

GREEN CLIMATE FUND 3

A GERMANWATCH PRESESSIONAL BRIEFING

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Brief Summary

The third meeting of the Green Climate Fund Board is scheduled for the 12th to the 15th of March (in Berlin) and represents a critical juncture for the work of the GCF Board. The discussions on the core modalities to operationalize its objectives, also subsumed under the term "Business Model Framework", will be at the centre of the meeting. GCF Board members will have to identify areas of convergence and divergence and agree on next steps. Other issues on the agenda include the additional rules of procedure which inter alia should improve the provisions for observer participation, arrangements between the GCF and the UNFCCC Conference of the Parties, on modalities for Readiness and Preparatory Support and Resource mobilisation for the GCF.

This briefing paper provides background information and views of Germanwatch on some matters of the meeting agenda, on the basis of the documents prepared in advance of the Board meeting, which, however, were not available to the broader public in advance of the meeting.

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1 Introduction

The new Green Climate Fund has been established by the international community in order to scale-up climate action and, in the context of sustainable development, to promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit, reduce their greenhouse gas emissions and to adapt to the impacts of climate change. From 13th to 15th March, the Board, the governing body of the Green Climate Fund; will convene for its third meeting in Berlin. This meeting takes place roughly five months after the second meeting in South Korea, which included the landmark decision that selected Korea as the host of the GCF. This decision was then adopted by the Conference of the Parties to the UNFCCC in Doha.

This meeting will be very critical for the GCF, because it will deal with the key operational modalities in the GCF and how to implement its key objectives. These discussions have been subsumed under the term of the "Business Model Framework". Without sig-

nificant progress on these matters it will be difficult to agree on other elements of the GCF. The outcomes of this meeting will be determinant, as it should show the commonalities and divergences of different constituencies and, most importantly provides way to narrow those discrepancies.

2 Business Model Framework of the Green Climate Fund

The Governing Instrument (GI) and the Durban decision represent the centre piece for the design of the Green Climate Fund (GCF). They set a number of criteria for the Fund's operation, including its objectives and guiding principles and other operative provisions.

For the discussions in Berlin, a paper¹ was prepared on the business model framework (BMF) for the GCF. At its second meeting in Songdo, the GCF Board established a team of six of its members, to prepare a document on the BMF. It is intended to finalize the discussions on the BMF by the end of 2013. This team conferred several times with the interim Secretariat of the Fund and developed the Terms of Reference (ToR) for the appointment of a consultant firm to prepare the document on the BMF. The objectives of using the service of the consultant are to provide the Board with key inputs that could serve as a basis for discussion. Given the time constraint, the Secretariat was requested by the team to use the so called fast start procurement process in the appointment of the consultant, in order to accelerate the preparation of the document. However, due to the fact that the costs required by the consultancy were higher than the agreed budget secured to undertake this work, the Co-Chairs suggested the Board members to divide the work in two stages subject to a non-objection basis to award the consultancy. Two Board members objected to this approach. As result, the Co-Chairs and the team assisted by the Secretariat discussed the alternative way forward, as to ensure the start of the work on the BMF at its third meeting. Accordingly, at the Berlin meeting the Board will discuss the BMF twice, first a day prior to the official meeting of the Board in a closed session, and the second at the 14th March during its official meeting. (See chapter on the Informal GCF Board day)

The goal of the discussion in Berlin is to provide guidance on the remaining works, identify aspects needing further analysis as well as areas of convergence to be adopted at the meeting. Secondly, the Board will have to decide on the way forward. The options on the table are, whether the established teams with the Board itself, or the Secretariat in cooperation with consultants are best placed to take this work up. Finally, the Board will consider the resource implications of each of the options.

In preparation of the Berlin meeting, the Co-Chairs also launched a call to Board members and interested organizations for submitting views on roughly 70 questions related to the BMF. At the end, several submissions were made, overall with roughly 250 pages of input.

The paper presented for the Board meeting highlights that the document to be prepared afterwards regarding the BMF – whatever options or group the Board may choose –

¹ The following paragraphs are based upon GCF/B.01-13/11.

should aim at stimulating a technical discussion to enable an informed decision making. However it should not formulate the BMF as such, but rather present a range of options for the BMF including their respective implications for consideration by the Board.

The following paragraphs will describe the ToR as annexed to the document of the BMF presented for the third Board meeting. The ToR suggested structuring the report in the following components: a) overall structure and organization of the Fund b) Private sector facility-related matters; c) Access modalities; d) Results management framework². This structure may of course be amended in the further discussions by the Board.

If the consultant was to be undertaking this work, it should work closely with the interim Secretariat, which will inform the team in charge of the BMF. The approach for the development of the document foresees to a) analysis and reviews of other funds' business models and good practices; b) preparing the BMF document; c) gather inputs from Board members on specific matters; d) gather inputs from relevant experts and stakeholders, including private sectors and civil society organizations on specific matters. The chapters suggested in the ToR are described in the following sub-chapters:

2.1 Overall structure and organization of the Fund

The first chapter would describe the overall view, structural options of the document as well as responses to the question how the GCF intends to promote the paradigm shift towards low emission and climate-resilient development pathways. In addition, it is suggested that it also contains the financial instruments in terms of its leveraging potential of additional funding, on different levels in the context of the GCF's funding windows. It would also address the complementarity issue with other climate finance channels.

With regard to this matter, many CSOs have more or less the same view on the overarching structure and organization of the Fund, although there are some divergences in the detail. However, it is important to keep in mind that the GCF is meant to become the main multilateral fund for climate finance. As such its design and structure will impact not only climate related interventions such as mitigation, adaptation, REEDplus etc, but will also contribute to steering the development path of developing countries towards low-carbon and climate-resilience. It should therefore strive to add value to the existing funds and particularly avoid past mistakes done.

A lot of knowledge, experience and practices have been gathered throughout the last decades, which – if rightly considered and translated to into the work of the GCF – could help to achieve the so awaited paradigm shift. The Fund should fund country-driven strategies, plans and visions and aim at addressing the needs of developing countries by allowing an inclusive, unbiased participation of all relevant stakeholders within the recipient countries at different levels. The mandate of the GCF creates a two-part, synergistic opportunity for the Fund: to operate in a country-driven manner, and to do so in a way that is truly country-owned by engaging key stakeholders in the development and implementation of a country's climate action. This is essential to the Fund's success³. In other words, to achieve 'paradigm shifts', countries and their citizens will have to be in

² See Business Model Framework of the Green Climate Fund GCF/B.01-13/11 pp.3-4

³ Oxfam 2013 submission

the driver's seat. All activities related to the GCF should be consistent with country-drivenness and result from climate strategies, plans and programs that are truly owned and developed through an inclusive, unbiased social and environmental sounds ongoing process. However, this of course should not stop the GCF in providing incentives for countries to be more ambitious than they would be without the GCF support.

2.2 Private Sector Facility

According to the ToR, the second chapter shall deal with the Private Sector Facility (PSF) related matters. The ToR recall that the GCF is designed with the goal of using public and private capital to realize the paradigm shift. The GI as guiding document refers to the PSF paragraph 41 to 44 as a mean to enable it to finance private sector mitigation and adaptation. In doing so, it should be consistent with the country-driven approach, while promoting and supporting the private sector actors in developing countries. The GI highlights in this regard that this should be in particular local actors, including small-and medium-sized enterprises and local financial intermediaries and special emphasis shall be given to support activities in Least Developed Countries and Small Island Developing countries. In doing so, the Board is requested to undertake all needed arrangements to operationalize the facility. As primary guidance, the document emphasizes that options should be provided towards operationalization of the facility by ensuring amongst others ensuring the country-drivenness and national priority. Further the document to be developed should include an analysis of the implications of the various options for the PSF. Last but not the least the chapter should discuss implications of the different models, implications on the provision of financial resources and complementarity and coherence with other channels.

In our view, the PSF should not be a stand- alone body but rather be integrated in the governance structure of the fund. It would operate under the overall guidance of the Board, but through a specific governance arrangement with a number of Board members (like a sub-committee) and potentially additional experts, which could prepare and suggest decisions of the Board. All activities funded through this channel should be country-led and endorsed by the National Designated Authority in an efficient no-objection procedure to ensure their consistency with the countries' goals, to help harnessing synergies and avoiding to undermine climate actions of the public sector.

In line with the Governing Instrument, the PSF should promote climate action by local, small and Medium Enterprises (SME) and financial intermediaries in developing countries particularly in the LDCs and SIDs. This is one of the key findings of the past experience with the private sector, which often failed – due to higher investment risks in those countries – to reach poor countries particularly the most vulnerable ones. Local SME are in developing countries mainly from the tertiary informal sector and are often excluded from financial investments. The PSF should strive to bring them at the center of the actions by minimizing the risks and enable them to take their due part in achieving the paradigm shift. However, the private sector would presumably not by itself provide solutions for instance for the adaptation needs of the poorest, rather public finance will be essential and key to steer and mobilize the investments of the private sector.

2.3 Access modalities

As pointed out above, the ToR suggest that the third chapter would be related to access modalities. The GI provides key guidance on what kind of different access modalities should be developed. Access to the GCF resources should, according to the GI be conducted through national, regional and international implementing entities accredited by the Board. It is at the discretion of the recipient countries to decide which kind of channels they wish to use. However, they may designate a national designated authority (NDA) acting as a kind of focal point with the view of ensuring that projects/programmes submitted are consistent with the respective national strategies and plans. The NDA is also in charge of endorsing all proposals on behalf of their countries. The GI further sets the requirement for direct and international access to funding. Along these provisions, the chapter on access modalities should include inter alia: eligibility for access to resources as well as a variety of access modalities.

Germanwatch has provided in its submission⁴ some views on this particular matter based on its experience of following the Adaptation Fund, which up to date is the pioneer for direct access in climate funding. It is expected that the GCF provides enhanced access to its resources such as through direct access. Thereby it is vital, that the direct access under the GCF realizes similar changes as have already been promoted by direct access under the AF, such as contributing to increased capacity and ownership of national institutions, through inter alia improved awareness about the need for a strong and collective anti-fraud policy and a zero-tolerance attitude towards corruption; and through preserving institutional knowledge and enhancing internal management⁵.

With regard to the accreditation process, it is important to set up sound fiduciary and management standards, which should not be so high that they become unmanageable, but high enough to ensure accountability and prevent misappropriation. When developing these standards, the Board shall take into account those standards which are already applied by national climate change funding entities in developing countries, institutions which have already emerged independent of a specific international fund. Further it should include capacities to ensure sound environmental and social safeguards are met. The identification of the suitable institution to act as national implementing entities or funding entities within developing countries should be led by a transparent multi-stakeholder processes within the respective country. In doing so, a process should be launched in developing countries to appraise and assess the capacity as well as potential shortcomings of the identified institution towards meeting safeguards and standards, with the view of elaborating a strategy to upgrade and endow the institution with further tools and capacities to master the accreditation process. This process could be assisted by external supports, but should not be driven by them in order to avoid undue reliance on external consultants and ensure consistency with the national priorities. Last but not least, experience of the Adaptation Fund shows that it is necessary that the GCF sets up a process of familiarizing developing countries with its accreditation process.

⁴ Submission to the Green Climate Fund by Germanwatch

⁵ AFB, 2012: The Adaptation Fund and Direct Access. Supporting developing countries in undertaking concrete measures to adapt to the adverse effects of climate change. October 2012

2.4 National Designated Authorities

Another important issue that should in the view of Germanwatch be dealt within this chapter has to do with the role of the national designated authorities (NDA). In our view the NDA should be at the centre of the BMF acting as a focal point and gate keeper. As focal point, it should be the ambassador accredited by the GCF, which should ideally work through an inclusive and transparent multi-stakeholder country-coordinating mechanism including all key stakeholders critical for the achievement of the paradigm shift. It should be in charge of ensuring that all endorsed activities are in line with the countries' climate resilient development and low carbon vision.

As "gate keeper", it should inform the countries about options for funding opportunities, liaise with the private sectors and oversee that activities undertaken within the countries will not fumble the Fund's requirement and serve the countries interest, by advocating for the strengthening of country ownership and mutual accountability. In some cases the NDA may be closely linked or even be part of the national funding entity, which would serve as the principal recipient of funds from the GCF and coordinate decision-making on the national level.

2.5 Results management framework

According to the ToR the last chapter shall deal with the result management framework. Paragraph 57-58 of GI deals with monitoring and evaluation. Accordingly, regular monitoring, involving stakeholders on the different levels, will take place for programmes, projects, and other activities funded. It is expected that the Board adopts a results measurement framework with guidelines and performance indicators. In this regard, it is vital to regularly review the performance of the activities against indicators and relevant, envisaged outcomes, in order to enhance and continuously improve the deliveries. The document should as agreed in Sondgo includes inter-alia: a) Main elements of the results management framework; b) monitoring and evaluation modalities; c) Results-based approaches for resource allocation; and d) Performance indicators for measuring performance at project/programme level and for overall performance of funded activities. In addition, the document should propose an approach to include the inputs of stakeholders, Board members and experts.

The document contains in its appendix guiding questions aimed at facilitating the preparation of the business model.

In our view, the result management framework should promote a broad participation of targeted communities, NGOs and other CSOs, government representatives, private sector, the NDA to ensure their meaningful participation from the design of each programme/project until the last stage of the implementation and evaluation. Doing so, will ensure that the GCF has the potential to achieve great impacts in the ground and also promote learning and managing knowledge, both within the countries as well as on a global level.

2.6 Informal GCF Board working day

The Co-Chairs of the GCF will convene a day-long session prior to the official Board meeting. The goal of this day meeting is to take stock of progress so far achieved by the Board, to set expectations for the Berlin meeting, to consider the upcoming decisions, to weigh the implications of any delays in the decision making timeline and to exchange views on the BMF, with the view of gauging areas of common denominators.

The day long session is divided into two parts.⁶ Most of the morning and afternoon will be spent for a strategic session, focused on the achievements reached so far as well as setting expectations for its third meeting. The session will be closed to observers and party advisors. The afternoon session is also close to observers but open to Board members and alternates as well as their advisors. The four selected active observers (2 from civil society, 2 from private sector) will be able to participate in the summary part of the discussion. It will be dedicated to inform the future work with respect to the BMF.

The rationale behind this exercise is not to reach an agreement – as it is an informal meeting– but rather to enable Board members to go through the guiding questions outlined in the ToR on the BMF, with the view of identifying areas of convergence. Here, the Co-Chairs may request some Board members to lead the discussion on various issues. Up-front to this meeting and in order to enable substantial discussion, Board members as well as observers were requested to submit their vision in written form to the Board. In addition to the compilation of submissions, documents from the Transitional Committee, which prepared the GCF work in 2011 before the GCF was operationalised sufficiently, will be circulated as basis of the discussion.

3 Additional Rules of procedure of the Board

Pursuant to paragraph 17 of the GI for the GCF, its Board was requested to supplement the procedural rules contained in the GI. Several works and consultations were undertaken on inter alia: the election and duties of the Co-Chairs; the need to fund the participation of advisers from eligible developing countries; the observer participation in Board meetings as well as the process of selecting four active observers and criteria for accreditation of observers.

As a result, the GCF Board requested its interim Secretariat to prepare a working document for discussion at this meeting. In addition a team of six Board members was set up to discuss the additional rules of procedures. The rules of procedure will be relevant to the conduct of business of the GCF, any committees and panels to be set up by the Board, the active observers, as well as any interim arrangement established for the GCF such as the Secretariat and trustee in accordance with the GI for the GCF.

A document⁷ on additional rules of procedure of the Board has been prepared for the third Board meeting. There will be further discussion on this matter one day prior to the third meeting of the GCF. The key elements presented in the document reflect the outcome of the intercessional work of the team. However, due to the limited scope of this briefing

⁶ http://www.gcfund.net/fileadmin/00_customer/documents/pdf/B.01_13.01_13_Feb13_1730_hrs.pdf

⁷ The following paragraphs are based upon GCF/B.01-13/02

paper we will only present those elements that are in our point of view critical for the third meeting of the GCF.

Annex III deals with additional rules of procedure relating to observers in accordance with paragraph 16 of the GI. It defines and categorizes the range of (active/non active) observers and private sectors eligible to participate in the GCF meeting. Noteworthy is the Appendix to this Annex, which provides specific guidelines relating to observer participation, accreditation of observer organizations and the participation of active observers. The accreditation of observers is also subject of the process of the Fund. Accordingly, interested observer organizations need to apply for observer status with the Fund. Observer status will be granted if accreditation requirements are being met and the accreditation process successfully completed.

The participation of active observers both from CSOs and private sectors

The paper outlines that, as decided in the Governing Instrument, there are going to be two active observers each from accredited civil society organizations and from private sector (for each set one from developed and one from developing countries). Regarding the roles and responsibilities assigned to the active observers, the paper suggests that they may intervene upon invitation of the Co-Chairs in open meetings of the Board. However it is suggested that they may not attend committee or working group meetings except in special circumstances and if this is explicitly allowed by the Board. It is important that they consult with their constituencies and act in compliance with the agreed consultation guidelines of the Board. The active observers should be selected by their constituencies. After a trial period of two years, a review of the selection process of active observers is suggested to be undertaken.

The document deals not only with CSO and PSO rules of procedures, but also covers Board member and cases where a seat of Board members or alternates becomes vacant. In addition, it includes rules of procedure for meetings, attendance, quorum, executive sessions by exceptional circumstances as well as extraordinary meetings. As mentioned before, the Board may set up committees, panels, groups and subsidiary bodies. These shall assist the Board in its decision making process. Those committees established on ad hoc basis should have a clear time frame. The technical panels are not limited to board members and could include external experts of the field the panel works on.

Further it is suggested that the additional rules of procedure, except for those that simply reproduce provisions from the GI, may be amended by the Board. In cases that any provisions should contradict those of the GI, the GI will prevail.

Given that the rules of procedure have not been decided yet, some interim arrangements were set up for the 3rd Board meeting.

Among civil society organizations, several aspects in the rules of procedure have been criticized over the last months, including some provisions which have remained unchanged since the 2nd meeting of the Board, despite specific comments from civil society. Overall, the provisions fall far short from what would constitute a really meaningful concept of cooperation with and engagements of civil society on all levels of operation of the GCF. While perhaps not all of this can be solved now, the way that this discussion was approached by some Board members is quite concerning. So far, the GCF lacks any ambition regarding building on best practice of other funds for an as good involvement process as possible.

Concrete suggestions for the rules of procedure currently under discussion from civil society include⁸

- *allow accreditation of all civil society organisations with expertise relevant to matters of the GCF, and not only those who are engaged in concrete project implementation;*
- *Make documents publicly available in a manner to permit adequate time to review and submit comments;*
- *Provide that Board meetings will be webcasted;*
- *Allow active observers to propose agenda items, propose expert inputs and make interventions as issues arise in the agenda;*
- *Allow active observers to participate in all Board and committee meetings, absent special circumstances requiring their closure;*
- *Permit civil society active observers to have alternates; the alternate would be able to make interventions only in the absence of the active observer.*
- *Permit civil society active observers from developing countries to rotate, and sufficient financial resources to be made available to support their effective participation. Allowing rotation and financial support ensures that civil society from developing countries is represented.*
- *Create a formal transparent and open self-selection process for active observers that is fully funded, similar to that of the Climate Investment Funds (CIFs);*
- *Allow all registered observers in the Board meeting room, with an overflow room only used when there is genuine lack of space;*
- *Instruct Board members to hold meaningful consultations with civil society observers before each meeting; and.*
- *Formalize a mechanism by which written submissions from civil society can be received and considered in the decision-making process, allowing adequate time for review and preparation of comments.*

4 Arrangements between the Conference of the Parties to the UNFCCC and Climate Fund

A paper⁹ has been prepared for the third GCF Board meeting on the arrangements between the COP and the GCF. At COP17 in Doha, the COP approved the GI for the GCF (Decision 3/CP.17, paragraph 3) to designate the GCF as an operating entity of the Con-

⁸ based on a joint NGO letter submitted on Monday, 11 March.

⁹ The following paragraphs are based upon GCF/B.01-13/10.

vention's financial mechanism. The decision also includes that the arrangements between the COP and the GCF should be concluded at its 18th session, in order to ensure that the Fund is accountable to and functions under the guidance of the COP.¹⁰ This was not achieved. In Doha, the COP requested the UNFCCC Standing Committee on Finance (SCF) to develop together with the GCF Board the arrangements in line with the GI and present them for adoption to the COP at its 19th session. The paper highlights that in order to fulfill this task; the SCF held a virtual meeting in January 2013 in order to make an initial consideration related to the arrangements.

The SCF had further substantial discussions during its third meeting which took place just prior to the Board meeting from 8 to 10 March in Bonn. It agreed to mandate its Co-Chairs to consult in Berlin with the Co-Chairs of the GCF Board on the process forward, and also agreed on some possible elements for the arrangements. Formally, these are based on the Governing Instrument and Art. 11.3 of the Convention as mandated in the respective COP decision. SCF members were inspired by the existing Memorandum of Understanding with the GEF. However, these elements have not yet been elaborated further.

It is not expected that the GCF Board will be able to devote too much time to this issue. The fact that the SCF could agree on a list of possible elements can be regarded as starting point for its deliberation on this issue. However, in order to move forward and to be able to approve the arrangements at COP19, agreement on the process is definitely required with a view to reaching agreement at the meetings of the GCF Board and the SCF sometime in September at the latest. Generally the discussions can be expected to run along the different views, between a very lean arrangement hardly going beyond the Governing Instrument (view of many developed country representatives), and more explicit arrangements filling some of the gaps that the GI left open regarding the relationship. Experience from the GEF shows that lack of concretization of such arrangements can lead to a lot of problems.¹¹ While ruling too much into the core work of the GCF Board should be avoided, the COP must be able to ensure that its guidance is also followed by the Board. One issue which might be considered is some kind of dispute settlement arrangement.

5 Modalities for Readiness and Preparatory Support

The report of the work programme on long term finance under the UNFCCC mentioned the need of overcoming the barriers to effective climate finance.¹² The report recommended to the COP to further consider requesting the operating entities of the financial mechanism to report annually on efforts to support developing countries in strengthening their national climate finance capacities and undertaking national costing assessments, including on lessons learned and emerging innovative practices¹³. Modalities for readi-

¹⁰ Decision 3/CP.17, paragraph 3.

¹¹ see Kaloga and Harmeling, 2013: Towards the 5th review of the financial mechanism. Policy brief.

¹² http://unfccc.int/documentation/documents/advanced_search/items/6911.php?preref=600007110

¹³ Report on the workshops of the work programme on long term finance: Financing needs of developing countries and enabling conditions p.5. See <http://unfccc.int/resource/docs/2012/cop18/eng/03.pdf>

ness and preparatory activities are critical to steer financial and other support where it is needed most, to strengthen domestic capacity and enabling environments for low-carbon investments, and to ensure procedural efficiency and equity in the provision of support¹⁴.

A paper¹⁵ was prepared for the third Board meeting on modalities for readiness and preparatory support. It described that at its last meeting, the GCF Board requested its interim Secretariat to prepare a paper which should address the following issues: priority areas, complementarity of modalities for readiness and preparatory support, a mechanism for allocation, delivery and simplified approval processes for readiness and preparatory support. In preparing this document, the GCF's interim Secretariat indicates that the decision on readiness and preparatory support should be taken in a holistic manner, taking into account future decisions of the Board on its access modalities, BMF, the PSF and the role of the independent Secretariat.

The paper indicates that support for readiness and preparatory support to underpin delivery of climate finance and mobilization of investment is critical for the GCF in order to achieve its goal of realizing a paradigm shift toward low carbon and climate resilient development. The paper also indicates that the GI in paragraph 40 is specific on options for the preparatory activities to assist developing countries for being prepared to attract, manage and use large scale investment. This could be done through the development of harmonized strategies in line with ongoing national strategies. In doing so, the support activities should aim at building the capacities, as to meet GCF standards and safeguards. Further the paper indicated that developing countries should be endowed with the enabling environment to mobilize, manage, monitor and evaluate programmes and projects as to foster the Fund's set paradigm shift and enable the allocation of large scale investment (consistent with paragraph 64 and 66). The support activities should also strengthen the institutional capacity in developing countries to tackle direct access.

According to the paper there is currently a variety of initiatives taken by diverse institutions to assist developing countries to build their capacities for responding to the requirements of the climate finance world¹⁶. This would amount so far to USD 440 million having been invested since 2001 for the purpose of climate readiness in developing countries. Interesting is that not only poor countries have benefited from this, but also middle income countries have been targeted by such initiatives.

The lessons learnt from the current readiness support activities have revealed on the one hand that preparatory support activities are only effective and beneficial, if they are undertaken in an ongoing and long term basis. On the other hand such activities need to be strategic and closely linked with the national policies/strategies as to guarantee ownership of the recipient countries.

One can not emphasize enough that the types and ranges of readiness activities to be provided by the GCF depend highly on its BMF, which has not been set up yet. However, the GCF is well advised that it's funded preparatory activities focus on an enabling environ-

¹⁴ OECD: Development Perspectives for a Post-2012 Climate Financing Architecture; <http://www.oecd.org/greengrowth/green-development/47115936.pdf>

¹⁵ The following paragraphs are based upon GCF/B.01-13/08.

¹⁶ Many relevant initiatives may have been inadvertently excluded, particularly initiatives that were supported through bilateral channels. Furthermore, financial contributions to readiness-related initiatives could not in all cases be quantified

ment that can enhance the capability of developing countries to attract, mobilize, absorb and manage finance from a range of sources and scaled up effective programmes.

The paper recognized that most of the current readiness activities in developing countries were run by external consultants, who have often not been involved in the elaboration of the national strategies and plans, which should be implemented through the readiness support. This prevents both ownership as well as long term planning. Readiness activities as cross-cutting issues should therefore increasingly engage local consultants and be undertaken on ongoing basis in flexible and sustainable manner. Thereby, it is obvious that the support activities should not be a one-off one, rather a continuous, progressive, country driven one, which should be reviewed regularly as to respond to the evolving knowledge, costs, viability, political conditions and circumstance.

For the GCF to set a precedent and contrast with the ongoing preparatory practices, it is important that it adheres to certain principles. The paper suggests that the GCF's readiness activities should be sustained, ongoing, flexible, as to best respond to the evolving socio-economic, geopolitical circumstances and needs of developing countries. The support activities should strive to engage as much as possible stakeholders in developing countries instead to use or rely on the services of external consultants, who are often unfamiliar and not truly anchored in the countries policies. Moreover, the GCF according to the paper should not start from scratch, but rather build upon the lessons learnt from other funds and initiatives with the view of removing existing and future obstacles and maximizing the transparency and accountability. The earlier those principles are agreed, the better. Further the paper describes as one option to link the readiness activities with the thematic funding windows of the Fund, since many climate finance readiness activities have been developed in specific sectoral contexts. In designing its business model, the GCF may consider hybrid options that link a readiness finance facility to thematic windows.

The document by the interim Secretariat further proposes a range of mechanisms for allocation and simplified access modalities for readiness support to be provided by the GCF. It is important that all developing countries seeking support for enabling activities should be eligible in principle. Accordingly it could be an option to provide a capped amount to those countries that have identified areas and needs on which they need readiness support. Along this line the paper suggests, proponent countries should specify the kind of support they are seeking by substantiating how the resources would be used to shape the right environment that would allow large scale investment. It is vital that the readiness support activities are undertaken in a holistic manner considering the existing national plan and strategies.

Towards defining its business model, the paper suggests that the GCF may consider in its future discussion to provide guidance on modalities for readiness and preparatory support. This guidance should include a range of supporting tools such as grants and technical assistance as deemed necessary for a specific country. The supported activities should also target regional, national and sub-nationals levels. Although the preparatory activities are needed in all countries, the paper suggests that one could set a preferential access for LDCs and SIDS.

It is important to note that "readiness" for climate finance is a relatively new term that has been used for a number of specific areas of climate finance. However, an in-depth understanding and criteria that sets out the different elements of readiness with regard to

climate finance as a whole are needed. The first task of the GCF should therefore be to define this broad concept and translate it according to its GI. The UNDP paper¹⁷ on "Readiness for Climate Finance" proposes four components critical to such a process. These are inter alia: a) the national capacities in place to plan for finance; b) the capacities to access different forms and types of finance at the national level; c) the capacities to deliver finance and implement/execute activities; and d) the capacities to monitor, report, and verify on financial expenditures and associated results/transformational impacts.

Financial Planning	Accessing Finance	Delivering Finance	Monitor, Report & Verify
<ul style="list-style-type: none"> Assess needs and priorities, and identify barriers to investment Identify policy-mix and sources of financing 	<ul style="list-style-type: none"> Directly access finance Blend and combine finance Formulate project, programme, sector-wide approaches to access finance 	<ul style="list-style-type: none"> Implement and execute project, programme, sector-wide approaches Build local supply of expertise and skills Coordinate implementation 	<ul style="list-style-type: none"> Monitor, report, and verify flows Performance-based payments

Source: UNDP: Components of Climate Finance Readiness¹⁸

These different configurations of the four components can exist within institutions, between institutions, or across national or sectoral systems and do not translate into a one-size-fits-all model. The enabling environment for climate finance should aim at assessing the needs, defining the priorities, and identifying barriers to investment. It is also about setting up a policy-mix that can match the different sources of financing as well as blend and combine the resources available. One in our view a very important aspect that has not been addressed by this paper is the issue of absorptive capacity of developing countries. One can not overlook, that despite the scarcity of climate finance, several funds have at their disposal significant resources. These have not been disbursed, because there is a lack of institutional and human capacity to meet the criteria of those funds. If the GCF has to allocate yearly billions of dollars, it should ensure that it not becomes a fixed deposit account, but rather a fund that can disburse and deliver at a larger scale. Thus, it is important to assess why there is a lack of absorption capacity and explore potential ways to overcome them through readiness support.

6 COP Guidance to the Green Climate Fund

The GCF is required to respond to and implement the guidance provided by COP18 in Doha. In Doha nine decisions were adopted by the COP and SBI related to climate finance, which all have implications for the work of the GCF throughout the course of this year¹⁹. A paper²⁰ was prepared for the third Board meeting of the GCF. The paper high-

¹⁷ UNDP 2012: Readiness for Climate Finance
http://www.undp.org/content/dam/undp/library/Environment%20and%20Energy/Climate%20Strategies/Readiness%20for%20Climate%20Finance_12April2012.pdf

¹⁸ This framework elaborates that outlined in UNDP's 2010 discussion paper Development in a Changing Climate: A framework for Climate Finance.

¹⁹ The agenda related to climate finance discussed in Doha are: Agenda item 4: Report of the Ad Hoc working Group on long-term Cooperative Action under the convention; Agenda 9 (a) Report of the Technology Executive Committee; Agenda 9(b) Climate Technology centre and Network; Agenda item

lights the different decisions already taken by the COP in regard to the GCF. For instance, the COP took note of the report of the GCF and adopted its key elements such as the nomination of the Board members as well as the selection of Sondgo, Incheon city, Republic of South Korea as the host of the GCF.

Moreover, it highlights that the COP gave its first initial guidance to the GCF²¹. This includes inter alia: a request to the GCF and the government of South Korea to expeditiously confer the GCF juridical personality and legal capacity as well as to undertake the necessary legal arrangements. Also, the COP requested the GCF to develop, prior to approval of funding, a transparent no-objection procedure, through the National Designated Authority. The GCF should also establish the independent Secretariat and select its permanent Trustee through an open competitive bidding process. In addition, this decision requests the GCF to initiate a process to collaborate with the existing new bodies such as the Adaptation Committee, the Technology Executive Committee and to balance its resources allocation between adaptation and mitigation.

Further the document highlights that regarding the decisions related to the report on the outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention²², the COP reiterated the need of having enhanced action on the provision of financial resources and investment for financial support of climate actions and technology cooperation.

The Technology Executive Committee has been requested by the COP to continue to consult with relevant institutions under the Convention, such as the GCF. In addition, the COP decided that one of the GCF Co-Chairs or a member chosen by the Co-Chairs should be on the Advisory Board of the Climate Technology Centre and Network (CTCN)²³.

The COP initiated the fifth review of the financial mechanism which shall be finalized by COP20, in accordance with decisions 3/CP.4 and 6/CP.13. Thereby the COP requested the SCF to further amend the existing guidelines in a holistic manner taking into account the information of different processes. Since the GCF is an operating entity of the financial mechanism under the Convention, it will also be subject to this review process.

While of course not everything can be taken up at this meeting of the GCF Board, it is currently unclear when and how some open issues will be addressed, in particular:

- *The development of a non-objection procedure: this issue is not included in the questions related to the BMF, although it could fit there related to access modalities;*
- *The initiation of an open-bidding process on the Trustee.*

11(b): Report of the Standing Committee; Agenda item 15: Article 6 of the Convention; Decision on the Review of the financial mechanism (from agenda item m 6(a) of the SBI); Decision on national adaptation plans (from agenda item 9 (a) and (b) of the SBI); Decision on the prototype of the registry (from agenda item 5 (a) of the SBI); In addition, the Annex presents conclusions of SBI 37 under the agenda item 15(a):

²⁰ The following paragraphs are based upon GCF/B.01-13/Inf.03

²¹ The full list of initial guidance provided by the COP to the GCF could be found:

http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cop18_report_gcf.pdf

²² The advance unedited COP decision text can be found at the following link:

http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cop18_agreed_out_come.pdf

²³ http://unfccc.int/files/meetings/doha_nov_2012/decisions/application/pdf/cop18_ctcn.pdf

The agenda agreed as part of the report of the GCF Board to the COP²⁴ allows for these issues to be taken up, but does not yet explicitly include them. So one has to keep an eye on them and ensure that the GCF Board responds to this guidance as well, in the course of this year.

7 Resource mobilization for the GCF

Like other policies and guidance of the GCF, the resource mobilization is also guided by the objectives and guiding principles of the GI, and of course the provision of Art. 11 of the Convention. The GI states that the “*Fund will play a key role in channeling new, additional, adequate and predictable financial resources to developing countries and will catalyze climate finance, both public and private, and at the international and national levels (...).*” It further states that the Fund “*will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two*”. In paragraph 29-30 of the GI, it is described that the “*Fund may receive financial inputs from developed country Parties to the Convention and from a variety of other sources, public and private, including alternative sources*”. Although the GI is silent on the specific kinds of financial inputs of developed countries should be mobilized, it is clear on the scope of financial instruments it could use for disbursement, depending on further decisions by the Board (paragraph 54): the Fund will “*provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable.*”

A document²⁵ on resource mobilization has been prepared for the third Board meeting. This document outlines options for approaches to resource mobilization for the Fund based on the experience of diverse funds. It seeks to summarize the key considerations that will need to be addressed by the Board by presenting a range of options to enable an informed decisions making process. Resources have been mobilized by several funds using different approaches as described in the paper prepared for the Board meeting. It describes further that for instance the resources of Climate Investment Funds have been mobilized by ad hoc voluntary contributions. Accordingly, the contributions of donors did not rely on specific burden sharing calculations. Other funds such as the Global Fund and the Global Environment Facility (GEF) had started with informal funding processes but developed over time more formal replenishment processes. The International Development Association (IDA) as well as the International Fund for Agricultural Development (IFAD) have mobilized their resources through regular replenishments, which were based on burden sharing.

The paper provides, as lesson learnt from the afore-mentioned options, that more flexibility could be reached through an ad hoc mobilization and that this could also accelerate the mobilization of funding in the short term. If significant resources could be mobilized at the beginning, this can be perceived as a strong signal to build confidence for the future mobilization efforts. A periodic replenishment however, would, according to the paper, provide for more predictability in the long-term and facilitate hence enhance future plan-

²⁴ http://unfccc.int/documentation/documents/advanced_search/items/6911.php?preref=600007112

ning for resource allocation. In addition, since the terms of conditions of replenishment would need to be probably agreed upon by all contributors, this could lead to more uniform terms of conditions. However, the paper emphasizes that a replenishment process is long process.

Finally, the paper presents three options:

- Option 1: ad hoc resource mobilization process
- Option 2: Initially: ad hoc resource mobilization, followed by periodic replenishment process
- Option 3: periodic replenishment process

Different aspects need to be considered depending on the option chosen, as outlined in the paper. For instance it describes that if the fund decides to apply option 1 or 2, it will be confronted to decide whether the process should be undertaken and driven by the GCF Board or outside for instance by a group of contributors. In addition, the GCF should also decide who may contribute to the GCF. The GI is clear in this matter, namely that developed countries are firstly requested to provide financial inputs to the fund. The paper outlines further questions, as whether other contributors willing to allocate resources into the Fund, should join the process, or whether some developing countries representatives should be invited to participate to the process. On the other hand, the Board should also clarify whether the contributors could also provide further guidance or have some sort of oversight on the financial resources they will be providing. Regarding the latter option, the document suggests that the Board considers what roles the contributors would have in providing oversight of or guidance to the Board, as well as the option, in which contributors will not be able to provide any guidance as a whole.

The document prepared for the third Board meeting further outlines that in the case that the Board decides to apply opt 1 or 2, it would need to fix the time, at which it would start seeking both initial and subsequent resources. In term of contribution size the paper suggests that the GCF would need to consider further, whether it would apply a requirement for a minimum contribution per donor country or overall for the fund.

In regard to option 3 (periodic replenishment process) the paper mentions that funds using such a periodic replenishment processes follow some similar procedures. These include that the replenishment process consists of several formal or informal meetings and that roughly 1-1.5 years before the present replenishment round ends the new process for the upcoming replenishment round begins. The paper outlines further that the GCF board should have to decide whether the replenishment process shall take place at the Board level or whether this could be conducted outside, for instance via donor meetings. Moreover, it would need to decide who should be eligible to provide funding to the GCF, in which periodic intervals the replenishment should take place and again whether donors should have some sort of oversight or should be able to provide guidance. The tricky issue will be, given the scale of money to be annually disbursed by the fund, to decide whether the contribution will be provided following burden-sharing criteria and how these criteria would be defined. In addition, the Board would have to clarify whether the replenishment will be subject of effectiveness of the disbursement and use of the fund.

²⁵ The following paragraphs are based upon document FCF/B.01-13/07

It can be assumed that the most relevant donors will have influence on the decisions of the Board through their representative, acting as member of the GCF. Generally, it would entail the risk of undermining the negotiated governance balance in the GCF Board if donors not in the Board would assert influence on the decisions of the Board through the replenishment process (in case it would be chosen). However, the COP is the supreme body of the Board and the institution agreed by Parties to provide guidance to the GCF. However, it may be possible for instance that the contributors as results of a replenishment or mobilization process may make some recommendations. These recommendations could then be included in the annual report of the GCF and the COP may then decide to endorse them or not.

In order to achieve its set paradigm shift, the GCF needs to rise to the financial needs challenge, and hence it is well advised to start with the classic way of mobilization of funds, while at the same time building the environment required for more reliable and predictable systems of finance independent of donor decisions and over and above ODA. This should also ensure that its resource mobilization process would be open for innovative finance sources, such as from international transport, where many NGOs have been calling for revenues of developed countries going directly to the GCF.

Finally, early funding for the GCF is of great importance in order to allow for fast funding of activities once the GCF is fully operational. For a description of the point of time for initial pledges of other funds, see Griebhaber et al., 2012.²⁶

8 Matters related to the Secretariat

Due to the decision to host the GCF in Korea, the interim Secretariat is expected to transition before the end of this year to Songdo, Korea. This requires certain technical and legal preparatory work, some of which is further outlined in a background paper prepared by the Secretariat.²⁷ Of particular importance will be the selection of the Executive Director of the GCF, for which the process is currently coordinated by a working group of six Board members chaired by the German Board member. The outcome envisaged for this meeting is to agree that the process would be finalized at the Board's June 2013 meeting with the selection of the successful candidate. Regarding the Secretariat transition, a mandate for the Interim Secretariat (IS) to begin to develop administrative policies and procedures is envisaged, as well as a mandate for the Executive Director (once appointed) to take forward the work, including approving policies and procedures, returning to the Board for endorsement of high-level decisions and appointment of senior managers, as required.²⁸ Furthermore, work needs to be undertaken related to the required Headquarters Agreement, which addresses aspects such as privileges and immunities for the Board members, legal arrangements for the Secretariat etc. Positive information in this regard is also that there seems to be significant interest in working for the GCF, since the Interim Secretariat received over 400 applications for the 14 vacancy announcements published in

²⁶ Griebhaber, Lina/Esch, Anja/Harmeling, Sven/Kaloga, Alpha, 2012 : Green Climate Fund : Timely action needs early pledges, Discussion paper, Germanwatch (Edit). To be found on: <http://germanwatch.org/de/5466>.

²⁷ GCF/B.01-13/Inf.05

²⁸ Document "Expected outcomes of the 3rd Board Meeting"

early January. 87 were regarded eligible, including 47 from developing countries and 40 from developed countries.

9 Logo of the Fund

The Board will also discuss how to initiate a process for the selection of a logo for the GCF, which of course could be a helpful tool to increase the identity and visibility of the GCF.²⁹ It is proposed to "launch an international competition inviting art and design schools and universities worldwide to submit a proposal for a logo of the Fund that would depict its ideals and character" and to set up a multi-stakeholder selection panel. That the invitation should be limited to design schools and universities is questionable, since there may be many innovative and creative individuals who could make interesting contributions. The discussion will also include consideration of a cash prize for the winner. The preparatory paper mentions that the Carbon Market and Investors Association (CIMA) has offered USD 15,000 for a prize. However, given the available budget in the GCF there is no striking reason why the GCF should rely on resources from an association with specific interests in the climate finance context, in order to avoid any conflict of interest.

²⁹ GCF/B.01-13/09

Germanwatch

Following the motto "Observing, Analysing, Acting", Germanwatch has been actively promoting North-South equity and the preservation of livelihoods since 1991. In doing so, we focus on the politics and economics of the North with their worldwide consequences. The situation of marginalised people in the South is the starting point of our work. Together with our members and supporters as well as with other actors in civil society we intend to represent a strong lobby for sustainable development. We endeavour to approach our aims by advocating fair trade relations, responsible financial markets, compliance with human rights, and the prevention of dangerous climate change.

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