Submissions by members of the Transitional Committee

At the third meeting of the Transitional Committee (TC), the Co-Chair encouraged the members of the TC to provide, by 29 July 2011, their views and comments on issues raised at this meeting and those to be discussed at the next meeting.

As of 3 August 2011, the Secretary to the Transitional Committee received 12 additional submissions from members of the TC which are contained in this document and reproduced without formal editing.[1]

Compilations of previous submissions received from members of the Transitional Committee have been uploaded on UNFCCC website (http://unfccc.int/cancun_agreements/green_climate_fund/items/5868.php), and additional submissions will be uploaded as they are received.

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

Contents **Page**

CHAPTER I: SUBMISSIONS BY MEMBERS OF THE TRANSITIONAL COMMITTEE ON DIFFERENT WORKSTREAMS

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

(supported by Mr. Andrew Bishop, Guyana)

FOCUS ON DEVELOPING COUNTRIES

Significant progress is being made in designing the Green Climate Fund. The subsequent meetings of the Transitional Committee to Design the Green Climate Fund will focus on addressing and coming to agreement on the issues of divergence that are still outstanding.

I would like to ensure that we do not lose sight of our principal stakeholders who are developing countries, especially those that are currently experiencing the adverse effects of climate change. There are social, environmental and financial impacts from climate change that disproportionately affect rural communities and the poor. Governments are required to use funds that are earmarked for development activities, such as education and health, to cover the costs associated with individual catastrophic events from climate change such as more frequent and intense hurricanes and severe droughts. As a result, growth and development are severely impacted.

Funding has been provided for National Adaptation Plans of Actions which are designed to promote studies which should lead to detailed planning and capacity building endeavors with the ultimate objective of supporting the implementation of adaptation projects. There are similar initiatives ongoing on a bilateral and multilateral basis. However, these capacity building measures have concentrated on increasing human resources and updating skill sets within a narrow scope. It may be time and money well spent to do a comprehensive analysis of capacity constraints for the Government and the Non Governmental organizations in the most vulnerable countries such as small island developing States, low lying coastal countries and the least Developed countries to determine the impact that these programs have had in country. If necessary, we can develop capacity building programs that address the specific deficiencies and needs of individual countries and seek the funds for implementation. This will ensure that when the Green Climate Fund is established and capitalized, these countries will be in a position to access the funds and use them effectively in addressing climate change priorities to which they subscribe.

We also need to expand the traditional definition of capacity building to include the studies and financial projections that will allow us to prioritize the needs within countries and Regions. This information will allow the Green Climate Fund to be efficient in disbursing funds and effective in accomplishing strategic goals in country. The focus should be on comprehensive results that address the multiple sectoral effects of climate change. The Fund should be promoting the development of adaptive capacity which will lead to the implementation of sustainable projects and initiatives over time, for example, planning for new agriculture land to come under irrigation when rainfall is threatened or for large scale infrastructure changes to minimize the impacts of sea level rise on coastal areas.

Capacity building also includes the development of climate change awareness and of supportive behaviors and attitudes towards climate change solutions in prospective recipient countries. It may include the promotion of approaches between sectors to address climate change and of collaborative strategies and measures across multiple sectors. Adaptive capacity may differ widely from country to country so the need for flexibility with respect to the nature of capacity building initiatives supported must be recognized.

The Global Climate Fund, preferably working with others, has to ensure that developing countries can access funds in a timely manner. Funding allocation decisions should prioritize the needs of the most vulnerable countries and be linked to the development agenda. The successful implementation of projects should lead to meaningful changes on the ground that achieve measureable climate change results over time that directly and positively affect people, if results are to be lasting and sustainable.

Supplemental Submission by Ms. Audrey Joy Grant, Belize, supported by Guyana)

In May 2011, Belize made a submission to guide the design of the Green Climate Fund.

Following the offer for further submissions made at the Tokyo meeting of the Transitional Committee in July, Belize, (supported by Guyana) wishes to make an additional more specific submission.

Belize proposes that:

1. A certain number of windows should be established at the design stage of the Fund, and provision be made for the Board to add more specialized windows as the need arises and as the Fund evolves.

2. In this design stage, three windows should be established – Mitigation, Adaptation, and REDD Plus.

Belize further wishes to emphasize that REDD Plus is distinct and unique among the mitigation elements to warrant a dedicated window, and in support, we propose the following:

a. Deforestation and forest degradation accounts for almost one-fifth of all greenhouse gas emissions, and so actions within this sector can potentially account for almost one-fifth of the climate solution. No other mitigation area has comparable numbers.

b. It is demonstrated in the literature that REDD Plus is the most cost effective mitigation tool, and so worthy of immediate priority from a feasibility standpoint.

c. Some of the climate financing is earmarked for REDD Plus, and so a separate window is warranted.

d. Unlike mitigation areas such as energy and other technology related solutions which are in a state of development, REDD Plus is ready to go.

For these reasons, Belize urges that REDD Plus be assigned a programmatic window up front so as to facilitate early action when the Fund begins its operation.

II. Submission by Mr. Idrissa Ouedraogo (Burkina Faso)

Burkina Faso welcomes the opportunity to present additional views to the Transitional Committee for the design of the Green Climate Fund on various issues relating to the work of the Committee.

1. Definitions, Objectives, and Guiding Principles

The GCF must:

- Be transformational in scope
- Contribute to holding global temperature rises below 2C above pre-industrial levels
- Have a strong bottom-up emphasis throughout reflecting the sustainable development needs and priorities of developing countries.

As such, the GCF must disburse funds based on low-emission, climate-resilient development strategies. These funds must embed climate change in mainstream development and pro-MDG activities through both incremental and full-cost support and thus redirect major public and private financial flows.

The GCF instrument must specify the "institutional model" of the fund. To avoid duplication, the GCF should be a trust fund that delegates implementation to international and national entities (i.e. grants-based and using banks where needed to offer concessional finance). The GCF should be a fund that leverages the best elements of the existing architecture and also be able to directly disburse to recipient countries. Developing countries should be able to choose their partners from the range of options available, including from across the multilateral development agencies.
We also recognize and appreciate the reforms under GEF operations since its fourth replenishment and fully support its activities. As such, GCF should intervene to complement GEF strategy programs and fill the gap and cover unresolved or emerging issues.

2. Governance and Institutional Arrangements

The governance of the GCF must be light and flexible. It is important that the GCF Secretariat be fully independent with its major function being to service the Board and not becoming involved in direct implementation.
The GCF should strengthen and transform existing environment and development financial flows at the country level in a comprehensive and integrated manner. In-country designated GCF national authorities should be an essential part of this integration of activities. Such authorities could be responsible for preparing country programs, based on low-emission, climate-resilient development strategies, for approval by the GCF Board and then coordinating implementation among partners in-country, including multilateral development partners where they have a comparative advantage.

3. Operational Modalities

It is critical that the GCF supports countries to access and deliver climate finance and that the final instrument recognizes this. Recipient countries themselves should be capacitated to take investment and programming decisions rather than have decisions imposed on them in a top-down manner. This necessitates a strong focus on readiness, capacity building, and technical assistance. In particular:

- Strong support for building in-country institutional arrangements and frameworks to program and deliver climate finance, especially through direct access. This could be included through a dedicated readiness/preparatory facility
- Project and program technical assistance to build enabling environments that catalyze climate finance at scale, generate market transformations, and mobilize the private sector. These services should be a clear component of all the GCF funding windows.

We endorse the dedicated tasks allocation to agencies in such a way to enable them coming on board to assist recipient countries. In this context, UNDP will continue to operate for capacity building matters, the World Bank for investments and the UNEP for studies and research.

4. Methods to mobilize and leverage private sector finance and risk sharing

To mobilize and leverage private sector finance, policy-makers will have to combine different tools public policies. These instruments include among others, regulatory and institutional tools and fiscal incentives. Beside these instruments, we believe that the Public Private Partnership (PPP) framework can be an efficient method to mobilize private sector finance. In a PPP framework, risk and benefits are clearly defined all parties (both public sector and private sector) are aware of the risks to be taken and the benefit to be gain. It is advisable for the TSU to investigate this issue to see how the PPP framework can be used to leverage private finance for the GCF.

5. Monitoring and Evaluation & Environmental and Social Safeguards

The GCF must evaluate its contribution to the 2C goal defined in the Copenhagen Accord and Cancun Agreement. This evaluation should drive future programming decisions resource allocation. In addition, a key element of the transformational nature of GCF will be its ability to create development dividends from its programming. Monitoring and evaluation procedures should ensure that the GCF is not only guided by the greatest GHG reductions or price per tonne of carbon but instead the long-term sustainable development impact of its activities in developing countries.
The GCF should have robust and strong fiduciary standards that are consistent across delivery partners. The recently concluded “equivalency” analysis between UNDP and the World Bank in the context of UN-REDD and the Forest Carbon Partnership Facility is a major landmark here2. The programming and results indicators should also have a clear focus on promoting gender equity.

III. Submissions by Mr. Per Callesen (Denmark) and Mr. Richard Doornbosch (Advisor, The Netherlands)

When closing the meeting in Tokyo (TC-2) TC-members were encouraged to make additional submissions by the end of July. Denmark and The Netherlands appreciate this opportunity to provide further input to the work of the TC.
The submissions to the TC, the proceedings of TC-meetings, and not least the documentation prepared by the TSU for the meetings have made it possible to cover a wide range of substantial issues relevant to the design of the Fund.
We support the French proposal adopted by the Chair in TC-2 to task the TSU to write an analytical report on all themes deemed important by the TSU to consider for the design the GCF. We would be pleased to build on and learn from their expertise in our deliberations in TC-3 as there is a strong need for a more solid analytical foundation of our discussions.
We therefore suggest the TSU to draft - to the extent possible with respect to available resources – a document that highlights some of these key concepts, analyze and discuss pros and cons and the implications of these for the design of the new fund.
Although we would be pleased to be guided by the TSU on the issues that should be reflected upon in such report, we provide the following open-ended list of key concepts to be clarified covering he themes that are of particular interest to us:

Workstream 1 .Scope, guiding principles, and cross-cutting issues.
1. How could transformational be defined?
2. Should the GCF be able to integrate existing funds and how could this be done?
3. What is meant by performance based?
4. What is the implication of gender concerns in the context of climate change finance?

Workstream 2 .Governance and Institutional Arrangements.
5. What are the implications of legal personality or not?
6. Does the choice of instrument (grant, loan, guarantee) require a specific structure of the fund? How are long-term commitments best accommodated?

Workstream 3 .Operational Modalities.
7. What would be the (dis)advantages of a capital structure that would allow for the raising of funding on capital markets at the fund level?
8. How should financing windows be defined i.e. what is the purpose and value added of windows? What are the (dis)advantages of organizing the financing windows in the GCF around themes / instruments?
9. What is direct access? I.e. what are the specific modalities? What are the most important choices to be made with respect to these modalities? What are the (dis)advantages of the different options?

10. How do we define a national program/plan/strategy? How do we define a national program? How is allocation for – and outcome from – such a program assessed?
11. Could we clarify better what is meant by private sector contributions/leverage/blending/ innovative finance? Who will participate (funds, local business associations) in such private sector contributions and how will these contributions be measured?
12. Design options and issues to mobilize private finance at scale.
13. How could innovative programmatic approaches be structured in the fund? How will they help bundle relatively small projects in order to achieve scale?

IV. Submission by Mr. Rémy Rioux (France)

As outlined in TC2, we would like the TSU to be tasked with a clear mandate in order to provide the TC with a better view of the different funds models that could be adopted for the Green Climate Fund. We consider that there is a strong need for the TC to be supported by technical works that will give solid analytical basis for our future discussions.

In this context, we support the submissions by Mr. Callesen and Mr. Doornbosch on this issue and in addition to it, we would like the TSU to provide us, for the next TC meeting in Geneva, with a report that could provide enough analytical information regarding three main issues that seem to us important for the TC to decide on the overall principles of the design of the Green Fund:

1/ **A synthetic "mapping" of climate finance** including: the activities/project/programs that are currently financed (for mitigation, adaptation, REDD+, support to public policies and capacity building, etc.), the main types of actors that implement such activities/project/programs, the overall amount of funding provided internationally and the main financial instruments used for each type of activities. This mapping should lead to identification of the different existing financing and implementing channels as well as of the shortcomings and ways to improve the current climate finance architecture. This would also help analyze the ways the GCF could add value to the existing architecture and have a transformational impact.

2/ The **different modalities** the GCF could use to allocate funds in order to achieve this transformational objective, while ensuring that such funds are allocated in an optimal and efficient way according to a results-based approach, and leverage international resources with an adequate range of financial instruments so as to cover the needs both at the national or regional level and for public and private type of projects. This would include an analysis of the ways the GCF could rely on all the existing actors (national, bilateral, regional and multilateral; public and private; financial and non-financial actors).The analysis could also include an assessment of the financial instruments, mechanisms and coordination systems that could be developed to ensure an optimal allocation of funds through a variety of actors. This chapter should put a special emphasis on the engagement of the private sector, the possible links with carbon markets (for example a crediting mechanism, drawing on the experience of the FCPF) and on the ways the GCF will maximize its leverage effect on climate private financing.

3/ Finally, the different options regarding **the overall structure of the GCF**. Drawing from the two first parts, this chapter should clarify the different structures that could be adopted for the GCF in terms of legal capacity, governance, funding windows, financial instruments and access modalities – all of these issues being interlinked. The chapter could then assess the pros and cons of each of the proposed options with respect to the different principles and objectives of the GCF that have already been discussed in the TC (scaling up, cost efficiency, transformational role, country ownership, leverage on private finance etc.).
In order to give the TC the opportunity to make the best use of the TSU works in its discussions and deliberations, we consider that the TSU should submit this report on time for the 3rd TC meeting that is to take place in Geneva, 11-13 September.

V. Submission by Mr. Manfred Konukiewitz (Germany)

On the design implications of the concept of transformational change and on the elements to be discussed on the Workshop on Transformational Change / TC III

1. In order to keep the average global temperature rise below 2 degree C, the transition into low-carbon and climate resilient economies is a **global imperative** applying to both, developed and developing countries.

2. There is convergence among TC members that the Green Climate Fund (GCF) should support developing countries in **strengthening and accelerating the process of transformational change** towards low-carbon and climate-resilient pathways. This would enable countries to minimize their “footprint” on the climate in ways consistent with their development objectives.

3. The various **dimensions of transformational change** and its **design implications for the GCF require clarification and** further discussion.

4. The concept of **transformational change** should entail at least three pillars:
- an element of ambition
- an element of scope
- elements of learning and replication.

5. The element of **ambition** refers to the qualitative level of transformation as well as to the mobilization of the capital required to support developing countries efforts to set their entire economies on low-carbon, climate resilient pathways. **Drivers** of transformational change would be strengthened, i.a., by making use of technology innovations and diffusion, by providing policy frameworks and enabling environments or by supporting market forces, like consumer influence or corporate policies shaping the supply side. The **economics of transformation** would also be reflected, i.a. in investment frameworks, issues of capital stock, conversion and leap-frogging.
To achieve transformation and the required level of resources adequate synergies between public finance and private capital need to be designed, multiplied and adjusted to country-specific needs.
The element of **scope** expresses the necessary shift from the support of isolated projects to the financing of sector-wide (e.g. power sector, buildings, urban/local infrastructure and transport, industry, forestry and agriculture), regional or even economy-wide activities.
Learning requires a procedure to identify best practises and pioneering models in order to **replicate** them in the context of different national realities in developing countries.

6. **It is suggested that** the TSU undertake analytical work on the practical design implications of the concept of transformational change on the GCF. This analytical work should provide input to the **discussions at the envisaged workshop on transformational change and the 3rd TC meeting in Geneva.**

7. The **following questions** need to be given particular consideration:

Support of Front-runner approaches

How can the GCF support countries in developing and testing **innovative prototypes** for low-carbon and climate resilient development with a **potential to be replicated** in different country systems? What would be required to allow for such innovations (i.a. in terms of the risk level or the cost coverage)?

Ambition of the Fund

- Transformational approaches will require an **adequate level of support,** hence calls for the Fund’s ability to **obtain a variety of resources from different instruments and actors**.
  - What kind of **mechanisms** is needed to leverage private capital by scarce public sources?
  - What are suitable means to enhance **multiplier effects** in this regard?
  - What are effective ways of **attracting the private sector** toward low-carbon, climate resilient projects?
- How could **national low-carbon and climate resilience-strategies** inform the decision-making on projects, programs and policies in a way that its supports achieving longer-term impacts?

Scope of the Fund

- How could funding for **programs with sector-wide, regional or even economy-wide implications** and **activities with a demonstrative / replicative potential** be prioritized in an appropriate way?
- A **broad toolbox of financial instruments, including blending of instruments** is needed to respond to the different needs of developing countries.

- What kind of legal status does the Fund need to provide and successfully applying such a variety of instruments?
- What kind of flexibility would the Board need to develop the toolbox further in the light of the experience gained?
- How can the necessary high level of expertise be included into the approval -procedure for funding?

- How can **institutional capacity** in developing countries be best strengthened to support transformational activities and to institutionally sustain results?

Learning and replication

- **Country ownership** is required in order to increase developing countries' readiness und confidence to get engaged into a continuous learning process. How can this be best supported by the Fund?
- A focus on results required **indicators for evaluating and showcasing transformational change**.

- How should their main parameters be defined? Is the least-cost approach appropriate to stipulate of lasting changes in the structure or function of a sector/economy? How to reflect the replication potential an activity?

- **Transparency of and accountability** for the results achieved requires a strong periodic review and regular reporting system on the results achieved and the instruments applied. A crucial issue is how the Fund can **disseminate lessons learned**. What kind of instruments can be designed to share lessons and successful models that allow for replication?
- The Fund needs to be a continuously **learning institution** and support ways to **replicate best practices**. What elements for flexibility will be required to take **on board lessons learned?**

On the Legal Status of GCF

The TSU is requested to inform the TC, incorporating "lessons learned" from other funds, with regard to the following issues:
Considering the options for the legal status of the GCF:

- What are the pros and cons of the GCF being an independent legal entity? What functions could be performed by the GCF, if the legal identity of the GCF were derived from the legal status of another entity? What functions of the GCF would require an independent legal capacity?
- Regarding objectives, scope and financing tools of the fund, what are the pros and cons of a legal status governed by international law as compared to specific country law? What would be process and time requirements to achieve legal status governed by international law and what would be the process and time requirements to achieve legal status through a specific country law?
- What are the implications for the legal status to enable direct access (e.g. providing resources to financial institutions in developing countries)?
- Are there any differences to be observed in the legal status with regard to contracting a public (e.g. World Bank) or private trustee (private bank such as e.g. HSBC, Barclays, etc.)?
- What kind of legal status would be necessary in case that the GCF envisages its own financial intermediation (to transform grants and loans into equity, loans, guarantees, etc.) of donor's or private sector financing?
- What kind of legal status would be necessary to envisage financial intermediation (to transform grants and loans into equity, loans, guarantees, etc.) through international and national financial intermediaries?
- What legal status has to be envisaged to allow equity/debt participation in structured special purpose vehicles engaging the private sector?
- What kind of legal status is needed to secure that GCF can enter into legal arrangements with sub-structures based on securities law or company law e.g. Luxembourg SICAV-SIF (Green for Growth Fund), UK Limited Liability Partnership (Private Infrastructure Development Group, ICF Debt Trust)?
- What are the implications of the legal status with regard to asset and risk management of the fund resources?
- What types of provisioning rules have to be envisaged in case of defaulted loan repayment or misuse of funds? What are the implications for the liability of officers and members of the governance institutions? What would be the ability to enforce legal rights?
- What are the implications for the governance structure?

VI. Submission by Mr. Ahmed Alabdulkader (Saudi Arabia)

1. The Kingdom of Saudi Arabia (KSA) is pleased to share its views and comments on issues raised at the second meeting of the Transitional Committee (TC) and issues to be raised at the third meeting of the TC, as per requested in the work plan of TC at its second meeting held in Tokyo – Japan during 13-14 July 2011.

2. Such views and comments have been built on the previous submissions of the KSA, deliberations in the second meeting of the TC, work shop titled "lessons learned from relevant Funds and Institutions", and the submission of some TC members, including the KSA, titled "instrument for the establishment of the green climate fund".

3. The KSA is looking forward to work constructively with the TC members, Co-chairs, Vice Co-chairs, and Co-facilitators in a transparent, inclusive, and receptive space to develop by CONSENSUS an ambitious TC-driven Operational Document for designing the Green Climate Fund (the Fund) as mandated by Cancun Agreements.

4. The KSA would like, in this regard, to emphasize the RULE OF CONSENSUS on all of TC deliverables. Having in mind that the process of developing an Operational Document for designing the Fund is considered part of the larger UNFCCC process which works under the RULE OF CONSENSUS, and the deliverable document by the TC members that does not enjoy CONSENSUS will find no room to be adopted by the larger UNFCCC at Durban.

I. OBJECTIVES

5. The Fund has to achieving the following key objectives:
   - contribute to the full, effective and sustained implementation of the UNFCCC, in relation to the implementation of commitments for the provision of financial resources to developing country Parties and other developed Parties included in Annex II, as mandated under relevant provisions of the Convention, including its Articles 4.3, 4.4, 4.5, 4.8 and 4.9 and in accordance with Article 11 of the Convention.

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

   - manage the 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 providing adequate and predictable financial resources to developing countries for the implementation of climate-related policy measures, activities and actions, and achieving a balanced allocation between adaptation and mitigation.

   - manage to mobilize AT LEAST US$100 billion a year by 2020, as committed by developed country Parties, to address the needs of developing country Parties and to respond to challenges arising from the adverse impacts of climate change and the economic and social consequences of various response strategies.

   - contribute to the goal of achieving coherence in the global financial architecture for the financing of climate-related activities, under the authority and governance of the Conference of Parties.

II. PRINCIPLES

6. The Fund shall be guided by key principles, *inter alia*, the followings:
   - consistency with the policies, program priorities, and eligibility criteria adopted by the decisions of the Conference of the Parties, mandated by Bali Action Plan, and all "activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism";

   - operating under the authority and guidance of, and be fully accountable to, the Conference of Parties;

   - operating under the principles of equity and common but differentiated responsibilities;

   - the priority of developing country Parties that are particularly vulnerable to the adverse impacts of climate change and the implementation of response measures including economic diversification;

- comprehensiveness to cover all relevant sources, sinks and reservoirs of greenhouse gases and adaptation, and comprise all economic sectors;

- enable direct access to funding by all developing country Parties;

- country-driven and demand-driven, with developing country Parties being involved during the stages of identification, preparation and implementation, and responding to the needs and circumstances of the developing countries;

- recognize, promote and strengthen the significance of engagement at the country level, in order to give effect to the principles of a country-driven approach, and direct access to funding;

- facilitate linkages between the various funding sources and separate funds in order to promote access to the variety of available funding sources and reduce fragmentation.

III. COUNTRY DRIVEN APPROACH

7. The Fund shall adopt an approach that is driven by developing country Parties to support them to more effectively implement climate policies, measures, actions and activities. Consequently, the Fund shall allocate resources in the most appropriate forms and for the most appropriate uses that are suitable for specific needs and concerns of developing country Parties.

8. The Fund shall tailor its strategy and approach to the needs and circumstances of each developing country Parties; therefore a country driven approach is required, with the full participation of the countries concerned.

IV. SCOPE AND SCALE, THEMES AND WINDOWS OF FUND

9. The scope and the thematic areas of the Fund shall be based on the mandate established in the Convention, as well as relevant decisions of the Conference of the Parties, including decision 1/CP.13 and decision 1/CP.16 and any future decision relating to the Fund.

10. The Fund, as an operating entity of the financial mechanism of the Convention, shall address the following thematic areas:

    (a) Adaptation activities;
    (b) Mitigation activities;
    (c) Technology development and transfer;
    (d) Capacity building of and institutional development in developing countries;
    (e) Information and processes taken to implement the Convention.

11. These thematic areas should be determined at the founding size and should be incorporated during the designing process of the Fund to ensure the efficient operation of the fund. Yet, flexibility to designate sub-themes linked to the above thematic areas could be considered, as appropriate, by the Board under the authority and guidance of the Conference of the Parties.

12. The scope of the thematic issues, derived from the Convention’s finance-related commitments, shall include:

    (a) Adaptation:

- The provision of agreed full incremental costs for preparing for adaptation to the impacts of climate change and the implementation of response measures as contained in Article 4.8 of the Convention;

- The provision of agreed full incremental costs for formulating and implementing national and regional programs containing measures to facilitate adequate adaptation; and

- Financial resources to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation to those adverse effects;

– Financial resources to minimize the impact of economic and social consequences of various response strategies on developing country Parties.

(b) Mitigation:

– The provision of agreed full incremental costs for formulating and implementing national and regional programs containing measures to mitigate climate change by addressing emissions by sources and removals by sinks of all greenhouse gases;

(c) Technology development and transfer:

– The provision of agreed full incremental costs for the development, application and diffusion including transfer of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases in all relevant sectors;

– High consideration should be given to proven technologies, such as **Carbon Capture and Storage technologies**, that have high potential to reduce the GHG and to contribute tremendously towards achieving the ultimate objectives of the Convention.

– Financial resources to promote, facilitate and finance as appropriate the transfer of or access to of environmentally sound technologies and know-how to developing countries parties; and

– Financial resources to support the development and enhancement of developing countries' endogenous technologies and capacities;

(d) Capacity building, institutional development, other activities:

– Financial resources for specific capacity-building activities that require support to enable developing countries to undertake the enhanced implementation of the Convention, in accordance with decision taking by the Conference of the Parties; and

– Financial resources for capacity-building support to developing country Parties, with a view to strengthening endogenous capacities.

– Supporting existing and emerging capacity-building needs identified in the areas of mitigation, adaptation, technology development and transfer, and access to financial resources.

(e) Information and processes taken by Parties in order to implement the Convention:

– Provision of agreed full incremental costs for promotion and cooperation in 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;

– Provision of agreed full incremental costs for promotion and cooperation in 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 various response strategies; and

– Provision of agreed full incremental costs for promotion and cooperation in education, training and public awareness related to climate change and encourage the widest participation in this process, including that of non-governmental organizations;

V. SIZE AND SCALE OF THE FUND

13. Innovative thinking should take the lead on designing the Fund, building upon best business/governance models in order to build a state of the art Fund and to change the way of doing business.

14. The Fund shall manage a large scale of financial resources from a number of sources and deliver through a variety of financial instruments.

15. The Fund shall take into account the various commitments made in relation to climate financing in the **SHORT TERM**, including the commitment by developed country Parties and other developed Parties included in Annex II to provide new and additional resources, approaching USD 30 billion for the period 2010–2012; that scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties;

16. The Fund shall take into account the required new and additional **MID TERM** pledged contribution of the developed country Parties for the period post 2012 and up to 2020;

17. The Fund shall take into account the commitments of the developed country Parties in the **LONG TERM** to a goal of mobilizing jointly USD100 billion per year by 2020 to address the needs of developing countries; and that a significant share of new multilateral funding for adaptation should flow through the Fund.

18. The Fund shall make arrangements to determine in a predictable and identifiable manner "the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed taking into account financial needs identified by the developing country Parties" in accordance with Article 11 of the Convention.

19. The Fund will also "seek to mobilize financial resources" in accordance with Article 11, as well as Articles 4, paragraphs 3, 4 and 5 of the Convention.

20. The Fund shall provide information relevant to the determination of the amount of funding necessary for the implementation of the Convention including, inter alia, through an evaluation, in relation to each of the thematic areas covered by the Convention and collectively, of the type of costs to be covered including those which are to be financed at agreed "full costs" and at agreed "full incremental costs", as well as financing required to address other commitments described in the Convention for consideration by the Conference of the Parties.

VI. OPERATIONAL MODALITIES

- **Sources of Finance**

21. In line with Article 4.3 of the Convention, developed country Parties and other developed Parties included in Annex II of the Convention shall provide financial resources to the Fund.

22. In accordance with the Convention and decision 1/CP.16:

    (a) Financial resources shall be "new and additional, predictable and adequate";

    (b) Financial resources shall be provided to meet the specific needs and concerns of to developing country Parties arising from the adverse effects of climate change and/or the implementation of response measures as contained in Article (4.8) of the Convention.

    (c) Financial resources shall be measurable, verifiable and reportable.

23. The type of funding received by the Fund as legally binding commitments from the governments of the developed country Parties, mainly, direct budget contributions should be in the form of grants or concessional loans, with the level of concessionality being determined based on clearly defined criteria.

24. To the extent concessional finance is provided, only the grant or concessional element should be counted as new and additional.

25. In accordance with Article 4.3 and relevant decisions of the Conference of the Parties the provision of financial resources shall reflect "appropriate burden sharing among the developed country Parties".

26. The Fund shall develop a more systematic method for assessing and allocating the responsibility among the developed country Parties to provide adequate and predictable, new and additional financial resources.

- **Types of Finance**

27. Public finance sources from the developed country Parties, mainly, direct budget contributions, are the primary sources of financial flows to the Green Climate Fund which could fairly be described as 'new, additional, predictable and adequate funding'.

28. Private finance sources are expected to playing a supplementary role to the Fund, yet, they should never replace or displace public funding.

29. The private sector in developed countries is encouraged to make supplementary contributions and donations to the Fund. However, resources of the Fund should not be used for subsidizing corporations or financial institutions of developed countries (as the Fund is established to provide resources to developing countries).

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

31. Some alternative sources of innovative financing raise many concerns for developing country Parties as they dilute the collective commitment of developed country Parties by public funding and introduce additional burdens on the developing country Parties.

32. Any finance resulting of carbon trading should not be regarded as 'new and additional'. Whereas raising fund flows through levies on international aviation and shipping should be avoided.

33. These tax measures are unfair and contravene with the Convention principles of social equity. They distort international trade, restrict the exports of the developing countries and negatively affect those sectors and as such would hinder the social and economic development of the developing countries;

- **Assessment/ compensation System**

34. It is crucially important that any incidence on developing country Parties arises from any type of finance should be covered fully by the developed country Parties as stated in Article 4.7 of the Convention.

35. The designing of the Fund should take into account the obligations of the developed country Parties to minimize the impacts of any policies and measures they implement on developing county Parties, particularly those identified in Article 4, paragraphs 8 and 9, of the Convention.

36. Financing schemes should be established to assist developing country Parties to coping with unavoidable adverse effects, and to boost economic diversification strategies.

37. Insurance mechanisms and compensatory financing schemes should also be established for developing country Parties facing external shocks or adjustment problems.

38. It is deemed important to establish a transparent, systematic and accountable assessment approach, through which the Fund would be able to review, evaluate and determine the types of finance necessary to fulfill the Fund objectives in line with the broad guiding principles of the Convention and Bali Action Plan. Such approach would be extremely important to enable monitoring and assessment of the progress, effectiveness and adequacy of funding.

VII. THE BOARD

39. The Fund shall be governed by a Board which shall supervise and manage the Fund, under the authority and guidance of the Conference of the Parties, and shall be fully accountable to the Conference of the Parties which shall decide on its overall policies in line with relevant decisions;

40. The arrangements to be concluded with the Fund include the modalities listed in Article 11.3 of the Convention.

VIII. DECISION-MAKING

41. Decisions of the Board of the Green Climate Fund shall be taken by consensus.

IX. RELATION BETWEEN THE FUND AND OTHER BODIES AND ENTITIES

42. The Fund shall operate in the context of appropriate arrangements between itself and other existing funds in the Convention and in the Kyoto Protocol, and between itself and other funds, entities and channels of climate financing that are being undertaken outside the framework of the financial mechanism.

43. The Fund will be guided by proposals in this regard by the Board, the Standing Committee, and other thematic bodies under the Convention, in accordance with guidance by the Conference of Parties.

X. DIRECT ACCESS

44. Eligible Parties shall be able to submit their project proposals, prepared in accordance with project preparation eligibility criteria agreed by the Board, either directly to the Fund Board or through an implementing or executing agency chosen by them.

45. In accordance with the Convention, including its Article 4.3, all developing country Parties, without discrimination or any form of exclusion, are eligible to receive financial resources for the implementation of measures set out in Article 4.1 of the Convention including those relating to adaptation, mitigation technology development and transfer, and capacity building as well as for national communications in accordance with Article 12.1 of the Convention.

46. The consideration of the specific needs and concerns of developing countries shall be undertaken in accordance with the provisions of Article 4 of the Convention.

XI. EVALUATION:

47. There shall be periodic independent evaluations of the performance of the Fund, which shall address factors including, inter alia, the performance of the Fund; evaluation of the Secretariat and the interim Trustee; assessments of the appropriateness of Fund’s structures, operations and policies; the effectiveness of the work of the thematic windows and areas, and the impacts on the recipient countries of the activities and programs supported by the Fund.

48. Evaluations shall be undertaken with a view to providing information regarding performance at:

    (a) Fund level. Evaluation of the Fund and its overall performance to ensure it achieves its objectives and remains accountable to the Parties through the Conference of Parties.

    (b) Entity level. Evaluation of the Fund’s various entities and officers – including its secretariat, trustee and other bodies – to ensure the components of the Fund are effectively performing their functions and contributing to the effectiveness of the Fund as a whole.

    (c) Thematic level. Evaluation of the Fund’s operations in each of its specific thematic areas to ensure it is achieving the specific objective set in relation to each thematic area.

    (d) Project level. Evaluation at the level of implementation – including the provision of financing and its application to specific projects – in collaboration with relevant implementing partners and countries.

49. Evaluations of Fund entities, thematic areas and operations and implementation shall be undertaken or arranged by an independent Evaluation Unit of the Fund, which is answerable directly to the Board.

50. Evaluation system should be built in at the early stage of the designing of the Fund.

51. The Evaluation system should adopt a blending mix of bottom up and top down approaches.

Thanks.

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

I. Submission by Mr. Derek Gibbs (Barbados)

AOSIS submission on Work Stream I

GENERAL PROVISIONS

1. Purpose of the Green Climate Fund

The purpose of the Fund is to enhance the implementation of the Convention and ensure the achievement of its ultimate objective by scaling up the delivery of new and additional, predictable, and adequate multilateral climate financing to support adaptation and mitigation actions in developing countries, and in a balanced manner, given the urgency of the climate change challenge, and taking into account the sustainable development priorities of developing countries, as well as the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, especially the Least Developed countries and Small Island Developing States, and countries in Africa affected by drought, desertification and floods.

2. Principles for the Green Climate Fund

1. The GCF is an operating entity of the Financial Mechanism of the Convention, under its Article 11 and functions in accordance with the principles and provisions of the Convention.

2. The Fund operates under the guidance of and is accountable to the Conference of the Parties.

3. The Fund will catalyze transformational changes in developing countries.

4. The Fund will be responsive to guidance by the COP; will seek to constantly improve its performance and therefore be a continuously learning institution that is able to be flexible, react and adapt to changing circumstances.

5. The Fund will operate in a transparent and accountable manner, through effective and efficient arrangements, seeking to minimize transaction costs and with a governance structure that provides for equal representation between developed and developing countries.

6. The Fund will add value to other existing climate funds by being more responsive and sensitive to the needs of developing countries.

7. The Fund will provide access to its resources through simplified and improved modalities, and including through direct access.

8. The Fund shall apply strict social and environmental safeguards consistent with its purpose.

9. The Fund will support projects, programmes, policies and other activities that reflect national ownership and priorities and respect country-led formulation and implementation processes.

10. The GCF proposal-cycle process should be designed to be consistent with the country's budgetary cycle.

11. The Fund will ensure that developing countries, especially those with capacity constrains, fully access its resources, including through direct access

12. The Fund will also seek to help build capacity, including in-country institutional capacity, for direct access to the funds, project planning, application and implementation.

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

14. The Fund will utilize financial instruments that are appropriate for each type of activity or window financed by the fund.

3. Scope of the Green Climate Fund

1. The Fund will be scalable and become a major player in climate change financing. It will mobilize funding from a variety of sources, including innovative sources.

2. The Fund will be primarily sourced by public funding and their use be prioritized for projects, programmes, policies and activities that are relatively costly, risky or less attractive to the private sector, such as adaptation actions in Small Island Developing States and Least Developed Countries.

3. The Fund will support projects, programmes, policies and other activities in developing country Parties related to adaptation, mitigation including REDD-plus, capacity-building, technology development and transfer, with the objective of achieving balanced allocation between adaptation and mitigation.

4. Legal personality

1. The GCF shall have a distinct legal personality and enjoy necessary legal capacity to perform its functions, including entering into contract with other entities; as well as to protect its interests.

2. The GCF and its Secretariat are located in [city], [country].

[5. Definitions]

II. Submission by Mr. Sergio Serra (Brazil)

Workstream I (TC-2/WSI/1)

Scope, guiding principles, and cross-cutting issues

On Scope

Brazil would be comfortable with **language that would refer directly to the UNFCCC's implementation, or with language that would reproduce the Convention text that deals with its objective**.

There is a limiting character in the language proposed in the caput of para. 4 when it mentions, in the fourth line, as an objective of the GCF, that it is "for promoting low emission and climate resilient development". **The objective of the activities to be financed by the fund must be to fight climate change, which means basically mitigation and adaptation, and includes, but does not limit itself to, development actions.**

As we have been saying all along, and is a principle embodied in the Convention, the financial flows designed to support developing countries fight climate change, or adapt to its effects, **must not be confused with development aid**, for which there are already well established mechanisms. **The flows we are dealing with should be new and additional** to the former.

We entirely agree with the explicit mention to the special needs of developing countries that are particularly vulnerable – **provided, of course, that access to the Fund's resources is guaranteed to all developing countries**.

On Guiding Principles

On the Overall guiding principles (item III-A) we entirely agree with the direct mention (para. 6) to Article 11 of the Convention. In fact, when we deal with designing the guiding principles of the Green Fund, **we should be guided by the principles embedded in the Convention**.

In this line of thought, we should have a **direct reference to the principle of common but differentiated responsibilities** as one of the guiding principles of the Fund.

On the other hand, **Brazil does not accept references to the Paris declaration on the Effectiveness of Development Aid** (such as in para. 9). We have no problems with the mention of general principles contained in the declaration, but we do object to a direct reference to that OECD document, which we did not subscribe to. Furthermore, we have to remind ourselves that **the Green Fund is not about international aid, but about the meeting of financial obligations under the UNFCCC**.

With regard to the guiding principles for the objectives, we feel that excessive weight is given, in the document, to the role of the Green Fund as a catalyst for investments (paras. 10a and 11).

We do not, I clarify, object that such a role be one of the aspects of the Fund, but we do think that the issue – its catalytic role – would more appropriately fall under para. 10d, which deals with the mobilisation and leverage of funds.

We welcome the language in paras. 10 b and c, which well reflects the importance that should be given, respectively, to the transformative aspect of the delivery of climate finance, and to the promotion of country ownership.

We question, however, the presence of the concept of "results-based approaches" (para. 13 and, further down in the document, item D) **in the list of principles**. Although we favour the inclusion of this concept as one of the modalities of access to resources, Brazil believes that it should not consist of the general rule to be applied to all disbursements. **This issue, thus, should be addressed in Workstream III**.

Para. 14: Brazil thinks it poses the risk of an excessive broadening of the objectives of the Fund. Environmental and social co-benefits, desirable as they may be**, should not figure in our general list of principles** –to avoid not only the multiplication of the Fund's objectives but also the imposing of conditionalities to the access to the Fund's resources.

Regarding the guiding principles for thematic scope, Brazil favours that the Green Fund, **in special relevant cases, be given the flexibility to disburse resources without the requirement of co-financing**. This would be important, for example, in the financing of adaptation actions.

We fully endorse the approach mentioned in para. 19 to the effect that **the GCF should fund the full cost of preparation of National Communications (NATCOMs) and associated biennial reports and their updates**. As we all know, NATCOMs are now financed by the GEF on the basis of agreed full costs. In practice, this means that the developing country has to demonstrate it can come up with a co-financing scheme, since the GEF only operates in this modality. And that's the way things will work with the biennial reports agreed to at Cancun, **unless we mandate the GCF to bear their full costs**.

Subtitle D, Guiding principles for country-led and results-based approaches, **seems out of context** in a document dealing with scope and principle. **Both results-based approaches and the detailing of modalities for direct access should be in Workstream III.**

Furthermore, in transferring this item to Workstream III a further modification would be required by us. We simply do not agree that it is appropriate that the TC discusses the role that the eventual National Implementing Entities (NIEs) should play with regard to country development strategies (para. 26). The TC, and later on the CGF Board, should deliberate on the requirements that such institutions – the NIEs – should meet with regard to activities directly related to the Fund, **NOT on the broad implementation of development and climate change policies.**

On item E, Guiding principles for size and scalability, **public finance should be the main source of funding for the GCF**, so as to guarantee predictability. In this line of thought, contributions should comply with an established scale.

Private and alternative sources of finance are, of course, welcome on a subsidiary basis.

On F, Guiding principles for complementarity and value-added: The complementarity and the convergence of the Fund with relation to other lines of financing are of course desirable in a system that involves multiple institutions.

It should not be, however, the function of the Fund to promote coherence in the system. The UNFCCC created the Standing Committee to provide advice on the matter. Such a function - the promotion of coherence – should be performed by the body with the highest hierarchy in the system, i. e., the COP. Institutions with similar hierarchical levels like, for example, the GCF and the Adaptation Fund, cannot deliberate on the thematic scope of each other.

III. Submission by Mr. Rob Stewart (Canada)

Canada's submission in advance of the third meeting of the Transitional Committee

This submission presents Canada's perspective on the key issues to be addressed by the TC, with the objective of providing guidance in the drafting of an instrument for the GCF, to be discussed at the third meeting of the TC.

Canada's submission includes comments on issues under each work stream. However, the major focus of the submission is on the design features of the GCF, which fall under WS III on operational modalities.

Work stream I: Scope, guiding principles and cross-cutting issues

Canada generally supports the outcome of the discussion around WS 1 in Tokyo and strongly supports the inclusion of a short, focused vision statement for the GCF objectives and principles in the instrument of the Fund, either as a preambular paragraph or in an article that sets out the GCF's objective.

Canada believes that the scope and objectives of the GCF should be ambitious and articulated around key principles reflected in the design features presented in the section on WS III.

IV. Submission by Mr. Newai Gebre-ab (Ethiopia)

Scope, guiding principles, and cross-cutting issues working paper

A. Scope

1. The work of the Transitional Committee starts from the decision of CP.16 which established the Green Climate Fund (GCF), and tasked it to work out the design of the GCF as per a given Term of Reference. Workstream I can be said to cover items (c) and (e) of the TOR under the topic of scope, guiding principles and cross-cutting issues.

2. The Cancun Conference gives explicit recognition to the commitment of the developed country parties to provide new and additional funds for the undertaking of mitigation and adaptation activities by the developing countries to the tune of USD 100 billion per year by 2020. This can be taken as a target for the entirety of climate finance. But, there is no indication from Cancun as to how much of this should be expected to flow through the GCF. In addition to the GCF, there is bilateral and multilateral funding as well as private funds that would be leveraged by public funds. Thus it is not possible to be precise about the size of the GCF.

3. One may argue, however, that the bulk of the climate finance should reside in the GCF since this would be helpful for coordination among the developed countries in sharing the fund contribution, lowers transaction cost in the provision of funds, and gives voice to the developing countries in the governance of funds. The goal of maintaining balance between mitigation and adaptation is also better realized with more integration through the GCF and less dependence on bilateral funds and decentralized decision making. The design of the GCF should therefore tilt towards enhancing the share of the GCF in climate finance.

4. From Copenhagen through Cancun the consensus has been that climate finance in general, and now GCF as well, should aim at a balanced support for mitigation and adaptation. There are issues that need to be recognized and addressed on both supply and demand sides, however. On the side of supply the question that would arise is that of earmarking the use of funds that get channeled through GCF. In as far as the earmarking is done across the board with no preference for individual developing or least-developed countries, the results that emerge with or without earmarking will be broadly similar so long as there is agreement to maintain balance between the funding of adaptation and mitigation. On the side of demand, the choice between adaptation and mitigation is unlikely to be evenly balanced country by country for least-developed countries and, possibly, even less so within developing countries as a group. And, it cannot be assumed that these differences would cancel each other out. The way out of this possible impasse would be to pre-determine a somewhat balanced supply of mitigation and adaptation funds, say, with in a range of up to 40 to 60 per cent share either way. If at any given year the demand for any one of mitigation or adaptation falls below 40 per cent, then obviously the share of the one with excess demand over 60 percent should not go unmet.

5. The support for adaptation is measured in terms of full cost while that for mitigation is defined at marginal cost. At the same time public funds (bilateral, multilateral or GCF) can leverage private investment particularly in mitigation activities. The scope for leveraging is bound to be very small in the field of adaptation. Indeed, even the scope for public funds to play a catalytic role in adaptation, by way of covering risks is likely to quite limited, as there is little room here for making profit by the private sector. Hence there is greater need of public fund support for adaptation than for mitigation.

B. Guiding principles

6. The design of the GCF is unlike the usual format for the delivery of assistance to the developing countries through bilateral or multilateral channels. It differs in its decision making process which is intended to be done jointly and equally by the developed and developing countries, and in letting the developing countries exercise ownership over both identification of projects (and more generally strategy) and policy framework. Within this overall general principle, the usual criteria (or principles) of transparency, accountability, and efficiency apply to both the developed and developing countries. These are well known criteria that can be detailed at technical level.

7. The design issues that would need to be given special attention are those that arise from the (unusual) architecture of the GCF itself. Possible areas of tensions are: (a) between ownership and policy adjustments to attract foreign investment, (b) between direct access and channeling through World Bank and Regional Development Banks, and (c) between top-down and bottom-up approach of complementarity of funds.

8. Leveraging foreign investment is hugely important for supporting mitigation activities in developing countries. The general expectation must be that the policies that already exist in most developing countries are compatible to the application of this method of funding, and that it is in a minority of instances that country policies hinder the

participation of foreign investment. There is a choice here to be made between public funds covering the additional marginal costs that are needed or the developing country finding it advantageous to make adjustments to bring in foreign investment. A case by case approach may be the best solution in these situations.

9. Direct access to GCF in itself should not be a problem, given the consensus that exists for it. The important question relates to how much of the fund should be allocated through direct access. First, it is a question of how big one wants the Secretariat to be, and second whether a relatively big Secretariat would be acceptable, to the developed countries, and for that matter the developing countries as well. Perhaps, one way of addressing this issue would be to take a step backwards and visualize the end goal the GCF, which is that of promoting lower carbon, climate resilient growth path in developing countries. This requires financing development strategies rather than stand alone projects. The implication is that the support for developing (and least-developed) countries should be used to finance medium term (3 – 5 years) programmes of mitigation and adaptation within the context of their long term strategies to shift towards a lower carbon, climate resilient trajectory of growth. Developing countries would be best served by relatively big amount of money disbursed over a number of years. From this vantage point, it would be judicious to limit the magnitude of funds that would be made available under direct access, and let the bulk of the fund be channeled through the World Bank and Regional Development Banks.

10. But this is not a simple proposal to farm out the responsibility of programme appraisal and disbursing of funds to the World Bank and the Regional Development Banks. The board of the GCF should have a critical role to maintain the ownership of the developing countries and ensure speed of appraisal and disbursement of funds. The financial entities would need to establish new units (or divisions) of appropriate size that would deal exclusively with climate change programmes and projects.

11. Complementarity between GCF and other components of climate finance has been rightly emphasized. One can approach this as a division of labour among the different funding entities. The risk here is similar to that of earmarking of funds discussed above. Another approach is to ensure coherence and avoid duplication between programmes/projects at the country level. The latter appears easier and more effective.

C. Concluding Remarks

12. The proposals that follow from the above are that:

i) The Transitional Committee promotes the GCF as the main vehicle for the climate finance of the USD 100 billion per year by 2020 endorsed at Cancun;

ii) The GCF allocates funds to mitigation and adaptation in a balanced manner with some variation of not more than 10 percentage points plus or minus;

iii) Funds from individual developed countries get channeled to the GCF with no ear marking either by country or thematic windows;

iv)The bulk of the GCF gets channeled through the World Bank and the Regional Development Banks;

v) The Board of the GCF lays down the criteria by which the World Bank and the Regional Development Banks disburse funds such that ownership by developing countries is maintained;

vi) Complementarity between programmes/projects is pursued at the country level, rather than among funding entities.

V. Submission by Mr. Richard Weber (Adviser to European Union members of the TC)

The fundamental objectives of the GCF should be to:

- generate significant CO2 emissions reductions in order to contribute to the goal of staying below the 2° C target increase,

- promote low emission, climate resilient strategies and development plans, in beneficiaries countries,

- support the effective implementation of the decisions and actions agreed in the UNFCCC negotiations,

- aim at a balanced allocation of financial resources between Adaptation, Mitigation and REDD+, programmes and projects,

- give priority to LDCs, SIDS, and orphan countries and regions,

- fill any gap in climate financing and correct any unbalanced distribution among developing countries or regions,

- contribute, through its actions and financing, to the human, social and economic development of the beneficiaries countries and to the fight against poverty,

- place the developing beneficiaries countries in the driving seat of all GCF operations and entrust them with all associated responsibilities including the fiduciary and sound management aspects,

- become an international reference and model by applying the highest standards of ethics, transparency, financial management and efficiency,

- act as the leader of the worldwide Climate Change Financing System for developing countries, in ensuring coordination, cooperation, coherence, cohesion, complementarity, transparency and synergy between the different multilateral, regional, bilateral and national donors, recipients and actors of this System.

GUIDING PRINCIPLES

The main guiding principles of the GCF should be to:

- give first priority to direct access of the Developing Beneficiaries Countries and to the decentralised management of operations, projects and programmes,

- articulate the GCF management system on a result–based approach and place the concepts of cost-efficiency, effectiveness, impact, value for money and sustainability at the chore of its actions and operations,

- foresee for each financed operation, all the necessary technical assistance, capacity-building, technology transfer and support required and needed by the beneficiary in order to create the adequate conditions for a full national and local appropriation of programmes and projects and to palliate the handicap of ill-equipped countries which are not yet in a position to manage such a process with their own national expertise,

- play a transformational and innovative role in developing countries by promoting new techniques, pilot projects and facilitating the dissemination and replication of successful models and experiences worldwide,

- seek environmental, social and economic co-benefits, contribute to natural resource conservation, biodiversity protection and restoration, and apply environmental and social safeguards in all its operations,

- use a clear, quick, responsive, simple, management system, highly flexible and efficient, to deliver added value and ensure high impact. This system should be based on a broad decentralised model under which the national implementing entities, chosen by the beneficiaries countries with the agreement of the GCF, should play the key role and assume the main responsibilities in consultation with the different stakeholders, in the selection, the management and the implementation of programmes and projects,

- take all necessary measures and provisions to secure that all stakeholders, CSOs and affected populations representatives, will fully participate and give their advice and input on all aspects and decisions related to the finance, selection, implementation, evaluation, measurement, fairness, and transparency of all centralised and decentralised operations, projects and programmes of the GCF,

- ensure a permanent, systematic, and broad publication and diffusion of any information, report and decision related to its operations.

- report to and take guidance from the COP, the GCF Board taking independently all operational decisions.

THEMATIC WINDOWS

3 main thematic windows should be created for: Adaptation, Mitigation and Forestry (REDD+).
Capacity building and technical expertise as well as Technology Development, Cooperation and Transfer being cross-cutting issues should be fully integrated in all the operations financed by the GCF.

BALANCE BETWEEN ADAPTATION, MITIGATION AND REDD+

The GCF should promote a balanced allocation between Adaptation, Mitigation and REDD+ in relation with:
- the priorities expressed and decided by the Developing Beneficiaries Countries,
- the number, size, nature and quality of the programmes and projects directly submitted by them.
- the financial contributions available for each window.

Synergy and efficiency should be sought by financing in priority, programmes and projects which contribute to both Adaptation and Mitigation, and deliver combined benefits.

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

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

MANAGEMENT PRINCIPLES AND TRANSPARENCY

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

The GCF should be managed in a full transparent way, both at the central level, and at the local, decentralised level of implementation of projects and programmes.
Regular operational and financial reporting, monitoring, evaluation and audit must be organised for all operations and all categories of financing instruments (grants, loans, guarantees, insurances, combination of instruments….).
Indicators measuring the direct and indirect impact of the projects and programmes, and taking into account the degree of satisfaction and the opinion of all affected communities and all stakeholders and CSOs should be elaborated and used in all GCF operations.
All stakeholders should receive permanent and immediate access to all information and data without any restriction and in full transparency.
In parallel, stakeholders input, participation, advice, and feed-back should be systematically ensured and guaranteed in all operations of the GCF, at each level and step, ex-ante, on-going and ex-post.
An appeal and redress system should be put in place from the beginning

All these mechanisms should be organised in such a way that they do not delay or paralyse the decision process and operations of the Fund.

MUTUAL ACCOUNTABILITY AND FIDUCIARY STANDARDS

Mutual accountability and reciprocal commitments should be at the basis of the GCF system. The commitments taken by Developing and Donors countries within the context of the Paris Declaration and the principles agreed in Accra should be honoured.

International Fiduciary Standards should be applied both centrally and at the national, regional and local level, to all operations, projects and programmes financed by the Fund.
Any irregularity or fraud should be promptly sanctioned and corresponding financial resources should be immediately recuperated.

LEADERSHIP OF THE GCF WITHIN THE GLOBAL CLIMATE CHANGE FINANCING SYSTEM

The GCF operations should bring real additionality to all existing multilateral, bilateral, regional, national or local Funds, Instruments and tools financing Climate Change programmes in the developing world.
The GCF should not substitute itself, absorb or replace the other mechanisms as basic management principles clearly indicate that devolution and decentralisation are the best and only real way to achieve efficiency, ownership and sustainable results.

Climate Change can only be tackled efficiently at the local level of each beneficiary country.

Consequently, the GCF should play a central role and become the leader and cornerstone of the worldwide, decentralised, Climate Change Financing System for developing countries.

The GCF should, in particular, create and chair a platform gathering the different existing mechanisms of Climate Change Finance.

The GCF should act as a catalyst leader in charge of ensuring coherence, cohesion, complementarity and synergies within the whole System.

VI. Submission by Mr. Manfred Konukiewitz (Germany)

On key element to be covered by the objective and the principles of the Green Climate Fund (WS I)

I. Objective and Principles of the Fund

The **foundational document for the Green Climate Fund** should include the following objective and principles of the Fund:

Objective

The objective of the Green Climate Fund is to support activities in developing countries for promoting low-carbon and climate resilient development in line with the overarching goal of keeping global average temperature rise below 2 C and increasing the adaptive capacity to climate change.

Principles

In pursuing the objective, the Fund shall induce and catalyze transformational change in developing countries, thereby accelerating and strengthening developing countries' efforts to pursue low-carbon and climate-resilient development pathways .

The Fund shall play a catalytic role in mobilizing and leveraging funding from the public and private sector at the international and national level.

The Fund shall be flexible and scalable over time in order to manage and disburse financial resource at a large scale and to channel a significant share of multilateral climate financing. It shall be designed in a way that it is able to accept public sources, including alternative sources, and contributions from the private sector.

The Fund shall operate with the objective of achieving a balanced allocation of resources between mitigation and adaptation.

The Fund shall operate under the principle of country ownership and responsiveness to developing countries' needs.

The Fund shall provide a variety of financial instruments for the delivery of climate finance in order to respond to the different needs of developing countries. These instruments shall enhance the shift from projects to programmatic, sector-wide activities.

The Fund shall follow a results-focused approach in the allocation and delivery of climate financing. It shall have measurable impacts, especially for mitigation actions. Results should be reported and monitored; the operation of the fund should be evaluated independently. The Fund shall apply highest possible fiduciary standards.

The Fund shall incorporate ambitious environmental and social standards and promote the realization of environmental and social co-benefits, including gender aspects.

The Fund shall be a continuously learning institution and support ways to replicate best practices.

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

I. Submission by Mr. Derek Gibbs (Barbados)

AOSIS submission on Work Stream II

A. Legal status of the Green Climate Fund (GCF)

The GCF shall have a distinct legal personality and enjoy necessary legal capacity to perform its functions, including entering into contract with other entities, as well as to protect its interests.

B. Structure and functions of the Board

1. Nomination of Board members:
Regional groups, according to selection procedures they have determined, shall nominate their representatives to the Board. Nominated Board members will be endorsed by the Conference of the Parties.

2. Terms of service:
The members of the Board and their alternates shall each serve for a term of two calendar years; and shall be eligible to serve a maximum of [X] consecutive terms.

3. Composition:
   a. Board members

The GCF Board shall have 24 members comprising an equal number of members from developing and developed country Parties; representation from developing country Parties shall include representatives from relevant United Nations regional groupings and representatives from Small Island Developing States and the Least Developed Countries (decision 1/CP.16, para 103). Taking into account fair and balanced representation among these groups the Board shall consist of:

i. Twelve (12) representatives from the Parties included in Annex I to the Convention (Annex I Parties);
ii. Three (3) representatives from Asia;
iii. Three (3) representatives from Africa;
iv. Three (3) representatives from GRULAC;
v. One (1) representative of the Small Island Developing States;
vi. One (1) representative of the Least Developed Country Parties; and
vii. One (1) representative rotating on an biennial basis from the Small Island Developing States and the Least Developed Country Parties;

b. Alternate Board members

The election of each member is to be accompanied by the election of an alternate following the same principles as set out in paragraph 1 above.

c. Non-voting members:

The GCF Board shall also have 4 non-voting members, representatives from the civil society and the private sector as follows:

i. One (1) representative of a non-governmental organization from a developing country;
ii. One (1) representative of a non-governmental organization from a developed country;
iii. One (1) representative of the private sector from a developing country; and
iv. One (1) representative of the private sector from a developed country.

4. Criteria for membership:

a. Board members including alternate members shall possess appropriate technical and/or policy expertise in any of the following areas, *inter alia*, private and public finance, project-cycle management in multilateral funds, development issues, economics of adaptation and mitigation;

b. Members of the Board shall serve in their personal capacity and shall have no pecuniary or financial interest in the issues under consideration by the Board.

5. Officers:

The Board shall elect the Chair and Vice-Chair from among its members, with one being from an Annex I Party and the other being from a non-Annex I Party. The term of office of the Chair and Vice-Chair shall be one calendar year. The office of Chair and Vice-Chair shall alternate annually between a member from an Annex I Party and a member from a non-Annex I Party.

6. Functions of the GCF Board (GCFB)

The GCFB is the governing body of the GCF. It shall be responsible for the supervision and management of the GCF.

The GCFB shall be responsive to the guidance provided by the Conference of the Parties and be fully accountable to the Conference of the Parties. The GCFB will report on the operations of the Fund to each session of the Conference of the Parties.

The GCFB shall:

a. Operate the Fund and make funding decisions in accordance with the Fund's scope, objectives and guiding principles;
b. Ensure that the GCF will operate in a transparent and accountable manner, through effective and efficient arrangements, seeking to minimize transaction costs;
c. Ensure that funds are distributed in a balanced manner among countries and regions, as well as access, including direct access, for Small Island Developing States and Least Developed Countries;
d. Keep funding windows arrangements under review and add windows and/or sub-windows as necessary;
e. Ensure that developing countries, especially those with capacity constrains, fully access its resources;
f. Ensure that funding is allocated in a balanced manner between adaptation and mitigation activities;
g. Decide on appropriate financing instruments;
h. Set policies and strategies for the Fund;
i. Ensure the application of strict social and environmental safeguards;
j. Develop eligibility criteria for projects, programmes, policies and other activities to be supported by the Fund;
k. Approve the GCF proposal cycle, including guidelines for the preparation of projects, programmes, policies and other activities proposals and eligibility criteria for implementation of such projects that respect country-ownership;
l. Oversee the operation of all the organs of the Fund, in particular:
    i. The GCFB shall set operational guidelines, work plans and budgets for the Secretariat and its technical or expert panel(s);
    ii. The GCFB shall select and, if necessary, replace the Head of the Secretariat (other Secretariat staff appointments will be made by the Head of the Secretariat under procedures approved by the GCF Board);
    iii. The GCFB shall approve the budget for the Secretariat
    iv. The GCFB shall draft legal arrangements with the interim Trustee;
    v. The GCFB shall provide instructions to the Trustee for the discharge of its role and responsibilities in accordance with the terms and conditions set out in the legal arrangements concluded,
    vi. The GCFB shall coordinate the review of this interim trustee arrangement after 3 years of operation of the GCF and ensure the review is completed before the end of the interim period. The Board shall conduct an open-bidding process for the selection of the permanent Trustee.
m. Develop criteria and application process for the accreditation of implementing and executing entities of the GCF;
n. Make accreditation decisions;
o. Conclude legal arrangements and enter into contracts with accredited implementing and executing entities of the Fund;
p. Establish a framework for monitoring and evaluation of performance and financial accountability of activities supported by the Fund, including indicators for assessing the transformational impact of the Fund; financial performance and external audits of the Secretariat and of the implementing and executing entities with regard to activities supported by the Fund

q. Consider, approve, and monitor cooperative arrangements or agreements with other organizations and funding institutions;
r. Advocate for the GCF and mobilize resources from a variety of public and private sources, including by coordinating negotiations of periodic replenishment of the Fund;
s. Shall establish committees, panels and working groups, as necessary, to provide, *inter alia*, expert advice, to assist the GCFB in the performance of its functions;
t. Shall draw upon and make use of external expertise it may require to perform its functions and develop working arrangements with relevant technical bodies of the Convention;

7. Rules of Procedures for the Board:

The Rules of Procedures adopted by the Adaptation Fund Board constitute a useful model for developing the basic Rules of Procedures of the GCF Board.

a. *Decision-making*
    i. Decisions of the Board shall be taken by consensus whenever possible.
    ii. If all efforts at reaching a consensus have been exhausted and no agreement has been reached, decisions shall be taken by a two-thirds majority of the Members present at the meeting on the basis of one member, one vote.

b. *Meetings*

The Board shall meet at least [X] a year and as often as necessary.

A simple majority of the members of the Board must be present at the meeting to constitute a quorum

8. Conflict of Interest

Members of the Board shall be bound by the rules of procedure of the Board and have no personal financial interest in any aspect of a project activity or a body presenting a project for approval to the Board

C. Independent Secretariat

1. Definition of “independent”:
The Secretariat should be a new and dedicated entity, within the Fund, that is unaffiliated with any existing entity.

2. Composition and size of the Secretariat:

a. The Head of the Secretariat shall be selected by the Board; shall report and be accountable to the GCF Board. The Head of the Secretariat shall submit annual activity reports to the Board;
b. The Secretariat shall have the capacity to hire staff (by the Head of the Secretariat with the approval of the Board) and such staff should be geographically diverse, including preference to those from underrepresented regions and countries such as SIDS and LDCs;
c. The Secretariat shall be staffed with professionals with experience in management, administration, finance, development, climate change and other relevant fields;
d. The Secretariat shall be of adequate size to manage a large amount of funding and projects, understanding that the roles, responsibilities and composition of the Secretariat will evolve over time as the fund scales up;
e. The Secretariat shall establish a special unit for SIDS and LDCs to assist these Parties facing specific capacity constraints, throughout the application cycle.
f. The Secretariat shall establish technical or expert panel(s) and groups, as necessary.
g. Role and functions of the Secretariat:
h. The Secretariat will report and function under the instructions of the Board;
i. The Secretariat shall manage the daily operations of the Fund;
j. The Secretariat will develop the business plan and annual administrative budget for the Fund and recommend them for approval by the Board;
k. The Secretariat shall operationalize the application cycle, including the screening for eligibility and technical review of proposals by developing countries to be presented to the Board for approval;
l. The Secretariat will liaise with Parties; national implementing or executing entities and cooperating bilateral and multilateral institutions and agencies;
m. The Secretariat shall provide the Board with technical, legal, administrative and other forms of support, as necessary, and report information on the operation of the GCF to the Board;

n. The Secretariat shall communicate information on the GCF's activities to the public, in particular through ensuring transparency on the operations of the Fund by reporting and publishing financial information, approved project methodologies, and other information relevant to stakeholders;
o. Provide the Trustee with all relevant information to enable it to carry out its responsibilities;
p. The Secretariat shall make proper arrangements for the meetings of the Board; and
q. The Secretariat shall perform any other functions assigned by the Board.

D. Trustee arrangements

The World Bank was designated as the interim trustee of the GCF, by decision 1/CP.16, para 107.

1. Role and functions of the Trustee:

a. As decided in 1.CP/16, paragraph 105, the Trustee has a limited role and function under the instruction of the GCF Board. The Trustee should only be responsible for channeling the disbursements to recipients;
b. The Trustee should have the administrative competence to manage the financial assets of the Green Climate Fund, maintain appropriate financial records and prepare financial statements and other reports required by the Board, in accordance with internationally accepted fiduciary standards;
c. The Trustee should not make funding decisions, or be involved in the projects' oversight or evaluation;
d. The Trustee may commingle the assets of the GCF for administrative and investment purposes with other assets maintained by the Trustee so long as the investments align with the purpose and principles as well as the social and environmental safeguards adopted of the Fund.

2. Selection of the Permanent Trustee:

a. The review of the interim Trustee (decision 1/CP.16, para 107) should be part of the first overall independent performance evaluation of the GCF, taking place two years after operationalization of the GCF and prior to the appointment of the next Trustee;
b. There should be a two-year open bidding process for the selection of the permanent Trustee, developed and conducted by the Board. The Terms of reference of the bidding will be defined by the Board, which will also manage this process. It will begin one year after the operationalization of the Green Climate Fund. The Board should retain the authority to appoint a new trustee based on the performance evaluation of the interim trustee and the result of the open-bidding process.

E. Coherence with other UNFCCC bodies

1. The GCF should provide relevant and requested information to the Standing Committee, so that it can perform its work.

2. The COP, assisted by the Standing Committee, will provide guidance to the GCF in order to improve coherence and coordination among operational entities of the Financial Mechanism of the Convention and ensure complementarity with other funds outside the Convention.

3. There should be harmonized application procedures and reporting requirements between the GCF and other sources of climate change finance to the greatest extent possible.

II. Submission by Mr. Sergio Serra (Brazil)

Workstream II (TC-2/WSII/1)

Governance and Institutional Arrangements

Document TC-2/WSII/1 proposes a work plan along 5 sub-items:

1 – Legal and institutional arrangements
2 – The Board
3 – The Secretariat
4 – Trustee arrangements; and
5 – Complementarity with the other operating entities of the financial mechanism and other climarte, environment, and development finance.

Items 1 to 4 are acceptable to Brazil.

Item 5, however, should not be dealt with in the TC for the reasons stated above, on Workstream I, i.e., **it should not be in the competence of the GCF to promote coherence in the system. This should be done by the body with the highest hierarchy in the system, which is the COP**.

On sub-item, Legal and institutional arrangements, Brazil favours a Green Fund with a proper **legal personality** so as to enable it to operate with more efficiency and independence.

The absence of a legal personality would make the Fund more dependent on its Trustee – similarly to what happens today with the GEF – forcing it to operate along the rules and norms of the Trustee and not according to specific norms designed for it by the Parties.

On the Board**,** its members should be **elected by the COP**, following the example of other bodies in the UNFCCC system.

As for the Secretariat, it is crucial for us that it can dedicate itself exclusively to the new Fund's operations. We prefer, therefore, that the GCF Secretariat be **independent** and hired specifically for the function.

On the trustee arrangements, we should keep in mind that it was agreed in Cancun to appoint the World Bank as the Fund's interim trustee so as to allow for the Fund to be operational immediately. Brazil favours the **selection of the Fund's permanent trustee by means of an open bidding process**, whose terms of reference should be timely defined.

III. Submission by Mr. Rob Stewart (Canada)

Canada's submission in advance of the third meeting of the Transitional Committee

This submission presents Canada's perspective on the key issues to be addressed by the TC, with the objective of providing guidance in the drafting of an instrument for the GCF, to be discussed at the third meeting of the TC.

Canada's submission includes comments on issues under each work stream. However, the major focus of the submission is on the design features of the GCF, which fall under WS III on operational modalities.

Work stream II: Governance and Institutional Arrangements

Canada believes that the legal and institutional arrangements of the GCF will be directly influenced by the decisions made by the TC on its design features. However, Canada fundamentally believes that the GCF should have broad powers and a high degree of flexibility to adapt as its activities evolve over time, in the context of a GCF which is guided by and accountable to the CoP as provided for by the Cancun Agreements.

As we learnt at the workshop on existing funds and institutions in Tokyo, these objectives will require that the GCF be afforded an appropriate legal personality, as well as a clear mandate for the Board to develop and implement new modalities.

IV. Submission by Mr. Richard Weber (Adviser to European Union members of the TC)

On Work Stream II: Governance and Institutional Arrangements

Legal and institutional arrangements

Basic feature:

The GCF should employ its resources in a catalytic way. Rather than establishing an entire new bureaucracy for project management and implementation, the GCF should use existing national, bilateral and multilateral financing channels and direct access modalities. All delivery channels should comply with the usual international fiduciary standards.

Legal Status:

The GCF must secure, from the start, an independent legal capacity and personality in order to:
- engage in contractual relationships with its counterparts, be it national implementing partners or bi-/multilateral international institutions
- implement direct access for the developing countries.
- be in a position to give full legal enforcement to the necessary international fiduciary standards and safeguards.

Relationship with the COP:

The GCF should be fully accountable to and operate under the guidance of the COP but its Board should take independently all decisions related to programmes and projects funding.

Relationship with the Standing Committee and other thematic bodies of the Convention

The Standing Committee and other thematic bodies that are being established under the Convention may provide information and recommendations to the COP for its consideration when providing its guidance to the GCF. There should be not any dependence between the GCF and all the other thematic bodies.

Obviously, the GCF or the COP may request advice from relevant thematic bodies as it sees necessary in relation with the GCF operations and organization.

The Board

Composition:

As foreseen by the Cop decision, the Board must be composed by 24 members, 12 representing developing countries (including representatives of the LDCs and of the small islands) and 12 representing developed countries.

Designation, Nomination and Qualifications of the 24 Members of the Board:

GCF Board members should be selected and designated by their respective constituencies in order to feed the Board decisions with the appropriate range of financial, management, administrative and technical expertise required and taking account of gender balance.

They should be then nominated to the Board for a mandate of 2 or 3 years renewable once.

Nomination of the Board Chair and Vice–Chair:

The Board will elect a Chair and a Vice-Chair among its 24 members for a mandate of 2 or 3 years not renewable. The Chair and the Vice–Chair will belong, on a compulsory basis, to the two different groups of the developing and developed countries, the developing countries and the developed countries representatives being alternatively nominated Chair and then Vice- Chair during 2 successive mandates.

A member elected Chair may be reelected later on as Vice-Chair and a member elected Vice-Chair might be re elected Chair later on.

Participation of observers:

Observers of Developing and Developed country Civil Society Organisations (CSOs), of affected communities, of Parties to the COP, of thematic bodies of the Convention (in particular from the Standing Committee), of multilateral, regional and bilateral finance institutions and of the private sector should be able to participate to the Board as observers.

In particular, stakeholder participation and input should be meaningful, with full transparency regarding all aspects of finance and implementation and with adequate guidelines and capacity building to ensure full accessibility to the process on an equitable basis, including for women.

Observers should be entitled to take the floor, under specific authorization of the Board, in an organized manner, following specific rules decided by the Board, allowing, full transparency of the Board deliberations and decisions, full participation of all interested parties and a quick and efficient decision process suffering not any unappropriate delay.

Mandate and responsibilities of the Board:

The GCF should be governed in a transparent, effective and efficient manner.

The Board of the new fund should be fully resourced to take its own informed and independent decisions and implement them. Only the Fund Board should have the full discretionary responsibility for funding decisions and should be accountable for these decisions towards the COP. The Board should be independent and fully responsible and accountable for the actions it finances.

The Board should inter alia:

- nominate its Chair and Vice-Chair,
- supervise, monitor and control the GCF Secretariat, the Trustee, and any advisory body or structure created under its authority,
- select and nominate, or approve the nomination, of all staff and Heads of the Secretariat, Trustee and advisory bodies or structures under its authority,
- decide all administrative rules, guidelines and operational procedures, applicable to the GCF and to the different bodies and structures under its direct authority,
- decide on the appropriate arrangements for developing and implementing investment strategies, taking in due consideration the Trustee proposals.
- decide all environmental, scientific, technical and social guidelines to be respected by GCF operations,
- take all the necessary decisions, rules and provisions in order to avoid any potential conflict of interest in relation with its Chair, Vice-Chair, Members, the staff and Heads of the Secretariat, of the Trustee and of all bodies or structures placed under its direct authority,
- decide the creation, composition, modification and content of the thematic windows or sub-windows of the GCF,
- decide priorities and operational and administrative modalities of access to the GCF,
- identify the criteria and eligibility requirements to be satisfied to benefit from GCF funding,
- define all access conditions applicable to GCF operations,
- define fiduciary standards and safeguards to be respected centrally and locally for the management of programmes and projects financed with GCF resources,
- identify, select, and decide all financing operations of the GCF,
- decide and manage the financial use of all GCF resources,
- supervise and manage the collection, supply and placement of all contributions and financial resources to the GCF,
- decide the accreditations of implementing entities,
- supervise ,monitor and control the implementation of all operations financed by the GCF and the respect of rules, criteria and standards decided by the Board, in particular of fiduciary standards,
- decide and supervise any administrative, financial or operational control or audit judged necessary in relation with operations and financing schemes of the GCF,
- examine and approve all administrative, financial and operational reports submitted to it, whether periodically or on a ad hoc basis by its Chair, Vice-Chair, Members, or structures and bodies under its direct authority,
- apply guidance of and be accountable to the COP, and, in particular submit to the COP, following its instructions, periodical administrative, financial and operational reports, as well as the results of any evaluation established by the Evaluation (independant) Unit of the GCF,
- measure and report periodically, on the basis of result – based indicators, fully integrated in the design and implementation of all GCF operations, about the effectiveness, efficiency and value for money of GCF operations and

financing,
- measure, report and verify all financial contributions to the GCF, as well as their additionality,
- classify operations financed or co-financed by the GCF in due consideration of their nature (grant, loan, blending, budgetary support, insurance, risk capital, equity participation, revolving fund, guarantee, etc…), and content (technical assistance, capacity building, technology transfer, investment in infrastructure, …),
- measure, report, verify and classify all operations financed by the GCF, in relation with their specific nature (adaptation, mitigation, mixed operation, forestry…),
- establish and supervise the application of transparent and secure procurement process and rules to all GCF central and decentralised operations and financing,
- establish and supervise transparency and information procedures ensuring the highest international standards, and enabling the full participation and awareness of all parties involved and interested, centrally, internationally, nationally or locally to GCF operations and financing, at all stages of the conception, identification, planification, programming, selection and decision process as well as at the level of implementation, monitoring and evaluation of GCF operations,
- secure, through appropriate guidelines, the participation and input of all stakeholders (developing and developed country CSOs, affected communities and indigenous people…) to all aspects of finance and implementation of GCF operations, programmes and projects, at the central, local, regional and national levels, to ensure full accessibility to the mechanism/process on an equitable basis, including for women,
- ensure a full disclosure policy of any information, decision, rule, deliberation, report, and evaluation, in relation with the Board or bodies and structures under its direct authority, and in relation with all GCF operations,
- decide all necessary provisions to implement the focal point role of the GCF with respect to the multilateral and other existing Climate Change financing bodies and mechanisms.

Decision –making rules of the Board:

The Board should take any decision by consensus provided that the quorum is reached.
The quorum should be defined as the majority of members being present within the group of developing countries and of the developed countries, i.e., 7 members of each group being present (14 members in total).
If a consensus cannot be found, a vote should be organised as follows:
- quorum, defined as hereabove, reached,
- majority of voters in each group, i.e., 7 +7=14 positive votes.

Thus, if the quorum is not reached, no decision can be taken whereas, if the quorum is achieved, but there is no consensus, a decision may be taken, provided a minimum of 14 positive votes, 7 in each group, is obtained.

Periodicity of meetings and continuity of supervision

The GCF Board should meet at least once every three months. The Chair and Vice-Chair should have the authority to organise additional Board's meetings, in case of urgency or, to organise, in duly justified cases, a written procedure to agree on urgent matters.
7 members of the Board pertaining to one or to the two groups may also require an urgent meeting of the Board.

Between the Board meetings, the Chair and the Vice-Chair might be authorised by a specific deliberation of the Board, stipulating precisely the nature and limits of the delegation of powers, to exercise together and, subject to their mutual written agreement and signature, certain operational decisions in order to preserve the management continuity of the GCF.

All corresponding decisions taken in the framework of this joint delegation of powers will be duly recorded, reported and submitted to the next Board meeting.

The Secretariat:

The GCF will need a specific and independent Secretariat with the expertise required to support the Board, in particular for strategy development, programme preparation, contracting, and monitoring.
The Secretariat will be placed under the direct authority of the Board and will report to and be fully accountable to the Board.
The Board will select and appoint the Head of the Secretariat, and approve the selection of the staff Secretariat proposed by the Head, following a transparent recruitment procedure.
The Board will define the mandate, and the different responsabilities and tasks of the Secretariat as well as its relations with the Trustee. The Secretariat will be completely independent from implementing entities.

The Secretariat will, in particular, be in charge of:

- managing the administrative budget of the GCF
- executing all administrative duties related to the Board meetings
- working, establishing, revising and supervising the different reports submitted to or by the GCF,
- following the portfolio of operations of the GCF,
- executing directly or supervising the execution of Board decisions,
- preparing the planification of GCF activities
- establishing, supervising and monitoring the GCF operational budget,
- managing the relations with the different multilateral, regional, bilateral, national, and local implementing entities,
- supervising the monitoring, verification and audit of GCF operations, programmes and projects,
- supervising, on behalf of the Board, the work, tasks and operations of the Trustee,
- establishing or supervising all statistics and indicators relevant for the GCF management and for the reporting of its activities
- the GCF information and communication policy,
- the transparency of the GCF operations,
- managing or supervising all procurement operations and contracts relating to the GCF,
- the follow-up and treatment of all complaints and redress mechanisms,
- managing and avoiding all potential conflicts of interests which may arise at the level of the GCF structures, operations and contracts.

The Evaluation Function will be realised by independent bureaux under the supervision and management of an Evaluation Unit, administratively attached to the Secretariat, but fully independent from it, and reporting directly to the Board which will be also directly responsible for the selection, the recruitment and the management of the Head of this Unit and of corresponding staff.
The GCF Secretariat may also require expert input from other Institutions and/or decide to work on specific studies or projects jointly with other Institutions.

TRUSTEE ARRANGEMENTS

The Cancun Agreements specify in paragraph 105 "that the Trustee shall administer the assets of the Green Climate Fund only for the purpose of, and in accordance with, the relevant decisions of the Green Climate Fund Board" and "that the Trustee shall be accountable to the Green Climate Fund Board for the performance of its fiduciary responsibilities".

This implies that the Trustee will operate under the direct responsibility of the Board and hence, will receive its instructions from the Board. The Board should be in a position to empower the GCF Secretariat to give instructions to the Trustee, as appropriate.

The Trustee will provide a regular and detailed reporting on its activities, allowing the Board to monitor its performances. The Board will organise with the Secretariat support, regular audits of the Trustee operations.

The implementing institutions will report and be fully accountable to the Trustee for the management and use of funds paid to them from the GCF resources, on the basis of the fiduciary standards decided by the Board following proposals of the Trustee and of the Secretariat.

In order to avoid any potential conflict of interest and to preserve its independence of action, the organisation finally selected to become the Trustee of the GCF, following an international bidding process, to be organised and concluded within the 3 first years of operation of the GCF, will not be allowed to participate to or to finance any GCF operation taking place whether centrally or in the beneficiary countries. The Trustee will be exclusively authorised to act within the strict limits of its mandate as defined by the Board.

Coherence with the other operating entities of the financial mechanisms and other climate, environment, and development finance.

To provide added value, the GCF must avoid to duplicate activities already covered by other existing climate financing channels and instruments.
In order to do so, the GCF should use its resources to stimulate climate relevant investments by public and by private investors and rely on national, bilateral, regional and international institutions as far as project management and implementation in the beneficiary countries is concerned.

The GCF Board and Secretariat should focus on the strategic use of its resources to stimulate climate action in the beneficiary countries and look first for complementarity with the other financial instruments of the Convention (GEF, Adaptation Fund), even if, later on, when the GCF will fully become operational, it could be envisaged, if appropriate and more efficient, to merge these different multilateral instruments with the GCF.

The GCF should aim at the organisation of an efficient and well coordinated, global Climate Change Financing System, where it could play a central role of animation, concertation, promoting interaction, complementarity, efficiency, clarity, coherence, best practices and synergies, and avoiding duplications and redundant activities.

An international platform, gathering around the GCF and under its leadership, all the main multilateral, regional, bilateral and national financing institutions, should be created to improve the coordination, exchanges, complementarity and interaction of the different CC funding channels.

The Standing Committee should have an advisory role (not a supervisory role) and make appropriate recommendations to this platform and directly to the GCF, for improving the functioning of the global CC financing system.
27July 2011

CHAPTER IV: SUBMISSIONS BY TC MEMBERS ON WORKSTREAM III: OPERATIONAL MODALITIES

I. Submission by Mr. Derek Gibbs (Barbados)

AOSIS submission on Workstream III

A. Provision of resources to the GCF

1. Financial resources provided to the GCF by developed countries, in the context of the goal of mobilizing jointly USD 100 per year by 2020, shall be new and additional, predictable and adequate, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change (decision 1/CP.16, para 97);

2. A significant share of new multilateral funding should flow through the GCF;

3. The GCF will be larger than any existing climate change financing entity and be scalable over time to become a major player in climate change financing;

4. The GCF should have the legal capacity and flexibility to receive and mobilize contributions and funding from a wide variety of sources, including innovative sources;

5. The Fund will be primarily sourced by public funding and their use be prioritized for projects, programmes, policies and activities that are relatively costly, risky or less attractive to the private sector, such as adaptation actions in SIDS and LDCs;

6. Contributions by developed countries to the GCF should be primarily in the form of grants;

7. The GCF will be receiving contributions from developed countries, revenues from innovative sources and contributions from the private sector on a continuous basis, in complement with periodic replenishments of the Fund;

Option 1:
8. A replenishment process for the GCF will be developed by the Board, that includes guidelines for the periodicity and the negotiation process for the determination of the overall level of funding required for the replenishment period;

Option 2:
8. Replenishment system:

a. At its first meeting, the Board will develop a replenishment process that includes guidelines for the periodicity and the negotiation process for the determination of the overall level of funding required for the replenishment period;
b. The first replenishment process of the GCF for a [X] year period will be initiated by the Board immediately after it is constituted. The length of subsequent replenishment period will be determined on the basis of the first overall performance review of the Fund, to be completed after the first three years of operation of the Fund;
c. The Board will organize and plan the negotiations of the replenishment process, jointly with Parties and with support from the GCF Secretariat;
d. The Board will develop, with support from the GCF Secretariat, replenishment scenario papers, which include policy and programming documents;
e. The negotiations will be undertaken in several phases within a period of a maximum of [XX] months;
f. Once agreement is reached on the replenishment document(s) by Parties, the agreed replenishment documents are decided upon by the GCF Board.

B. Engagement of the private sector

1. The GCF should aim at maximising the potential amount of private capital that can be leveraged with each public dollar, where appropriate.

2. For catalyzing private sector finance, primarily for mitigation activities, the GCF should support national public policies aiming at improving developing countries' investment climate, including revenue enhancing and risk mitigation measures.

3. The GCF should learn from best practice from arrangements such as Public-Private-Partnerships (PPPs) and apply these to mitigation and adaptation projects and programmes.

4. The Fund will assist governments in developing countries to make use of various instruments, including PPPs, to engage the private sector in national efforts for mitigation, adaptation, technological development, capacity building and institutional development.

5. The GCF Board will develop a set of instruments to help crowding-in private capital, by targeting market barriers of:

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

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

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

C. Funding windows

1. The Fund will support projects, programmes, policies and other activities in developing country Parties related to adaptation, mitigation including REDD-plus, capacity-building, technology development and transfer, with the objective of achieving balanced allocation between adaptation and mitigation;

2. Two Initial thematic windows for adaptation and mitigation, including REDD+ and one window for SIDS and LDCs will be established;

3. The GCF Board shall have the possibility to add windows and sub-windows, as necessary;

D. Financing instruments

1. The Fund will utilize a variety of financial instruments (grants, concessional and non-concessional loans, equity, guarantees, insurance etc…) that are appropriate for each type of activity or window;

2. Grants should be the prominent financial instruments used for adaptation activities and for projects, programmes, policies and other supported activities in SIDS and LDCs;

3. An allocation floor for SIDS and LDCs shall be determined (a minimum indicative allocation).

E. Access modalities

1. The Fund will support a variety of sized projects, low carbon and climate resilience development programmes and plans that reflect national ownership and countries' sustainable development priorities and respect country-led formulation and implementation processes. Capacity-constrained countries such as SIDS and LDCs should have flexibility and be supported in the formulation of their projects, plans and strategies, so that they are not put at disadvantage;

2. The Secretariat will evaluate proposals for projects, programmes and plans through review processes based on the best available scientific and technical standards that take into account local realities and priorities. The Secretariat may consult external experts, as necessary;

3. The Fund will ensure that developing countries, especially those with capacity constrains [such as SIDS and LDCs], fully access its resources, through support to capacity-building, including institutional capacity-building for project planning, application and implementation;

4. The GCF Board will develop and establish simplified and rapid processes in application for, and for disbursement of funds in a transparent, efficient and effective manner that do not place an undue burden on developing countries;

5. In order to provide direct access at scale, the GCF Board may accredit national, sub-regional and regional implementing entities in countries, sub-regions or regions, when meeting the accreditation criteria defined by the GCF Board and where appropriate;

6. The Fund shall ensure that all developing countries can utilize direct access modality. In particular, the GCF Board shall consider options that allow the application of the agreed fiduciary standards, taking into account diverse national circumstances, including conditional accreditation of national implementing entities, while ensuring the quality of the standards is not undermined;

II. Submission by Mr. Sergio Serra (Brazil)

Workstream III (TC-2/WSIII/1-5)

Brazil favours that the GCF be designed to source funds from different sources, including private ones.

Resources allocated by developed countries, **the main source of financing, should guarantee predictability** to the flow of resources operated by the Fund.

Since the GCF will be managed by a Board composed of 24 members only, Brazil is of the position that **the negotiation of the scale of assessments to be applied to developed countries should be carried on under the COP**, in order to guarantee transparency and equitable participation in the process.

Document TC-2/WSIII/1, however, dedicates a privileged focus to the interaction with the private sector, leaving the public sector in the background or in a secondary position.

The objective of the Green Fund is to allow developing countries to fight climate change, delivering financial resources that would enable the Convention to be duly implemented. Therefore, **the focus in the public sector should not only be with respect to the sources of funding but also to the recipients of the funds**.

Thus, **Brazil does not favour a structuring of the Fund that is directed exclusively or primarily to public-private partnerships**.

It will also not support a modality of disbursement that would condition access to grants to the borrowing of supplementary resources.

The GCF should have non-repayable grants as an important part of its disbursements, **and not stimulate the indebtedness of developing countries**.

III. Submission by Mr. Rob Stewart (Canada)

Canada's submission in advance of the third meeting of the Transitional Committee

This submission presents Canada's perspective on the key issues to be addressed by the TC, with the objective of providing guidance in the drafting of an instrument for the GCF, to be discussed at the third meeting of the TC.

Canada's submission includes comments on issues under each work stream. However, the major focus of the submission is on the design features of the GCF, which fall under WS III on operational modalities.

Work stream III: Operational Modalities

Canada believes that the overall objectives of the GCF should be translated into its key design features. More precisely, Canada deems necessary that that the TC must address the following issues:

(1) how to achieve **predictability** and reach the necessary **scale**;
(2) how to effectively aim for **balance** between mitigation and adaption;
(3) how to ensure simplified and rapid **access**, based **on accountability** to agreed goals and demonstrated achievement of measurable impacts;
(4) how to achieve a **transformational impact**, both in the market and through the enhancement of national capacity.

(1) Predictability and scale

In order to have a GCF that mobilizes resources at scale, in a predictable manner, it must make the best use of limited public sector contributions to leverage private sector resources.

In order to achieve **predictable financing at a significant scale**, the architecture of the GCF will need to be enabled to accept different types of contributions – grants, loans, capital – as well as ensure that reflows from the Fund's investments are dedicated to further programming in developing countries.

In this context, the GCF could have two broadly distinct financing arms:

- **A sovereign financing arm** based on grants and concessional loans, with a strong focus on adaptation, but also on mitigation in lower income countries that cannot access sufficient market financing. This arm could be funded through a combination of donor contributions and from transfers from the private sector financing arm, and should strive, where appropriate, to mobilize financing from other sources, notably through the stimulation of additional private investment.

- **A private sector financing arm** that would use its available public resources to leverage additional private sector investments, through a range of instruments - i.e., grants, guarantees, insurance, equity, concessional loans, subordinated debt. This window is likely to focus significantly on financing mitigation, notably by addressing the risk-return imbalance that is a common barrier to scale up investment in mitigation and low-emissions development. However, it should also be in position to leverage private adaptation-related investments where appropriate.

The private sector financing arm of the GCF could be structured in a similar way to the private sector and hard windows of the multilateral development banks (MDBs), with a capital structure that could be composed of paid-in capital and callable capital from donor countries. The private sector investment arm of the GCF could also leverage the existing capital of MDBs by partnering with these institutions in the financing and implementation of projects and programs.
The capital structure of the private sector financing arm of the GCF, backed by donor governments, would allow it to raise additional resources on the capital markets, thus further increasing its overall resource base. In the early years, it is likely that the private sector financing arm of the GCF would also require direct contributions from donors, but over time it should be able to finance new projects using reflows from existing projects in a self-sustaining manner.

A private sector investment arm would provide for the effective leveraging of private sector funds while ensuring a greater predictability of resources. The reduced cost for shareholders could also result in greater contributions. For example, referring to the current MDB system, each dollar of paid-in capital can enable between two and five times that amount of annual financing, depending on the MDB.

Furthermore, the return on investments made by the private sector investment arm would supplement the contributions from donors made to the sovereign financing arm, further strengthening predictability and the achievement of scale. For example, together the six major MDBs (AfDB, AsDB, CDB, IBRD, IDB, IFC) have transferred more than $1 billion of net income to their respective soft windows in 2010.

(2) Balance

On **balance**, the structure of the fund should reflect the overarching objective of achieving both mitigation and adaptation impacts. The GCF should also have a wide coverage and fill gaps of existing climate change funds.

Canada supports the emerging consensus that that there probably will need to be at least a mitigation window and adaptation window, each with the appropriate governing arrangements such that that they can achieve significant flows of support and have a meaningful impact in a timely fashion.

For the GCF to be balanced, both mitigation and adaptation windows should have the flexibility needed to use a wide variety of programming approaches and financial instruments, drawing on financing as necessary from the private sector financing arm and the sovereign financing arm.

For example, both arms of the GCF could include alternative pricing, whereby financing rates depend on the recipient country and the type of project. For example, the GCF would provide financing at rates closer to market rates for projects that are near commercial viability and that have significant revenue or profit potential. Similarly to IDA and IBRD, recipient countries would have access to different lending instruments and terms depending on their income levels.

An adaptation window should, as a matter of priority, be able to address the needs of the poorest and most vulnerable countries, and as such questions of access, as discussed below, will also be critical, to ensuring balance. Not only will additional resources be required to support the poorest and most vulnerable countries in meeting their adaptation needs, but consideration will need to be given to the scale of programming appropriate for these countries, which in many cases may need to be based on further simplified access for small scale programming. For example, a distinct window for such programming, with simplified rules and procedures, could be useful rather than needing to go to either the adaptation or the mitigation window separately.

In order to respond to evolving needs and results achieved under the GCF, the Board should be given the flexibility to add or change the scope of windows as the GCF evolves over time.

(3) Access and accountability

On **access**, the key is to design an instrument that will find the right balance between ease of process and accountability for results. Canada would support the consideration of a "pathway" to direct access, available to all countries who can demonstrate compliance with core fiduciary standards and other safeguards and well as maintain a track record of results. The pathway to direct access should itself be a process that helps build national capacity necessary to benefit from the direct access modality. It may not be necessary to specify this approach in details, but rather to set out the broad parameters of the approach and enable the Board to further develop and implement it during the first operational phase of the GCF.

Canada also recognizes the call by SIDs for dedicated country allocations as something to consider as one way to improve access for small and vulnerable countries. We welcome discussion of varying approaches that can simplify procedures and ensure access, recognizing that an effective risk management approach could include less burdensome approaches to ensuring accountability when the scale of resources committed is relatively small.

The experience of existing funds should be helpful, including the recently agreed reforms to the GEF access provisions including as agreed during the 5th replenishment, namely a minimal allocation dedicated to each country and work towards broadening the GEF partnership to national implementing agencies. The successful GEF small grants programme, which includes an accelerated and simplified approval process, is another useful model.

Accountability towards agreed goals, and the measurement of how the GCF is achieving impacts in line with these goals, can provide clarity and confidence to both recipients and contributors. It will be useful to specifically provide for accountability mechanisms in the instrument. Accountability for results in individual programmes can strengthen flows over finance over time at a country level and strengthen the case for simplified access, and therefore Canada will want strong assurances that the pathway to direct access and other provisions for simplified access are based on a strong basis of mutual accountability and measurement of results. Similarly, the private sector financing arm should also ensure accountability for results, appropriate safeguards, and approaches to provide sufficient certainty that financing is not going to business-as-usual activities but rather supports incremental investments with clear climate benefits for which a public subsidy is necessary.

(4) Transformational impact

In Canada's view, transformation through GCF programming should be approached from two key perspectives:

- how programming by the GCF can **transform the incentives faced by players in the market**, notably by addressing risk and return imbalances, barriers to mitigation and low-emissions investment, and market failures, and by broadening and deepening private financial markets for this investment and related financial institutions; and,

- how programming by the GCF can strengthen **national capacity to address climate change and its impacts**, including by mainstreaming capacity building into all GCF programming.

Finally, programming by the GCF should be consistent, where appropriate, with the principles of the Paris Declaration on Aid Effectiveness.

IV. Submission by Mr. Richard Weber (Adviser to European Union members of the TC)

On Work Stream III: Operational Modalities

General considerations:

With the clear objective of gathering as many financial resources as possible, the GCF needs to be open for the whole range of financing sources from public and non public side.
To attract as much financing as possible, donors should be allowed to earmark their contributions to specific windows.
The GCF will receive both direct contributions and indirect financing.

The main source of direct financing, especially in the beginning, should come from public financing.

Public financing, mainly under the form of grants, will be crucial to provide the minimum predictability required for climate financing, in general for adaptation programmes and projects, and in particular for LDCs and small islands projects and programmes.

FINANCE ENTRY POINTS

Types and forms of finance contributions:

The GCF should receive 3 main types of contributions:

- Government contributions, mainly under the form of grants, but also under the form of concessional lending.

- Non states actors contributions from foundations, in particular from private foundations, in general, under the form of grants.

- Specific financial resources, attributed to the GCF under the form of grants, deriving from international innovative mechanisms put in place by the international community (e.g. levy on mitigation markets or on aviation and shipping fuels etc…).

Other types of resources like the issue of bonds could also be envisaged at a later stage.

Mobilisation of the contributions:

To maximise the possibility to access to financial resources coming from a variety of sources, the GCF should be open for both replenishment and continuous financing, and, in order to do so, two systems of mobilisation of funds should be put in place in parallel:

- a permanent, continuous system to collect and receive contributions granted to the GCF on an ad hoc basis and contributions coming from a regular source of revenue (e.g. part of a levy).

- a periodic, cyclic, system of replenishment, following a certain time pattern (every 3, 4 or 5 years), mainly used for governments contributions delivered under the form of grants, which will secure a minimum level of predictability for the GCF.

Mobilisation of private finance:

The focus for methods to mobilize private sector finance should and can not lie in receiving direct contributions to the Fund.

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

Institutional investors seek, as their main objective, to generate dividends and revenues.

In order to do so, they look for investments presenting, limited and, in any case, well identified risks, as well as for a stable, clear, political, legal and economic environment. They wish to remain fully on control of their own financing decisions and resources.
These characteristics can only be mastered and identified at a national or local level and in relation with specific programmes, operations, investments and projects, rather than at the global level of a multilateral and centralised, global Fund like the GCF.
Private investments represent a powerful vehicle for helping countries achieving their climate goals but the main objective should not be to support the private sector for achieving its specific own targets but to boost the climate change adaptation and mitigation programmes and projects in the developing countries.
Accordingly, considerations on profitability should remain subordinated to the ultimate objectives of the GCF, especially, in the field of adaptation, so difficult to achieve.

Private contributions might be attracted in the longer run as social investments from foundations or investments which are guaranteed by public funds.

A political and operational question remain, however, whether and to what extent the GCF, itself, could and should rise funds directly from the capital market or through an existing financial institution (in order to avoid setting up additional banking structures in the GCF).
In any case, it must be kept in mind that since the GCF should be mainly financed via grants, such fundraising would just be frontloading later grant contributions.
In case the GCF was considered to issue green bonds, either directly - in that case it should be fully incorporated as a legal entity - or via an ad hoc structure, e.g. via a Special Purpose Vehicle - it would be against a mix of assets consisting of loans, equity investment and disbursed and/or pledged grants from donor countries.
These grants would then serve as a credit risk enhancement mechanism in order to obtain a AAA (or close to AAA) rating of the bonds issued by the GCF or by the ad hoc structure created to issue the green bonds.
The European Commission has already envisaged in 2009, together with the WB, to set up a similar mechanism (The Global Climate Financing Mechanism, GCFM) for frontloading adaptation activities.
We could provide some information about this initiative in the framework of the next T. C. Geneva workshop discussion in September.
Another option to involve the private sector would be to use pledged grants from donors as a first loss cushion for private investors within a waterfall structure (structured fund).
This mechanism has already been used successfully by Commission Services, in collaboration with bilateral E. U. member states financial and development agencies, in particular, in the field of SME support.

FINANCE MANAGEMENT PRINCIPLES

Administrative and financial procedures used by the GCF must be and remain, simple, clear, and effective, in order to deliver quickly, to be responsive to the requests of the Developing Countries, to achieve the results and value for money expected both by the Beneficiaries and the Donors Countries, and to keep the administrative and staff costs at a reasonable level.

In application of the mutual accountability and reciprocal commitments, taken by Developing and Donors countries, within the context of the Paris Declaration, Internationally Accepted Fiduciary Standards have to be applied, both centrally and at the national, regional and local levels, to all operations, actions, projects and programmes financed by the Fund.
If needed, financial auditing, including on the spot audits, must be performed, at any stage during the implementation process.
Any irregularity or fraud must be promptly sanctioned and corresponding financial resources should be recuperated without delay (see for more details our contribution to work stream 4 monitoring and evaluation of 27/07/2011).

THEMATIC WINDOWS

The GCF may potentially address all types of climate actions.
From the beginning, **three main thematic windows, corresponding to the three key policy objectives, should be created: Adaptation, Mitigation and Forestry (REDD+)**.
Capacity building and technical expertise as well as Technology Development, Cooperation and Transfer, being cross-cutting issues, are and will be fully integrated in these three main windows.
If needed, new windows or sub-windows might be created by the Board later on, depending on financing resources available and Beneficiaries' needs.

This is the most appropriate way to structure the GCF to accommodate climate change actions as well as political requirements and visibility or communication purposes (public opinion must easily understand what the GCF is for).

Creating multiple windows based on the type of beneficiaries, contributors or financial instruments would generate management complexity, delays and unefficiency without any clear advantage in return, whereas the use of a good tracking and reporting system will allow to follow and account adequately all types of beneficiaries, contributors and financing tools.

Under the tree GCF different windows, flexibility of implementation methods and instruments will be essential to make best use of financial resources and deliver added value.

FINANCING INSTRUMENTS

The **GCF needs to provide a whole range of different financing instruments** such as grants, guarantee mechanisms, risk capital, loans, budget support. The most appropriate financing instrument or combination of instruments should be available to be used for each and every project or objective.
While some general criteria have to be established, it will be mainly, on a **case by case basis,** that the decision on which instrument should be used and which amount should be made available will be taken in relation with the specific characteristics of each programme or project.
For the application of general criteria, very often, too many variables (country profile, sector, nature of the project…) are involved.
In case of projects not generating revenues, especially in the field of adaptation, grant financing will be mainly needed and used.

An important constraint to take into account is the **limited capacity for loan financing and debt taking of most LDCs.**

Mechanisms designed under the GCF to leverage loans or attract private sector will have to take the borrowing capacity of countries into consideration and should, by all means, reduce the risk of indebting further Developing Countries at dangerous and unsustainable levels.
One possibility to generate loans, when and if appropriate, in order to avoid the necessity to create a new banking structure in the GCF, would be to use MDB and local finance institutions and to mix their loans with grants of the GCF to improve financing conditions of the corresponding operations or to provide TA.
This could be combined with the principle of direct access by channelling these grant funds not via banks but via eligible national entities or the Central Bank of the Beneficiary country.

Sector budget support should be definitively included in the range of financial instruments to be used by the GCF, as a vital financing modality which has, in particular, the advantage of building on national sector strategies and on decentralised level development plans (municipalities, cities) and to place fully the Developing Countries in the driving sea of the operations.

An important **question is how to crowd in and catalyse private sector finance**.

First, there is a need to improve the overall regulatory framework and investment climate in Developing Countries by fostering conducive and stable policy frameworks and improving the absorption capacity of the host market for local and international private investors.

Capacity building can be an effective tool to address inefficient market outcomes and strengthening local institutions is an important step in this direction.
In addition, budget support can play a major role in improving the necessary regulatory frameworks at national level for private sector investment via financing incentives. By agreeing on specific contractual objectives, the reform process on a national level can also be accelerated by budget support programmes
These are essential pre-investment activities which could be tackled by the GCF, in particular, in the poorest and ill-equipped Developing Countries as well as in any potential CC orphan country.
Innovative public-private partnerships could address the risk perception of the private investors, e.g. by risk sharing or financing the junior tranches of some investments (in case of structured funds).
Especially, in the case of projects involving the private sector in the field of mitigation, guarantee mechanisms for risk sharing and grant co-financing for direct subsidies will be efficient tools.
Such guarantee mechanisms bring added value but are not, as such, self-sufficient to attract private investors. They need

to be accompanied by enabling the regulatory framework.

Other options are the financing of feed-in tariffs and technical assistance for structuring/project preparation as well as investment grants for improving affordability.

Private sector involvement will, de facto, take place at the national level via project financing.

Timing is critical for the private sector and clear rules must be put in place at the national level for using GCF, enabling the international and local private sector to obtain approval of their investments financing in a short time frame.

An important tool for crowding-in the private sector, at larger scale, is certainly the carbon market.
All mechanisms already existing should be carefully considered before to decide if, when and where, the GCF could provide added value.
As carbon market sources favour quasi-exclusively mitigation projects, such interventions will benefit more the emerging economies than the poor Developing Countries.
Consequently, grant-based resources will be essential for adaptation and community level mitigation in LDCs, SIDS and other less developed countries.

ACCESS MODALITIES

Access should be kept as flexible as possible.
Direct access

The main modality should be direct access by partner countries.

This can be either achieved via national designated implementing entities or via budget support granted to the beneficiary state (see also our contribution to w. s. 1 and 4 from 27/07/11).

Private sector access:

Joint public – private partnerships should be entitled to get access, with the support of the Beneficiary country, to the GCF financing in order to cover the viability gap of public goods related investments or to lower the risk – return profile at an acceptable level.

The private sector will need to have full confidence in local implementing entities or agencies managing the GCF financing and operations to invest any capital.

Thus, the beneficiary country could envisage, when appropriate, in order to palliate deficiencies of its NIEs and to reassure private investors, to use private managers, rewarded on the basis of the successful outcomes of the projects.
In any case, the criteria for success of each operation must be properly identified from the beginning so that the entities managing the GCF at the local level can be appropriately motivated and measured.

Projects and investments under GCF must be embedded into the corresponding national climate and fully integrated in the national development plans and strategies.
Most of the time, climate actions can not be separated from other, regular activities, herefore the link to general development strategies is essential.

That is why a bottom up approach led by the beneficiaries countries is crucial.

Finance institutions access:

Another system of access should be via the multilateral, regional, bilateral, or national, financial institutions and banks, which the Beneficiary country would decided to designate as its national implementing entity. This scheme would be particularly appropriate for certain costly mitigation investments to be financed under a blending formula, mixing grants, Financial Institutions loans and private capital.

In certain cases, CSOs, provided they present the necessary size, status, guarantees and expertise could be entrusted by the beneficiary country to serve as a NIE.

BALANCE BETWEEN THE THREE MAIN PRIORITIES, MITIGATION, ADAPTATION AND REDD+

The GCF should aim at a balanced allocation between Adaptation, Mitigation and REDD+, in a pragmatic way, taking in due consideration:
1) the needs and requests of the Developing Countries,
2) the number, size, nature and quality of the programmes and projects directly submitted by them,
3) the resources available for each window, following the amount of unearmarked and earmarked financial contributions paid to the Fund by the different categories of donors.

Efficiency gains must also be sought, through projects, actions and programmes, contributing to both Adaptation and Mitigation, and delivering further multiple benefits.

EXTERNAL INPUTS AND OPERATIONS

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

RELATIONS BETWEEN THE GCF AND OTHER CC FINANCING CHANNELS AND MECHANISMS

As it will be neither realistic, nor possible or efficient to manage all the different flowing CC resources within one unique Fund, ways of giving to the GCF a central leading role of all the different existing and operating CC financing mechanisms should be considered.
The GCF could play the role of a facilitator between the various funding sources and separate funds to address fragmentation of funding. National entities eligible to the GCF could also be of added value regarding the coordination of funds and funding opportunities (in-country coordination mechanism).

V. Submission by Mr. Manfred Konukiewitz (Germany)

On Questions regarding the legal status of the Fund, its windows and operational modalities (i.a. direct access) should be covered by other sections of the foundation document.

II. Financial Instruments of the GCF

The foundational document should include the following aspects:

- The GFC shall apply **a broad range of financial instruments** like grants, concessional loans, risk-reduction instruments, blending mechanisms, and micro-finance solutions.

A *broad toolbox* is necessary to address the *multitude of different barriers* toward low-carbon and climate-resilient development in the different countries and sectors and to involve all related actors, in particular the private sector. The provision of a broad range of financial instruments would allow the Fund to create the highest impact with the available funding volume.

- The Board should be mandated **to extend and modify the fund's instruments to make best use of its financial resources in the light of the experience** gained.

- A **high level of financial expertise** in the design and the application of financial instruments, especially during the **approval-procedure** for funding proposals, needs to be secured.

VI. Submission by Ms. Nakao Ishii (Japan)

Green Climate Fund Transitional Committee – Submission Japan

Preamble

The Green Climate Fund (GCF) will support developing countries which will take actions to implement low-carbon and climate-resilient development pathway toward an ultimate goal of reducing global greenhouse gas emissions to hold the increase in global average temperature below 2C.

Based on the SPEED (Scope, Principle, Evolution, Efficiency and Durban Deliverable), mutual trust and collective ownership, all of which constitute the "Tokyo Spirit", Japan would like to present in this paper our thinking on core structure of the GCF focusing on selected key elements. We believe that this will contribute to facilitating our discussions toward Durban.

The GCF is expected to demonstrate what its additional values are. The most important in our view is that the GCF is structured in such a way that will leverage a wide variety of financial resources from the private and public sectors. For this purpose, we recommend that GCF's principal financing instrument be in the form of "grant" assistance, as discussed below, and accordingly the principal instrument to raising funds be "grant".

That said, Japan is aware of the importance of GCF's continuous evolution in the future course, by adopting appropriate options for its modalities including financing and fund-raising instruments other than anticipated in the original structure.

1. Financial Structure of the GCF-Grant to Maximize Leverage

Grant should be the principal financing instrument of the GCF: To leverage financial resources from the private and public sectors in the most effective manner, we recommend the GCF use grant as the principal financing instrument.

In order to make the GCF's additionality clear, grant from the GCF should be used to cover incremental costs of investment for mitigation and adaptation projects. Examples of incremental costs of a mitigation project include upfront costs of adopting clean technology for power generation projects or risk-guarantees for adopting new technology for mass transportation infrastructure. Examples of incremental costs of adaptation projects include costs of combining climate resilience components in the basic investments for coastal infrastructure, rural roads, and agriculture of vulnerable areas. Unless these costs are covered by the GCF, other financiers including private and public will not come in and the project will not be materialized.

Grant from the GCF will make a project financially attractive for the private sector to invest. The combination of grant from the GCF and loans from international public financial institutions will allow recipient countries to avail financial resources of softer terms. Grant can also be used for capacity building exercise such as enhancing readiness, regulatory reforms, low-carbon project development and MRV, which are not normally to be financed by loans. These are the typical illustration of the leverage function of grant; the GCF with grant assistance can catalyze wide ranging financial resources for climate finance.

Beyond individual projects, the GCF may be used to enhance the catalytic role to mobilize private sector investment by helping recipient governments undertake appropriate policy and regulatory reforms conducive to promote green investments (such as adopting a list of new technology to be used for power plants).

Long-term concessional loans will have limited leverage impacts compared to grant in mobilizing private funds: Value addition by the GCF will be less clear, as concessional loans are being provided by existing financial mechanisms, particularly Multilateral Development Banks (MDBs). Concessional loans will require a complex financial management including reflows and arrears, while operation of grant resources will be relatively straight-forward.

Semi market-based loan is a less favorable option as a financing instrument of the GCF: There are views that the GCF should raise funds from the capital markets and provide semi market-based rate loans (SMBLs) in order to expand its available financial resources. In this case donor contribution is used to constitute paid-in capital or collateral for repayment. It should be noted that, if the GCF is to provide SMBLs, it has several consequences on the modalities of the GCF. First, developing countries with debt-sustainability issues may not be able to use GCF support. Second, GCF support will hardly be provided to adaptation projects which are normally not revenue earning. Third, there may be undesirable competitions between the GCF and MDBs as MDBs also provide SMBL finance to green projects. The differentiation between the GCF and MDBs will become vague in this regard, and the value-addition of the GCF will be in question. Last, the legal status of the GCF will become a critical issue. In order to have access to the capital markets, the GCF is required to be a legal entity.

Donor contribution should be in the form of grant: As long as the principal financing instrument of the GCF is grant, its funding sources should be grant from donor countries. While long-term concessional loans may be easier for donors to mobilize as large headline contributions to the GCF, they are not appropriate funding source for grant. As in the case of any grant-based financial institutions, the GCF will warrant periodical replenishments. GEF type financial modality is the most favorable option where donor countries contribute grant and the GEF provides grant to recipient countries.

2. Private Sector Window

A window for private sector participation should be set up: Setting a separate window for private sector participation will support private sector's beneficiaries with group of professionals with different skill mixes in originating and designing projects. For a project financed and implemented without using the government or intermediary agencies and only by private entities(*), direct provision of financial resources to the private entities from a separate window may help insulate unnecessary public sector interventions and thus facilitate project formulation and implementation. The GCF Board should elaborate on how to manage and administer this separate window as well as secure accountability of private entities. Professional entities, fund managers or MDBs' private sector section may take this part.
(*) Case example: A private power company will develop solar power projects with financing by its own budget and commercial banks' loan. GCF may help to support the incremental costs of the solar power projects and provides minimum grants to the power company.

3. Direct Access

Japan recognizes the potential benefits of a Direct Access (DA) modality in empowering local actors, regardless of the governments, private sectors and communities, which leads to responsive and innovative projects.

Basic structure of DA: A DA modality, in which accredited entities including those of non-government sector will directly receive funds from the GCF to implement projects, may be explored in the GCF. In doing so, ensuring strong implementation capacity of the project agencies and appropriate application of environmental and social safeguards is critical.

Monitoring system: There needs to be a monitoring system for a DA modality to ensure that projects are fully complied with internationally recognized practices and standards in the area of environment and safeguards. An independent entity should monitor progress, provide assistance and evaluate performance of project agencies during project implementation period. We may explore innovative mechanisms by establishing partnership with Non Governmental Organizations and community based Civil Society Organizations, contracting with independent professionals and financial intermediaries such as local banks.

4. Governance

Basic principle: It is important for the governance structure of the GCF to be simple and fair.

Board member: It is appropriate that the developing country group and the developed country group will self-select their 12 board members, respectively. Both groups should be able to develop their own principles for the selection of the Board members. For the developed country group, the size of financial contribution to the GCF should be reflected in the constitution of Board members, which will work as incentive for developed countries' contribution. For the developing country group, several constituencies may be formed taking into consideration regional balance and nature of countries such as fragile and small island states so that voices of member countries will be reflected in a balanced manner in the GCF's operations. Board member should be selected without approval or involvement of any other institutions or mechanisms.

Decision-making: Decisions of the GCF Board may be taken by consensus, but an appropriate voting mechanism should also be in place in case consensus is not attainable. GEF's double majority system with a weighted vote may be considered as a model. As have been observed in the GEF's past operation, its voting mechanism, even though it has never been executed, has worked as an anchor and led to a consensus in a timely and effective manner.

Single GCF Board: For an effective management of the GCF, there should be a single Board. In the case of the Climate Investment Funds (CIFs), several boards have been established for each different window (i.e. Climate Technology Fund, Forest Investment Program, etc.). However, the past experience suggests that this multi-Board mechanism has not worked effectively because knowledge and expertise have not been well-shared among different Boards and discussions have been duplicated. There may be a concern that a single Board can not have sufficient technical expertise for wide-ranging issues. In that case, we may consider establishment of professional committees to provide the Board with advice on specific areas and issues.

VII. Submission by Ms. Carol Mwape (Zambia)

On Elements of the TC TORs in Appendix III of the Cancun Agreement

1(c) Methods to manage the 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 a balanced allocation between adaptation and mitigation;

On Enhanced Direct Access

Many developing countries currently may not have the institutional capacity that would be required to participate in the envisaged enhanced direct access although they have been implementing a number of projects through various mechanisms. It will be crucial for the success of the GCF at scale to undertake fiduciary assessments for countries to determine the respective capacity needs that would create in-country enabling conditions for such enhanced direct access. This enabling process will also have to take into account the need to avoid setting fiduciary standards for the GCF which would make it impossible for LDCs to participate in (enhanced) direct access. Learning from other funds and the question of legal personality of the GCF, there is need for the GCF to be accorded legal status to enable it enter into contractual arrangements with NIEs and thereby ensuring that direct access is enabled.

On Resource allocation

Given the need for enhanced direct access to be able to function at scale, it is clear that the GCF will have to involve some form of resource allocation system. In this context, it is of paramount importance that any such methodology conforms to the principle of equity. In particular, any form of prioritisation must give precedence to particularly vulnerable countries such as LDCs, SIDS and Africa with particular attention for balanced allocation between adaptation and mitigation.

On Earmarking of contributions

Under traditional ODA, earmarking of contributions is optimal but for climate change financing assessed contributions to the GCF should not be earmarked, either to windows or to instruments/modalities. The decision on how to allocate the funds should be left to the GCF Board, under the guidance of the COP, particularly as concerns the need for a balance between funding for mitigation and adaptation. Lessons should be learned from the SCCF where out of four only two windows have been active because contributors opted to choose which window they contributed to.

1(e) Complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions (including existing structures under the UNFCCC)

One way in which the GCF can ensure complementarity with other bodies engaged in climate finance is for the GCF to focus on innovative delivery instruments and access modalities, such as enhanced direct access, which are only viable for a fund at the scale envisaged for the GCF. Whilst complementarity between funds ordinarily ought to ensure synergies across various projects and programmes and lessons sharing across funds, the GCF must distinguish itself and maintain relevance within the context of the implementation of climate change activities. Whilst important in helping avoid duplication, complementarity should not mean the same as replacement or rechanneling of funds back to GCF as supposed to considering the next best project on climate change within a given recipient country. Within the context of complementarity, a clear distinction between climate change financing and traditional ODA should clearly be drawn for a clear definition of "transformational change in climate financing" to be appreciated.

1(g) A mechanism to ensure periodic independent evaluation of the Fund's performance

The GCF is designated to be an ***operating entity*** of the UNFCCC Financial Mechanism, and as such it is ***to be guided and held accountable*** by the UNFCCC COP. It is not possible for the COP to carry out this function effectively without ***genuinely independent evaluations*** of the GCF (and its other operating entities). The required independence of these evaluations is ***not*** guaranteed if they are commissioned by the entities to be evaluated. Instead, the COP may wish to request its ***Standing Committee*** to commission such independent evaluations of all the operating entities on its behalf.

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

In order to ensure accountability of funds under the GCF it is important that from inception, appropriate fiduciary standards assessments are conducted in recipient countries depending on preference of individual countries' mechanism for channelling such funds whether through NIEs or respective institutions so mandated. Recipient countries should be consulted regarding the best available mechanism to ensure financial accountability using a bottom up approach to arrive at the best modality.

Where the fiduciary assessments show the need for capacity building, such could be recommended with appropriate action plans to ensure adherence to standards at the shortest possible time. Critical to this proposal is the need for effective dialogue between GCF and respective country representatives in arriving at an amicable solution to reduce failure to qualify for funds based on accountability

LDCs consider itemizing the standards in the categories of highest, medium or low unfavourable because this may eliminate viable and eligible countries in the process. Such expectations (standards) have made it difficult to accede to NIE under the GEF for example.

Within the framework of accountability, LDC appreciates the importance of audits (internal and external), expenditure tracking and sound financial reporting to complement monitoring and evaluation of projects. This, however, should be applied using nationally accepted systems which also adheres to international standards such office of Auditor General in respective countries.

1(j) Mechanisms to ensure stakeholders' input and participation (Civil society participation)

It is essential that the meetings of the GCF Board are ***inclusive and transparent*** for ***all stakeholders***. To this end, the meetings of the Board should be webcast and open to attendance by observers. In order to harness fully the potential benefits of civil society participation, the rules of procedure for the Board meetings should admit a regionally balanced number of CSO representatives as ***active observers***. Two elements will be key in selecting the active observers:

A 'bottom-up' process of engaging non-government actors, built up from the local to the national/global level.

The selection of active observers for GCF Board meetings should be based through ***National Stakeholder Networks***. Sub-national members of this network could then regularly elect representatives for a fixed term, to represent them at national and global meetings (thus ensuring genuine grass-root level engagement), and to ensure the integrity of the Network. Strong accountability measures should be in place.

The challenge is not so much about improving horizontal, global-level engagement, as it is to improve vertical, „bottom-up‟ national and local-level engagement. Such engagement will undoubtedly be easier to implement in an overall institutional arrangement that follows the Principle of Subsidiarity and delegates funding decisions to national and sub-national entities – for instance, through National Funding Entities.

Non-voting board membership will be provided for:

- Developing country CSO representative (1)
- Affected communities representative (1)
- Developed country CSO representative (1)
- Private sector representative (1)

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

I. Submission by Mr. Derek Gibbs (Barbados)

AOSIS submission on Work Stream IV

The GCF should operate effectively and efficiently and should be a continuously learning institution and facilitate replication of best practice. Therefore, the establishment of robust performance evaluation mechanisms are needed both at the overall and operational levels. This is of critical importance to ensure that the Green Climate Fund functions in compliance with COP guidance, in line with its general objectives and principles and in accordance with the strategic priorities decided by the Board.

A. Periodic independent performance review

Option 1

1. The GCF Board shall commission an independent periodic review of the Fund's performance by an outside and independent organization/company through a transparent and competitive open-bidding process;

Option 2

1. A[n] [Evaluation] [Review] [body] [Unit] shall be established within the Fund to conduct periodic independent performance review. It shall be comprised of institutionally independent and impartial experts serving in their personal capacity;

Option 1

2. The GCF Board shall forward the report on commissioned independent periodic review and associated recommendations to the COP for consideration;

Option 2

2. The [Evaluation] [Review] [body] [Unit] shall report on the results and conclusions of the periodic performance review directly to the GCF Board, which, in turn, should forward the report [and associated recommendations] to the COP for consideration;

3. The Review shall assess *inter alia*:
   a. The compliance of the Fund with COP guidance;
   b. The alignment of the operations of the Fund with its guiding principles;
   c. The fulfillment of the Fund's objectives, particularly in enhancing of the implementation of the Convention and its ultimate objective;
   d. The implementation of strategic priorities decided by the GCF Board.

4. The periodic performance review of the fund shall also include an assessment of the operation of its bodies, including the Board, the Secretariat and the Trustee;

5. An in-depth independent performance review shall be conducted on a [X] year basis, coinciding with the periodic replenishment of the Fund [to inform its negotiation process; with update reports produced every year. These reports shall be published and made available to the public;

6. The first periodic review should be completed in time to inform the open-bidding process to select the permanent trustee;

7. The [GCF Board] [Evaluation] [Review] [body] [Unit] should develop and annually review a set of key performance indicators to support the continuous improvement of the GCF's performance by measuring impact, effectiveness and operational performance of the Fund. Performance indicators should be consistent with the overall principles, scope and objective of the Fund [and should *inter alia* include an ambitious target for the speed of disbursement]

B. Monitoring and Evaluation system (M&E)

1. The GCF Board should develop a Monitoring and Evaluation system, including a set of indicators, that provides the information needed to make evidence-based decisions for program management and improvement, policy formulation and advocacy. The system should be able to generate good quality data in order to satisfy accountability requirements. In developing the Monitoring and Evaluation system, the GCF Board should take into consideration national monitoring and evaluation systems with a view to strengthen existing national systems where ever possible in order to save resources and avoid duplication of work.

2. Monitoring and Evaluation of the activities of the Fund shall include the following elements:
   a. Compliance with social and environmental GCF safeguards;
   b. Achievement of anticipated results and transformation changes in developing countries;
   c. Efficiency in access to and delivery of support;
   d. Sound management of funds by implementing entities;
   e. In-country capacity to measure and monitor results;
   f. Application of agreed fiduciary standards;
   g. Balance of funding between adaptation and mitigation;
   h. Balance of funding across countries and regions; and
   i. Feedback from recipient countries regarding application procedures, access and disbursement modalities.

3. The GCF Secretariat will coordinate the monitoring and evaluation of activities supported by the Fund and report to the Board.

4. In conducting monitoring and evaluation, the Secretariat will liaise with recipient countries; implementing entities; national stakeholders; and request necessary information from the Trustee;

5. The M&E modalities should not place an undue burden on developing countries, [especially in a context of a result-based funding framework] and full consideration should be given to specific constraints and circumstances of SIDS and LDCs;

C. Environmental and Social Safeguards

1. The GCF Board will develop a set of strict social and environmental safeguards in line with the objectives and principles of the Fund and internationally agreed conventions and overall best practice standards. The GCF Board should also build on the work of international institutions undertaking standard setting in their fields.[1]

2. The existing social and environmental safeguards and policies of multilateral development banks[2] constitute useful input in the development of the GCF safeguards but cannot be adopted by the GCF or be regarded as sufficient or minimal safeguards.

D. Fiduciary Standards

1. The fiduciary standards applied by the Adaptation Fund Board and agreed by the COP/MOP by decision 4/CMP.5 constitute and a useful basis the GCF Board should build on when developing the GCF fiduciary standards;

2. The Fund shall ensure that all developing countries can utilize the direct access modality. In particular, the GCF Board shall consider options that allow the application of the agreed fiduciary standards, taking into account diverse national circumstances, including conditional accreditation of national implementing entities, while ensuring the quality of the standards is not undermined

[1] The UN Environmental Management Group is preparing a report on options for the development of a possible United Nations system-wide approach to environmental and social safeguards.
[2] Note that the World Bank's safeguards are currently under review.

II. Submission by Mr. Sergio Serra (Brazil)

Brazil favours **a robust and independent evaluation system**.

The **verification of the system's efficiency is essential** to the success of the Green Fund.

Brazil is especially interested in the **monitoring of the processes of disbursement and of effective delivery of resources** to national agents. We identify, in existing financial flows, such as the GEF, a gap between the moment resources are invested by developed countries and they are effectively delivered for the financing of actions in developing countries.

A significant part of these resources, on the other hand, is paid to international financial institutions for implementation services. The exact amount, however, is difficult to measure. **Such information is of crucial importance for the design of a more transparent and efficient international finance system**.

The **participation of civil society** is also essential, both for the transparency of the Fund's actions and to ensure that governance and financial decisions take into account different visions, especially the needs of developing countries, to which the funds are directed.

Although the decision-making process will ultimately be the responsibility of the Parties, represented in the GCF Board, as adopted in Decision 1/CP.16, it is very important to set up a **consultation mechanism** that guarantees a **balanced presence of civil society representatives from developed and developing countries**.

III. Submission by Mr. Richard Weber (Adviser to European Union members of the TC)

On Work Stream IV: Monitoring and Evaluation

EVALUATION:

The evaluation function of the GCF should be undertaken by a fully independent unit exclusively managed by and reporting directly to the Board.

Attached administratively to the Secretariat, in order to benefit from the administrative and logistical support required to be able to conduct its tasks, the unit should be managed by a Head directly selected and recruited by the Board, under a 3 years renewable contract, after an international bidding process.

The Head of unit will directly select and recruit his staff (3 years renewable contracts) under the supervision of the Board.

The evaluation unit mandate will be established and approved by the Board.

The evaluation multiannual and annual programme will be decided by the Board, on the basis of the Head of unit proposals and of Board Members suggestions and ideas.

The evaluations will be directly executed by the evaluation unit staff or outsourced on the basis of an open competitive bidding process, to independent evaluation experts or bureaux working under the authority and supervision of the evaluation unit.

The evaluations will address, the efficiency, the cost - effectiveness and the value for money of operations, and measure their positive impact and their sustainability, as appropriate and possible, using a whole range of criteria and indicators, in particular, input and outcome indicators, calibrated for the different types of operations and adapted to the different levels of the beneficiary countries.

A results based measurement framework, detailed guidelines and adequate series of criteria and indicators will be established, proposed and operationalised by the Evaluation Unit, after approval by the Board.

Evaluations will also take into account all priorities and parameters decided by the Board, in relation, inter alia, with the balance between adaptation and mitigation, as well as between regions and countries, and will also consider the respect of the environmental and social criteria and safeguards decided by the Board.

The evaluations will take place at several levels and will follow specific periodicities:

- the global and overall GCF operational performance as well as the Board, Secretariat and Trustee performance will be evaluated every 3 years,

- the global performance of programmes, operations and projects in each beneficiary country will also be evaluated every 3 years,

- each programme, operation or project of an amount of 50 million dollars or more will be submitted to a final evaluation (the cost of which will be included, from the start, in the operational budget of the action), within 1 year of its financial closure,

- each year, on the basis of a random sample, 1 per cent of the GCF decentralised operations will be submitted to an evaluation,

Within this evaluation process, due account will be taken of all beneficiaries and stakeholders' advice, at the local, regional and national levels, including, in particular of the developing and developed country CSOs involved and of affected communities and indigenous populations concerned.

The results of all these evaluations will be compiled and reported to the Board and fully disclosed and published on a specific web-site managed by the Evaluation unit, after approval of the reports by the Board.

These evaluations will be used to feed the future decisions and operations of the GCF as well as the work of the different bodies under the GCF direct authority and of the national implementing entities and beneficiaries countries and will serve to improve the efficiency and impact of GCF funding and actions and to disseminate best practices in all beneficiary countries.

MONITORING:

Monitoring by the GCF central organisation is a management tool which should be fully integrated in the normal life cycle of all operations financed by the GCF and conducted under the supervision of the GCF Secretariat. This system of monitoring will be essential in order to operationalise the direct access system and to avoid an ex-ante detailed implication of the central GCF bodies, at the level of each decentralised project and local operation. It will also allow the GCF to work at the level of national programmes, integrating several projects.

Monitoring should take place, once a year, for each programme, operation and project of a size superior to10 million dollars and, on the basis of a random sample, should also be realised for 10 per cent of the portfolio of GCF actions of less than 10 million.

Monitoring should take the form of a short site visit, in the field, and be made by a monitor which will screen during 2 or 3 days the general implementation of the action concerned, with the purpose to identify, if the project is developing normally, or if serious deficiencies are preventing the normal implementation of the project. Monitoring visits will accordingly function as a green, orange or red light for the GCF management. They will be, if judged appropriate, repeated for projects having not obtained a green light.

On the basis of the monitors reports, when and if necessary (among projects having scored a red or orange light), the Secretariat will then be able to take appropriate actions (technical assistance, audit mission, payment freeze, contact with the NIEs, activation of a redress mechanism. etc.) and to inform the Board accordingly. All monitoring reports will also feed the evaluations, audits and controls organised by the GCF apparatus.

Each year, a general report should collect and sum up the results of all monitoring visits and draw the main conclusions and facts deriving from them. This report will be submitted and discussed by the Board and published on the central web-site of the GCF.

Monitors will be selected, in relation with their specific expertise, speciality and linguistic knowledge, following an open bidding process, organised by the Secretariat and the Evaluation Unit. Like, in the case of evaluation, framework contracts of 3 to 5 years could be signed with the bureaux or individuals selected.

FINANCIAL MANAGEMENT, FIDUCIARY STANDARDS AND SAFEGUARDS:

In order to adopt a full decentralised management system for GCF operations which will allow beneficiaries countries to get a quick, efficient and reliable decision and implementation procedure at the level of the central organisation of the Fund and to place the national programming and strategic frameworks at the centre of the whole process, the beneficiaries countries being in the driving seat of all operations achieved in their territory, it is essential that the financial management of The GCF be sound and at the level of the best international practice.

That is why the fiduciary rules applicable to the GCF operations, both centrally and in the beneficiaries countries, must be of high quality and be in line with the international accepted standards whereas appropriate safeguards should also be built-in in the GCF system.

A minimum set of fiduciary standards to be applied and achieved in the management of GCF operations will be decided by the Board following proposals of the Secretariat, of the Evaluation Unit, of the Trustee and of the GCF General External Auditor selected by the Board (see hereunder). These fiduciary standards will have to be respected by the Board itself, by all structures directly under its authority (Secretariat, Trustee, contractors) by all implementing entities and by all beneficiaries countries and organisations at the central, multilateral, regional, bilateral, national or local level, when implementing operations financed by the Fund.

These fiduciary standards will also be applied by internal and external monitors, internal and external evaluators, and internal and external auditors when proceeding to their work, and their correct application will be checked and reported by them.

They will include, as a minimum:

- the separation of authorising and operational functions from the payment and accounting functions,
- a functional internal control system,
- an adequate reporting system,
- a double entry accountancy system,
- an external audit independent function,
- a transparent procurement system,
- a disclosure and information system ensuring that all contributions and payments to individuals, firms, organisations and entities are published annually,
- an appeal and redress system,
- an ethics code, including provisions applicable in case of conflict of interests, corruption and fraud.

In order not to penalise the beneficiaries countries which are not in a position to satisfy these criteria, the GCF will foresee that technical assistance teams are put at their disposal, as well as capacity building programmes and ready - made accountancy and fiduciary packages and guidelines, including computorised packages.

When these countries will have reached the level of the minimum fiduciary standards required, they will request the central organisation of the GCF, through the Secretariat, to start an accreditation process which will be conducted by an external, independent auditor selected by the Secretariat.

In the meantime, the beneficiaries countries not sufficiently equipped will select Implementing entities which fulfil the minimum standards. (See our contribution of 27/07/2011 to w. s. 3)

All external auditors will be selected like the monitors and the evaluators on the basis of an open procurement process. The GCF may decide to authorise the Secretariat to sign with these external audit bureaux, framework contracts on a multiannual basis.

A General External Auditor (GEA), in charge of the financial annual audit of the GCF and of the periodic performance audit of the GCF, including of the GCF Board itself, will be selected on the basis of an international bidding process for a duration of 5 years, the COP being in charge to take the final decision of selection. Its annual report will be adressed, in parallel to the Board and to the COP and will be published on the central web - site of the GCF.

Additionally, on the basis of an estimation made by the Secretariat with the support of the GEA, of the global management and financial risks of the GCF operations, the Board will decide a multiannual financial and management audit programme to be implemented, under its supervision by the Secretariat and the external auditors selected as framework contractors.

Finally, the GCF will adopt, following proposals of the Secretariat, an appeal system and redress procedure, allowing any stakeholder, beneficiary or organisation (including developed and developing country CSOs as well as organisations representing directly the affected communities and indigenous people), to introduce a claim or an appeal, in relation with any financing, operational or administrative decision of the central or decentralised GCF management system, taken at any level, which might prejudice their interests or the interests of the stakeholders concerned.

STAKEHOLDER ENGAGEMENT:

All stakeholders - Non state actors, developed and developing country CSOs, local affected communities and indigenous people representatives, international, regional, national, or local observers, MDBs, regional, bilateral and national financing institutions, private sector organisations - should be in a position to follow, participate to, be informed of, and be consulted about (at all levels and steps) the preparation, programmation, identification, submission, selection, decision, implementation, reporting, monitoring, control, audit, evaluation, and closure of all operations, projects and programmes financed by the GCF.

In order to achieve a full participatory process, the Board should decide specific guidelines to secure an efficient implication and consultation of all these organisations, during the entire chain of operations of the Fund, both at the central and decentralise levels. In particular, these organisations should be fully involved in the Design, Development and Implementation of country-led strategies, through a multi-stakeholder process which includes civil society, affected communities and private sector.

This system should also be applied with the needed adaptations at the central level of the GCF. Selected observers from these organisations should be allowed to follow the deliberations of the Board and, following authorisation of the Board, be entitled to take the floor during specific moments reserved in the Board agenda for this purpose.

All these organisations should have full access to the information web-sites of the GCF and of the structures under its direct authority, and get all reports published by the GCF.