

### **Submissions by members of the Transitional Committee**

On 14 May 2011 the Workstream I and III Co-Facilitators invited feedback, in form of submissions, to a set of questions, from Transitional Committee (TC) members and observers, including United Nations organizations, inter-governmental organizations (IGOs) and non-governmental organizations (coordinated through their constituencies focal points), in order to guide discussions on Workstream I and III at the first technical workshop of the TC scheduled for 30 May to 1 June 2011.

A first set of submissions was reproduced under Transitional Committee Internal Reference Document-1 dated 25 May 2011. Since then, the Secretary to the TC has received two additional submissions as of 26 May 2011. These submissions are attached and reproduced without formal editing.<sup>1</sup>

The submissions received from observers have been uploaded on UNFCCC (website: [http://unfccc.int/cancun\\_agreements/green\\_climate\\_fund/items/5869.php](http://unfccc.int/cancun_agreements/green_climate_fund/items/5869.php)).

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<sup>1</sup> These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The Technical Support Unit has made every effort to ensure the correct reproduction of the texts as submitted.

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**CHAPTER I : VIEWS OF MEMBERS OF THE TRANSITIONAL COMMITTEE  
ON WORKSTREAM I: SCOPE, GUIDING PRINCIPLES, AND CROSS-CUTTING  
ISSUES****I: Submission by Mr. Tosi Mpanu Mpanu (Democratic Republic of Congo) and Mr.  
Omar El-Arini (Egypt)**

## 1. How the GCF should/could be different from existing climate funds?

-The Green Climate Fund has been designated by COP 16, "as an operating entity of the financial mechanism of the Convention under Article 11". None of the existing climate funds was accorded this formal designation. Additionally, and the Kyoto Protocol Adaptation Fund notwithstanding, COP 16 decided that "a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund".

## 2. Some broad objectives and guiding principles of the GCF have been agreed

-During the design stage, it might be prudent to defer this to the GCF Board for the development of operational modalities of the Fund.

3. *Thematic windows and associated activities:*

- The fund might start with two thematic windows, one on Mitigation and the other on Adapatation. Additional windows, or sub-windows under these two, could be contemplated on need basis. Projects and programmes related to mitigation and adaptation, and associated capacity building and technology transfer, are obvious activities.

4. *Should the number of thematic windows be determined by the founding size and design of the fund or should more be added by the Board as the Fund's capital grows in size or/and new needs are identified?*

- The two main thematic windows mentioned above, could be established at an early stage in the operation of the Fund, irrespective of the "founding size" of the fund, in order to ensure balanced allocations between the two thematic areas. Additional windows or sub windows to facilitate speedy implementation of projects and programmes could be considered by the Board if this would not hold up resources, and would enhance accessibility of the fund by all eligible Parties. The decision can be board decision, but with approval from the COP, after a study on the reasons/costs/benefits and other criteria.

5. *The Cancun Agreements refer to "balance" between mitigation and adaptation. How do we define and achieve "balanced allocation" between adaptation and mitigation?*

- Balance based on needs, available resources through other sources of funding (domestic/market/bilateral/..), and also on the global priorities as reflected by scientific recommendations.

6. *What is the foreseen size of the GCF compared to other existing funds?*

- Starts with an initial sum, a core, to help establish and start up of activities, then size to be of the fast start current pledges of US\$ 30 billion, with a vision to move to at least 100 billion Euros, based on the study of the EU on climate finance.

7. *What is meant by “large scale” in terms of the expected volume of the GCF, and should a minimum and maximum volume be considered?*

- Larger than all existing funds combined, given the long term finance nature of the fund and the wide range of activities that would be eligible for funding, in some 140 developing countries. A minimum, but adequate, volume should be considered, in order to start the fund operation. This is perhaps, a *condicio sine qua non* for confidence building in the institution and between parties.

8. *Should the GCF design be scalable over time, or should the GCF design immediately match the volume goal?*

- Yes the scale of fund would grow over time, but to start with a minimum scale that would allow reasonable actions to be put in place.

9. *How could the GCF encourage the application of the country led principle?*

10. *what is needed to ensuring the country led principle alongside the application of environmental and social safeguards as well as internationally accepted fiduciary standards and sound financial management?*

11. *How could the GCF encourage results based approaches among different thematic areas? What are the options for implementing result based approaches? Is there a need for taking different approaches for each thematic area?*

- Country led principle ensures that countries decide on the needs based on their own strategies and priorities, rather than donor led approach.
- Direct access, equitable and balanced allocation (urgent/short/long), related to needs, the fund should provide assistance to build capacities in applying safe guards and fiduciary standards.
- Results based is difficult to apply on adaptation, there should be a priority list to adaptation issues, and some urgent support based on the urgent or immediate needs of specific countries due to extreme effects
- Results based can be applied to mitigation, but with a balanced geographic allocation of resources, between all developing countries, to avoid CDM shortcomings.

12. *What should be the value-added of the design and operations of the green Fund?*

- Direct access, availability of large scales of financial resources that is predictable and sustainable over an extended period of time. The fund would also work in relation to the recommendations from thematic bodies through the COP, and based on the needs of developing countries.

13. *What role should the GCF play among climate finance entities?*

- It is totally dedicated to financing climate change, based on modalities developed mainly for climate finance based on the principles of the UNFCCC.

14. How will the GCF ensure complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions?

- That will be done through the finance committee under the convention, by establishing a forum or informal meeting for coordination between all financing entities.

## II: Submission by Mr. Manfred Konukiewitz (Germany)

### 1. Objectives and principles

#### 1. *How should/could this Fund be different from existing climate funds?*

The Green Climate Fund (GCF) has to mobilize, leverage, manage and disburse financial resources from different sources at a large scale. Via relevant projects, programs, policies, capacity-building, technology-transfer and other activities, the resources should be used to:

- facilitate efforts of developing countries to contribute to hold the increase in global average temperature as much below 2°C as possible, and thus complementing the efforts of developed countries in achieving the peaking of global and national greenhouse gas emissions as soon as possible, and supporting the implementation of adaptation actions that can assist climate-resilient development;
- play a catalytic role assisting developing countries in their efforts to pursue transformational low-carbon and climate-resilient development paths;
- promote realization of environmental and social co-benefits thus demonstrating synergies between mitigation and the potential for low-carbon technologies to contribute to sustainable development and the achievement of the Millennium Development Goals.

#### 2. *Some broad objectives and guiding principles of the GCF have been agreed in the Cancun agreement. How can these be further developed, enhanced and operationalized?*

The GCF should be guided by relevant principles agreed in the UNFCCC process, especially those included in the decision from Cancún, as well as international accepted fiduciary standards such as the the GEF Minimum Fiduciary Standards and environmental and social safeguards. Furthermore, the Fund should operate in a transparent and inclusive manner. For the operationalisation of these principles, funding guidelines will have to be developed, building on the existing experience of bilateral and multilateral finance institutions - not only in the context of climate financing -, and taking into account the capacities of domestic funding entities in developing countries, in particular the capacity to comply with internationally agreed fiduciary standards (see Submission by the Government of Germany on Workstream III) It should be ensured that the Fund can be a continuously learning institution, while at the same time providing reliable structures.

### 2. Thematic scope

#### 3. *How many and what thematic funding windows should be adopted? What activities should be covered by each thematic window?*

The Fund should contain three funding windows for a) mitigation, b) adaptation and c) REDD+. Capacity-building, including for building institutional capacities, and technology development and transfer should be supported as cross-cutting issues. In mitigation, activities which can initiate transformational changes should be given priority. In REDD+, the GCF should also support results-based actions that are measured, reported and verified (phase 3). In adaptation, primary attention should be paid to the particularly vulnerable developing countries and especially to programmes in areas where the livelihoods of the most vulnerable people are at risk. The windows shall be operated in a manner that they allow the support of integrated climate change approaches, such as low-carbon/climate-resilient development strategies.

#### 4. *Should the number of thematic windows be determined by the founding size and design of the fund or should more be added by the Board as the Fund's capital grows in size or/and new needs are identified?*

The Board of the GCF should keep the above mentioned arrangements under regular review and identify whether changes in the window structure are required.

5. *The Cancun Agreements refer to “balance” between mitigation and adaptation. How do we define and achieve “balanced allocation” between adaptation and mitigation?*

For the initial phase of operation, no fixed allocation formula should be applied in order to allow for sufficient flexibility. However, further work is needed to identify instruments that secure a balanced allocation between mitigation and adaptation. In some point in time, there might be need for defining what “balanced allocation” refers to. In this context, it is important to take into account, that the achievement of the 2°C- target requires in particular mitigation actions; as mitigation actions will reduce the costs of adaption in future. The Board should envisage and regularly review overall shares for mitigation and adaption, taking into account e.g. adaptation benefits of REDD+ approaches when allocating the resources to the specific windows. Resource allocation for mitigation actions should follow the objectives of the GCF and be guided by the possible contributions to hold the increase in global average temperature as much below 2°C as possible. For resource allocation in adaptation, particular attention to vulnerable developing countries and especially attention should be given to programmes in areas where the livelihoods of the most vulnerable people are at risk.

### 3. Size and scalability

6. *What is the foreseen size of the GCF compared to other existing funds? 7. What is meant by “large scale” in terms of the expected volume of the GCF, and should a minimum and maximum volume be considered?*

The fund’s size should be significantly larger than that of existing funds like the GEF, justified in particular through its objectives and the need for transformational approaches. Its size will have to be determined against the background of the Copenhagen Accord and the Cancun Agreement (“mobilize jointly UDS 100 billion per year by 2020” from a wide variety of sources), and the important role the private sector will have to play in climate financing. Further analysis in this regard is necessary. The size will also depend on whether the GCF’s modalities allow for effective disbursement, and on whether the absorptive capacities of recipient countries are given. The GCF should be sourced by public funding, and be able to receive any other funds including innovative sources. Public funding, should build on an appropriate burden sharing taking into account ability to pay and polluter pay principle. Resources of funding should where possible, particularly for action on mitigation, leverage resources from the private sector, multilateral development banks, other public resources from developed and developing countries and incentivize investments into low-carbon approaches within developing countries, both from domestic and external private entities.

8. *Should the GCF design be scalable over time, or should the GCF design immediately match the volume goal?*

The Fund’s modalities’ should be designed to match the expected volume of flows running through the fund, but be able to adjust to potential increases of the volume.

#### 4. Country-led and results-based approaches

9. *How could the GCF encourage the application of the country led principle?*

Proposals to the Fund should be identified and developed by developing countries, based on country-level multi-stakeholder partnerships (civil society, private sector, MDBs) in line with national sustainable development and build on an ambitious climate change strategy commensurate with the objective to hold the increase in global average temperature below 2°C.

10. *What is needed to ensuring the country led principle alongside the application of environmental and social safeguards as well as internationally accepted fiduciary standards and sound financial management?*

Processes and institutions needed for sustained planning, implementation and the fulfilment of safeguards as well as standards and monitoring activities, alongside concrete implementation, in a manner that enables the participation of all relevant stakeholders, should be supported by the GCF. Germany is strongly committed to the effectiveness of operational modalities for the GCF. Therefore, results oriented financing, high accountability and a variety of funding resources and financial delivery mechanisms are crucial factors when designing the operational modalities for the fund. A gradual increase in the degree of domestic implementation responsibilities should be allowed for. The capacities of national climate change funding entities should be taken into account here.

11. *How could the GCF encourage results based approaches among different thematic areas? What are the options for implementing result based approaches? Is there a need for taking different approaches for each thematic area?*

A results-based approach is a prerequisite for the success of the GCF. A results-based approach should generally work towards incentivising the achievement of ambitious targets and indicators set up for a specific activity. However, the specifics of the different thematic areas need to be taken into account. In adaptation, increasing the resilience especially of the particularly vulnerable countries and communities is essential. In REDD+, emission reductions alongside biodiversity benefits are crucial. In mitigation, for example, the emission reductions that should be achieved and the transformational impulses of actions are key criteria.

It should be considered whether a certain share of the GCF mitigation resources could be allocated on a competitive basis to reward the most effective activities, in addition to considering a balanced country.

Elements of a results-based system could include inter alia independent review and monitoring processes, mid-term evaluations as a basis for releasing further tranches of funding.

#### 5. Complementarity and value added

12. *What should be the value-added of the design and operations of the green Fund?*

The Fund shall assist developing countries in their efforts to pursue transformational low-carbon and climate-resilient development paths. The operating modalities of the GCF (workstream III) should be as easy as feasible for access by developing countries.



*13. What role should the GCF play among climate finance entities?*

The Fund could become a key player in the climate finance architecture, complementing existing bilateral and multilateral climate financing channels, if reliable procedures and standards ensure the delivery of results.

*14. How will the GCF ensure complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions?*

Recipient country ownership will be key to ensure complementarity on the ground. During the design process the GCF should draw on experiences and lessons learnt from existing funds and international financial institutions, in particular regarding the need to ensure the cost-effective deployment of increased financial flows. In addition, close collaboration and consultation with other funding mechanisms should be secured. While duplication in purpose and scope should be minimised, a certain level of competition between institutions will be instrumental to advancing good practice and results achieved.

## **Chapter II: Views of members of the Transitional Committee on Workstream III: Operational Modalities--Sub-workstream III.1: Finance entry points**

### **I: Submission by Mr. Tosi Mpanu-Mpanu (Democratic Republic of Congo) and Mr. Omar El-Arini (Egypt)**

#### **Issues related to sub-work stream III.1: Finance entry points**

##### **A- Principles**

*- Africa bases the answers to the questions posted under Work stream III.1 on the following principles:*

- 1- Provisions of the Convention and the relevant COP decisions constitute the basis of, and provide a framework for our work in the TC. Therefore the work of the Green Climate Fund is under the guidance of the UNFCCC COP and based on the Convention.
- 2- The principles of Common but differentiated responsibility, respective capabilities, equity, as well as, the historical responsibility of developed countries in causing the current changes in the climate.
- 3- Funding for climate change should be scaled up, new and additional, predictable, sustainable and adequate. It shall be provided to developing countries, taking into account their urgent and immediate needs, especially those developing countries that are particularly vulnerable to the effects of climate change.
- 4- There is a clear relation between the financing needs of developing countries and the scale of funding that should be made available in a timely and country driven manner, and in a way that supports and facilitates actions of the developing countries as part of the global effort to face climate change.
- 5- Direct, easy and facilitated access to funding for developing countries should be guaranteed in any climate related finance to overcome current gaps.
- 6- An institutional process of evaluation and assessment of financial resources made available to developing countries, including identifying any conditionality to such resources is to be conducted under the UNFCCC, in order to ensure a facilitative and effective process.
- 7- A balanced disbursement of funds should be guaranteed. Criteria for balance should include geographical distribution and relative needs of different regions.
- 8- Ambitious mitigation commitments by developed countries are indispensable to secure an efficient carbon market, and it can be boosted by the voluntary mitigation actions by developing countries.

##### *Modalities for contributions to the Fund*

1. In what form might funding sources be received and what systems, capabilities, governance and legal capacity does the fund require to receive these if the fund accepts contributions from: Governments; the Private sector; Private individuals and Foundations? What additional systems would be required if grants, loans, capital investments or other funding modalities are accepted?

##### **Forms of funding:**

- **Initial/core funding should be provided from public sources through direct contributions from Annex II governments- as identified in the Convention-, such**

**contributions will be based on an assessed scale following an agreed burden sharing scale between Annex II countries.**

- **Other sources including direct contributions/ donations from the private sector, private individuals and foundations can also be accepted as supplementary sources for additional finance.**
  - **The fund should have its legal personality and therefore capacity to receive and manage available finance (under the guidance of the COP).**
2. What processes and sources might be used to raise funding? If there is a regular process for raising funds, how would such a process be managed? What would be the comparative benefits and costs of periodic compared to ongoing funding receipt? What systems would the Fund need to manage different processes that may be used for receipt of funding?
- **An Assessed scale of contributions from Annex II for a replenishment period that can be reviewed periodically (every three to four years), should constitute the main source of funding. (Provides predictability and sustainability).**
  - **An additional source could be a percentage from the Joint implementation and other similar instruments, and assigned percentage of the carbon market revenues in annex II countries, including from taxes or levies applied.**
  - **There should be a minimum core budget of the fund, based on the assessment of the urgent and short term needs of developing countries related to climate change.**

*Methods to mobilize and leverage private sector finance, both foreign and domestic*

3. How can the GCF best 'crowd-in' private finance at scale, including foreign and domestic sources? What incentives may be provided to engage stakeholders, especially the private sector both at the national and international levels?
- **Guarantees to private, co-financing, or develop rules on the basis of experience of Export and Import banks and other institutions that provide guarantees for local companies to export and /or invest in high risk countries.**
  - **The fund can provide incentives for private sector, including using futures markets, or guaranteed carbon prices.**
4. Should GCF resources be deployed to raise funds from the capital markets, whether through bond issues or some other vehicle that could be considered to mobilize significant amounts of funding from institutional investors?
- **The issue should be considered by the fund's Board, in consultation with the Trustee of the fund, to determine whether a percentage of the resources may be deployed through capital markets.**
5. How can the modalities of public-private engagement be optimized, including timing of engagement, aligning project cycles, pre-investment activities, linkages to the carbon markets and other operational issues?
6. How can the delivery of private finance be improved in regions with poorly developed financial markets?
- **Guarantees, futures.**

## II: Submission by Mr. Manfred Konukiewitz (Germany)

Germany is strongly committed to the effectiveness of operational modalities for the Green Climate Fund (GCF). Therefore, results oriented financing, high accountability and a variety of funding resources and financial delivery mechanisms are crucial factors when designing the operational modalities for the fund.

A results-based approach is a prerequisite for the success of the GCF. A results-based approach should generally work towards incentivising the achievement of ambitious targets and indicators set up for a specific activity. However, the specifics of the different thematic areas need to be taken into account. In adaptation, increasing the resilience especially of the particularly vulnerable countries and communities is essential. In REDD+, emission reductions alongside biodiversity benefits are crucial. In mitigation, for example, the emission reductions that should be achieved and the transformational impulses of actions are key criteria. Elements of a results-based system could include inter alia independent review and monitoring processes, mid-term evaluations as a basis for releasing further tranches of funding

### Sub-Workstream III.1: Finance entry points

Decisions on operational modalities need to be made in a wider context of size and scalability of possible public and private resources, including innovative financial resources (see German submission on Workstream I). Discussions on finance entry points should have strong connections with discussions on managing and accessing finance (Workstreams III.2 and III.3).

Finance entry points should be designed in a way to allow result oriented funding and make best use of mobilising private sector finance. To that end the Germany recommends a:

- two level funding system: Funds might be spent in a two level process: a fixed tranche and an result oriented bonus payment. The fixed tranche is aimed at securing general and continuous commitment to climate finance by the contributor. The bonus payment will be paid based on the absorption capacity, implementation speed, impact and results of investments according to pre-defined criteria. The bonus payment, which could be a grant or a loan, will have to be used to implement further projects or programmes as laid out in e.g. a low carbon development strategy.
- Grant and Loan funding: The GCF may accept grant funds and/or subsidized loan funds in order to better leverage the resources.

### Sub Workstream III.2 Managing Finance

Ensuring ownership, accountability and financial discipline is a key element when providing direct access or access through MDBs, IFIs and other national or bilateral agencies.

To that end the fiduciary safeguards clauses concerning liability shall apply for the trustee, the fund manager and the beneficiaries of the fund.

Further, all institutions, agencies and organisations, in particular domestic funding entities, eligible to manage or utilise GCF funds shall comply with internationally agreed fiduciary standards concerning:

- a) Planning and appraisal standards for climate investments
- b) Accounting standards
- c) Audit standards
- d) Internal control standards

- e) Procurement standards
- f) Monitoring and evaluation standards

An independent body (e.g. international chartered accountant) agreed upon by the TC member states shall assess all eligible organisations applying for GCF funds prior to the first disbursement and on regular basis during implementation of GCF funds.

### **Sub Workstream III.3 Accessing finance**

- a) Loan and grant blending platform: Within the GCF these platform links GCF grants and loans to loans committed by international, regional, bilateral, national and private institutions. These mechanisms are already successfully being used in other set-ups and have increased the volume and quality of development finance while ensuring a better coordination and effectiveness. In particular the following criteria can be fulfilled by a loan and grant blending platform:
    - a high flexibility according to operational needs
    - the determination of grant amount according to the type (mitigation, adaptation, REDD) and the size of the project requirements
    - improving coherence, cooperation and coordination between different existing and new climate financing mechanisms
    - attracting additional funding to combine with GCF means
    - jointly meeting defined minimum standards and reporting obligations
  - b) Structured Finance: to increase private funding a window for structured finance products should be opened. This funding window will be aimed at structuring first loss pieces (grants), a mezzanine tranche (loans from MDBs and IFIs) and a commercial tranche (loans from private sector), thus leveraging scarce grant funds.
  - c) Type of grants: GCF grants shall be used in flexible way allowing a tailor made utilisation depending on the type of climate investment and the region concerned. The following grant options (non-exhaustive) can potentially be used in the framework of the fund:
    - Technical assistance and studies
    - Direct Investment Grants
    - Performance/bonus oriented grants
    - Interest rate subsidies
    - Loan guarantees
    - Structured finance – first loss pieces
    - Risk capital
    - Insurance premia
-