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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.

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[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?

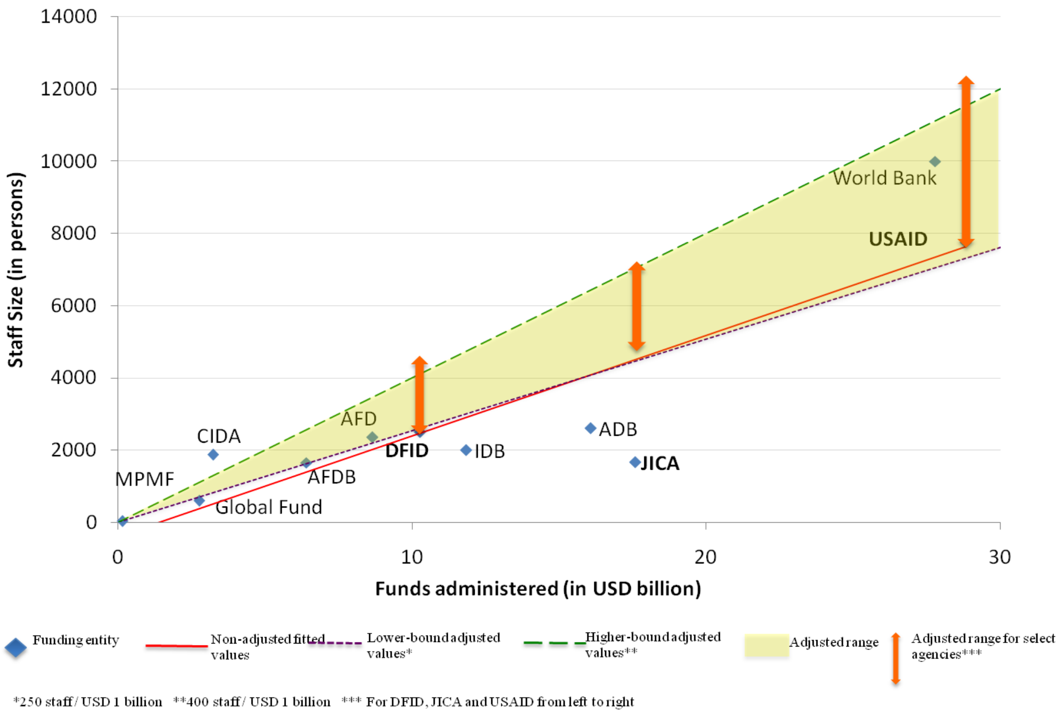
It is, in my view, unrealistic to think that we can tell donor agencies what or who they should fund bilaterally. The only solution is what most countries have established domestically, namely a sufficiently large consolidated fund to address and rectify such imbalances in the overall regime. This is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

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[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*