

Transition Committee workshop discusses Climate Fund design

Bonn, 7 June (Meena Raman) –In discussing the operational modalities of the Green Climate Fund, several developing countries cautioned against over-estimating the role of the private sector and the carbon markets in generating climate finance while developed countries stressed their importance.

This debate took place at the first technical workshop of the Transitional Committee (TC) for the design of the Green Climate Fund (GCF) under the United Nations Framework Convention on Climate Change held in Bonn, Germany from May 30- 1 June.

Many developing countries emphasized that the GCF needed predictable and sustained funds and that this was only possible through public sector financing on an assessed basis.

However, some countries also expressed caution that the TC should not be discussing the sources of funds as this was the remit of on-going negotiations under the Ad-hoc Working Group on Long-term Cooperation (AWGLCA).

On the scope of the GCF, the United States expressed caution that the GCF should not seek to resolve the political commitments of Parties, and said that there would not be USD 100 billion a year in the GCF. It said that there were many sources of funds which are complementary and the GCF did not have an exclusive role.

On the issue of monitoring and evaluation, many members of the TC, from both developing and developed countries expressed that the fiduciary standards as well as the environmental and social safeguards should not be prohibitive for developing countries and hinder their access to the funds.

Below are some highlights from the intervention of TC members in work-streams 1, 3 and 4. (Please refer to our earlier report for discussions on work-stream 2). (The 4 work-streams are (1) scope, guiding principles and cross-cutting issues; (2) governance and institutional

issues; (3) operational modalities; and (4) monitoring and evaluation.)

Work-stream 3 on 'Operational Modalities'

According to the co-facilitators' note, this work-stream addresses the following issues:

- (1) Methods to manage large scale financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities (including direct access), with objective of balanced allocation between adaptation and mitigation;
- (2) Methods to mobilize and leverage private sector finance (foreign and domestic);
- (3) modalities for contribution to the Fund;
- (4) Financial instruments the fund can use to achieve its priorities;
- (5) Methods to ensure balanced mitigation/adaptation allocation;
- (6) Mechanisms to ensure expert and technical non-binding advice, including from relevant thematic bodies under the Convention and
- (7) Mechanisms to ensure stakeholder input and participation

The **United Kingdom**, on the issue of the private sector, said that it was important to ask what the private sector would prioritize if they had resources. Hence, it asked for good analysis on identifying where gaps are in the in the existing financial architecture and what new instruments were needed to leverage these resources.

On private finance, it was important to distinguish between private financing substituting for public financing and how to use public subsidy to leverage private finance. It said that it was referring to the latter. The UK also suggested considering insurance as a way of hedging in relation to climate variability

On the issue of direct access, the UK asked how this could be structured in the GCF window. It enumerated reasons why direct that direct access was good -- it improves responsiveness; gives choice on what to fund and who would fund it; gives control and choice to the lowest level possible and has potential to improve accountability. It said that the principles in the Paris Declaration on Aid Effectiveness were being reviewed

and this needs to be looked at in relation to the issue of direct access.

Belize said that the modalities for contribution should accept resources from a wide range of sources, both public and private, including grants and investments. Public sources should be the primary source through direct contributions from developed countries on an assessed scale. Other sources from the carbon markets, taxes and levies can be supplementary.

Philippines also stressed that the principle source of financing should be from the public sector and other sources would be supplementary. It said that the predictability of funds through an assessed contribution was key. It said that the use of market mechanisms is a problem in ensuring environmental integrity as it would shift emission reductions from developed to developing countries.

Nicaragua expressed concern over the focus on the private sector not in a complementary role but as a substitute for public financing. It called for support for direct access which must come mainly from ear-marked and assessed contributions, and be predictable on a long-term basis. It expressed caution over viewing the GCF as an investment promotion agency.

Ethiopia said that private sources of funding are more volatile.

Canada said that there was need to address how public funds can mobilise private financing with sustainability criteria.

Spain said that creating a new fund which is part of a new international financial architecture that is transformational and ambitious needs new sources of finance that are predictable and innovative.

China said that it was not the mandate of the TC to deal with the specific sources of funding especially where there were different views and there are ongoing negotiations. It also said that the private sector role is only complementary and cannot be overestimated. The involvement of the private sector from developed countries in emissions trading in developing countries cannot be regarded as climate change financing because this is double counting, as it goes to the counting of emissions reductions of developed countries.

Brazil said that there was little doubt that the GCF should cope with different sources of funds although the sources are still matter of debate and ongoing negotiations. It said that it was important for the TC to design and know what decisions have to be made and what will not pre-judge or hinder the on-going negotiations.

United States was also troubled by discussion about the sources of funds and said that the TC was not the

best forum for it. The focus should be on the design of the GCF. On the private sector, it said that it was important to see how they can be leveraged and suggested having a conversation with the private sector to identify specific areas.

Egypt said that in the short-term, resources for the Fund must come from public sources. The first 3 to 5 years are the formative years and there needs to be a predictable amount of money which can be assessed. There needs to be an estimate of what is core funding or seed fund. The core funding should be reasonable and predictable and should create confidence in the system.

India said that it was premature to discuss the sources of contributions as addressing modalities means ensuring predictability of resources. There was need to ensure how the flow of funds can be recurring, sustainable, predictable, additional and measurable. Logically, public financing is the only sustainable way of ensuring predictable resources.

If funds are generated through the markets, there are risks and thus there is the question of who is addressing these risks. The needs of the climate cannot be predicted in a manner in which returns are expected by the private sector. Governments at the national level can involve the private sector but not at the global level.

Singapore said that the discussion on sources goes beyond the remit of the TC. Sources from taxes on aviation and maritime transport have impacts on small island states and views on the sources should not jeopardize the design of GFC.

France on the modalities for contribution, said that there was need to know first what type of instruments are involved and there could be different scenarios from 3-5 years on the scale and sizes of allocations. It also said that there was need for a structured dialogue with the private sector not only in the design of the GCF but also early in the project cycle. France wanted a window in the GCF for private sector participation. It wanted the GCF to be attractive enough for funds from the capital markets.

Saudi Arabia said that direct access is key to avoid fragmentation of funds and any funding outside the Convention should not be regarded as fulfillment of obligations under Convention.

Spain said it was important to see the public sector cooperating with the private sector but members should not promote business for the private sector. Instead the focus should be on what we want them do. It also suggested insurance to deal with extreme weather events, and also mobilizing resources from the carbon market. **Germany** wanted to also see how insurance schemes can be included in dealing with risk management.

Work-stream 4 on 'Monitoring and Evaluation'

According to the Co-Chairs' note, this work-stream will address two main areas (A) and (B).

(A Evaluation mechanism for overall performance of Fund – results achieved, efficiency, effectiveness – (1)Take account of the goal and objectives of the fund; (2) Look at mechanisms and learn from the experience of other climate and other relevant Funds; (3) Consult with evaluation experts (4) Need for practical and not complicated mechanism; (5) Consider specific characteristics of GGCF, potential multiplicity, its variety of windows, instruments; (6) Consider special circumstances, relevance, concerns, national priorities of LDCs and SIDS; (7) Consider need for initial baselines to facilitate evaluation studies; (8) Consider institutional aspects of periodic independent evaluations

B. Activities supported by the GCF: B1-- Evaluation and monitoring of activities to ensure environmental and social safeguards; (1) Define concept of environmental and social safeguards;

(2) Consult other organizations with same systems; (3). Develop simple guidelines to be used by clients and GCF; (4) Consider institutional aspects of implementing this monitoring and evaluation and division of responsibilities;

B2 -- Ensure financial accountability, good fiduciary standards and sound financial management (1) Definition of financial accountability, good fiduciary standards and sound financial management; (2) Consult other funds and organizations re good experience and systems eg Adaptation Fund; (3) Consult financial experts in relevant international organizations; (4) Develop standards that are not prohibitive to developing countries; (5) Guidelines and protocols, considering national circumstances of developing countries; (6) Capacity and technical support to clients in financial area; (7) Institutional aspects of developing this mechanism and division of responsibilities.

Germany said that the monitoring and evaluation should be linked to the purpose of the GCF to stay below the 2 degree C and to deal with the inevitable consequences. There is need for evaluation also of the Board, trustee and secretariat. Monitoring should be an ongoing exercise.

Italy said that on the safeguards, there is need for harmonisation with others and to be clear as to how safeguards will apply especially in direct access.

Singapore said that what is essential is the idea of a bottom up evaluation and not just to focus appears to be on a top down process.

United Kingdom said that it is important for donors to justify to tax payers that the money is spent effectively.

The challenge is to integrate good strong monitoring and evaluation into the work of the GCF.

Spain said that there was need to integrate the evaluation with the recipients of the funds, not only those who manage but also those who benefit from project and the donors. It said that there was need to define financial accountability, as well as the environmental and social safeguards. The environmental and social safeguards should not be prohibitive, not only in terms of cost alone but must be feasible.

Bangladesh, who is one of the co-facilitators of this work-stream, in response, said that support for the Small Island Development States (SIDS) and LDCs should not be eliminated due to the issue of the safeguards.

India supported the view that the evaluation should not only be done on the achievement of outcome but also on the impact on ground level which is done in a participatory and bottom up manner. The reason is the outcomes are not decided at a global level but in the course of national development strategies especially mitigation and adaptation. The outcomes and goals are part of the national strategy. The monitoring and evaluation should not be limited to the achievement of outcomes but also of monitoring additionality of funds.

Democratic Republic of Congo said that effective governance requires appropriate checks and balances to assess performance and enable course corrections when required. Independent monitoring and evaluation of the fund, fund entities and fund operations and projects plays a key role in enhancing decision-making, accountability and effectiveness. Monitoring and evaluation is required on a number of related levels -- Fund level entity level, thematic level and project level.

Monitoring and evaluations must be independent to be informative. In this regard, a body or bodies that are independent of the Fund Board, Secretariat and other entities should undertake the monitoring and evaluation function, while also remaining accountable to the Board and the Parties.

Work-stream 1- Scope, guiding principles, crosscutting issues

According to the co-facilitators' note, this work-stream addresses the following areas: (1) Objectives -- why the GCF is it different; broad objectives and guiding principles; (2) Principles; (3) Thematic scope/ windows – how many windows and the activities in each window; all windows now or possible additions later; define mitigation/adaptation balance ; (4) Size and scalability – size of GCF compared to existing funds, what is large scale (minimum/maximum volume?), should GCF design be scalable over time or design match volume goal immediately? (5) (i) Country led approach (how to

encourage this principle; how to ensure it alongside safeguards and financial standards and management); (ii) Results based approach – how to encourage it among thematic areas, and options to implement it, including possible different approaches per thematic area; (6) Value added and complementarity of fund – Fund's value added to be put in design and operations; what is GCF role among climate finance entities; how will GCF ensure complementarity in activities vis-à-vis other bilateral, regional and multilateral mechanisms and institutions?

Samoa for the **AOSIS** said that the GCF should support low carbon, equitable, sustainable development on basis of common but differentiated responsibility and to overcome the proliferation of existing funds and to ensure the predictability of long-term public finance. It said that 50% of the funding should be for adaption and be on a grant basis. The guiding principles should include that it must benefit every developing country and equity be applied in ensuring access to especially those who need it most.

Germany said that the objective of the GCF should be to facilitate transformational efforts of developing countries to contribute towards global warming staying as much below 2 degree C, with a significant deviation from business-as-usual. It should also support adaptation actions that can assist climate resilient development.

The **United States** said that the CGF should be a state of the art for financing climate that leverages private sector confidence. It should be attractive to donors and the private sector. It expressed caution that the GCF should not seek to resolve the political commitments of Parties. On the size and scale, it said that the GCF should be designed in ways that allows for transformational investments. It said that there would not be USD 100 billion a year in the GCF and that there are many sources of funds which are complementary and the GCF does not have an exclusive role.

Philippines said that members talk about transformation, it should also be in the way we deliver funds.

Ethiopia said that there is need to have a sense of the magnitude of funds in the GCF by 2020 otherwise the TC's work would not be fruitful. There is also need to agree on what the allocation of funds between mitigation and adaptation. It asked what portions of the funds will be directly implemented by the GCF and through other agencies.

Denmark said that the GCF should be efficient, country-driven and managed locally by a designated entity, as a centralized organisation will not be efficient. The GCF should be simple, flexible, quick and efficient.

Nicaragua said that the Paris Declaration on Aid Effectiveness and the Accra Agenda were drafted outside the UN process and therefore, its standards which are not negotiated by all are difficult to accept.

Brazil said that the GCF should address both the quantitative and the qualitative gaps in terms of the scale of financing and the support for programmes and policies that will have a transformative impact on the ground. Every country should be guaranteed access, it said.

Sweden said for transformational change, the GCF must enhance country ownership and direct access must be promoted.

India said that the Cancun decision made clear that that GCF should have a flow of resources which are predictable, new and additional. These are the agreed principles and the TC must ensure the achieving of these principles.

Democratic Republic of Congo said the GCF must be consistent with the basic principles of the Convention of common but differentiated responsibility and equity. It must also be consistent with the principles of being new and additional with an assessed contribution.

China said that the objective of the GCF should be for long-term financing in all the thematic areas of the Bali Action Plan, viz. adaptation, mitigation, technology transfer and capacity building with specialized windows and it must be adequate to meet the needs of developing countries.