

Workstream I: Scope, guiding principles, and cross-cutting issues

Scoping paper

I. Introduction

A. Mandate

1. The COP in its decision 1/CP.16 entrusted the Transitional Committee (TC) with the design of the Green Climate Fund (GCF) to develop and recommend operational documents for approval by the COP at its 17th session. The TC at its initial meeting held in Mexico City on 28-29 April 2011, agreed to organize its work through four workstreams, including (i) Workstream I on Scope, Guiding Principles, and Cross-cutting issues, (ii) Workstream II on Governance and Institutional Arrangements, (iii) Workstream III on Operational Modalities, and (iv) Workstream IV on Monitoring and Evaluation. It also agreed that work under each workstream will be facilitated by two members of the TC, the Co-Facilitators. The Technical Support Unit (TSU) is providing support, under the guidance of the Co-Chairs and Workstream Co-Facilitators, by preparing background papers and organizing workshops and other consultations.

B. Workstream I on Scope, guiding principles, and cross-cutting issues¹

2. The decision 1/CP.16 provides overarching guiding principles for the long-term finance under the Convention, including for the Green Climate Fund (GCF)² to be designated as an operating entity of the financial mechanism of the Convention under Article 11. The decision also states that the GCF will “manage large scale of financial resources from a number of sources”.³ In addition, on scope, the decision provides that the GCF should channel a significant share of new multilateral funding for adaptation⁴, as well as have multiple thematic funding windows to support projects, programmes, policies and other activities in developing country Parties⁵. There are other relevant principles and provisions of the Convention, in particular relevant provisions of Article 11, that guide the scope and guiding principles of the GCF.

3. The initial TC (TCI) meeting, included an initial exchange of views on the principles, purpose and scope of the GCF. Members of the Committee outlined their perspectives and vision in this regard. Building on the discussion in TCI, the Co-Facilitators of Workstream I (WS I) developed a set of questions and issues that are intended to help guide discussions on the scope and guiding principles for the GCF and to clarify inter-linkages among the wide range of issues which should be addressed in the overall design of the GCF. On 14 May 2011 the WS I Co-Facilitators invited feedback to a set of questions from TC members, observers (coordinated through their constituencies), and other participants in TC 1 in order to guide discussions on WS I at the first technical workshop of the TC scheduled for 30-31 May 2011 (annex I and II).

¹ This paper focuses on the Scope and Guiding Principles since the analytical framework on cross cutting principles will need to be initiated after discussions on all Workstreams.

² 1/CP.16, paragraph 97.

³ 1/CP.16, Appendix III, Para 1(c) and 1/CP.16 paragraph 99.

⁴ 1/CP.16, paragraph 100.

⁵ 1/CP.16 paragraph 102.

4. The relevant TCI discussion and feedback to the WS1 questions from the TC members (see annex III) and observers⁶ received by 25 May 2011 are synthesized below in this Scoping Paper for discussion at the first technical workshop. Given the limited number of responses, this scoping paper can only be an initial draft to stimulate further input and discussion. The discussion at, and subsequent to the first technical workshop will guide the preparation of a Working Paper on WS1 to be discussed at the second meeting of the TC (see tentative schedule in annex IV).

II. Scope and guiding principles of the Green Climate Fund

A. Objectives and principles

5. Many members noted that broad objectives and guiding principles of the GCF have been agreed in decision 1/CP.16. Several members emphasized that the GCF shall be guided by the principles and provision of the Convention. In addition, principles guiding the operations of the GCF were suggested and include: accountability, efficiency, effectiveness, country ownership, ability to leverage private sector investment, representative and balanced governance arrangements, flexibility, responsiveness, innovation, measurable impact, transformation, complementarity and others.

6. The GCF, as noted by some members, should aim at incentivizing and catalyzing transformative actions, thereby assisting developing countries for low carbon and climate resilient sustainable development, including building institutional capacities of developing countries. Some members emphasized that development and poverty reduction should be part of the goals and objectives of the GCF.

7. It was also highlighted that other workstreams will have key responsibility for work towards operationalization of the principles agreed in the decision 1/CP.16, for example, fiduciary standards (Workstream II), evaluation of performance (Workstream IV), and appropriate advice and stakeholder participation (Workstream III).

8. In order to better inform the discussions, some members expressed the need for an analysis of the principles adopted by other successful funds and an assessment of their relevance to guiding principles for the GCF.

B. Thematic scope

9. Many members have emphasized that WS I should focus on the overall scope of the Fund to cover adaptation, mitigation, REDD plus, technology development and transfer, and capacity building. Several members highlighted the need for the GCF to provide funding for adaptation, mitigation and REDD plus through thematic windows. It was emphasized that the funding be allocated between adaptation and mitigation in a balanced manner and be comprehensive in thematic, sectoral and geographic coverage.

10. Some members highlighted linkages between issues related to thematic windows with the work under Workstream III, in particular the issues related to the number and categories of thematic windows and management or systems required to implement this scope.

⁶ http://unfccc.int/cancun_agreements/green_climate_fund/items/5869.php

11. Several members highlighted the need for a detailed assessment of the scope of existing climate funds.

C. Size and scalability

12. There is general agreement that the GCF should provide scaled-up, new and additional, adequate and predictable financial resources to developing countries to support enhanced actions on mitigation and adaptation. It was emphasized that the Fund should be ambitious and a major state-of-the-art Fund that is scalable over time and leverages private sector financing. Some members noted that the Fund should be able to accept a range of sources and deliver through a variety of innovative instruments.

13. Design implications of a scalable Fund and its linkages with the work under Workstreams II and III were also highlighted, in particular secretariat, reporting and evaluation arrangements. In this regard, emphasis was placed on the need for the GCF to demonstrate effectiveness and efficiency in order to attract significant amounts of funds.

14. The following topics were proposed for TC discussion and further analysis:

(a) Summary of reliable estimates on mitigation and adaptation should be prepared and an assessment of how these needs have been met by existing financial mechanisms, including public and private capital and MDB finance. Such analysis would help inform the discussion in TC 2 on Size and Scalability;

(b) Analysis of experiences of other multilateral funds or organisations for the scalability of the Fund.

D. Country-led and results-based approaches

15. Many members emphasised that the Fund should use results based approaches and highlighted the importance of strong country ownership in delivering financial resources to developing countries. The need to employ a results based framework in the allocation of funding was also highlighted in this regard. Linkages between project funding and country strategies, including nationally appropriate mitigation actions (NAMAs), national adaptation plans (NAPs) and low emission development strategies (LEDS), to promote country drivenness were emphasized.

16. Some members expressed that the GCF should promote a new approach to climate financing, through simplified and improved access to financial resources with minimized transaction costs. Several members emphasised that direct access should be a key modality of the Fund in promoting country drivenness, while ensuring rigorous environmental and social safeguards and fiduciary standards. Some members outlined the linkages of the Fund with national institutions in promoting country-driven approaches and emphasised that the Fund should promote a new business model to leverage funding from other channels, including the private sector at both international and national levels. One member highlighted that GCF should have an international legal personality enabling it to enter into direct access agreements.

17. One member highlighted that Workstream I should also consider best practice guidance and principles for aid effectiveness such as the Paris Declaration and Accra Agenda for Action. It was noted that principles of ownership, alignment, harmonization, results and mutual accountability should be considered and applied in the design of the Green Climate Fund.

18. Linkages of issues related to access modalities, in particular country-led principle, with the work under Workstreams II and III were also highlighted by some members.

19. The following topics were proposed for TC discussion and further analysis:

- (a) Lessons learned of the country-led approaches from existing financial mechanisms.
- (b) The safeguards used in relevant funds and institutions;
- (c) Results framework of a number of relevant funds and institutions.

E. Complementarity and value added

20. There is general support for coherence and complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions. It has been emphasised that the GCF, through its design and operationalization, should add value to existing financial architecture in delivering concessional financial resources to developing countries for an effective response to climate change. Some members noted that the GCF should deal with existing fragmentation of climate finance in order to better enable developing countries get access to climate finance at lower transaction costs.

21. One member proposed that GCF may work with other institutions to establish the kind of "climate finance forum" that has been discussed in the UNFCCC negotiations and other fora.

22. Many members highlighted that GCF should be innovative and use a wide array of financial instruments. It was also noted the GCF should not promote conditionalities through provision of climate financing.

23. The following topics were proposed for TC discussion and further analysis:

- (i) Review of existing entities, multilateral and trust funds and bilateral funding channels for climate and other issues and lessons learned and in light of this, consider the respective roles of existing entities, their comparative advantages and potential links to the Fund;
- (b) Analysis of gaps in the existing set of climate change funds.

III. List of background documents suggested by the TC members to facilitate discussion under Workstream I

1. Analysis of the principles adopted by other successful funds and an assessment of their relevance to guiding principles for the GCF;
2. Assessment of the scope of existing climate funds to inform the focus and direction of the Fund;
3. A summary of reliable estimates on mitigation and adaptation should be prepared and an assessment of how these needs have been met by existing financial mechanisms, including public and private capital and MDB finance;
4. Analysis of lessons learned from the country-led approaches from existing financial mechanisms;

5. Analysis of safeguards used in existing funds and institutions;
 6. Analysis of experiences of other multilateral funds or organisations for the scalability of the Fund;
 7. Analysis of lessons learned of multilateral and regional international trust funds, bilateral efforts for climate and other global issues and the private sector;.
 8. Analysis of results framework of a number of existing international funds to inform design of the Fund;
 9. Review of existing entities and lessons learned and in light of this, consider the respective roles of existing entities, their comparative advantages and potential links to the Fund;
 10. Analysis of gaps in the existing set of climate change funds.
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Annex 1

Invitation to submit views on work stream I: Scope, guiding principles, and cross-cutting issues

Suggested questions for the first technical workshop of the Transitional Committee on issues related to work stream I

Decision 1/CP.16 provides overarching guiding principles for the long-term finance under the Convention, including for the GCF⁷. 1/CP.16 also states that the GCF will “manage large scale of financial resources from a number of sources”⁸. In addition, on scope, the Cancun Agreements provide that the GCF should channel a significant share of new multilateral funding for adaptation,⁹ as well as have multiple thematic funding windows.¹⁰ There are other relevant articles from the Convention, in particular Article 11, that guide this work stream.

Work under this stream will include, *inter alia*:

Objectives and principles:

Suggested questions/issues

1. How should/could this Fund be different from existing climate funds?
2. Some broad objectives and guiding principles of the GCF have been agreed in the decision 1/CP.16, Cancun Agreements (see annex II below) How can these be further developed, enhanced and operationalized?

Thematic scope:

Suggested questions/issues:

3. How many and what thematic funding windows should be adopted? What activities should be covered by each thematic window?
4. Should the number of thematic windows be determined by the founding size and design of the fund or should more be added by the Board as the Fund’s capital grows in size or/and new needs are identified?
5. The Cancun Agreements refer to “balance” between mitigation and adaptation. How do we define and achieve “balanced allocation” between adaptation and mitigation?

Size and scalability:

Suggested questions/issues

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

⁷ 1/CP.16, Paragraph 97

⁸ 1/CP.16, Appendix III, Para 1(c) and 1/CP.16 Paragraph 99

⁹ 1/CP.16, Paragraph 100

¹⁰ 1/CP.16 Paragraph 102

7. What is meant by “large scale” in terms of the expected volume of the GCF, and should a minimum and maximum volume be considered?
8. Should the GCF design be scalable over time, or should the GCF design immediately match the volume goal?

Country-led and results-based approaches:

Suggested questions/issues

9. How could the GCF encourage the application of the country led principle?
10. What is needed to ensuring the country led principle alongside the application of environmental and social safeguards as well as internationally accepted fiduciary standards and sound financial management?
11. How could the GCF encourage results based approaches among different thematic areas? What are the options for implementing result based approaches? Is there a need for taking different approaches for each thematic area?

Complementarity and value added:

Suggested questions/issues

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

Annex II

Purpose, principles and scope of the Green Climate Fund

	The Green Climate Fund
Purpose	<i>Para 102 of the decision 1/CP.16</i> “an operating entity of the financial mechanism of the Convention under Article 11” ... “it is accountable to and functions under the guidance of the Conference of the Parties”
Principles	<p><i>Para 100 of the decision 1/CP.16</i> “Decides that a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund”</p> <p>1c) Appendix III “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”</p> <p>1e) Appendix III “complementarity between the Fund’s activities and those of other bilateral, regional and multilateral funding mechanisms and institutions”</p> <p>1g) Appendix III “periodic independent evaluation of the Fund’s performance”</p> <p>1h) Appendix III “financial accountability and evaluation of 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”</p> <p>1 i) Appendix III “appropriate expert and technical advice, including from relevant thematic bodies established under the Convention”</p> <p>1 j) Appendix III “stakeholder input and participation”</p>
Objectives/Scope	<p><i>Para 102 of decision 1/CP.16</i> “to support projects, programmes, policies and other activities in developing country Parties using thematic funding windows”</p> <p>1c) Appendix III “balanced allocation between adaptation and mitigation”</p>

Annex III

Views on work-stream I: Scope, guiding principles, and cross-cutting issues

Submission by Ms. Bernarditas Muller (Philippines)

The heading of "work stream" 1: Paragraph 97, relegated to the footnote, is the decision on long-term finance which is to be delivered through the Green Climate Fund. It is not a mere declaration of guiding principles as stated in this paper. It should be cited in full and provide the main elements of the work to be done under "work stream" 1. Bits and pieces of the TOR (para. 1 c) and para. 99 should be deleted or else quoted in full. Moreover, these paragraphs are not in the same level, as para. 97 is a decision taken by the COP, as well as the whole TOR, but not para. 99 which only "agrees" with para. 1 (e) of the Bali Action Plan which is then substantively altered in its meaning in para. 99.

In general, therefore, it would be best to relate the work of the "work streams" to specific sub-paragraphs in para. 1 of the TOR (found in Annex III, not Appendix III, of Decision 1/CP.16), taking into account that these sub-paragraphs remain open to additions ("inter alia" in paragraph 1, in the chapeau) rather than to parts, chosen arbitrarily, of the relevant paragraphs in Decision 1/CP.16. It should also specify the relevant paragraphs in the Convention and in particular Article 11 that would be used to determine the work to be done under each "work stream".

There is in particular paragraph 3 of Article 11 which provides a listing of elements to be included in legal arrangements that have to be concluded with the operational entity of the financial mechanism, especially paragraph 3 (d) on the "determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of this Convention and the conditions under which that amount shall be periodically reviewed."

Para. 6 on the "size" of the Fund, this therefore cannot be "foreseen", and especially not in terms of the size of other funds, which have clearly been shown to be inadequate and unpredictable, but rather, ways must be explored in which "the amount of funding necessary and available for the implementation of the Convention" can be determined. There is previous experience and mechanisms on doing this under the Convention.

We have decided in para. 97 that "in accordance with the relevant provisions of the Convention, scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change." There are already a series of questions to be asked in this paragraph alone, that would differentiate it from other existing funds that have not taken these into account at all in their climate change financing.

On "country-led and results-based approaches", pars. 9, 10 and 11- I do not find these in either the decision, in the financing chapter, or in the TOR. I also do not understand the linkages that are made in para. 10 on "ensuring" country-led "principle" with "the application of environmental and social safeguards as well as internally-accepted fiduciary" standards and sound financial management." And where is it in either the decision or in the TOR made mention of "results-based approaches among different thematic areas", even if I pretended to understand what that meant. All these paragraphs sound suspiciously like the conditionalities

placed on current climate change financing by existing financial institutions that have made this financing so ineffective all these years.

The same goes for "complementarity and value added." On para. 14, in particular, the TOR does not say that the GCF will "ensure" complementarity between the Fund's activities and those of other bilateral, regional and multilateral funding mechanisms and institutions, but rather "enhance" (Annex III, paragraph 1 (e)), precisely because one cannot "ensure" anything with institutions that are subject to other governing bodies.

The decisions taken under Decision 1/CP.16 in paragraphs 97 and 100 should be fully examined, not as principles but as decisions to be operationalized through this Green Climate Fund. The Annex of "work stream" 1 should be amended accordingly. Para. 102 of Decision 1/CP. 16 establishes and defines the Green Climate Fund and does not merely state its "purpose."

The "principles" are the main objectives of the Fund and should first of all include para. 97 of Dec. 1/CP.16.

References to the TOR contained in the Annex to Decision 1/CP.16 (not, once again, its "Appendix"), should be quoted in whole, and not in bits and pieces which then take them out of context and distorts the nature of the task to be accomplished. It would also help if the papers could be prepared in accordance with Decision 1 /CP.16, without introducing elements that are not in this decision, or in the Convention, so as to save time.

Submission by Mr. Ewen McDonald (Australia)

Australia appreciates the opportunity to provide initial feedback on issues to be considered in Workstream I, Scope, guiding principles, and cross-cutting issues. We look forward to working with Transitional Committee colleagues, the Transitional Support Unit, observers and other stakeholders to further analyse and consider these issues and provide more substantive input as the work progresses. Australia will look to consult with domestic and international stakeholders over the coming months across the different workstreams to inform the consideration and ultimately recommendations of the Transitional Committee.

In all workstreams it will be important to identify areas of cross-over between workstreams and key areas for information gathering and analytical work to inform the considerations of the Transitional Committee. Value could be added to the consideration of a number of issues under this workstream by collating lessons learned and background on existing financing mechanisms, funds and entities, both in the climate change area and more broadly. The issues covered in this workstream also consistently point to the importance of obtaining the views and input of a range of stakeholders.

Objectives and principles

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

The Green Climate Fund (The Fund) should be designed to be responsive to the needs of developing countries to respond to climate change, to be attractive to donors and to operate effectively and efficiently.

The Fund has the potential to channel a significant amount of future funding flows to address the climate change needs of developing countries. It will therefore be important that the Fund works to complement the broad range of existing international financial architecture. The Fund should leverage the efforts and lessons learned of multilateral and regional international funds, bilateral efforts and the private sector. An assessment of the scope of the existing climate funds will provide a good basis to inform the focus and direction of the Fund.

The Fund will need to be flexible, responsive and innovative. It should also be able to facilitate and maximise investment from a range of sources, including the private sector and be able to utilise a range of financing options.

Some key elements which differentiate the Fund from existing climate change funds are set out in the Cancun Agreements. These include that the Fund will have:

- Representative governance, including equal representation of developed and developing countries on the Fund board;
- A direct access modality; and
- Be accountable and under the guidance of the Conference of the Parties and to only one Convention – the UNFCCC.

Other key points for the Transitional Committee to consider in designing the Fund include:

- **Efficiency** of fund management and distribution;
- **Country ownership**, through supporting direct access and other mechanism that increase ownership of projects and links to country's strategic priorities;

- Ability to leverage **private sector investment**;
- Ability to significantly **scale-up** climate change investments; and
- **Complementarity** to other international funding avenues.

Some existing funds have a number of these characteristics, including the Climate Investment Funds, and can be used as examples for designing the Fund.

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

The Green Climate Fund should be designed in line with a number of key principles:

- **efficiency and effectiveness** to enable funds to be disbursed and used well and to deliver results;
- **results-based** to produce outcomes for developing countries and the global climate;
- **country led** to promote inclusiveness and fairness;
- accessibility, including enabling **direct access**, as we recognise that this is crucial to developing countries and a way to help deliver future climate finance at scale;
- **flexibility** to enable the Fund to accept a range of sources of finance and deliver through a range of financial instruments, including innovative instruments;
- **attractiveness for investment** from the public and private sectors to enable the Fund to achieve ambitious and sustainable results;
- efficient, effective and equal **representative governance arrangements**, suited to the objectives and size of the Fund; and
- **robust fiduciary standards** to provide confidence and ensure effective use of funding.

Consideration of principles that other successful funds have instituted can assist to identify the appropriate principles for adoption under the Fund.

Of the principles identified in 1/CP.16, Australia notes that other workstreams will have key responsibility for work towards their operationalisation. For example, fiduciary standards (workstream II), evaluation of performance (workstream IV), and appropriate advice and stakeholder participation (workstream III). To avoid duplication of effort, the detail related to adopted principles should be addressed as part of the work of relevant workstreams, rather than be considered in workstream I.

Thematic scope

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

Should the number of thematic windows be determined by the founding size and design of the fund or should more be added by the Board as the Fund's capital grows in size or/and new needs are identified?

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

The questions on thematic scope for workstream I should focus on the overall scope of the Fund (i.e. should the Fund cover adaptation, mitigation, REDD+, capacity-building and technology transfer as outlined in the Copenhagen Accord?) and should point to what this might mean for management of the Fund (i.e. the need for thematic windows). Decisions on the number and categories of thematic windows to adopt, or other management or systems required to implement this scope, should then be considered under the relevant workstream (i.e. thematic windows is listed for consideration under workstream III).

Size and scalability

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

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

Australia recognises that the Green Climate Fund has the potential to channel a significant amount of future climate change financing and has the potential to be significantly larger than other existing climate funds. As the question of size and resourcing the Fund remains the subject of negotiations under the UNFCCC, discussions on this issue by the Transitional Committee should remain broad and be informed by UNFCCC discussions.

Rather than consider a precise minimum or maximum scale for the Fund, it may be useful to consider potential ranges, for example, more significant than the Climate Investment Funds. The Fund is likely to grow in size over time, so it should be designed to be scalable. This would allow Fund design to be aligned accordingly while also providing flexibility for consistency with future decisions taken in the UNFCCC.

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

As there is not yet an agreed volume goal the Green Climate Fund should be scalable over time. Australia anticipates that the Fund will need to grow over time, particularly as it builds its credibility, demonstrates its ability to deliver and resources come online.

Experiences of other multilateral funds or organisations that have adopted a similar approach, or have experience having scaled up over time, will be useful in informing the work on this area. Examples could include the Global Environment Facility, relevant Multilateral Development Banks and the Climate Investment Funds.

It will be important for the Transitional Committee to consider the design implications of a scalable Fund and this workstream should therefore provide advice to other workstreams on areas that could be impacted by scalability, including secretariat, reporting and evaluation arrangements.

Country-led and results-based approaches

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

Application of the country led principle could be considered in a number of aspects of fund design, including:

- Processes and modalities for accessing funding – such as enabling direct access modalities and linking project funding to country strategies, including nationally appropriate mitigation actions (NAMAs), national adaptation programs of action (NAPAs) and low-emissions development strategies (LEDS); and
- Governance – ensuring representation of key constituencies on the Fund Board and equal representation of donors and recipients as outlined in the Cancun Agreements.

Workstream I should work with other relevant workstreams to ensure the country-led principle is incorporated into consideration of relevant issues. Workstream I should also consider best practice guidance and principles for aid effectiveness such as the Paris Declaration and Accra Agenda for Action. Principles of ownership, alignment, harmonization, results and mutual accountability should be considered and applied in the design of the Green Climate Fund.

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

The Green Climate Fund should have a sound governance and management framework, which includes environmental and social safeguards, together with internationally accepted fiduciary standards. The Transitional Committee should look to leverage existing safeguards and standards where appropriate, noting that some thematic areas that could be covered by the Fund (e.g. REDD+) may require specific or additional safeguards that are still under discussion.

Standards and safeguards should be applicable across different funding modalities and across thematic areas. However, the design of the Fund should also consider how these standards and safeguards can be applied on a risk management basis to ensure funding can be distributed in an efficient and timely manner (for example, whether there should be varying application by funding volume or project size).

The safeguards that are used in existing funds, such as the Adaptation Fund, Least Developed Countries Fund, the GEF and Climate Investment Funds, should be examined as a useful input.

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

It is important for the Green Climate Fund to establish a results framework(s) that is applicable across the Fund, but also has the flexibility to recognise the unique nature of different thematic areas. This will enable a consistent framework to be applied whilst also allowing results expectations to be appropriately targeted to activities. The results framework should include measurable indicators across all thematic areas. Building on input-based indicators currently used, the Fund should ultimately aim to evolve into an outcomes based results framework. Australia supports the early establishment of a robust results framework to ensure it underpins all projects from funding commencement and can be refined over time. A number of existing

international funds have results frameworks that can inform the Fund, for example the Climate Investment Funds and the GEF.

Complementarity and value added

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

This is a key question for the Transitional Committee to consider given the range of existing climate funds and private sector activity on climate change. The Fund should avoid duplication of efforts and should dovetail with, and capitalize on, existing funding being delivered through other international avenues.

The Committee should actively seek the views of a broad range of stakeholders to inform consideration of this issue. Some key areas to be considered, where the Fund could add value in international climate finance, include:

- Scale of financing;
- Use of innovative financing mechanisms;
- Harnessing international commitment and ownership of the Fund by all Parties; and
- Learning from the lessons of previous and existing funding mechanisms and entities.

What role should the GCF play among climate finance entities?

In principle rationalisation of climate change funds, entities and mechanisms is something that Australia supports. However whether this occurs as a result of design of the Green Climate Fund will in part be determined by the effectiveness, efficiency and flexibility of its design and operation.

If designed appropriately, the Fund has the potential to be a key multilateral funding mechanism for climate change action internationally, bringing together existing climate change funding entities to ensure a cohesive and integrated approach to climate change funding. An effectively designed Fund will provide an opportunity to harness multilateral climate change funding on a scale not previously seen.

However, it is possible that other multilateral funding mechanisms will remain and the Fund will need to complement and coordinate with these, and other bilateral and plurilateral funding channels.

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

The design of the Green Climate Fund should be informed by views from entities currently undertaking or supporting international climate change action. The Transitional Committee should review existing entities and lessons learned and in light of this, consider the respective roles of existing entities, their comparative advantages and potential links to the Fund. Once the Fund is operational there will still be bilateral and regional climate change funding as well as potentially other multilateral entities operating. It is important that complementarity between these is identified and there is a mechanism for information sharing and cooperation. This is an

area the Transitional Committee should consider in identifying the relationships between the Fund and other funds or entities.

Submission by Mr. Idrissa Ouedraogo (Burkina Faso)

Objectives and principles:

Suggested questions/issues

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

The creation of the GCF is an opportunity to make the existing climate finance landscape **transformational**. At present, access to finance remains unequal, funding is not operating in a highly catalytic manner, and there is insufficient integration with development planning. Hence there is a lack of economy-wide impact. The GCF is a tool to leverage these existing instruments by promoting the power to blend resources at the national level. Through a targeted approach the role of the GCF can provide the “glue” that brings international assistance on climate change together and so addresses these issues.

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

Given the magnitude of finance needed to address the climate change challenge, the GCF is a major opportunity to transform economies and societies toward sustainable production and consumption patterns while reducing GHG emissions in a pro-poor, pro-MDG, pro-growth manner. The Cancun Agreements made it clear that it is essential to have human development at the center of the GCF’s mandate and not focus on financing projects that reduce Greenhouse gases only.

Thematic scope:

Suggested questions/issues:

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

Human development and poverty reduction should be part of the goals and objectives of the GCF, including contributing to MDG achievement and benefit to all countries (and not only the major emitter countries). Indeed the GCF should not only invest in GHG reductions, but also build the capacity of governments, at all levels, to take informed and rational policy and investment decisions that reduce emissions and lead to long term and equitable sustainability. The Fund should be transformational in nature (transform production and consumption processes) and not only promote best practices and diffusion of best available technology. Indicators should be developed to assess this transformational impact. As such the Fund should also support research and development and south-south cooperation.

The thematic funding windows can be:

- Research and development and south-south cooperation
- Production and consumption transformation process
- GHG reductions
- Adaptation

Should the number of thematic windows be determined by the founding size and design of the fund or should more be added by the Board as the Fund's capital grows in size or/and new needs are identified?

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

Size and scalability;

Suggested questions/issues

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

The GCF should be catalytic in scope and be a flexible instrument that is able to respond to all developing country needs, including the poorest and most vulnerable. The diversification of sources of climate finance in recent years has largely benefitted larger economies, but a future financial architecture must allow access for all developing countries. Sources of finance should be flexible enough to support the design and deployment of public finance for any developing country context.

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

One major way to achieve scalability is to build the capacity of national and local governments and other relevant stakeholders to make them able to take informed policy and investment decisions. In other words, capacity building should constitute a large part of the activities the Fund supports and should be part of every single investment project (and thus not be a stand alone, isolated activity).

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

Country-led and results-based approaches;

Suggested questions/issues

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

To achieve a country-led fund, countries must be in the driving seat in making decisions on climate finance. The GCF should support countries to have the political and institutional leadership, knowledge and technical capacity, financial and fiduciary management and accountability systems to take advantage of the multiple sources of climate finance available and make flexible, robust decisions on climate change in line with low-emissions, climate-resilient development.

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

To this end most of the staff supported by the Fund should be located at the national level.

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

Complementarity and value added:

Suggested questions/issues

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

The creation of the **GCF is an opportunity to make the existing climate finance landscape transformational**. At present, access to finance remains unequal, funding is not operating in a highly catalytic manner, and there is insufficient integration with development planning. Hence there is a lack of economy-wide impact.

What role should the GCF play among climate finance entities?

The GCF is a tool to leverage these existing instruments by promoting the power to blend resources at the national level. Through a targeted approach the role of the GCF can provide the “glue” that brings international assistance on climate change together and so addresses these issues.

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

Submission from Ms Marisa Lago (United States of America)

Objectives and principles:

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

U.S. response: The creation of the GCF represents a chance to build a state-of-the art finance channel that takes into account the lessons learned from existing multilateral trust funds for climate and other global issues. In terms of scale, the GCF should be designed to attract significant donor contributions and leverage private sector co-financing at a larger scale and from more diverse sources than previously achieved. In terms of operations, the GCF should set new benchmarks for accountability, fiduciary standards, efficiency, and measurable impact.

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

U.S. response: The paragraphs on financing in the Cancun outcome fall into various categories – (1) various general statements regarding efforts by the Parties in the context of the UN Framework Convention on Climate Change (UNFCCC) regarding financing of efforts to address mitigation and adaptation (paragraphs 95-101); (2) certain specific operational modalities for the GCF, such as composition of the Board and designation of the interim trustee (paragraphs 102-107); and (3) elements that are intended to frame the discussion on the design of the GCF as described in Annex III of the decision.

The general statements regarding efforts by the Parties in the context of the UNFCCC are matters for the COP and its subsidiary bodies to discuss in the Convention context, rather than a productive discussion for the technical work of the Transitional Committee.

The GCF design process, however, would benefit from a succinct statement of purpose, building upon the language in paragraph 102 of decision 1/CP.16. The statement of purpose should focus on practical elements of the Fund's role in the delivery of climate finance to address the mitigation and adaptation efforts of developing countries.

With respect to operational modalities and the framing of the Transitional Committee's discussion, Workstreams II, III, and IV are taking up specific elements of the legal contours, operational modalities, and accountability arrangements in the design of the Fund.

Thematic scope:

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

U.S. response: The Board should retain the flexibility to designate thematic windows. Windows are best organized according to programmatic purpose, *i.e.* mitigation, adaptation, and REDD+. This would parallel the normal approach taken by existing climate funds and bilateral programs, and also facilitates performance-based allocation decisions (the methodologies for allocating available funds to countries and activities will likely be very different for mitigation, adaptation, and REDD+). We could also envision the Board needing the flexibility to consider establishing windows for certain financial instruments (*e.g.* loan guarantees) or for access modalities (*e.g.* the private sector).

4. Should the number of thematic windows be determined by the founding size and design of the fund or should more be added by the Board as the Fund's capital grows in size or/and new needs are identified?

U.S. response: The Board should retain the flexibility to designate thematic windows, rather than determining the number and scope of windows in advance. The fund should be designed to accommodate changes in scale, and the Board therefore requires the flexibility to add windows to account for new resources and needs.

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

U.S. response: While balanced allocation is certainly important – particularly to ensure sufficient resources for adaptation – this is a political rather than mathematical decision. Donors should have the flexibility to assign contributions to the windows.

Size and scalability;

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

U.S. response: The GCF should be designed to operate at the scale required to play a meaningful role in promoting transformational investments in mitigation and adaptation in developing countries. Its exact size depends on numerous factors, notably the design features now being developed by the TC. In designing the GCF, the TC should be mindful of the features that will make this fund attractive to contributors. If the design process succeeds, the GCF could potentially be the keystone of the multilateral climate finance architecture. It will not, however, channel \$100 billion a year, since this goal in the Cancun decision refers to both public and private finance. Moreover, it is not anticipated that the GCF will be the only channel for public climate finance, since bilateral assistance will continue to play a major role and other multilateral funds like the GEF may continue to work in this space.

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

U.S. response: See response to previous question. The GCF should be scalable and should retain the flexibility to evolve to handle varying degrees of resources. The scale of resources does not need to be defined in advance.

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

U.S. response: The GCF should be scalable both within windows and across the fund. Climate finance is expected to scale up over time, so the fund may grow accordingly.

Country-led and results-based approaches;

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

U.S. response: The GCF should be guided by recipient country priorities but will need to be flexible in its approach so as to ensure the ability to leverage the private sector. Recipient countries should lead in identifying areas for which they seek GCF funding. Ideally, these requests should be put in the context of low emission development strategies and national adaptation plans.

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

U.S. response: Direct access may play an important role in the GCF, but to do so, such access must be accompanied by rigorous standards and safeguards. This will be an important condition for contributor country treasuries and parliaments making decisions about funding the GCF both at the outset and on an ongoing basis.

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

U.S. response: Nothing will be more important for attracting donor resources to the GCF over time than its ability to demonstrate a meaningful impact on mitigation and adaptation outcomes. It will be critical to establish robust procedures for measuring and reporting results of funded activities in an accurate and timely way and to provide the Board with the authority to enhance these procedures in a manner that ensure transparency and effectiveness in outcomes. We believe the Climate Investment Funds and the GEF have made good progress in this area. In addition, result-based financing (or “pay-for-performance”) is also a type of financing modality which the GCF Board may consider exploring.

Complementarity and value added:

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

U.S. response: See response to question 1.

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

U.S. response: There are many sources and channels of climate finance, both private and public, both bilateral and multilateral. The GCF will play an important, but not exclusive, role in this architecture. Its activities should be designed to complement and strengthen financial flows through other channels. We do not see the GCF fulfilling systemic functions in the overall climate finance architecture (i.e. oversight or matching). However, greater coordination among the various institutions with a role in climate finance should be encouraged. To this end, the GCF may work with other institutions to establish the kind of “climate finance forum” that has been discussed in the UNFCCC negotiations and elsewhere.

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

U.S. response: See response to previous question.

Submission by Ms. Naoko Ishii (Japan)

Following questions could be added for TC members' consideration;

[Thematic scope]

- What is the purpose and benefit of setting thematic funding windows? It is critical for TC members to discuss and agree on why thematic windows should be created, as members may have different reasoning to support the idea.
- There are different types of financial mechanisms (such as Climate Investment Funds, Global Environment Facility, World Bank and IDA) in the global financial architecture which provide financings to several thematic areas in climate change. We should compare these financing structures taking into consideration efficiency and effectiveness.
- How could GCF provide effective and efficient governance for each of and across thematic funding windows?
- Will funding windows be set for thematic areas (e.g. mitigation and adaptation) only or for different funding sources (e.g. private sector financing) as well?

[Size and scalabilities]

- In order to answer a key question raised in the note of what the right balance between adaptation and mitigation is, it would be helpful if the analysis is provided and shared by all TC members on the current best estimate on the needs for adaptation and mitigation. Could TSU provide TCs with summary of reliable estimates on both needs by conducting analytical review on the existing quality reports on the needs and estimated size for adaptation and mitigation?
- The above proposed analysis could also include the information on how much needs are already met by existing financial mechanism, including public and private capital and MDBs finance.

[Country-led and results-based approaches]

- What are key elements that will constitute country-led principle? It will be critical for TC members to share the view on what "country-led principle" means, as it may mean different things to different stakeholders. Common understanding of the concept of country-led principle will help design the financial modalities of GCF.
- What are the lessons learned of the country-led approach from existing financial mechanisms?
- Co-facilitators' note addresses important questions about ensuring the country-led principle alongside the application of safeguards and fiduciary standards. In this regards, in designing direct access modalities, it is critical to establish effective and efficient monitoring mechanism in response to social safeguards and fiduciary standards.

[Complementarity and value added]

- How should the GCF cooperate with other frameworks that will be established based on the Cancun Agreement? What will be a desirable relationship between GCF and existing institutions under UNFCCC?

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

It is important for this workstream to cover the GCF's objectives, principles and links to the existing climate change architecture. These issues are covered in items 2 and 14, which would be a good place to focus the workstream, with a lot of the other issues coming under them.

It would be useful to see the timeline of when each of these issues will be considered at the technical workshops and in the Transitional Committee meetings. Given the importance of setting out the objectives and principles of the GCF, and the volume of work we will need to consider at the later Transitional Committee meetings, I hope it will be possible to conclude as much of this workstream as possible at the 2nd Transitional Committee meeting in Tokyo.

It would be helpful at this stage to set out what pieces of analysis the Technical Support Unit will be tasked to undertake. We will certainly need papers that orientate the Transitional Committee's discussions on the objectives and principles of the GCF. I also note that item 1 responds to the Japanese suggestion of analysis of gaps etc in the existing set of climate change funds - this will be an important piece of analysis for the Technical Support Unit to consider. We would welcome the opportunity to comment on terms of reference for Technical Support Unit analysis and orientation work on these issues and any others that are being considered under workstream 1.

Annex IV

Work Tasks and Schedule for Workstream I

Task	Deadline
Zero draft Scoping paper for consideration by Co-Facilitators	May 24
Feedback from WS1 Co-Facilitators	May 27
Final Draft Scoping paper (focus on scope/principles)	May 29
Workshop discussion on WS1 and Scoping Paper	30-Jun 1
Draft annotated outline of WS1 Working Paper	Jun 3
Proposal for detailed linkages analysis (including survey input)	Jun 8
Feedback from WS1 Co-Facilitators	Jun 10
Draft WS1 Working Paper on Scope and Guiding Principle	Jun 22
Feedback from WS1 Co-Facilitators	Jun 25
Draft "mapping" of linkages and Cross-cutting Scoping Paper	Jun 25
Final WS1 Working Paper on Scope and Guiding Principle	Jun 27
TCII discussion on WS1 Scope and Guiding Principle	Jul 11-13
Revise mapping and Cross-cutting analysis	Jul 22
Feedback from WS1 Co-Facilitators	Aug 1
Draft Final Working Paper on WS1	Aug 15
Feedback from WS1 Co-Facilitators	Aug 22
Finalize Working Paper on WS1	Aug 29
Submit WS1 Working Paper to Co-Chairs	TCIII
Feedback from Co-Chairs (If required)	Oct
Re-submission of amended document to Co-Chairs (If required)	Oct