United Nations Development Programme

Co-Facilitators of Workstreams I and III of the GCF Transitional Committee

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Subject **Inputs to the GCF Transitional Committee on Workstreams I and III questions circulated by co-facilitators to UN agencies**

UNDP thanks the Co-Facilitators of the TC Workstreams I and III for the opportunity to comment on key issues in 2011, particularly in relation to these workstreams.

UNDP strongly supports the design and establishment of the Green Climate Fund (GCF), specifically as it contributes to the overarching goals laid down in decision 1/CP.16, notably "the legitimate needs of developing country Parties for the achievement of sustained economic growth and the eradication of poverty, so as to be able to deal with climate change".

Workstream I

1. Objectives and Principles: Given the magnitude of finance needed to address the climate change challenge, UNDP sees the GCF as 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.

In order to do this effectively, efficiently, and equitably, the GCF must take a bottom-up, country driven approach. GCF programming must support countries in the development and implementation of low-emission, climate-resilient development strategies (LECRDS), and associated NAMAs and NAPs, that reflect developing countries' sustainable development needs and priorities. The multilateral system must build and strengthen countries' capacities to move to sustainable development trajectories in an integrated manner within the context of LECRDS. This means focussing on national not just international structures.

2. Thematic Scope: Human development and poverty reduction should be integrated into the goals and objectives of the GCF, reflecting decision 1/CP.16 as quoted above. 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, including as it relates to human development. As such the Fund should also support research and development and south-south cooperation.

3. Size and Scalability: The GCF should be catalytic 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 not benefitted all countries equally, 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.

One major way to achieve scalability is to build the capacity of national and local governments and other relevant stakeholders 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).

4. Country-led and results-based approaches: For the GCF to be country-led, countries themselves 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. To this end most of the staff supported by the Fund should be located at the national level.

5. Complementarity and value added: The creation of the GCF is an opportunity to make the existing development 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 and catalyse much larger public and private financial flows 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 in a catalytic manner.

Workstream III (III.1 Finance Entry Points)

Modalities for contributions to the Fund

1. In what form might funding sources be received and what systems, capabilities, governance and legal capacity does the fund require to receive these if the fund accepts contributions from: Governments; the Private sector; Private individuals and Foundations? What additional systems would be required if grants, loans, capital investments or other funding modalities are accepted?

UNDP response:

In order to raise the volumes of finance required to address climate change, the GCF must be a flexible instrument. Similarly, to promote maximum access to the GCF, including all developing countries, the Fund must accept finance from a range of sources, as mechanisms to raise funding can affect access, and efficient use, of those resources. In this regard, UNDP sees the GCF receiving finance from a balanced mix of public and private sources, including innovative sources. The report of the UN Secretary-General's High-level Advisory Group on Climate Finance (AGF) outlines the range of these sources and could provide a basis for discussions within the Transitional Committee.

2. What processes and sources might be used to raise funding? If there is a regular process for raising funds, how would such a process be managed? What would be the comparative benefits and costs of periodic compared to ongoing funding receipt? What systems would the Fund need to manage different processes that may be used for receipt of funding?

UNDP response:

It is important to note that not all sources of finance will be immediately operational. Some sources that require international legal agreements, for example, may take longer to operationalise. In view of this evolving landscape, it is important that the GCF have procedures in place that maintain stable and preditable flows of finance to developing countries. A medium and long-term fund mobilisation strategy could be useful in this regard. This could include both period/cyclical replenishment as well as underlying innovative sources.

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

3. How can the GCF best 'crowd-in' private finance at scale, including foreign and domestic sources? What incentives may be provided to engage stakeholders, especially the private sector both at the national and international levels?

UNDP response:

Private finance will be a critical component of addressing climate change. In UNDP's view, the crowding in of private sector investment must be done in a manner that promotes access to finance for all developing countries, recognizing the different market and absorption capacities of developing countries. Moreover, private finance must be directed toward those activities that support national human development objectives.

Private finance can be crowded in at different levels. At the global level, international market mechanisms as well as financial instruments provided by the multilateral development banks attract private finance. However, a focus on the international tools will be necessary but not sufficient to raise the volumes of finance required. There must also be a focus on crowding in national and subnational private finance actors.

Indeed, a key task of policy-makers will be to identify, design and deploy an appropriate combination of public policies and instruments to create such an enabling investment environment. These tools include (i) capacity and information instruments, (ii) regulatory instruments , and (iii) market based instruments (policies, fiscal incentives, debt-and equity-based products). Such approaches can have significant leverage ratios at the domestic sectoral level, such as through the design of policies such as a feed-in tariff, which can promote investment across an entire sector. This is consistent for both mitigation and adaptation. Taking adaptation as a loss avoidance exercise, planning and policy tools can alter the business-as-usual investment trajectories that lead to a scalable level of resilience. The UN Secretary-General's Advisory Group on Climate Finance (AGF) gave clear recognition to the importance of enabling investment environments.

The GCF is a major opportunity to finance activities that crowd in the private sector within all developing countries in this way. Crowding in activities could be mainstreamed across thematic funding windows through dedicated technical assistance grants for mobilizing private finance at the national level.

4. Should GCF resources be deployed to raise funds from the capital markets, whether through bond issues or some other vehicle that could be considered to mobilize significant amounts of funding from institutional investors?

UNDP response:

Engaging the capital markets, with their depth of resources, will similarly be a key aspect of addressing climate change . UNDP sees the possibility for the GCF to indirectly leverage its resources in this way via the activities of multilateral development banks, who on receipt of a disbursement from the GCF could then issue green bonds and lend revenues as concessional finance. If this leveraging approach is taken, UNDP believes it will be important that the GCF maintain an overall balanced mix of grant- and investment-based instruments , thereby being inclusive to all developing country contexts.

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

UNDP response:

In order to attract private finance, UNDP sees aligning risk/reward profiles and creating an overall environment at the national level for investments as central aspects to guide public-private engagement. A full range and flexible suite of GCF instruments, active private sector consultations and engagement by the GCF, as well as transparent, streamlined, and simplified project cycles and approval procesesses, can all contribute to this end in-country.

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

UNDP response:

In regions with less developed financial markets, UNDP in particular sees the importance of taking a comprehensive approach to creating an enabling investment environment and building capacities at the national level. Such markets often face a range of early-stage barriers to investment including informational barriers, institutional barriers, skills barriers and regulatory barriers. Actors in these markets may also face hurdles in accessing the international public finance specifically designed to address these investment barriers, as illustrated, for example, by LDCs and market mechanisms such as carbon finance. In such instances capacity development that assists governments in accessing finance can be highly effective approaches.

UNDP would be happy to provide further elaboration on any of these points or related subjects as desired.