TRANSITIONAL COMMITTEE **7 June 2011**
Internal reference document- 4

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 scheduled for 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.

Two sets of submissions on issues under Workstream I and II and other submissions, were reproduced under Internal Reference Document 1 and 3 dated 25 and 27 May 2011 respectively. Since then, the Secretary to the TC has received 10 additional submission as of 6 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.

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

I. Submission by Ms. Audrey Joy Grant (Belize)

First submission of views from Belize, supported by Guyana

Scope, guiding principles and cross cutting issues

Objectives and principles:

- Should be guided by the principles of the Convention.
- Characterized by accountability, transparency, efficiency, country ownership, flexibility, responsiveness to developing country needs.
- Must be transformational in nature, and catalyze low carbon and climate resilient sustainable development.
- Should support integrated climate change approaches, such as LCDS.

Thematic scope

- Overall scope of the Fund should cover adaptation, mitigation, REDD plus, technology development and transfer, and capacity building
- Thematic windows should be established for adaptation, mitigation and REDD plus.
- Fund should be able to establish specialised windows as the need arises, e.g., for the private sector, for specialized instruments such as concessional financing.

Size and scalability

- Fund should provide scaled-up, new and predictable financial resources to developing countries.
- Should be able to accept funds from multiple sources at a large scale and should be able to deliver at scale through a variety of innovative instruments.

Country-led and results-based approaches

- Fund design should reflect the element of strong country ownership.
- In supporting a results based framework in the allocation of funding, we recognize that this will apply more so to mitigation.
- In promoting a country driven approach, direct access should be a key element.

Complementarity and value added

- Must promote coherence and complementarity between the Fund and other regional and multilateral funding mechanisms and institutions.
- Must add value to existing financial architecture in delivering concessional financial resources.
- In disbursing funds, should not promote conditionalities.

II. Submission by Mr. Rob Stewart (Canada)

Comments on the draft work plan for Work stream I: Scope, guiding principles and cross-cutting issues

Many issues identified under this stream are dependent on other aspects which are being discussed in different work streams (e.g., for donors, potential size or scale is linked to key design elements such as governance structure and accountability). One approach would be to focus on defining a vision statement for the Green Climate Fund and the more preambular and goal-oriented portions of the legal instrument which establishes the GEF.

Specifically, on questions raised in the workplan:

- *Objectives and principles:*

  The GCF should be built around key principles, as discussed briefly in Mexico. The principles should be articulated around key objectives such as efficient methods to leverage private sources of finance; effective structure to ensure coherence of climate finance support achieving climate objectives; a fund that is more transformational than existing funds; a fund that is accessible to developing countries; and, a fund that has strong accountability, fiduciary and results-based framework.

- *Thematic scope:*

  The vision and objectives of the GCF as expressed in the instrument to establish the GCF should underscore the aim of achieving a balanced allocation between mitigation and adaptation as a strategic goal, without it being quantified. The organizational structure of the GCF and its operations should reflect this goal. This is likely to mean, for example, an adaptation window, and perhaps even a small-scale projects window to ensure balanced allocation in the many small adaptation-focussed countries that will be clients of the GCF.

  It may also be possible to give the Board a mandate to establish criteria or guidelines for it to periodically review whether its allocation has been sufficiently "balanced".

- *Country-led results and approaches*

  This issue needs to be carefully considered, and the following questions could be added to the work plan:

  - How can we balance the need for country-led programming with the need to seek to maximize, with available resources, the GCF's contribution to progress towards the ultimate objective of the UNFCCC?
  - How can we balance the need to respect the country-led principle while also promoting, where appropriate, regional and potentially global cooperative projects or actions that could receive some support from the GCF?

- *Complementarity and value added:*

We would also see value in broadening the discussion around complementarity and value-added of the GCF. Consideration could be given to how the Green Fund could be utilized to streamline or fill gaps to improve the efficiency and effectiveness of the overall system.

III: Submission by Mr. Per Callesen (Denmark)

Initial thoughts by Denmark and the Netherlands on issues related to workstream I of the Transitional Committee: Scope, guiding principles, and cross-cutting issues

Objectives and principles:

Suggested questions/issues

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

The GCF should not only include the usual public funding on a project- by- project basis but should promote a cross-cutting approach allowing for financing of plans and programmes at a scale that will enable developing countries to transform to low-carbon and climate-resilient development paths. The support should be based on the analytical work presented in the national plans. The GCF should have the instruments to leverage private capital and blend public and private finance streams at scale and in time.

The GCF should furthermore have new modalities for access to the fund and disbursement of funding. For mitigation it will be crucial to operationalise result- based allocation mechanisms.

Apart from its "own" funding capacity the GCF should also have the potential to match and blend with funding by other funding entities. In doing so the GCF might serve as "fund of funds" with a pivotal role in fostering synergy and complementarity between existing funds/funding entities.

2. *Some broad objectives and guiding principles of the GCF have been agreed in the decision 1/CP.16, Cancun Agreements (see annex below) How can these be further developed, enhanced and operationalized?*

The fund should clearly operate under the guidance of the COP to foster that actions funded by the GCF are in line with the ultimate objectives of the Convention. The overall guidance given by the COP should be translated by the Board of the GCF into operational guidance and criteria for the funding. The COP should not interfere with these operational decisions. Under clear reporting guidelines the GCF should report to the COP on its achievements and the way it applied COP-guidance to funding of plans and programmes consistent with the objectives of the Convention.

At the same time the GCF should apply internationally agreed fiduciary standards to ensure sound financial management of the resources of the GCF. This will be crucial for the funding of the GCF as well as for the ability to attract/leverage other resources.

Thematic scope:

Suggested questions/issues:

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

It would be worthwhile to explore 2 different models for the GCF. In one model all thematic funding windows merge under the GCF. In the other model the GCF builds on the existing windows and complements them where finance is inadequate (by topping up funding and/or opening specific new windows).

There might be logic to merging existing windows (ie. for adaptation) to enhance capacity for efficiently delivering finance at scale and in order to promote a result-based approach.

As there are already a great number of (thematic) windows in the international climate financial architecture, the added value of new windows under the GCF needs to be well defined. If new windows are to be established they need to be limited and most likely only for adaptation and mitigation (including REDD). Capacity-building, including for building institutional capacities, and technology development and transfer will be supported as cross-cutting issues.

The emphasis should rather be on performance criteria than the number of windows in order to ensure most value for the money across the different windows. Keeping the number of windows as low as possible is expected to increase the level of transparency.

As the GCF should leverage private capital this element should be carefully considered when deciding on the windows. It might be worthwhile to explore a specific window for private sector activities or to give private parties access to the thematic windows (if developing country ownership is guaranteed). However, the ultimate goal should be to integrate private sector activities under all windows.

Sometimes opening a window is seen as a method of filling a funding gap. However, underlying issues such as the amount and predictability of funding available and trust of donors and recipients in the governance of the window may be more pertinent towards filling a demand for financing.

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 GCF should have the ability to open up new "windows" if a clear niche has been identified and the GCF is mandated/guided by the COP to set up a new "window". However, new windows should only be established when there is demonstrated added value as the proliferation of funding windows is already high. Given the need to deliver at scale, windows should not be designed at a micro or small scale. However, it should be noted that the more windows that are created the less flexible the GCF can operate.

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

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.

<u>Size and scalability;</u>

Suggested questions/issues

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

As the GCF should fund programmes and plans with transformational impact it should be larger then any existing fund or funding entity. The composition and clear cut mandate of the Board of the GCF, the application of fiduciary standards and a results- based orientation should, among other things, enable trust building for larger financial flows to be managed by the GCF.

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?*

Large scale should be seen in relation to the ambition of the plans and programmes put forward and their intended transformational impact. In relation to this the GCF should be able to match, blend and leverage finance from a number of sources. With the right sort of instrument in the operational toolbox of the GCF, the fund itself does not necessarily need large sums of capital.

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

The fund should be scalable over time. It is likely to take time for both project and finance flows to reach their full levels.

Country-led and results-based approaches;

Suggested questions/issues

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

Proposals to the Fund should be identified and developed by developing countries, based on country-level multi-stakeholder partnerships, in line with climate change priorities and national sustainable development plans.

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

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

Results- based allocation for mitigation could greatly contribute to achieving large scale emission reduction. Therefore, allocation of the funds should follow a result-based approach. Thus, models based on "tendering" or "competition" need to be explored to that end while assuring that different countries have a comparable "playing field".

For adaptation the result based- allocation will at least mean developing the performance- based yardstick for delivery (including greater climate resilience benefits and biodiversity/water/food security benefits).

Complementarity and value added;

Suggested questions/issues

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

See question number 1.

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

The Fund could become a major player in the climate finance architecture, complementing existing bilateral and multilateral climate financing channels, if reliable procedures and standards ensure the delivery of results. Its functions however need further study (see question number 1and 3).

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

The GCF should avoid duplication where well designed funding entities already exist and are able to finance transformational plans and programmes for adaptation or mitigation. A clear oversight of all funding (bilateral as well as multilateral and both public and private) will be crucial both for the COP to give adequate guidance to the GCF and for the Board of the GCF to match, blend and leverage with the different finance streams from a wide range of sources. Merging other multilateral funds with GCF should not be excluded but explored.

IV. Submission by Ms. Bernarditas Muller (Philippines)

COMMENTS ON THE DOCUMENTS FOR THE FIRST TECHNICAL WORKSHOP
Bonn, 30 May to 01 June 2011

General comments covering the work of the TC

1. The TC has a specific mandate: “shall recommend to the COP, for its approval at its 17th session, and shall develop operational documents” the specific terms of reference for the design of the Green Climate Fund. Therefore, the TC is the only entity that can exercise this mandate, and this cannot be taken over by co-Chairs and co-Facilitators, and especially not by the Technical Secretariat. All authority resides in the TC, which must then review all documents, not just make submissions on them, that will be prepared by the TSU, under the guidance of the co-Facilitators.

2. The TC has specific deliverables as contained in its Terms of Reference, Annex III, para.1, sub-paras. (a) to (j) of Decision 1/CP.16. The TC's mandate is “to recommend to the Conference of the Parties for its approval at its seventeenth session” and to “develop operational documents” that address elements of the TOR.

3. The TC has a very limited time to do this until COP17. It therefore has to focus its work, and its work plan, on delivering on the specific elements of the TOR.

4. TC members, and groups of members have put on the table specific proposals for the work plan (AOSIS non-paper on the Work Plan, and the African Group draft provisional agenda, containing a work plan based on the TOR) at the first meeting of the TC. These should be discussed and acted upon, instead of some documents prepared for the meeting in Mexico, and subsequently elaborated upon, this time apparently as consulted with the co-Chairs, to be the main documents for discussion at this technical workshop.

5. I propose formally that we consider the work plan proposals submitted by TC members in accordance with the TOR at the beginning of the second TC meeting in Tokyo, Japan. We can the determine whether and how any of the documents prepared by the TSU and put forward by the co-Facilitators, considered at this technical workshop, could serve as background documents for discussions on the TOR elements. The chosen co-facilitators would then work on specific elements of the TOR covered by the work plan.

6. The TC needs to work in a transparent, open and inclusive manner, encouraging inputs from All Parties and relevant international organizations and observers (Parties and non-Parties), and more than this, taking these inputs in consideration in the discussions.

7. Under the UNFCCC, financing is not development financing, but obligations of developed country Parties to developing country Parties. Climate change financing is not development assistance, voluntary funding, or bilateral aid, although these are channels that are currently used for climate change financing, The financial mechanism of the Convention, defined in Article 11, is the channel through which the obligation on provision of financial resources should be implemented. The GCF has been established as an operating entity of the financial mechanism.

ADDITIONAL VIEWS AND RESPONSES TO THE SUGGESTED QUESTIONS ON THE “SCOPING PAPER” of Workstream I (internal draft document dated 26 May 2011)

1. On the mandate- as stated in the general comments, above, there is no agreement on the “work streams” as they stand. Work stream I in particular does not have any direct link to the elements of the TOR. Clarification must be made therefore on what will be the specific output of Work Stream I and how it will support the fulfillment of the TC's mandate.

2. The “scoping paper” completely confuses elements of decision 1/CP.16 with the mandated TOR, cites them selectively, and then comes up with a cocktail of all these in a totally unclear manner. Binding elements are mixed up with non-binding elements. Terms used are unclear, such as the reference to the Annex of Decision 1/CP.16 as the “Appendix” (Annex on “Table on purpose, principles and scope”). Clear distinction

must also be made on elements of the TOR that mandate the TC to come up with "methods" and others that prescribe "mechanisms", as the work involved in one or the other is not the same.

3. There are elements that are neither in the Convention, in Decision 1/CP.16 or in the TOR, such as sections D on "country-led and results-based approaches" and D, on "complementarity and value-added".

4. Delivery of financing is only referred to as "concessional financial resources", thus pre-determining the kind of resources to be provided and limiting them to loans.

5. Article 11 states that the COP shall provide guidance to the financial mechanism, and this guidance consists of policies, programme priorities and eligibility criteria. It is not the TC's mandate to prejudge this guidance.

6. The paragraphs in Decision 1/CP.16 that are relevant to this "work stream" would be para. 97, and the elements to be considered are: (a) "in accordance with the relevant provisions of the Convention scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties", and (b) "taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change; and

7. Para. 102: that establishes the Green Climate Fund, to be designated as
   (a) an operating entity of the financial mechanism of the Convention under Article 11;
   (b) with arrangements to be concluded between the GCF and the COP (Article 11.3 specifies on what the arrangements shall include) :
   (c) to ensure that it is accountable to and functions under the guidance of the COP ;
   (d) to support projects, programmes, policies and other activities in developing country Parties; and
   (e) using thematic windows.

8. On Annex IV on Work Tasks and Schedule for Work stream I : Feedback should be from TC members and not co-facilitators alone, at each stage of the document development. The documents should be circulated in a dedicated website, as suggested by the TC, for comments and views, revisions, amendments to be made. If there is no agreement among all TC members, this should be sorted out in formal, plenary meetings, and clearly reflected in whatever final document will be produced for Durban.

How is the GCF different from existing climate funds?

The GCF is the only fund dedicated to climate change and established under Article 11 of the UN Framework Convention on Climate Change (the Convention), which defines the financial mechanism of the Convention. No other existing fund is the same as the GCF.

On Annex II of the suggested questions document:

Annex II enumerates in part elements of the TOR and does not contain any "principles" of the GCF. In addition, it selectively refers to paragraphs of Decision 1/CP.16 that are not stipulated as "objectives" of the GCF.

Objective of the GCF

The GCF has been established under the Bali Action Plan process for "the full, effective and sustained implementation of the Convention now, up to and beyond 2012." Its objective therefore is the enhanced implementation of commitments of developed country Parties to developing country Parties as contained in Articles 4.3, 4.4, 4.5, 4.8, and 4.9 of the Convention, in accordance with Article 11 defining the financial mechanism.

Principles of the GCF

1. Be underpinned by the principles of equity and common but differentiated responsibilities of the Convention. (Art. 3.1)

2. Ensure that it will operate under the guidance and be fully accountable to the COP, which shall decide on its policies, programme priorities and eligibility criteria related to the Convention. (Art.11.1 and Decision 1/CP.16, para. 102)
3. Have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance (Art. 11.2)
4. Enable direct access to funding by the developing country Parties
5. Ensure recipient country involvement during stages of identification, definition and implementation, thus rendering it truly demand driven.

How many thematic funding windows for the GCF, and activities to be covered by each window? Number of thematic windows. How is the number of funding windows determined? What activities for each thematic window?

The number of thematic funding windows shall be determined by the obligations of developed country Parties under the Convention related to funding. These are for mitigation and adaptation activities to be undertaken by developing country Parties (Article 4.3, which refers to Article 4.1 obligations), meeting costs of adaptation for developing country Parties that are particularly vulnerable to the adverse effects of climate change (Article 4.4); and the transfer of, or access to environmentally-sound technologies and know-how, particularly to developing country Parties (Article 4.5).

Therefore, there should be three basic funding windows: for mitigation, adaptation, and development and transfer of technology. Each window could have sub-windows relating to these three main areas.

Activities to be funded:

1. Agreed full costs for the preparations of national communications (Article 4.3)
2. Agreed full incremental costs for the implementation of developing countries' commitments under Article 4.1 (a to j), covering:

- The development, application, and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol, in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors;

- sustainable management and conservation, and enhancements of sinks and reservoirs of all greenhouse gases, including biomass, forests and oceans, as well as other terrestrial, coastal and marine ecosystems;

- adaptation to the impacts of climate change, the development and elaboration of appropriate and integrated plans for coastal zone management, water resources and agriculture, and for the protection and rehabilitation of areas, particularly in Africa, affected by drought and desertification, as well as floods;

- scientific, technological, technical, socio-economic and other research, systematic observation and development of data archives related to the climate system and intended to further the understanding and to reduce or eliminate the remaining uncertainties regarding the causes, effects, magnitude and timing of climate change and the economic and social consequences of various response strategies;

- the full, open and prompt exchange of relevant scientific, technological, technical, socio-economic and legal information related to the climate system and climate change, and to the economic and social consequences of response strategies; and

- education, training and public awareness related to climate change, including the encouragement of the widest participation in this process, including that of non-governmental organizations.

Financing shall likewise be provided for capacity-building and risk management, including insurance (Article 4.8) and the implementation of action programmes developed under the Convention, such as National Adaptation Plans of Action of least-developed countries (LDCs), and technology needs assessments (TNAs).

Additional activities identified in Decision 1/CP.16 such as nationally-appropriate mitigation actions (NAMAs), should likewise be financed through the GCF, as well as increased reporting functions for developing country Parties, in accordance with Article 4.3.

Balanced allocation between adaptation and mitigation

The GCF should address the historical imbalance of the provision of financial resources in favor of mitigation, and ensure that at least half of any financial resources handled by the GCF should be for adaptation, with no funds specifically earmarked for mitigation alone. The GCF will follow the guidance of the COP on its policies, programme priorities and eligibility criteria.

According to Article 4.4, developing country Parties that are particularly vulnerable to the adverse effects of climate change shall be assisted in meeting costs of adaptation to those adverse effects.

The Convention recognizes that low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas and liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems are particularly vulnerable to the adverse effects of climate change (Preamble, para. 19).

Furthermore, Article 4.8 provides for the full consideration in actions related to funding, insurance, and transfer of technology to developing country Parties arising from the adverse impacts of climate change and/or the impact of the implementation of response measures, and lists these special situations.

Size and Scalability

There can be no comparability with existing funds that are outside of the framework of the financial mechanism of the Convention, and that are not linked to any determination of funding necessary for the implementation of the Convention. The size of the fund can only be determined by this criterion and the needs identified by developing countries in their national communications and financing needs assessments conducted under the Convention.

Legal arrangements to be concluded with the GCF as an operating entity of the financial mechanism of the Convention include the "determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed (Article 11.3 –d)." Documents have been prepared by the UNFCCC on this matter. There have also been studies made by institutions outside of the Convention. All these could be taken into account in determining the amount of funding necessary for the GCF.

Initial capitalization of the GCF should be provided through assessed contributions (the G77 and China proposal states that this should be at least 1.5% of the combined GDP of developed country Parties), that would take into account respective responsibilities for historical emissions which caused the problem of climate change as well as appropriate burden-sharing among developed country Parties, taking into account the need for adequacy and predictability in the flow of funds (Article 4.3).

The GCF could receive funds from innovative sources, including those agreed under the Convention, untied contributions from private, philanthropic organizations, as well as other contributions. As in the Multilateral Fund of the Montreal Protocol model, developed country Parties could also make available a definite percentage of their bilateral funding to climate change through the GCF.

"Country-led and results-based approaches"

As previously stated, these concepts are not included either in the Convention, the Bali Action Plan, Decision 1/CP.16 nor included in the TOR of the TC. Furthermore, these are operational guidelines that would fall under the mandate of the Board of the GCF, in accordance with the guidance provided by the COP. The TC cannot prejudge this COP guidance and should not micro-manage the fund.

Moreover, the term “country-led” implies something different from “county-driven”, the principle which is clearly defined in this submission under “Principles” of the Fund. The linkage made between “country-led” is not in the TOR, as contained in para.1 (h) of Annex III of Decision 1/CP.16.

Para. 1(h) distinguishes between the mechanisms to ensure “financial accountability and the performance of activities supported by the Fund”, mechanisms “to ensure the application of environmental and social safeguards”, and the “internationally accepted fiduciary standards and sound financial management to the fund activities.”

Care must be taken by the TC not to interpret and to cite accurately the decisions of the COP.

“Complementarity and value added”

Here too, care must be taken to cite accurately the TOR. In this case, the TOR does not mention “value-added”, and it states that the TC shall develop operational documents on “methods to enhance complementarity”, and NOT to “ensure” it as stated in this questionnaire. This means that where this can be done, methods could be made to do enhance any complementarity, but it does not prescribe complementarity.

The GCF is the only fund dedicated to climate change, and where other funds deal or claim to deal with climate change financing, then one could see where these funds can enhance the complementarity of these funds with the activities of the GCF.

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

Operational principles of the Green Climate Fund

The Green Climate Fund is differentiated from existing climate funds as it is the first global fund specialized for climate change adaptation and mitigation. Therefore, prior to setting principles, it is necessary to analyze advantages and disadvantages of existing funds and fully understand how they have been operated.

Improving accessibility to climate funds

There is a need to identify advantages and disadvantages of access modalities of existing funds such as the GEF, Adaptation Fund and GFATM and seek measures to improve accessibility to climate funds. Regarding ways to utilize recipient country's own system, it would be desirable to identify recipient countries' institutions and practices related to finance allocation, and also have discussions on their financial systems and institutional capacity building.

Recipient country-led approach
The Fund should be operated in accordance with recipient countries' development strategies and priorities. Discussions on measures to set national development strategies which take into account impacts of climate change in recipient countries are needed. It is generally considered that various donor-led support programs for poverty reduction and development have had rather negative influences on recipient countries. Recognizing such problem, international community adopted the Paris Declaration on aid effectiveness. In particular, projects should not end in one-off programs decided by comparative advantages or interests of donor countries.

Outcome-based approach
The Fund should not just put focus on the input and output, but also the outcome and impact of financial support provided. It is also necessary to analyze existing bilateral and multilateral monitoring and evaluation methods to develop new ones suited for the GCF, and have discussions on who should be an independent entity in charge. Meanwhile, given the environmental and social costs caused in the mitigation or adaptation efforts (e.g. sustaining bio-diversity, sustainable agriculture, migration, etc.), going through processes before decision making like evaluation of environmental impacts is important.

VI: Submission by Mr. Ali'ioaigi Feturi Elisaia (Samoa)

Statement of purpose for the green climate fund purpose, principles and scope

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.

VII. Submission by Mr. Ahmed Mohammed Al-Abdulkader (Saudi Arabia)

SCOPE AND GUIDING PRINCIPLES:

1. Saudi Arabia visualizes the Green Climate Fund (GCF) as an efficient and robust financial instrumental model that should be operationalized under the authority and guidance, and be fully accountable to the COP to 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, and under Article (1.e) of Bali Action Plan.

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

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

   2.2. the vulnerability priority for all Developing countries Parties to the adverse impacts of climate change and the adverse impacts of response measures including economic diversification.

   2.3. the eligibility and direct access of all Developing country Parties to the financial resources.

   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.

I. SOURCES OF FUND:

1. Developed country Parties and other developed Parties included in Annex II are the ONLY legally binding committed to provide new, additional and predictable financial resources which is over and above the ODA to support enhanced actions on mitigation and adaptation in a balance and comprehensive manner.

2. Any funding pledged outside the UNFCCC shall not be regarded as a fulfillment of the legally binding commitments by Developed country Parties and other developed Parties included in Annex II under Article 4.3 of the Convention.

3. The GCF should be replenished through annual assessed contributions of the GDP of Developed country Parties and other developed Parties included in Annex II.

4. The public sector of the Developed country Parties and other developed Parties included in Annex II should be the major source of funds, and the private-sector financial sources should play a complementary role in addressing climate change.

5. The market-based mechanisms such as taxes, levies, and other mechanisms will put additional burdens and obligations on developing countries and will dilute the obligations of developed Parties. In such case, all costs prone to Developing country Parties due to the implementation of market based mechanisms should be covered fully by the Developed country Parties as stated in Article 4.7 of the Convention.

II. FUND WIDOWS UNDER the GCF:

1. The GCF should have thematic windows including Mitigation, adaptation, and technology transfer. These thematic windows should be incorporated during the designing process of the GCF to ensure the efficient operational fund.

2. Perceiving the substantial role of the Carbon Capture and Storage activities to reduce the GHG and to contribute towards achieving the ultimate objectives of the Convention, Saudi Arabia deems the importance of having a specified window for Carbon Capture and Storage under the GCF.

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

I. Submission by Ms. Audrey Joy Grant (Belize)

First submission of views from Belize, supported by Guyana

Governance and institutional arrangements

The Fund Board

- Election is by the COP.
- There must be equitable and balanced representation on the Board.

Fund Trustee

- The role of trustee is fiduciary management.
- The permanent Trustee should be decided by open bidding.

II. Submission by Mr. Rob Stewart (Canada)

Comments the draft work plan for Work stream II: Governance and Institutional Arrangements

In general, the work plan proposes a logical flow of work. There are, however, a few points that would merit close examination. Specifically, on questions raised in the workplan:

- *Legal and institutional arrangements*

  7 (i). The legal status of the GCF should be a function of what is necessary to deploy the financial instruments selected, whether the GCF should be able to raise capital from the markets, whether the GCF will have the capacity to enter into contractual relationships, and whether a shareholder model is to be applied.

  7 (ii). The form and content of the instruments that will be used to define the relationships between the GCF and implementing partners will depend on the legal status of the GCF

  7 (iii) The accountability relationship can be defined in an MoU between the COP and the GCF. The MoU between the GEF and the COP is a useful model.

- *The Board*

  8 (ii). The choices about the mandate and responsibilities of the Board are linked to the choices around the funding windows to be established and whether any more specific governance arrangements will be created for those windows.

- *The Secretariat*

  9 (i). The status of the secretariat should depend on the overall legal status of the GCF and, possibly, the relationship between the GCF and the trustee. In principle, the more independent the GCF is, the stronger the case for the secretariat having international legal status, along with appropriate privileges and immunities.

- *Trustee Arrangements*

  10 (iii). Given that the interim trustee will be the World Bank, it may be desirable to apply to the GCF the internationally accepted fiduciary standards that are used at the World Bank.

- *Coherence with other operating entities*

  11 (i) . Prima facie, it is not possible right now to anticipate a specific relationship between the GCF and the Standing Committee. The Standing Committee's main role is to assist the COP, not to have specific relationships with the financial mechanism. In addition, the precise roles and functions of the Standing Committee have yet to be defined.

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

This is a good workplan. It is very helpful to breakdown the workstream into these five components, and to have such a clear timetable. I have one general comment and a few detailed comments.

My general comment is that for the GCF, form must follow function - we will want to have a view of the instruments, windows and structure of the fund before we decide about the secretariat or the role of the board. The links and sequencing with workstream 3 will be particularly important.

Specific comments:

- Under b) workstream 2.2, we might consider the process for selecting, the role and the status of the resident/chair of the board.

- Under d) workstream 2.4, we should not exclude the possibility that the trustee might be in-house, rather than a separate organisation.

- Under e) workstream 2.5 - the chapeau should also mention 'development finance', as in the sub-workstream title.

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

I. Submission by Ms. Audrey Joy Grant (Belize)

First submission of views from Belize, supported by Guyana

Workstream III: Operational Modalities

Sub-workstream III.1: Finance entry points

Modalities for contributions to the Fund

- The Fund should be designed to be able to accept a wide range of sources, both public and private, and to accept a wide range of funding modalities including grants, investments etc.
- The fund must be flexible enough to receive contributions from both state and non-state actors. Must have the flexibility to designate windows for earmarked contributions.
- In this regard, we support the establishment of windows for mitigation, adaptation and REDD plus.

Methods to mobilize financing and the processes and sources might be used to raise funding

- Attention should be given to the UN SG's Advisory Group on Finance report of November 2010. In particular, the following should be noted:

  - $2bn -$27bn could be raised from financial transaction taxes on foreign exchange,
  - $4bn to $9bn from maritime shipping levies.
  - $2bn to $3bn from aviation levies.
  - $3bn to $8bn from removal of fossil fuel subsidies.
  - $8bn to $38bn from auctioning carbon allowances.
  - New carbon-based public instruments and a carbon price in the range of $20 to $25 a tonne of carbon dioxide equivalent in 2020" are also seen as key elements.

- Public sources should constitute the primary source of financing. This should be effected through direct contributions from Annex II governments. Contributions should be based on an Assessed scale of contributions from Annex II Governments. A replenishment period that can be reviewed periodically should be agreed.

- A percentage from Joint implementation activities, and assigned percentage of the carbon market revenues in Annex II countries.

- Other sources from the private sector and foundations can provide supplementary sources.

Methods to mobilize and leverage private sector finance and incentives to engage the private sector.

- Should seek to maximize private sector co-investment. Can consider private co-investment loan guarantees, equity fund investments, guaranteed carbon prices among other things.

- The Fund should consider how to incentivize private finance in regions with poorly developed financial markets as well as how to design programs that improve regional financing.

- A carbon price, such as 20-25 per ton is critical to incentivizing private sector participation.

SubStream 3.3 Access modalities and finance

Thematic funding windows

- The Fund should be designed with three funding windows for a) mitigation, b) adaptation and c) REDD+ .
- In mitigation, activities which can initiate transformational changes should be given priority.
- In REDD+, support should be given to results-based actions that are measured, reported and verified (phase 3).
- In adaptation, primary attention should be paid to small island and coastal low lying developing states.
- Support should also be given to integrated climate change approaches, such as low-carbon/climate-resilient development strategies.

Flexibility in the number of thematic windows.

- The Board should have the flexibility to add windows or sub windows for certain financial instruments (e.g. loan guarantees) or for access modalities (e.g. the private sector), and to facilitate speedy implementation of projects and programmes.

Balanced allocation between adaptation and mitigation

- Allocations between adaptation and mitigation should be balanced; recognizing that there are challenges to striking an exact balance, the Board should seek to strike that balance as far as feasible.

- In allocating adaptation funds, priority should be given to vulnerable small island and coastal low lying developing countries where livelihoods are at risk.

Direct access

- Simplified and direct access to financial resources with minimized processing time and transaction costs.

II. Submission by Mr. Rob Stewart (Canada)

Comments on the draft work plan for Work stream III: Operational Modalities

The work stream focuses on very important matters that will have a large influence over the design of the GCF. In advance of the first workshop, we have focused our comments on finance entry points but we may have further comments on the work plan ahead of the second meeting of the Transitional Committee.

I. Comments on issues related to sub-Workstream III.1: Finance entry points

The questions raised in this sub-works stream on finance entry points outlines key issues that will need to be addressed in the design of the GCF. Given the limited public resources available, the role of private finance will be critical in meeting the climate change financing needs.

There are several options for both the modalities for contributions and for methods to mobilize and leverage private sector finance. Canada's submission for the first workshop aims at highlighting some of these options and presenting examples of recent initiatives in climate finance. Given the importance of these questions, we would support further work by the TSU on the advantages and disadvantages of different options for contributions modalities and methods to mobilize and leverage private sector finance.

Modalities for contributions to the Fund

Canada supports a Green Climate fund that would be able to raise funds from a variety of sources, including effective mobilization of private finance.

Processes and sources to raise funding for the GCF

The processes to raise resources for the GCF will vary depending on the type of institution created. In a trust fund model, multi-year replenishment cycles or ongoing funding processes could be established. While a multi-year cycle would have the benefit of bringing some predictability within the replenishment cycles, each cycle would maintain some uncertainty in the amounts that will be pledged. By contrast, an ongoing funding process would bring predictability in the GCF's resources, but is unlikely at this stage to be politically feasible.

A model more similar to a development bank would see various funding windows established, with each window offering different financing terms, and possibly raising resources through different sources. Some windows could be self-sustaining while others could be funded through a combination of donor contributions and transfers from self-sustaining windows. This model would have the benefit of maximizing total mobilization of finance for any given level of public funding contribution.

The modalities for contributions to the Fund would need to be addressed in the legal instruments(s) that underpin the GCF.

Methods to mobilise and leverage private sector finance, both foreign and domestic

Private sector investment decisions are based on the risk-adjusted return expected from these investments, with the desired returns commensurate to the perceived risk of the investment.

Private sector investments in climate change can be leveraged by having public resources addressing the risk-return imbalance that often occurs in this sector by using diverse instruments – i.e., guarantees, insurance, equity, or having public investment covering the riskier portion of a project through concessional loans or grants, subordinated debt, etc.

Other instruments could be used by the GCF to raise private sector finance directly for its operations. For example, so-called "green bonds" have been issued by the World Bank, offer a fixed income to investors on the basis of investments by the institution in climate solutions.

How the GCF could raise funds from the capital markets?

The attractiveness financial products that would be issued by, or on behalf of, the GCF, would largely depend on the demonstrated climate change impact of projects supported and the capital structure of the institution issuing the instrument.

Therefore, either the GCF will need to have its own capital, which implies a number of institutional and legal capabilities of its own, or, there might need to be a way for capital at an existing institution to be used/increased with some ring-fencing for GCF activities, which will require a different set of arrangements to be addressed. The TC could consider both possibilities based on technical input provided by the TSU. For example, it may be useful for the TSU to undertake an analysis of the arrangements and governance structures in existing international funds that have their own capital or partner with other bodies to access capital.

How to improve the delivery of private finance?

Because private sector investments tend to flow where policy and regulatory frameworks are stable, strong and transparent, additional capacity building may need to be provided to developing countries to assist them in their efforts to enhance the mobilization of domestic and international finance towards climate change projects, and to strengthen the ability of financial market actors and of financial institutions in developing countries to identify, assess and structure financing for climate-friendly projects, such as in the areas of energy efficiency and renewable energy.

Examples of Canadian initiatives leveraging private sector funding

As an illustration of how public institutions can be effectively used to mobilize private financing, two Canadian examples, one international, and one domestic, are provided in the Appendix to this document. These offer useful potential approaches and lessons learned which might be usefully analysed by the TSU.

Examples of Canadian approaches to mobilizing private investment

As part of its fast-track commitment, Canada provided the International Finance Corporation (IFC), a member of the World Bank Group, with $285.7 million to be used as concessional financing for a broad portfolio of clean energy projects in developing countries.

Canada's investments will support greenhouse gas abatement opportunities and will be deployed to catalyze private sector financing for clean energy projects. Canada will work with the IFC to track the amount of private investment directly mobilized by Canada's public finance investments, as well as the emissions reductions achieved.

IFC will provide concessional financing with Canada's funds in accordance with the principle of providing the minimum concessionality needed to catalyze a given project. The pricing and terms offered to private sector clients will be tailored to address the barriers identified for each case and "crowd-in" private sector investments that would not happen otherwise. Concessional finance will also be deployed with a view to maximizing long-term financial sustainability and market transformation.

Canada also provided $5.8 million in grant financing to support IFC's Advisory Services to help remove barriers to private clean energy investment and build technical expertise. For example, this grant financing will support advice to financial institutions to strengthen their capacity to identify, assess and structure loans to energy efficiency and renewable energy projects.

Canada's contributions are being managed by IFC's Financial Mechanisms for Sustainability group, which deploys donor funds on concessional terms alongside IFC investments, as well as provides grant financing for technical assistance and capacity building.

To be eligible to receive concessional or grant financing from Canada's contributions, a project must satisfy IFC's standard criteria and due diligence.

On the domestic side, Canada has also implemented initiatives aiming at fostering the development of clean technologies by providing funding to address funding gaps in the innovation chain. Sustainable Development Technology Canada (SDTC) is an arm's-length foundation established in 2001 to finance and support the development and demonstration of clean technologies on a not-for-profit basis. The SD Tech Fund, launched in 2002, supports late-stage technology development and pre-commercial demonstration projects (i.e., advanced beyond the research and development stage, but still unproven) that address climate change, air quality, clean water, and clean soil. The Government has provided SDTC with $550 million to date for this Fund.

To date, SDTC has completed seventeen funding rounds and allocated a total of $515 million to 210 projects. This amount has been leveraged with an additional $1.2 billion in funding from other project partners for a total project value of $1.8 billion. Of those contributions, some 83 percent come from private sources. Independent evaluation suggests that SDTC has successfully assisted promising technology companies to develop and demonstrate their products, and did not appear to be displacing or crowding out private funding.

III. Submission by Mr. Per Callesen (Denmark)

Initial thoughts and considerations from Denmark and the Netherlands on issues related to sub-workstream III.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?

Public funding forms may include paid in capital or guaranteed capital. 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, via for instance representation in the Board.

See attached Annex for an example of joint public private partnership.

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?

Links to the general discussion on long term sources of financing. At this stage no a firm position on these issues. General guidelines are that funding mechanisms should comply with the following criteria:

- respect national budgetary rules;
- are consistent with sustainable public finance practices;
- are predictable;
- can be mobilized at scale.
- Closely linked to the polluter pays

Methods to mobilise 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?

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).

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?

Yes, especially Green Bonds or Green NAMA bonds could be possible mechanisms to consider, as long as the risks for donor bodies (governments, foundations) are transparent and capped.

5. How can the modalities of public-private engagement be optimised, including timing of engagement, aligning project cycles, pre-investment activities, linkages to the carbon markets and other operational issues?

Intensive consultation with the private sector is required to answer this question. Means for private sector representatives to structurally and meaningfully influence the Fund's decision-making processes will be key to insuring that continuous coherence between public and private sector investors.

A key 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.

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

Close cooperation with 'regular' development agencies/programs is required in order to further develop and improve the general business and investment climate in developing nations.

Blending of private FDI with loans/grants of MDB's can help leverage risks.

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. 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 wide-ranging 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.

IV. Submission by Mr. Manfred Konukiewitz (Germany)

Private Sector Input to the Members of the Transitional Committee
Workstream III
A Discussion Note by
Dr. Sabine Miltner, Group Sustainability Officer, Deutsche Bank/
Dr. Armin Sandhoevel, CEO, Allianz Climate Solutions GmbH

May 20, 2011

Although private capital is flowing into the climate change-related sectors, it needs to be significantly scaled up. At present, the scale of domestic and international private investment in climate-related activities in developing countries is seriously constrained by both activity specific and country-specific barriers that adversely affect the attractiveness of such investments, either in terms of the adequacy of returns or unmanageable risk.

Increased private flows to mitigation and adaptation activities in developing countries in 2020 will depend on the extent to which these investments become attractive relative to other opportunities.

The attractiveness of private investment will depend on three key factors:

- Firstly, the existence of an appropriate domestic policy framework and enabling environment, with transparency, longevity, and certainty (“TLC”) of policy at its heart. This includes a functioning domestic financial sector, a system of land titles / deeds, the rule of law through the courts, the presence of project developers and existence of a project pipeline.
- Secondly, risk reduction mechanisms that address a series of real and perceived risks in the space. These include political risk, currency / FX risk, regulatory and policy risk, execution risk, technology risk, and unfamiliarity risk.
- And thirdly, the availability of revenue support and concessional instruments, which correct for externalities and can make climate-related investments more attractive than other opportunities.

International support can, and should, be brought to bear against each of these factors depending on the national context in question.

1. Appropriate domestic policy framework and enabling environment

As a precondition to any capital mobilisation, domestic conditions need to be conducive for investment. In many cases, autonomous domestic government measures can assist in bringing about a conducive domestic investment environment. These measures include:

- Environmental regulation, including pollution standards and regulations, public disclosure of information related to environmental impact, elimination of implicit subsidies for climate-risky behaviour, and improved sector governance and monitoring. Current status: variable across countries
- Energy regulation, including energy price reforms, elimination of fossil fuel subsidies, building efficiency codes, end use efficiency standards, efficiency certification / labels, power sector reforms, and improved grid access for renewables. Current status: variable across countries
- Regulation to establish the domestic financial sector, rule of law and land titles / deeds, the rule of law through the courts. Current status: variable across countries
- Establishment of an independent transnational arbitration court that is responsible to solve issues between e.g. investors and project developers. Current status: not existing

Beyond those measures that domestic governments can take themselves, there is a range of international support available. This includes:

- Technical assistance measures provided multilaterally through the MDBs or UN agencies, or bilaterally through bilateral finance institutions or technical agencies. Technical assistance can encompass individual measures, such as initial market studies, energy audits, wind mapping, feasibility studies, and facilitated licensing and procurement – and development of comprehensive low carbon development plans. Current status: exists but needs scaling up

- Development policy loans, which are increasingly being used as an integrating platform for climate change policy and programmatic initiatives. The report of AGF Workstream 7 noted that in the past two years, ten development policy loans with climate change components were approved by the World Bank's board. Current status: exists but needs scaling up
- Anchor investments from MDBs, bilateral development banks, and export credit agencies. These are desirable because the MDBs maintain a set of safeguards and other policy standards (e.g. fiduciary, procurement, environmental / social, consultation, disclosure) as well as post-Board supervision and quality assurance audits that reduce risks for commercial banks and other investors that are part of the financing package. Current status: exists but needs scaling up

Additionally there are some potential issues that have to be tackled with combined efforts of domestic governments, international support as well as the domestic and foreign private sector:

- Existence of a project pipeline, presence of project developers in country, domestic and foreign due diligence teams that can evaluate projects. Capacity building will be important to enable the GCF and investors to find sufficient suitable investment opportunities. Current status: exists but needs scaling up

2. Risk reduction mechanisms

Even with a conducive domestic environment, climate investments may not occur if risk management tools are unavailable, over-priced, or if risks are assigned to entities that are not well-equipped to manage them. A range of instruments are available to deal with these risks. These include:

- Policy guarantees, which include guarantees offered either by the host government or by bilateral or multilateral institutions. Current status: exists but needs scaling up
- Country and macro-economic risk insurance investments, which are available to investors, contractors, exporters and financial institutions involved in international transactions. Where commercial risk insurance is unavailable, it can be provided by public institutions such as MIGA and OPIC. Current status: exists but needs scaling up
- Foreign exchange risk hedging tools, including The Currency Exchange Fund (TCX) that was launched in September, 2007 by development finance institutions and commercial banks from European and African countries. Current status: exists but needs scaling up
- Loan guarantees from multilateral or bilateral institutions, which reduce the risk that a loan will not be fully repaid. Current status: exists but needs scaling up
- Facilities that establish local investment guidelines according to domestic policies and regulations and evaluate proposed projects to reduce technology, unfamiliarity and execution risks. Current status: exists but needs scaling up

3. Revenue support and concessional instruments

When risk-adjusted returns are not attractive, normally due to market failures, revenue support and concessional instruments can be deployed. These include:

- Advanced market commitments (AMCs), which make investments more attractive by ensuring investors upfront a minimum market demand and / or price for a product or service that meets certain specifications. Feed-in tariffs are a prime category of AMCs for renewable energy, but must be carefully crafted to avoid the erosion of political support (cf. Spain). Current status: embryonic
- Bilateral or multilateral investment grants, which can be used to address the carbon externality and other factors that are not adequately priced in. Current status: exists but needs scaling up
- Concessional debt finance, which lowers the cost of debt and is often drawn from multi-donor trust funds including the CTF, GEF, PPCR and SREP, as well as bilateral assistance agencies. Current status: exists but needs scaling up
- Equity and guarantees financed via grants. According to the IFC's Financial Mechanisms for Sustainability, equity and guarantees financed via grant funds can lead to a leverage of 1:20. Current status: exists but needs scaling up

- Donor-financed climate funds, which, from experience with the multi-donor Climate Investment Funds, show that every dollar of spending results in about $3 in private sector investment for sovereign guaranteed projects and $8.5 of private sector investment for private sector sponsored projects. Current status: exists but needs scaling up
- Grant-based technical assistance, which can assist the private sector in overcoming market-entry and start-up barriers. Current status: exists but needs scaling up
- Market based mechanisms like CDM or voluntary carbon markets (including REED) can be used to price externalities and can be used to increase returns and offset carbon emissions. Current status: exists but needs scaling up

Developing comprehensive strategies to unlock investment

Individual interventions can be used to build more comprehensive strategies to stimulate private investment. The instruments to be blended will depend on project characteristics and investor needs. These can include:

- For measures with negative net costs, but facing capital constraints, interventions like the IFC's China Utility Energy Efficiency Programme and the EBRD's Bulgaria Sustainable Energy Financing Facility have combined technical assistance and risk mitigation instruments to unlock significant investment. Current status: exists but needs scaling up
- For measures with modest costs, packages that combine instruments in scalable, replicable public-private fund structures have great promise. The Global Climate Partnership Fund, which was established by the German Environment Ministry and KfW, and has recently received an additional investment of $87 million from the IFC and Danish Foreign Ministry, is a promising facility to take this work forward. And Deutsche Bank's "GET FiT" programme is a comprehensive approach to create the on-the-ground capacity to deliver, aggregating capacity building with risk reduction and revenue support mechanisms. Current status: embryonic
- For measures with significant cost, grant-based funding, especially for R&D, should be prioritised for those measures that have the most potential for costs to come down over time as they scale. Current status: embryonic

Recommendations

- Areas marked as embryonic or with an identified need for scaling up should be tackled individually to make the GCF successful over the long term.
- An overall target should be to create investment opportunities with attractive risk adjusted returns that can compete with mainstream investment opportunities to attract private capital. Green Bonds are a good example of such an investment opportunity as they fit into existing (investment and financing) processes, complexity is low, they address the needs of private investors, can deliver attractive risk / return profiles and make mainstreaming possible.
- In designing the institution(s) that private investors will interact with and the packages of interventions that will be available to them, complexity should be avoided, as it is a deterrent to private investment.
- Transparency, longevity, and certainty ("TLC") should be at the heart of the institutional design of the Green Climate Fund.
- A cross-collateralized umbrella fund structure could be used to attract domestic as well as foreign investment. Domestic investors could choose to invest in their home country's subfund directly while foreign investors are expected to prefer investments in the umbrella fund due to higher diversification of risks. The umbrella fund would have the highest possible flexibility in its investment decisions and should be allowed to invest in / co-invest alongside existing climate funds and financing facilities.

V. Submission by Ms. Bernarditas Muller (Philippines)

RESPONSES TO QUESTIONS ON ISSUES RELATED TO SUB-WORKSTREAM III.1: Finance Entry Points

Submission by Bernarditas Muller, TC Member (Asia)
June 5, 2011

ON QUESTIONS ON ISSUES RELATED TO SUB-WORKSTREAM III.1 : Finance Entry Points
TOR : Para.1 (c)

"Method to manage large-scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of achieving balanced allocation between adaptation and mitigation."

- to address the historical imbalance of financing for adaptation under the Convention, as adverse effects continue to rise, both in frequency and intensity, causing untold damage to lives and the social and economic conditions of developing countries which contributed the least to the problem of climate change but which are the least able to cope with its adverse effects.

On questions 1 and 2: (Note that out of six questions, four are devoted to the role of the private sector, thus this questionnaire is completely imbalanced)

1. In line with the principles and provisions of the Convention, the basic source of financing for the GCF would be the public sector, through regular assessed contributions, taking into account historical responsibilities and whatever long-term goal would be agreed under the Convention.

Financing necessary for the achievement of the objective of the Convention would need to be determined regularly as the financing needs of developing countries would be directly linked to whether the mitigation commitments are going to be fulfilled. The adaptation needs would have to be determined through vulnerability assessments and scientific assessments of the action needed to address the adverse effects of climate change.

2. Other sources would be supplementary to this basic source of financing, such as voluntary contributions, both public and private, and other agreed sources such as a global tax on emissions.

3. The GCF Board would need to be endowed with legal capacity to enter into agreements to receive, and also to allot funds to other legal entities.

4. Predictability of funding, meaning its accessibility and not mere availability, can only be achieved through assessed contributions. Pledges could likewise be received from other sources, to be fulfilled at regular intervals to allow for long-term planning in climate change mitigation or adaptation projects.

5. Direct access is essential to allow for a balanced allocation of resources to mitigation and adaptation. Funding should be country-driven and demand-driven.

6. Direct access would also ensure equal access for all developing country Parties, thus allowing inclusivity and universality, contrary to some financing institutions outside of the framework of the financial mechanism under the Convention.

On questions 3 to 6- the role of the private sector and the use of market mechanisms

7. The use of market mechanisms should ensure environmental additionality, and not merely transfer of emissions through offsets. The use of market-based instruments should likewise be subject to the guidance provided by the COP.

8. Grants cannot be used to leverage loans, and loans cannot be offered as co-financing in order to access grant funding. These practices merely sink developing countries deeper into debt, and do not necessarily enable them to address climate change.

9. Sources of funding and uses of funding are the mainstreams of a Fund. Uses of funds should be determined by the users of these funds. This is what is meant by truly country-driven, demand-driven financing. Financial needs assessments, mechanisms for which already exist and are being used under the Convention, should drive the amount of funding necessary for the GCF to fulfill its objective.

10. All developing countries must have equal access to funds. Direct access would not only be cost-effective, but ultimately effective climate change financing. If one is looking at community-level implementation, in particular of adaptation, the grant instrument is the most obvious modality. Not generally considered “bankable” because they do not have collaterals, and adaptation activities are non-revenue generating, these potential implementors and the ultimate beneficiaries cannot easily access loan facilities, no matter how concessional. Private sector financing does not take this into account, and therefore must be enabled by their respective public sector, through regulatory mechanisms, such as incentives, to undertake such activities.

11. Private investments must internalize costs of the emissions arising from their investments, whether extractive industries or manufacturing, otherwise they will only exacerbate the problem of climate change instead of helping address it. Investments cause emissions that are “credited” to the host country of investments, and these are called “transfer emissions”. In some cases, they also produce hazardous wastes for which developing countries do not have the capability for either disposal or recycling. All the costs for these should be added to the costs of investments made.

12. On “delivery of private finance in regions with poorly developed financial markets”: It is not so much that countries have “poorly-developed financial markets” but that private sector financing, mainly profit-oriented, goes only to developing countries with developed financial markets. Thus, private finance is not suitable for climate change financing which is aimed at enabling all developing country Parties to meet the challenge of climate change and its adverse effects.

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

I. Submission by Mr. Rob Stewart (Canada)

Comments on draft Terms of Reference for Work stream IV: Monitoring and Evaluation

In addition to asking the TSU to provide all relevant decisions from Cancun, we could task the TSU with providing a comparative analysis of the evaluation, monitoring, accountability and fiduciary standards in existing institutions and Funds. Such analysis could form the basis for the discussion under this work stream.

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

It would be useful to see the timeline of when each of these issues will be considered - at the technical workshops and in the Transitional Committee meetings. I would also welcome the opportunity to comment on terms of reference for any work the Technical Support Unit is tasked to carry out under this workstream.

CHAPTER V: OTHER SUBMISSIONS

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

27 May 2011

1. Objectives and principles

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

Objectives

- The Green Climate Fund (GCF) should be country driven, managed and implemented by the beneficiaries while ensuring the application of internationally accepted fiduciary standards.
- The Green Climate Fund (GCF) should be complementary to existing tools and not duplicate any other already existing climate finance instrument.
- The GCF should provide high added value through innovative instruments for the financing of pilot or demonstration projects and / or programmes. It should aim at filling identified gaps in climate financing and identify the most relevant strategies and practices to tackle adaptation, mitigation and forestry, as well as capacity building and technology cooperation as cross-cutting issues.
- It should provide seed money for climate actions and investments. It should catalyze transformational change by attracting investments from other financing institutions and the private sector.
- The GCF should be instrumental in supporting beneficiary countries who are implementing decisions and actions agreed in the UNFCCC negotiations.
- The GCF should address all types of climate relevant actions. In order to so, it should improve the dialogue between all stakeholders (public, private and other non-state actors).
- Actions financed by the fund should take account of natural resource conservation, in particular biodiversity protection, and other environmental concerns.
- The GCF should be highly flexible and predictable in order to deliver quickly and to achieve the efficiency needed.
- The fund should aim at a balanced allocation between adaptation and mitigation in relation with the number, size and quality of the projects and programmes directly submitted by the beneficiaries.

16. Some broad objectives and guiding principles of the GCF have been agreed in the decision 1/CP.16, Cancun Agreements (see annex below) How can these be further developed, enhanced and operationalized?

Principles

- The GCF should make efficient use of resources.
- The GCF should deliver quickly and be responsive to the needs of beneficiaries. In this regard, the fund should be highly flexible and predictable.
- The GCF should be able to deal with a large variety of projects, in particular, by utilising a wide range of financing instruments including the provision of technical assistance.

- Developing countries should manage and implement the resources devoted to their projects and programmes. They should propose a suitable methodology in line with internationally accepted fiduciary standards, and, if appropriate, an implementing partner, in order to effectively reach objectives and deliver quick and appropriate results.

- The GCF should finance innovative pilot projects, which could be used as models of best practice to be reproduced in other countries and regions.

- The GCF should seek environmental and social co-benefits in the actions it finances and apply environmental and social safeguards.

- All projects and programmes financed by the GCF should be subject to regular operational and financial reporting and impact achieved with regard to climate objectives. A final evaluation of results and impacts achieved should be foreseen for each project and programme financed.

- The GCF should be managed in a fully transparent way with a comprehensive and clear reporting on donor and beneficiary commitments, funds disbursed, results achieved, thematic categories of projects (mitigation, adaptation, forest, …) and financing instruments (grants, loans, risk guarantees, technical assistance). All interested Parties and in particular civil society and non-state actors should receive access to this information in full transparency and without any restriction.

- Stakeholder input and participation should be systematically ensured in the operation of the GCF.

2. Thematic scope

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

- The fund could have thematic funding windows for mitigation, adaptation and REDD+. Capacity building, technology development and transfer could be integrated into the funding windows as cross-cutting activities. In order to remain flexible and efficient, three windows could be opened progressively in relation with the needs and the development of the fund. Too much rigidity and compartmentalization of the fund should be avoided.

18. 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 number of windows should remain manageable and address the key thematic orientation as provided for by the Cancun Agreements.

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

- This balance should be achieved in relation to the number, volume, quality and content of projects and programmes presented by the beneficiaries and finally selected for financing.

3. Size and scalability

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

- The size of the GCF should depend on the intervention parameters to be decided: objectives and scope of the fund, thematic content, complementarity with other financing instruments, delivery systems, etc.

- Thus, the size of the fund should not be decided abstractly at the start of the operation. When all parameters are clear, a realistic estimate of the size of the fund will be possible.

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

- The ex-ante definition of the size of the fund would be a theoretical exercise without credibility, as long as the objectives, implementation instruments, results expected, delivery mechanisms, channels to be used and the complementarity with other financial instruments have not been clearly defined and decided. Moreover, the results of the negotiations, for example on REDD+, will influence parameters of the fund.

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

- It is logical and realistic to foresee a gradual increase of the funding channelled through the GCF in connection with 1) the development of beneficiaries' needs, activities and requests, 2) the progress in implementing results agreed under the UNFCCC, 3) the speed and absorption capacity of beneficiaries, 4) the speed and capacity of delivery by the fund, and 5) the results achieved.

4. Country-led results-based approaches

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

- The beneficiary countries should be the only ones empowered to present projects and programmes to the fund (except, exceptionally, for a limited number of pilot and innovative projects). Moreover, beneficiary countries should be fully responsible of the design, management and implementation of resources and projects or programmes, either directly or through implementing bodies designated by them.

- Actions financed by the fund should be fully integrated and based exclusively on the respective country's policy and strategy in the areas of a) low-emission development, b) adaptation / climate resilience and c) forestry, as foreseen within their own development strategy and multiannual programming.

- Access to the fund should be country-driven, based on clear procedures and criteria.

- Provided that quality and fiduciary standards of the implementing/ executing entities are fully guaranteed, the privileged mode of access should be direct access through nationally accredited entities.

24. 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?

- In order to ensure the respect of these safeguards and standards, it is necessary to establish ex-ante selection procedures, based on solid criteria and justifications, predictability and planning, ongoing satisfactory financial and operational monitoring and reporting, as well as evaluation of the final results delivered. If needed, financial auditing during the implementation, including on the spot audits should be performed.

25. 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?

- In order to simplify implementation, similar approaches should be used for each thematic area.

- In order to facilitate results based approaches, it would be appropriate to develop simple and effective standard criteria to measure, qualitatively and quantitatively, the results of each operation and programme.

- An important task of the GCF should be to identify and facilitate the dissemination of good practices.

5. Complementarity and value added

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

- The new fund should avoid duplicating existing financial instruments or funds and the standard financing channels and systems already used.

The added value of the fund should be providing innovative instruments, developing pilot projects and programmes, which might be used as models for replication and promote new ideas and approaches. The GCF's contribution should be considered as seed funding for investments by other public and private entities.