Submissions by members of the Transitional Committee

On 14 April 2001 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 held from 30 May to 1 June 2011.

Further, on 27 April 2011 the Workstream II and IV Co-Facilitators invited feedback, in form of submissions, to a draft workplan and a draft TOR respectively.

Three sets of submissions on issues under Workstream I and II and other submissions, were reproduced under Internal Reference Document 1, 3 and 4, dated 25 and 27 May, and 7 June 2011. Since then, the Secretary to the TC has received 38 additional submissions as of 20 June 2011. These submissions are attached and reproduced without formal editing.[1]

The submissions received from observer organizations have been uploaded on UNFCCC (website: http://unfccc.int/cancun_agreements/green_climate_fund/items/5869.php).

[1] 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.

Contents Page

CHAPTER I: SUBMISSIONS BY TC MEMBERS ON WORKSTREAM I: SCOPE, GUIDING PRINCIPLES, AND CROSS-CUTTING ISSUES

CHAPTER II: SUBMISSIONS BY TC MEMBERS ON WORKSTREAM II: GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

CHAPTER III: SUBMISSIONS BY TC MEMBERS ON WORKSTREAM III: OPERATIONAL MODALITIES- SUB-WORKSTREAM III.1: FINANCE ENTRY POINTS

CHAPTER IV: SUBMISSIONS BY TC MEMBERS ON WORKSTREAM IV: MONITORING AND EVALUATION

CHAPTER V: OTHER SUBMISSIONS

CHAPTER I: SUBMISSIONS BY MEMBERS OF THE TRANSITIONAL COMMITTEE ON WORKSTREAM I: SCOPE, GUIDING PRINCIPLES, AND CROSS-CUTTING ISSUES

I. Submission by Ms. Vanesa Valeria D'Elia (Argentina)

General Remarks

As regards Climate Change Financing, Argentina understands that the principles enshrined in the United Nations Framework Convention on Climate Change (UNFCCC) should be preserved, especially those of equity and common responsibilities, but differentiated between developed and developing countries.

In this regard, it is considered that these historical responsibilities of developed countries should be the factor determining the distribution of the economic burden for implementing mitigation and adaptation actions in developing countries. Therefore, the starting point should definitely be the contribution made by developed countries. We understand that public funding, private funding, and the carbon markets are essential to address climate change, but public funding should have a prevailing role over the other income sources.

The architecture of this Fund should be equitable and effective to ensure that the financial mechanism governance does not replicate the financial access limitations and under-representation of developing countries in International Financial Agencies.

In addition, Argentina understands that the Green Fund for Climate Change should take the necessary actions to guarantee the provision of new resources, additional to those of the Official Development Assistance (ODA) and will be so designed that it is seen as a major player across Climate Change financing funds. These resources should also be adequate, predictable and verifiable, with a balanced approach between adaptation and mitigation, thus ensuring the increase in access by all developing countries, including direct access.

Specific Remarks

In particular, we remark some elements referring to the questions raised by co-facilitators. Although that broad objectives and guiding principles of the GCF have been agreed in decision 1/CP.16, we emphasized that the GCF shall be guided by the principles and provisions of the Convention. In these sense, the GCF is the fund that developing countries were looking for and should aim to catalyze a transformational change in climate finance, assisting developing countries for low carbon and climate resilient sustainable development.

As regards the thematic scope, the GCF should ensure the provision of the Convention that the implementation of financing commitments "shall take into account the need for adequacy and predictability in the flow of funds" (Article 4.3). It seems clear that predictable (not only available) funding is needed to all developing countries in order to have long term adaptation and mitigation plans, with no exclusion or discrimination of any country. In these regard, direct access modality could ensure equitable distribution criteria while minimizing bureaucratic obstacles to access to resources. It could also ensure accountability on the efforts made by developed countries, avoiding excessive burdens or costs on developing countries.

The GCF was created to close the financing gap that currently exists, especially in adaptation finance, but also in other matters that are very sensible for developing countries, like technology development and transfer and capacity building. This gap was also extended by the lack of public resources in the existing financial contributions. Private financing is deficient to meet adaptation needs of developing countries. The main public resources should be provided through grants or concessional basis instruments, ensuring as well that financial contributions should be counted as new and additional.

Regarding accessibility to GCF resources, Argentina considers that should be used a broad and flexible approach, avoiding using too rigid and restrictive criteria that could cause unfair exclusion of counties or limits their access to necessary resources to fight climate change. The criteria for accessing GCF funds should not be based primarily on the financial profitability of the projects submitted, but should take into account issues related to the innovation of the project in terms of sustainable development, present and future economic and social benefits from such innovations as well as the degree of technological and productive transformations and co-benefits that have emerged. This means that should not be taken into account only the emission reductions that can be achieved with the project, but also the quality of such reductions.

Finally, Argentina considers that the GCF should enhance country ownership and priorities and respect the country involvement in the formulation and implementation processes. In this regard, direct access could contribute to this aim, offering a flexible approach to access funds directly through a range of options for developing countries to submit proposals and to receive, manage and spend financial resources.

II. Submission by Mr. Sergio Barbosa Serra (Brazil)

1. Principle and objective
The Green Climate Fund (CGF) should be guided by the principles of the UNFCCC, especially by the principle of common but differentiated responsibilities. The objective of the CGF is to support projects, programmes, policies and other activities in developing country Parties with the aim of implementing action on mitigation and adaptation.

Negotiations on the programming of resources can be undertaken after the fund is operational to define priorities to be implemented for an agreed period of time. The Transitional Committee can consider the adequate forum for these discussions. In Brazil's view, these programing negotiations should take place in a broader forum, such as the SBI, for the approval of the COP.

2. Thematic Scope
Thematic windows can work as an instrument to guarantee balance between mitigation and adaptation, as well as a means to guarantee finance to other relevant areas. As both mitigation and adaptation constitute broad areas of work, it can be expected that the Fund Board will want to create sub-windows/focal areas according to future discussion on programming and priorities. The creation of sub-windows/focal areas should be flexible, while the windows for mitigation and adaptation are to be permanent.

Two further permanent windows should be created: Technology Window and Capacity Building/Enabling Activities Window. Those windows are meant to guarantee financing to areas that would not usually find finance sources elsewhere, such as research and development of new technologies, demonstration projects, capacity building and other enabling activities that will allow countries to not only implement activities, but also access resources. Even though it is expected that some mitigation and adaptation activities will have a technology or a capacity building component, those two windows aim at financing activities that are not directly related with the implementation of specific activities.

The use of resources allocated in each window can be flexible, allowing for cross-cutting initiatives to use resources from different windows. (The same paragraph was submitted to workstream III)

3. Size and Scalability
The CGF should be able to operate 100 billion US dollars a year by 2020. It would have to potentially scale-up, however, because this amount is not meant as a ceiling, but rather as a mid-term commitment. There are several reports that state that financial needs are greater than USD 100 billion and the CGF should be prepared to adapt to new realities.

4. Country-led and result-based approaches
The country-led principle will be best operationalized by the availability of direct access modalities in all areas. Direct access must be widely used in CGF operations if the Fund is to contribute in a transformative way. Options to work directly with Governments, such as result based payments, should be considered in addition to national agency accreditation processes. Modalities for direct access should, in principle, be available in all areas, but such modalities, such as result based can be matched with the appropriate areas in a later phase, during a programming negotiation. (Similar paragraph was submitted to workstream III)

5. Complementarity and Value Added
Complementarity entails the evaluation of activities in other institutions and gaps arising from them. The CGF, however, should not undertake those evaluations. The COP, advised by the Standing Committee, will address coordination and potential gaps, guiding the CGF in its work.

III. Submission by Mr. Remy Rioux (France)

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

1/a scaling up in the volume engaged for mitigation and adaptation, by leveraging the existing funding and new ones, with a special focus on the private sector.

2/an efficient and effective delivery of funding:

- ensure **an efficient and effective complementary with the existing funds and actors** through coordination mechanisms, development of **innovative tools** (financial + technical), filling current gaps, etc.
- Develop a collaborative approach to properly address the demand, taking into account the different capacities of the countries, **to ensure a proper ownership of the architecture designed** and the mechanisms implemented both from the developed and the developing countries, including direct access mechanisms.
- Play a **catalytic and transformational role** in developing countries to shift into a low-carbon development.
- Ensure enhanced transparency and accountability rules to build trust among stakeholders and guarantee that resources are efficiently used to tackle the needs of developing countries to tackle climate change.

3/coverage of the needs currently not totally addressed (forestry, most vulnerable countries…).
In order to achieve these goals, the GCF should be endowed with (potentially new) specific instruments:
-A vast array of innovative tools and instruments that include:

- The development of <u>new financial tools</u> (grants, concessional loans, guaranties, equity, insurance mechanisms, risk sharing mechanisms, performance based programs, budget support and other financial products where appropriate), in particular to leverage private sector financing at a larger scale and from more diverse sources than previously achieved. <u>The New Fund should in particular facilitate a real mix/blending of the different financial tools</u> to optimize the use of scarce public funding and play a catalytic role. The GCF could directly develop these instruments or facilitate their creation/development by existing financial institutions
- New <u>institutional mechanisms</u> and notably (i) new coordination mechanisms in order to ensure complementarity between the different actors and (ii) the proper implication of stakeholders on the ground and (ii) streamlined and simplified access to finance.
- The creation within the GCF of <u>thematic windows</u> that should be built on to properly cover the adaptation and mitigation needs of developing countries., while keeping a transversal vision as many sectors/themes interact one to each other.
- Arrangements to ensure that the global structure will be light and will stay flexible to allow for an evolution in the future years.

- A proper results-based evaluation system, a sound financial management and MRV arrangements, which give donors countries the confidence to put resources into the system, including from innovative public sources, and give recipient countries the confidence to take action.

2. Some broad objectives and guiding principles of the GCF have been agreed on the decision 1/CP.16 Cancun Agreements. How can these be further developed and operationalized?

The workstreams II, III and IV will have key responsibility to work toward the operationalization of the broad objectives and guiding principles that have been agreed in Cancun and that will be agreed by the TC on the basis of the work provided in work stream I. Indeed, regarding decision 1/ CP.16. the broad objectives and guiding principles of the GCF that have been agreed on can all fall into the different workstreams that will work on their operationalization.
Regarding the other objectives and guiding principles related to Finance and contained in the Cancun decision (e.g. “new and additional, predictable and adequate funding”, the rationalization of the financial mechanism…), there are not included in the TC mandate and are matters for the COP and its subsidiary bodies to discuss in the Convention context.
Apart from these broad principles, workstream I should also consider best practice guidance and principles for aid effectiveness such as the Paris declaration (principles of ownership, alignment, harmonization, results, mutual

accountability) and Accra agenda for action (ownership, inclusive partnerships and delivering results). These principles should be applied in the design of the GCF.

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

For efficiency purposes, the setting-up of a funding window should be justified by the specific characteristics of the actions to implement in order to limit the number of funding windows. The more there are windows, the less the Fund will develop synergies.

It seems that, in order to properly address the different needs to tackle climate change, the GCF could start out with **dedicated thematic funding windows for instance mitigation, adaptation and forest (REDD+)**. The other areas covered by the GCF such as capacity building and technology transfer are cross-cutting issues whose funding can be provided by one of the funding windows. However, further analysis should be undertaken to determine which themes justify the creation of a specific funding window.

Within the mitigation window, funding priority should be given to transformational actions and performance-based activities (in terms of GHG reduction). Part of the funds could be allocated for market readiness actions. A crediting mechanism linked to the international carbon markets could also be envisaged.

Within the adaptation window, the priority should be given to the most vulnerable countries, especially in Africa, and to the most affected communities.

As far as the REDD+ window is concerned, based on the experience from the GEF and the Forest Carbon Partnership Facility (FCPF), the GCF could further develop and implement, in complementarity with this fund as well as other initiatives, the graduated approach (three-phased approach) adopted by the COP in the Cancun Agreement.

However, it would be important to create synergies among the funding windows. Indeed, many adaptation activities have mitigation co-benefits, and vice versa and the GCF should seek out these funding opportunities. It is all the more true dealing with forestry. **Moreover, the Board should retain the capacity and flexibility to add new funding windows** and the global structure should therefore stay flexible to allow for evolution (regarding needs, additional capital or new instruments). The Board could for instance envisage sub-windows for certain financial instruments (including instruments which could, for instance, be funded by institutional or sovereign investors) or for certain type of activities/actors for instance for the private sector within the mitigation window.

5. ***The Cancun Agreement refers to "balance" between mitigation and adaptation. How do we define and achieve "balance allocation" between mitigation and adaptation?***

The objective to develop adaptation funding is legitimate since there is a need to elaborate development policies that integrate adaptation, to finance corresponding investments, and to set up insurance mechanisms and tackle corresponding market failures. Moreover, the most vulnerable are the poorest countries and among their population, the poorest part will be strongly affected and they do not necessarily have access to climate financing when this latter is focused only on mitigation actions. Therefore, adaptation funding could help them to face with the consequences of climate change.

However, without prejudice to the objective to reach a balanced allocation, the funding should be used efficiently. Thus, a strict equality between mitigation and adaptation funding would not be relevant for mainly two reasons: i/ mitigation could be seen in a way as a more urgent requirement since it would help to reduce the cost of adaptation in the future ii/ the type of funding may be different: a dollar spent on mitigation is not equal to a dollar spent on adaptation.

6. ***What is the foreseen size of the GCF compared to other existing funds?***
7. ***What is meant by "large scale" in terms of expected volume of the GCF, and should a minimum and maximum volume be considered?***
8. ***Should the GCF design be scalable over time, or should the GCF design immediately match the volume goal?***

The size of the CGF will only be one of the elements that will determine its impact on the ground. This will overall mainly depend on whether the GCF is well designed or not. In order to ensure a transformational and catalytic role, the GCF would need to be able to have a notable impact on the actions currently undertaken in favor of climate change in developing countries. Therefore, the question is more on how to ensure the most important leverage effect of the resources that would be managed by the GCF.

The exact size of the Green Climate Fund will depend on an important number of parameters that still are to be defined. *In fine* the size of the Fund will depend on the attractiveness of the GCF for the donors, which itself will highly depends on the way it is designed.
It will also be important to have a Fund scalable over time, in order to allow for increasing funding and for tackling new climate-related challenges.

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

The GCF could encourage the application of the country led principle under three dimensions:
1/Proposals to the Fund should be identified and developed by developing countries, based on **country-level multi-stakeholder partnerships** (government including all ministries, civil society, private sector, national development agencies, international actors active in the countries…) designed nationally. A full stakeholder engagement should be ensured to make sure that there is a proper ownership of the actions and programs financed.
2/Country ownership will be ensured if the actions funded are **based on resilient low carbon development strategies** (including NAMAs, NAPAs, LEDs…). Therefore, the development of such national strategies will be crucial and the allocation of funds should ensure the coherence and consistency between the actions engaged with international funding and the national development strategies and priorities.

3/**Streamlined and simplified access to finance, including "controlled" direct access should be encouraged.** Transaction costs should be reduced and the simplest methods for delivery of finance used (true for both bilateral, multilateral and carbon finance). In this respect, all international, national or local financing institutions, including in the most vulnerable countries, should have access to the fund if fulfilling agreed fiduciary standards.
Regarding direct access to GCF's funding, the work stream III should further work on the ways for the GCF to adequately tackle this important issue for the effectiveness of the funding's delivery, notably by drawing lessons from the experience of the Adaptation Fund and the Global Fund (GFATM).

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

Environmental and social safeguards as well as international accepted fiduciary standards and sound financial management are key principles in order to both (i) ensure the confidence of the contributors into the Fund; (ii) have a proper and efficient/effective use of the funds (no misuse, no negative impact on the environment or the local population which would go against the GCF global objectives).
For the last years, there have been significant progress made on these issues in the Development Banks and the GCF should move forward from this. In particular, the World Bank has developed safeguards policies and IFC has developed additional environmental and social criteria for the private sector. Regarding the climate funds, the GCF could on this issue benefit from the GEF's current experience to apply such safeguards.[2]
Regarding the application of environmental and social safeguards as well as international accepted fiduciary standards, some guiding principles should be considered:
-all the implementing agencies/entities shall be required to meet the environmental and social safeguards criteria as well as international accepted fiduciary standards as defined by the Board;
- when auditing the implementing entities, the evaluation should also be about the effective respect of all these criteria;

11. How could the GCF encourage result based approaches among different thematic areas? What are the options for implementing result based approaches?

A result-based approach should be a <u>prerequisite</u> in the design of the Fund. There should be established so that it incentivizes the achievement of ambitious targets and indicators set up for each type of activities/programs etc. Efficacy and efficiency should be key words.
In particular, there is a strong need **to define as much as possible ex ante performance objectives and to develop new and innovative methodologies of impact evaluation**. The GCF should where appropriate develop « pay for performance » mechanisms in order to make sure that allocation of funds is based on effective efforts made by developing countries and avoid any windfall gains.

[2] The GEF Secretariat used the approach and criteria contained in the World Bank's *Operational Policy 4.00: Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank Supported Projects* as a point of departure in crafting the proposed safeguards policy.

Nevertheless, the specifics of the different thematic areas need to be taken into account.
Regarding mitigating, a carbon accounting for mitigation could be adopted on order to make the Board able to judge the progress of the GCF toward the emissions reduction objective. Results should also focus on the transformational effects and on the *additionality* of the GCF funding (coverage of the incremental costs).
Regarding adaptation, increasing resilience is essential and need should be further work to develop indicators that will help the Board to assess adaptation funding on the short term (emergency indicators) and on a longer term (resilience indicators).
For REDD+, further work should be made in order to progressively evolve into a result-based funding mechanism. This should be done once the GCF is set up and in close cooperation with such specific funds as the FCPF that has already acquired an important experience on this issue.
Nevertheless, the results-based approach should also take into account the national strategies and the need to properly address needs that are insufficiently covered at the moment. It should also be included into a robust global result-framework that will be crucial to ensure transparency and effectiveness in outcomes and spending of funds.
On this issue, lessons learned from existing result frameworks and from the CDM methodology (regarding emissions reductions and additionality of funds) will be of particular importance.

12. What should be the value-added of the design and operations of the Green Fund?
13. What role should the GCF play among climate finance entities?
14. How will the GCF ensure complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions?

This is a key question for the TC to consider given the range of existing funds, public and private sector activity on climate change.
The GCF could play a leading role in the definition of global climate finance framework and could act as an anchor for climate finance worldwide, reducing the complexity and increasing the efficiency of funding. Although the rationalization of the overall climate architecture is not in the mandate of the TC and of the GCF, the GCF could nevertheless both improve the way climate finance is delivered and increase the overall environmental and economic impact of climate finance by playing a catalytic role. If designed properly and appropriately, the Fund has the potential to be a key multilateral funding mechanism for climate change internationally, bringing together existing climate change funding entities to ensure a cohesive and integrated approach to climate change funding.
However, the GCF should be built on the existing funds and mechanisms and not duplicate them. It will play an important but not exclusive role in this architecture: it will have an integrating and complementary role rather than a centralizing one.
To concretely address the complementary role of the GCF, there should be a focus on two main aspects:
- Financial instruments that are needed to bring complementary resources to the existing actors on the ground ("fund of funds") and complete the financing plan of their projects/programs and more generally to leverage their climate finance operations. This will be further developed by the workstream III.
- Coordination mechanisms between actors necessary to enhance their cooperation on the ground. On this aspect, the GCF could favor, through the disbursement of fund, a closer collaboration and consultation process between the different actors that are present on the ground and therefore improve the cost effective deployment of financial flows. Such cooperation and information-sharing mechanisms should be further explored with the other actors, national, bilateral, regional and multilateral and draw on lessons learnt from existing funds (CTF partnership, GEF, Global Fund's country coordination mechanism, European facilities….) with a clear input of national authorities.

IV. Submission by Mr. Michael Adande (Gabon)

On Workstream I

In terms of objectives, Gabon agrees with most submitters. The Fund should be guided by the principles of the Convention and should be characterized by accountability, transparency, efficiency, country ownership, flexibility, responsiveness to developing country needs.

In terms of Thematic windows, the Fund should be established for adaptation, mitigation and REDD plus and for Technology as we believe this is a key component for developing countries

The Fund should Country led whilst maintaining a strong focus on the overall objective of the fund

We agree with the view that the Fund should promote coherence and complementarity between the Fund and other regional and multilateral, funding mechanisms and institutions

The Fund should be 'Transformative'. The only issue is the content of the word. What does it mean substantively.

V. Submission by Mr. Y V Reddy (India)

India welcomes the opportunity to present views to the Transitional Committee for the design of the Green Climate Fund on various issues relating to the work of the Committee. Pursuant to the deliberations held in the first meeting of the Committee held on 28-29 April, 2011 in Mexico and the subsequent technical workshop held on 30 May – 1 June, 2011 at Bonn, Germany, India submits its views on the issues relating to the fist work-stream i.e. scope, guiding principles and cross cutting issues as follows.

Scope, guiding principles and cross cutting issues

The Green Climate Fund (GCF) should provide improved, fair and more efficient funding mechanism with easy access for the parties/governments to financial resources to address climate change.

The size of the Fund indicated in the Cancun decisions is indicative. The resources to be provided should be committed and scaled up in accordance with the assessment of the needs of the developing countries for adaptation and mitigation.

Large and significant part of the resources, preferably with a minimum scale prescribed, should be committed by parties and flow through the Fund.

Irrespective of the sources, the resources should be generated, managed and provided by the Fund, on predictable, verifiable, and scalable manner. These principles should guide the way in which the instruments are designed and resources are managed.

The provision of resources to the Fund should be a responsibility of the parties even though the resources may be generated from a wide variety of sources, public and private, bilateral and multilateral. Parties should provide the resources on the basis of assessed scale of contributions in order to ensure predictability and scalability.

The resources to be provided by the developed countries to the Fund should be new and additional. These should be provided through budgetary mechanisms of developed country parties and could be generated, according to the national discretion of such parties concerned, from new instruments in accordance with the principles of the common but differentiated responsibilities of the UN Framework Convention on Climate Change (Convention) and the decision 1-/CP.16 in letter and spirit.

Financial instruments or economic and environmental measures to be employed by developed countries, if any, for raising new and additional resources should have no incidence on any developing country or its entities, and the fiscal or economic effects of such instruments or measures must be contained within the national boundaries of the respective countries.

Resources flowing through the carbon markets should not be accounted for as fulfillment of parties' commitments. Resources raised under the CDM, for example, do not constitute provision of new and additional financial resources for implementation by developing countries of their commitments. Such flows are autonomous and are a payment for the commodities or services performed by developing countries. Moreover, carbon prices fluctuate and there is no guaranteed or benchmarked price of carbon to be used as the reference for private sector flows.

Resources either from budgetary contribution or private sector sources should be provided on a "grant or concessional basis. To the extent concessional finance is provided, only the grant or concessional element should be counted as new and additional.

The Fund has to function as a catalyst and not a financial intermediary. The Fund should not raise capital in form of loan guarantees, bonds, and insurance. These are functions of a financial intermediary and, in any financial intermediation, there are risks as these different sources and instruments have their own conditionalities. The GCF should not be exposed to such market risks and it should focus on its function of supporting national development plans for climate change.

In generating, receiving and integrating resources from a wide variety of sources, the Fund may, however, be built on the principles of an integrated model of funding (e.g. International development Association).

Fund's resources should be measurable and verifiable and should be subject to monitoring by a designated agency of the Board of the Fund or the Convention.

The GCF should support and enable the implementation of developing country-driven projects or strategies with an aim of addressing climate change. The Fund should provide resources to the developing countries for meeting their needs of adaptation, mitigation, technology and capacity building and other activities connected with fulfillment of obligations under the Convention, taking into account the specific national and regional development priorities, objectives and circumstances.

The GCF should support the full agreed incremental costs of policies and measures aimed at mitigation, including the cost of transfer of technologies needed by the developing countries. It should support the full costs of adaptation and preparation of National Communications (NATCOMs) and associated biennial reports and their updates in developing countries. Capacity building in developing countries should also constitute an important part of the activities of the Fund.

The GCF should be built on the principles of direct access to the Parties/Governments to the resources of the Fund. The access to the parties should be granted through the National Implementing Entity (NIE) which should have the role of coordinating and implementing a nationally appropriate development strategy for climate change.

Access of the private sector institutions or bodies to the GCF should be facilitated through the NIEs who should obtain resources from the GCF in accordance with agreed principles of accountability and provide to such private entities for in order to meet the objectives of financial mobilization and implementation of climate change related plan at the national level.

VI. Submission by Ms. Naoko Ishii (Japan)

I. Workstream I (Scope, guiding principles, and cross cutting issues)

Thematic windows

1. As commented in Japan submission dated May 25, we propose to analyze not only the purpose and benefit, but also potential downsides of setting thematic windows because members may have different reasoning to support this idea. Setting thematic windows may help some donor countries maximize their contributions as they are able to earmark their contributions to specific usage, but the resulting pattern of contribution may not match the pattern of demands of recipient countries. For instance, donor countries may wish to allocate more funds to mitigation, while recipient countries may prefer more access to resources for adaptation. We may need to consider how to deal with this potential mismatch of demands and supply for funds.

2. We think it important for countries in urgent needs to have immediate access to funds available under the Green Climate Fund (GCF) once the Fund becomes operational. If needed, the GCF should help those countries augment their capacity to prepare their national climate change programs as well as to conduct monitoring and evaluation, either through special windows under the GCF, or through projects or programs which embed capacity building. Ideally speaking, those assistances should be provided even while the design of green climate fund is ongoing so that countries can make jump start in usage of the funds.

3. In designing scope, purpose and structure of each thematic window of the GCF, i.e. mitigation, adaptation and REDD+, it is important to make it clear how the GCF thematic windows will make difference from and complement similar funding windows in existing climate change financing mechanisms, such as climate change windows in the Global Environment Facility, Adaptation Funds, and UN-REDD program. The GCF's thematic windows must have the strong comparative advantage among existing financial mechanisms.

Window for private sector participation (this is related to Workstream III)

4. It seems there is consensus among us that private sector participation is critical element for the GCF. As a next step we need to deepen our understanding and put our thoughts on the following issues. First, in case the bottlenecks for private sector investment in climate change related projects lie in gaps in policy and regulatory frameworks, rather than financial incentives, how the GCF can address this gap? Second, it will be very useful if TC members can share understanding about what financial instruments, say, guarantee facility, risk insurance, seed financing, viability gap financing, subordinated debt financing, grant used for feed-in tariffs, will be best suited to catalyze what type of private sector investment in which sector. We appreciate it if the TSU could provide analysis in this regard and also an opportunity to have sessions with private sector at TC meetings and / or workshops. On this occasion, to hear from institutional investors such as pension funds to understand what measures can encourage them in investing climate change projects will be useful too. Third, there will be pros and cons to set up a window for private sector investment. Private sector investors may prefer a separate window which may insulate public sector intervention in decision making. How to decide resource allocation between thematic windows and private sector window? Is allocation of resources within the private sector window subject to the country allocation if such kind of mechanism introduced? It may become an obstacle to livery private sector investment, but without it, we may see concentration of investment on specific countries. Fourth, private sector window, if it is created, may require separate governance structure as well as different set of approval, monitoring and evaluation procedure.

VII. Submission by Mr. Hyung-Hwan Joo (Republic of Korea)

Objective of the GCF

The Objective of the Fund is to support developing countries' efforts in adaptation to minimize adverse impacts of climate change and their sustainable development through transformation into low carbon economy.

Operational principles of the Green Climate Fund

The Green Climate Fund is differentiated from existing climate funds as it is the first global fund specially designed for climate actions. Prior to setting principles, it is important to analyze pros and cons of existing funds and fully understand how they have been used.

- **Improving accessibility to climate funds**

  There is a need for detailed analysis on what kind of problems developing countries have when accessing to existing funds. Direct access is desirable; however, it is necessary to consider that each developing nation has different institutional and human capacities in terms of managing incoming financial flows and implementing projects or programs.

- **Country-led approach**

  The Fund activities should be determined in accordance with a country's national development strategies and priorities. It is generally acknowledged that donor-driven development assistance has caused problems, and the impacts of such assistance on poverty reduction and MDG achievement have not always turned effective. Recognizing such problems, international community adopted the Paris Declaration on aid effectiveness. In particular, the Fund activities should not end in one-off projects or programs.

- **Result-based approach**

  Input and output should not be the only focus of the Fund. Outcome and impact of the Fund activities should also be key consideration. It is also necessary to analyze the monitoring and evaluation mechanisms of other bilateral and multilateral institutions that already exist to develop a monitoring and evaluation system suited for the GCF. Meanwhile, the issue of environmental and social safeguards should be considered together with the result-based approach.

VIII. Submission by Mr. A. F. Elisaia (Samoa)

AOSIS submission to the Transitional Committee
Work stream 1: Scope, guiding principles and cross-cutting issues
8 June 2011

TITLE

The Green Climate Fund ("GCF" or the "Fund")

PURPOSE

The purpose of the Fund is to enhance the implementation of the Convention and its ultimate objective by scaling up the delivery of new additional, predictable, and adequate multilateral climate financing to equally support adaptation and mitigation actions catalyze transformational changes in developing countries in accordance with their sustainable development priorities, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change.

As an operating entity of the Financial Mechanism of the Convention, under its Article 11, the Fund functions under the guidance of and is accountable to the Conference of the Parties and in accordance with the principles and provisions of the Convention. The Fund supports projects, programmes, policies and other activities in developing country Parties related to mitigation including REDD-plus, adaptation, capacity-building, technology development and transfer, with the objective of achieving balanced allocation between adaptation and mitigation and through effective and efficient arrangements, with a governance structure providing for equal representation of developed and developing countries. The Fund will add value to other existing climate funds including by being more responsive and sensitive to the needs of developing countries, by providing direct access to funds, and evaluating its own performance against not only financial but also environmental and social accountability indicators

PRINCIPLES

A. The Fund operates as a financial instrument with implementation responsibilities through various modalities, including direct access. It will also seek to help developing countries build capacity, including institutional capacity for project planning, application and implementation.

B. The Fund will mobilize, leverage, manage and disburse to developing countries new and additional financial resources from a wide variety of sources, public and private, bilateral and multilateral, including innovative sources of finance to support adaptation to and mitigation of Climate Change.

C. The Fund will, as a strategic priority, respond to the challenges faced by developing countries that are particularly vulnerable to the adverse effects of climate change, including the adaptation needs of LDCs, SIDS and countries in Africa affected by droughts, floods and desertification and will support a variety of sized projects, policies and programs on a needs-based basis and consultation with recipient countries.

D. The Fund will play a transformational role and go beyond a project-by-project approach. It will base its work on programmes that reflect national ownership and priorities and respect country-led formulation and implementation processes.

E. The Fund will ensure that countries with capacity constraints to access its resources and implement projects after it becomes fully operationalised are not precluded from benefitting from Green Climate Fund resources

F. The Fund will operate with the objective of achieving balanced allocation between adaptation and mitigation and among regions.

G. The Fund will evaluate proposals for projects and programmes through independent review processes based on the best available scientific and technical standards that take into account local realities and priorities.

H. The Fund will seek to establish simplified and rapid processes in application for, and for disbursement of funds in an efficient and effective manner that do not place an undue burden on developing countries.

I. The Fund will seek to minimize transaction costs and operate in a transparent and accountable manner, based on clearly defined responsibilities.

SCOPE

A. The Fund will be responsive to guidance by the COP and therefore be a continuously learning institution that is able to be flexible, react and adapt to changing circumstances.

B. The Fund will be responsive and sensitive to the needs of developing countries, with particular consideration for SIDS, LDCs and countries in Africa affected by droughts, floods and desertification. Hence; it must address the historical imbalance in allocation of support between adaptation and mitigation.

C. The Fund will be so designed that it becomes over time a major player in climate change financing and is instrumental in enhancing rationalization and harmonization of application procedures and project cycles across Climate Change financing funds.

D. The Fund will support enhanced adaptation actions, be transformational and support the enhanced implementation of ultimate objective of the Convention [as well as global goals set in the Shared Vision], in particular through the application of strict social and environmental safeguards. As such, the implementation of greenhouse gas accounting methods will ensure that projects funded by the GCF result in net emission reductions beyond Business As Usual.

E. The Fund will utilize appropriate financial instruments (concessional and non-concessional loans, grants etc…) for each type of activity or window.

F. The Fund will mobilize and make best use possible of public money by prioritizing such use of public money to achieve a catalytic effect and to support activities that are relatively costly, risky or are less attractive to the private sector, for example, adaptation in SIDS and LDCs.

Presentation by Mr. A. F. Elisaia of Samoa on behalf of AOSIS at First Workshop of Transitional Committee during session of Workstream 1 (Scope, Guiding Principles and Cross-cutting Issues)

Co-Facilitators,
Samoa is privileged to be invited to speak on behalf of AOSIS in this Workstream which is also being co-facilitated by Derek Gibbs of Barbados, one of AOSIS's representatives on the Transitional Committee. Our group's written submission for this Workstream has already been submitted to you as Co-Facilitators and to the Transitional Support Unit (TSU)

In line with the spirit of the invitation, my comments are primarily to stimulate discussion on some of the items under Workstream 1 with a view of reaching a common understanding on the various options and identifying discrepancies to guide the discussions of other workstreams.

Let me turn now to the first question you posed,

1. What concrete elements would you like to incorporate in a common statement of purpose for the Green Climate Fund "based on/building on the broad objectives and overarching guiding principles in the COP decision"?

I am of the view that the Green Climate Fund (GCF)

- should support the funding needs of developing countries to address low-carbon, climate-resilient and equitable sustainable development "on the basis of equity and in accordance with [Parties'} common but differentiated responsibilities and respective capabilities" (UNFCCC, Art. 3.1.)
- The GCF should overcome the proliferation of existing inadequate funds and financing instruments which under-serve and under-fund the needs of the most vulnerable country groups, such as SIDS and LDCs.
- It should overcome the inadequacy and unpredictability of currently mostly voluntary contributions, by guaranteeing that the majority of long-term public finance commitments flows through the GCF
- It should provide at least 50% of its funding for adaptation purposes on a grants-basis only; in addition it should ensure that all financing for the most affected country groups, namely SIDS and LDCs, flows in the form of grants

  More specifically from AOSIS perspective,
  - The GCF should improve accessibility for those countries in particular that have not been able to access resources in the past due to capacity constraints. .

2. What in your view should be the guiding principles that should govern the GCF?

The Green Climate Fund should benefit every single state party of the Convention. Thus as a minimum, no country should be precluded from being a beneficiary of the GCF because it lacks the capacity to access resources from and/or implement projects immediately when the GCF becomes operational. These are unique and real vulnerabilities for some members of AOSIS which should be readily acknowledged and never used as a basis to exclude them from benefiting from the GCF.

Consequently,

- the principle of **equity**¸ needs to be applied in order to ensure that assess to and the benefits of GCF funding reach those country groups that need it most. **Direct national and regional access** should be the funding modality of choice in the GCF.
- The core democratic principles of **transparency** and **accountability** as well as **public/stakeholder participation in decision-making** in the GCF need to be considered throughout the funding cycle and the organizational and operational structures of the GCF. Operationalizing these principles in the GCF would include:
  - TC to work toward a common reporting format with a view to rationalizing all climate finance reporting
  - Transparent information disclosure by the future GCF that is timely and accurate on its funding structure, financial data, its decision-making process and decisions made

- Stable core funding for the GCF needs to be in form of assessed budgetary contributions by developed countries to ensure predicatibility, certainty and sustainability.
- Funding decisions by the GCF in its operations should apply the **precautionary principle** by not funding activities that have no clear climate benefit but instead could harm sustainable development objectives. Erring on the side of caution, the GCF should **"first, do no harm."**
- The disbursement of GCF funding should be based on **national/local ownership** in order to meet the actual adaptation/mitigation needs of recipient countries and communities, not contributing country preferences.
- The principle of **appropriateness** requires that climate funding through the GCF should not place an extra development burden on recipient countries. Thus, the GCF should disburse funding for all adaptation programs exclusively on a grant-basis. All climate-funding for the two country groups most affected by climate change, SIDS and LDCs, should likewise be in form of grants.
- **Sound fiduciary principles**, following excepted international fiduciary standards, need to be applied to the GCF, including those that prevent possible conflicts of interest and promote transparency
- As a **public institution established to support a global public good** (the stabilization of the climate and prevention of catastrophic climate change), the GCF should be primarily funded through public sources (including innovative mechanisms) and should be deployed for the greatest common good, rather than private gain. By emphasizing the desire to leverage private finance (through loan guarantees, publicly-provided insurance, or other risk sharing instruments) the GCF runs the risk of putting too much power, and too much of scarce public monies, into the hands of profit-driven interests which are not subjected to the same transparency and accountability standards as public entities.
- It should build a sound **accountability M&E** that looks both at sources of funds and the use of funds and should help to foster green growth through **sharing of best practice** examples with similar countries circumstances.
- Where ever possible, international **best practice** on **aid effectiveness** and **donor harmonisation** should help to guide resources under the GCF, particularly strengthening national systems to effectively manage these resources against their own national plans and systems". This is particularly relevant when considering direct access.

3. What should be the thematic scope of the Green Climate Fund and by whom should it be determined?

- The GCF should ensure that its funding is coherent with, and not in violation of its own mandate of climate protection.
- At a minimum and from the beginning, thematic windows for adaptation, mitigation, technology transfer, and forest protection should be established. Capacity building as a cross-cutting thematic concern should be an integral component of all the thematic windows. Within each thematic funding window, special consideration should be given to activities in LDCs and SIDS, which have been neglected by many existing funds, including for clean energy provision.

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

- A well-designed fund cannot be effective if little or no money flows through it ("placebo fund"). In order for the GCF to be transformational in nature and to rationalize the proliferation of existing funds, it must be an order of magnitude larger than the funds that exist today.
- It is critical that developed countries uphold their climate finance obligations under the Cancun Agreements. The GCF must thus have the capacity to manage large sums of new and additional finance from public sources, which should form the core of GCF funding for predictability, certainty and sustainability.
- The size of the GCF should be linked to the mobilizing commitments of developed country Parties for long term financing and should be scalable over time.
- Following the principle of country ownership, this will require much of the infrastructure to be devolved to regional and country recipient institutions acting as implementing entities. These should be governed democratically based on equitable representation and allow for public participation in decision-making, for example by including representatives of affected communities in funding decisions

5. What are the concrete elements that would be essential in the Green Climate Fund for attracting substantial contributions?

- Fair governance structure
- COP support
- Access to the private sector, perhaps through public-private partnerships and NGO's. Transformation needs to come from the private sector, but governments must be responsible for ensuring that business in their countries adequately take those transformational steps.
- Mitigation funding in particular should be transformational where ever possible.
- Direct access from national and/or nominated sub regional organisations.
- Selective co-financing arrangements depending on the windows of access and the specific country situation.

6. How should the outcome of WS 1 be used by other work streams?

- WS 1 addresses a number of cross-cutting issues of relevance for other work streams with respect to operationalization (especially funding windows and access modalities) and governance (such as fund size, funding sources and purpose and fund administration), as well as active civil society participation in all decision-making and implementation processes, transparency and accountability. It is thus crucial that these issues are not only addressed at the beginning of the work of the TC in the first technical workshop, but form the basic normative and guiding framework for work in the other work streams.
- Core democratic principles such as transparency and accountability and public/stakeholder participation in decision-making especially, need to be considered as cross-cutting issues relevant for discussions in all four work streams and be addressed specifically in each of them. The future effectiveness and efficiency of the GCF depends on operationalzing these core principles throughout the GCF structures and its funding cycle.
- However, WS 1 also needs to build on possibilities presented by the other workstreams, so too can the principles be changed to ensure we maximise direction to the use of modalities we think are really good ideas and help overcome some difficulties. For example, if WS 3 decides that the regional modality similar to the African Water Facility would best suit a modality to service SIDS adaptation needs, then we should reflect a focused principle in WS 1 that captures that kind of approach for SIDS in particular...
- Inevitably, we would be looking to WS 2 and WS 3 for guidance on what kind of principles we could add in WS 1 on engaging the private sector or instruments that could be used under the fund. Until we know what is legally possible, we can't really reflect that in the principles and scope.
- So basically while I think it is important for us to continue to provide advice on what we want from the fund from WS 1, we need to keep the work of this workstream open until we see the last of the legal and modality discussions on the table.

IX: Submission by Mr. A. M. Al-Abdulkader (Saudi Arabia)

Saudi Arabia is pleased to share its initial views and concerns related to issues tackled under working stream I: scope, guiding principles, and cross cutting issues, and looking forward to work constructively with the other transitional committee members (TC) in a transparent, inclusive, and TC - driven process to further advancing the dynamics of designing the Green Climate Fund as mandated by Cancun Agreements.

I. Objectives and principles

1. The Green Climate Fund (GCF) has been established by Cancun Agreements to represent an efficient and robust financial instrumental model that should be operationalized under the authority and guidance, and be fully accountable to the COP.

2. The efficient and robust roles of the GCF would oblige to the following key issues:

   2.1. the full conformity with the principles and provisions of the Convention and the mandate of Bali Action Plan, pertaining to climate change finance.

   2.2. the priority of developing country Parties that are particularly vulnerable to the adverse impacts of climate change and the adverse impacts of **response measures** including **economic diversification**.

   2.3. ownership in terms of eligibility and direct access of all developing country Parties to the financial resources, and consistency of action with their priorities, guided by national and/or regional adaptation and mitigation strategies.

   2.4. the comprehensiveness of the GCF to cover all relevant sources, sinks and reservoirs of greenhouse gases and adaptation, and comprise all economic sectors.

   2.5. the balance allocation of GCF to enhance actions on adaptation and mitigation including Carbon Capture and Storage activities.

3. As an operating entity of the financial mechanism of the Convention under Article 11, the GCF has to expeditiously deliver towards achieving the following key objectives:

   3.1. ensure the full, effective and sustained implementation of the commitments of the developed country Parties and other developed Parties included in Annex II to the provisions of financial resources mandated under Articles 4.1, 4.3, 4.4, 4.5, 4.8, and 4.9 and in accordance with Article 11 of the Convention,

   3.2. Enhance action on the provision of financial resources and investment to support action on mitigation, adaptation and technology cooperation in accordance with Article (1.e) of Bali Action Plan.

   3.3. Mobilize US$100 billion a year by 2020, as committed by developed country Parties, to address the needs of developing country Parties and to respond to challenges arose from the adverse impacts of climate change and the adverse impacts of **response measures**.

II.Thematic scope:

1. Thematic funding windows under the GCF should include, primarily, mitigation, adaptation, and technology transfer. These thematic funding windows should be determined at the founding size and

should be incorporated during the designing process of the GCF to ensure the efficient operation of the fund. Yet, flexibility of adding new windows as needed should be considered by the GCF board.

2. Capacity building is a cross cutting issue that could be considered under the three major windows of the GCF.

3. High consideration should be given to activities under these thematic funding windows that have high potential to reduce the GHG and to contribute tremendously towards achieving the ultimate objectives of the Convention such as **Carbon Capture and Storage** activities.

III. Size and scalability:

1. Innovative thinking should take the lead on designing the GCF, building upon best financial mechanism practices as appropriate.

2. In comparison to the existing funds, the founding size design of the GCF should be scalable over time to match the ambitious MINIMUM of 100 Billion US Dollars per year as pledged jointly by the developed country Parties and other developed Parties included in Annex II.

3. Annual assessed contributions of the GDP of developed country Parties and other developed Parties included in Annex II would ensure the efficient allocation of the 100 Billion US Dollars among developed country Parties.

X: Submission by Mr. Bruno Oberle (Switzerland)

Objectives and principles

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

The "raison d'être" of the multilateral efforts in climate change policy and the ultimate objective of the UNFCCC (cf. article 2 UNFCCC) is the "stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system" (according to latest IPCC findings, maximum 2 degrees temperature increase). This has a number of implications, i.a. regarding allocation of funding for different windows, instruments, eligibility criteria, MRV, etc.

If the GCF is to be of a different order of magnitude (with an objective to foster a transformational development path), it will have to mobilize, leverage, manage and disburse financial resources from different sources at a large scale, including from the private sector. For the design of the GCF, lessons learned from and complementarity with existing multilateral trust funds for climate and other global issues, will have to be taken into account. Among the barriers identified to scaling up flows at the scale and speed required, the basic elements of a sound investment policy framework (including regulatory policies aimed at supporting low carbon investments) are a central concern for investors.

It is further difficult to imagine that the GCF will operate on a project be project basis. We rather see it operate as a fund of funds or a though put mechanism. However, this will require time to build up appropriate capacity, hence a phased approach may be most suitable.

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?

We consider it not necessarily a task of the TC to further develop the guiding principle, but rather a core business of the UNFCCC bodies.

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 have an open architecture (so that scaling up of funding and disbursing is possible), with four windows from the onset: 1) for mitigation, 2) for adaptation, 3) for REDD+ 4) for leveraging private sector finance. Capacity building should be an integral part of each of these windows. The Board could in the future add more funding windows – either thematic or regarding modes / instruments - including one to foster programs/projects with multiple benefits, especially climate change and biodiversity.

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 initial architecture / structure should be reviewed periodically by the Board of the GCF with the aim to identify changes deemed necessary and to seize opportunities.

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

A fixed allocation would hamper – in any case in the initial phase of the GCF, but likely in general – the most effective allocation of funds. In addition, when considering a "balanced allocation", all specialized climate funds (such as REDD+, Adaptation Fund, etc.) need to be taken into account. Projects and programs which catalyze true transformational change, with multiple benefits, should get some kind of a bonus / preferred treatment.

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?

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

A modular approach seems most suitable which would allow to scale up the size of the GCF in function of the Fund's mode of operation (project by project, programmatic, umbrella or fund of fund, etc.), its needs, new sources, and absorptive capacities of implementing countries.

The scale will depend on a number of factors, i.a. the instruments that the GCF will have at disposal (for example: a GCF which will only operate with grant financing, will be of smaller size than one that operates with a array of instruments). More fundamentally, the GCF – as part of the Cancun agreements – needs to be seen in the context of meaningful mitigation actions and transparency on implementation. Hence, the scale will likely also depend on that type of balance. In addition, other climate funding (bilateral as well as multilateral) will likely continue to operate, thus creating a healthy competition for innovative and efficient climate financing.

4. Country-led and results-based approaches

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

Recipient countries should have the leading role in identifying and developing proposals to the GCF. They should be in line with national strategies for low carbon development and adaptation strategies, based on country-level multi-stakeholder partnerships.

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?

The GCF should be as much as possible country driven. At the same time, any access to finance requires clear eligibility criteria, whether it be in terms of results, performance disbursement capacity, etc. Sound minimum fiduciary standards consistent with international best practice and safeguards will be crucial to convince contributing countries' people and parliaments (and the private sector) to put money into the GCF.

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?

For the success of the GCF, it will be critical to establish robust procedures for measuring and reporting results of funded activities, so as to ensure transparency and effectiveness in outcomes. Such procedures could include inter alia an independent review and monitoring processes, to provide accurate and timely evaluations which may serve 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?

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

If the GCF is to be of a different order of magnitude (with an objective to foster a transformational development path), it will have to mobilize, leverage, manage and disburse financial resources from different sources at a large scale, including from the private sector.

We do not envisage that the GCF will operate on a project be project basis. We rather see it operate as a fund of funds. It could especially regarding mitigation utilize its resources to leverage and mobilize finances from the private sector and incentivize investments into low-carbon approaches within developing countries, both from domestic and external private entities.

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

An annual forum of funding entities as discussed in the context of climate change negotiations could facilitate complementarity between funding institutions and mechanisms. Over time, we expect that the climate funding system may undergo a rationalization /streamlining.

XI. Submission by Mr. Nick Dyer (United Kingdom of Great Britain and Northern Ireland)

The Green Climate Fund: Framing the Challenge – A UK Perspective

Large scale investment is needed to shift developing countries onto lower carbon, climate resilient development paths. The role of the Transitional Committee is to design a Green Climate Fund that focuses on helping developing countries achieve the results that will make that shift. A number of options around instruments, structure and how the fund will operate and be governed will emerge during the design process.

Defining the challenge

Existing multilateral institutions and funds are making a valuable and substantial contribution to tackling climate change and, subject to their continuing to deliver results, should continue to enjoy international support.

However, the existing climate finance architecture is not configured to deliver the necessary volumes of finance at the right **scale** or **responsiveness**, with the right geographical **coverage**, on the right **terms** or with sufficient **leverage** to meet the challenge:

- **Scale** – Climate change flows need to be scaled up towards the Copenhagen Accord 2020 goal of $100bn per year and made more coherent and effective to move beyond piloting and be transformational.
- **Responsiveness** – Climate change financing modalities need to be more responsive to their clients. The access arrangements and speed current funds can act at, including the low availability of direct access, are limitations to responsiveness.
- **Coverage** – There is no integrated, global approach to climate change finance that makes the right support available to all countries; and ensures balance across themes (adaptation, mitigation, forestry) and sectors.
- **Terms** – There is no one place that makes available a full set of instruments, products and terms. A range of terms is available from existing funds, but the range is far from complete, and there is no mechanism to match the right terms to an investment across the architecture, or to ensure that it incentivises action, delivers results, excellent value for money, and makes efficient use of scarce subsidy.
- **Leverage** – Both leveraging finance from capital markets into climate change investments, and expanding the private sector's direct investment in climate change operations in developing countries. Existing institutions are scaling up and new innovative funds are beginning to emerge, but the existing architecture does not deliver comprehensively.

Some existing climate funds and institutions meet some of these criteria in some countries and in some sectors. But there is scope to increase coherence, impact and results. The task of the Transitional Committee is to design a Green Climate Fund that addresses these five problems to the highest standards.

Meeting the highest standards will be necessary to attract resources and maintain the confidence of all contributors. Our test of the highest standards is set out in the in the UK's recently published *Multilateral Aid Review*: ten criteria that we apply to assessing the results, effectiveness, efficiency and value for money of all the multilateral institutions we support.

Ambition for the Transitional Committee

The Transitional Committee needs to develop a framework for the Green Climate Fund at an appropriate breadth (the range of issues covered) and depth (the level of detail).

In terms of breadth, we suggest aiming for a framework which covers its purpose, principles, governance, structure, monitoring process, fiduciary responsibilities, coherence with other bodies and its legal status. Without these we will not have defined what the fund is aiming to achieve, nor covered the issues in the terms of reference. In order to cover this breadth of issues, the Transitional Committee will need to break the work into separate work streams. We suggest five work streams, to ensure all areas are covered:

- **Objectives** – what is the purpose of the fund, what principles it will seek to uphold, what types of activity it will support.

- **Structure** – what funding windows it will have, what types of instrument, how it links to the existing architecture.
- **Governance** – the roles and membership of the boards of governors and directors and the secretariat, the role of any partnership forum and relationship to other bodies.
- **Operations** – defining where responsibilities for financial accountability, monitoring, evaluation and accountability for program implementation will lie, how results will be monitored, and the role of the trustee.
- **Legal** – whether the GCF will be a legal entity, and the privileges and immunities of board members.

It will be important to learn the lessons from the operations of existing funds and draw on the experiences of development cooperation.

In terms of depth, we recognise that we have just six months and while the Transitional Committee can set the broad framework, we envisage more detailed design can subsequently be handed on to the Board to develop further.

The Green Climate Fund: Objectives and Principles – A UK Perspective

As set out in our submission "*The Green Climate Fund: Framing the Challenge – A UK Perspective*" the existing climate finance architecture is not configured to deliver finance at the right scale or responsiveness, with the right geographical coverage, on the right terms or with sufficient leverage to substantially help developing countries shift onto lower carbon, climate resilient development paths. A clear, concise objective statement and set of principles by which the Fund will operate will help to ensure it is effectively focused, configured and managed.

Objectives

Consistent with 1/CP.16, the Green Climate Fund's stated objectives should refer to support for developing countries to:

- Adopt low carbon development pathways consistent with meeting the long-term goal of holding the global average temperature increase below 2°C above pre-industrial levels.
- Reduce vulnerability and build resilience, taking into account the urgent and immediate needs of those developing countries that are particularly vulnerable

Principles

Experience has shown that adherence to a range of guiding principles improves the effectiveness and efficiency of international cooperation. The UK uses a set of principles to guide its contributions to multilateral programmes – an assessment of multilateral organisations' performance against these principles was recently published in our Multilateral Aid Review. Based on this experience, we believe that Green Climate Fund principles should refer to:

- **Partnership behaviour** that promotes ownership, alignment, harmonisation, results, mutual accountability
- **Focus** on countries with the greatest need and that make the best use of resources for climate change
- An ambitious and measured **contribution to results**
- Predictable, transparent, accountable and robust **financial resource management**
- **Cost and value consciousness** in organisation and decision making
- High standards of **transparency and accountability**
- **Attention to cross-cutting issues** including gender and fragility
- Systems to ensure excellent **strategic and performance management**

We recommend the Transitional Committee considers how to incorporate objectives and principles in its recommendations to the Conference of Parties. A short paper by the Technical Support Unit covering possible Green Climate Fund principles and how they have been employed in other funds and institutions would be useful to inform our discussion.

CHAPTER II: SUBMISSIONS BY MEMBERS OF THE TRANSITIONAL COMMITTEE ON WORKSTREAM II: GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

I. Submission by Mr. Ewen McDonald (Australia)

Sub-workstream II.1: Legal and institutional arrangements

This sub-workstream will address the legal status and formal relationships of the GCF and its institutional components (the Board, the Secretariat, the Trustee, and the Implementing Partners and other relevant elements, including mechanism for expert, technical and stakeholder input). Inputs will be solicited initially regarding:

(i) The legal status (capacity or personality) of the GCF and its components, how such status will be conferred, and the possible liabilities of the components;

The necessary legal status of the fund, and of its components, is not a foregone conclusion. Not all funds - climate change and development - have a need for legal personality. It would therefore be useful for us to consider an options paper in the first instance.

As a first step, the options paper could examine the experience of other funds, for example, the Adaptation Fund, the Multilateral Fund for the implementation of the Montreal Protocol and the Global Fund to Fight AIDS, Tuberculosis and Malaria. The background document for this workstream included some information on the legal status of other funds, but it would be useful to take this further to examine the processes and thinking that led each fund to its current legal (or otherwise) status.

The paper might then analyse what factors could necessitate legal status within the Green Climate Fund, for example, the issue of direct access, which the TC is considering under Workstream III. The implications of conferring legal status for the legal relationships between the GCF and its implementing partners should also be considered. As a starting point, it would be important to examine the provisions of the Cancun Agreements. This analysis may lead us to the conclusion that the Fund does require legal powers – and we should specify these. Or it may lead us to the conclusion that it does not in fact require legal status.

If the former, the options paper could then examine the alternatives available in conferring legal status. Based on the above analysis of the legal powers required by the Fund, the paper could consider which element(s) of the Fund would most appropriately take on these powers, and what process would be required for conferral.

Given the many linkages between the issue of legal status and other issues to be decided in this and other workstreams, consideration of legal status may need to be concluded down the track, after initial consideration of these other issues. However, work could commence on background analysis, and implications of existing decisions, immediately. Each workstream should be encouraged to identify the legal implications of their issues and the decisions taken by the TC and feed those back to Workstream II.

(ii) The legal relationships between the GCF and its implementing partners, both multilateral and national;

Our consideration of this component will depend in part on whether or not the GCF (or one of its elements) is conferred legal capacity.

If the Fund does not have legal capacity, it might operate similarly to the GEF, which itself does not have independent legal personality but has a legal status derived from the Global Environment Trust Fund operated by the World Bank. In this situation, implementing partners, both multilateral and national, enter into legal arrangements with the trustee. However, implementing partners continue to be accountable to the Council to ensure the effectiveness of their GEF-financed activities, including project quality, management and results.

Should the GCF secure independent legal personality, it could enter directly into legal arrangements with its respective implementing partners. Implementing partners would still be accountable to the Fund Board. The Adaptation Fund provides an example of this model.

(iii) The accountability relationship between the UNFCCC COP and the GCF components (principally the Board, Secretariat, and Trustee)

As indicated in the Cancun Agreements, the Fund is accountable to and functions under the guidance of the COP. The Board of the Fund would therefore be accountable and under the guidance of the COP, but would also retain independence in decision-making with regard to funding projects and programmes. The Secretariat and the Trustee would both be accountable to the Board.

In elaborating the details of these relationships we should draw upon the existing example of the Global Environment Facility (GEF). Like the GCF, the GEF is an operating entity of the financial mechanism of the Convention, and is also accountable to and functions under the guidance of the COP. This relationship may provide some insights and lessons learnt to consider in the Fund design.

Sub-workstream II.2: The Board

This sub-workstream will address issues related to the GCF Board. Inputs will be solicited initially regarding:

(i) The composition and election of the Board, including: the election of members and regional distribution among UN regions; the role of non-governmental actors; the election of Chair(s) and duration of members' service;

The TC may wish to provide additional advice on composition of the Board or it may leave this to developed and developing country groupings to determine amongst themselves, particularly in light of time constraints on the TC's mandate.

Consideration of Board composition could include regional distributions within the 12 developed and 12 developing country seats that were agreed in the Cancun Agreements, including designating permanent seats for Least Developed Countries (LDCs) and Small Island Developing States (SIDS) within the developing country seats. Developed and/or developing countries may choose to develop constituencies of more than one country per seat in order to broaden country involvement, as is the case in the GEF. Consideration of the governing provisions of the GEF and other funds in relation to Board composition may assist the TC in deciding whether this needs to be addressed any further in the Fund design process.

As the Green Climate Fund is an operating entity of the financial mechanism, with an independent Board, constituencies will select their own Board members, and there is a question as to whether the TC needs to provide input to this process. However, the TC should consider under this workstream the terms of Board members, and whether we stagger these to ensure continuity across terms.

Australia also sees merit in examining how best to engage non-government organisations in the work of the Board, noting the Board composition has already been agreed by the COP, to ensure that their expertise and experience can input into the operations of the GCF. In considering this issue, we should look not only at traditional observers or active observers such as civil society, but also representatives from advisory bodies under the Convention and the private sector.

This sub-component of the workplan must also consider the expertise that Board members require. The qualifications of the Board should facilitate effective and efficient management and disbursement decisions. Members of the Board and any sub-governing boards, if agreed, should have relevant skills and expertise in fund management, finance and development administration. This sub-component should consider how "expert" members should be, and how to consider incorporating a range of skills *across* the Board, moving from technical skills to governance skills to the ability to set and deliver on strategy.

The TC should also consider how to encourage gender balance within the Board.

(ii) The mandate and responsibilities of the Board, especially the extent to which the Board will engage in project/programme approval;

Our consideration of this sub-component should start at a strategic level – what should be the nature of the Board? Should it be to set strategic direction? Or should it take on primarily a management and administration role? We can then address the questions of the extent to which the Board will engage in project/programme approval and the expertise we require within Board members. For example, if we wish Board members to spend a large amount of time considering the detail of project and programme proposals, we will need significant technical expertise within our members, not to mention the ability to dedicate a significant amount of time to this task.

(iii) The rules of procedures and functioning of the Board, especially decision-making processes.

Examining the rules and procedures of the boards of other relevant funds seems a logical place to start for this sub-component. This will also in part depend on the answer to the above question relating to the role of the Board and its level of engagement in project/programme approval.

Sub-workstream II.3: The Secretariat

The sub-workstream will address issues related to the GCF Secretariat. Inputs will be solicited initially regarding:

(i) The establishment of the independent Secretariat, as well as its legal status, composition, and recruitment procedures;

The legal status of the Secretariat would presumably be considered under component II.1.(i) above (which is to consider the legal status of all components of the Fund).

One question that should be addressed is the extent to which the TC considers the establishment of the independent Secretariat. Having set out the Secrerariat's mandate, functions and relationships (as per the below), the TC may wish to devolve the more administrative and time-consuming tasks of recruiting the Secretariat to the Board. However, the TC may also wish to consider the composition of the Secretariat, in order to guide the Board as to size, key functions, etc. – this may depend on timing and priorities.

(ii) The mandate and functions of the Secretariat, including its role (if any) in project/programme review, and MRV;

Australia places great importance on ensuring the Secretariat has the requisite technical capacity and expertise to do its job. In deliberating upon the functions of the Secretariat, especially on whether it will have a role in project and programme review, it will be key for us to be able to assume that the Secretariat will have the right skills and expertise to assist the Board in such tasks.

Australia's view is that indeed the Secretariat should have a role in project and programme review. Such review requires a certain set of skills and can be time-consuming, and the Board of the Fund cannot be expected to be able to take sole responsibility for such a task.

It will be important for the Fund to have strong monitoring, reporting and evaluation processes– such as emissions reductions monitoring and reporting at the project and program level – and it is anticipated that the Secretariat could play a role in this regard. However it would be useful to further clarify in which instance(s) the Secretariat would be required to undertake measurement, reporting and verification procedures. Issues related to monitoring and evaluation should be addressed in workstream (IV).

We should draw on the experience of funds such as the Adaptation Fund, the Climate Investment Funds and the GEF in determining the Secretariat's mandate and functions. A paper providing some detail on the mandate and functions of these funds' secretariats would be helpful.

(iii) Relationship with implementing institutions, including project cycles and division of responsibility

The relationship between the secretariat and implementing institutions will in part depend on TC decisions on the role and types of implementing institutions and standards and criteria applied to those institutions.

Consistent with other items, the TC should consider the respective roles of secretariats and implementing entities in other funds, the resourcing implications of the secretariats taking on these roles and potential options for alternative entities to perform these roles.

Sub-workstream II.4: Trustee Arrangements

This sub-workstream will focus on the trustee and will be closely coordinated with Workstream III.2 dealing with managing large-scale finance. Inputs will be solicited initially regarding:

(i) Issues regarding the role of the trustee (in addition to 1/CP.16, Paras 104-108), including the investment strategy of the trust fund;

The Cancun Agreements provide clear guidelines as to the role of the trustee. Consideration of the investment strategy for the trust fund should consider the risks and benefits of different investment strategies. The TSU could provide further information (or seek external input) on options and risks and benefits. The TC may wish to agree some boundaries around investment strategies of the trust fund, however we would encourage leaving reasonable flexibility for the Board to manage these decisions.

(ii) From where the trustee receives instructions (Board or Secretariat);

This issue interlinks with component II.1.(i) above, legal status.

In principle we expect that the trustee should receive any significant instructions from the Board; however, in relation to day to day issues the Secretariat may need to be the point of contact and engagement for the trustee, with capacity to make day to day decisions. In light of this, it would be helpful to consider the options for the trustee's roles and the types of interactions it may likely to require with the Board and Secretariat.

(iii) Relationship between the trustee and implementing institutions, particularly in relation to internationally accepted fiduciary standards;

It will be important to engage the interim trustee for the Fund in consideration of the first three sub-components of sub-workstream II.4. This is not only because the trustee will fill the role for the initial period of the Fund's existence, but also because the World Bank has a wealth of experience acting as trustee for other funds, including for the Adaptation Fund. However, it is important to note that the Transitional Committee will ultimately make the decisions on all design elements, including trustee arrangements.

(iv) The review process for interim trustee and process for selection of permanent trustee.

Australia supports the development of independent and rigorous review and selection processes in relation to the trustee of the Fund. However, given these processes will not be required for three years, we encourage the TC to focus its attention on other, more pressing priorities required for the design of the Fund, and leave the development and implementation of these processes to the Board of the Fund.

In considering these processes, the TC should encourage the Board to examine the reasons the UNFCCC negotiations were unable to select a permanent trustee in Cancun – the reservations that were raised should be considered in the Board's processes for reviewing the performance of the interim trustee and assessing offers to act as permanent trustee. Developing a robust process that considers these issues would help to avoid a further occurrence of interim institutional arrangements. The experiences of other funds that have undertaken review processes and procedures to appoint trustees would be useful input into the Board's consideration.

Sub-workstream II.5: Coherence with the other operating entities of the financial mechanism and other climate, environment, and development finance

This sub-workstream will focus on how the GCF will work alongside other elements of the public climate finance landscape, both in terms of governance and mandate/activities. This will be strongly influenced by Workstream I on scope, functions, and guiding principles. Inputs will be solicited initially regarding:

(i) The relationship between the GCF and the Standing Committee once constituted;

To preserve the integrity of the GCF and its effective and efficient operation, it is important to respect and maintain a clear line of accountability between the Fund and the COP. Australia considers that the COP should be the sole body for the delivery of any guidance to the Fund, including on funding priorities and allocations. Consistent with this, the Standing Committee, as an advisory body to the COP, would not provide direct advice or guidance to the GCF.

Information either requested by the GCF or provided by the Standing Committee that would directly impact on the Fund's operational or decision-making functions should flow through the COP. Information or recommendations from the Standing Committee could inform the guidance provided by the COP to the Fund.

This sub-component should also include consideration of other expert and advisory bodies within the UNFCCC, such as the Adaptation Committee, the Least Developed Countries Expert Group and the Technology Executive Committee, all of which have relevance to the Fund. As with the Standing Committee, it will be important to ensure processes exist to maintain a clear line of accountability between the Fund and the COP.

(ii) Methods to ensure complementarity at the national and international level between the GCF and other bilateral, regional, and multilateral funding mechanisms and institutions as well as carbon markets;

It would be useful to consider all of these funding mechanisms and institutions, as well as carbon markets, against the GCF in terms of comparative advantages and niches, as well as where, inevitably, there may be some duplication in mandates. We should consider how best we might reduce and manage that duplication.

We should also consider how and in what terms the various mechanisms and institutions might "talk" to each other. For example, a formal avenue for this to occur could have merit, but does not necessarily need to be convened by the Fund.

(iii) The specific relationship and complementarity with the GEF and Adaptation Fund within the UNFCCC financial mechanism.

Sub-component iii) should consider the full range of funding mechanisms under the Convention. As well as exploring the relationship and complementarity with the GEF and the Adaptation Fund, consideration should also be given to these issues in relation to the Least Developed Countries Fund and the Special Climate Change Fund.

It will be important to ensure that operational entities of the financial mechanism (GCF and GEF) and the other UNFCCC funds are coherent in their approach to climate change financing. The GEF has built a significant body of expertise in its current target and priority functions and the GCF should consider ways to complement this work.

II. Submission by Mr. Per Callesen (Denmark)

Proposed workplan

The background notes and background papers mentioned under (ii) and (iii) should cover not only the relevate national, bilateral and regional funds but also the larger private funds (Gates, Clinton etc.). There are likely valuable lessons to be learned from the experiences of the Multilateral Fund under the Montreal Protocol and the GEF Council as well.

Sub-workstream II.2: The Board

(i) The composition and election of the Board, including: the election of members and regional distribution among UN regions; the role of non-governmental actors; the election of Chair(s) and duration of members' service

The composition of the board needs carefull consideration. The Cancun agreement stipulates that the 24 seats on the Board should be reserved for Parties with equal representation of the group of developed countries and the group of developing countries. However, with the view to strengthen the catalytic function of the Green Climate Fund (GCF) it might be relevant to consider if a broader group of constituencies including representatives form both the public and private sector, as well as individuals with particular expertise should be invited to join the Board - either as voting members, and thereby reducing the seats available to Parties - or as non-voting representatives of strategic alliances, to ensure technical support and capacity strengthening. Furthermore, it may also be considered to allow a non-voting Board seat be made available for the representative of the trust fund and to the Executive Director of the Secretariat.

(ii) The mandate and responsibilities of the Board, especially the extent to which the Board will engage in project/programme approval;

As the supreme governing body of the fund, the GCF Board should be authorized to exercise the following powers:

- appoint full and alternate Board members selected in accordance with agreed procedures;
- set policies and strategies;
- set operational guidelines, work plans and budgets for the Secretariat;
- make funding decisions;
- select and, if necessary, replace the Executive Director (other Secretariat appointments should be made by the Executive Director under procedures approved by the Foundation Board);
- set criteria for membership of, and appoint members of the Technical Review Panel and other advisory groups as appropriate;
- validate eligibility criteria for projects;
- establish a framework for monitoring and periodic independent evaluation of performance and financial accountability of activities supported by the fund;
- establish conflict of interest policies for the Board, the Technical Review Panel, the Secretariat staff and others as appropriate;
- consider, approve, and monitor cooperative arrangements or agreements with other organizations and institutions;
- coordinate with outside agencies;
- advocate for the Fund and mobilize resources;
- establish Fund Board committees as appropriate;
- approve the annual report; and
- all other powers required to carry out the purposes of the Fund.

In the decision making process the GCF Board should be advised by an independent technical review committee, which should consist of an impartial team of experts appointed by the board to guarantee the integrity and consistency of an open and transparent review process. Based upon a pre-defined set of assessment indicators, the review committee should assess the proposal(s) and advise the Board. The chair of the independent technical review committee should not be a Member of the Board. Any Board Member should be allowed to ask the chair of the independent technical review committee to explain the committee's advice to the Board.

The GCF Board should be allowed to delegate its powers, except where governing law or by-laws may otherwise prohibit delegation. Powers delegated by the Board should, notwithstanding such delegation, be exercised under the authority and direction of the Board.

(iii) The rules of procedures and functioning of the Board, especially decision-making processes.
Each constituency serving on the Board should determine a process for selecting its Board representation. Board Members should serve as representatives of their constituencies.

Board Members should be allowed to serve for two years. The Executive Director of the GCF should act in his or her capacity as chief executive officer of the GCF and should serve the Board for the duration of his or her term.

Board Members should be deemed to act in their capacity as representatives of their respective governments, organizations or constituencies.

The Board should provide the COP with regular (yearly), transparent and detailed reports on how it implements guidance from the COP, and on the results achieved by the Green Climate Fund. Experience with the GEF suggests that effective COP guidance will require high quality information.

The GCF Board should meet as often as necessary but not less than twice per year. A meeting of the GCF Board should be convened by written notification from the Chair or the Vice Chair of the GCF Board, or by the Executive Director at the direction of the Chair or the Vice Chair.

All decisions of the GCF Board should be recorded in minutes of the GCF Board meetings, approved by the Board and provided to all voting and non-voting Board Members, and retained in the permanent records.

The Board should only conduct business when a majority of Board Members of each of the three voting groups described above is present.

Board Members should select the Chair and the Vice Chair of the GCF Board from among voting Board Members, and the two positions should alternate every two years between the voting groups described above. The Chair and the Vice Chair should each be elected for two-year terms.

In addition to chairing Board meetings, the Chair should also have an important advocacy and fund raising role.

Sub-workstream II.3: The Secretariat
The GCF should have its own exclusive Secretariat, which works only for the GCF and is accountable only to the Board of the GCF. It should remain identifiable as a separate and integral unit of the GCF with its own head.

The Secretariat should be kept small and should have a high degree of expertise. The head of the secretariat should be appointed by the Board and should be authorized to select and hire the individuals making up the secretariat.

III. Submission by Mr. Remy Rioux (France)

Workstream II: governance and legal arrangements. Views and comments

Preliminary comments

The legal and institutional arrangements as well as the role and functions of GCF's components are strongly linked to and will depend on the outcomes of worskstreams I and III, insofar as the "form" of the GCF cannot be designed until the guiding principles, the main functions and the financing tools of the GCF are defined.

Therefore, there is a need to make sure that the governance and institutional arrangements decided in workstream II will be coherent and will make the GCF able to fulfill the role and functions it will be entrusted with. It is thus important to allow sufficient time for decisions to be worked through in other connected workstreams. Secondly, it will be crucial to draw on the different existing governance models and arrangements in use in other funds. Therefore, it would be very useful for the TC members to further analyze in a more critical manner these existing models. As they may not bring all the answers to the questions raised by the design of the GCF, the TC should also be able to propose some innovative solutions regarding the governance and institutional arrangements for the future Fund.

a) sub-workstream II.1. Legal and institutional arrangements

(i)The legal status of the GCF will depend on the type of institutions that will be created (cf. work stream III). If the GCF is a financial institution, it will likely need to be endowed with the legal capacity in order to raise funds from the capital markets. If the GCF is a trust fund, the legal capacity will not be necessary: for 20 years, the GEF has been functioning without legal capacity (leaning against the World Bank, working as its trustee). Nevertheless, depending on the role and functions we want the GCF to fulfill, the legal capacity may appear to be necessary. Therefore, the legal status or capacity will be decided in accordance with the functions and the role the GCF will be entrusted with.

(ii) The legal relationships between the GCF (or one of its components) and its implementing agencies will need to ensure that the funding flowing through these agencies are spent wisely and in accordance with the decisions taken by the Board. On this aspect again, the functions and the role of the GCF and the different modalities of access to GCF's funding will be key to define the legal relationships between the GCF and its implementing agencies. Lessons could be learnt from the GEF and the CIFs partnerships.

(iii) According to the paragraph 102 of the Cancun Decision, the GCF has been established "as an operating entity of the financial mechanism of the Convention under Article 11, with arrangements to be concluded between the Conference of Parties and the Green Climate Fund to ensure that **it is accountable and functions under the guidance of the Conference of the Parties**".

The accountability of the GCF to the COP is an important issue of legitimacy. Nevertheless, it will be important to implement this accountability by making sure that the GCF remains under the guidance of the COP and not under its authority. Drawing on the experience of the GEF, which until now is the only operating entity of the financial mechanism of the Convention, this guidance means that the COP will provide on a regular basis political guidance to the GCF regarding its main functioning rules, strategic priorities and eligibility criteria. In return, the GCF will have to report in a regular basis to the COP on the way this political guidance is fulfilled. But any micromanagement from the COP should be prevented and the relationship should therefore remain limited. As it is the case for the GEF, we consider that the signature of a MoU between the Board of the GCF and the COP will be the best way to ensure that the GCF is accountable and functions under the guidance of the COP.

b) Sub-workstream II.2. The Board

Paragraph 103 of decision 1/CP.16 provides that "the Fund should 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 should include representatives of relevant United Nations regional groupings and representatives of small island developing States and the least developed countries". Therefore, the Cancun agreement already provides a detailed composition of the Board. The Board should be composed of members having the necessary experience and skills, notably in the area of finance and climate change. Regarding the way the seats will be effectively distributed, it will depend on each of the groupings to manage this issue among themselves within the framework decided by the COP in Cancun.

Regarding the other stakeholders (civil society, private sector, indigenous communities…[3]) it will be important for the legitimacy of the Fund to ensure that these actors are properly involved. But it shouldn't necessarily imply for them to get a permanent seat in the Board. They would rather participate to the Board's council as "active observers" with the possibility to intervene on main issues and submit their views to the council members. Nevertheless, if a specific sub window for the private sector, specific institutional arrangements, including voting rights for the representatives of the private sector limited to this specific window could be elaborated.

c) Sub-workstream II.3. The secretariat

According to paragraph 108 of decision 1/CP 16 "the operation of the Fund shall be supported by an **independent secretariat**". The selection procedure of the secretariat should therefore ensure the independency of the secretariat.
The secretariat should be composed of professionals with high experience and specific skills in the area of projects/programs financing and climate change. The exact composition of the secretariat will highly depend on the type of Fund that will be created. Various options could be envisaged:
-if the Fund manages itself important amounts of funding and finances a large number of diversified projects, the Board will need to be supported by a strong staff. In this case it could be decided:

- to create a new and *ad hoc* secretariat with strong technical and financial capacities
- to create a light secretariat which strongly relies on specific technical comities based on the staffs of the existing climate funds and climate specialists from international institutions.

-If the model of a "Fund of funds" prevails, the management of projects and related funding will be largely delegated to the implementing agencies and in this case the secretariat will remain very light. However, strong financial expertise would be needed to ensure the complementarity of the fund.

d) Sub-workstream II.4. Trustee arrangements

The Cancun decision already provides for many details regarding the trustee's role and functions (cf. § 104 to 107).

(i)The investment strategy of the trust fund is difficult to define regardless of the type of fund that will be created (a trust fund or a financial institution) and of the type of sources that will flow through the Fund (grants, loans, capital, CER-type sources that have to be monetized...). Therefore, this strategy should be later determined after these issues have been clarified.

(ii)As the trustee is accountable to the GCF Board (§106), the trustee should receive its instructions mainly from the Board. The Board could nevertheless decide to delegate some competencies regarding the Trustee to the Secretariat.

(iii) Once the implementing institutions got the accreditation which requires among others that the agency meet all the fiduciary standards, a financial procedures agreement (FPAs) could be with the Trustee in order to allow both the Trustee to allocate the funds and the Agency to receive them.

e) Sub-workstream II.5. Coherence with the other operating entities of the financial mechanism and other climate, environment, and development finance.

(i) The TC cannot in any way prejudge the future design of the Standing Committee (SC) that will be decided by the COP itself. Therefore, the question of the relationship between the GCF and the SC should not be discussed until the SC is completely constituted.

(ii) It is important to draw a difference between the overall coordination functions that should be addressed independently and by an independent body and the complementarity that has to be ensured on the ground regarding allocation of funds.

[3] The scope of the stakeholders should be further defined.

The GCF could be tasked with significantly reinforcing the coordination between financial actors on the ground in order to avoid any overlapping or duplication. It will be important for the GCF to pay attention to what is really being done in recipient countries by other donors. A partnership could be formalized to clarify the division of labor, in order to endeavor effective cooperation on the ground and mechanism to incentivize traditional donors to work on behalf of the GCF should be developed.
Regarding the potentially high risk to overlap with existing climate funds such as the Adaptation Fund and the GEF within the UNFCCC mechanism, there could be envisaged to tackle this specific issue by negotiating and signing a MoU with these two funds, as it is already the case between the GEF and the CIF. This MoU would clarify the general division of labor between the Funds and will seek to favor the synergies between them by providing a longstanding cooperation between the experts of these funds and a complementarity between the different funds' activities.

IV. Submission by Mr. Michael Adande (Gabon)

In term of Board composition, this requires:

- A balanced and equitable representation of all Parties
- The focus on the functions of the Board is key, they should be inspired by Article 11

In terms of legal personality of the Fund, an international personality appears as best option.

The Fund should remain under the authority of the COP

The Secretariat should be independent and should be scalable to the level of its activities. The Trustee activities should be clearly segregated with any other functions.

V. Submission by Mr. Yaga Reddy (India)

India welcomes the opportunity to present views to the Transitional Committee for the design of the Green Climate Fund on various issues relating to the work of the Committee. Pursuant to the deliberations held in the first meeting of the Committee held on 28-29 April, 2011 in Mexico and the subsequent technical workshop held on 30 May – 1 June, 2011 at Bonn, Germany, India submits its views on the issues relating to the second work-stream i.e.'Governance and Institutional Arrangements' as follows.

Governance and Institutional Arrangements

Governance of the Fund should be guided by the provisions of Article 11 of the Convention that deals with the issues relating to institutional arrangements of the Financial Mechanism of the Convention, and its governance, and accountability.

Apart from the institutional and governance issues of the Fund, the Fund design should articulate the relationship of the Fund with the Conference of Parties and clarify the nature of guidance in terms of advice and/or supervision that it should receive from the Conference of Parties.

(i) Institutional arrangements

The GCF should have at least four institutional components e.g. the Fund Board, the Trustee, the Secretariat and the National Implementing Entities. Besides, it may have specific thematic windows and technical/expert advisory panels that should assist it in performing its functions in the related themes or areas.

An independent legal entity of the GCF is of utmost importance. A legal status should be imparted to the Fund forthwith and should not await the completion of arrangements relating to modalities of contributions. A legally independent Fund will be able to channel both committed and private resources in an integrated model and will be able to develop the capacity to be a tool for transformation and policy intervention. Establishment of the Fund's legal character subject to the principles of the Financial Mechanism of the Fund will be an important expression of the willingness of the parties to let the GCF become such a tool. Creation of a legal entity of the Fund is therefore a critical component of the institutional arrangements.

The Board of the Fund should be a body accountable to the CoP and should function according to the guidelines laid down by the CoP. It should have a President and vice President elected from amongst the Annex I and Non Annex I members on an alternate basis, each with a term of two years, renewable for another two years term. The President will preside over the meetings of the Board which should meet at least 4 times a year. The Board should function according to 'one member one vote' principle and should take decisions according to consensus of at least 2/3rd of the members present and voting and 2/3rd of the members from each category of Annex I and Non-Annex I parties.

Functions of the Board should be laid down by the CoP. Amongst the primary and essential functions of the Board is the provision of channeling and providing resources to the NIEs according to the laid down principles of thematic and functional and geographic allocation. It should also lay down the procedure of sanction of funds to the projects and programs to meet their incremental or full costs according to the agreed principles.

The Fund should have an independent Secretariat staffed with officials of proven expertise and should be headed by a Chief Executive Officer. The executive and administrative functions of the Board should be performed by the Secretariat in accordance with the directions and advice of the Board and the guidelines laid down by the CoP.

The initial trustee of the Fund should function for three years from the date of incorporation of the Fund, following which the trustee should be selected on the basis of proven expertise in management of financial assets and resources in a secure, risk-proof and cost effective manner.

The Fund should have National Implementing Entities (NIEs) appointed by the Board. NIEs should be an integral part of the Fund design. NIEs should have a role in implementation of activities and Plans, disbursement of resources and the involvement or otherwise of the private sector at the national level. The GCF should have an active role in designing the NIEs. Permitting a loose structure where funds are allocated and disbursed to implementing entities without having co-relation with the national implementing entities will lead to avoidable confusion and complication not only in the management of resources but also in the monitoring of the actual flow of the funds for climate needs on a verifiable and monitorable basis. If the Fund has to channel resources in accordance with the principles and objectives of the Convention, it must act in support of the national strategies. Accordingly, the mobilization of resources and their application must take place at the national level and the GCF must have an appropriate fund allocation model for this purpose.

(ii) Governance

Governance arrangements should clearly spell out the relationships amongst institutions and their accountability to each other.

The Fund design should ensure that the Fund is accountable to the CoP in terms of the operation of the Fund and its functions. The accountability is two-fold i.e. accountability of the Fund Board to the CoP on the one hand, and, on the other, of the Trustee towards the Board. There should be a clear separation between the trusteeship functions and the operational functions and it is important to avoid a conflict of interest in these functions. At the same time, the CoP must lay down the guidelines for the functioning of the Board.

The functioning of the Board should be overseen by Standing Finance Committee of the CoP whose function should be to cohere the working of various entities and financial institutions towards achieving the objectives of the Convention.

Private sector model of International Finance Corporation (IFC), the Fund of Funds model, or even a partnership model is not an effective governance model for channeling of funds. Under such a model, the channeling of funds will not be guided by the national priority of adaptation and mitigation and the GCF will not provide grant based investments as warranted by the Convention. This model will not meet the goals of national development strategies. GCF should therefore provide resources to a national entity that synchronizes and mobilizes resources from other sources including the private sector at the national level.

Further, the GCF must avoid imposing conditionalities on funds in the name of guidelines for monitoring of performance and implementation. Performance review of a supported project is an internal and endogenous exercise at the national level, guided by the national priorities. There cannot be *a- priori* judgment of the outcomes and performance reviews as a part of governance.

VI. Submission by Ms. Naoko Ishii (Japan)

Workstream II (Governance and institutional arrangements)

5. The Board. We appreciate the preparation of Factsheets on selected existing funds, which is useful information to overview the existing modalities. It will be appreciated if TSU could provide more detailed information of the decision making rules of each fund (e.g. African Water Fund shows just “provided in the Instrument”) and conduct analysis on to what extent each Board works effectively and efficiently.

VII. Submission by Mrs. Bernarditas Muller (Philippines)

On the draft workplan for Work Stream II

On Governance and institutional issues

General Comment: When referring to specific sub-paragraphs of the TOR contained in Annex III of Decision 1/CP.16, the exact terms must be used to avoid interpretations.

1. Legal and institutional arrangements for the establishment and operationalization of the GCF: including the legal status of the Fund; legal relations with partners; accountability of the Board to the COP, ensuring that guidance from the COP is followed, the Board of the Fund, the independent secretariat, and the Trustee. The flow of responsibilities of the different institutions should likewise be specified: The COP provides guidance and the Board of the Fund is accountable to the COP; the Fund Board is served by an independent secretariat, and the Trustee is the Trustee of the Fund. The terms and conditions for following the guidance of, as well as for ensuring accountability to the COP must be clearly defined and laid out.

2. The Board of the Fund: – composition and election of the Board; election of the Chair; terms of office of members; Mandate and responsibilities of Board; Rules of procedure and functioning, especially in decision-making.

3. Secretariat – Establishment of an independent secretariat, selection of the independent secretariat, legal status, composition, recruitment procedures; Mandate and functions; Relation with national/multilateral implementing institutions, and functions in carrying out the operational instructions of the Board.

4 .Trustee: role of trustee in strict adherence t paragraphs 104, 105 and 106 of Decision 1/CP.16; clear lines of responsibilities (instructions from the Board, as may be carried out by the secretariat); Relation of trustee and natnal/multilateral implementing institutions if any; Strict limit of interim status to three years (paragraph 107), with a review to be conducted within these three years to allow for setting of criteria an process for open bidding for the selection of a permanent Trustee.

5. Relationship of the GCF and thematic bodies established under the Convention: "Mechanisms to ensure the provision of appropriate expert and technical advice" (TOR, para 1 (i).

II. **Proposed Work Plan**

1. On para. 4 under "Proposed Work Plan", delete reference to "coherence" with other finance flows, as this is not contained in the TOR and replace with "methods to enhance complementarity of activities (not and "finance flows"), and delete "while recognizing linkages with work under other workstreams", which would not be applicable. **Comment: Consistency of the work to be undertaken by the TC should be in complete consistency with the TOR.**

2. Mechanisms to ensure the provision of appropriate expert and technical advice, including from relevant thematic bodies established under the Convention. (please see "Comment" above).

3. Mechanism to ensure stakeholder input and participation.

4. There should be a clear delineation of the respective roles of the different funds under the Convention: the Special Climate Change Fund and the Least-developed Countries Fund, as well as the Adaptation Fund of the Kyoto Protocol, within the context of the financial mechanism of the Convention, as well as the relationship and possible realignment of responsibilities between the GCF and another operating entity of the financial mechanism, the Global Environment Facility. This could fall under the responsibility of the Standing Committee once constituted as a subsidiary body of the Convention, for the guidance of the COP.

VIII. Submission by Mr. A. F. Elisai (Samoa)

VIEWS OF MEMBERS OF AOSIS ON WORKSTREAM II: GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

1. AOSIS appreciates the opportunity to provide initial feedback on issues to be considered in Workstream II, Governance and Institutional Arrangements. We look forward to working with Transitional Committee colleagues, the Transitional Support Unit, observers and other stakeholders to further analyze and consider these issues and provide more substantive input as the work progresses.

a) Sub-workstream II.1: Legal and institutional arrangements

2. As an operating entity of the financial mechanism of the Convention, the GCF functions under the guidance and is accountable to the COP (Para 102, 1/CP.16). The Board should faithfully carry out the decisions of the COP relevant to its work.
3. The Board is the governing body of the fund and the decision-making entity.
4. The Secretariat should be a new, independent and dedicated entity within the fund rather than an outside existing entity. The Secretariat should take its directions from the Board and provide the Board with administrative, technical and other forms of support..

5. The Trustee should have the limited role of disbursing funds, as defined in an agreement with GCF, and carry out the instructions of the Board.

b) Sub-workstream II.2: The Board

6. The Board of the Green Climate Fund shall be comprised of 24 members, taking into account fair and balanced representation among these groups as follows:

    (a) Twelve representatives from the Parties included in Annex I to the Convention (Annex I Parties);
    (b) Three representatives from Asia;
    (c) Three representatives from Africa;
    (d) Three representatives from GRULAC;
    (e) One representative of the Small Island Developing States;
    (f) One representative of the Least Developed Country Parties; and
    (g) One representative rotating on an biennial basis from the Small Island Developing States and the Least Developed Country Parties;

7. Members of the Board should be nominated by their regional groups and be endorsed by the COP. The members shall each serve for a term of two years.

    The Board should have the responsibility to ensure that funds are distributed in a balanced manner among countries and regions, as well as access, mainly direct access, for Small Island Developing States and Least Developed Countries.

c) Sub-workstream II.3: The Secretariat

8. The Secretariat should be a new, independent and dedicated entity, unaffiliated with any existing entity. The Secretariat will report and function under the instruction of the Board.

9. The Secretariat should be responsible for day-to-day operations, providing financial, legal, and administrative support, and reporting information on the Green Climate Fund's activities to the Board and the public. The Secretariat must ensure transparency on the operation of the fund by reporting and publishing financial information, approved project methodologies, and other information relevant to stakeholders.

10. The Secretariat needs the capacity to hire staff (with the approval of the Board) and such staff should be geographically diverse, including preference to those from underrepresented regions and countries such as SIDS or LDCs.

11. The Secretariat should be of adequate size to manage a large amount of money and projects, understanding that the roles, responsibilities and composition of the Secretariat will evolve over time as the fund scales up.

12. The Secretariat should establish a special unit for SIDS and LDCs to assist these Parties facing specific capacity constraints, throughout the project cycle.

d) Sub-workstream II.4: Trustee Arrangements

13. As decided in 1.CP/16, paragraph 105, the Trustee has a limited role and function under the instruction of the Board of the Green Climate Fund. The Trustee should only be responsible for channeling the disbursements to recipients.

14. The Trustee should 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, in accordance with internationally accepted fiduciary standards.

15. The Trustee should not make funding decisions, or be involved in the projects' oversight or evaluation.

16. The Trustee may commingle the assets of the Green Climate Fund for administrative and investment purposes with other assets maintained by the Trustee so long as the investments align with the purpose and principles of the Green Climate Fund.

17. A performance review of the Interim Trustee should be part of the overall independent performance evaluation of the Green Climate Fund, taking place two years after operationalization of the GCF and prior to the appointment of the next Trustee.

18. There should be a two-year open bidding process for the selection of the permanent Trustee. The Terms of reference of the bidding will be defined by the Board, which will also manage this process. It will begin one year after the operationalization of the Green Climate Fund. However, the Board should retain the authority to appoint a new trustee based on the performance evaluation of the interim trustee and the result of the open-bidding process.

e) Sub-workstream II.5: Coherence with the other operating entities of the financial mechanism and other climate, environment, and development finance

19. The Green Climate Fund should provide relevant and requested information to the Standing Committee so that it can perform its work.

20. The COP, assisted by the Standing Committee, will provide guidance to the Green Climate Fund in order to improve coherence and coordination among operational entities of the financial mechanism of the Convention and ensure complementarity with other funds outside the Convention.

There should be harmonized application procedures and reporting requirements among the Green Climate Fund and other sources of climate change finance to the greatest extent possible.

IX. Submission by Ms. Marisa Lago (United States of America)

a) Sub-workstream II.1: Legal and institutional arrangements

This sub-workstream will address the legal status and formal relationships of the GCF and its institutional components (the Board, the Secretariat, the Trustee, and the Implementing Partners and other relevant elements, including mechanism for expert, technical and stakeholder input). Inputs will be solicited initially regarding:

(i) The legal status (capacity or personality) of the GCF and its components, how such status will be conferred, and the possible liabilities of the components;

U.S. comment: The U.S. looks forward to discussing whether any legal status is required for the GCF and notes that the legal contours of the GCF should be tailored narrowly to the legal needs of the GCF, with appropriate flexibility for evolution of the GCF. This discussion in large part depends on the key attributes of the GCF, and the resulting legal needs, to be discussed in Workstreams III and IV. We would note that the World Bank has already been designated in the Cancun outcome as the interim trustee, and the GCF could derive legal attributes, such as privileges and immunities, from this relationship.

(ii) The legal relationships between the GCF and its implementing partners, both multilateral and national;

U.S. comment: As noted above, the precise contours of any legal relationship between the GCF and entities that will carry out GCF funded activities will depend on the outcome of the Workstream III discussion on operational modalities. That workstream will need to define how GCF-funded activities will be carried out, and the appropriate legal relationship will need to be tailored to address that approach. As a general matter, if needed, any contractual relationship with persons carrying out GCF-funded activities should require those persons to comply with appropriate fiduciary standards and safeguards, as well as other specified requirements to include reporting and auditing requirements.

(iii) The accountability relationship between the UNFCCC COP and the GCF components (principally the Board, Secretariat, and Trustee).

U.S. comment: The Cancun decision spells out explicitly the nature of the relationship between the GCF and the COP, using language that mirrors the language in Article 11 of the Convention. Under that Article, an operating entity functions under the guidance of, and is accountable to, the COP with respect to policies, program priorities, and eligibility criteria related to the Convention. The Convention says that "the Conference of the Parties and the entity or entities entrusted with the operation of the financial mechanism *shall agree upon arrangements* to give effect to the above paragraphs." This language, which is specifically repeated in the Cancun decision, defines the relationship between the COP and the operating entity. This is precisely what happened in the case of the existing operating entity: the GEF Council and the COP agreed to a Memorandum of Understanding describing the nature of guidance and accountability. A similar document will have to be negotiated between the GCF and the COP (whether it is called an "MOU" or has a different name). By entering into an MOU with the GCF, the COP can assure itself that GCF will remain accountable to its guidance.

It is important to note that the Transitional Committee is not empowered to determine the terms of guidance and accountability – per Article 11 and the Cancun decision, it is the operating entity itself (once formally constituted) that must "agree upon arrangements" with the COP.

Within the overall relationship between the GCF and the COP, the Cancun decision additionally defines the relationship between the Board, Trustee, and Secretariat. The Trustee is accountable to the Board for the performance of its fiduciary responsibilities and is required to administer GCF assets only for the purpose of, and in accordance with, the relevant decisions of the Board. Accordingly, the Trustee has a reporting relationship with the Board, not the COP. Moreover, the Cancun decision further decided that an independent Secretariat is to support the operations of the GCF. Again, the Cancun decision clarifies that the Secretariat's role is to support the Board in operating the GCF and to take its direction, and further, establishes the Secretariat's independence from the UNFCCC Secretariat and COP.

In sum, the Cancun decision reflects an appropriate set of relationships for the GCF's operations: the Board operates the GCF; the Trustee serves the Board in administering GCF assets; the Secretariat supports the Board's operation of the GCF. The GCF, as a distinct operating entity, acts under the guidance of, and is accountable to, the COP through an appropriate set of arrangements agreed between the Board and the COP.

b) Sub-workstream II.2: The Board

This sub-workstream will address issues related to the GCF Board. Inputs will be solicited initially regarding:

> *(i) The composition and election of the Board, including: the election of members and regional distribution among UN regions; the role of non-governmental actors; the election of Chair(s) and duration of members' service;*

U.S. comment: The Cancun decision prescribes a basic structure for the Board: 12 developed, 12 developing, including representation for SIDS and LDCs and allowing for alternates, and does not require "elections." The two main constituencies – developed and developing countries – should determine within their respective constituencies the procedures for self-selection of their representatives on the Board. This is the standard practice in many multilateral funds, including the GEF and the CIFs, as well as in the multilateral development banks. There should be an opportunity for active participation by observers in the work of the Board.

The COP would not have a role in selecting Board members. We note that the Cancun decision specifically decided that the Fund would operate "under the guidance" of the COP – rather than "under the authority" of the COP – after significant negotiation. Subjecting the selection of the Board – the executive decision-making body of the GCF—to COP approval would be firmly at odds with the COP's decision that the Fund is "under the guidance" of the COP. Moreover, this would be inconsistent with Article 11. In describing the relationship between the COP and the operating entities, COP approval of Board members is neither explicitly nor implicitly envisioned.

> *(ii) The mandate and responsibilities of the Board, especially the extent to which the Board will engage in project/programme approval;*

U.S. comment: We envision the Board playing a robust role in developing and implementing the operational modalities for the GCF, including the approval of projects and programs. The precise contours of the Board's functions and responsibilities may depend on discussions under Workstreams III and IV. Among the responsibilities of the Board, the Board could have responsibilities such as the following:

- Setting strategic priorities, procedures, and guidelines;
- Selecting Chair of the Board;
- Exercising oversight over Secretariat and appointing its head;
- Approving country/program eligibility requirements, access conditionalities, and safeguards;
- Make all financial decisions, including review of and approval of operating budget, and approving projects/programs and uses of funds;
- Evaluating progress in implementation;
- Overseeing the accreditation of implementing agencies;
- Approving and periodically review windows and modalities;
- Acting as focal point with other international bodies;
- Negotiating arrangements with the COP to give effect to guidance and accountability (MOU or equivalent); and
- Overseeing accountability and independent evaluation mechanisms.

> *(iii) The rules of procedures and functioning of the Board, especially decision-making processes.*

U.S. comment: We note that consensus-based decision-making is a common practice within trust funds.

c) Sub-workstream II.3: The Secretariat

The sub-workstream will address issues related to the GCF Secretariat. Inputs will be solicited initially regarding:

(i) The establishment of the independent Secretariat, as well as its legal status, composition, and recruitment procedures;

U.S. comment: See answers above.

(ii) The mandate and functions of the Secretariat, including its role (if any) in project / programme review, and MRV;

U.S. comment: The roles and responsibilities of the Secretariat will depend on other governance and structural features of the fund as decided by the TC or the Board.

(iii) Relationship with implementing institutions, including project cycles and division of responsibility.

d) <u>Sub-workstream II.4: Trustee Arrangements</u>

This sub-workstream will focus on the trustee and will be closely coordinated with Workstream III.2 dealing with managing large-scale finance. Inputs will be solicited initially regarding:

(i) Issues regarding the role of the trustee (in addition to 1/CP.16, Paras 104-108), including the investment strategy of the trust fund;

U.S. comment: The Cancun decision devotes several paragraphs to defining the role of the Trustee. In its capacity as the trustee, it will hold in trust, the funds, assets and receipts that constitute the fund and manage and administer them consistent with the governing instrument of the fund and in accordance with decisions of the Board. The Trustee will not manage the day-to-day operations of the Fund, or make decisions about what to finance. Those functions are the responsibility of the Secretariat and the Board.

(ii) From where the trustee receives instructions (Board or Secretariat);

U.S. comment: The Cancun decision provides that the Trustee will be accountable to the Board for the performance of its fiduciary duties and will administer the funds in accordance with relevant decisions of the Board. The Board may decide that the Secretariat will convey certain instructions to the Trustee, but the Board will be the ultimate decision-maker with respect to instructing the Trustee.

(iii) Relationship between the trustee and implementing institutions, particularly in relation to internationally accepted fiduciary standards;

U.S. comment: We envision the Trustee having a fiduciary role in ensuring that resources are used in accordance with the terms of the governing instrument of the GCF and decisions of the Board.

(iv) The review process for interim trustee and process for selection of permanent trustee.

U.S. comment: Per the Cancun decision, trustee arrangements for the GCF are to be reviewed three years after operationalization of the fund. These processes should be determined by the Board.

e) <u>Sub-workstream II.5: Coherence with the other operating entities of the financial mechanism and other climate, environment, and development finance</u>

This sub-workstream will focus on how the GCF will work alongside other elements of the public climate finance landscape, both in terms of governance and mandate/activities. This will be strongly influenced by Workstream I on scope, functions, and guiding principles. Inputs will be solicited initially regarding:

(i) The relationship between the GCF and the Standing Committee once constituted;

U.S. comment: The GCF, which is to be designated as an operating entity under Article 11 of the Convention, will be under the guidance of and accountable to the COP – not to any subsidiary bodies or committees established by the COP. It follows that there will be no direct relationship between the GCF and the Standing Committee. The Cancun decision clearly states that the role of the Standing Committee is to "*assist the COP in exercising its functions with respect to the financial mechanism of the Convention.*" Therefore, the Standing Committee is to be advisory in nature, rather than supervisory or executive. The COP would presumably have the opportunity to incorporate any recommendations made by the Standing Committee into its guidance to operating entities. However, this is speculative because the Standing Committee does not yet exist and may not exist by the time the TC completes its work.

(ii) Methods to ensure complementarity at the national and international level between the GCF and other bilateral, regional, and multilateral funding mechanisms and institutions as well as carbon markets;

U.S. comment: The United States supports the goal of a coherent and well-coordinated climate finance architecture. The various channels for climate finance should have clear roles, avoid duplication of efforts, share best practices, and promote synergies. While the Standing Committee might be able to recommend solutions for rationalizing the financial mechanism, the reality is that a large proportion of climate finance will not flow through funds under the guidance of the UNFCCC. Even with the creation of the GCF, other channels for delivering climate finance will continue to be important. The GEF, the multilateral development banks, bilateral agencies, UN agencies, and private sector investment vehicles will all play a role. If we want to improve coordination among these actors, we should focus on doing so from the bottom up. We could explore ways to promote better coordination among major bilateral and multilateral channels, to get these institutions working better together and interacting more frequently. Various models for coordination among finance channels already exist in other development sectors at the operational, national, and programmatic levels.

(iii) The specific relationship and complementarity with the GEF and Adaptation Fund within the UNFCCC financial mechanism.

U.S. comment: The GCF will join the GEF as an operating entity of the UNFCCC financial mechanism. These two funds will play key roles in the multilateral climate finance architecture and their activities should complement rather than overlap one another. The GCF should focus on financing infrastructure using well-established approaches, as well as programmatic and sectoral approaches in mitigation and adaptation-relevant sectors. The GEF has particular strengths in capacity building, improving enabling environments , and supporting early stage technology. Because of its obligations to other treaties, the GEF also offers potential synergies between its climate program and its biodiversity, desertification and other focal area programs.

The international community needs to consider the role of other multilateral climate funds, including the Adaptation Fund under the Kyoto Protocol, the LDCF, the SCCF, the Forest Carbon Partnership Facility (FCPF), the Climate Investment Funds and UN-REDD. We will have to consider what specific role these additional elements will have in the post-2012 context, and whether there is room to consolidate them to create a more efficient institutional architecture.

CHAPTER III: SUBMISSIONS BY MEMBERS OF THE TRANSITIONAL COMMITTEE ON WORKSTREAM III: OPERATIONAL MODALITIES-- SUB-WORKSTREAM III.1: FINANCE ENTRY POINTS

I. Submission by Mr. Sergio Barbosa Serra (Brazil)

1. Finance Entry Points
The Transitional Committee (TC) should be looking for design solutions to make the Green Climate Fund (CGF) operational by December 2011. Discussion on sources of finance should not take place under the TC, but under the AWG-LCA. The TC should, however, design and legally developed the CGF in a way that allows for different sources. The fund should be designed to take resources from a variety of sources, as mandated by 1/CP.16, in a streamlined manner. Members should be looking to the simpler solution/combination of solutions that will make the fund flexible enough to cope with future decisions by the COP.

2. Managing Finance
As it is consensus that the contributions of developed countries are going to be a source of finance, the TC should start looking at forms to operationalize the initial phase of the CGF based on this source. It should also consider the need for allowing for a periodic replenishment of the Fund by developed countries.

It is important that the CGF consider to what extent resources should be earmarked. Allowing earmarking by donors or by specific sources is bound to produce the imbalances we are trying to avoid, such as current imbalance between resources available to finance mitigation and adaptation actions.

2.1. Thematic Windows
Thematic windows can work as an important instrument to guarantee balance between mitigation and adaptation, as well as a means to guarantee finance to other relevant areas. As both mitigation and adaptation constitute broad areas of work, it can be expected that the Fund Board will want to create sub-windows/focal areas according to future discussion on programming and priorities. The creation of sub-windows/focal areas should be flexible, while the windows for mitigation and adaptation are to be permanent.

Two further permanent windows should be created: Technology Window and Capacity Building/Enabling Activities Window. Those windows are meant to guarantee financing to areas that would not usually find finance sources elsewhere, such as research and development of new technologies, demonstration projects, capacity building and other enabling activities that will allow countries to not only implement activities, but also access resources. Even though it is expected that some mitigation and adaptation activities will have a technology or a capacity building component, those two windows aim at financing activities that are not directly related with the implementation of specific activities.

The use of resources allocated in each window can be flexible, allowing for cross-cutting initiatives to use resources from different windows. . (The same paragraph was submitted to workstream I)

3. Accessing Finance
The CGF can consider using different financial instruments, but they should all offer facilitated finance. Grants should represent a significant part of disbursement. Also, the access to grants must not be conditioned to the combined use of non-grant mechanisms, such as loans.

3.1. Balance between operational modalities/financing instruments
When considering the use of non-grant mechanisms, due consideration should be given to the balance between resources available to each one. Grants mechanisms should be a priority.

3.2. Direct Access
Direct access must be widely used in CGF operations if the Fund is to contribute in a transformative way. Options to work directly with Governments, such result based payments, should be considered in addition to national agency accreditation processes. Even though some form of direct access should, in principle, be available in all areas, specific

modalities, such as result based payments can be matched with the appropriate areas in a later phase, during a programming negotiation. (Similar paragraph was submitted to workstream I)

4. Balance between Mitigation and Adaptation
What constitutes an adequate balance is to be decided by the COP after due consideration of the needs of developing countries and scientific information. For ways of delivering such balance, see point 2.1.

5. External inputs
The board of the Fund could hold regular consultations with stakeholders. The board should be able to get adequate support from an independent and contracted secretariat.

II. Submission by Mr. Per Callesen (Denmark)

Workstream III – Operational Modalities

Denmark and The Netherlands appreciate this opportunity to provide input to the co-facilitators on this work-stream, please find our comments below. Additionally, we would like to thank the chairs, co-facilitators and the TSU for their efforts in facilitating the work of the TC. We look forward to closely collaborating with you and our fellow TC members in order to bring the TC's work to a successful result.

III.I Finance Entry Points

In our view, the discussion regarding the sources that will fund the GCF should be dealt with within the UNFCCC process. However, we do foresee that the funding will mostly come from public sources, either through paid in or guaranteed capital. However, it is key to then use these public sources as efficiently as possible for the realization of adaptation and mitigation projects. Therefore we envisage that a significant portion of this funding will be used to catalyze private investments in mitigation, but also, where possible, in adaptation measures.

Please refer to attached Annex for an example of joint public private partnership.

The Climate Investment Fund elegantly phrases the key concept on this issue by stating the following:

In the private sector, decisions to undertake new investments are based on the risk-return expected from the investment. If the risks are expected to be high, the return on that investment must also be commensurately high if the private sector is to engage in the project. [4]

In our view there are three main categories of instruments for mobilizing private capital. These are:

1. Reducing investment risk
2. Increasing bankability of projects by repackaging many small projects in such a way that they are attractive to larger investors;
3. Ensuring a climate friendly business environment of a country, including policies and measures that underpin investments in low carbon activities.

The Fund can play an active role in categories 1 and 2. Category 3 is more for 'regular' development agencies/programs as these also refer to generic policies in the field of, for example, good governance. In this context it is essential for countries to prepare coherent plans that specifies their aspirations on how to reduce carbon emissions.

Reducing investment risk

The key to crowding in private finance is to intelligently use concessional funds to align the risk/return ratio of private investments in such a way that FDI is mobilized without creating unwarranted windfall gains accruing to private investors. Examples of possible instruments include: insurance products, guarantees, equity and debt financing, technical assistance, venture capital support and 'results-based' funding mechanisms such as advanced market commitments (AMC's). Additionally, the GCF should actively interface with providers of official export credits (ECA's). In order to optimize these interfaces intensive consultation with the private sector is required.

Increasing bankability

Instruments such as the issuance of Green (NAMA) Bonds could be used to raise non project specific private investment capital for blending purposes as long as the risks for donor bodies (governments, foundations) associated with such instruments are transparent and capped.

III.2 Managing Finance

Systems, governance structures and legal capacities must comply with fiduciary standards. In order to ensure optimal alignment with private sector investors, private sector representation should structurally be able to meaningfully influence governance and investment decisions, perhaps by having a seat in the board. Similar privileges could be considered for NGO's.

[4] CTF financing products, terms and review procedures for private sector operations, CIF, March 17, 2010

Regarding the amount of funding windows, we would favor keeping these to a minimum, preferably one for mitigation (including REDD) and one for adaptation. In our view having less windows allows for more efficient allocation of funds as the funds will then be assigned based on the merits of the program, project or fund in respect of agreed performance based criteria and not earmarked a priori for various thematic destinations. In this way we ensure that the funds are used in the most cost effective way.

We would encourage the GCF to fully utilize the finance delivery structures and existing networks and infrastructure of existing climate finance distributers, notably the national, regional en multilateral development and investment banks, when disbursing funds. It would be highly cost inefficient if the GCF would, for example, build up its own network of regional offices etc.

III.3 Accessing finance

We appreciate the background note that was drafted by the TSU for this topic. In our view the GCF should implement a broad range of instruments in order to best be able to cater to the type of activity being financed and its location. We believe that there will remain to be a role for traditional grant based financing, but in order to increase the chances of the fund having a transformational impact those instruments that most effectively mobilize private investment flows at scale without creating undue risks for the GCF or windfall profits for private investors should be emphasized. We would welcome an analysis of which types of instruments would best meet these conditions as well as their costs in terms of capital reserve requirements and administrative costs. The optimal tradeoff between these aspects needs to be found.

In promoting a country driven approach based on national development plans, direct access can be a key element. Direct access can be granted only if the quality of relevant fiduciary standards of the implementing/executing entities are fully guaranteed. It is essential to apply an open approach that allows for a range of types of organizations, including not least the relevant national institutions/entities. However, reflecting on the limited capacity of some government institutions, the global nature of the climate change issues and the important role of private investors, NGOs and private sector partners should also be considered when granting direct access, based on prior specified conditions.

III.4 Balance between mitigation and adaptation

The definition of “balance” should not be cast in stone for years to come. It will be crucial to have flexibility in the allocation. Allocation will be driven by both country-led programmes and plans that are put forward and guidance by the COP.

Both ambitious adaptation and mitigation actions will be crucial to foster low-carbon and climate resilience development paths. In order to avoid “crowding” out/competition between adaptation and mitigation, the setting of minimum volumes of finance allocated to each of them might be considered, which would provide some certainty but would also allow for flexibility.

Funding should be directed to initiatives where cost-effective results can be optained.

III.5 External Inputs

During the TC process we are of the opinion that both private sector and NGO’s observers should be participate in the TC discussions in an interactive manner as well as being invited to provide written inputs.

Once the GCF is operations there should be means for private sector representatives to structurally and meaningfully influence the Fund’s decision-making processes as this will be key to insuring that continuous coherence between public and private sector investors. Broad stakeholder engagement with the NGO community should be an integral part of policy making process within the GCF.

Other issues regarding private sector engagement

Life cycle procurement

Additionally an important engagement modality with the private sector is the procurement process. The procurement rules and regulations of the GCF should be based on the principle of *life cycle procurement* including the full quantification of environmental and social externalities (positive and negative). Concretely this means that the winning tender should be the one where the costs/benefit ratio is optimized over the whole life cycle of the project meaning the original capital expenditure as well as operation and maintenance costs and the costs for responsible deconstruction, including externalities.

MRV

Public bodies cannot be held fully accountable for private flows, therefore the same level of MRV stringency that should be applied to public flows should not apply to private flows. However, an indication of the types of public instruments implemented to moblise private flows and their expected leveraging ratio's should be part of the overall reporting process.

What get's measured get's done. MRV should not be seen as a last step in a financing process but as the first step. An MRV system plays an important role in incentivizing actions. Therefore the MRV system should be designed in such a way that it gives recognition and credit to those bodies that responsibly mobilize private capital.

Annex: Case: Example of public-private capital: Global Climate Partnership Fund.

In 2011 the Ministry of Foreign Affairs of Denmark will invest $7 million in the equity tranche and the IFC $75m in the mezzanine and senior tranche of the Global Climate Partnership Fund (GCPF). The Fund constitutes a decisive part of the German Government's efforts to support climate change mitigation in emerging and developing countries by increasing energy efficiency and reducing greenhouse gas emissions in emerging and developing markets. The Danish Government hereby contributes to a project initiated by the German Government.

In order to leverage an impact of public resources, the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and KfW Entwicklungsbank (The German Development Bank) have set up the Fund as a "Public Private Partnership" model, in which both provide equity capital to partly assume the economic risk associated with the Fund's investments. Deutsche Bank is also invested in the Fund and acts as its investment manager. Österreichische Entwicklungsbank belongs to key contributors of the Technical Assistance Facility attached to the Fund. Using its innovative structure, transparent governance as well as the benefits of a private fund manager, GCPF targets to increase its volume from currently US$200 million to a volume of US$500 million – mainly out of private funding sources.

The Fund targets sectors and regions with significant unlocked economic and environmental potential. By investing in GCPF, IFC follows its objective to enhance sustainable economic growth in these countries. The investment in GCPF is expected to have a considerable development impact and positively add to IFC's growing engagement in the clean energy sector in emerging and developing countries. Substantial amount af capital is required to mobilize the required capital to grow economies, while ensuring energy security and climate resilience. Innovative public private partnerships such as GCPF can be critical in order to raise the funds needed to accelerate climate change mitigation in emerging and developing countries. A key element is that the fund uses public finance to leverage private finance to provide loans to households and local firms in developing countries to investments in renewable energy and energy efficiency. The fund differentiates between the risk for public money and the risk for private money thereby creating an incentive for private investors to pay into the Global Climate Partnership Fund.

The reliability of energy supplies and global climate protection are two of the key challenges for the 21st century. Correspondingly, it is a central issue for the future for KfW Entwicklungsbank to promote wideranging investment in climate protection in developing countries and threshold countries. The public-private partnership concept on which this global climate protection fund is based, i.e. the cooperation between private and public investors, can play an important role in financing these investments. GCPF's investments target to reduce energy consumption and greenhouse gas emissions by at least 20% compared to current levels. Initial focus countries of GCPF will be Brazil, Chile, China, India, Indonesia, Mexico, Morocco, South Africa, The Philippines, Tunisia, Turkey, Ukraine and Vietnam, but also LDCs are potential focus countries.

The Fund seeks to primarily finance local banks that engage in SME and residential finance and see sustainable energy financing as a promising product area, thereby supporting to improve living conditions and combat climate change.

III. Submission by Mr. Remy Rioux (France)

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?

The form of funding source will depend on the kind of fund we decide to design. These different models options should be further studied by the TSU in order to evaluate pros and cons of each of them.

However, as the CGF is established "*to support projects, programs, policies and other activities in developing country Parties*" and since "*funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources*", the GCF should be flexible and in the capacity to receive funding from a wide variety of sources.

As a multilateral fund, the GCF would need to be able to receive public contributions, either from innovative sources such as a contribution from international transport (so called *bunkers*) as recommended by the AGF report, which means the GCF should be able to receive such sources (such as the Adaptation Fund receives a share of proceed generated by the Clean Development Mechanism - CDM), **or from direct contributions**, which means that developed countries and voluntary developing countries should be able to pledge. Besides, if an international public source is established to fund climate actions in developing countries, the CGF should be able to receive this new source such as the Adaptation Fund receives a share of proceed generated by the Clean Development Mechanism (CDM).

In terms of governing system and legal capacity, if the GCF is designed as a banking institution with a significant initial capital, it should be under financial supervision, have a legal capacity and the voting right in the Board should be linked with the share of a member in the capital such as in the World Bank. If the GCF is designed as a Trust fund, it does not necessarily need to have a legal capacity: pros and cons of endowing the GCF with the legal capacity should be evaluated in the light of existing models (e.g. the GEF and the CIFs do not have the legal capacity).

The GCF should also be able to receive contributions from the private sector (individuals, financial institutions or foundations). It would suppose to create a specific funding window and specific institutional arrangements in order to provide the private contributors to the Fund with some views on the use of the funds.

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?

Firstly, the processes are directly linked to the sources that would be used to fund the GCF. The Cancun Agreement does not give a clear and definitive answer to that question that will be discussed within the UNFCCC process, on the road to Durban. The G20 has also launched a process to feed the UNFCCC process, drawing on the AGF report. Therefore, until sources of finance are identified, it would be difficult to define the processes and sources that might be used to raise funding.

It appears that the process of funding will depend on the nature of the sources raised. For innovative sources of finance that could generate revenues partly or totally directly allocated to the Fund, only an ongoing funding would be possible. For direct budgetary and private contributions, both an ongoing and a periodic funding are possible.

Secondly, the processes and sources that should be used to raise funding would depend on the type of financial institution that the GCF would be. If the GCF has an investment program (i.e. if it expects returns on some of its operations), it would need an initial capital but it would generate ongoing revenues from the reimbursement of the loans issued. Periodic and/or ongoing funding could still be needed to replenish concessional/grant financing windows. If the GCF is only allocating grants, it would require either a periodic funding process if short term predictability is the priority or an ongoing funding process if flexibility for scaling-up is required.

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?

As climate is a public good, a public intervention to foster private investment in climate actions would be justified to address some specific market failures, notably the barriers that the private sector faces.

First of all, the use of capacity-building funding in order to develop an adequate climate policies framework may **yield significant longer term benefits.** Indeed, potential investors may have to face with the lack of sound climate investment policy frameworks in developing countries and difficulties to calculate and price risk for many climate-related projects in developing countries.

Besides, direct policy measures to influence the risk/return ratio of private investments may be needed since the risks are often perceived as being too high due to the combination of strong technological risks and developing country risk. Various policy instruments should be further analyzed to improve the risk-return profile of projects and otherwise leverage private finance flows including insurance products, public guarantees, equity capital, risk management/ sharing tools, advanced market commitments (AMCs) and other "results-based" funding mechanisms (for instance a public and private carbon Fund in the GCF mitigation window building on the experience of the FCPF), and concessional loans. **Whether the GCF will directly manage such financial engineering or not shall be examined in terms of governance implications, added-value and efficiency compared to existing financing institutions** that already manage such financial engineering.

The incentives implemented by the GCF should avoid three important risks of any public intervention: i/ **crowding out effect** of other funding already available, either public or private , (notably the local entrepreneurship); ii/ **a windfall gain** for the private sector that would benefit from a reduction of risk unnecessary to trigger the investment; iii/ **a moral hazard** for the national authorities that would be prevented from implementing actions to establish a sound investment framework in order to keep on benefiting from international public financing.

To ensure a proper participation/engagement of the private sector, three complementary actions would be necessary: i/ **a structured dialogue** early in the project cycle and often during the implementation phase; ii/ **an appropriate participation of the private sector both within the GCF and on a national level**, by being involved into the definition and implementation of national climate policies; iii/**a role of commercial local banks** on national level to identify and implement some projects.

4/ Should the 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?

When designing the GCF, we have to find the structure which, taking into account the existing other players, will maximize its impact on private finance, in order to best leverage public resources and to best put private actors on the path towards a sustainable private-based funding of the fight against climate change.

These two goals have to be kept in mind while looking at how the GCF could interact with institutional investors:

- it would probably be more useful **in terms of leverage** to have institutional investors co-financing a project with the GCF or contributing venture capital to a dedicated GCF window, rather than providing it with direct funding through a risk-free bond issue (where the GCF would just duplicate what is already done by MDBs or other AAA-rated issuers). GCF may also achieve greater and more effective leverage by providing the appropriate item (subsidy, guarantee, equity, loan or investment product) to make a project bankable, rather than through focusing on raising large amounts of risk-free resources (and then leaving open the question of the funding/hedging of the risky part of the projects).

But to **help drawing institutional investors toward climate finance**, one has of course to take into account where most of them stand now, very cautious (due to natural tendency to be risk adverse but also because climate finance is and will remain in the coming years exposed to important legal, technical and policy risks). It could then be useful to see if and how the GCF could have a dynamic approach towards these investors, attracting their interest first through products they are comfortable with and gradually leading them towards riskier products.**Therefore allowing the GCF to raise funds from the capital markets is an option to consider, alongside other interesting options. It should be noted that the catalytic role expected from the GCF could also be achieved at the level of implementing financial institutions**. A detailed costs-and-benefits analysis drawing on the experience from international financial institutions should be conducted and different options could be proposed.

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?

A link to the carbon markets would be essential in order to contribute to the emergence of a global price signal, which is the most efficient way to reduce CO_2 emissions. Several possible linkages should be explored:

- **a first possible linkage would be to have a financial complementary between the mitigation actions funded by the GCF and carbon markets.** Since 2009, France has been proposing the creation of a crediting mechanism that would be able to purchase international carbon credits (for instance from new market mechanisms that could be created) and create a public demand additional to the private demand of offsets in order to maintain the carbon price at a certain level. In order to ensure the environmental integrity, the credits acquired by the GCF would be destroyed afterwards.
- **another possible linkage would be to benefit from the expertise acquired by the UNFCCC in terms of monitoring, reporting and verification process (MRV) through the CDM.** As other MRV systems have been developed by development finance institutions (IFC, Agence Française de Développement, etc.), a comparative and qualitative analysis of these MRV systems would be useful.

6/ How can the delivery of private finance be improved in regions with poorly developed financial markets?

To improve the delivery of private finance in regions with poorly developed financial markets, **the GCF could exercise several functions among which:**

- **it could allocate funding (notably grants) for capacity-building actions to help these regions to establish a sound investment framework for climate-resilience actions;**
- **the GCF could provide financial products or grant financing to be blended with financing products managed by other financing institutions that would facilitate the access to international financial markets for these regions through specific incentives** (for instance insurance products, public guarantees, equity capital, risk management/sharing tools, advanced market commitments (AMCs)) in order to lower the risk that the private sector will encounter when investing in these regions and increase the financial viability of projects implemented in these regions. We could imagine that only the least developed countries and small island developing states would have access to some specific instruments.

IV. Submission by Mr. Michael Adande (Gabon)

We fully contributions from Belize and Philippines on this workstream. Nevertheless, we would diverge from their view on focusing more on the usage of the funds rather than on the funding. There is no issue real issue in regards to the origin of the funding, private or public sector. Each of these can focus on different areas:

- **Private sector funding on mitigation, Redd+ and technology related windows**
- **Public sector funding on adaptation**

Sources of funds can be innovative and transformational.

V. Submission by Mr. Y. V. Reddy (India)

India welcomes the opportunity to present views to the Transitional Committee for the design of the Green Climate Fund on various issues relating to the work of the Committee. Pursuant to the deliberations held in the first meeting of the Committee held on 28-29 April, 2011 in Mexico and the subsequent technical workshop held on 30 May – 1 June, 2011 at Bonn, Germany, India submits its views on the issues relating to the thrid work-stream i.e. operational modalities as follows.

Operational modalities

(i) Modalities of contribution

The GCF cannot decide or recommend the sources of revenues. But, it should have a clear vision of the modalities of contributions and the manner in which the resources are to be generated and channelled as per the provisions of the Convention. The modalities should reflect the reality of available funding sources, including the private sector funds and other instruments for generation of resources that may be applied by developed countries.

As per the the Cancun decisions, the work of the GCF is to decide the form of contributions while the sources are discussed and agreed upon in the AWG-LCA negotiations. The focus should be on deciding how the funds will be received from various sources with maximum efficiency and effectiveness so that the flows are predictable, measureable and verifiable. Relevance of the recurring, periodical or ongoing nature of the contributions to the optimal design of the fund should be examined and recommended.

Large and significant share of resources must come from public sources, irrespective of how they are generated and provided by the developed countries, whether through new or innovative instruments. This must be done in a manner that such instruments do not result in an incidence on any developing country or entity. Assessed contributions on an ongoing basis are the only efficient and effective way of imparting predictability to the fund flows required to meet the objectives of the Convention.

(ii) Access to finance

The GCF should be built on the principles of direct access to the Parties/Governments to the resources of the Fund. The access to the parties should be granted through the National Implementing Entity (NIE) which should have the role of coordinating and implementing a nationally appropriate development strategy for climate change.

Access of the private sector institutions or bodies to the GCF should be facilitated through the NIEs who should obtain resources from the GCF in accordance with agreed principles of accountability and provide to such private entities for in order to meet the objectives of financial mobilization and implementation of climate change related plan at the national level.

(iii) Eligible entities

The GCF should define the entities eligible to submit proposals and to receive, manage and spend financial resources. Eligible entities will typically be national legal entities formally nominated by the Parties. These could include official national entities, sub-regional or regional entities, multilateral implementing entities, and non-government entities. In all cases, the principal entity –a national agency that is officially appointed – would need to be approved by the Fund Board and satisfy certain basic fiduciary standards agreed collectively. Ultimately, the agreed entity will bear final responsibility for the overall management of the financed activities and for compliance with relevant financial, monitoring and reporting responsibilities.

(iv) Thematic windows

There could be a range of thematic windows for providing access to the GCF. There should be specific thematic windows for each of the four pillars of Bali Action Plan - adaptation, mitigation, technology and capacity building. The thematic bodies set up under the cancun decisions e.g. Adaptation Committee, Technology Mechanism, Forum for Response Measures, and such bodies may provide policy and techncial guidance to the GCF in matters relating to the projects/activities/programmes and thematic allocations. But, these thematic bodies of the Convention need not duplicate the function of providing resources for meeting the adaptation, mitigation, technology and capacity building related needs.

The thematic bodies set up under the cancun decisions e.g. Adaptation Committee, Technology Mechanism, Forum for Response Measures, and such bodies may provide policy and techncial guidance to the GCF in matters relating to the projects/activities/programmes and thematic allocations. But, these thematic bodies of the Convention need not duplicate the function of providing resources for meeting the adaptation, mitigation, technology and capacity building related needs. This function should be performed by the GCF on the basis of technical advice of its own technical panels and through its funding windows.

While private sector needs to be involved in implementation of sustainable development strategies, this need not happen at the global level through a specific window for facilitation of private sector access to the GCF. This should be encouraged through the national implementing entities. There are no goals at the global level to be internalized by the industry at the cost of public resources. This is a matter of national development strategy and such incentives or subsidies can be built into the public policies only if it is felt that they are the most effective and efficient way of achieving the sustainable development objectives at the national level.

(v) Eligibility for funding

The GCF should lay down the eligibility for funding and adopt clear approval processes. In each thematic area, eligibility criteria should provide clear guidance on the types of activities that are entitled to the provision of financial resources. These should be tailored to reflect the specific thematic area so as to target financing and facilitate access. Within each thematic area, eligibility criteria should reflect requirements of activities at different levels (e.g. project, programmatic and national planning levels). The financial resources will be required to enable developing countries to strengthen their efforts at the cross-sectoral and national level to integrate climate change into relevant economic and social development planning. The GCF should therefore support and enable activities at a range of different levels including specific concrete projects, larger overarching programmatic initiatives, and integrated national climate plans. Setting clear national objectives, and defining specific projects and programmes for funding should improve the access of the developing countries to the GCF resources.

(vi) Process of approvals

The GCF should adopt a streamlined approval process that will enable effective disbursement of financial resources. One key component is the distinction between small and large-scale activities, with simplified criteria and procedures for small-scale activities. During the intervals between the meetings of the Board, funding approvals can be made and communicated via mail or other media.

The GCF should ensure that all developing countries are eligible to receive financial resources for the implementation of measures relating to adaptation, mitigation (including forests), technology development and transfer, and capacity building, as well as for national communications. There should be no attempt to formally narrow the category of countries eligible for financing runs as it will run counter to the letter and spirit of the Convention. There can however be guidelines for consideration of the specific needs and concerns of countries in certain situations.

(vii) Private Sector Financing/mobilisation of resources

Cancun decisions recognise that the private sector will have a role in mobilization of resources. But their role is distinct. An engagement of private sector in the work of GCF should be seen in the context of the funding model agreed for the GCF as outlined in the other two work-streams-WS I and WS II.

Resources flowing through the carbon markets or private entities do not constitute provision of new and additional financial resources. Such flows are autonomous and cannot be directed by the GCF to meet incremental costs or full costs on a grant or concessional basis. There is no guaranteed or benchmarked price of carbon to be used as the reference for private sector flows. Hence, private sector resources or funds raised from market are not be treated as resources for the GCF.

The GCF should support national development plans for climate change through public institutions and involve private sector in implementation of such plans. The ideal way of involving the private sector is through the instrumentality of the national entities. This should take place not at the global level but at the national level. This is needed because the risks are to be borne ultimately by the sovereign parties or the nations and not by the GCF. The private sector investments must therefore follow the national priorities contained in a nationally appropriate mitigation strategy. The GCF design should permit and facilitate co-financing of projects through choices to be exercised at the national level and not mandated by the GCF.

Involvement of private sector in adaptation actions is possible provided the fund is designed in such a manner that resources are available to the national entities on a grant basis. It is not enough to design market related instruments such as crop insurance or aim at mitigation of emissions from land-use or agriculture. Viability gap funding used by all developing countries for supporting public private partnerships in implementing social and economic development projects is a more appropriate model for such involvement. In projects which are economically unviable, viability gap funding is used. Similar methods to assure minimum returns to the private sector can be adopted if the GCF is enabled to provide such resources to the national entities on a grant basis. Such resources can then be used by the national authorities at their discretion to support adaptation projects to the extent of viability gap. The key is how to get the government and its agencies to the process and activities.

VI. Submission by Ms. Naoko Ishii (Japan)

We recommend having working sessions focused on private sector participation by investors (private company) and financiers (financial institutions) to help understand how the GCF will best use its resources to mobilize private activities. As mentioned above, it is important to (i) understand what are incentives and barriers for private sector participation in the area of mitigation, adaptation and REDD+, (ii) analyze the types of private sector involvement and (iii) consider how we should reflect the private sectors' needs into the GCF operational modalities, especially windows and financial instruments. It will be desirable to hold this session during the Second Technical Workshop in September.

VII. Submission by Mr. A. F. Elisai (Samoa)

AOSIS submission to the Transitional Committee
Work stream 3.1: Finance entry points

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?**

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?**

- Fund raising systems and processes for different sources of funds will differ depending on the actual contribution from each source, and how climate change funding will be accounted for.
- Therefore, the GCF should be designed with the flexibility to receive contributions from a wide variety of sources and to optimise allocation and accounting for different purposes. Appropriate modalities should take into account the structural inter-linkages between:

  a. <u>Sources</u> of funds – public, private, multilateral, bilateral, innovative;
  b. <u>Form</u> of financing - grants, concessionary or non-concessionary loans, equity investments, guarantees, insurance ;
  c. <u>Activities</u> to be funded - technology development, mitigation, adaptation, REDD+;
  d. <u>Recipients</u> – level of development, income, investment climate and vulnerability (to climate change) of countries

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?**

- Broadly, private finance can be catalysed through a mix of public policies and revenue-enhancing, risk mitigation measures which will improve developing countries' investment climate.

- The GCF, in conjunction with other development institutions, can help to crowd-in private capital, by targeting market barriers of:

  a. Gaps in **<u>capabilities</u>** in financing, planning, managing and monitoring climate change mitigation and adaptation projects in host countries. Some of these projects could be very large in quantum, long-term in nature, or complex to structure (for example, linkages to carbon markets). There is therefore scope for GCF financing to be accompanied with relevant technical expertise and advisory services to host governments and local private sector partners.

  b. Initiatives to strengthen the **<u>risk climate</u>** for business and investments. Climate change projects require long-term commercial horizons, and hence a robust and predictable legal and regulatory framework. While the financing tools of GCF are not likely to directly influence the broader investment environment of host countries, there is scope for co-financing, risk mitigation (guarantees/insurance) and public policy coordination to stimulate investor confidence at the project level. This is especially so for markets where political risks are perceived to be high and capital markets weaker.

c. Improve **return expectations**. In public-private co-financing or investments, concessionary funding from the GCF can help improve return expectations for the private sector so as to make the investment proposition more compelling.

- A key priority in the design of the GCF should be to maximise the potential amount of private capital that can be leveraged with each public dollar, where appropriate. This is so that limited public funding can be channelled to areas that are less given to markets and commercial investment, such as adaptation projects and programmes in SIDS and LDCs.

Intervention by Mr. A. F. Elisaia (Samoa) on behalf of AOSIS during discussion on Workstream 3 (Operational Modalities) at first Workshop of the Transitional Committee, Bonn, 31 May 2011

Co-Facilitators,

My comments, though generally applicable to most SIDS, are primarily from the perspective of the Pacific small island countries.

As I said earlier today during the Workstream 1 discussion, the Green Climate Fund should benefit every state party to the UN Framework Convention by improving accessibility particularly for those countries that have not been able to receive much climate resources in the past due to their limited capacity to access them. Thus our message and our position will continue to be that no country whatsoever should be precluded from receiving GCF resources because of its inability to access them or to implement projects on its own.

On the specific issue of access modalities, let me share with you the Pacific countries overall experience to date, to help provide the necessary context.

Current frustrating experiences we want to avoid

1. **Difficulty in accessing climate change funding and being at mercy of implementing agencies.**
   - For Pacific Island countries, except for one or two of the larger islands, the experience has been mixed and mostly frustrating. We are small countries with relatively small projects compared to others. Accredited Implementing agency capacity in the Pacific is small with limited interest given the comparatively small agency fees obtained from these projects compared to larger and pricier projects undertaken by other countries. Put simply, the smaller and fragmented we are, the higher the cost of doing business with us and the less attractive and appealing the Pacific becomes to Implementing agencies or banks. As a result our projects are not highly sought after by the IAs. Often we are forced to work mainly through regional projects, or can only proceed with national projects when all Pacific island countries are ready to proceed or when the necessary capacity is present to undertake a project. So timelines for project development and implementation normally do not meet the immediate need of the country.

Solution –

- **Direct National Access** with flexible timelines for use of resources as a more programmatic and sustainable approach to resource allocation. This could include using robust national frameworks/policy on climate change (e.g. NAPA's, NCSA's, NAMA's etc) to guide resource allocation, and using national modalities to channel and receive the resources e.g. national Trust Funds, revolving funds, National development banks etc.

- **Regional Access** – Another option is to accredit appropriate Pacific regional intergovernmental organizations that are directly answerable to our countries all year round and whose capacity are many times greater than those of some global Implementing agencies to access climate change resources on behalf of the Pacific countries and to assist with project implementation to overcome the capacity constraints and to avoid Pacific countries missing out of resources once they become available. Many of these regional agencies are a direct extension of our national capacity and most are funded by our governments.

2. **Project monies should be used to fund local personnel.**
   - Another frustrating experience, which is also linked to capacity, has been the restrictions on use of project monies to fund personnel to implement the projects. For many Pacific countries, the governments simply cannot employ enough people to effectively cover all the important aspects of climate change and obligations under the convention through their own budget alone. Many of the specialized skills needed to address climate change inevitably have to be brought in from outside which is prohibitively expensive if we do not have additional funding from climate change programmes. You also cannot build the capacity of 5 people to do the work of 50 so all the well-wishing capacity building programmes are futile if you don't have fully employed people with job security working in these areas consistently for a decent period of time.

Solution

- At least for SIDS there must be flexibility in the terms of capacity building, to include capacity supplementation, whether it is through supporting collective sharing of technical expertise or providing the resources to recruit people to implement some of the important projects and programmes.

Private funding vs public funding as sources for the GCF.

Small private sectors with no economies of scale

- Except for one or two Pacific countries with bigger and vibrant private sectors, the majority of Pacific countries do not. They have small private sectors which do not allow for economies of scale. In fact no matter how many financial reforms these countries undertake and the generous business incentive schemes on offer to entice direct foreign investments etc, the latter do not automatically follow, and in most cases, never follow or materialise. Hence, why apart from the provisions in the Convention for public resources to fund climate change activities, the reality in the Pacific countries is the main justification for our continuous call for public, as opposed to private sources as the major funding for the GCF to ensure predictability, certainty and sustainability especially for SIDS who are at the frontline of defence against the impacts of climate change.

Technology development and transfer.
The small and underdeveloped private sectors of Pacific countries makes them unattractive to private sector interests from outside countries for potential investment opportunities and for transfer of technology. This again explains the insistence of Pacific countries for technology to be funded by grant monies especially as the start-up costs of some are beyond the capacity of countries to fund from their own resources.

On your specific question whether a model like the Caribbean Disaster Risk Scheme can be replicated in the Pacific, I don't know enough about the Caribbean scheme to venture an opinion, though I have heard that the premiums are quite high and the threshold eligibility for insurance funding are also quite high. But realistically, because it's a budgetary decision at the end, sometimes, governments by necessity probably prefer to see their national budgets being spent on activities that will alleviate poverty and have an immediate impact on people's lives rather than investing sizeable amounts of scarce resources for events that no one can predict with any certainty.

VIII. Submission by Mr. A. M. Al-Abdulkader (Saudi Arabia)

Saudi Arabia is pleased to share its initial views and concerns related to issues tackled under working stream III: operational modalities, and looking forward to work constructively with the other transitional committee members (TC) in a transparent, inclusive, and TC-driven process to further advancing the dynamics of designing the Green Climate Fund as mandated by Cancun Agreements.

I. Financing entry points:

1. A wide range of potential sources for the scaling up of new and additional financial resources has been identified including: a) public sources, b) private sources, and c) carbon market finance.

2. Public sources of the developed country Parties mainly **direct budget contribution** are the major source of the financial flows to the Green Climate Fund. Provided their substantive nature in financing the GCF, utmost priority should be given to develop modalities that would advance the accountability and predictability of the public sources of the developed country Parties.

3. On the other hand, private sources and carbon market finance are important sources of fund. Yet, they are rather not reliable nor predictable sources of fund

4. Private sources are complementary in nature to the public sources. it is not possible to commit private finance flows ex ante, given that they are driven by investor demand, which is itself a function of available investment opportunities, capital availability and the quality of the policy environment.

5. Carbon market finance is a controversial instrument that has been debated for its predictability and practicality as follows:
   5.1. It is a determinant of market forces and price fluctuations.
   5.2. It mixes rights and obligations by diluting the financial commitments of the developed country Parties, and imposing additional economical and financial burdens on developing country Parties.

6. It is crucial that any incidence on developing country Parties for any given source should be covered fully by the developed country Parties as stated in Article 4.7 of the Convention.

7. The type of funding received by the GCF as legally binding commitments from the governments of the developed country Parties, mainly, **direct budget contribution**s should be in the form of grants and concessional loans, with the level of concessionality being determined based on clearly defined criteria.

II. **Managing finance:**

1. Modalities on how to spend financial resources efficiently is critical to build a reciprocal trust between developed and developing Parties which in turns would initiate a conducive platform to mobilize long-term finance.

2. Building a reciprocal trust would require spelling out a vision and a discreet plan of action that shall ensure specifically:

2.1. Ownership of developing country Parties.
2.2. Predictability of long-term funding commitments.
2.3. Modalities of private sector contributions, and accountabilities for these contributions.
2.4. Responsiveness to the challenge of climate change and response measures.

3. Provisions of financial resources mandated under Articles 4.1, 4.3, 4.4, 4.5, 4.8, and 4.9 in accordance with Article 11 of the Convention are key issues of the UNFCCC and shall be dealt with ONLY through the UNFCCC and NOT through any other institutions such as the G20, World Bank etc.

IX. Submission by Mr. Bruno Oberle (Switzerland) on questions to be discussed under WS III - sub-work stream 1 (finance entry points)

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?*

The GCF should be design to be able to attract and accept contributions from a wide range of sources – both from governments (developed and developing countries) and from non-government actors (business, foundations, individuals, etc.). The thorough analysis contained in the Report by the UN Secretary General's High Level Advisory Group on Climate Change Financing (AGF) and the experience of the Climate Investment Funds which operate with a variety of funding modalities (grants, loans, capital investments) should be used as a reference when designing the sourcing modalities of the GCF.

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?*

To begin with, raising funds for the establishment of the GCF may be operated through pledging sessions. As the GCF might probably have a variety of funding modalities (loans, guarantees, equity and grants) returns on investment must be taken into consideration for potential sustainable financing. Further on, the GCF board may need to examine if a regular process for raising funds will need to be established (e.g. through replenishments). In addition, the process of raising funds should be elaborated in such a way that the public and private sector and civil society can join.

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?*

The business environment needs to be conducive ("the main business of business is business"). A solid regulatory framework will be essential to build the necessary confidence, stability, and predictability to attract private sector finance. In order to design the GCF so that it attracts private finance, the Transitional Committee should engage in a structured dialogue with the Private sector to better understand the potential, limitations and the conditions of private sector involvement. The Transitional Committee should build on lessons learned, especially in the context of MDBs (such as IFC and EBRD which have a solid expertise in this field), on how to get sustained and at scale private sector involvement in climate finance.

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?*

No option should be excluded ex ante. However, the option of raising funds from the capital markets will depend on a number of conditions, i.a. on the legal status of the GCF, its regulatory framework in general, its performance etc. In addition, the pros and cons of whether the GCF itself - or its "implementing agencies" - should deploy resources to raise funds from the capital markets will need thorough consideration by the Board of the GCF.

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?*

See answer to question 3. Successful models of public-private-partnerships can serve as inspiration on how to design programs which lead to the expected results on the ground and generate the appropriate revenue stream. However, the engagement of the private sector is not a goal in itself, but rather a way of getting all hand on deck which can contribute to solve the climate change induced challenges.

X. Submission by Mr. Nick Dyer (United Kingdom of Great Britain and Northern Ireland)

The Green Climate Fund: Financing Windows – A UK Perspective

As set out in our submission "*The Green Climate Fund: Framing the Challenge – A UK Perspective*" the existing climate finance architecture is not configured to deliver finance at the right scale or responsiveness, with the right geographical coverage, on the right terms or with sufficient leverage to substantially help developing countries shift onto lower carbon, climate resilient development paths.

The structure (form) of the Green Climate Fund should be designed to maximise its effectiveness and efficiency at delivering its objectives (function). This may require a structure that includes several distinct funding windows, which would need to be configured in a way that best:

- Supports the establishment of a coherent sets of instruments
- Enables a strategic allocation of resources including a balanced allocation between adaptation and mitigation as appropriate
- Permits an efficient and cost-effective management structure
- Enhances complementarity between the Green Climate Fund and other funding mechanisms and institutions

There are several ways in which the Green Climate Fund could be divided into windows. 1/CP.16 states both that the fund will use 'thematic funding windows' (para 102), and that it will have 'a variety of funding windows' (Appendix III, para 1c). Possible structures to consider include:

A thematic structure could comprise mitigation, adaptation and forestry windows. This would have the advantage of easily allowing a balanced allocation between adaptation and mitigation and might fit well with other funding mechanisms. But it might result in replication of instruments between windows and may therefore be neither as coherent nor as efficient as possible.

A geographical structure would have a window for each region. Each of these windows could in turn be structured in a way that is most suitable for the region it would serve. Such a structure would allow a coherent approach locally but may result in replication of functions in the different regions.

An instrument-based structure would group financial instruments and access modalities together into windows such as direct access or private sector. Each of these windows would then operate globally and across themes. This approach would support the creation of coherent instrument sets, but ensuring a balance between adaptation and mitigation would be challenging.

Hybrid structures, that combine two or more of the options above are also possible. For example, an instrument/thematic hybrid structure could have some instrument windows covering the full range of themes, while others could be broken down into thematic sub-windows.

We recommend that the Transitional Committee considers the pros and cons of each of these approaches to structure, as well as possible hybrid structures, before deciding which structure to recommend for the Green Climate Fund. A short background paper by the Technical Support Unit elaborating these options would be useful to frame our discussions.

The Green Climate Fund: leveraging private finance – a UK perspective

As set out in our submission "*The Green Climate Fund: Framing the Challenge – A UK Perspective*" the existing climate finance architecture is not configured to deliver finance at the right scale or responsiveness, with the right geographical coverage, on the right terms or with sufficient leverage to substantially help developing countries shift onto lower carbon, climate resilient development paths.

The Green Climate Fund is likely to need several financing modalities and instruments if it is to increase significantly the scale, responsiveness, coverage, terms and leverage of the climate change architecture and have the biggest possible impact on coherence, impact and results.

The role of private sector in climate finance

The private sector already plays a key role in climate financing – the UNFCCC Secretariat (2007, updated in 2008) estimates that it accounts for up to 86% of current investment into low carbon infrastructure. Moreover, private finance is likely to be of crucial importance if we are to meet the financing challenge of up to $200 billion additional annual investment required by 2030 (International Energy Agency). The key role of private finance in stimulating investment into low carbon growth and adaptation has been most recently highlighted in the work carried out by the High Level Advisory Group on Climate Change Financing (AGF).

But private finance will not flow to where it is most needed unless the perceived and real barriers to private investment are overcome, including information asymmetry, technology and policy risks. Provision of public subsidy and intervention in a way which helps overcome those barriers can leverage private finance at a scale many times the size of the original public investment.

Investment by the private sector is not limited to increased financing and carbon abatement. Evidence suggests that investment by the private sector also brings significant developmental co-benefits, in terms of increased energy access, jobs, know-how, financial infrastructure development, and wealth creation.

Current initiatives to leverage private finance

Significant efforts are already underway to mobilise private finance flows. The multilateral development banks (MDBs), for example, currently invest around $20 billion in climate change related investments, leveraging a total investment of some $50 billion. Donor resources through mechanisms such as the Climate Investment Funds have helped MDBs address market failures and increase private sector leverage by allowing them to use public finance in innovative and catalytic ways. Individual donor programmes aimed at piloting results based financing, public-private partnerships and other initiatives have contributed towards increasing financial flows from the private sector through targeted use of public finance.

The role of the Green Climate Fund

Despite advances in leveraging private finance achieved by the current initiatives, the scale of the challenge is such that significant gaps in the international climate finance architecture remain. Specifically, the scale of private finance flows needs to be increased; the efficiency with which private finance is leveraged and terms on which support is provided needs to be improved; and the range of public finance mechanisms aimed at helping overcome private investment barriers needs to be broadened.

Including private sector instruments in the Green Climate Fund does not mean replacing publically-financed contributions with private money. Rather it is about how to use those donor contributions in the most efficient and effective way that leverages much larger capital investment and channels it towards achieving the fund's objectives. The Green Climate Fund has the potential to do this by:

- Delivering at **scale**: where appropriate, public financing can be used in a way which maximises private finance leverage;
- Ensuring **responsiveness**: efficiency of access to public financing mechanisms will be key to unlocking the potential of significant private investment;
- Offering a **broad range of instruments**: in order to help overcome the barriers to private investment (such as information asymmetry, technology and policy risks) with comprehensive, coherent coverage across themes and geographical locations;

- Building capacity and supporting in-country **regulatory reform**: private investment cannot be scaled up in isolation. The fund could facilitate the regulatory reforms that will in turn mobilise the necessary flows of private finance.

The Transitional Committee has the opportunity to design a Green Climate Fund that unlocks private capital at large scale by ensuring that, where appropriate, the value of public finance channelled through the fund is maximised by catalysing private finance. This will both help tackle climate change and will deliver significant developmental co-benefits. We recommend that the Transitional Committee considers how the Green Climate Fund could be designed to achieve this. Building on the useful work undertaken to date, including by the UNFCCC Secretariat and the AGF, an analysis paper by the Technical Support Unit covering the following questions would help inform our discussions:

1. How can the private sector offer of existing institutions be enhanced, and what role could the GCF play?
2. What new instruments or institutional arrangements are needed to address gaps in the existing architecture that can increase private finance at scale, and what role could the GCF play?

The Green Climate Fund: Direct Access – A UK Perspective

As set out in our submission "*The Green Climate Fund: Framing the Challenge – A UK Perspective*" the existing climate finance architecture is not configured to deliver finance at the right scale or responsiveness, with the right geographical coverage, on the right terms or with sufficient leverage to substantially help developing countries shift onto lower carbon, climate resilient development paths

The Green Climate Fund is likely to need several financing modalities and instruments if it is significantly to increase the scale, responsiveness, coverage, terms and leverage of the climate change architecture and have the biggest possible impact on coherence, impact and results.

How has direct access been applied in international cooperation?

The aim of direct access in international cooperation is to maximise responsiveness and impact by increasing the level of country ownership and alignment to countries' priorities, reducing transaction costs, and creating stronger accountability. Direct access instruments have been used to respond to needs in specific sectors (such as disease-specific vertical funds or sector support programmes) and across a range of sectors to achieve broader results. Direct access has contributed to:

- empowering partner countries to define and own their poverty reduction priorities and plans
- improving responsiveness to needs and financing partner government plans relatively quickly
- focusing policy dialogue on concrete results and essential reforms and engendering better partnerships between donors and partners
- encouraging a culture of control and accountability: emphasis on internal checks and balances, external oversight and transparency has helped make direct access funding more accountable both to donors and citizens
- delivering good value for money, particularly when the mechanism includes features such as performance/results based financing or involvement of the private sector

There is evidence that funds using forms of direct access are helping achieve these benefits. For example:

- The second evaluation of GAVI Alliance (2010)[5] found that GAVI has successfully supported country ownership, country financial planning, strengthened systems and accelerated countries' introduction of life saving vaccines, together with low administrative costs and high efficiency.
- A similar evaluation of the Global Fund for Aids, TB and Malaria (GFATM)[6] found that it plays an important role in the global development architecture and fully merits the continued support and collaboration of the diverse array of development actors involved in the fight against HIV/AIDS, TB, and malaria.
- The 2006 Evaluation of General Budget Support[7] concluded that overall budget support has had clearly positive impact, especially on ownership, harmonisation, alignment, results and accountability.

What is the experience of direct access in climate change?

The Adaptation Fund provides an example of a form of direct access for climate change and is now accrediting National Implementing Entities, MDBs have made policy-based loans for climate change, and the GEF has recently agreed to pilot a form of direct access. However, the use of country systems and direct access is currently at the early stages for climate change finance relative to other international assistance.

The role of the Green Climate Fund

[5] CEPA with Applied Strategies, "Second Gavi Evaluation: Gavi Alliance", 13 September 2010.
http://www.gavialliance.org/resources/GAVI_Second_Evaluation_Report_Final_13Sep2010.pdf
[6] The Five-Year Evaluation of the Global Fund to Fight AIDS, Tuberculosis, and Malaria, *Synthesis of Study Areas 1, 2 and 3,* March 2009.
http://www.theglobalfund.org/documents/terg/TERG_Synthesis_Report.pdf
[7] IDD and Associates, "Evaluation of General Budget Support: Synthesis report", May 2006.
http://www.oecd.org/document/33/0,3746,en_21571361_34047972_44005921_1_1_1_1,00.html

The Transitional Committee has the opportunity to design a Green Climate Fund that builds on the direct access experience in climate change and broader international cooperation, and is responsive, empowering, and accountable, builds partnerships, and delivers results with excellent value for money. We recommend that the Transitional Committee considers how direct access could be incorporated into the Green Climate Fund to help achieve this. An analysis paper by the Technical Support Unit that builds on lessons learnt from direct access funding instruments (including the Adaptation Fund, the Global Fund for Aids, TB and Malaria (GFATM), the Global Alliance for Vaccines and Immunisation (GAVI), multilateral development bank climate change policy-based loans, Poverty Reduction Budget Support, and results-based instruments such as Cash on Delivery) and considers how these lessons might be applied to the Green Climate Fund would help inform our discussions.

CHAPTER IV: SUBMISSIONS BY MEMBERS OF THE TRANSITIONAL COMMITTEE ON WORKSTREAM IV: MONITORING AND EVALUATION

I. Submission by Mr. Ewen McDonald (Australia)

- Establishing the Green Climate Fund (the Fund) with an efficient and comprehensive monitoring and evaluation audit framework from the beginning is a very important element in ensuring the credibility of the Fund and the projects it will support.
- It would be useful in this workstream to distinguish between the overarching decision on a monitoring and evaluation framework for the Fund, which may be included as a component of fund design, and the detailed implementation and design of monitoring and evaluation systems, which may be implemented by the Board or the Secretariat when establishing the Fund's operations. This may help quarantine and expedite the decisions to be made by the Transitional Committee.
- Aspects of this workstream are in part dependent on other workstream elements. However, whilst the exact criteria for monitoring and evaluation will depend on decisions on the objectives of the fund and approaches to fiduciary standards and safeguards, the framework for monitoring and evaluation in the fund can still be progressed early in the piece.
- The issue of financial auditing of the Fund is currently not specifically addressed in the terms of reference for this workstream, however, this response includes some comments that apply also to financial auditing – noting that it may be decided that the issue of financial audits more appropriately fits in another workstream.
- Tasks A and B provide a useful distinction between the overall evaluation of the Fund and evaluation of activities. It may also be useful to consider monitoring and evaluation expectations for different criteria or standards against different operational levels within the fund. Based on this, a framework could be developed that ensures coherence, feedback loops and exchange of information through different levels. The diagram below (Figure 1) illustrates the types of levels that could be considered for monitoring and evaluation. The matrix that follows illustrates how these levels could be considered in the context of a monitoring and evaluation framework.

Figure 1: Levels of monitoring and evaluation

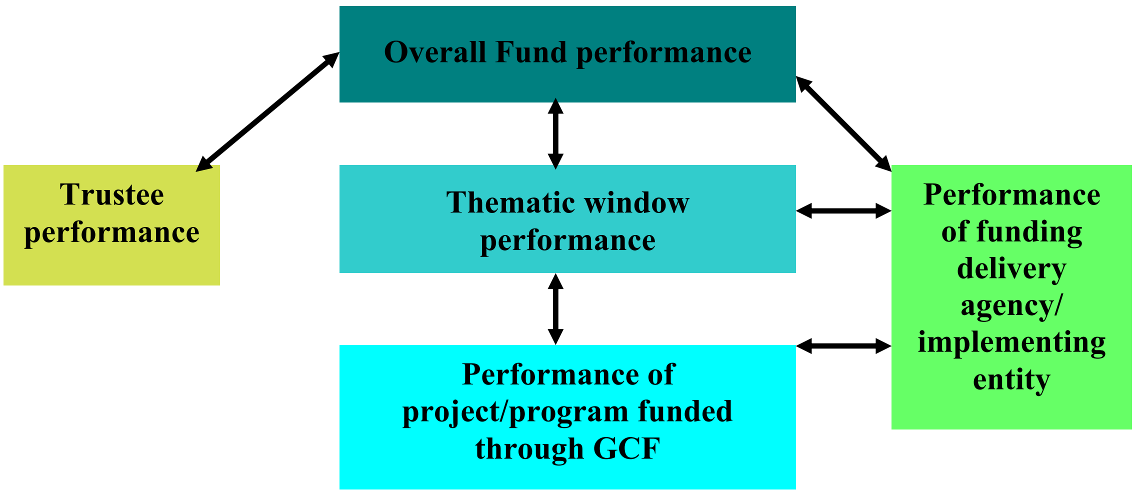

Figure 2: Matrix of monitoring and evaluation levels against issues for monitoring and evaluation[8]

Levels of monitoring and evaluation –	**Issues for monitoring and evaluation**			
	Fiduciary standards	**Environmental safeguards**	**Social Safeguards**	**Results/Performance against objectives**
Project/Program funded through GCF	Yes – monitoring and evaluation	Yes – monitoring	Yes – monitoring on a risk management basis	Yes – monitoring and evaluation
Funding delivery agency/ implementing entity	Yes – monitoring and evaluation	Yes – monitoring	Yes – monitoring	Yes – monitoring and evaluation
Thematic window	No	Yes – monitoring and evaluation	Yes – monitoring and evaluation	Yes – monitoring and evaluation
Trustee	Yes – monitoring and evaluation	No	No	No
Overall Fund	Yes – monitoring and evaluation	Yes – monitoring	Yes – monitoring	Yes – monitoring and evaluation

- Considering a matrix of this type could assist in framing this work program and establishing a monitoring and evaluation framework that is cohesive across the Fund's activities and provides for activity level data to feed into overall Fund performance monitoring and evaluation.
- Effective monitoring and evaluation will require a commitment to appropriately resource monitoring and evaluation activities, and early establishment of systems. The TC should seek information from other funds' evaluation offices on lessons learnt and resourcing requirements.
- Monitoring and evaluation should also consider the types of monitoring and evaluation activities that can be undertaken, ie. internal monitoring and evaluation (such as data collection, internal evaluation office), external evaluation (such as independent reviews or audits, or surveys of funding recipients and donors) and establish a framework for considering their applicability at different levels of fund activities. In particular, the framework should identify the areas where external evaluation/audit is necessary and the reasons for this (ie. overall fund financial management).
- The framework should also ensure that monitoring and evaluation are undertaken across thematic areas and funding types, noting that the criteria may differ for different thematic areas or activities.
- In line with input provided by a number of representatives at the Transitional Committee Workshop in Bonn in May 2011, the fund should seek performance feedback through a variety of means and stakeholders – including direct input from funding recipients and donors.
- In this workstream it would also be useful to identify and explore links with the consideration of results-based approaches, which is raised in workstream I – Scope, guiding principles and cross-cutting issues.

[8] Headings and responses indicative only – expert input would be needed to propose an appropriate framework and levels of monitoring and evaluation

II. Submission by Mr Y V Reddy (India)

India welcomes the opportunity to present views to the Transitional Committee for the design of the Green Climate Fund on various issues relating to the work of the Committee. Pursuant to the deliberations held in the first meeting of the Committee held on 28-29 April, 2011 in Mexico and the subsequent technical workshop held on 30 May – 1 June, 2011 at Bonn, Germany, India submits its views on the issues relating to the fourth work-stream i.e. monitoring and evaluation as follows.

Evaluation

Monitoring and Evaluation is an important aspect of GCF work. However, evaluation should not be linked to achievement of a specific global goal and a result-based funding. There are no global goals to be achieved in terms of environmental safeguards; such goals are only domestic and part of a voluntarily designed nationally appropriate mitigation strategy. Such a linkage is acceptable only in the domestic and national context.

Evaluation should be decentralized so as to recognize the diversity in national circumstances and domestic priorities in terms of outcomes. GCF design should enable the process to be owned by the recipients at the local level. This alone will guide actions of both the government and the private sector entities equally towards safeguarding the environment and meeting the domestic goals.

Moreover, the principles for evaluation need not be confused with cost effectiveness of market-based actions. The example of 'evaluation and monitoring' guidelines as applied in the carbon markets is not an appropriate example. Markets are driven by the price of carbon but, in case of sustainable development strategies, such referencing is not possible. The goals of social and economic development and poverty eradication cannot be quantified and measured on the basis of cost-effectiveness. Sustainability is the only measure which can be relied upon, but there are no standard measures agreed internationally for the purpose.

AWG-LCA is already working on the guidelines for MRV of mitigation actions that are supported by international finance. AWG-LCA is a political body and its inputs on the subject should be the template for further actions in this Committee. Since the Board of the Fund will be accountable to COP as proposed in WS II, it cannot have independent or deviant guidelines on the matter. The process need not be duplicated. The work on this subject should therefore be sequenced in relation to other work streams.

Monitoring

Monitoring is a task that needs to be performed by the Board itself. We should avoid outsourcing this work to other bodies unless expertise is not available in-house. Some of the existing funds are already implementing procedures for such in-house monitoring and we should learn from them.

Moreover, monitoring must also include monitoring the flow of resources by the donors and developed countries. There is a need for development of guidelines to determine whether the funds received by the Board are new and additional. The Board should therefore have guidelines to determine the 'additionality' as consistent with the guidelines applied in the NATCOMs and apply it in course of monitoring to determine the actual extent of financial flows in form of 'new and additional resources'. This should be monitored by the Board for its own resources and should be subject to oversight of the Standing Finance Committee in relation to the Financial Mechanism of the Convention.

***

III. Submission by Ms. Naoko Ishii (Japan)

7. Project monitoring and evaluation in direct access modalities. Ensuring the application of environmental and social safeguards is important especially during the project implementation phase. In case of the direct access, there needs to be a monitoring system in which independent specialists would monitor and evaluate performance of implementing agencies. We would like to ask TSU to analyze best practices of conducting independent monitoring during implementation phase and how to apply those practices to the direct access modalities.

IV. Submission by Ms. Bernarditas Muller (Philippines)

1. An evaluation mechanism on the overall performance of Fund, including results achieved, efficiency, effectiveness of the functioning of the Fund

   - Take account of the goals and objectives of the GCF.
   - Learn from the experience of other relevant Funds, and financing institutions dealing with climate change financing, including their respective mechanisms.
   - Consult with evaluation experts
   - Put in place a practical and simplified mechanism that can function efficiently
   - Take into account the specific characteristics of GCF, including its funding windows and financial instruments
   - Consider the special circumstances, relevance, concerns, national priorities of LDCs and SIDS, and other particularly vulnerable countries as defined by the Convention.
   - Consider the need for initial baselines to facilitate evaluation studies
   - Consider the institutional aspects of **periodic independent** evaluations

2. Evaluation and Monitoring:

   a) Evaluation and monitoring of activities to ensure the application of environmental and social safeguards;
   - Define concept of environmental and social safeguards
   - Consult other organizations with same systems
   - Develop facilitative guidelines to be used by recipient countries and GCF
   - Consider institutional aspects of implementing the monitoring and the evaluation and division of responsibilities

   b) Mechanisms to ensure financial accountability and to evaluate the performance of activities supported by the Fund, in order to ensure the application of environmental and social safeguards as well as internationally accepted fiduciary standards and sound financial management to the Fund's activities. (TOR, para. 1- h)

   - Definition of financial accountability
   - mechanisms to ensure financial accountability
   - mechanisms to evaluate the performance of activities supported by the Fund
   - with the objective of ensuring the application of environmental and social safeguards (see above)
   - and the application of internationally accepted fiduciary standards and sound financial management to the Fund's activities.
   - Consult other funds and organizations and learn from their experience, such as the Adaptation Fund of the Kyoto Protocol and the Multilateral Fund of the Montreal Protocol
   - Consult financial experts in relevant international organizations
   - Develop standards that are not onerous and prohibitive to developing countries
   - Guidelines and modalities to be developed taking into account national circumstances of developing countries
   - Capacity-building and technical support to recipient countries in the area of financing and implementation
   - Consider the institutional aspects of developing this mechanism and division of responsibilities

Periodic independent evaluations

There should be periodic independent evaluations of the performance of the Fund, in relation to several aspects as to the efficiency of the Secretariat, the appropriateness of its structures and policies, the extent of responsiveness to needs of the recipient countries, and the effectiveness of the work of the thematic windows and departments, etc.

The evaluation should be undertaken by an independent evaluation unit of the Fund, which is answerable directly to the Board, so that it is able to carry out its task without being answerable to the Secretariat management which it is asked to evaluate.

The terms of reference of this evaluation department and the items to the subject to evaluation can be further spelt out by the Transitional Committee, or by the Board.

Environmental and Social Safeguards

The **Fund's activities** should ensure the application of environmental and social safeguards as well as internationally accepted fiduciary standards and sound financial management. In the **evaluation of activities supported by the Fund**, it should be ensured that these do not become a complicated conditionality, especially one that has items or indicators that are not relevant, which has been the case with other funding or financial institutions.

The environmental and social safeguards can be further worked out by this Committee to the level of detail that time permits; and further details if necessary can be spelt out by the Conference of Parties and/or the Board.

It is essential that the designated institutions and personnel in the developing countries be provided with training, capacity building and institutional development in relation to financial management and accountability. This should be financed through an appropriate window (Institutional Development and Capacity Building) of the Fund. This capacity building should be implemented as a priority so as to ensure that financial resources can be transferred as soon as possible, i.e. when the institutions and personnel are established and prepared for the tasks of financial management.

V. Submission by Mr. A. F. Elisaia (Samoa)

AOSIS submission to the Transitional Committee
Work stream 4: Monitoring and evaluation

1. The Alliance of Small Island States (AOSIS) welcomes the opportunity to present the preliminary views of its 43 member States to the Transitional Committee (TC), in response to the invitation by the co-facilitators of Work Stream 4 and is looking forward to working with TC members and observers on these issues.

2. As requested by the decision 1/CP.16 (Annex III, 1 (g) and (h)), the TC is tasked to design "a mechanism to ensure periodic independent evaluation of the Fund's performance" (task A) as well as "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" (task B). AOSIS recognizes the organization of work under these two tasks as proposed by the co-facilitators as practical and logical, however the two mechanisms/levels of evaluation will have to relate to and inform each other.

3. At the first technical workshop from discussions on work stream 4, it appears that much can be learned from experiences and mechanisms of existing multilateral funds. AOSIS looks forward to the comparative study to be prepared by the TSU.

4. AOSIS is of the view that the Green Climate Fund (GCF) should operate effectively and efficiently and be a continuously learning institution. Therefore, the establishment of robust monitoring and evaluation mechanisms are needed both at the overall and operational levels. This is of critical importance to ensure that the Green Climate Fund functions:

   a) in compliance with COP guidance;
   b) in line with its general purpose, principles and objectives;
   c) in accordance with the strategic priorities decided by the Board.

Task A

5. The evaluation mechanism should report on the results and conclusions of the periodic evaluation directly to the GCF Board, which, in turn, should forward the report and its associated recommendations to the COP for consideration.

6. The in-depth independent performance evaluation should be conducted on a 3-year basis, with update reports produced every year. These reports should be publish and made available to be public

7. In addition to the elements listed in paragraph 4 above, the performance evaluation of the fund should also include an assessment of the operation of its bodies, including the interim trustee. Therefore the first periodic review should be completed in time to inform the open-bidding process to select the permanent trustee.

8. After initial reflections, AOSIS is of the view that two broad models can be considered, which would ensure simplicity and independence in the evaluation process:

   a) Establishing an evaluation body (here several variations are possible) that would be part of the core structure of the GCF, but will be comprised of institutionally independent and impartial experts serving in their personal capacity.
   b) Commissioning the periodic evaluation of the fund's performance by an outside and independent organization/company, through an open-bidding process.

Task B

9. Monitoring and evaluation of the activities of the fund should include the following elements:
   - Compliance with social and environmental GCF safeguards (still to be defined);
   - Achievement of anticipated results;

- Efficiency in delivery of support;
- Balance of funding between adaptation and mitigation;
- Balance of funding across countries and regions; and
- Feedback from recipient countries regarding application procedures, access and disbursement modalities.

10. As requested at the first technical workshop, it is necessary to define “internationally accepted fiduciary standards” and compare definitions used by various existing multilateral funds. AOSIS looks forward to the background note to be prepared by the TSU.

11. AOSIS wishes to emphasize that, as mentioned in sub-paragraphs 3 (vi) and 6 (v), the monitoring and evaluation mechanisms should not place an undue burden on developing countries and that full consideration should be given to specific constraints and circumstances of SIDS and LDCs.

VI. Submission by Ms. Marisa Lago (United States of America)

We agree that the work of this Workstream is very important both in the context of robust independent evaluations as well as the need for strong fiduciary standards and environmental and social safeguards to enhance the accountability and effective use of limited climate financial resources. It will be important for this workstream to draw upon the extensive work of other multilateral institutions in these areas. We appreciate the draft Terms of Reference provided by the co-facilitators that attempt to balance the needs of developing countries with the need to use robust safeguards and standards.

The co-facilitators appropriately divided this workstream's work into two subsets.

It is important that the lessons learned through project investments should be independently evaluated and that this evaluation and lessons learned should feed back into the Board of the Green Climate Fund to inform future Board decisions and the policies and practices of the fund. This would allow the future board of the Green Climate Fund to have the best information possible to make adjustments in their decision making process.

We would also like to note that the analysis asked of the TSU on relevant decisions that would influence the work of this workstream should be narrowed to only include the text of the Cancun Decision and not any "other negotiated documents" as outlined below the draft Terms of Reference.

CHAPTER V: OTHER SUBMISSIONS

I. Submission by Mr. Richard Weber (European Commission)

WORK STREAM I: SCOPE, GUIDING PRINCIPLES AND CROSS-CUTTING ISSUES SUBMISSION BY MR. RICHARD WEBER (EUROPEAN COMMISSION)

The 10 main objectives and principles of the Green Climate Fund should be:

-I) COUNTRY APPROPRIATION AND LEADERSHIP, BOTTOM-UP APPROACH, DEVOLUTION, DECENTRALISATION, DIRECT ACCESS

The Developing Beneficiaries Countries (or the implementing entities designated by them) have direct access to the Fund. In accordance with the Accra and Paris Principles of country ownership and leadership, they identify, plan and prepare the adaptation, mitigation and forestry programmes and projects they wish to present to the GCF for financing - within the context of their national, regional, local, development and economic, multiannual strategies and programmations-in collaboration with the local communities concerned, the civil society representatives, and the international Donors community local coordination. The whole process is need-based, country and demand driven, and placed under the entire control of each Beneficiary Developing Country, following a comprehensive bottom-up approach. The required capacity building and technical international expertise is provided for, to the developing countries which are not sufficiently equipped, to conduct this process with their sole national human resources. After agreement on their financing requests, the Developing Beneficiaries countries - directly or through the implementing entities which they have chosen - manage and implement, under their entire responsibility, their own Adaptation and Mitigation programmes and projects.

-II) MAIN FUNCTIONS OF THE G.C.F.

The overall and global objectives of the Fund, as fixed by the COP, are to contribute, through mitigation and adaptation actions, to effective emission reductions in order to reach the goal of staying below the 2°C target as well as to contribute to reduce CC risks and vulnerabilities and improve Climate resilience.
Within this context, the Green Climate Fund has 4 main functions:

-1) **provide high added value,** through pilot and innovative, demonstration projects and programmes which can, on the basis of the results achieved, be broadly disseminated and replicated, worldwide.

-2) **fill any gap in climate financing**, and identify the most relevant strategies and practices to tackle Adaptation, Mitigation and Forestry financing needs, as well as cross-cutting issues, like Capacity Building and Technology Transfer.

-3) **correct, through targeted financial interventions, any unbalance and unfair distribution of Climate Change resources** among Beneficiaries Countries and regions, and take care of potential Orphan Countries. Specific attention will be granted to the needs of LDCs and SIDS countries. Particular care will also be taken to avoid to use instruments which - useful and adequate in specific situations - could in specific cases, aggravate the financial situation and endanger the global borrowing capacity of the most fragile and poorest Developing Countries.

-4) **catalyse and attract complementary resources**, coming both from public donors and private investors, at the national, regional and local levels, thanks to its financing interventions on specific programmes and projects. The Fund will play a pivotal role in the global Climate Change Finance System.
The GCF will report to and take guidance from the COP whereas the GCF Board will directly take all operational decisions.

-III) THEMATIC WINDOWS AND CROSS-CUTTING ISSUES

The GCF may potentially address all types of climate actions. From the start, 3 main thematic windows are created for: Adaptation, Mitigation and Forestry (REDD+). Capacity building and technical expertise as well as Technology Development, Cooperation and Transfer, being cross-cutting issues, are fully integrated in the three main windows. If needed, new windows might be created, later on, depending on financing resources available and following Beneficiaries needs.

-IV) BALANCE BETWEEN ADAPTATION AND MITIGATION

The GCF aims at a balanced allocation between Adaptation and Mitigation, in a pragmatic way, taking in due consideration: 1) the needs and requests of the Developing Beneficiaries Countries, 2) the number, size, nature and quality of the programmes and projects directly submitted by them and 3) the resources available for each window, following the amount of unearmarked and earmarked financial contributions paid to the Fund by the different categories of donors. Efficiency gains must also be sought, through projects, actions and programmes, contributing to both Adaptation and Mitigation, and delivering further multiple benefits.

-V) CONTRIBUTION TO ENVIRONMENTAL AND SOCIAL OBJECTIVES

Actions, Projects and Programmes financed by the GCF must duly contribute to natural resource conservation, in particular biodiversity protection and restoration, and to environmental objectives as set out in the various multilateral environmental agreements. Within this context, the GCF will seek environmental and social co-benefits and apply environmental and social safeguards in all actions, projects and programmes which it finances or co-finances.

-VI) SUPPORT OF UNFCCC NEGOTIATIONS DECISIONS

The GCF is instrumental in supporting the Developing Beneficiaries Countries who effectively implement decisions and actions agreed in the UNFCCC negotiations.

-VII) FLEXIBILITY, SIMPLICITY, RESPONSIVENESS, SPEED AND EFFICIENCY

The GCF must be highly flexible, in order to quickly and adequately answer to evolving needs and priorities of the developing countries, and to face efficiently any potential urgency or crisis situation requiring an immediate financial intervention of the Fund. Administrative and financial procedures used by the GCF must be and remain, simple, clear, and effective, in order to deliver quickly, to be responsive to the requests of the Developing Beneficiaries Countries, to achieve the results and value for money expected both by the Beneficiaries and the Donors Countries, and to keep the administrative and staff costs at a reasonable level.

-VIII) TRANSPARENCY, CLARITY, CIVIL SOCIETY AND STAKHOLDERS INVOLVEMENT, MONITORING, REPORTING AND RESULT ORIENTATION

The GCF must be managed in a fully transparent way, both at the central level, and at the national, regional or local level of implementation of the actions, projects and programmes. Regular, clear, comprehensive, operational, technical and financial reporting, monitoring and (periodic or final) evaluation must be organised at all levels, in particular, on the:

1) **Fulfilment of Donors and Beneficiaries commitments**, funds disbursed centrally and locally, different categories of financing instruments used (grants, loans, guarantees, insurances, combination of instruments….).

2) **Results compared with initial climate objectives, value for money achieved**, indicators used, direct and indirect impacts of the actions, projects and programmes, satisfaction index of the concerned populations, civil society and stakeholders, positive and negative potential externalities.

3) **Thematic categories of actions and project financed** (adaptation, mitigation, forestry, mixed…).

All categories of actors and interested parties (local populations, National Parliaments, other democratic institutions, stakeholders, NGOs, NSA, civil society organisations, Donors and Beneficiaries) must receive permanent and immediate access, if possible, on-line, to all information and data, without any restriction and in full transparency. In parallel, stakeholders and civil society inputs, participation, advice, and feed-back will be systematically ensured and guaranteed, in all operations of the GCF, at each level and step, ex-ante, on- going and ex-post. In particular, an appeal and redress system will be put in place from the start. All these mechanisms will be organised, in such a way, that they cannot delay or paralyse the decision process and operations of the Fund.

-IX) GOOD MANAGEMENT, ACCOUNTABILITY AND FIDUCIARY STANDARDS

In application of the mutual accountability and reciprocal commitments, taken by Developing and Donors countries, within the context of the Paris Declaration, Internationally Accepted Fiduciary Standards will be applied, both centrally and at the national, regional and local levels, to all operations, actions, projects and programmes financed by the Fund. If needed, financial auditing, including on the spot audits, will be performed, at any stage during the implementation process. Any irregularity or fraud will be sanctioned and corresponding financial resources will be recuperated.

-X) COMPLEMENTARITY, ADDITIONNALITY, PREDICTABILITY OF GCF RESOURCES- GCF ROLE AS CORNESTONE OF THE GLOBAL CLIMATE FINANCING SYSTEM

The GCF must be complementary to all existing - multilateral, bilateral, regional, national and local Funds, Instruments and tools – which finance Climate Change Actions, projects and Programmes.
The GCF must not be conceived as a structure, designed and planned to absorb or replace them in a given future as such a concept would disturb and disrupt the diverse mechanisms of the Climate Change financing, by introducing incertitude and risk for all operators, donors, and actors involved.
For the GCF, the possibility to succeed to attract a significant proportion of the huge resources of Climate Change contributions, which will flow progressively to reach 100 billion per year in 2020, seems quite challenging. The example of ODA worldwide resources, which are, annually, of the same order of magnitude, amply demonstrate that donors and beneficiaries prefer to use diversified instruments and channels, together with multilateral funds, for their contributions.
A Fund of several tens of billions would become an enormous, heavy, costly and politicised machinery, requiring several thousands employees, and would lose in the process, flexibility, efficiency, and direct contact with the ground and operations. Basic management principles indicate that devolution and decentralisation are the best way to achieve efficiency and concrete results. Climate Change can only be tackled efficiently at the local level of each beneficiary country.
A huge and centralised GCF could, de facto, represent a negative incentive on donors and investors who may prefer to keep the direct decision and control on the use of their contributions for visibility, accountability, political, constitutional, legal, and other varied reasons.
That is why, instead of creating a huge and centralised Fund, it would appear to be more efficient to give to the GCF a role of cornerstone of the worldwide Climate Financing System for developing countries. The GCF could organise and lead a central platform for exchange of information, of good practices and concertation between the different existing mechanisms of Climate Finance. It could act as a catalyst leader in charge of ensuring coherence, cohesion, complementarity and synergies within the whole CC Financing System for Developing Countries.
However, within the financial mechanisms of the Convention, there may be scope for rationalisation and that would not prevent the GCF, if judged appropriate and effective, to progressively integrate (in time and, taking care not to disturb or prevent on-going operations) different, multilateral, existing Funds (and, in particular, UN and World Bank Multilateral and Multidonors Funds).
The GCF should be scalable in time, in order to attract additional resources, in relation with the results achieved and the absorption rate of beneficiaries.
GCF resources should be stable, predictable, additional and significant from the day one.
This implies that developed countries should pledge multiannual grant contributions, under the form of firm commitments, and that, as soon as possible, the GCF should get access (at least partially) to devoted innovative sources of revenues.

II. Submission by Mr. Richard Weber (European Commission)

on Work stream III: Operational modalities
Sub-Workstream III.1 "Finance entry points" and III.2 "Accessing finance"

General comments:

The Commission underlines the importance of designing the GCF in the most flexible way in order to maximise the flow of much needed financial resources for climate change. Flexibility should also be coupled with a design which avoids complexity and preserves simplicity, speed of delivery and efficiency (see also in annex our contribution of 8/6 to W.S.1 which addresses numerous relevant points for W.S.3). This can be achieved if, on the one hand the fund plays a catalytic role especially when related to private finance and if, on the other hand the subsidiarity principle is applied meaning that national and local entities must play a major role in the identification and execution of appropriate CC actions.
Ownership, predictability, accountability, and result - orientation as well as the respect of international fiduciary, environmental and social safeguards will be key principles while overhead/administration costs will have to be kept reasonable.

Modalities for contributions

The efficient and effective coordination of the different financing sources will be essential. **Ways of giving to the GCF a central leading role of all the different existing and operating CC financing mechanisms should be considered**.
As it will be neither realistic, nor possible or efficient to manage all the different flowing CC resources within one unique Fund, the GCF should add value and be different from existing climate funds.
The GCF could play the role of a wholesaling/umbrella organisation.
The priority of the GCF could lie on mobilizing and coordinating financial resources for climate actions - whether directly under its own management, or through the varied and numerous funds and instruments which compose the entire CC existing, financing system - in order to contribute, at multilateral, bilateral, regional, national or local levels, to climate change actions, projects and programmes presented by the Developing Beneficiaries Countries.
A decentralised approach should be favoured in order to remain efficient.

Crowding-in private sector finance

The focus for methods to mobilize private sector finance should not lie in receiving direct contributions to the Fund.
Institutional investors seek, as their main objective, to generate dividends and revenues. In order to do so, they look for investments presenting, limited and, in any case, well identified risks, as well as for a stable and clear, political, legal and economic environment. They wish to remain fully on control of their own financing decisions and resources. These different characteristics are better mastered and identified at a national, regional or local level, and for specific actions and projects, rather than at the global level of a multilateral and centralised, global Fund.
The GCF should be subordinated to the overall goal of climate change adaptation and mitigation.
Considerations on profitability should remain secondary, especially, in the field of adaptation, so difficult to achieve.
Therefore, the essential question is how to crowd in and catalyse private sector finance.

Firstly, there is a need to improve the overall regulatory framework and investment climate in Developing countries by **fostering conducive and stable policy frameworks** and improving the absorption capacity of the host market for **local and international private investors**. Capacity building can be an effective tool to address inefficient market outcomes and strengthening local institutions is an important step in this direction. These are **essential pre-investment activities which could be tackled by the GCF, in particular, in the poorest and ill-equipped developing countries as well as in any potential CC orphan country.**

An important tool for crowding-in the private sector, at larger scale, is certainly the carbon market. Also in this case, one must consider carefully all mechanisms already existing and, if and where, the GCF could provide added value.
As carbon market sources will favour, nearly exclusively, mitigation projects, interventions might mainly benefit more the emerging economies than the poor developing countries. Consequently, grant-based resources will be needed for adaptation and community level mitigation in LDCs, SIDS and other less developed countries.
Innovative public-private partnerships could address the risk perception of the private investors, e.g. by risk sharing or financing the junior tranches of the investment. Such guarantee mechanisms could bring added value but are not self-sufficient to attract FDI. They need to be accompanied by enabling the regulatory framework.
Other options are the financing of feed-in tariffs and technical assistance for structuring/project preparation as well as investment grants for improving affordability.

Finally, remains, both the political and operational question, whether and to what extent, the GCF, itself, could and should raise funds directly from the capital market or through another experienced institution, in order to avoid setting up additional structures.

In general, there is a gap between the approach taken by public institutions and private entities to select their investment activities.
Whereas the former are tied to political directives, and rather top-down, the latter aim at identifying the most profitable investment opportunities, in a bottom-up fashion. Improving the dialogue between public and private actors, is therefore a clear precondition for effective financial solutions.
The GCF could play an important role in this regard (see also our contribution to W.S.1).

Last but not least, mechanisms designed under the GCF, to leverage loans or attract private sector, should take the borrowing capacity of countries into consideration and should, by all means, consider and reduce the risk of indebting further DCs, at dangerous and unsustainable levels.

Accessing finance:

The back ground note on the overview of existing financing modalities provided by the co-facilitators is a very useful basis for further analysis.
As already mentioned during the workshop in Bonn, the following suggestions could extend the scope of the comparative exercise:

- include a comparison of the costs involved in administering the different existing funds and financing modalities.

- Sector budget support should be definitively added as a vital financing modality which has, in particular, the advantage of building on national sector strategies and even on more decentralised level development plans (municipalities, cities) and to place fully the Beneficiaries Developing Countries in the driving seat.

- The comparative table should go beyond the mere listing of the different existing modalities and should add an analysis of how these tools have been applied, what the barriers have been and how they could be up-scaled.

- Based on the comparative table, a gap analysis could be done, identifying those areas of interventions which are needed in the fight against CC, but which have so far not enough profited from any substantial funding.

P.J. Our contribution to W.S.1, incorporate numerous elements important for W.S.3 which have not been repeated in the present note to avoid any redundancy (see in annex).