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Oxfam submission concerning work stream III of the Transitional Committee for the Green Climate Fund

Sub-Workstream III.1: Finance entry points

The Green Climate Fund should be designed consistent with fulfilment by developed countries of their $100bn pledge by 2020. The GCF should therefore have an architecture that assumes increases of annual revenues and disbursement over time and enables new sources of finance to 'plug-in'. In line with this objective, the architecture should assure the ability to directly 'plug-in' revenues to the GCF from supplementary sources, including those from international transport mechanisms, financial transaction taxes, and the use of Special Drawing Rights to generate finance.

Funding for adaptation, which should equal at least 50% of the fund's resources, should be provided to the GCF in such a fashion that it can be provided to developing countries as grants, not loans. Loans to the GCF or funding intended to be used as loans are not consistent with this objective.

In the case of mitigation, many vital investments require public grants, but for some projects in the energy sector, limited concessional lending may be an appropriate way to cover some developing country costs. Therefore, some finance provided to the GCF for mitigation can be appropriately provided in such a fashion that it can be used for lending, but much of the finance for mitigation should not be in the form of loans or for the purpose of loans. In sum, no more than one-third of all mitigation finance should be provided in the form of loans, and only the concessional value of loans should be counted toward developed countries fulfillment of finance commitments.

For measures that will not generate profits, like institutional capacity building, or where pro-poor outcomes must be safeguarded, like mitigation for agriculture or forestry, mitigation should be financed through grants. In the absence of adequate regulation, lending to finance agricultural abatement, for example, could be captured by large agri-businesses, forcing poor people from their land, or risk increasing the vulnerability of smallholder farmers, particularly women, if livelihood assets are depleted to repay loans.

Concessional lending may be an appropriate way to finance emissions savings in the energy sector. This is because the incremental costs of investing in renewable over fossil-fuel energy fall in the extra up-front capital expenditure required. Recent analysis has shown that up to $10bn per year of the costs to poor countries of clean energy investments could be covered by extending to them the preferential borrowing rates enjoyed by developed countries. To make further investments in the energy sector profitable, grants can be mixed with concessional loans to make credit lines more attractive compared with those available for fossil fuels. The utilization of bonds backed by Special Drawing Rights can in particular be a means to raise finance for concessional lending.

However, there must be strict limits on the amount of mitigation finance that can be provided as loans. It is estimated that the energy sector should account for 68 per cent of total public mitigation costs over the next decade. Oxfam estimates that no more than half these costs should be assumed to be appropriate for lending, meaning that <u>no more than one-third of total mitigation finance should be provided as loans</u>.

Setting this limit is necessary to ensure that sufficient mitigation finance for energy investments is available to countries who cannot sustain further debt, and to poor rural communities that do not currently have energy access.

Critically, developed countries must only receive credit toward finance commitments for the grant element of any concessional lending. Thus, only the real value of concessional loans to poor countries should count toward the fulfillment of finance commitments.

Sub-Workstream III.2: Managing finance

Windows should facilitate the development of country-driven national strategies for climate resilience and low-carbon development.

Across the windows, which reflect different types of finance needed (e.g. adaptation, mitigation), there should be finance provided to countries for developing, strengthening and enabling the operation of in-country arrangements and institution and capacity building.

If countries choose to align or integrate adaptation and mitigation strategies, thematic windows should not impair such choices, but balanced allocation between adaptation and mitigation should be maintained.

Sub-Workstream III.3: Accessing finance

A. Country Ownership and Direct Access

The Fund should be transformative by fully supporting the development and implementation of country-driven national climate change strategies, both for adaptation and mitigation (***see attached forthcoming Oxfam briefing paper: "Owning adaptation: country-level governance of climate adaptation finance"***). Finance should therefore be provided on the basis of and in line with those national climate change strategies, and the fund should enable developing countries, led by governments and with full civil society participation, to be the primary actors in designing, implementing, and channeling resources for their strategies.

To achieve this objective, it is vital that the direct access modality is developed as the preferred method by which developing countries expect to access finance, as part of an approach to ensure full country ownership over the management of climate finance.

The funding should be provided to a national-level entity formed or led by the national government, such as a lead ministry or other institution chosen by the government. Whenever possible, climate funding should be provided as budget support to implement the national climate strategies. In some cases, there may need to be project-based or programme support until governments are able to channel funding through budget support, for example in fragile states or countries with inadequate mechanisms to tackle corruption.

Climate funding should also be fully integrated into and consistent with national development and poverty reduction processes. While it is essential to identify a lead agency through which funding will be channeled, it is also essential to create an inclusive and coordinated planning process. The Green Climate Fund should therefore promote and support the development of interagency and inter-ministerial coordination processes to enable coordination and coherence throughout a country's development objectives.

Finance from the GCF to the private sector should also be provided consistent with and in line with national strategies and processes.

B. Country Ownership and Civil Society Participation

Leadership by country governments must be paired with full stakeholder engagement – ultimately, meaningful country ownership depends on the degree of accountability to citizens, civil society and vulnerable communities. The Terms of Reference for the Committee requires the development of mechanisms to ensure stakeholder input and participation, and in line with this goal, inclusive civil society participation is necessary to the process of shaping the development and implementation of national climate strategies.

To achieve this objective, the Fund should facilitate and ensure inclusive processes or mechanisms within recipient countries to enable participation in the design and implementation of national climate strategies and spending of funds. The GCF should ensure that each country can meet a global set of principles for participation and accountability. The required criteria would ensure civil society is able to meaningfully participate and for stakeholder views to be reflected in strategy formulation and implementation, throughout all stages of the process from design and prioritization to implementation and project selection to monitoring and evaluation.

Arrangements designed by governments should reflect national circumstances, yet international financial mechanisms, such as a new global Green Climate Fund, should ensure that each country's adaptation strategy and planning process and implementation of funding meet a global set of principles and criteria for channeling adaptation finance in a way that provides for full citizen and civil society engagement, participation and accountability. These criteria and principles should also be demonstrated through monitoring and evaluation processes.

The following specific criteria and principles should be achieved:

- full participation of citizens, including local communities and marginalized populations, local governments, and Indigenous Peoples in development of national adaptation strategies and planning processes;
- sufficient time and scope for consultation and feedback;
- full participation of those same stakeholders, including affected communities, in the process of implementation of agreed strategies;
- timely, comprehensive reporting on participation and to what extent stakeholder views were reflected in strategy formulation and implementation, with clear evaluation tools for this reporting;
- a robust monitoring and evaluation process of the implementation of adaptation finance that includes full participation of those stakeholders;
- mechanism for accountability and redress, as appropriate.

While countries will need flexibility in designing appropriate processes and mechanisms, it may also be useful for the Fund to provide guidance in ways to implement the stakeholder participation criteria. The Country Coordinating Mechanisms (CCM) of the Global Fund to Fight AIDS, TB and Malaria should be considered as examples of means to achieving the goal of civil society participation. The CCMs provide for participation by multiple stakeholders – including government ministries, civil society organizations and the private sector – in a process to oversee strategies and programs at the country level, though funding is not channeled through the CCMs. At the same time, the Green Climate Fund can learn from the shortcomings of the CCMs and other processes at country level.

The ability of some developing countries to carry out participatory processes in a fully inclusive manner may be compromised by a lack of sufficient human, institutional, or technical capacity. This should not be used as an excuse to deny such countries access to funding. The GCF must provide substantial capacity to governments aimed at engaging stakeholders, including through sustained financial and technical support to build the capacity of local and regional government offices to lead on adaptation planning and priorities.

In addition, a separate pool of funds should be made available for civil society and community capacity-building. This support can be targeted at building skills to engage in developing national climate strategies, participating in program implementation, and undertaking monitoring and evaluation. Countries will need flexibility and financial support in order to put in place and carry out these processes.

Engagement of women should be prioritized in developing participatory mechanisms for climate finance at the country level, particularly given their greater vulnerability to climate-related risks and untapped potential in leading climate-related solutions. Gender-specific objectives and indicators should be core components of the national climate strategy. Women's ministries and gender units within all ministries need to play a more central role in climate funding processes, and establish climate change as a core element of their mandate. A systematic capacity-building process should be available to these women's government departments, as well as national women's organizations and gender experts.

C. Grants and Loans

As noted above, finance for adaptation should be provided in the form of publicly financed grants. Public funding in the form of grants is needed in order to reach the most vulnerable and marginal populations, particularly women, and to support adaptation activities needed that will not provide short-term returns on investment. Also as noted above, while lending may be appropriate at times for mitigation activities in the energy sector, no more than one-third of all finance for mitigation should be provided in the form of loans.

Sub-Workstream III.4: Balance between mitigation and adaptation

A key role of the Fund should be to help close the ‘Adaptation Gap’ of imbalanced funding between adaptation and mitigation, and at least 50% of the finance channeled through the Fund should be allocated to grant-based adaptation finance. The current system of climate financing is overwhelmingly privileging mitigation over adaptation. It is estimated that less than 20% of major dedicated public climate funds to date have been disbursed to adaptation. In line with the “objective of achieving balanced allocation between adaptation and mitigation” set out in the Committee’s Terms of Reference in 1c) Appendix III, it is vital that the new fund is designed to address this ‘Adaptation Gap’ by guaranteeing a fair share of resources for adaptation. These resources must flow as grant-based public finance only, to ensure that the most vulnerable communities within countries benefit from the resources they need.

Sub-Workstream III.5: External inputs

As noted above, it is essential to ensure that civil society and affected communities and especially vulnerable populations be able to meaningfully engage in the operational decision-making of the Green Climate Fund. This should be part of ensuring country ownership in the design and operations of the Fund and should be linked to the use of direct access as the principal mode through which finance is provided by the GCF. For clarity's sake, we reiterate our views on input and participation here.

To achieve this objective, the Fund should facilitate and ensure inclusive processes or mechanisms within recipient countries to enable participation in the design and implementation of national climate strategies and spending of funds. The GCF should ensure that each country can meet a global set of principles for participation and accountability. The required criteria would ensure civil society is able to meaningfully participate and for stakeholder views to be reflected in strategy formulation and implementation, throughout all stages of the process from design and prioritization to implementation and project selection to monitoring and evaluation.

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