THE OXFORD INSTITUTE FOR ENERGY STUDIES
A RECOGNIZED INDEPENDENT CENTRE OF THE UNIVERSITY OF OXFORD
UNIVERSITY OF OXFORD

Oxford Energy and Environment Brief
February 2013

A Delhi Vision

for the Green Climate Fund Business Model Framework – Some Thoughts on Access and Disbursement

by Benito Müller*

Contents

1. Introduction **2**
Design methodology ***2***
Scoping the framing conditions. *2*
Choosing the design vantage point *2*
On transparency, accountability, and effective stakeholder engagement/involvement ***2***
2. What scale? What flexibility? **3**
3. Administrative Implications **4**
4. Governance Implications: The need for Subsidiarity **5**
[A] ***The CDM Executive Board Model*** ***6***
[B] ***The Global Environment Facility (GEF) Model*** ***6***
[C] ***The Adaptation Fund (AF) Model*** ***6***
[D] & [E] ***Enhanced Direct Access (EDA)*** ***7***
What is EDA? *7*
Why EDA? *8*
Capacity Building Implications *9*
The Need for Ordinary Multilateral Funding: [D] *or* [E]*?* *9*
Sourcing Implications *10*
5. QP-Disbursement Instruments/Resource Allocation **11**
6. Recommendations **12**
References and Bibliography **13**
Primary Resources ***13***
*A. General Architecture [**Supplied in Annex**]* *13*
B. Civil Society Involvement *13*
C. Disbursement Instruments/Resource Allocation *13*
Background Reading ***14***
Endnotes **15**
Annex

* *Dr Benito Müller is Director Energy and Environment at the OIES, and Managing Director of Oxford Climate Policy. For a publication listing see www.oxfordclimatepolicy.org/publications/mueller.shtml; e-mail: benito.mueller@philosophy.ox.ac.uk*

1. Introduction

At the second meeting of the Green Climate Fund (GCF) in October 2012, the GCF Board began work on developing a 'Business Model Framework' for the GCF. At the same meeting, India announced they would prepare a vision paper on this topic, to be introduced at the third meeting (Berlin March 2013). This Oxford Energy and Environment Brief is based on a background paper which the author was requested to write for, and present at, a consultation meeting held in New Delhi 15-16 February 2013.

Design methodology

The reason for establishing a business model (framework) is to ensure the GCF is 'fit for purpose' – in other words, that it is able to achieve the goals and objectives set down in paragraphs 1 to 3 of the GCF's Governing Instrument. The same three paragraphs also set out certain criteria that give strategic guidance on how to frame such a business model: it should be equitable [3.c], transparent [3.d], accountable [3.d], efficient/effective [3.d], country-driven [3.e], [3.g], scalable and flexible [3.f], and have simplified/improved access, including direct access [3.g], as well as effective stakeholder engagement/involvement [3.e] (see Annex for numbering).

How is one to approach the task of designing a framework that satisfies these conditions ***and*** is fit for purpose? This Brief adopts a two-step design methodology:

1. Organize the criteria into groups, according to their scope.
2. Choose one of the groups as design vantage point.

Scoping the framing conditions. The above-mentioned framing criteria can roughly be divided into four groups:

(a) ***Being equitable and being efficient/effective*** both apply to every aspect of the framework; and whenever one is taken into consideration, so should be the other.
(b) ***Being transparent, accountable, with effective stakeholder engagement/involvement***, in turn, is a group of framing criteria that are targeted at the decision-making process of the GCF.
(c) ***Being scalable and flexible***: apply generally to both supply- and demand-side.
(d) ***Being country-driven and having simplified/improved access***: are focused on the demand-side.

Choosing the design vantage point. All of these design conditions must be satisfied, but not all are equally restrictive in their design implications. Most, if not all of them will admit of many different solutions − severally and possibly even jointly. And it stands to reason not only that designs are 'path-dependent' in the sense of being determined by the sequence of criteria one focuses on in the design process, but also that the chances of arriving at a design fit for purpose, that satisfies all the conditions, will be higher if one begins with the most restrictive conditions, which I believe to be group (c): scalability and flexibility.

On transparency, accountability, and effective stakeholder engagement/involvement

Before we turn to the issue of the envisaged scale of GCF operations, let me briefly touch on another one of these groups of design criteria, which is of primary importance for the fitness-for-purpose of the GCF yet beyond the scope of this Brief for a number of reasons.

It is important to bear in mind that these issues go beyond the participation of observers at GCF Board meetings – currently under deliberation by the Board as part of the Board Rules of Procedure.[*] Stakeholders must be involved at all levels of (funding) activities, from the GCF Board, to the grass-root level. As such, the conditions set down in (b) can only be satisfied in the context of a periodic in-depth ***consultative*** review of overall stakeholder engagement in GCF activities. In this context it must also be kept in mind that −as recommended in a recent audit report of International Finance Corporation (IFC) 'third-party financial intermediaries'[1] − transparency and stakeholder involvement can improve accountability of contracted entities.

2. What scale? What flexibility?

Turning to group (c) of the design criteria, the question must be: what exactly do we mean when we say that a design (framework) is 'scalable'/'flexible'? The answer, I suggest, is that it is meant to work (efficiently) at different operational scales − it should be able to process different (annual) levels of funding.

Can we expect there to be a design which is limitlessly scalable, or must we expect there to be design-specific upper and lower operational limits?

In the same way in which a balloon is not limitlessly inflatable, business models have limits to the amount of funding they can effectively deal with, which means that scalability of a ***framework*** has to be interpreted in terms of whether it has sufficient flexibility in its choice of models appropriate to different scales of operations.

The key design question then becomes: what scale of operations (in terms of annual funding) would be necessary to make the GCF fit for purpose? Is it tens of millions, hundreds of millions, single digit billions, or tens of billions?

This is a highly political, not to say politicized question, but it remains key to the design of the GCF Business Model Framework and cannot be avoided if the result is to be fit for purpose.

Once the target operational scale has been identified, there will be a number of 'supply-' and 'demand-side' design-relevant questions that will have to be answered. On the supply side, for example, there will not only be the question about the likelihood of reaching that target, but also of the time frame in which this is expected to happen, and the predictability of the supply (in case the 'target' business model is unable to function below a certain funding level).

The remainder of this Brief is based on the assumption that the ***target operational scale*** of the GCF is ***tens of billions (USD/EUR)***

Its primary focus will be the demand-side implication of this assumption, in particular with respect to access modalities and disbursement instruments. However, it will also touch upon some supply-side implications, as well as some of the other issues raised by the above-mentioned set of framing conditions. In particular, given that it is most unlikely that the supply of funds will be anywhere near this target scale for some time, the Brief will also consider issues relating to the evolution of the design in the scaling-up phase, particularly with respect to the relationship between the GCF and other multilateral climate funds.

[*] *For a assessment of these deliberations, see for example [8] (see Annex)*

3. Administrative Implications

Let us begin by turning to what might seem a mundane consideration, namely the implications of this operational scale assumption on administrative needs. In 2010, a study to estimate the number of people required to administer long-term climate finance was carried out by looking at a number of multilateral and bilateral funding agencies which had a range of operating scales of between $150m and $30bn annually (see Figure 1).

The answer was between 250 and 400 full-time (equivalent) staff per $bn/year. Assuming an operational scale range of $10 to $30bn annually, this implies an overall administrative personnel requirement of between 2500 and 12000 (green bars in Figure 1). This is not a matter of inefficiency, but a simple matter of the fact that effective administration requires personnel. Where should these personnel be located? The mayor of the GCF host city, for one, has stated that:

> … the estimated economic benefit of hosting the secretariat of the Green Climate Fund stands at around 340 million US dollars a year. Songdo will host more than one hundred international meetings annually … and eventually ***be home to 8 thousand staff members from around the world***.[2]

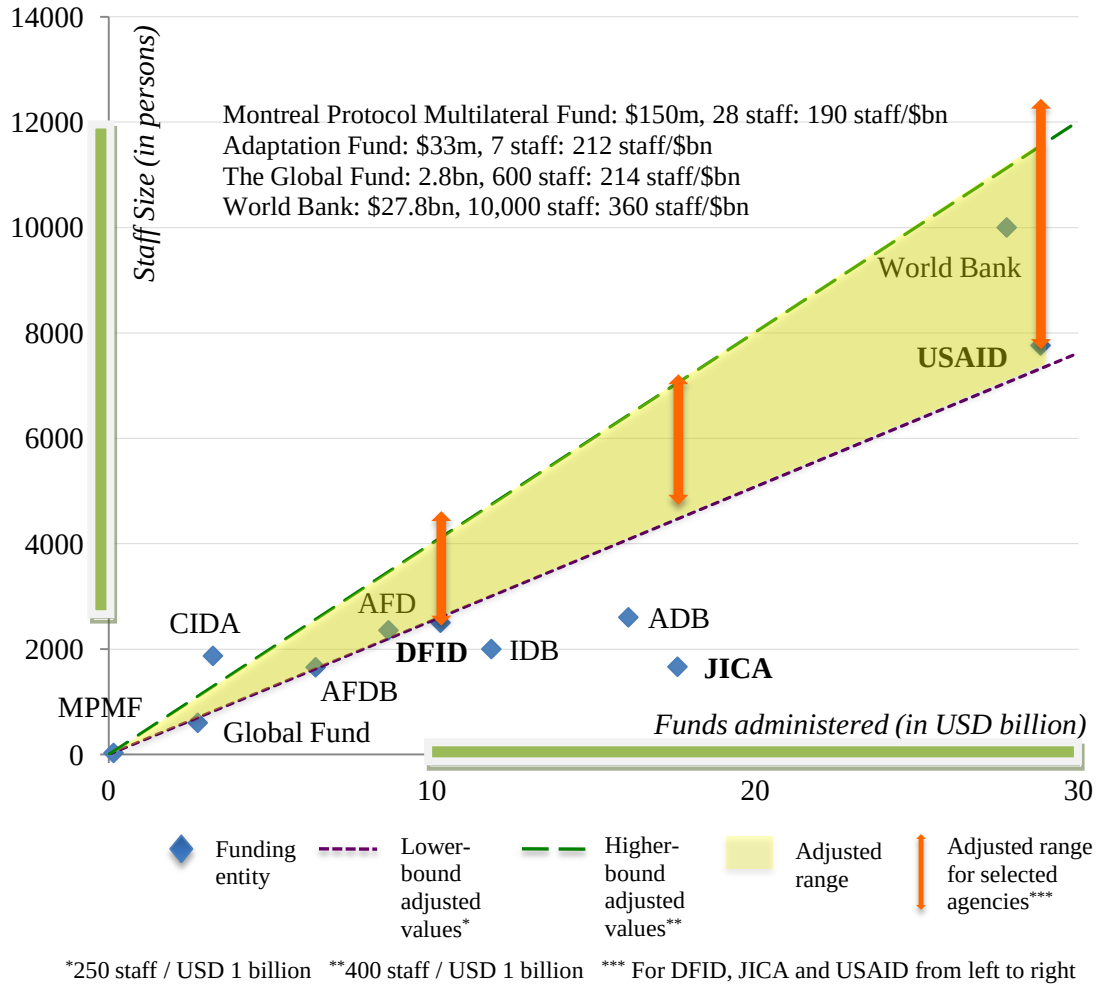


Figure 1. Staffing Intensities 2008/09

Source: Ciplet et al. (2010)

4. Governance Implications: The need for Subsidiarity

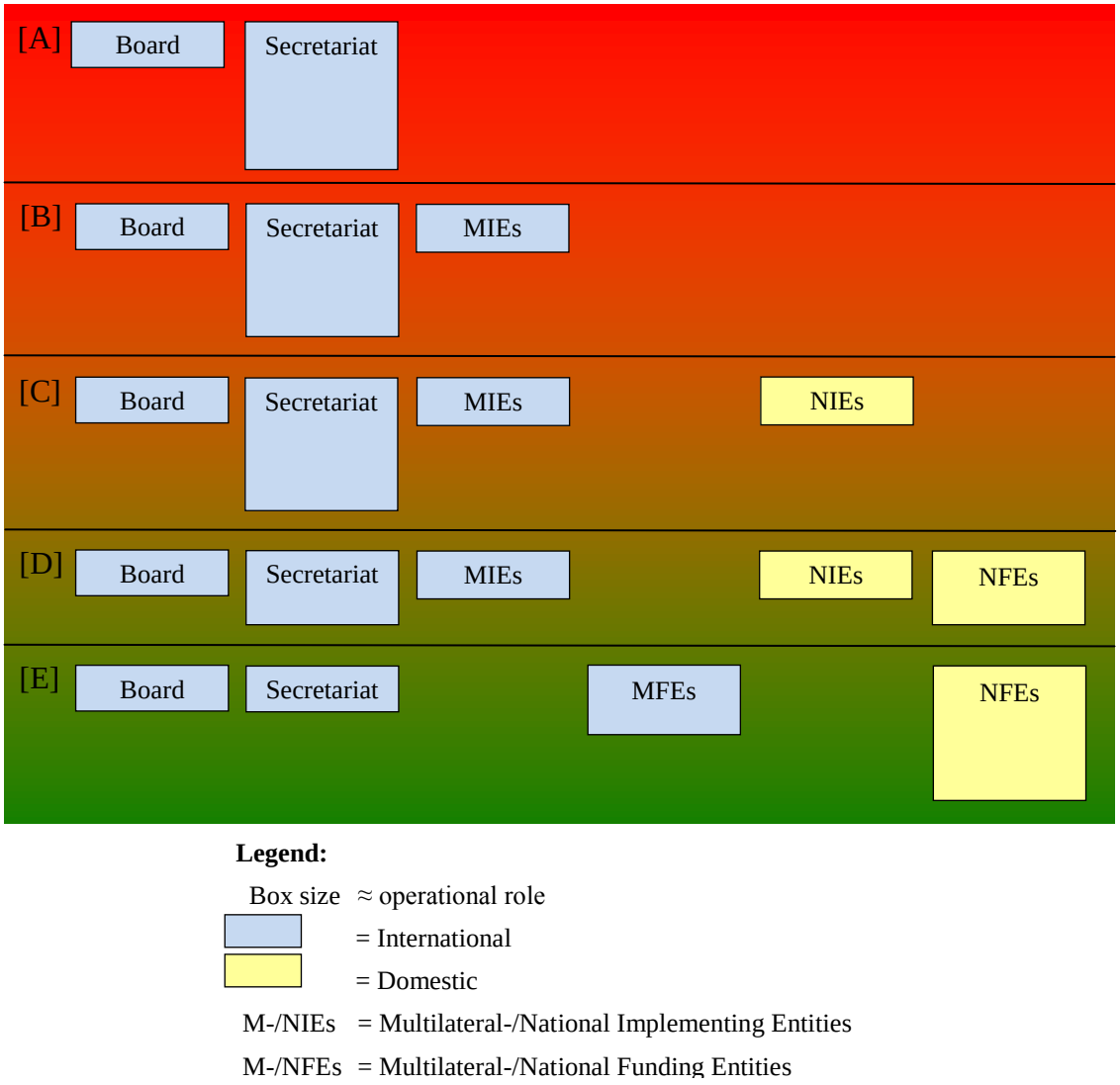
A key factor in determining the distribution of administrative personnel is the distribution of decision-making powers, that is to say the distribution of different types of: ***strategic, rule-setting decisions***, or ***operational, implementing decisions*** (i.e. decisions about which particular proposals are to be funded, and which are not). Figure 2 illustrates a selection of possible governance options, with box size reflecting the importance of the represented unit/entity in taking operational decisions.

Historically, two types of models have been dominant in multilateral funding: fully centralized, and (partially) devolved.

- In the fully centralized type − exemplified by the Clean Development Mechanism (CDM) Executive Board – all decisions are taken at the centre, by the Board or the Secretariat (cf. [A] in Figure 2).
- In the partially devolved model – used by the GEF [B] and the Adaptation Fund (AF) [C] – certain 'gatekeeper' decisions are delegated to Implementing Entities.

Are these models fit for purpose at the envisaged target operational scale?

Figure 2. Operational Options



[A] *The CDM Executive Board Model*

According to the *Modalities and procedures for a clean development mechanism*,[3] the CDM Executive Board (EB) is required, on the one (strategic) hand, to develop CDM procedures, to approve new methodologies, and to accredit Designated Operational Entities (DOEs); while on the other (implementing) hand, it is tasked with registering projects and issuing Certified Emission Reduction (CER) credits, with the support of a dedicated Sustainable Development Mechanisms Programme (SDM) at the UNFCCC Secretariat.

Not surprisingly, given the volume of projects submitted for registration, the role of the SDM in the operational decision-making of the EB has steadily increased (and with it the number of staff employed by the Programme).[4] In their recent final report on CDM Governance ('Governance Report'),[5] the CDM Policy Dialogue research team highlight:

> … *that the secretariat ventures into roles beyond mere administration,* [and emphasizes that] *it is important to note the trend towards decision-making by default in the latest review procedures, whereby a decision will automatically follow the recommendation made by the secretariat and RIT* [Registration and Issuance Team] *if a Board member does not recall the decision. So, while the decision is formally the EB's, by implicit delegation it is actually the RIT's and secretariat's.*[6]

In short, the EB procedures are being adapted, for purely practical reasons, in a way which brings them close to fulfilling the Governance Report's overall policy recommendation to:

> ... *formally vest the secretariat with the decision-making powers to enable it* [to] *effectively manage the daily operation of the CDM, freeing up the EB to assume a more supervisory and policymaking role.*[7]

It is worth asking oneself whether this lesson is not equally applicable to the GCF, in other words whether such a separation of decisions would not be equally desirable for the GCF (regardless of its operational scale).

[B] *The Global Environment Facility* (*GEF*) *Model*

While in the case of the CDM EB, operational rulings ('project approvals') have, over time, been increasingly devolved from the board to the secretariat, the project cycle[8] of the Global Environment Facility (GEF) has delegated such decisions from the very outset. The GEF uses (multilateral) Implementing Entities ('GEF agencies'), which not only have to be used to put forward a funding proposal – thus exercising a gatekeeper function – but are also required to formally approve the projects, after they have been endorsed by the GEF CEO. The role of the GEF board (Council) in the project cycle is to approve the (full-sized) projects and Programmatic Approaches contained in Work Programmes put together by the CEO, and in doing so *provide guidance to the Secretariat and the agencies on the strategic directions and programming framework for the GEF.*[9] Notable, in this context, is the fact that the CEO is empowered to endorse projects proposals (as well as enabling activities) up to $2million (as well as enabling activities) without Council approval. However, all operational decisions at the GEF remain at the international level.

[C] *The Adaptation Fund* (*AF*) *Model*

In one respect, operational decision-making in the AF is actually more 'centralized' than that in the GEF: there is no delegation of decisions to the AF secretariat (nor to a CEO, a function that does not exist in the AF). What is genuinely new in the decision-making of the AF and its project cycle is the

introduction of ***Direct Access*** (DA) through ***National Implementing Entities*** (NIEs). According to the AF Board Rules of Procedure:

> *2. (j) '"Implementing entities" means the national legal entities and multilateral organizations that have been identified ex ante by the Board as meeting the criteria adopted by the Board, in accordance with decision 1/CMP.3, paragraph 5 (c), to access funding to implement concrete adaptation projects and programmes supported by the Fund.*

This marks the first time in the history of multilateral climate funding that certain operational decisions, if only of the gatekeeper type, have been delegated to entities in recipient developing countries. The first NIE, accredited in March 2010, was from an African LDC (Senegal), followed by Jamaica and Uruguay. At present, the AF has 14 accredited National Funding Entities (NFEs) (see Table 1), which are very diverse in nature, including relatively small NGOs as well as national banks with billions of turnover.[10]

The AFB secretariat is presently very small in comparison to those of other funds (only seven full-time equivalent positions), and it is clear that the model would not be able to function at the assumed target operational scale ($10-30bn/yr) unless there was considerable devolution of operational decision-making. The question is: to whom? There are essentially two options: either 'in-house' (as represented in option [C] of Figure 2), or 'out-sourced' to what has become known as (accredited) ***Funding Entities***, in the context of ***Enhanced Direct Access***.

Table 1. National Implementing Entities of the Adaptation Fund

Legal Entity	***Country***	***Accredited***	***Grouping***
Planning Institute of Jamaica	Jamaica	Sep. 2010	Latin America/AOSIS
Centre de Suivi Ecologique	Senegal	Mar. 2010	Africa/LDC
Agencia Nacional de Investigacion e Innovacion	Uruguay	Sep. 2010	Latin America
National Environment Fund	Benin	Jun. 2011	Africa/LDC
South African National Biodiversity Institute	South Africa	Sep. 2011	Africa
Protected Areas Conservation Trust	Belize	Sep. 2011	Latin America/AOSIS
Ministry of Planning and International Cooperation	Jordan	Dec. 2011	Asia
Ministry of Natural Resources	Rwanda	Dec. 2011	Africa/LDC
National Environment Management Authority	Kenya	Mar. 2012	Africa
Mexican Institute of Water Technology	Mexico	Mar. 2012	Latin America
Unidad para el Cambio Rural	Argentina	Mar. 2012	Latin America
National Bank for Agriculture and Rural Development	India	Jun. 2012	Asia
Fundecooperacion Para el Desarollo Sostenible	Costa Rica	Nov. 2012	Latin America
Agency for Agricultural Development	Morocco	Nov. 2012	Africa

[D] & [E] *Enhanced Direct Access* (*EDA*)

What is EDA?

In paragraph 47, the GCF Instrument stipulates that *the Board will consider additional modalities that further* ***enhance direct access****, including through* ***funding entities*** *with a view to enhancing country ownership of projects and programmes.*[11] While nothing more is said in the Instrument about such 'funding entities', it is fair to say that the inclusion of this provision was partly in response to the numerous interventions and submissions by the LDC member of the Transitional Committee (TC), who, in one of her submissions, clarified the notion of a national funding entities as follows:

> *Funding entities, … may be sub-national, national or regional legal entities or international organizations, that are entitled to approve programmes or projects in accordance with the relevant guidelines developed by the Board, and receive resources from the Fund for that purpose.*

To avoid confusion, it is important to emphasize the difference between an Implementing Entity and a Funding Entity: the latter approves funding, the former does not.

Enhanced Direct Access, accordingly, is defined as access through ***National Funding Entities*** (NFEs), which, as indicated, are given the right to take operational implementing decisions on behalf of the GCF. It is important to highlight that such national/domestic funding entities are currently being established quite independently of the GCF. Gomez-Echeverri (2010), for example, lists ten existing national entities,[12] and five in the process of being established.[13] Among the existing examples, two have become particularly prominent, namely the ***Bangladeshi Climate Change Resilience Fund*** (BCCRF),[14] and the ***Brazilian Amazon Fund*** (BAF),[15] and this not only because they were among the first to be set-up: The BCCRF, for example, has an remarkable architecture (see [3] in the Bibliography) and is focused on adaptation, while the BAF is engaged in mitigation and has an interesting approach to resource disbursement (see Section 5).

To avoid misunderstandings, it is very important to emphasize at this point that Funding Entities, as introduced above, would have to be accredited by the GCF in order to receive funding, and that this could not be taken for granted: funding from the GCF would have to be used in accordance with GCF rules. Should that not be possible, then there could be no accreditation (or accreditation would have to be withdrawn).

Why EDA?

While it may, in theory, be possible to scale up the traditional funding models ([B] and [D]) to the assumed operational scale, it stands to reason that this will be easier to achieve through the sort of devolution envisaged in EDA. Moreover, there are a number of specific reasons why scaled-up EDA might be preferable to the traditional models, most of them related to the conditions for a Business Model Framework set out in the GCF's Governing Instrument, listed as (a) to (d) in Section 1.

The first reason is very simple: because the national entities are being established on their own! The point is that developing countries are establishing such domestic climate change funding entities for their intrinsic value, regardless of the GCF, not only in order to attract bilateral climate change funding, but also to ***enhance the effectiveness*** of their own domestic climate change efforts, as witnessed by the Bangladeshi experience in trying to support their Climate Change Strategy and Action Plan.[*]

It is also difficult to imagine how anything could be more ***country-driven*** than allowing countries to decide which particular eligible projects or programmes they wish to carry out with the inevitably limited amount of funding available. Indeed, it could be argued that in some cases, particularly in the context of adaptation, the choices between projects are choices between who to protect and who not to protect, and that, as a matter of ***political legitimacy***, these sorts of decisions should be made according to the ***subsidiarity principle***, in other words at the national or local level.

Finally, there is the issue of efficiency. Assuming a significant share of administrative costs are incurred at the locus of operational decision-making, it is highly likely that the overall administrative

[*] *See, for example, Khan, Huq, and Shamsuddoha (2011)*

costs are significantly lower in developing country funding entities than in multilateral implementing entities and the GCF HQ.

However, there are also some potential problem areas.

Capacity Building Implications

For one, there is an 'institutional gap'. Despite the acknowledged spontaneous emergence of national climate change funding instruments across the developing world, it is clear that, to make EDA work at the target operational scale, the GCF would have to be actively involved in creating its EDA enabling environment though a significant institutional capacity building effort. Of course, the fact that there already are such entities on the ground could be used to carry out a pilot EDA scheme, with a view to gaining experience in what type of entities are more suited to be GCF-accredited NFEs than others.

The Need for Ordinary Multilateral Funding: [D] *or* [E]*?*

Regardless of these efforts, it stands to reason that there will always be a need for GCF funding to be spent in the more traditional format, be it because some countries may not have an NFE, or because certain funding areas (such as capacity building and technology transfer) may be more suited to operational decision-making at the international/regional level. The main question in this context for the GCF business model is whether this should happen in-house (represented as option [D] in Figure 2), or whether it should, at least temporarily, be outsourced to GCF-accredited ***Multilateral Funding Entities*** (MFEs) (option [E]).

The in-house alternative depicted as option [D] in Figure 2 is based on the Adaptation Fund model and may have some advantages. The main problem with building up in-house capacity is that it inevitably takes time:

- The very first disbursement of project funding under the AF was in November 2010 (for a direct access project), 32 months after its first Board meeting in March 2008.
- The Pilot Programme for Climate Resilience (PPCR), the adaptation arm of the Climate Investment Funds conceived roughly at the same time as the AF, started disbursing to projects in March 2011,[16] 28 months after the first PPCR sub-Committee meeting in November 2008.

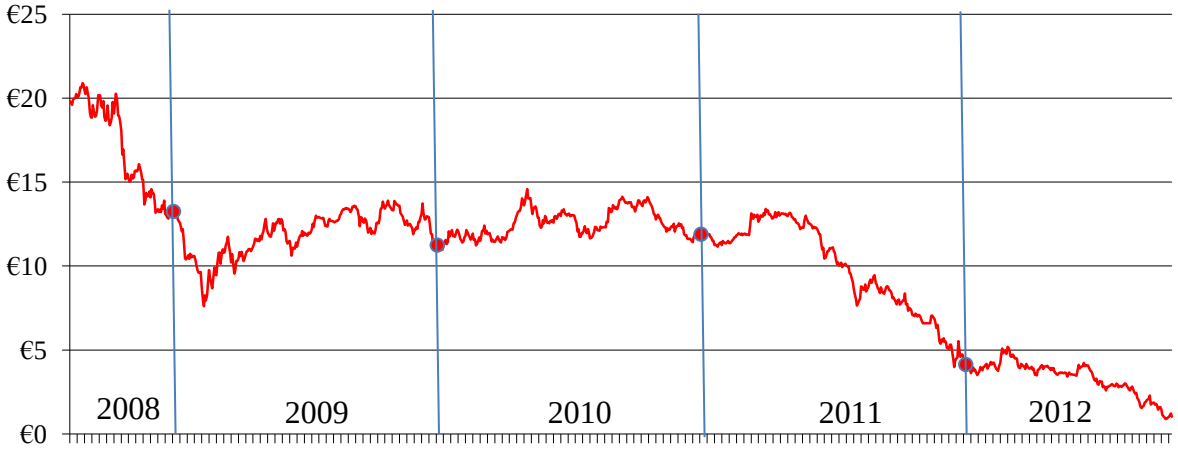
While it may be possible for this in-house capacity building period to be shortened by replicating an existing precedent, as suggested in option [D], the question must be asked whether it would not be preferable to make use of that precedent itself (as suggested in option [E]). In particular, if one is happy with the Adaptation Fund business model for 'ordinary' multilateral adaptation funding, then one needs to ask oneself whether it might not be useful to have the AF as an accredited MFE, if only for an interim period to facilitate (i) the acquisition of the relevant in-house capacity, and possibly (ii) the process of rationalizing the Financial Mechanism, which is supposed to be carried out by the COP with the support of its Standing Committee on Finance.[*]

In any case, it is important to re-emphasize that being an accredited (Multilateral) Funding Entity of the GCF does not mean that the GCF would hand out funding 'carte blanche'. The GCF funds would have to be spent according to GCF rules, and if this was not possible due to some other rules of the MFE, then it could not be accredited.

[*] *On the future of the AF and its relations to the GCF, see also Harmeling and Kaloga (2012) [Annex].*

Sourcing Implications

As indicated earlier, the sort of business models that might be adequate for the GCF are likely to have certain operational scale ranges, beyond which they cease to function (efficiently/effectively). In the discussion thus far, the focus has been on the upper limits of scalability, in other words on how much annual funding could maximally be managed with the model. As it happens, the direct access model − whether in its 'ordinary' (option [C]) or enhanced version (options [D] and [E]) − is likely to have a ***minimum operational scale***, below which it ceases to be viable.



Source: courtesy of Axel Michaelowa

Figure 3. The Evolution of the CER price

Consider the current situation of the ***Adaptation Fund***. Being overwhelmingly sourced through a 2 per cent 'adaptation levy' on credits (CERs) generated under the CDM, the revenue of the AF is highly dependent on the carbon market, in general, and CER prices in particular. The recent calamitous collapse of CER prices (see Figure 3) has left the AF in a rather precarious situation:

The first three accredited NIEs (see above) have practically reached the $10m cap that was imposed by the AFB on how much each NIE could receive, in light of current income constraints, and it is not clear whether these first-mover NIEs will remain viable in the absence of additional AF income. It has been estimated that the average AF NIE would need a minimum of $2 million annually to be viable, and that this would imply for the AF to have a minimum income of $60million per annum. As concerns National Funding Entities, an estimate based on the running costs of the BCCRF suggests a minimal viability scale of $5million per annum each.

To conclude, direct access, whether ordinary or enhanced, requires an income that is ***predictably above a certain minimum operational scale***. It has been argued that the best way of securing this is by way of innovative international sources, but the AF example clearly demonstrates that even they are not particularly predictable if tied (exclusively) to carbon prices − as was the case for most of the instruments considered by the UN Secretary General's high-level Advisory Group on climate change Financing (AGF).[17] However, two of the international sources considered by the AGF − if only rather perfunctorily in the case of one[18] − are worth highlighting in this context:

- At COP 14 in Poznan (2008), the Maldives submitted (on behalf of the LDC Group) a proposal for an ***International Air Passenger Levy*** (IAPAL),[*] which was linked to international air ticket sales (differentiated by class) and was estimated to be capable of raising between $8 and $10 billion annually − more than has been the total reported adaptation spending of Annex I countries since 1998.[19]
- The second international source worth contemplating in this context is that of a Financial Transaction Tax (FTT), for example, as recently approved by the EU Economic and Financial Affairs Council (ECOFIN)[20] for 11 EU Member States.[21] The AGF estimates that such an FTT could raise between $6 and $55 billion per year, and assumes – somewhat optimistically – that between 25 and 50 per cent ($2 to $27 billion) would be earmarked for climate change. According to projections, the EU scheme alone could generate $5bn for global public goods such as development, climate change, etc. including $1.8bn for the GCF, if the French percentage pledges were applied by all 11 participating Member States.[22]

5. QP-Disbursement Instruments/Resource Allocation

Enhanced Direct Access (EDA) is intended to help implement the principle of subsidiarity.[23] According to this principle, decisions should always be devolved to the lowest possible level at which they can be taken effectively. The defining characteristic of EDA is that operational implementing decisions are devolved to the domestic level. However, this is not to say that devolution might not also desirable in the context of other kinds of decisions, particularly in relation to strategic decisions on national planning. Is it possible to allow recipients not only to decide which (eligible) projects/programmes to carry out, but also on the strategic context ('plan', 'framework') within they wish to work?

The Oxford Institute for Energy Studies (OIES) is currently engaged in a research project[24] examining a particular type of instrument that might enable the GCF to engage in EDA not only without scrutinizing/approving domestic strategies but also without taking on unacceptable 'carte blanche' risks. The project focuses on mitigation and on the use of 'Quantity Performance (QP) instruments' for that purpose. The idea is that the GCF risks can be managed in that context if the funding is linked to certified quantitative emission reductions. The ***ex ante*** scrutiny of projects/programmes ***and*** of country strategies is, as it were, replaced by an ***ex post*** certification system, paying for what has certifiably been achieved. As concerns EDA, these sort of *ex post* performance based disbursements are already being used in the context of Norway's ***International Forest Climate Initiative*** and the ***Brazilian Amazon Fund***

Ghosh et al. (2012) have looked into how the GCF could use QP instruments to provide funding for private sector activities, and it emerges clearly that in this context, the GCF could take on an interim role of ***CDM 'stabilization fund'/'reserve bank'*** as recently proposed by the High-Level Panel on the CDM Policy Dialogue.[25] And, it stands to reason that this should be done for precisely the same reasons as were put forward in favour of an interim MFE arrangement with the Adaptation Fund: to avoid wasting time by having to reinvent the wheel. (Indeed, stabilizing the CER prices would have an immediate effect on the interim viability of the AF.)

Potentially the biggest problem with the use of QP instruments in this context, particularly if one also wishes to make use of their inherent capacity to increase efficiency (maximize the 'bang for the

[*] *For the LDC submission, and further reading on IAPAL see Müller (April 2009), or Lockley and Chambwera (April 2011).*

buck'), is the issue of distributional justice. As it turns out, this issue is closely related to the well-known problem regarding the geographical imbalance of the CDM; particularly if the QP instruments involve a competitive price and quantity determination in order to realize their efficiency potential, in which case one is likely to face similar imbalances. How could this be addressed?

The answer may lie in what could be described as the fundamental flaw in the initial design of the CDM, which combined the original idea of a Clean Development Fund with a market-based disbursement mechanism. The problem is this: a competitive distribution of funds is not intended to take regional balance into account. That needs to be achieved by other means. One option for the use of QP instruments in the GCF is, as proposed in Ghosh et al. (2012),[26] to apply a two-tier approach: allocate overall funds geographically on political criteria to achieve a desired geographic balance, then proceed to use QP instruments within each funding area.

However, it might be better to take the bull by the horns and follow the second suggestion of Ghosh et al. – to keep a single 'global' QP funding stream,[27] and deal with the imbalances through other non-QP funding. In other words, create a budget-line for QP-disbursement (within the mitigation window) and use the other mitigation funding as a Clean Development Facility, to address all the issues that cannot be dealt with equitably or otherwise satisfactorily through QP instruments. The main task of the GCF Board would then be to ensure there is a fair balance between the two funding modalities.

6. Recommendations

Given that countries are in the process of setting up national climate change funding instruments (independently of the GCF!) as their preferred conduit for climate change finance, both for domestic and international support, it is difficult to see how the GCF could fulfil its mandate to be country-driven if it did not adopt Enhanced Direct Access through such National Funding Entities as one of its access modalities. The main question for the GCF is therefore not whether to engage in EDA, but to what extent it will be engaged in creating an enabling environment for this access modality.

Since, as argued above, the GCF can only be scaled up to an operational level fit for its purpose in the context of a large-scale use of EDA, it stands to reason that the GCF should begin with an ***EDA pilot programme*** engaging these existing national instruments as soon as possible, in order to provide lessons for an ***institutional capacity building programme for NFEs*** that will create the necessary in-country enabling conditions for large scale GCF EDA.

At the same time, the GCF will have to decide on how it is to relate to other existing multilateral funding instruments, and how to deal with funding for countries that do not have an NFE. One, recommended, option that would speed up the process of being able to disburse funding would be to enter into arrangements with some of these funds to serve as ***Multilateral Funding Entities*** for the GCF, at least until the GCF has developed the relevant in-house capacity, or is ready to assimilate the fund in question into its own operations (in the spirit of 'rationalizing the financial mechanism' of the UNFCCC).

References and Bibliography

Unless otherwise indicated, the publications listed can be downloaded from:
www.oxfordclimatepolicy.org/rfm.shtml

Primary Resources

A. General Architecture [***Supplied in Annex***]

[0] ***GCF Objectives and Guiding Principles***
http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf

[1] ***Submission of views regarding the questions for the first technical workshop of the Transitional Committee*** suggested by the Co-facilitators of Work Stream I, Benito Müller and Anju Sharma. OIES. May 2011.

[1a] ***Some further thoughts on the draft TC work plans***, Benito Müller, OIES. May 2011.

[2] ***Dissecting the Green Climate Fund***: Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III), Benito Müller, OIES. July 2011.

[3] ***Enhanced Direct Access***: Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III), Benito Müller, OIES. August 2011.

[4] ***Submission to the Transitional Committee by Ms Carol Mwape (TC member Zambia)***

[5] ***Kyoto Protocol: Significant progress,*** D+C contribution, Sven Harmeling, Alpha Oumar Kaloga, 13 July 2012, www.dandc.eu/en/article/kyoto-protocols-adaptation-fund-setting-right-examples.

B. Civil Society Involvement

[6] ***The role of non-governmental actors***: OIES Submission the Transitional Committee with regard to Work Stream II, Sub-Work Stream 2, Anju Sharma, OIES. June 2011.

[7] ***Observers and the Green Climate Fund***: OIES Submission in response to the initial consultation by the Interim Secretariat of the GCF on observer participation in the proceedings of the Board of the GCF, Benito Müller and Anju Sharma, OIES. March 2012.

[8] Anju Sharma, 'A fig leaf for climate finance' *It must be said!* 24 January 2013 **[*Supplied in Annex*]** http://jusharma.wordpress.com/2013/01/24/a-fig-leaf-for-climate-finance/.

C. Disbursement Instruments/Resource Allocation

[9] ***Mobilizing the Private Sector: Quantity-Performance Instruments for Public Climate Funds,*** Arunabha Ghosh, Benito Müller, William Pizer, and Gernot Wagner. *Oxford Energy and Environment Brief*, OIES. August 2012.

[10] ***Quantity-Performance Payment By Results: Operationalizing enhanced direct access for mitigation in the Green Climate Fund***, Benito Müller, Samuel Fankhauser, and Maya Forstater, *Oxford Energy and Environment Brief*, forthcoming.

[11] ***Climate Change, Carbon Markets and the CDM: A call to action***, Report of the High-Level Panel on the CDM Policy Dialogue, September 2012.
http://www.cdmpolicydialogue.org/

Background Reading

The Bangladesh National Climate Funds: A brief history and description of the Bangladesh Climate Change Trust Fund and the Bangladesh Climate Change Resilience Fund
S M Munjurul Hannan Khan, Saleemul Huq, and Md Shamsuddoha, LDC Paper, November 2011
http://ldcclimate.files.wordpress.com/2012/05/bangladeshnationalfund.pdf

Solidarity Levies On Air Travel: The case for a ready-made innovative stream of finance in support of the current international climate negotiations, Peter Lockley and Muyeye Chambwera, Oxford Energy and Environment Brief, April 2011
www.oxfordenergy.org/wpcms/wp-content/uploads/2011/03/Comment-March-2011_2.pdf

Report of the Secretary-General's high-level advisory Group on climate change financing, November 2010, www.un.org/climatechange/agf

National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change, Luis Gomez-Echeverri. ecbi Policy Brief, October 2010.

The Time is Right! Devolution of funding decisions to designated national/regional climate change funding entities. Oxford Energy and Environment Comment, Benito Müller, OIES. November 2009.

The Reformed Financial Mechanism of the UNFCCC: Post Copenhagen – Architecture and Governance, Benito Müller, ecbi Policy Brief. April 2010.

The Reformed Financial Mechanism of the UNFCCC: Renegotiating the role of civil society in the governance of climate finance OIES EV 50, Anju Sharma, OIES, April 2010.

How many people does it take … to administer long-term climate finance? David Ciplet, Benito Müller and J Timmons Roberts. ecbi Policy Report. October 2010.

Time to Roll Up the Sleeves – Even Higher!: Longer-term climate finance after Cancun, Oxford Energy and Environment Brief, Benito Müller, OIES. March 2011.

On the Need to Certify: Oversight of compliance with financial commitments under the UN Framework Convention on Climate Change, Oxford Energy and Environment Comment, Benito Müller, OIES. December 2009.

The Green Climate Fund: What needs to be done for Durban (COP 17), Farrukh Iqbal Khan, Oxford Energy and Environment Brief, OIES. February 2011.

Procrustes' Bed & Ockham's Razor: The debate on existing institutions in climate finance, Oxford Energy and Environment Comment, Benito Müller, OIES. November 2009

The Reformed Financial Mechanism of the UNFCCC Part I: Architecture and Governance, Benito Müller and Luis Gomez-Echeverri. OIES Background Paper EV45, April 2009.

International Air Passenger Adaptation Levy (IAPAL): Thirteen Questions and Answers, Benito Müller, ecbi Policy Brief, April 2009

Endnotes

[1] Office of the Compliance Advisor Ombudsman (CAO) of the International Finance Corporation (IFC), *CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries*, 10 October 2012, www.cao-ombudsman.org/newsroom/documents/Audit_Report_C-I-R9-Y10-135.pdf.

> *The additional staff resources allocated beginning in 2008 to manage the environmental and social requirements in IFC's financial sector portfolio, as well as the* ***increased presence of E&S*** [Environment and Social] ***staff in local and regional offices, have had a significant positive effect on the level and quality of client engagement and compliance***. […] *IFC has played a leading role in developing and enforcing standards for environmental and social sustainability, although it has not assumed a leadership role in coordinating its standards with other lenders. There is an opportunity for IFC to utilize* ***evolving tools developed through multi-stakeholder processes for corporate reporting and verification that could help to further the development of global E&S norms, as well as facilitate more effective utilization of IFC resources by establishing disclosure of E&S impact as a direct responsibility of their clients***.[op.cit p.41, emphasis added]

[2] ARIRANG, 'Songdo of Incheon City Wins Bid to Bring in Headquarters of Green Climate Fund', Interview with Song Young-gil, Mayor of Incheon Metropolitan City. 20 October 2012. www.songdo.com/songdo-international-business-district/news/in-the-news.aspx/d=403/ title=Songdo_of_Incheon_City_Wins_Bid_to_Bring_in_Headquarters_of_Green_Climate_Fund

[3] Annex to Decision 3/CMP.1; FCCC/KP/CMP/2005/8/Add.1.

[4] *While it is expected that demand for the CDM might fluctuate in the future, there is currently a temporary peak in requests for registration in advance of the end-2012 deadline.* [Footnote: *UNEP Risoe CDM Pipeline newsletter for May: 'After the peak of 317 new CDM projects in April, the number of new submissions went down to 178 in May.'*] *The secretariat has indicated that, given its current roles and the availability of suitable external experts, the overall number of staff is sufficient to cope with the current peak in workload. It has taken a long time to build up the current body of staff and expertise and the secretariat thinks that is suitable for current needs.*[CDM-PD Gov:96]

[5] [CDM-PD Gov] CDM Policy Dialogue Research Programme, Research Area: Governance, Final Report 1 October 2012

[6] [CDM-PD Gov: 77]

[7] [CDM-PD Gov, Executive summary: 8] Note also the conclusion that:

> *… a clearer ring-fencing of the units responsible for the different regulatory functions of the secretariat is required, reinforced by a code of conduct for staff involved with the mechanism, and an independent oversight and complaints mechanism, for example through the office of an ombudsman.*[99]

[8] www.thegef.org/gef/sites/thegef.org/files/documents/C.31.7%20GEF%20Project%20Cycle.pdf

[9] op. cit. p.3.

[10] The *National Bank for Agriculture and Rural Development* (India's NIE) had a turnover of Rs 1821bn (US$ 34bn at current exchange rates).

[11] Emphasis added.

[12] Bangladesh Climate change Resilience Fund, Brazilian Amazon Fund, Brazil National Fund on Climate Change, China CDM Fund (CDMF), China Funds for the Environment, Ecuador Yasuni ITT Trust Fund, Guyana REDD Investment Fund, The Indonesia Climate Change Trust Fund (ICCTF), Maldives Climate Change Trust Fund, Thailand Energy Efficiency Revolving Fund.

[13] Nigeria National Strategic Climate Change Trust Fund, Indonesian Low Emission Development Financing Facility, India Clean Energy Fund, Philippines National Survival Fund, Costa Rica Green Bond.

[14] http://bccrf-bd.org/Default.aspx

[15] www.amazonfund.org/

[16] Source: Strategic Climate Fund (SCF): Disbursement Report (as of 30 June 2012). www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SCF_Disbursement_Report_June_30_2012.pdf

[17] *Para 53.a. Public Sources* [AGF Report]:

i. *Revenues from the international auctioning of emission allowances (such as assigned amount units (AAU) under the Kyoto Protocol): this would involve retaining some allowances from developed countries and then auctioning them to raise revenues;*
ii. *Revenues from the auctioning of emission allowances in domestic emissions trading schemes: this would involve the auctioning of domestic credits (as in the European Union Emission Trading Scheme phase III) and allocating some part of associated revenues;*
iii. *Revenues from offset levies: this would involve withholding a share of offset revenues as a global source, as currently done in the Clean Development Mechanism (CDM);*
iv. *Revenues generated from taxes on international aviation and shipping: this would either involve some levy on maritime bunker/aviation jet fuels for international voyages or a separate emissions trading scheme for these activities, or a* ***levy on passenger tickets of international flights****;*
v. *Revenues from a wires charge: this involves a small charge on electricity generation, either on kWh produced or linked to carbon emissions per kWh produced;*
vi. *Revenues generated by removing fossil energy subsidies in developed countries: this comprises budget commitments freed by the removal of fossil energy subsidies, which can be diverted towards climate finance;*
vii. *Revenues from fossil fuel extraction royalties/licences: these could be allocated in part to international climate finance;*
viii. *Revenues from carbon taxes: this is based on a tax on carbon emissions in developed countries raised on a per-ton-emitted basis;*
ix. *Revenues from a* ***financial transaction tax****: this builds on existing proposals on a global financial transaction tax (with a focus on foreign exchange transactions);*
x. *Direct budget contributions: this involves revenues provided through national budgetary decisions*.

[18] While the financial transaction tax was part of the analytic work, the idea of an aviation passenger levy was referred to exactly three times (pp. 15, 45, and 79) in each case by name only, without any analytic treatment.

[19] See Table 7, p.19 of UNFCCC Secretariat, *Compilation and synthesis of fifth national communications, Addendum: Financial resources, technology transfer, vulnerability, adaptation and other issues relating to the implementation of the Convention by Parties included in Annex I to the Convention*, 20 May 2011, FCCC/SBI/2011/INF.1/Add.2.

[20] *At a gathering in Brussels, a majority of EU finance ministers gave approval for the creation of a vanguard transaction tax bloc, which is expected to include the eurozone's four biggest economies: Germany, France, Italy and Spain.* […] *The European Commission will soon propose details of the tax, which will start months or potentially years of negotiations on the exact rate and design. Some countries are pressing for the tax to be in place as soon as next year. The Brussels plan will be closely based on its original Commission blueprint for the entire EU, where stock and bond trades were covered by a 0.1 per cent levy and derivatives trades at 0.01 per cent tax.*[Alex Barker, 'EU blessing for core nations' transaction tax' 22 January 2013, FT.com, www.ft.com/cms/s/0/66d35132-64ae-11e2-ac53-00144feab49a.html#axzz2KICVOe28]

[21] Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, and Slovakia.

[22] France has said it would commit 3.7% to go to the Green Climate Fund in the context of 10% earmarked for global public goods like development, climate change, etc. The current EC proposal is said to have a projected revenue stream of €37billion ($49bn).

[23] The principle of subsidiarity is, for example, enshrined in Article 5 of the Treaty on European Union:

1. […] *The use of Union competences is governed by the principles of subsidiarity and proportionality.*

3. Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level. The institutions of the Union shall apply the principle of subsidiarity as laid down in the Protocol on the application of the principles of subsidiarity and proportionality. National Parliaments ensure compliance with the principle of subsidiarity in accordance with the procedure set out in that Protocol.

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0013:0046:en:PDF.

The principle of subsidiarity […] *ensures that decisions are taken as closely as possible to the citizen and that constant checks are made to verify that action at Union level is justified in light of the possibilities available at national, regional or local level. Specifically, it is the principle whereby the Union does not take action (except in the areas that fall within its exclusive competence), unless it is more effective than action taken at national, regional or local level.*

http://europa.eu/legislation_summaries/glossary/subsidiarity_en.htm

[24] See Müller, Fankhauser, and Forstater (forthcoming).

[25] CDM Policy Dialogue (2012).

[26] *It is also important to recognize that the drive for cost-effectiveness may lead to a 'regional' concentration of the funding flows, as happened in the case of the CDM. [...] this gave rise to strong criticism, particularly from developing countries that were left out (viz. African and Least Developed Countries). One way in which such geographic imbalances could be addressed is to apply a two-tiered approach: allocate overall funds into geographical windows based on political criteria to achieve a desired geographic balance, then proceed to use QP instruments within each funding window. One would need to be careful, however, about carving up QP instruments into windows that are too small to attract sufficient private sector participation. Another way could be to keep a single 'global' QP window, and deal with the imbalances through other non-QP funding windows.* Ghosh et al. (2012:13–14.)

[27] It is important that this is done through a budget line item, and not by introducing some architectural feature, such as 'QP window' in order to keep the decision of how much is to be spent on these QP activities with the board (Windows have a tendency to be seen as 'earmarkable' in the eyes of contributors, thus taking the decision of how much is to be spent out of the hands of the Board).

THE OXFORD INSTITUTE FOR ENERGY STUDIES
A RECOGNIZED INDEPENDENT CENTRE OF THE UNIVERSITY OF OXFORD
UNIVERSITY OF OXFORD

Oxford Energy and Environment Brief
February 2013

A Delhi Vision

for the Green Climate Fund Business Model Framework –
Some Thoughts on Access and Disbursement

Annex

Content

- ***GCF Objectives and Guiding Principles***
- ***Submission of views regarding the questions for the first technical workshop of the Transitional Committee*** suggested by the Co-facilitators of Work Stream I, Benito Müller and Anju Sharma. OIES. May 2011.
- ***Some further thoughts on the draft TC work plans***, Benito Müller, OIES. May 2011.
- ***Dissecting the Green Climate Fund***: Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III), Benito Müller, OIES. July 2011
- ***Enhanced Direct Access***: Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III), Benito Müller, OIES. August 2011
- ***Submission to the Transitional Committee by Ms Carol Mwape (TC member Zambia)***
- ***Kyoto Protocol: Significant progress,*** D+C contribution, Sven Harmeling, Alpha Kaloga, July 2012
- ***A fig leaf for climate finance,*** *It must be said!* Anju Sharma, January 2013

GOVERNING INSTRUMENT FOR THE GREEN CLIMATE FUND

Source: Paragraph 1 to 3

What are the purpose and objectives?

1. *Given the urgency and seriousness of climate change, the purpose of the Green Climate Fund is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change.*
2. *The Fund will contribute to the achievement of the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC). In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.*
3. [a] *The Fund will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the international and national levels.*

   [b] *The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach.*

What are the framing conditions?

3. [c] *The Fund will be guided by the principles and provisions of the Convention..*

   [d] *The Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness.*

   [e] *The Fund will pursue a country-driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders.*

   [f] *The Fund will be scalable and flexible and will be a continuously learning institution guided by processes for monitoring and evaluation.*

   [g] *The Fund will provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects.*

Submission of views regarding the questions for the first technical workshop of the Transitional Committee suggested by the co-facilitators of work stream I

Submitted through the UNFCCC constituency of Research and Independent NGOs

Benito Müller and Anju Sharma 20 May 2011

Following the invitation by the Transitional Committee (13 May 2011), this paper is a submission of views by the authors on some of the questions suggested by the TC for its first technical workshop (listed in Box 1). The paper is based on notes for a speech given by one of the authors during the first meeting of the TC in Mexico City, appended to this paper.

SIZE AND SCALABILITY [6, 7, 8][1]

It would not be rational to establish/operationalised a new climate fund if it is just the same as all the other existing international climate funds. Expectations are that the GCF will, in the longer term, will have an annual turnover in ***double digit billion dollar figures***. It is also clear that such a turnover will not be possible at the outset, not only because of a lack of available funds, but also because of the inevitable initial lack in the ability to process and absorb funds at that scale. It is thus crucial, if the intention is indeed to have a fund that will work at the expected scale, that the ***architecture of the GCF is flexible enough to permit the envisaged scaling up of turnover in the envisaged timeframe***.

Box: Relevant Questions suggested by the TC invitation for submissions

[1] How should/could this Fund be different from existing climate funds?
[5] The Cancun Agreements refer to "balance" between mitigation and adaptation. How do we define and achieve "balanced allocation" between adaptation and mitigation?
[6] What is the foreseen size of the GCF compared to other existing funds?
[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?
[9] How could the GCF encourage the application of the country led principle?
[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?

[1] Numbers in square brackets refer to the questions addressed (see Box 1)

COUNTRY-LED APPROACHES [9]

In the appended notes, it is argued that it would ***not be efficient*** to carry out this scaling up of turnover under the traditional architecture of international funds and that, at scale, the GCF would have to have a ***throughput architecture with funding decisions devolved to National Funding Entities*** in the recipient countries.[2] However, it has equally been argued that the devolution of funding decisions to the 'country-level' would also increase the ***effectiveness*** of the funding, due to the developing country ownership over the decisions which is essential if the funding is to be mainstreamed into their domestic policies. As concerns question [9], it is indeed difficult to see how the GCF could "encourage the application of the country led principle" more than by applying the ***subsidiarity principle*** in its decision making.

Having said this, it is also clear that many if not most recipient countries will need some time to be able to partake in such a devolved throughput mechanism. For this reason, the notes argue, that the GCF needs to have two distinct arms:

- a "***Funding Arm***", which can operationalised relatively quickly, and which will be the main tool for processing the (modest) startup funding.
- a "***Disbursement Arm***" − ultimately responsible for direct access disbursements to National Funding Entities − which would initially be charged with creating the conditions necessary for its own operation through, for example, an extensive institutional capacity building programme.

This would also facilitate the work of the Transitional Committee, as it would not be necessary to operationalise the Disbursement Arm by COP.17 in Durban, but only the Funding Arm, which is possible, even in the face of the very tight deadline.[3]

THEMATIC SCOPE [5]

According to paragraph 1.c of its Terms of Reference, the *Transitional Committee shall develop and recommend to the Conference of the Parties for its approval at its seventeenth session operational documents that address* […] *methods to manage the large scale of financial resources* […] *with the objective of achieving a balanced allocation between adaptation and mitigation.*

But what exactly is this objective? There are at least two issues that need to be addressed in any attempt at answering this question. One is the meaning of 'balanced'; the other, the meaning of 'allocation between adaptation and mitigation.' While the focus is usually on the former, the Notes argue that the latter is more important. The funding allocation, they argue, which ought to be considered in this context is not that between GCF funding windows, but between 'adaptation' and 'mitigation'. In other words, the objective in question has to be ***a balance in the global climate funding regime between adaptation and mitigation***, and the GCF must be ***the tool to redress imbalances*** in this global regime.

OBJECTIVES AND PRINCIPLES [1, 12, 13, 14]

In the longer term, the aim has to be for the GCF to evolve into climate change finance entity which, as explained above, differs radically not only in ***architectur***e, but also in ***function*** from the currently existing fund paradigm.

---

[2] Note that while there are some international funds which deviate in this regard from the traditional architecture (with funding decisions centralized at fund level), the national funding entities that have been established in developing countries for climate change purposes are funded domestically or bilaterally.

[3] To operationalise the Funding Arm by Durban, it would be sufficient to produce the sort of documents that the CMP adopted in Poznan regarding the Adaptation Fund.
(see Decision 1/CMP.4, Add.2; http://unfccc.int/resource/docs/2008/cmp4/eng/11a02.pdf)

STRONG STAKEHOLDER / CIVIL SOCIETY OWNERSHIP AND PARTICIPATION[4] [1. 9. 12]

In recent decades, civil society around the world has clearly demonstrated that they have a key role to play in promoting effective implementation of funded activities, particularly with regard to:

- Relaying information - translating local-level experiences to inform national and global decision-making, and global and national policies for local implementation;
- Ensuring ownership, accountability, transparency, equity, and effectiveness in global and national decision-making and implementation; and
- Planning, implementing and monitoring activities at low cost, sometimes with better access to remote populations, and while promoting innovative approaches.

Although the importance of stakeholder involvement and ownership in funding decisions widely recognised, it has not been sufficiently operationalised by existing financial entities. Most of them have some level of participation by global stakeholders, but hardly any (certainly not enough) by local stakeholders, whose lives are most affected by the funded activities.

It is therefore proposed that the GCF take on board lessons learnt by the other entities from the very start, and make a strong stakeholder process a key element in the design of the GCF. Three key aims should be kept in mind in order to achieve this:

1. ***To establish strong 'bottom-up' stakeholder networks and links between the entities that take decisions on which activities are to be funded, and national and local stakeholders whose lives will be affected by the funded activities***. National and sub-national civil society networks play a very important role in relaying information from the global and national level, to the local level (for instance, on what funds are available and how to access them quickly and efficiently); and from the local level to decision-makers at the national and global level (for instance, on barriers and successes in implementation).

2. ***To consider ways in which stakeholder participation (in identifying, planning, implementing and monitoring funded activities) can be adequately funded, without compromising their important role as a watchdog.*** A small percentage of the funds allocated to countries could be marked for the setting up and maintenance of independent, accountable and transparent civil society networks.

3. ***To ensure that there are easily accessible 'redress mechanisms' at every level of decision-making, to which stakeholders can take their grievances.*** Three minimum criterion are necessary for these redress mechanisms to be credible: ***independence, public accountability*** and ***effectiveness***. To ensure the ***independence*** of the mechanism, members should be chosen from outside the institution, and their budget should be independent and adequate. For *public* ***accountability***, the public should have access to every stage of the redressal process. To be ***effective***, the mechanism must have the authority to ensure that their recommendations are acted upon.

[4] For a more detailed analysis on which these recommendations are based, please see A. Sharma. The Reformed Financial Mechanism of the UNFCCC: Renegotiating the role of civil society in the governance of climate change. Oxford Institute for Energy Studies, (2010)

Speaking Notes for the ecbi Finance Circle Dinner with Transitional Committee members in Mexico City, 28 April 2011

Benito Müller

For a number of years, I have been working on possible reforms of the Financial Mechanism of the Climate Change Framework Convention. One of the central outcomes of this work has been the conclusion that a significant consolidated fund is crucial to such a reform. This is why I am particularly pleased that the Global Climate Fund is to be an ***operating entity of the Convention designed under its aegis***.

What I would like to do here is to step back for a moment and ask the question that led to this conclusion, namely:

Why do we need a Financial Mechanism?

There are many valid reasons why it is important to have some framework for climate finance flows to developing countries. Some have put forward a need for coordination to increase efficiency and effectiveness. These are no doubt valid reasons, but for me, the raison d'être has always been the need to ensure −at least a degree of− what I think of as ***global social justice***.

To put it slightly less philosophically, we need the Financial Mechanism as a tool to rectify imbalances in the overall financial regime, be that ***thematic imbalances*** ('mitigation' versus 'adaptation') or imbalances in terms of ***who does or does receive funding***.

There is little doubt in my mind that a large share even of public sector finance for developing countries is going to be done ***bilaterally***. The question is, what do we do if we realize that, for some reason or other, most of these flows are used for, say, mitigation, and that there is not enough bilateral adaptation funding? What do we do if we realize that there are a number of 'climate orphan' countries, countries, that – although entitled – do not get adequate bilateral climate finance?

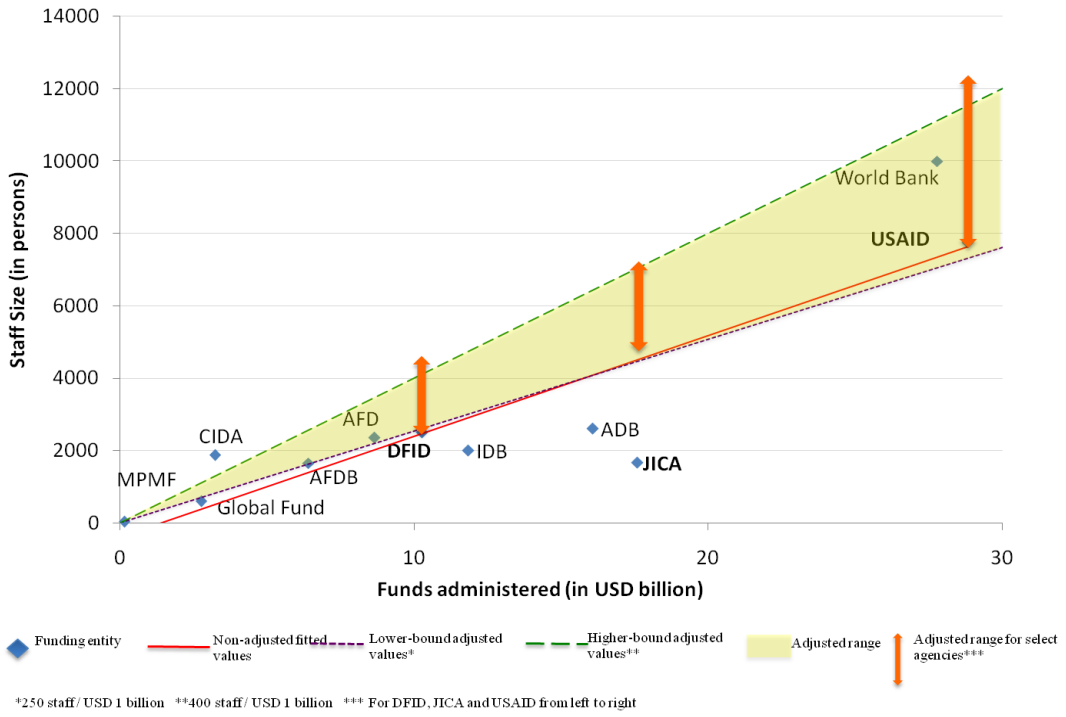
It is, in my view, unrealistic to think that we can tell donor agencies what or who they should fund bilaterally. The only solution is what most countries have established domestically, namely a sufficiently large consolidated fund to address and rectify such imbalances in the overall regime. This is my personal vision for the Green Climate Fund.

How can this be done?

As I need not tell you, this is not an easy question, and it is complicated by two facts which I think are at the heart of the design of the Green Climate Fund. There are two sets of expectations which may seem to imply ***mutually incompatible designs***. One the one hand there is the expectation that the Fund is to ***start disbursing soonest possible***, preferably just after Durban, and then there is the expectation that ***it is to work 'at scale'***

We do have examples of international funds that have been set up at relatively short notice, but they are all of a type which, for a number of reasons, I believe will not work effectively or efficiently at scale. Let me just highlight one of them.

A year ago, we commissioned a study to look at the question of **How many people does it take … to administer long-term climate finance?**[5] The answer published last October was: ***between 250 and 400 per billion USD***.



According to the authors, this is a ***conservative estimate*** and simply a reflection of the fact that if one does wish to spend money effectively and subject to certain fiduciary standards, then one needs people to administer that money.

Assuming that, in the longer term, the Green Climate Fund is meant to administer ***$10bn or $20bn***, one would therefore be looking at between ***2500 and 8000 people*** to manage these funds.

The question for the architecture of the Green Climate Fund is:

Do we really want a skyscraper of people processing climate change projects and programmes?

I believe that this would not be desirable. To be quite clear, the issue here is not the number of people needed, but the ***centralized decision making model*** of traditional funds. This is why we have for some time been looking at alternatives, in particular at the idea of a ***'throughput' model*** in which the consolidated funds are disbursed to ***National Funding Entities*** which not only take over the bulk of the administration, but also the funding decisions.

In this context, I would like to refer to another ecbi Policy Report which has looked at the role of such ***National Funding Entities in the transition to a new paradigm of global cooperation on climate finance***.[6]

---

[5] **How many people does it take … to administer long-term climate finance?** with David Ciplet, and J Timmons Roberts. ecbi Policy Report *Oct-10*

The Report looks at a number of such National Funding Entities as they have emerged over the past couple of years. From the Report it emerges that it will take ***some time and a considerable institutional capacity building effort*** for such a throughput mechanism to become operational.

This is where the ambition of scale seems to conflict with the wish for a speedy operationalisation of the Green Climate Fund. But the two do not necessarily exclude one another, provided the ***architecture of the Fund is kept sufficiently flexible***.

In order to fly, the Green Climate Fund will in my view need two arms (or wings): A ***funding arm***, which functions along the traditional funding model, and a ***disbursement arm***, channelling funds directly to national funding entities.

To ensure a speedy commencement of funding activities, the current design focus would have to be on the former, but it is, I believe, essential for the blueprint of the Fund to include the concept of the latter, if it is to live up to the expectations of scale.

[6] Luis Gomez-Echaverri **National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change** ecbi Policy Brief *Oct-10*

Some further thoughts on the draft TC work plans

Benito Müller[1] 27 May 2011

1. WORKSTREAMS I & III

A submission by the Oxford Institute for Energy Studies, dated 20 May, addressed two key issues.

1.1 *The objective of achieving a balanced allocation between adaptation and mitigation.*

The 'allocation' referred to, the submission argued, must be the global amounts spent on supporting developing countries for adaptation and mitigation activities, and not merely the funds assigned to the adaptation and mitigation windows of the GCF. The latter, it was argued, needs to be an instrument to remedy imbalances in the former.

What is clear is that in either case − as reflected in the US response[2] to relevant question by the WS.I Co-facilitators[3] − these decisions are ***profoundly political***. Indeed, in stressing that 'donors should have the flexibility to assign contributions to the windows', the US response points at the very heart of the issue, namely the question: Who should (be allowed to) take the decisions on the use of GFC funds. Should it be the ***contributors*** alone, or should the ***recipients*** also have a say?

The original submission argued strongly for the subsidiarity principle, devolving as many such decisions to the recipient countries as possible, on grounds both of equity and effectiveness. However, there is another purely pragmatic reason why it would be inadvisable to leave these decisions to contributors alone, if the aim of the GCF is indeed to rectify (thematic) imbalances in the global climate finance regime: Given that a significant proportion of any such imbalance is likely to be due to the preferences/constraints of bilateral donors, it is doubtful whether, as contributors, they would choose otherwise if given the option to earmark funding for specific GCF windows.[4]

The solution may be to encourage contributors to recognize the consolidated nature of the CGF and to refrain from earmarking their contributions, if the GCF really is to serve as the sort of remedial instrument for global (thematic) imbalances.

1.2. *Funding and Disbursement*

The second key point of the first OIES submission was that the architecture of the GCF must be ***bi-functional***: it ought to have a '***Funding Arm***' functioning as a traditional fund, with funding

---

[1] Director, Energy and Climate Change, OIES; Director, European Capacity Building Initiative (ecbi); benito.mueller@philosophy.ox.ac.uk.

[2] ***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. sufficient resources for adaptation – this is a political rather than mathematical decision. Donors should have the flexibility to assign contributions to the windows.*

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

[4] If for whatever reasons, the bilateral donor community say prefers mitigation over adaptation, then it is unlikely that they would do otherwise in the context of contributing directly to different GCF windows.

decisions taken at the Board level, as well as a '***Disbursement Arm***', functioning as a ***direct access (lump-sum) throughput instrument with funding decisions devolved to National Funding Entities***. Moreover, the argument was that there will have to be an ***evolution over time*** from predominance of former to the latter.

As concerns prioritizing the work of the TC, this means that top priority ought to be given to ***operationalising the Funding Arm*** by Durban. Judging from the operationalisation of the Adaptation Fund, the minimal requirements for this are to have drafts of the following documents:[5] (i) Rules of Procedure; (ii) MOU with (interim) Trustee; (iv) Secretariat Arrangements; and (vi) Strategic priorities, policies and guidelines.

WORKSTREAM II

Given that the first three of these minimally required draft documents fall within its remit, WS.II is clearly of paramount importance in the work that needs to be done for Durban. However, work will have to be prioritized even in that Workstream. In particular, there are good reasons to think that the work of the final Sub-workstream − ***II.5: Coherence with the other operating entities of the financial mechanism and other climate, environment, and development finance*** – will eventually be superseded by work carried out elsewhere, *viz.* the Standing Committee of the COP, and thus should really not compete for time with the other tasks of the Workstream.[6]

Yet there is one issue that does not feature in the current draft WS.II plan of work, but which is important to be included: the manner in which the GCF will ***engage with civil society stakeholders apart from Board participation***. The need for such additional engagements was highlighted in the original OIES submission, but need to be re-emphasised here, in the context of the WS.II work plan.

WORKSTREAM IV

According to the Terms of Reference (TOR) for the design of the Green Climate Fund, *the Transitional Committee shall develop and recommend to the Conference of the Parties … operational documents that address, inter alia: … (g) A mechanism to ensure periodic independent evaluation of the Fund's performance.* This task is taken up in WS.IV, the draft TOR for which rightly point out the *need to, inter alia: … (viii) Consider the institutional aspects of "ensuring periodic independent evaluations" with a stress on "independent".* It would seem to be not unreasonable to assume that assuring such independence would be easier if the evaluations were commissioned by some other body than the GCF, such as the Standing Committee, as part of providing general support to the COP in giving guidance and holding accountable the operating entities of the Financial Mechanism.

The fact that task lists of both TORs referred to are qualified as open ('inter alia') means that WS.IV ought to be able to look at an issue not addressed in the deliberations thus far, but essential for setting up the new fund, namely ***complaints and dispute resolution procedures***. The need for and usefulness of such procedures is generally acknowledged − although there are a lot of lessons to be learned from existing models – and there can be no doubt that if the GCF is to follow best-practice governance, then it will have to include such procedures. It is therefore strongly advised that WS.IV take on the task of elaborating such procedures for the GCF.

---

[5] Decision 1/CMP.4; http://unfccc.int/resource/docs/2008/cmp4/eng/11a02.pdf

[6] For more on this, see Farrukh Iqbal Khan and Benito Müller, *What Functions? What Form? Operationalising the Standing Committee*, ecbi Policy Brief, forthcoming.

DISSECTING THE GREEN CLIMATE FUND

Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III)

Submitted through the UNFCCC constituency of Research and Independent NGOs

Benito Müller 20 July 2011

'Thematic Funding Windows'?

The Cancun Agreement stipulates (Paragraph 102) that the Green Climate Fund (GCF) is to *support projects, programmes, policies and other activities in developing country Parties using thematic funding windows*. While there is some intuitive understanding of the kind of things the Fund is meant to support, the notion of a 'thematic funding window' is rather more obscure.

Funding Windows – Ring-fencing and earmarking

A Background Note[1] on the subject by the Technical Support Unit (TSU) for the Transitional Committee explains the notion of a 'thematic funding window' as *a sub-structure within a fund that allows for specialisation in and a focus on a particular sector, issue, or access modality*. But then, one may wonder, what exactly is meant by 'sub-structures' in this context?

In my understanding, 'funding windows' are, first and foremost, budgetary line items. As such they can be used either to ***ring-fence certain assets***,[2] or to ***earmark certain contributions***.[3] Any eligible party would like to make sure that they actually get something. This is why there is a belief that if one has a funding window, funding will be assured. The trouble with this is that, in most cases, the existence of funding windows also means that contributors ('donors') can pick and choose which window they want their contribution to go to, and this is by no means the same as having some existing funds ring-fenced for a purpose. For example, it is not self-evident that an LDC window in the GCF would necessarily be attracting larger contributions than the LDC fund.

Indeed, if – as has been argued elsewhere[4] − the GCF is to serve as tool ***to rectify imbalances in the overall climate finance regime*** – be that ('thematic') imbalances between, say, overall financing for mitigation and adaptation, or 'geographic' imbalances between donor 'darlings' and 'orphans' − then windows which allow for earmarked contributions are most likely to be counterproductive. Given that the imbalance in the regime is due to bilateral funding choices by the same actors who would be able to earmark funding windows for their GCF contributions, it stands to reason that the earmarked allocations to the windows would be as imbalanced as the overall

---

[1] *Workstream III: Operational Modalities: Sub-workstream III.2: Managing Finance − Background note: Thematic windows*; TC-2/WSIII/4; 29 June 2011

[2] ***ring-fence, v.**: To separate off or protect with an effective or comprehensive barrier or procedure. Also: to reserve for a particular purpose*. [OED]

[3] *earmark, v.: To set aside (money, etc.) for a particular purpose. [OED) funds – "Ango-China window for CCS projects.*[OED]

[4] Benito Müller and Anju Sharma, *Submission of views regarding the questions for the first technical workshop of the Transitional Committee suggested by the co-facilitators of work stream I*, 20 May 2011;

regime. Funding windows hence do not guarantee funding, and they can subvert the aim of balanced and equitable funding if they can be earmarked for contribution.[5]

One way of overcoming the problems of earmarked contributions, should they be permitted, would be to assure a significant 'core income' for the GCF through what has become known as ***international innovative finance***, such as the International Air Passenger Adaptation Levy proposed by the LDC Group. While the Transitional Committee cannot negotiate such innovative sources, it should certainly consider them in its discussion of 'finance entry points.'[6]

What 'themes'?

The funding windows referred to in the Cancun Agreement are qualified as being 'thematic', but what exactly does this mean? The TSU Background Paper seems to take a rather broad view - essentially anything that funding can be 'focused on.' It finds that *among existing funds there are four broad categories of thematic funding windows:*

(a) Themed by scope (e.g. mitigation, adaptation)
These windows are defined by the substantive focus of activities under the window. or examples, these might be arranged as mitigation, adaptation, etc.

(b) Themed by geography (e.g. particular countries or regions)
These windows are defined by the countries that are eligible to access them. These could be particular regions, such as Africa, or countries with particular geographic characteristic (whether physical, such as SIDS, or socio-economic, such as LDCs).

(c) Themed by instruments/modality (e.g. private sector, multilateral access, direct access, bilateral access)
Windows under this category would focus on particular financing instruments or access modalities. An instrument focus could, for example, be private sector instruments; an access modality focus could, for example, be direct access.

(d) Hybrid Options
The three categories of windows above can be combined into various hybrid options. This could take the form of substantive windows (such as mitigation, adaptation, etc) in which there are specific funds ring-fenced based on geography or particular access modalities. Alternative, this could take the form of a single window with both a substantive and geographic focus.

This interpretation of 'thematic window' may be apt if one wishes to cover as many 'sub-structures' of other funds as possible, but it does not reflect the sense in which it is used in the Cancun Agreements. That sense is more narrow, reflecting the use of 'thematic' in other UNFCCC funds, and indeed in the TOR of Transitional Committee itself.[7] More specifically, the paragraph 102 use of 'thematic funding windows' refers to the traditional UNFCCC funding areas of ***mitigatio***n, ***adaptation***, ***technology transfer***, ***capacity building*** and certain particularly vulnerable groups of countries (***LDCs, SIDS, Africa***), but not to 'themes' identified in terms of 'modalities' and 'instruments.'

Funding Windows and Institutional Architecture: thematic versus functional divisions?

The architectural connotations of the everyday meaning of 'window' should not mislead one into assuming that 'funding windows' need to be reflected in the institutional architecture of the GCF.

[5] Of the 6 funds examined in the Background Paper, all except the GEF Trust Fund allow for earmarking to 'windows'.
[6] Workstream III, Sub-workstream 1.
[7] 'thematic bodies established under the Convention'[Appendix III, 1(h)]

Of course, it may make sense to have the GCF sub-divided into a number of functional units − say '***Divisions***' of the Fund.[8] But there is no *a priori* reason why this internal division should coincide with the budget-related 'funding windows'.

Indeed, there are good reasons why this may not be the best way to proceed. The fact is highly likely that there will be different instruments and access modalities in the architecture of the GCF. For one there will both be ***multilateral*** and ***direct access***, and there may well be some form of 'private sector instruments', say, as used in ***Public Private Investment Funds.***[9] While there may be some thematic areas − in the more narrow sense specified in the preceding section − for which some of these instruments and access modalities are less appropriate, most of the areas would have to be given access to all available instruments and modalities.

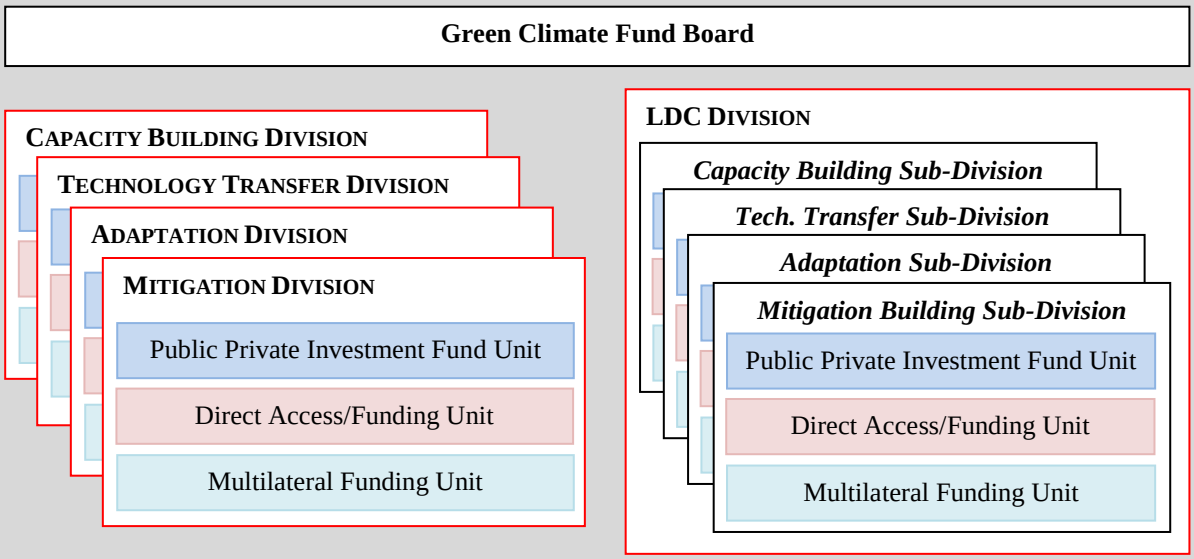


Figure 1. 'Thematic Window' Divisions Model

Thus if one were to use ***thematic area Divisions,*** one would have to accommodate most if not all of these functional instruments and modalities in each of the Divisions, as illustrated in Figure 1. The structure would become even more complex if one were to introduce Divisions based on 'regional' thematic windows. It is unlikely that, say, an 'LDC Division' would be restricted to just one of the traditional thematic areas. This could necessitate the introduction of ***thematic Sub-Divisions***, which in turn would have to accommodate all the relevant instruments and modalities.

While it is difficult to see how one could disallow thematic areas to avail themselves of most if not all of the available instruments and modalities, it is easier to see that the running of these instruments and modalities may not need expertise in all the thematic areas. For example, if 'direct access' involves the devolution of funding decisions to institutions ('National Funding Entities', NFEs) in the eligible recipient countries, then clearly the skills to assess projects/programmes for approval are no longer needed at the GCF level. What is needed, instead, are the technical skills and expertise to ***evaluate and audit the entities receiving direct access funding***.

Not being sufficiently familiar with what range of skills is needed to run a ***Public Private Investment Fund***, I do not know whether and to what extent thematic knowledge is required, but it stands to reason that the investment experience needed over-and-above such thematic knowledge

[8] In Müller and Sharma 2011, the term chosen for these sub-divisions was 'Arms', but that clearly becomes somewhat awkward if there are more than two of them.

[9] See Section III. Combining Financing Instruments, Example 1 in *Workstream III: Operational Modalities; Background note: Further information on financing instruments*, TC-2/WSIII/3, 29 June 2011

would warrant the introduction of a separate division, if it were decided to have the GCF engage in this sort of investments.[10]

What is clear is that, in terms of thematic areas, ***traditional multilateral funding*** of projects and programmes – with funding decisions taken at the multilateral fund level – will have to involve all eligible themes (and more).[11] Moreover, this type of access modality will require extensive expertise of the thematic subjects and, as argued elsewhere,[12] will be the most personnel intensive (staff per funding) of the potential GCF operations.

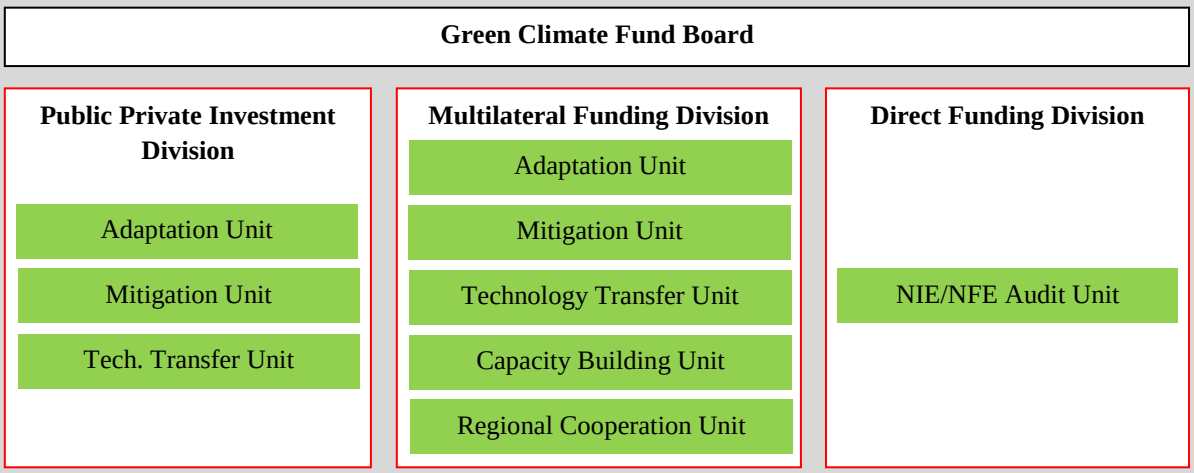


Figure 2. 'Functional Divisions' Model

At the same time, precisely because this funding mode is well known, setting up a '***Multilateral Funding Division***' would be possible in a relatively short time. Assuming available start-up funds, it would also be able to start disbursing much more quickly than for example a Direct Funding Division, which would first have to create the institutional enabling conditions for direct funding (i.e. NFEs).

Summary

Thematic Funding Windows should be treated with caution, particularly if contributions can be earmarked for them, and they should be considered as budget lines and not institutional sub-entities of the GCF.

If, as argued elsewhere,[13] an institutional sub-division of the GCF is inevitable, then its basis should not be thematic windows, but functional aspects, namely the access modalities and financing instruments of the GCF.

In practice, the blueprint for the GCF should envisage a number of ***Divisions***, starting with a traditional Multilateral Funding Division, to be complemented over time with a Direct Funding Division, and possibly with some form of private sector instrument, such as a Public Private Investment Division.

---

[10] Figure 1 also reflects my intuition that some themes, such as capacity building, might not lend themselves naturally to investments of this sort, but this only a guess on my part.

[11] Traditional funding will have to be provided not only as a safeguard for those eligible countries that could not otherwise access funding, but also because there may be areas, such as regional collaboration, which may not lend themselves to any other funding mode.

[12] Müller and Sharma, 2011.
Available at: http://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/oies_wsi_270511.pdf

[13] *Op. cit.*

ENHANCED DIRECT ACCESS

Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III)

Submitted through the UNFCCC constituency of Research and Independent NGOs

10 August 2011

Benito Müller

This submission has two aims. In the first instance, it is to synthesise some of the reasons that have been put forward as to why, at the scale envisaged in the Cancun Agreements, the climate finance regime in general, and the Green Climate Fund, in particular, will have to involve a fundamental ***devolution of decision making to National Funding Entities*** (NFEs).[1]

The second aim is to give an idea of what such NFEs might look like by reference to an existing national trust fund −the ***Bangladeshi Climate Change Resilience Fund*** − and a recent proposal for a ***Pakistani National Green Climate Fund***

The Adaptation Fund Model

Over the past few years the term 'direct access' has become part of the core vocabulary of climate change finance. It entered the debate in the context of the ***Adaptation Fund*** (AF) negotiations, where it was used as a short-form for 'access to funding without involvement of intermediary (international) implementing entities.' After the establishment of the Adaptation Fund with the option of 'direct access,' the AF Board (AFB) operationalised the concept for the AF. The model chosen was to have ***National Implementing Entities*** (NIEs) – alongside the familiar ***Multilateral Implementing Entities*** (MIEs) – carry out the ***fiduciary risk management*** on behalf of the AFB. For that, NIEs have to satisfy specific fiduciary standards designed by the AFB in order to be accredited by the AF. At the moment, the AF has 4 accredited NIEs, all related to government agencies.

Under the AF direct access model, projects/programmes are proposed by ***executing entities*** to the designated NIE which can forward it for approval to the AFB, if it has country endorsement. The model therefore includes a ***degree of devolution of decisions to the national level***, namely the pre-selection of projects/programmes. However, the ultimate selection of what is to be funded remains outside the recipient country, at the AFB level. For more on the AF model, see Appendix 1.

[1] For a listing of literature on the topic, see http://www.oxfordclimatepolicy.org/rfm.shtml

Enhancement through National Funding Entities

There have been arguments for some time that, in due course, the AF model of direct access will have to be enhanced by moving to a ***full devolution of decision-making*** to ***National Funding Entities***. The rationale for introducing such national decision-making goes beyond 'direct access' to a multilateral fund.

For one, there are reasons of ***legitimacy*** and ***effectiveness***. It has long been argued that climate change has to be 'mainstreamed' into national policy making. But it is at least questionable whether such a process can ever be fully effective if the decisions of how to implement it are taken abroad, outside the policy process which is meant to be engaged. Where there can be no doubt is that for of much of adaptation funding, which ultimately amounts to civil protection, only the national government has the legitimacy to decide who is to be protected and how. As concerns funding for mitigation, it also stands to reason that a full devolution of funding decisions on a performance basis increases effectiveness, not least because the national level is better equipped to ensure performance.

In the context of the overall ambition for climate finance laid down in the Cancun Agreement (mobilization of up to $100 billion annually by 2020), National Funding Entities can also be argued for in terms of ***efficiency***. Managing funds – approving, monitoring, and evaluating funded activities – requires personnel. A recent report based on public sector funding agencies – donor agencies, MDBs – estimated that it takes between 240 and 400 people to manage $1 billion.[2] While it is unlikely that all of the Cancun funds would be managed in that way, or for that matter be additional to what is being managed already, expectations are such that the management is likely to require several thousand additional personnel. And it stands to reason that the most efficient scenario is not to house them in donor agencies or multilateral funds, but in the recipient countries.

These are some of the reasons that have been put forward for basing the emerging global climate finance regime on National Funding Entities. As concerns the Green Climate Fund, this has a number of important implications. For one, it means that if it is to work at scale, the GCF will have to enhance its direct access mode by adopting a ***throughput model of resource allocation to in-country NFEs***. But this will not be possible overnight. The first task for the GCF towards such enhanced direct access will have to be an extensive and focused effort of ***institutional capacity building*** in the recipient countries to create the enabling environment for this throughput model of direct access. It also means that there will have to be a pilot programme to determining which National Funding Entity model is most suited for the purposes of the GCF. For example, it stands to reason that the Adaptation Fund NIEs, being focussed on implementing adaptation projects and programmes, may not automatically be best at handling the more extensive functions expected of NFEs. We are at the moment simply not in a position to tell what would work, and what would not.

The rest of this brief is to give an idea of how NFE could be structured by looking at two examples: The existing Bangladesh Climate Change Resilience Fund and a recent proposal for a Pakistani Green Climate Fund.

---

[2] David Ciplet, Benito Müller, and J Timmons Roberts, *How many people does it take … to administer long-term climate finance?*. ecbi Policy Report, *Oct-10*
http://www.oxfordclimatepolicy.org/publications/documents/StaffingIntensityOctober2010.pdf

The Bangladesh Climate Chance Resilience Fund

History

Bangladesh, a country acknowledged as being particularly vulnerable to the impacts of climate change, has had a national ten-year ***Climate Change Strategy and Action Plan*** (BCCSAP) since September 2008. In December of the same year a draft concept Note[3] on a Multi-Donor Trust Fund for Climate Change (MDTF) to support the implementation of this national strategy was circulated. *The benefits of having a MDTF*, according to the Note, *are many: high-level coordination, elimination of overlaps, donor harmonization, flexibility in fund management, transparency, and the possibility of attracting additional funds from both local and external sources.* The MDTF was meant to become *a 'one-stop' mechanism for large-scale climate change financing in Bangladesh.*

The MDTF was to be institutionally divided into a ***Policy Council***, a ***Management Committee***, a ***Secretariat***, and an ***Administrator***.[4] A ***Trustee*** was to disburse the funding under two windows: an ***on-budget window*** for funding public sector projects; and, an ***off-budget window*** for funding projects from civil society. However, the concept very soon ran into considerable opposition, particularly from Bangladeshi civil society organisations, primarily due to the envisaged involvement of the World Bank in the management of the MDTF.

In the course of the following protracted negotiations regarding an international climate change fund, the Government of Bangladesh in 2009 established the ***Bangladesh Climate Change Trust Fund***, supported exclusively through its annual budgetary allocation ($385 million since FY2008/9) for adaptation and capacity building. In 2010, the international negotiations finally resulted in the establishment of the ***Bangladesh Climate Change Resilience Fund*** ('the Fund'), currently supported by contributions from the UK ($86.7 million), Denmark ($1.6 million), EU ($10.4 million) and Sweden ($11.5 million).[5] Like the MDTF, the Fund is conceived as a 'one-stop mechanism' with two funding windows: an on-budget window for public sector projects and an off-budget window for civil society and private sector projects. The off-budget window is currently earmarked for 10% of the funding, and is managed through the Palli Karma Sahayak Foundation (PKSF)[6] as an implementing entity. In May 2011 the Fund approved its first project (the construction of 50 new cyclone shelters and reparation of about 50 others along with the construction of rural roads), and has since approved two further projects.

---

[3] Government of the People Republic of Bangladesh, Multi-Donor Trust Fund For Climate Change (MDTF), Draft Concept Note, 22 December 2008

[4] Country Director of the World Bank.

[5] The creation of two separate climate change funds has given rise to further criticism: *An alliance of civil society and non government organisations has demanded an autonomous body with democratic ownership of the government and other stakeholders for management of the climate funds of the country. ... They also called for a single national mechanism to manage all local and international climate funds under the guidelines of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP).*[BSS, "Democratic ownership of climate funds demanded", *Daily Sun*, 20 July 2011, http://www.daily-sun.com/?view=details&type =daily_sun_news&pub_no=281&cat_id=1&menu_id=10&news_type_id=1&news_id=58885&archiev =yes&arch_date=20-07-2011]

[6] http://www.pksf-bd.org/

Governance

The Fund is governed a two-tier system, consisting of (i) a ***Governing Council*** − chaired by the government[7] − to provide overall strategic direction and guidelines, and to ensure alignment with the BCCSAP, and (ii) a ***Management Committee***, responsible for developing a work programme, ensuring implementation in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. A ***Secretariat,*** established at the Ministry of Environment and Forests (MOEF), is to support both the committees on a day-to-day basis. Finally, the World Bank Bangladesh office serves as ***Trustee*** of the Fund, for a 1 percent compensation. All investments of the Fund are implemented and executed by the Government of Bangladesh and designated domestic agencies. The role of the World Bank, apart from trustee function, is to provide mainly technical and advisory services, knowledge dissemination, programme administration, and project preparation, appraisal and supervision.

Functions

A ***Governing Council*** provides overall strategic direction and guidance to the Fund and ensures its alignment with the BCCSAP. The primary responsibilities of the Governing Council are to:

- Provide advisory guidance on programme strategic goals and alignment with CCSAP, grant criteria and high-level issues, such as, transfer of fiduciary management responsibility to GOB
- Oversee overall management and utilization of BCCRF
- Approve DPPs prepared for projects to be funded by BCCRF
- Review the achievement of results envisaged by the BCCRF
- Provide advocacy support
- Issue resolutions at close of Governing Council meetings endorsed by the majority (defined as 80% of members)

A ***Management Committee*** is responsible for developing a work programme, ensuring that the Fund is implemented in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. The primary responsibilities of the Management Committee are to:

- Review and endorse the Implementation Manual
- Review and endorse the Fund's work programme and budget allocations
- Carry out a detailed review of and endorse grant requests submitted by the Secretariat
- Recommend projects for preparation (including DPP by the line agency and appraisal of the World Bank),
- Ensure that grant requests submitted are in line with the agreed implementation manual

Both the Governing Council and the Management Committee include representatives from line ministries, Development Partners and Civil Society.

A ***Secretariat***, established at the Ministry of Environment and Forests' Climate Change Department, supports the Management Committee and Governing Council and manages the day-to-day operations of the BCCRF.

The ***World Bank*** Bangladesh Office provides a number of functions to the Fund:

---

[7] Council Chair: Minister of Environment and Forests (MOEF), Council Secretary: Secretary MOEF

- *Resource Management Staff:* establish Activities Codes, allocate BB, establish TF accounts structure, process contracts, other.
- *Legal Department:* drafts Agreement with Donors and Grant Agreements with Recipients.
- *Procurement Specialist:* provides technical support and clearance for procurement methods for contracting all services, goods, or works financed by the TF.
- *Financial Management Specialist:* responsible for defining eligible disbursements for recipient-executed grants, carrying out accounts audits, reviewing independent audit reports, and performing due-diligence on recipients and NGO executing activities.
- *Loan Department:* disbursing recipient grants.
- *Client Connection:* interface with clients

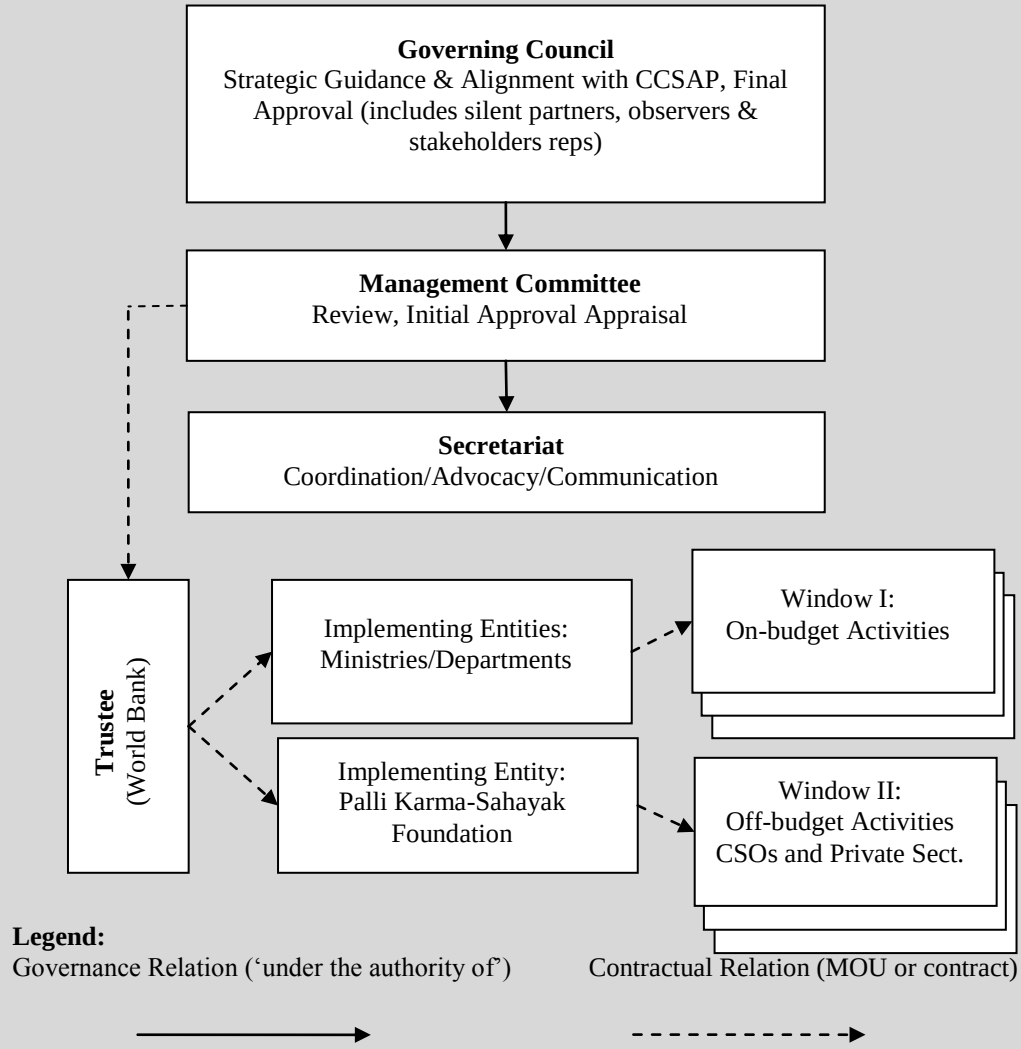


Figure 1. Institutional Architecture of the Bangladeshi Climate change Resilience Fund (CCRF)

A Pakistani National Climate Change Fund[8]

Pakistan's financing needs for mitigation and adaptation actions are estimated to range between US $ 14-31 billion a year. During the past two years, projects amounting to approx. U$ 14.5 billion were launched in the country of which U$ 1.5 billion were made available from the national budget. This was matched by foreign assistance amounting to U$ 3 billion. Notwithstanding the increased budgetary allocation and foreign assistance, the gap between the resources and needs is huge and likely to stay the same.

The international community has thus far agreed to mobilize US $ 100 billion annually with effect from 2020, in addition to promising US$10 billion annually for three years (2010-12) for quick start financing. Simply put, the need for financing by the developing countries will exceed the supply. This situation is unlikely to change in the near or long term future. Also if countries like Pakistan want to mitigate the adverse impacts of climate change, they will have to rely on domestic resources to a considerable extent.

Many developing countries have already recognized this and have developed national funding mechanisms devoted to climate change. Some countries are either establishing or putting into operation, dedicated national funding entities. The common features amongst these national funding entities are:

a. Desire to upgrade national action on climate change;
b. Secure and manage funding to support this action both from international and national sources;
c. Ensure that these activities are fully mainstreamed into their development strategies and plans;
d. Accord certainty to local and foreign investors in the carbon market; provide incentives to the local and international financial entities for their operations in the country;
e. Guarantee insurance to foreign investors as well as donors that climate change actions will be cohesive and in line with both national and international priorities; and
f. Ramp up and mobilize local financial resources through levies, regulatory incentives as well as by promoting climate risk management tools such as crop/flood insurance etc.

Even though some of these emerging local funding entities differ on their specific objectives, their sources, and their governance, all of them address their climate change-related priorities. Some have focused on objectives, such as Bangladesh on climate resilience, Amazon Fund of Brazil on sustainable forest management, and China on clean energy investments. In addition, most are also mobilizing funding of their own from other national sources such as in the case of Brazil which benefits from oil revenues, India from coal, China from CDM proceeds, and Ecuador from pledges against its decision to forego oil exploration in a vast area of Ecuador.

Pakistan's situation clearly indicates the need for creating a National Green Climate Change Fund, which would operate as a national body responsible for overseeing, coordinating and directing all governmental and non-governmental financial resources for climate change-related projects in the country. It will function as the country's representative body in the international financial regime for climate change.

The Climate Change Fund will be directly responsible to the Prime Minister's Committee on Climate Change and will work closely with the National Authority on Climate Change Cell and the CDM and NAMA Council. It will operate solely as a financial arm of the Climate Change Institutional Mechanism, directing and allocating funds for projects undertaken by the Climate Change Cells and CDM cell whilst not undertaking projects on its own.

Proposed Composition

The National Green Climate Change Fund (NGCCF) should have representation from both the private and public sectors. It will ensure donors' participation in its decision-making process. The

[8] Reproduced with kind permission by the publisher from Farrukh Iqbal Khan, with Sadia Munawar, *Institutional Arrangements for Climate Change in Pakistan*, Sustainable Development Policy Institute (SDPI), Project Report Series # 19, July 2011

NGCCF will be governed by a Board, serviced by a Secretariat and will have a Trustee to ensure fiduciary management of its funds. The members of the Board will include representatives from the following:

a. Ministry of Finance;
b. Ministry of Industries;
c. Ministry of Environment;
d. Ministry of Agriculture;
e. Ministry for Science and Technology;
f. Ministry of Commerce;
g. Three representatives from the civil society, academia and think tanks;
h. Three representatives from the private sector;
i. Chairperson of the CDM and NAMA Council;
j. Executive Director of the National Authority on Climate Change.

Terms of reference of the National Climate Change Fund (NCCF)

Oversight

- Ensure that financing is delivered to projects in line with climate change–related national strategies.
- Ensure that climate change activities to be financed are duly mainstreamed into these national development strategies.
- Establish, and to manage, performance criteria for financing and delivery of results if and when needed.
- Coordinate financial resources and approve funding requests.
- Establish systems for review, monitor, and where applicable, accredit and verify performance.

Financial Support

- Receive and manage funds from global funding mechanisms (including additional ones that may be established). Mobilise and leverage additional resources.
- Ensure responsible and sound fiduciary management of funds. Manage the programme cycle of funds disbursed.

Standard Setting

- Develop relevant national eligibility and performance criteria.
- Develop economic, social, and environmental safeguards to ensure that activities funded are in line with national priorities.
- Establish methods for performance assessment and evaluation in general, and more specifically for funding, where the measure of performance does not have obvious ready-made standards and metrics (policies and measures).

Accountability

- Develop the ability to report on performance, either for internal performance assessment purposes or for performance reporting if and when needed.
- Ability to maintain registers if and when needed.
- Monitor and evaluate.
- Reach out to civil society and stakeholders in general.

Appendix 1. Decision-making in Direct Access through NIEs

'Direct access' – as implemented by the Adaptation Fund Board (AFB) – is schematically represented in Figure 1.1. Its defining characteristic is the involvement of National Implementing Entities, as national-level bodies involved in the AF project cycle.

As regards decision-making, the fact that certain decisions are taken in country is the only difference between direct and multilateral access in the AF model. The nature of these decisions and functions are laid out in the AF Operational Guidelines.[9]

Decision-making in the Adaptation Fund Project Cycle

According to the Operational Guidelines (Para. 39), *the project cycle of the Adaptation Fund for any project or programme size begins with a proposal submission to the Secretariat by the NIE/MIE chosen by the government of the recipient country/ies. The submission is followed by an initial screening, project review and approval.* However, there are a number of decisions that are taken prior to the submission to the Secretariat.

- For one, to enter the project cycle as conceived above, proposals have to be ***endorsed by the relevant national governments***.[10]
- Secondly, there will at some point inevitably be a project ***appraisal*** ('proposal elaboration' in Fig. 1.1) at the level of the ***Implementing Entities*** which project proponents will have to pass for the proposal to be forwarded for country endorsement.

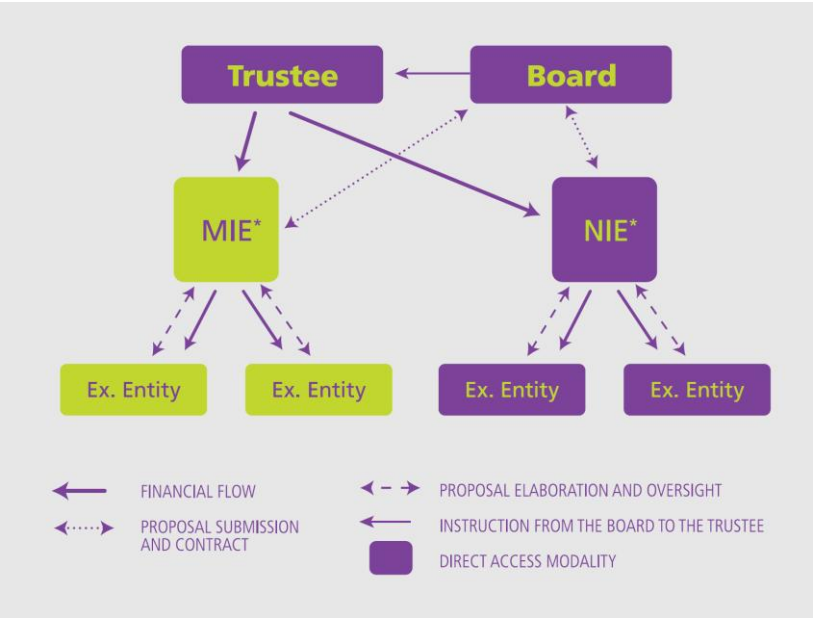


Figure 1.1. Modalities for Accessing Resources of the Adaptation Fund
Source: Adaptation Fund Brochure: p.5;
http://www.adaptation-fund.org/sites/default/files/AF_broch_CRAblue_lores1.pdf

---

[9] http://www.adaptation-fund.org/policies_guidelines

[10] *20. Every proposal for funding must be endorsed by the requesting government.*
21. Each Party shall designate and communicate to the Secretariat the authority that will endorse on behalf of the national government the projects and programmes proposed by the implementing entities.

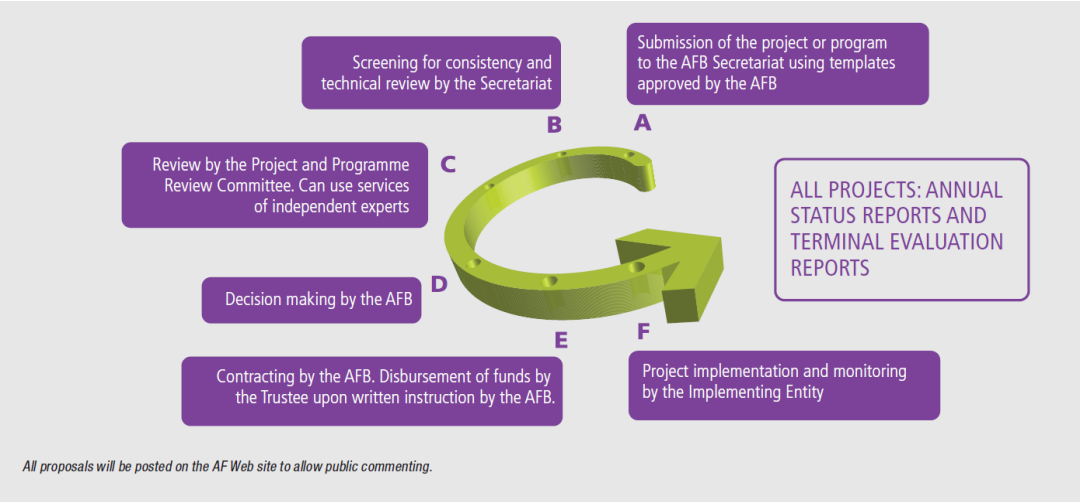


Figure 1.2. The Adaptation Fund (one-step) Project Cycle

Source: Adaptation Fund Brochure: p.7;
http://www.adaptation-fund.org/sites/default/files/AF_broch_CRAblue_lores1.pdf

In short, there is a ***pre-selection process*** for project proposals to be forwarded to the Adaptation Fund, and the key to the direct access route is that the decisions involved are all ***devolved to the recipient country level***, indeed – given the nature of the existing NIEs – ***to the recipient governments*** (see Box 1.1.). The decision whether a (pre-selected) proposal gets funded, however, remains 'abroad', ultimately at the level of the Adaptation Fund Board (based on recommendations by the AFB Secretariat, and the AFB Programme and Review Committee (see Figure 1.2.).[11]

Adaptation Fund Monitoring, Evaluation and Review

While the *Board is responsible for strategic oversight of projects and programmes implemented with resources from the Fund, the Ethics and Finance Committee, with support of the Secretariat, will monitor the Adaptation Fund portfolio of projects and programmes*.[Para. 47] *Implementing entities shall ensure that capacity exists to measure and monitor results of the executing entities at the country-level*.[Para. 48]

---

[11] *40. In order to expedite the process of approving projects and reduce unnecessary bureaucracy, it is proposed that small-size projects undergo a one-step approval process by the Board. The proposed project cycle steps are as follows:*

(a) The project proponent submits a fully developed project document based on a template approved by the Board (Annex 3, Appendix A). Proposals can be submitted to the Board through the Secretariat three times per year or as may be decided at any time by the Board depending on the flow of requests and the available resources. The timetable for the submission and review of proposals will be synchronized with the meetings of the Board to the extent possible.

(b) The Secretariat will screen all proposals for consistency and provide a technical review. It will then forward the proposals with the technical reviews to the Projects and Programmes Review Committee for review, based on the criteria approved by the Board (Annex 3). Screening by the Secretariat will be conducted as soon as possible, and within fifteen (15) working days.

(c) The Secretariat will send all project proposals received with technical reviews to the Project and Programmes Review Committee four weeks prior to the Adaptation Fund Board meeting. The Project and Programmes Review Committee will review the proposals and give its recommendation to the Board for a decision at the Meeting. The Committee may use services of independent adaptation experts to provide input into the review process if needed. The Board can approve or reject a proposal with a clear explanation to the implementing entities. Rejected proposals can be resubmitted after consideration of the reasons for rejection.

(d) The proposals approved by the Board will be posted on the Adaptation Fund website. Upon the decision, the Secretariat in writing will notify the proponent of the Board decision.

Box 1.1. Accredited Implementing Entities of the Adaptation Fund (as of August 2011).

NATIONAL IMPLEMENTING ENTITIES

- ***Planning Institute of Jamaica*** (planning agency of the government) http://www.pioj.gov.jm
- ***Centre de Suivi Ecologique***, Senegal, http://www.cse.sn (Ministry of environment)
- ***Agencia Nacional de Investigacion e Innovacion***, Uruguay, www.anii.org.uy
- ***Fonds national pour l'environnement National Environment Fund***, Benin, http://fnebenin.net

MULTILATERAL IMPLEMENTING ENTITIES

- ***The United Nations International Fund for Agriculture Development***
- ***The World Bank***
- ***The World Meteorological Organization***
- ***The United Nations Development Programme***
- ***The United Nations Environment Programme***
- ***The United Nations World Food Programme***
- ***The African Development Bank***
- ***The Asian Development Bank***

Source: http://www.adaptation-fund.org/page/implementing-entities (accessed 10 Aug. 2011)

Submission to the Transitional Committee by Ms Carol Mwape (TC member Zambia)

The following revised language is proposed for insertion in the Draft Instrument (TC-4/2) after para. 51, as part of sub-section '**5.3 Funding windows and Fund structure'**, replacing the existing paragraphs 52-58 (including the relevant sub-headings).

* * *

Direct Access and Grants

52. The Fund will have a direct access and grants facility enabling access to Fund resources through accredited implementing and funding entities. Recipient countries will determine the modes of access.

53. *Funding entities*, which may be sub-national, national or regional legal entities or international organizations, will be entitled to approve programmes or projects in accordance with the relevant guidelines developed by the Board, and shall receive resources from the Fund for that purpose. *Implementing entities*, which may be sub-national, national or regional legal entities or international organizations, will implement eligible activities approved and funded by the Board.

54. Recipient countries will designate a national designated authority that will be responsible for coordinating and, if appropriate, endorsing programme and project proposals in the context of national plans and strategies, including through consultation processes.

55. Recipient countries may nominate competent sub-national, national and regional implementing or funding entities for accreditation to receive funding. Once accredited, an entity may enter into agreements with multiple executing agencies, consistent with fiduciary principles and standards as well as environmental and social safeguards developed by the Board and appended to this Instrument, at the regional, national and/or sub-national level, for the implementation of particular activities under the oversight of accredited implementing or funding entities, as appropriate.

56. The Board will develop, manage, and oversee an accreditation process for all implementing and funding entities based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards.

57. The Board may develop different levels of accreditation, with differentiation for types of activities or entities as may be deemed appropriate and necessary to achieve the objective and principles of the Fund, while maintaining consistency with the Fund's fiduciary principles and standards and environmental and social safeguards.

58. The Fund will enter into financing agreements with the implementing and funding entities and will oversee compliance with those agreements. Accredited implementing and funding entities will be liable to the Fund for finance from the Fund that they manage.

* * *

Additional, related textual changes:

(i) Paragraph 2 (Objectives), second sentence: insert "and expanding" after "effective"

(ii) Add appropriate reference to "funding entities" to any occurrence of "implementing entities"

KYOTO PROTOCOL

Significant progress

13/07/2012 – by Sven Harmeling, Alpha Oumar Kaloga

Benin is one of the countries feeling the effects of climate change, and it has successfully accredited a national implementing agency to the Adaptation Fund. Sand storm in the Pendjari National Park

1 2

The Adaptation Fund was established to fund specific projects that developing countries undertake in order to adapt to climate change. The Fund is now fully operational, and a number of projects are underway. In many ways, the Adaptation Fund is a model for other climate funds. Its own future is cast in doubt nonetheless. By Sven Harmeling and Alpha Oumar Kaloga

Climate change has severe impacts on many developing countries. The international community is aware of how serious the threats are. Delegates at the UN climate summit in Marrakech in 2001 decided to establish the Adaptation Fund (AF), which became part of the Kyoto Protocol. Its mission is to help countries take necessary adaptation measures. Its principal mandate is to fund the full costs of specific adaptation projects and programmes in developing countries, and adaptation is defined as "a set of activities aimed at addressing the adverse impacts of and risks posed by climate change." The activities must either reduce the vulnerability of social organisations and natural systems, or boost their adaptive capacity. The outcomes of measures must be measurable, monitorable and verifiable.

The AF is supervised and managed by the Adaptation Fund Board (AFB). It was formed at the climate summit in Bali in 2007. The AF began to work in 2008, but its future now seems uncertain in spite of meaningful achievements. The AF has consider-ably strengthened developing countries' policy ownership, and it also gives civil society more say. The recent launch of the Green Climate Fund and other developments, however, are casting doubt on the AF's future.

Ownership and new capacities

The AF was the first institution in international climate finance to give developing countries "direct access" to funding. The term means that developing countries can submit applications directly to the AF, rather than having to make applications through international bodies like the World Bank or the UNDP (United Nations Development Programme), which was previously the conventional practice.

If they wish to turn to the AF directly, developing countries must obtain accreditation for national implementing agencies. These agencies, in principle, serve the same functions as the multilateral bodies normally do. National implementing agencies must meet fiduciary standards, and they are held respon-sible for projects and programmes submitted by their countries as well as for all funds disbursed. Direct access speeds up the funding process, makes it less complicated and increases the sense of ownership in developing countries. Nonetheless, developing countries are still free to opt for conventional procedures in reliance on multilateral institutions.

The AF's setting-up was difficult, but the accreditation of national implementing agencies has gained momentum last year. By the end of 2010, only three countries had accredited agencies of their own: Senegal, Jamaica and Uruguay. In the meantime, the number has risen to eleven, and further applications are being processed. Jordan and Rwanda were the first countries to get government ministries accredited as implementing agencies.

The reason for the rising number of applications is not any lowering of fiduciary standards, but that recipient countries get better information about the accreditation process. The UN climate summit in Cancún in 2010 decided to hold regional AF workshops in Africa, Latin America, Asia and the Pacific. These events served south-south capacity building too, because accredited national agencies shared their experience.

It is noteworthy that, contrary to the fears of many industrialised countries, no new agencies were established for accessing the AF. So far, only institutions that have already been serving other purposes have been accredited, and many of them have been involved in foreign funding for decades. In some countries, moreover, the accreditation process has triggered institutional reforms and improvements, thus contributing to capacity development.

Vulnerable people

The AFB has also made good progress in some other areas: It focuses on vulnerable people, involves civil society and ensures transparency and broad participation in decision making.

In 2008, the AFB decided that the projects developing countries submit must address the needs of the most vulnerable communities. Civil society re-presentatives had raised the subject, and the non-governmental organisation Germanwatch called for specific implementation guidelines. As a result, the approval of financing may now depend on what a project means for the most vulnerable people. These are not empty words. Project reports and feedback ever more frequently refer to this matter, and the guidelines were amended at the AFB meeting in March 2012.

Furthermore, the AFB has strengthened civil so-ciety participation. There are guidelines for public consultation on projects and plans. Germanwatch cooperates closely with NGOs in Honduras, Jamaica, Senegal and other countries. The experience shows that governments and implementing agencies appreciate the input from civil society. Such input is considered useful even though it often expresses criticism.

Before deliberations, the AFB publishes propo-sals on its website and invites comments from the public. Board meetings are broadcast online, and there is a complaints procedure. Operations are thus quite transparent. There are plans to publish technical project reviews in the future, since such reviews have a bearing on AFB decision-making. NGOs will be invited to submit their opinions before the AFB decides about funding specific projects. Since December 2010, moreover, there have been dialogue meetings with civil society ahead of board meetings, so NGOs from various countries can argue their cases on strategic issues or financial requirements.

KYOTO PROTOCOL

Significant progress

13/07/2012 – by Sven Harmeling, Alpha Oumar Kaloga

Benin is one of the countries feeling the effects of climate change, and it has successfully accredited a national implementing agency to the Adaptation Fund. Sand storm in the Pendjari National Park

1 2

Uncertain financing

Despite such success, however, the AF's future funding is shrouded in doubt. Originally, the Clean Development Mechanism (CDM) was supposed to be the major source of financing for the AF. The CDM is basically a system of international emissions trading, and a two percent levy on all CDM transactions serves to refinance the AF. As a source of finance, however, the CDM has become quite ineffective. In international emissions trading, carbon prices have plummeted to half their level of two years ago. The reasons are that the future of the Kyoto Protocol is uncertain and that the EU, the main player in emissions trading, has only set rather unambitious climate protection goals.

In the past, voluntary contributions by rich nations have gone some way to closing the gap. The main donors are Spain and Sweden. Germany, the official host country for the AF, contributed $ 10 million in 2010, but further commitments have yet to be made.

So far, the AF has approved about $ 130 million for 18 projects. It is estimated that it will have a further $ 200 million at its disposal by the end of 2012. However, demand will probably exceed AF capacity soon. Currently, a single country can get a maximum of $ 10 million.

At the most recent board meeting in June, 18 projects were discussed. Expecting bottlenecks, the AFB had earlier taken two important decisions:
– At most 50 % of AF funding will be channelled through multilateral bodies. The idea is to make sure that there is enough money for the national implementing agencies. This decision makes sense, but does not serve the interests of the World Bank and the UNDP. The limit has been reached in June 2012, and the AFB will consider how to deal with this situation. Another issue is to make sure that the most deserving countries get the money. Indeed, relatively prosperous developing countries can apply for AF money too. Fortunately, rich oil exporters such as Qatar or the United Arab Emirates have not done so yet. At the moment, Argentina, which is ranked 45th nation by the Human Development Index, is the most wealthy nation to have submitted a proposal.
– The AF wants to raise an additional $ 100 million by the end of this year. The money is expected to come from contributions by developed countries, as well as private-sector allocations and innovative financing mechanisms.

Future options

The UN climate summit in Copenhagen in 2009 resolved to establish the Green Climate Fund (GCF) to fund action on climate change. It is eventually supposed to have a much higher level of funding than the AF, so the question of the AF's future role arises. Various scenarios are conceivable:

– Division of labour: the AF could continue to finance specific, individual projects. Ideally, non-governmental actors would also get direct access. The GCF, on the other hand, would support larger-scale, long-term transformation and planning thereof. Both individual projects and society-wide approaches are necessary and will complement each other.
– Integration: the AF could be incorporated into the GCF. The biggest obstacles are probably of a political-legal nature. The USA never ratified the Kyoto Protocol and may prove unwilling to accept an institution that was set up in its context. Moreover, there are, so far, no plans for GCF sub-structures into which the AF might fit. Such obstacles, however, do not look insurmountable.
– Unwinding: if governments stop contributing money, emission trading does not result in AF revenues and innovative finance mechanisms are only used for the benefit of GCF, the AF will probably carry out the projects already under way, and eventually the GCF would take over all its functions.

The GCF will not dispose over billions of dollars any time soon. The first GCF Board meeting keeps being postponed. Accordingly, the AF will continue to play an important role at least in the next few years. If all projects which are currently still in the start-up phase prove beneficial for the most vulnerable people, the AF will have been successful.

Those who are now designing the GCF should learn from the experiences of the AF. It has set a good ex-ample in matters of direct access, transparency, broad participation in decision making and focus on vulnerable people. Even though the GCF will soon require higher contributions, countries such as Germany must continue and increase their support for the AF.

It must be said!
Enfranchising the poor in global environmental governance

A fig leaf for climate finance

Posted on January 24, 2013

by Anju Sharma

Important additions to the global environmental governance architecture are afoot. The Green Climate Fund (GCF), launched in Durban in 2011 and expected to become a key channel for climate-related finance for developing countries in future, is currently under construction. A 24-member Board is working on the Rules of Procedure, which, it is expected, will be agreed at the next GCF Board meeting in Berlin in March this year.

Here's how important the GCF is: if developed countries keep their word, a significant portion of the US$ 100 billion promised annually by 2020 could flow through this fund, particularly funds for adaptation. That could rival the World Bank, currently one of the biggest players in the development arena with an annual throughput of about US$ 30 billion. (The total global aid budget in 2011 was US$ 134 billion.)

The GCF Rules of Procedure will determine how transparent and inclusive the functioning of the Board will be in future. Those of you familiar with the track record of existing international financial institutions will know how critical this issue can be. It is therefore a matter of considerable concern that the current draft of the Board's Rules of Procedure duplicate, or in some cases are more regressive than, existing procedures for stakeholder participation in these other institutions.

Stakeholder participation in the GCF is essentially divided up into two elements. The first, to be dealt with under the Rules of Procedure, relates to the functioning of the GCF Board itself and addresses opportunities for stakeholders to participate in Board discussions. The second element, which will be dealt with under the GCF 'Business Model', relates to stakeholder participation in the implementation of activities funded by the GCF (including, hopefully, decision-making on fund disbursement and monitoring of results).

Ideally, the discussion on both should take place together, to get a clearer picture of how civil society can play a strong and meaningful role in ensuring that the GCF succeeds in its mission. Although the GCF Board is also discussing the second element under the Fund's Business Model right now, however, that process is currently lagging behind the discussions on Rules of Procedure.

Back to the draft Rules of Procedure then. No formal consultation with stakeholders took place before formulating the segments relating to observer participation. Instead, they are a replication of procedures under existing institutions such as the World Bank' Climate Investment Fund, without taking on board the considerable criticism of these processes.

Accordingly, two civil society representatives, one each from developing and developed countries (and two private sector representatives) will be invited to participate as 'Active Observers'. This much was already agreed in the Governing Instrument of the GCF in Durban in 2011.

The term 'Active Observers' may sound very dynamic, but in fact it hides a multitude of sins. 'Fig leaves' may be a more appropriate term. How exactly are these two Active Observers, who will serve a two-year term, expected to capture and process literally a world of information and channel it to the Board? The burden of the Observer from developing countries will be heavier, considering that all of the projects of the GCF will be carried out in developing countries. But civil society in developing countries already lacks adequate capacity and resources,

compared even to civil society from developed countries. The provision of an air ticket to Board meetings and other funds that 'may' be provided are unlikely to cut the mustard.

It is simply not enough for the GCF to engage with a thin stratum of global civil society (mostly from the developed world, I might add), when it hopes to make an impact at the local level. Ways have to be found to seek and gather input from the local communities and individuals in developing countries whose lives will be affected by projects funded by the GCF.

It is also preferably that the civil society representatives not have to depend on decisions by the Board each time for funding, if they are to play an independent watchdog role. A decision in the Rules of Procedure to set aside a portion of funds for stakeholder engagement could be the way ahead – this would provide resources for (vertical) stakeholder engagement, and also a degree of independence.

According to the draft Rules, the Board 'retains the option' of inviting other civil society organizations as observers in addition to the Active Observers. The definition of who will qualify as an observer is currently narrow as it only includes those "actively involved in programme and project implementation on the ground in developing countries, including international as well as national and community-based organizations." This leaves out a number of other stakeholders who may wish to participate and can contribute, such as think tanks.

Moreover, that draft states that civil society organizations will have to apply for accreditation once again for the GCF, even if they are already accredited by the UN Framework Convention on Climate Change (UNFCCC). Surely UNFCCC accreditation should suffice, given that the GCF is a fund created by the UNFCCC? Why add a whole other level of bureaucracy and exclusion?

Finally, there is no mention of either webcasting the Board meetings, or ensuring that documents are freely available on the web. Both are now standard procedure for Boards of recent institutions related to the UNFCCC, such as the Adaptation Fund and the Clean Development Mechanism Board, so their omission in the draft Rules is regressive. Hopefully this is just an oversight that will be corrected before the Rules are finalized.

The draft Rules state that a review of the "selection process of active observers involving all stakeholders will be undertaken after a trial period of three years". We know from recent history that it is very difficult to change such processes once they are entrenched. We are only at the draft stage, so there is time yet.

A much better approach, which could save the GCF Board a lot of grief later on, would be to go back to drawing board before the Rules are finalized, consult with the stakeholders to hear their experiences with other similar processes, and design a meaningful engagement with civil society that will not only result in much better results on the ground, but also win the GCF a lot of goodwill and support.

Further analysis of the problems with existing models of stakeholder participation and options for the climate funds can be found in my paper on Renegotiating the role of civil society in the governance of climate finance.

This entry was posted in Uncategorized. Bookmark the permalink.

It must be said!