

Policy Background: Green Climate Fund

COP 16 Decision: To establish a Green Climate Fund (GCF), to be designated as an operating entity of the financial mechanism of the UN Framework Convention on Climate Change. ([Decision 1/CP.16](#): Para. 102-111, Annex III.)

Timeframe: Designs of the fund to be concluded by and approved at COP 17 in December, 2011.

Size: Portion of \$100 billion goal (total size unclear), including the majority of adaptation finance.

Design: Transitional Committee will design the fund, with assistance from the Technical Panel.

Trustee: World Bank to be the interim trustee for three years.

Secretariat: Independent Secretariat to be established.

Access: Direct Access through National Implementing Entity or International Implementing Entity.

Key Issues Relating to the Design of the Green Climate Fund

Design of the GCF: Transitional Committee and Technical Panel

The Transitional Committee (TC) is a 40-member committee, consisting of 15 members from developed countries and 25 members from developing countries; with 2 members from both the Least Developed Countries (LDCs) and Small Island Developing States (SIDS) respectively. *The TC is responsible for designing the GCF; a technical panel was also established to assist the TC's work, with staff provided by the World Bank, GEF, MDBs, and UN Agencies.* Progress under the TC has been slow, partially due to delay in nominating members. There are also concerns that the Technical Panel, rather than the TC, may conduct majority of the design. Many countries have assured that their TC members have strong expertise to ensure that the process will stay country-driven, which was confirmed by the Executive Secretary of the UNFCCC at the first TC meeting.

Relationship with the COP: "accountable and under the guidance of the COP"

"Under the guidance of" indicates a loose relationship between the UNFCCC COP and the GCF. A similar model was applied to the structure of the Global Environment Facility (GEF), which has its own Council and operating guidelines. In contrast, the Adaptation Fund (AF) falls "under the authority" of the CMP to the Kyoto Protocol, giving the CMP the power to select members of the Adaptation Fund Board and decide on rules and guidelines for the AF. Given the large size of the GCF, the GEF model is more realistic and efficient than the AF model, but the GEF has also been criticized for its lack of accountability to the COP.

Green Climate Fund Board

Although the TC has a majority of developing country members, the GCF Board will have *balanced representation from developing and developed countries.* The Cancun Agreements also require representation from the LDCs and SIDS. Gender balance, diversified expertise, and the representation of indigenous people on the board have not been addressed; factors that are ignored by most climate funds. The TC must further develop rules for selecting Board members, but they are unlikely to be appointed by the COP.

Balanced Allocation and Thematic Windows

Current climate finance focuses heavily on mitigation finance. Studies show that 80% of finance goes to mitigation activities. The Cancun Agreements specifically asked for the majority of multilateral adaptation finance to be channeled through the GCF. Thus, *balanced allocation between adaptation and mitigation funding, or even "disproportional allocation" favoring adaptation finance in the GCF, is key to ensure overall balanced allocation as well as sufficient adaptation finance.* Another issue under discussion is the role that grants should play in adaptation finance under the GCF. The nature of adaptation finance makes it difficult to generate returns; therefore, distributing loans to developing countries for adaptation action bears the risk of increasing the indebtedness of recipient countries. On the other hand, adaptation activities in advanced developing countries and projects that can directly or indirectly generate returns can benefit from loans, saving much needed grants resources for Least Developed Countries.

Thematic funding windows, in accordance with thematic bodies under the UNFCCC, have been mentioned but not specified. Mitigation and adaptation are likely to make up two of the funding windows. Another likely window is REDD+/forests.

Trustee and Secretariat

Against many civil society and developing countries’ objections, the *World Bank was chosen to be the interim trustee for three years*. The Bank serves as the trustee for most of the existing climate funds and is one of the few institutions with existing capacity to manage these types of funds. A limited trustee role could be considered, as in the case of the Adaptation Fund, in which the World Bank solely distributes money according to the AF Board’s decision and does not intervene in decision making or with operational rules and policies. However, the World Bank is already involved in the design of the GCF through the Technical Panel. In order to establish a permanent trustee, criteria could be developed for the trustee selection process, which will take place in three years.

An independent secretariat shall be established for the GCF, which means neither the GEF nor the World Bank will provide secretariat services, i.e. managing routine activities of the fund, but staffing from existing development banks and international organizations is more likely due to resources, expertise and time constraints. Establishing a secretariat in a developing country could help to build trust.

Fund Access and Distribution

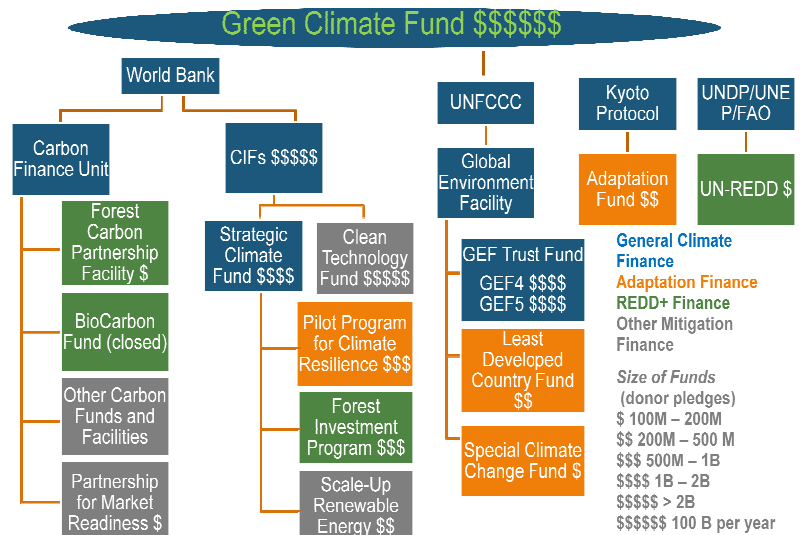
The Cancun Agreements established “direct access” as the means of access and distribution for the GCF. However, how direct access will be implemented is unclear. In the Adaptation Fund model, direct access means developing countries are encouraged to access funding with their own accredited national implementing entities or other international implementing entities of their choice.

Fund Mobilization and Standing Committee

Mobilization of funding was not addressed for the GCF in the Cancun Agreements, and many experts are concerned that *even a well-designed fund will not be effective without sufficient levels of finance*. A separate Standing Committee (a permanent entity under the COP) was proposed to address the overall coordination of climate finance mobilization and look into innovative financial sources, but no progress has been made in setting up this committee. Sources of finance need to be addressed in a variety of ways, including through the agenda item on *Finance* under the LCA. Progress on finance sources by 2013 will be critical. Direct government budget contributions to the GCF will be insufficient to meet the \$ 100 billion goal.

Landscape of Climate Funds

The relationship between the GCF and existing funds is unclear, yet *existing climate funds are meant to be harmonized and better coordinated after the operationalization of the Green Climate Fund*. The World Bank’s CIFs have a sunset clause which will cause them to cease to exist after the operationalization of UNFCCC’s financial mechanism, but the GEF’s Least Developed Country Fund and Special Climate Change Fund will most likely stay in place since they give additional support to the most vulnerable and poorest countries. Some of the REDD+



funds have already been coordinating their work and could complement REDD+ funding in the GCF. While the Green Climate Fund can help to ensure harmonization and coordination of climate finance, other funds can also contribute to efforts to provide scaled-up and effective climate finance.

Appendix I. Progress at the First Transitional Committee Meeting (April 28/29, 2011)

The Transitional Committee of the Green Climate Fund conducted its first meeting on the design of the fund in Mexico City, April 28-29, 2011.

Mexico, South Africa and Norway were elected to chair the TC, while the request for a Vice-chair seat was raised repeatedly by the Asia Group and supported by Latin America.

On the work plan, the TC identified **four workstreams** to be facilitated by 2 countries each:

- 1. Scope, guiding principles and cross-cutting issues** (Spain and Barbados) focuses on the principles and objectives of the fund, and complementarities to existing fund;
- 2. Governance and institutional arrangements** (Switzerland and DRC) focuses on the board, secretariat and trustee issues;
- 3. Operational modalities** (Australia and Pakistan) focus on managing large-scale financial sources, allocations and thematic windows;
- 4. Monitoring and evaluation** (Sweden and Bangladesh) works on application of environmental and social safeguards. Most of design issues which have been raised are covered in these four workstreams, however, the contents of workstreams have not been formally adopted by the TC. Some representatives also fear that workstreams may run in parallel, resulting in the inability of small country delegations to attend all workstreams.

COP Approval

- Due at Durban

Transitional
Committee

- 15 Developed Countries
- 25 Developing Countries

Technical Panel

- World Bank, UN, MDBs, GEF

A **Technical Support Unit** (TSU) A Technical Panel has been established to be based in Bonn and hosted by the UNFCCC secretariat. An interim TSU was created for the first TC meeting. The TSU received offers of support from the **World Bank, Regional Development Banks, GEF, Adaptation Fund, UN Agencies, IMO, WHO, OECD, as well as the private sector and civil society**. Many countries expressed concerns that the design of the GCF will be largely driven by the TSU instead of the TC. Countries stressed the TSU must have a clearly defined ToR, balanced staff and institutional support and must not contain any conflict of interests. Strong objection has been made that the World Bank, serving as the trustee, must not be involved in designing the governance of the fund. So far, the TSU has achieved great institutional, gender and North/South balance. The International Finance Corporation (IFC) has been invited to provide support from the private sector perspective.

The next TC meeting is likely to be hosted by Japan in July, and a **workshop on lessons from other UNFCCC funds** will be organized by Farrukh Kahn, chair of the Adaptation Fund Board, in June. Civil society representatives are still fighting for active observer status, room for intervention and transparency of the TC. Several key documents, including the Provisional Annotated Agenda (TC-1/2), Working Arrangements for the Transitional Committee for the Design of the Green Climate Fund (TC-1/3), and Arrangements for the Technical Support Unit (TC-1/4) were circulated only between TC members, UNFCCC, and the TSU before the first TC meeting.