Sierra Club

Submission to the Transitional Committee for the design of Green Climate Fund on fostering transformational mitigation action and engaging the private sector and civil society

September 11, 2011

The Sierra Club welcomes the decision of the Transitional Committee (TC) to hold a workshop to explore "the role of the Green Climate Fund in fostering transformational climate action and engaging the private sector and civil society" before its Third Meeting in Geneva on September 11. We appreciate the opportunity to contribute to the TC's discussion of these critically important issues.

The climate imperative is clear: a 50–80% reduction in greenhouse gas emissions from the 1990 baseline is necessary by 2050. In light of this requirement, dramatic technological, market, and social advances are needed in the very near term. ***Given the scale of the climate challenge and the unique mandate of the GCF, the objective of achieving transformational impacts to mitigate and adapt to climate change should be the central organizing principle of the GCF's work.*** How the GCF defines and prioritizes "transformational actions", and how it leverages the strengths of non-governmental stakeholders to facilitate those actions, will be key determinants of its impact and effectiveness in meeting the mitigation challenge.

The TC is off to a promising start in addressing these issues. At the second TC meeting in Tokyo, there was consensus that GCF supported mitigation actions should:

(1) have a "transformational" impact;

(2) leverage private-sector investment to catalyze action at scale; and

(3) be determined by country-led strategies and plans developed through mechanisms that include nongovernmental stakeholders.

It is essential that the TC use the opportunity of the workshop and its Third Meeting to build upon this agreement on basic principles by clearly articulating a common understanding of "transformational action", and developing specific operating principles and mechanisms for engaging the private-sector and civil society.

To help advance this effort, this submission proposes a definition of "transformational action" that can guide GCF mitigation support, and explains how this understanding of transformational impact incorporates the objectives of leveraging private-sector investment and engaging non-governmental stakeholders in decision-making and implementation. It also outlines indicators and modalities that the GCF could use to ensure that its resources are used in the most impactful and cost-effective ways possible.

The need to prioritize "Market Transformation" to leverage private-sector investment

The TC should adopt an understanding of "transformational impact" that will focus GCF mitigation efforts on two categories of actions.

First and foremost, the GCF should concentrate on *market transformation*. It should support policy-level initiatives that will fundamentally transform patterns of consumption and investment by systematically reducing costs and risks and eliminating non-financial barriers[1] to the widespread deployment of efficiency improvements and low-carbon technologies. To be truly transformational, such initiatives must be self-sustaining—they should catalyze significant changes in the behavior of market participants that will persist after the GCF's initial support has ended.

The principal advantage of market transformation initiatives are their capacity to redirect enormous flows of private-sector capital towards more climate-friendly investments. Indeed, such systemic approaches to "leveraging private-sector investment" have far greater potential to catalyze action at the necessary scale, impact, and consistency than a "project-by-project" approach that focuses more narrowly on providing financial assistance to specific private-sector investments.

Second, economy-wide or sector-wide initiatives that may not permanently alter market incentives should also be considered transformational if they would rapidly and significantly lower the emissions trajectory of a country or region, or if they would demonstrate the feasibility of replicable and scalable low-carbon approaches. An investment in an urban mass transit system, for example, might meet this criterion. One-off investments in marginally more efficient fossil fuel based energy sources would not be considered transformational under this approach.

Examples of transformational mitigation actions

The GCF should *prioritize improvements in end-use efficiency*. Catalyzing systemic improvements in end-use efficiency is the single most important strategy for facilitating the transition to sustainable, low-carbon energy systems at least cost and risk.[2] End-use efficiency improvements offer the greatest benefits and lowest opportunity costs—they can eliminate by far

[1] Numerous market failures have been identified that cause available and profitable alternatives to receive only a small fraction of the investment they deserve. See, Amory Lovins, 2005. *Energy End-Use Efficiency*. www.rmi.org.
[2] World Bank Independent Evaluation Group, (2008). Climate Change and the World Bank Group, Phase I: An Evaluation of World Bank Win-Win Energy Policy Reforms; UN Secretary General's Advisory Group on Energy and Climate Change, 2010. *Energy for a Sustainable Future*. McKinsey & Company, 2009. *Pathways to a Low Carbon Economy: Version 2 of the Global Greenhouse Gas Abatement Cost Curve*; Amory Lovins, 2005. *Energy End-Use Efficiency*. www.rmi.org.

the most CO_2 emissions per year and per dollar spent. Indeed, many efficiency initiatives can reduce emissions almost immediately, with very attractive returns on investment and short pay-back periods,[3] and while delivering substantial local benefits such as expanding and improving energy service delivery for the poor in both urban and rural settings.[4]

For example, the World Bank has found that its support for programs to distribute compact fluorescent light-bulbs (CFLs) has been its most successful energy sector investment, both in terms of cheaply eliminating CO_2 emissions and producing local economic benefits.[5] Because the returns and co-benefits of end-use efficiency programs can be so dramatic, India's Planning Commission has recommended that energy efficiency options "should be the 'first resource' considered for fulfilling demand."[6]

Accordingly, the GCF should prioritize support for programs to catalyze large-scale improvements in end-use efficiency in uses such as lighting, buildings, vehicles, industrial systems, and consumer appliances. It should support policy initiatives to eliminate financial and non-financial barriers to these improvements and to enable efficiency programs to compete on an equal footing with expanded supply as a means to meet energy demand.[7] And it should strive to become the global leader in supporting "efficiency power plants"—bundled sets of energy efficiency programs that can deliver the capacity equivalent of a large conventional power plant.[8]

In addition, there is already a wealth of experience from around the globe with successful initiatives that would meet the proposed understanding of "transformational actions." Some examples include:

1. ***"Decoupling" of utility revenue from sales*** to incentivize investment in cost-effective improvements in end-use efficiency and clean energy generation.[9]

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[3] McKinsey & Company, *Pathways to a Low Carbon Economy. Version 2 of the Global Greenhouse Gas Abatement Cost Curve* (2009)*;* Lovins, *Id.*

[4] Casillas, C. and Kammen, D. M. (2010) "The energy-poverty-climate nexus," *Science*, **330**, 1182 – 1182.

[5] World Bank Independent Evaluation Group, 2010. *Phase II: The Challenge of Low-Carbon Development: Climate Change and the World Bank Group*, at 81.

[6] Planning Commission, 2011. *Interim Report of the Expert Group on Low-Carbon Strategies for Inclusive Growth*, at 31.

[7] See, e.g., the World Bank's recent support for mass distribution of compact flourescent light bulbs in Bangladesh. http://siteresources.worldbank.org/EXTENERGY2/Resources/ELIB_Presentation.pdf. Meg Gottstein, *Planning, Financing and Building Efficiency Power Plants: Regulatory Practices in California and Other States*, The Regulatory Assistance Project (2008), available at www.raponline.org; David Moskovits, *Meeting China's Energy Efficiency Goals Means China Needs to Start Building Efficiency Power Plants (EPP)*, The Regulatory Assistance Project (2005), available at www.raponline.org.

[8] See, e.g., the World Bank's recent support for mass distribution of compact flourescent light bulbs in Bangladesh. http://siteresources.worldbank.org/EXTENERGY2/Resources/ELIB_Presentation.pdf. Meg Gottstein, *Planning, Financing and Building Efficiency Power Plants: Regulatory Practices in California and Other States*, The Regulatory Assistance Project (2008), available at www.raponline.org; David Moskovits, *Meeting China's Energy Efficiency Goals Means China Needs to Start Building Efficiency Power Plants (EPP)*, The Regulatory Assistance Project (2005), available at www.raponline.org.

[9] See e.g., California Energy Commission. 2007. *Integrated Energy Policy Report*, November 2007, CEC-100-2007-008-CTF, www.californiaenergyefficiency.com/; California Public Utility Commission. 2008. C*alifornia energy efficiency strategic plan* (draft) Rulemaking 06-04-010, 8 February 2008, www.californiaenergyefficiency.com/

2. ***Feed in tariffs***, ***renewable portfolio standards***, ***renewable energy auctions***, and other results-oriented approaches to reduce costs, perceived risks and non-financial barriers to the deployment of near market low- and zero- carbon technologies and approaches, so that they can more quickly outcompete high-emitting technologies without ongoing public support.
3. ***Life-cycle GHG assessment of energy projects*** to identify alternatives with the lowest 'cradle to grave' climate impact.
4. ***Elimination of fossil fuel subsidies*** and other policies that incentivize higher emissions and insulate market participants from the true costs and risks of their decisions.[10]
5. ***Support for mass transit systems*** and other low-carbon urban planning approaches.

Maximize impact and incentivize ambitious action

Like the Clean Technology Fund, the Adaptation Fund, and the Global Fund to Fight AIDS, Tuberculosis and Malaria, the GCF should incentivize more ambitious proposals by clearly articulating the criteria it will use to prioritize the use of its limited resources. This will help ensure that GCF resources are devoted to securing the fastest, cheapest, and most sustainable elimination of tonnes of CO_2 (taking into account national development objectives and safeguards). Among other criteria, the GCF should seek to identify proposals that will (1) deliver the most tonnes of CO_2 abated per dollar spent and per year; (2) most quickly and dramatically reduce the costs, risks, and non-financial barriers to investment in low- and zero-carbon technologies; and/or (3) demonstrate the feasibility of replicable and scalable low- and zero-carbon policies and approaches.

Inclusive national planning for transformational action

In accordance with the Cancun Agreements, the GCF will finance developing country mitigation actions that are consistent with country-driven low-carbon development strategies (LCDS), and are reflected in specific "nationally appropriate mitigation actions" (NAMAs).[11] Ensuring that these LCDs and NAMAs are suitably ambitious and transformational, and that they reflect local development priorities, will require that they are developed with broad and meaningful public participation. As experience with other funding mechanisms such as the Global Fund to Fight AIDS, Tuberculosis and Malaria has shown, multi-stakeholder processes that include a range of interests and expertise improves the quality of strategic plans and funding proposals, helps ensure that they reflect local needs, and can help broaden and strengthen the political commitment to successful implementation. This last consideration is especially important with regard to transformational mitigation action, which may be vigorously opposed by those with a vested interest in the perpetuation of the *status quo*.

[10] IEA, OPEC, OECD, World Bank, *Analysis of the Scope of Energy Subsidies and Suggestions for the G-20 Initiative: Joint Report Prepared for submission to the G-20 Summit Meeting, Toronto, Canada,* 26-27 June 2010.
[11] Cancun Agreement, paras. 53, 65.