financial inputs would be received from developed countries to the UNFCCC. He cautioned against the draft decision just stating that 'the Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources,' which he viewed as 'cherry-picking' of provisions from the Governing Instrument.

Ayman Shasly (Saudi Arabia) wanted more clarity on what are alternative sources for financial inputs that the Fund could receive. He cautioned against the use of aviation levies and other forms which could have adverse impacts on developing countries. He also did not want the draft decision to ignore the commitment of developed countries to provide the financial inputs. He was opposed to developing countries being asked to provide financial inputs.

Omar El-Arini (Egypt) reiterated that the Board had agreed previously to focus initially on grants and concessional loans and reminded members that the GCF is an operating entity of the UNFCCC and there is need for ensuring predictable and sustainable flows of money without conditions being attached. He stressed that the GCF is not a 'bank but a fund'.

Hela Cheikhrouhou (Executive Director of the GCF) in response to interventions from Board members said that the decision proposed is a "conservative option" as both grants and concessional loans are necessary as inputs. She added that mitigation actions would require concessional lending, while for adaptation projects, there needs to be a higher level of concessionality like grants. These are most basic inputs, and are straightforward in managing the liquidity risks.

Financial instruments

As regards the financial instruments to be used by the GCF, the Board adopted, "for the initial operationalization of the Fund, the principles and factors for the terms and conditions of grants and concessional loans". It also requested "the Secretariat to develop terms and conditions of grants and concessional loans for consideration by the Board at its first meeting in 2014" and to also "prepare a document for consideration by the Board at its third meeting in 2014 on the use of other financial instruments."

In the initial draft decision proposed for adoption, the Board was supposed to "adopt the criteria for the terms and conditions of grants and concessional loans". The criteria were not adopted as concerns were expressed by Board members from Germany, the United States, the United Kingdom and France.

Another part of the decision which raised the concern of Zambia related to requesting the

"Secretariat to prepare a document for consideration by the Board at its third meeting in 2014 on the use of other financial instruments, including guarantees and equity investments."

Given that the GCF was now focusing on grants and concessional loans, David Kaluba (Zambia) questioned the need to consider "guarantees and equity investments" as further instruments. This then led to deletion of references to these instruments.

Allocation of resources

On the issue of 'allocation' of the resources of the Fund, the main agreement reached by the Board is as follows:

(a) It decided to adopt a theme/activity-based approach to the allocation of resources in order to meet the Fund's objectives;

(b) It decided that the Fund will initially make allocations under adaptation, mitigation and the Private Sector Facility (PSF), and that there will be balance between adaptation and mitigation and the appropriate allocation of resources for other activities;

(c) It decided that, in relation to adaptation, resources will be allocated based on: (i) the ability of a proposed activity to demonstrate its potential to adapt to the impacts of climate change in the context of promoting sustainable development and a paradigm shift; (ii) the urgent and immediate needs of vulnerable countries, in particular LDCs, SIDS and African States;

(d) In relation to mitigation, resources will be allocated based on the ability of a proposed activity to demonstrate its potential to limit and reduce greenhouse gas emissions in the context of promoting a paradigm shift;

(d) In relation to the PSF, resources will be allocated based on the contribution a proposed activity makes towards promoting a paradigm shift and to: (i) Directly and indirectly finance private sector mitigation to limit and reduce greenhouse gas emissions and adaptation to the impacts of climate change activities; (ii) Promoting the participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries, and activities to enable private sector involvement in SIDS and LDCs;

The Board also requested the Secretariat to develop and present to the Board at its second meeting in 2014 "a resource allocation system, … that facilitates: (i) Cross-cutting proposals; (ii) A results-based approach; (iii) A country-driven approach; (iv) A geographically balanced approach; (v) Private sector mitigation and adaptation activities at the national, regional and international levels."

A key issue was over allocations being based on promoting a "paradigm shift". While developed countries stressed the importance of the need for this, developing countries reminded members that in the Governing Instrument of the GCF, the paradigm shift is in the context of sustainable development. Several developing countries also questioned the need to allocate resources to the PSF, which seemed to be placed at the same level of adaptation and mitigation, when the PSF is viewed as an instrument or tool and not an objective in itself.

Highlighted below are some interventions by Board members in relation to the draft decision proposed prior to the adoption of the above decision.

Dipak Dasgupta (India) said if a paradigm shift is intended, then there is need to know what financial resources are available and there is no symmetry in the scale and urgency in this regard. He also questioned the allocation of resources to the PSF when it is an instrument and not an objective. Rationing of resources is going to happen and in the allocation of resources, there must be a guide between what are objectives and instruments. He said these issues should not be brushed under the carpet.

Omar El-Arini (Egypt) stressed the need to quote the Governing Instrument in full, stressing that the paradigm shift that the Fund will promote is in the context of sustainable development. He also did not understand the allocation of resources to the PSF when it is a tool, unlike the allocation of resources to mitigation and adaptation.

Jose Maria Clemente Sarte Salceda (the Philippines) objected to allocation for adaptation based on its ability to demonstrate its potential to adapt to the impacts of climate change. The impacts are ex-post, he said, and should not be required in the case of adaptation. He also proposed a set aside of allocations for sub-national/local governments and civil society organisations/ local communities.

Sergio Serra (Brazil) asked what a paradigm shift means in the context of adaptation. He was concerned that there were different interpretations about this and the context of sustainable development had disappeared (in the earlier version of the proposed decision).

Manfred Konukiewitz (Germany) said it was important to fund the results sought and this required an ex-ante assessment of the contribution to the paradigm shift. What is funded should be sector wide or economy wide and not isolated approaches. It should be applied to mitigation and adaptation and results can be measured. In adaptation, it is more difficult to measure but not impossible, he said. There is need to make assessments on what is best and effective in looking at various proposals. Assessments should be relative to each country.

Nick Dyer (UK) said that there is need to avoid mechanistic approaches, as in the case of other funds where there is inefficiency and resources are tied up. He wanted a simple and straight forward approach. He supported the view that the PSF also needs to be allocated resources.

Matthew Kotchen (US) was unsure about allocations based on a geographical approach. He said more clarity was needed on resources for adaptation and added that set asides are appropriate for the most vulnerable.

Beata Jaczewska (Poland) said that adaptation is a priority. She agreed with Germany on the need to look at the effectiveness of investments in relation to mitigation, encouraging countries for paradigm shift in their development.

Arnaud Buisse (France) also supported allocations for a paradigm shift rather than being activity based. He wanted a simple approach.

TWN Info Service on Climate Change (Oct13/07)
18 October 2013
Third World Network

Green Climate Fund to support readiness and preparations

Geneva, 18 Oct (Meena Raman) – The Green Climate Fund (GCF) Board has agreed to provide developing countries resources for 'readiness and preparatory support'. This was one of the decisions adopted at its 5th meeting in Paris, France that took place on 7-10 October.

The Board also considered and made decisions on the establishment of the independent Secretariat.

Readiness and Preparatory Support

While Board members agreed that it is important to fund readiness and preparatory support, some of them, such as China and Colombia, stressed that this should not be a prerequisite or conditionality for developing countries to access the GCF's resources. This was also supported by developed country Board members, including Germany and France.

The Board decided that "the Fund will provide readiness and preparatory support to:

(i) enable the preparation of country programmes providing for low-emission, climate-resilient development strategies or plans;

(ii) support and strengthen in-country, Fund-related institutional capacities, including for country coordination and multi-stakeholder consultation mechanisms as it relates to the establishment and operation of national designated authorities (NDAs) and country focal points;

(iii) enable implementing entities and intermediaries to meet the Fund's fiduciary principles and standards, and environmental and social safeguards, in order to directly access the Fund;

It also noted that (i) the scope of readiness and preparatory support could evolve over time and be tailored to address countries' specific circumstances; (ii) the importance of readiness and preparatory support for effective private sector engagement, particularly for small- and medium-sized enterprises and local financial intermediaries in developing countries, and activities to enable private sector involvement in small island developing States (SIDS) and least developed countries (LDCs); (iii) readiness and preparatory support could be provided to all eligible countries, and that its allocation would take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse impacts of climate change, including LDCs, SIDS and African States.

The Board also requested the Secretariat "to present to the Board, at its first meeting in 2014, a detailed programme of work relating to the provision of readiness and preparatory support, with relevant timelines and resource needs…"

It further requested the Secretariat to outline a system for determining the allocation of resources, separate from the support provided from the Secretariat's administrative budget, for readiness and preparatory support, for its consideration at its first meeting in 2014. It further decided that "the urgent need to provide readiness and preparatory support should be reflected in the administrative budget and staffing of the Secretariat and requested the Secretariat to mobilize resources for readiness and preparatory support."

Liang Ziqian (China) said that 'readiness' should not be a prerequisite before countries receive funds as those that are ready should not be held back. He also asked who determines when a country is ready.

Adriana Soto (Colombia) agreed with China that readiness should not become a form of conditionality and did not want it to be a prerequisite as initially proposed in the draft decision (which stated that "readiness and preparatory support ...may be a prerequisite for countries to meet the Fund's objectives"). She said that countries are at different stages of readiness, some of them are already very far in planning.

Derek Gibbs (Barbados) reported on a workshop on readiness that took place in Bridgetown, Barbados from 11-12 July 2013, organised by the Caribbean Development Bank and the German GIZ, held in partnership with the GCF and attended by 40 participants. He stressed that readiness and preparatory support should be a strategic priority of the GCF. He also agreed that readiness is not a precondition but it is clear that developing countries must start preparing themselves now.

David Kaluba (Zambia) emphasised the importance of country ownership and the need for proper human resources at the country level.

Tosi Mpanu-Mpanu (Democratic Republic of Congo) said that readiness is an on-going process and will not happen over-night. He thanked Germany for being an early mover in supporting readiness activities. He also called for the provision of "fast start" finance for readiness and preparatory support.

Omar El-Arini (Egypt) said that readiness support should enable the preparation of country programmes providing for low-emission and climate resilient development strategies or plans and should also support and strengthen in-country institutional capacities in relation to the NDAs.

Manfred Konukiewitz (Germany) agreed that readiness should not be a prerequisite, but it should help all countries to adhere to the standards set by the GCF. He said that the German government is in support of readiness activities and the workshop in Barbados was part of that.

Arnaud Buisse (France) was also in agreement that readiness should not be prerequisite for countries. **Henrik Harboe (Norway)** said readiness is of critical importance as a step to get into concrete activities. **Jan Cedergren (Sweden)** said there were many actors in the landscape of 'readiness' who need to be considered, including South-South cooperation.

Establishment of the independent Secretariat

The Board reviewed a document on the 'Initial structure and staffing of the Secretariat' which was proposed by the Executive Director (ED), Hela Cheikhrouhou, and agreed with the proposal. It also authorized the ED to recruit initial staff as was proposed by her.

Several Board members while supporting the ED in general, also raised issues on her proposals. In particular, concerns were raised over the organisational diagram, which presented the adaptation and mitigation windows under one division with one director and four staff, while the Private Sector Facility (PSF) as a separate division with one director and four staff.

Dipak Dasgupta (India) requested clarification on why the PSF had a separate division when the mitigation and adaptation windows were lumped together. He said mitigation and adaption are two very different things and asked why the PSF and the mitigation/adaptation divisions had the same number of staff.

Audrey Joy Grant (Belize) said she was taken aback by the lumping together of adaptation and mitigation windows. She said support for readiness has to be elevated with a separate staff for this and also stressed the need to look at geographical and gender balance in recruiting staff. **Derek Gibbs (Barbados)** expressed similar views.

Ayman Shasly (Saudi Arabia) said that besides having a gender-balance in the staffing, there is need for ensuring regional balance as well. He also said there is need to have a staff person work on public sector resource mobilization. He further wanted a separation between the mitigation and adaptation windows as this would help in terms of accountability.

Omar El-Arini (Egypt) said that ED needed to be empowered to start the Independent Secretariat and hire a core staff with temporary contracts if necessary. She must be able to go to Songdo, South Korea (the host of the GCF) and be there before the end of the year.

Arnaud Buisse (France) said he shared the same concerns as Dasgupta and Grant. Similar views were also expressed by Jozef Buys (Belgium) and Henrik Harboe (Norway).

Manfred Konukiewitz (Germany) stressed the importance of gender balance in the staffing as an objective.

Kentaro Ogata (Japan) said the PSF is a feature quite unique to the GCF and supported a separate wing for the PSF. Matthew Kotchen (US) also stressed the importance of having the PSF as a separate unit as it required different skill-sets for staff.

Hela Cheikhrouhou (ED) said the document prepared for the Board was just an initial structure to get the independent Secretariat going, and that it will evolve. The first two years will be a lot about getting ready for receiving the initial capitalization, raising awareness in the developing countries, work with countries on choosing the NDAs etc. The three divisions (country programming, mitigation/adaptation and PSF) are all geared towards supporting the Fund's readiness. The PSF experts have to work directly and indirectly with governments on how to attract the private sector for jobs.

In response, **Dipak Dasgupta (India)** reiterated that there is a huge difference between mitigation and adaptation and there is a need for ensuring a right balance. He suggested more reflection on the part of the ED in this regard. **Cheikhrouhou** agreed on the need to have a balanced approach.

Green Fund adopts key decisions on operations

Bali, 3 March (Meena Raman) – The Board of the Green Climate Fund (GCF) met in Bali, Indonesia on 19-21 February and made key decisions to advance the institution's operations.

The GCF is established under the United Nations Framework Convention on Climate Change (UNFCCC). The 6th meeting of the Board was co-chaired by Jose Salceda (the Philippines) and Manfred Konukiewitz (Germany).

Among the key decisions adopted relate to guidelines for the allocation of resources during the Fund's initial phase; the development of a comprehensive work programme on readiness and preparatory support for developing countries (for which the governments of Germany and Republic of Korea committed to contributions amounting to a total of USD 30 million); the terms of reference for the Independent Evaluation Unit, the Independent Integrity Unit and the Independent Redress Mechanism and the integration of gender considerations in its policy documents including defining a gender action plan in October 2014.

Progress reports prepared by the Secretariat on various aspects were also discussed, relating to the Fund's design such as its result management framework, the risk management and investment frameworks, the accreditation framework, the proposal for an approval process and the structure of the Fund, including the Private Sector Facility.

Other important elements discussed were country ownership, including the no-objection procedure (for all proposals for funding to go through a no-objection procedure conducted through the national designated authorities); best practices for the establishment and composition of the national designated authorities and focal points and best practice options for country coordination and multi-stakeholder engagement; additional modalities that further enhance direct access, including through funding entities; and financial terms and conditions of grants and concessional loans.

Two matters that took a significant amount of time of the Board's consideration were on the 'Administrative policies of the Fund' and 'travel policy'. A decision on the former was reached but in relation to the latter, no decision was reached at the Bali meeting. On the travel policy issue was disagreement between board members from developed and developing countries on whether all developing countries should be eligible for travel funding to attend meetings. The developing countries did not want any eligibility criteria to be imposed. No consensus was possible on the matter.

An issue that drew the flak of observers from civil society organisations (CSO) was the selection of their representatives to the Private Sector Advisory Group (PSAG). They expressed grave disappointment with the selection process of the two civil society representatives by the Board, which ignored the CSO selection of their own representatives. The active CSO observer from developing countries said that CSOs had proposed their nominees to the PSAG and had hoped that this would be respected by the Board, as was the practice in the UNFCCC and in the selection process of the GCF's active observers. Since it was learnt that their candidates were not selected, the CSO representatives approved by the Board could not speak for the CSO constituency, said the CSO active observer from Third World Network.

The decision on the allocation of resources during the initial phase of the Fund was adopted after much wrangling and intense discussions among Board members, especially on an initial proposal by the Secretariat for the consideration of the Board that imposed a cap or "a ceiling of 5% for any one country's share of total cumulative commitments" (of the Fund).

This proposal drew a sharp response from large developing countries led by China which viewed the approach as not being scientific. It also stressed that the Fund was not a development but an environment fund. China's position was supported by India, Brazil and Saudi Arabia but was countered by South Africa, which insisted on the cap. South Africa's stance was supported by the Democratic Republic of Congo (DRC), Zambia and Ecuador.

Brazil said the Board was discussing the allocation of the "pizza without any dough", referring to the fact that the size of the resources of the Fund is yet to be known, a sentiment also echoed by Egypt. Egypt said the "bargaining was bizarre" when the initial capitalisation of the Fund was not known.

The final decision adopted did not provide for a cap but did agree that there would be "a review of the initial allocation parameters and guidelines, including of concentration risks, subject to the size of the Fund, no later than two years from the start of allocation of resources." The risk of concentration of resources of the Fund in a few developing countries was a final compromise reached to address the issue of equity in the distribution of the Fund's resources.

Another matter relating to the allocation issue was the proposal by several developed countries to raise the allocation level from the initial proposal of 20% to 50 % for the Private Sector Facility (PSF). This drew a harsh response from several developing countries including from India and Egypt who questioned this approach when the role of the PSF was yet to be ascertained. The final decision adopted did not have a numerical figure for the allocation to the Facility but it was agreed that it would be 'significant'.

Allocation of resources

The following decisions on the initial parameters and guidelines for allocation of resources during the GCF's initial phase were adopted by the Board:

i. to aim for a 50:50 balance between mitigation and adaptation over time;

ii. to aim for a floor of 50% of the adaptation allocation for particularly vulnerable countries, including least developed countries (LDCs), small island developed States (SIDS) and African States;

iii. to manage access to resources with a view to seeking geographic balance and a reasonable and fair allocation across a broad range of countries, while maximizing the scale and transformational impact of the mitigation and adaptation activities of the Fund;

iv. to maximize engagement with the private sector, including through a significant allocation to the PSF;

v. that sufficient resources should be provided for readiness and preparatory support; and

vi. that all allocation parameters should be determined in grant equivalents.

The decision also requested the Secretariat to report annually on the status of resources in respect of the allocation parameters and the Board agreed to "undertake a review of the initial allocation parameters and guidelines, including of concentration risks, subject to the size of the Fund, no later than two years from the start of allocation of resources."

Highlights from the exchanges among Board members on the allocation issue are set out below.

Zaheer Fakir (South Africa) stressed the importance of balance, relevance, equity and opportunities for all developing countries to the GCF funds. In terms of balance, he wanted to see the balance maintained between adaptation and mitigation and a proviso that at least 20% of that is available for the PSF for both adaptation and mitigation. On relevance, he said the Fund should be of scale to address the climate challenge. On equity, Fakir said there should be equal opportunities for all developing countries. He wanted a 5% country cap with an exception to address scale of the transformation impact. Fakir also called for a floor in the allocation for SIDs and LDCs of 20%, not just for adaptation but also for mitigation.

Tosi Mpanu-Mpanu (DRC) wanted a clear allocation of 50% for adaptation. He also supported a country cap of 5%, saying that past experiences based on the Clean Development Mechanism (CDM) had benefited a few countries more than others.

Monica Hidalgo (Ecuador) agreed that the allocation of resources has to be balanced, equitable and fair. The definition of a cap was seen as controversial, but unwillingness to avoid concentration negates the notion of fairness and equity, she added.

David Kaluba (Zambia) also echoed the need for balance in the allocation of resources and that both adaptation and mitigation are important to LDCs, SIDs and African states. He also did not want a repeat of the CDM experience where only a few countries benefited.

Liang Ziqian (China) said that it could not accept a cap on the allocation of resources to developing countries. He said he understood the concerns expressed but suggested putting a floor or a minimum allocation instead, which could be increased by discussions. The Chinese Board member said that the GCF is not a development fund but an environment fund to address climate change, whose aim is to maximise the environmental benefit. Climate change has no boundaries and countries have to mitigate.

Omar El-Arini (Egypt) said that no one had any idea of the size of resources of the GCF. If the size was known, then talking of percentages would have significance. He called for a different system of allocation based on what was in the Governing Instrument of the GCF; which refers to allocation for vulnerable countries such as LDCs, SIDs and African states. He said there could be a cut of 10% for preparedness and readiness activities, which will enable the understanding of the needs of developing countries. The balance 90% can then be divided between mitigation and adaptation. The PSF is not ready yet and once it was, it could address both mitigation and adaptation.

Sergio Serra (Brazil) also said that members had no idea about the size of the resources. Discussing the percentages in this context had no meaning and was surreal. He said members were "making a pizza without the dough". Serra stressed that the GCF was a climate change fund and was not conceived as a development fund. Hence, it needed to deal with question of impact in addressing climate change and for transformation on a global scale. He said the 5% cap level was an arbitrary figure. Agreeing that one should not repeat the problem of the CDM, he said there is need to have a review mechanism.

Dipak Dasgupta (India) said on the issue of equity, there needs to be a sense of justice that the small countries should not be left behind. There must be a balance between mitigation and adaptation and he called for a 50:50 allocation. The Fund also needs to result in impact on a scale that matters. Referring to the PSF, Dasgupta stressed the importance of competition to ensure innovation with the public sector engaging with the private sector to do the innovation in support of public goods. Hence, the reference to significant allocation should be with a view to getting innovation results on the ground.

Ayman Shasly (Saudi Arabia) stressed the need for the Board to rely on information for designing the allocation of the Fund on the (Fifth Assessment Report) of the Intergovernmental Panel on Climate Change (IPCC) on mitigation and adaptation. He said that Board members appeared to be oblivious to the debates going on at the IPCC.

Patrick McCaskie (Barbados) said the allocation system must be fair and equitable, taking into account the needs of the vulnerable countries and must be climate effective. There is also need to give assurance to all developing countries that they can benefit in an equitable manner and avoid country concentration through a trigger instead of having a cap.

Henrik Harboe (Norway) said that the Board should not establish percentages which are too rigid. He asked if there could be a cap for developing countries with the flexibility to allow for transformative activities.

Norbert Gorissen (Germany) agreed with China that this is a climate fund and not a development fund and there is need to have competition for good projects. He wanted a numerical figure for the allocation to the PSF.

Ana Fornells de Frutos (Spain) preferred an indicative cap for developing countries and for the Board to review projects and programmes to assess if the Fund was achieving its goals.

Marisa Lago (United States) said the Board should only agree here on broad indicative terms on ranges and not on fixed allocation as aspirational targets since so much is still in flux. If members are discussing numerical targets, then we should start with the assumption that the PSF should receive at least 50 % of the allocation, focused on having the most "bang for the buck".

Kentaro Ogata (Japan) said that being most cost-effective means focusing on the PSF. He echoed the view that it might not be sensible to set rigid targets at this point as discussions were still on-going on the modalities for adaptation, mitigation and cross-cutting areas.

Arnaud Buisse (France) said that several principles were articulated in the Governing Instrument viz. balance between mitigation and adaptation and to address the needs of the SIDS and LDCS. Fairness means ensuring that low income countries do not have to compete unfairly with other countries. However, there was need also for some **flexibility.**

Josceline Wheatley (UK) said that the Board needs to look at allocation with the question of what is the intent. There needs to be a right for balance mitigation and adaptation; having a floor is clear and there needs to be agreement with the principle for preferential access and greater predictability. On the issue of ceiling, it was a matter to help with excessive demand management and the intent is right that it should be to address demand across the board and not just in a few countries. On the PSF, he did not understand why they should be a cap as it was a way of bringing finance in. If there is to be a cap, it should be considerably higher for the PSF, at least 50 % and there should be no restraint on this.

After the adoption of the decision, Zaheer Fakir (South Africa) wanted the following statement to be in the record of the meeting:

"Our preference for a reasonable and fair country allocation system requires the consideration of a flexible country cap, that will ensure that excessive concentration of resources is avoided, that a balanced distribution of resources is guaranteed, and that all countries will have equal opportunities for accessing the resources of the fund, while allowing for transformational projects to be considered on an exceptional basis under the flexibility allowed. The allocation systems which we introduce must be reflective and in the spirit of be within the ethos, intention and objective of this Fund as captured in the GI of the GCF."

(Further articles will follow).

TWN Info Service on Climate Change (Mar14/02)
4 March 2014
Third World Network

Green Fund discusses country ownership and readiness support

Bali, 4 March (Meena Raman)- An interesting and important exchange of views took place at the recent meeting of the Board of the Green Climate Fund (GCF) on the issue of country ownership and the role of the national designated authorities (NDAs) in relation to funding proposals to be forwarded to the Fund.

In a paper prepared by the Secretariat for the consideration of the Board at its 6th meeting in in Bali, Indonesia from 19-21 Feb, the Board was supposed to approve an initial "no-objection procedure for funding proposals".

As stated in the paper, "the purpose of the no-objection procedure is to ensure consistency with national climate strategies and plans and a country-driven approach and to provide for effective direct and indirect public and private sector financing by the Fund. A no-objection is a condition for approval of all funding proposals submitted to the Fund."

In issue was a proposal by the Secretariat for a "tacit no-objection" after a time lapse of 3 weeks of the submission of a funding proposal by an intermediary or implementing entity to the NDA or focal point at the country level.

Many developing country Board members were opposed to such a tacit no-objection procedure and wanted funding proposals to be considered by the Fund only when there was an express and explicit support from the NDA/focal point for a funding proposal, with some suggesting a 60 day timeframe for the consideration of the proposal.

Another issue which was problematic and saw a divergence of views was a proposal in the Secretariat paper for the "Private Sector Advisory Group (PSAG) to make recommendations …for additional or special provisions regarding simplified procedures for certain activities or special types of projects."

(The PSAG's role is to make recommendations to the Board on the Fund-wide engagement with the private sector and is comprised largely of private sector representatives from developed and developing countries).

Several Board members from developing countries questioned the need for a "differential treatment" of proposals relating to the private sector, while some developed country Board members advocated the need for special treatment of proposals from the private sector. The Board member from Egypt said that a separate procedure for the private sector would confirm his "worst fears" that the Private Sector Facility (PSF) would be separate from the GCF.

These issues and other divergences prevented the adoption of a decision by the Board at the Bali meeting which then agreed to task a 4-member team to continue undertaking their deliberations on the issue and to report back to the Board at its next meeting (in May this year) with a proposal for decision. The team comprised of Board members from India (Dipak Dasgupta), Egypt (Omar El-Arini), Switzerland (Anton Hilber) and the United States (Alexander Severens).

An important outcome of the Bali meeting was a decision on "readiness and preparatory support" which tasked the Secretariat "to elaborate a revised detailed programme of work" for the consideration by the Board at its next meeting.

Country ownership and the no-objection procedure (NOP)

On the issue of country ownership and the NOP, below are highlights of some of the views expressed.

Liang Zqian (China) said that he would not endorse the suggestion of a time lapse for a tacit NOP. The 3 week time limit is not sufficient as NDAs need to communicate with stakeholders on the funding proposal submitted to it. The NDA should reach agreement with the implementing entities as soon as possible and it has to present the no objection letter in writing to the Secretariat. Liang proposed that the Secretariat design a uniform no-objection letter.

David Kaluba (Zambia) questioned why the private sector should have special provisions. The NOP should be the same for all; otherwise, we are compromising the intention of such a procedure. He also stressed that there is need to minimise the top down approach in deciding which ministry or department in a country should host the NDA. Countries have different circumstances and the Board should not be limiting the ability of a cross-cutting authority like a President's office by saying that the NDA should be in a ministry. Countries should be requested to come up with institutions with adequate authority. There are projects supported by the Global Environment Facility and the Climate Investment Funds (CIFs) who have identified focal points or designated authorities already and there is need to ensure that the GCF does not re-invent the wheel.

Sergio Serra (Brazil) was of the view that a tacit NOP is not acceptable. There needs to be written objections such as that which works well with the CIFs. He said that stakeholder consultations are important; adding that in Brazil, its climate change policy is subject to hearings. He expected the same with any project to be submitted to the GCF. Serra expressed misgivings on the proposal to have the PSAG make recommendations to the Board on the NOP, saying that the procedure should be homogenous. The same rules must apply whether for public or private sector projects, he added further.

Omar El-Arini (Egypt) reminded Board members on how the issue of the NOP came to be. He recalled that the Board was requested to develop a transparent NOP through the NDAs in order to ensure consistency with national climate strategies and plans for effective public and private financing by the GCF. The Board was also requested to determine this procedure prior to the approval of funding. The NDA will have to clear the funding approval. On the NOP proposed, he echoed China, Zambia and Brazil in opposing the tacit NOP. Given that the process will involve continuous consultations especially if high officials are involved, he proposed a 60 day time frame for the NDA to give its views.

El-Arini added that when the private sector is mentioned, he thinks of the private sector in his country, which will be part of the national strategy to achieve the climate objectives. In the case of the international private sector, he did not see why they need to be involved through the PSAG in providing any inputs into the NOP. He recalled that the Board had decided previously that the PSF is under the GCF and is not a separate fund. If a separate procedure is now requested, then it confirms "our worst fears that they (the PSF) is separate and will grow to be the Fund", he stressed further.

Monica Hidalgo (Ecuador) expressed reservations as regards the tacit approval proposed, adding that silence from national authorities can never be considered as consent, especially if their role is to ensure that any project or progamme is in line with national strategies or plans. A tacit approval would therefore be a threat to the role of the NDAs or focal points in their roles. Hildago was also concerned with the invitation made to the PSAG to make further recommendations on the NOP. She said this posed a clear conflict of interest as most of the members of the PSAG represent entities that may submit private sector funding proposals.

Pedro Garica Brito (Dominican Republic) agreed with El-Arini and Serra and called for a 60 day time period for the NDAs to consider the funding proposal.

Zaheer Fakir (South Africa) said that country ownership is not just about endorsing funding proposals but has to go beyond that to reflect the broader developmental and economic context of a country. He asked if the NOP is a way to entrench country ownership or if Board members were merely addressing it because the Governing Instrument of the GCF says so. Fakir said that the Secretariat paper was theoretical. There were a lot of guidelines for the NDAs but this approach does not work. Guidelines may be good but countries are not homogenous and that needs to be taken that into consideration.

Marisa Lago (United States) said that there should be a right balance between getting country ownership and for the NDA to not unnecessarily hold up the funding proposal. She expressed concern for "an affirmative determination" by the NDA. There is need to distinguish between the public and the private sector funding proposals, she added further.

Per Callesen (Denmark) said that the main message of the Secretariat paper was as if country ownership is viewed negatively; that it is to block or stop projects from being funded. Country ownership is all encompassing and is positive; as the engagement of country authorities and partnerships is to the benefit of everyone. He was however fine with the proposal made by the Secretariat paper on the NOP.

Readiness and preparatory support

The Executive Director of the GCF, Héla Cheikhrouhou informed the Board of contributions from Germany and South Korea in support of the readiness activities.

It is learnt that the two governments have committed to contributing a total of US30 million in this regard. Many of the Board members stressed the need for the GCF not to duplicate the initiatives or activities of other UN agencies or MDBs who are carrying out readiness efforts but to build upon them.

Highlights of some exchanges in this regard are set out below.

Omar E-Arini (Egypt) said that the Board is yet to have any project eligibility criteria and there is also no programme for readiness. He said that Secretariat is still short of staff, while there are United Nations agencies which a have track record in doing readiness activities. He said the Secretariat could engage one or more of these agencies to help. El-Arini suggested that the Secretariat concentrate on 25-30 countries that ensures geographic and economic balance. He stressed the importance of support for the establishment of the NDAs. He called for a work programme for the Board to approve.

David Kaluba (Zambia) expressed agreement with El-Arini and the need to build on existing readiness initiatives and not to reinvent the wheel. The Secretariat could use the experience of others to reduce the costs and not to duplicate efforts.

Norbert Gorissen (Germany) also agreed on the need for the GCF to link to on-going readiness activities. He said the Secretariat could play a role as a clearing house in the mapping of activities and as a one-stop agency; it could further develop the work plan and consult with those who are already doing work in this arena. He wanted the work not to be delayed and proposed that the Secretariat comes back with a more elaborated work plan for the next meeting.

Patrick McCaskie (Barbados) said that readiness support is crucial for the small-island developing states (SIDs) for strengthening their capacities for resilience both economically and socially. He said the priority areas should be well defined and should target the different steps of engagement viz. the selection of NDAs; to proposal development and project and programme delivery. Results monitoring should also be considered as a core element. There should also be support for strengthening in-country capacity and data collection as well as management systems. He recommended that the Fund work coherently at the national, regional and international levels. Initiatives that already exist should be supported and built upon. The GCF programme should be about coordination; be an information hub, a catalyser and multiplier. Readiness should be a strategic priority of the Fund and that should be reflected in its staffing.

Liang Ziqian (China) speaking also for South Korea (who is his alternate), said that it is important to avoid duplication and overlaps among different types of readiness projects which are conducted by MDBs, UN agencies etc. He said that it is crucial to mobilise local consultants when delivering support. He also called for a revised work plan with clear modalities and with initial readiness activities.

Tosi Mpanu-Mpanu (Democratic Republic of Congo) wanted the readiness support to develop the capacities of institutions especially for the NDAs and for processes for multi- stakeholder engagement. He also supported readiness activities to help small and medium sized enterprises as larger enterprises have sufficient resources. Support measures include capacity building efforts. The PSAG should not have a role in readiness as this would be an overreach of its mandate and could involve conflicts of interest.

Jan Cedergren (Sweden) said he would like to see the GCF and the Secretariat as a clearing house that will be helpful for actors in the field. Readiness activities are also a good area for south-south collaboration with the linking of useful experiences. He would like to see technical assistance and capacity building as part of project and programme budgets of countries rather than as separate budgets for preparedness activities.

Kentaro Ogata (Japan) also stressed the importance of not duplicating other efforts and agreed that the Secretariat should be primarily a clearing house.

Following the interventions, the following decision was adopted by the Board:

"(a) The Secretariat is requested to elaborate a revised detailed programme of work, for consideration by the Board at its seventh meeting, that includes the following:

- Readiness activities to be undertaken in countries based on requests for support resulting from a consultation with countries and stakeholders;

- A delivery plan for the implementation of these readiness activities. The delivery plan will be developed in consultation with countries and existing initiatives. It will include a timeline and modalities for implementation;

- Options for entering into partnerships with existing initiatives, including of

sub-national, national, regional and international actors, in order to implement the readiness activities supported by the Fund;

(b) Decide that from the resources available or to be made available in the Green Climate Fund Trust Fund, the allocation of funds in the amount of US$ 1 million to the Secretariat for the preparation of a detailed programme of work...;

(c) The Secretariat is requested to seek transparency, complementarity, and coherence amongst existing initiatives, and to establish and maintain an information-sharing platform and dialogue and facilitate South-South exchanges;

(d) The Secretariat is requested to review the modalities for the delivery of readiness support once the Fund's accreditation and allocation policies are approved, with a view of ensuring consistency with the other established operational modalities of the Fund, for consideration by the Board…;"

The next meeting of the GCF Board will be in Songdo, South Korea, where the GCF Secretariat is located and is scheduled to take place from the 18-21 May, 2014.