Submissions by members of the Transitional Committee

The Secretary to the TC has received 2 additional submissions by the TC members after 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

I. Co-Facilitator's Summary (Farrukh Khan - Pakistan)

Informal Consultations on Workstream III for representatives from Least Developed Countries (LDCs)

Introduction

An informal consultation was convened on 24 June 2011 at the Permanent Mission of Pakistan to the U.N. in New York by the co-facilitators of Workstream III.. List of LDCs participants is attached.

Ambassador Abduallah Hussain Haroon, Permanent Representative of Pakistan to the U.N. in New York, opened consultations and welcomed participants. He informed that this was second meeting in the series of consultations planned by the co-facilitators (Pakistan and Australia) of the workstream – III of the Transitional Committee (TC) for the design of the Green Climate Fund (GCF) and noted the important work to be done in the year ahead.

Ms. Alison Chartres of the Australian Permanent Mission to the U.N. in New York (representative of Mr. Ewen MacDonald, TC representing Australia) made a short statement outlining importance of the TC process. On behalf of Mr. MacDonald's she underscored the need for making progress to the extent possible for a positive result by COP17 at Durban.

Ms. Marcela Main, UNFCCC Laison officer in New York represented the Technical Support Unit (TSU). In her remarks, she outlined the assistance that TSU was providing to different workstreams and emphasized the importance of broad based consultations.

Following the introductory session, Mr. Farrukh Khan (TC representative from Pakistan and co-facilitator of work-stream III) chaired the working session. Mr. Khan informed participants that the second meeting of the Transitional Committee was scheduled to take place on 13-14 July 2011 at Tokyo. He underlined that the work-stream III co-facilitators have organized the TC's efforts into five Sub-Workstreams: (III.1) Finance entry points; (III.2) Managing finance; (III.3) Accessing finance; (III.4) Balance between mitigation and adaptation; and (III.5) External inputs. He mentioned that the work was progressing rapidly and while members were giving their inputs, co-facilitators also deemed it appropriate to convene these informal consultations for broad based input in the TC processes. He informed that a meeting with SIDS took place last month on 23rd May, 2011 and that input was circulated as an official document of the Transitional Committee. Given the complexity of the task, the co-facilitators – as a first step – have identified a set of questions which would assist them in formulating background notes and scoping papers on the five sub themes for consideration by the Transitional Committee. He stated that this consultation was also aimed at eliciting additional input from LDCs on the questions circulated and to allow the LDCs to identify on ground experience which might be of relevance to the work of the TC.

In order to further focus the discussions on finance entry points and access modalities, Mr. Khan made a short presentation outlining a number of design questions facing the TC in workstream III, specifically on the issues of sourcing funds, engaging the private sector, financial instruments, thematic windows, and access modalities.

The floor was then open for responses, comments, and dialogue. The notes below are not intended as a full account of the meeting, but instead represent some of the key points made.

Modalities for contribution to the Fund

What different types and forms of instruments and processes might be used to raise funding? Which kinds of international innovative mechanisms be employed by the GCF in raising financial resources of the GCF?

Participant noted the need for availability of adequate financial resource to the GCF. It was noted that while all sources could be employed in generating finances, these resources should be "new and additional" to the existing development aid must not be undermined. The LDC Chair (Ambassador of Nepal) underlined the need for a clear commitment on the part of the developed countries. In context, he reiterated the long standing position of the Group for an assessed contribution of at least 0.5% of the GNI of the developed countries as primary source in generating requisite financial resources for the GCF.

Participants also underlined the importance of innovative instruments especially those identified in the Report by the UNSG's High Level Advisory Penal on Climate Finance and urged that the Transitional Committee must thoroughly explore them. In this regard, the participants particularly highlighted the financial transaction tax and the aviation levy.

Thematic Windows

What is the thematic scope of the GCF, and so how is "thematic window" to be defined in the GCF? How many, and what, windows should the GCF have?

Participants underlined that thematic windows were crucial for the GCF structure. A particular emphasis was laid on the Adaptation Window, which should be grant based. It was pointed out that LDCs have little mitigation potential and significant adaptation needs. They were of the view that existing financing for adaptation was limited and cumbersome to access. They highlighted the need for enhanced allocation to adaptation issues. In addition, it was also suggested that GCF should give consideration to the establishment of a LDCs window with differentiated/LDC specific criteria for accessing resources.

All participants underscored the capacity constraints that LDC countries face and underlined the need for establishing a capacity building window under the GCF.

How would funding windows under the GCF be managed and administered?

Participants outlined that the GCF should be enabled to appropriately differentiate between various groups of developing countries. Some LDCs participants also underlined the need for distinguishing between those LDC countries, which were in conflict or were emerging out of conflict as opposed to all other LDCs. A special consideration must be given to such countries over and above the criterion that the GCF may establish for the LDCs.

<u>Access Modalities</u>

How will the GCF provide funding? Through bilateral/multilateral intermediaries? Directly to national institutions? A combination of both? Other options?

Participants noted that the Global Environment Facility's (GEF) associated costs and procedures leads to delay. They highlighted the need for drawing appropriate lessons from such and other financial arrangements in the climate finance universe. They also highlighted the need for removing the delay in disbursement of the financing to the LDC.

How is direct access under the GCF to be defined? What kinds of national institutions are needed to facilitate these models of national implementation and execution?

Participants underlined that operationalization of Direct Access should be a priority for the GCF. Director Access was also considered crucial in reducing the transaction cost that was being charged by the Multilateral Implementation Entities in undertaking projects in the developing countries. It was pointed out that Direct Access would ensure that the national governments remain in the leadership role and the national planning on climate change was integrated. One participant, however pointed out that Direct Access should not be conditioned upon the establishment of any National Funds for climate change at the national levels rather access should be through the officially designated entities or an entity.

What are the criteria for determining when to use which channel? How can different modalities complement each other in country? How can country choice and flexibility be maximized? Should certain modalities (e.g. Direct access) be made available for all purposes or should certain modalities only be used for some specific purposes?

In terms of the balance between Direct Access and multilateral implementation options, a number of participants noted the complementarity of both approaches and that countries should have the option to choose either of the modalities (multilateral or direct access) to access finance.

Additional issues raised on Access Modalities: Capacity Constraints

During the consultations, significant time was spent on discussing the importance of addressing capacity constraints in smaller developing countries, particularly LDCs. Participants noted the difficulty facing LDCs within the existing architecture to access finance and marshal the complex web of application and eligibility criteria.

<u>Private Sector</u>

How can the GCF best 'crowd-in' private finance at scale, including foreign and domestic sources?

Participants mentioned that it was difficult for the LDCs to attract financing from the private sector. In addition, the local private sector was either small or does not have the capacity to be engaged in large-scale project. According to the participants, LDCs do not have a view on how much role should the private sector play in the establishment and operationalization of the GCF, however, given that the private sector could only be engaged in profit making activities, which did not exist in the LDCs and such small economies, participants noted that any climate financing for the LDCs could only be grant based and through direct contribution from the donors.

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

Participants noted that all LDCs were not at the same level of development and therefore one size fits all approach should be avoided at all costs. They particularly highlighted that either the private sector does not exists or it was barely surviving. Hence reliance on the mobilizing climate finance through private sector insofar as it concerns LDCs was a particular challenge.

LIST OF PARTICIPANTS

1. Ambassador Abdullah Hussain Haroon,
   Permanent Representative of Pakistan
2. Ambassador Ahmad Allam-mi,
   Permanent Representative of Chad
3. Ambassador Gyan Chandra Acharya,
   Permanent Representative of Nepal
4. Ambassador Kodjo Menan,
   Permanent Representative of Togo
5. Ambassador Elmi Ahmed Duale,
   Permanent Representative of Somalia Republic
6. Ambassador Raymond Serge Bale,
   Permanent Representative of Congo
7. Ambassador Araya Desta,
   Permanent Representative of Eritrea
8. Ambassador Alpha Ibrahima Sow,
   Permanent Representative of Guinea
9. Mr. Remongar T. Dennis,
   Deputy Permanent Representative of Liberia
10. Mr. Mohammad Erfani Ayoob,
    Deputy Permanent Representative of Afghanistan

11. Mr. Raza Bashir Tarar,
    Deputy Permanent Representative of Pakistan

12. Mr. Sidati Ould Cheikh,
    First Counsellor, Permament Mission of Mauritania

13. Mr. Farrukh Iqbal Khan,
    Counsellor and Co Facilitator of the WorkStream III

14. Mr. Der Laurent Dabire,
    Second Counsellor, Permanent Mission of Burkina Faso to U.N.

15. Ms. Nadine Muhimpundu,
    First Counsellor, Permanent Mission of Burundi to U.N.

16. Mr. Md. Tauhedul Islam,
    Counsellor, Permanent Mission of Bangladesh to U.N.

17. Mr. Ahmed Naseem Warraich,
    Counsellor, Permanent Mission of Pakistan to U.N.

18. Mr. Arwa Anwar Mohamed Salih,
    Second Secretary, Permanent Mission of Sudan to U.N.

II: Submission by Mr Jan Cedergren (Sweden)

Overall objectives and principles

The design of the GCF should build on agreed key principles and objectives such as the need to effectively leverage and channel substantial amounts of future funding flows, be responsive to the needs of developing countries and inspire the necessary confidence with donors in its ability to operate efficiently and effectively in a manner that delivers measurable results.

The GCF should at the same time be transformational, innovative and flexible. If properly designed, it has the potential of becoming a center piece of the future climate financial architecture.

Given the fragmentation of today's climate change financing, ensuring complementarity with existing climate financing channels is essential. The GCF should also contribute to enhanced coherence with, and whenever possible, seek synergies with other internationally agreed environmental objectives such as biodiversity, combating desertification etc.

The GCF will need to take account of the need to contribute to the overall objective of the UNFCCC while at the same time ensuring that programming is country-driven. This means, inter alia, further and systematic efforts to strengthen the integration of poverty eradication and climate change considerations in local, national and regional development programming.

The broad scope and potential considerable scale of the GCF should be utilized fully to shift the focus from the largely project-based action characteristic of much of today's climate funding towards a programme-based approach that will allow for integrated support at all levels. Such an approach should be informed by analyses of needs made at the global level and be firmly anchored in national and (when applicable) regional plans.

The GCF should operate on the basis of a solid results-based framework. The framework should be built on expected outcomes and outputs and contain indicators that will allow for measuring of progress towards objectives agreed. Allocation should also be results based. In this context, it will be essential to pay special attention to the specific needs of SIDS and least developed countries. Lessons learned from other international funds and organizations should inform the design of a results-based management system.

Structure and thematic scope

The fund should have an open an flexible structure that will allow for scaling up of climate change finance and that is responsive to changes in priorities and needs over time. The GCF should avoid developing into another multilateral aid organisation with a heavy field representation, but build on and further develop efficient and effective delivery/implementation mechanisms. Given its potential to bring together various funding instruments, it may serve a crucial role in fostering synergies and coherence between existing funds.

As for the thematic scope of the Fund, the issue of funding windows will require careful consideration. Given the multitude of already existing thematic windows in the climate financial architecture, the creation of any thematic windows under the GCF should be based on the principle of clear added value. For the sake of transparency and administrative efficiency and in order to facilitate an integrated approach, the number of funding windows should be limited. Areas that should be covered include mitigation, adaptation, REDD+. Possible synergies across these areas should be taken into account in the design. Incentives should be created that award programmes that pursue multiple objectives, such as adaptation and mitigation. Technology development and transfer and capacity building should be supported as cross-cutting issues and build on existing capacities and institutions at the national and regional level. The design of windows should take account of the need to enable private, or blended finance to be channeled to the different areas covered.

Access modalities

The GCF should develop modalities and provisions that will facilitate access to climate change funding that will meet internationally agreed objectives and be guided by recipient countries priorities as formulated in national budgets and plans in consultation with a broad range of stakeholders, including the private sector and civil society. Various access modalities should be considered, including direct access. In order to ensure sound financial management and accountability, and to inspire confidence with all actors concerned, it is essential for the GCG to apply internationally agreed fiduciary standards. It should make use of lessons learned in other global financial mechanisms, such as the GEF and GFATM as well as the Adaptation Fund. In this context, it will be particularly important to see to that SIDS and LDCs can access support, implement and follow up on results. This may be ensured, ia, by enhancing institutional capacity building at the national level.

Funding instruments

An important issue for further consideration when designing the GCG is how to facilitate and encourage the full use of the range of various existing and potential funding instruments. This should be built on lessons learned, including the advantages and disadvantages of different instruments.

While it is obvious that public grants will continue to play a significant role in climate financing in the poorest countries, especially for adaptation, it is clear that grants solely will not be sufficient to meet the climate financing needs in developing countries. Therefore the GCF should be flexible and able to raise and to complement funds from a variety of sources. Modalities for the GCF should include instruments for leveraging private finance and blending of public and private finance streams. In this context it will be important to identify the scope for public support for mobilization of private financing without creating unwarranted windfall gains accruing to private investors.

Account should be taken of already existing instruments for leveraging private climate finance or the management of the risk-return profile of projects such as insurance products, public guarantees, equity capital, risk management/sharing tools and concessional loans.

In this context, not least the guarantee instrument merits further consideration. It provides new opportunities to expand and leverage available resources by linking grant aid with market finance. With guarantee instruments, financial risks in investments can be lowered in a number of ways. Therefore guarantees have the potential to unleash large sums in areas where the private sector would otherwise be unwilling to shoulder the full risk in investments.

Loans, guarantees and cooperation – an example

In Bangladesh, the Swedish International Development Cooperation Agency (Sida) has supported increased access to electricity for poor rural households by supporting the deployment of solar home systems (SHS). In this case, Sida, supported by the Global Program for Output Based Aid (GPOBA), co-finances the project together with local microfinance institutions. Sida’s contribution is a grant amounting to USD 10.2 million. With Sida´s grant, costs per unit and risk will drop to a level which both enables the microfinance institutions to lend to the poorer households as well as for the households to afford the investment. Total cost for the investment is estimated to be lower than cost for traditional fuels had been for the individual household. Through the scheme the SHS component will extend clean and reliable electricity access to over 100,000 poor households. With traditional grant financing less than 15 000 families would have been reached. To ensure quality and results, disbursement of the grant to the microfinance institutions will only be made after the solar panels have been installed.