

The Green Climate Fund (GCF) – Challenges and Opportunities for Global Climate Action

Expert Workshop on Health R&D as a Global Public Good: Building Institutions for Setting Priorities and Financing

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www.climatefundsupdate.org

Climate Finance – what for?



What is climate finance?

- No uniformly accepted definition
- Public Climate Change Finance

One commonly used definition: *funds deriving from governments or agencies and institutions acting on their behalf, including national budgetary contributions and innovative financing sources (for example such as auctioning of emission permits, taxes, levies)*

- **PROBLEM:** no Common Reporting Format, no reliable Measuring, Reporting, Verification (MRV)
- **Climate Policy Initiative estimate (2012):** roughly \$97 billion per year
 - **Private:** \$ 55 bn direct, with additionally \$20 bn leveraged
 - **Public:** \$21 bn
 - **Bilateral and Multilateral Dedicated Climate Financing Instruments**
 - **Climate-Relevant Bilateral and Multilateral Official Development Assistance, ODA**
- **Other:** Voluntary carbon markets and philanthropic institutions, < \$3 bn

Climate Finance PURPOSE

“Adaptation”

Dealing with the impacts and effects of climate change, addressing vulnerabilities

“Mitigation”

Shifting to sustainable (low-carbon and equitable and democratic) development pathways

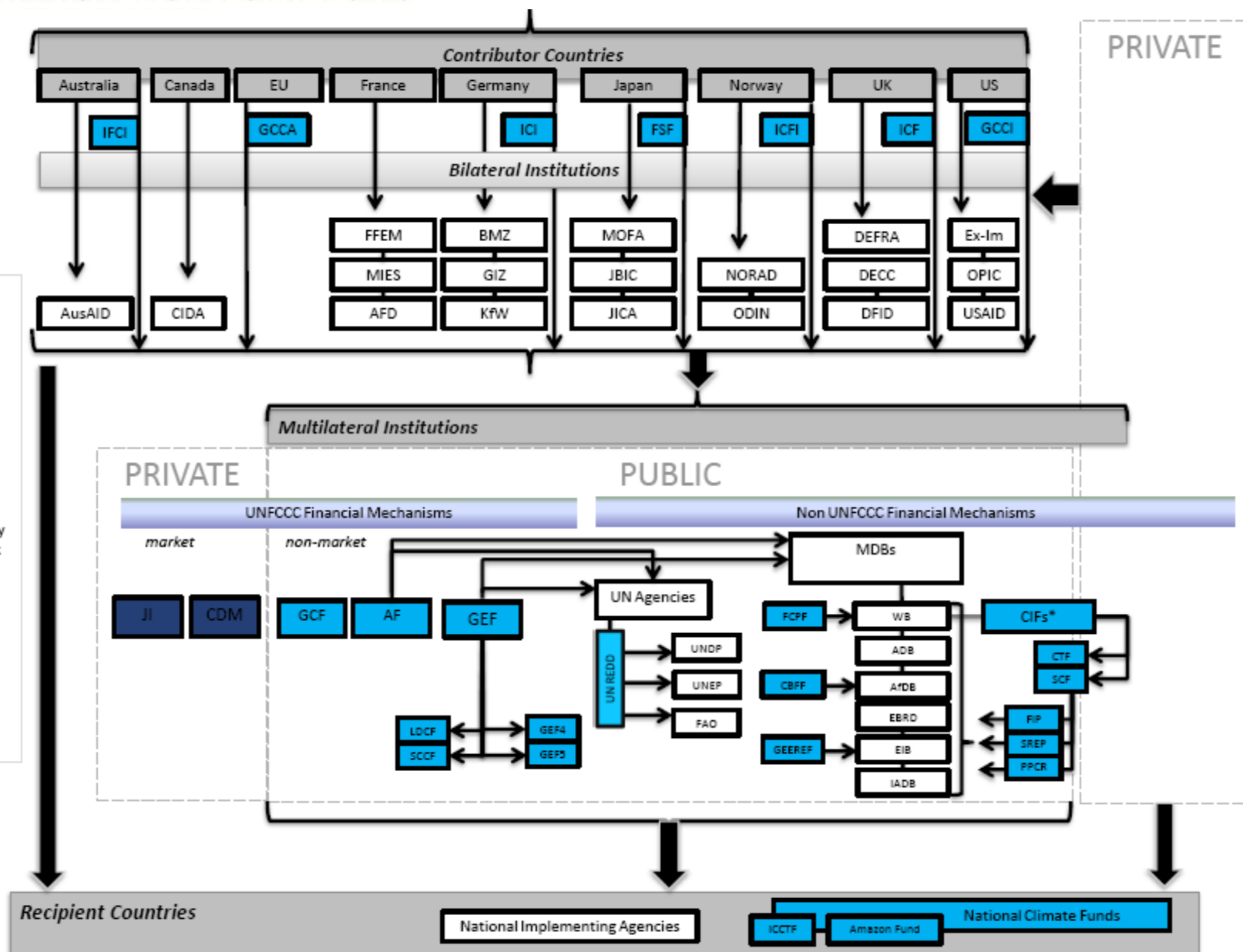
“REDD +”

Addressing deforestation, forest degradation and forest conservation efforts

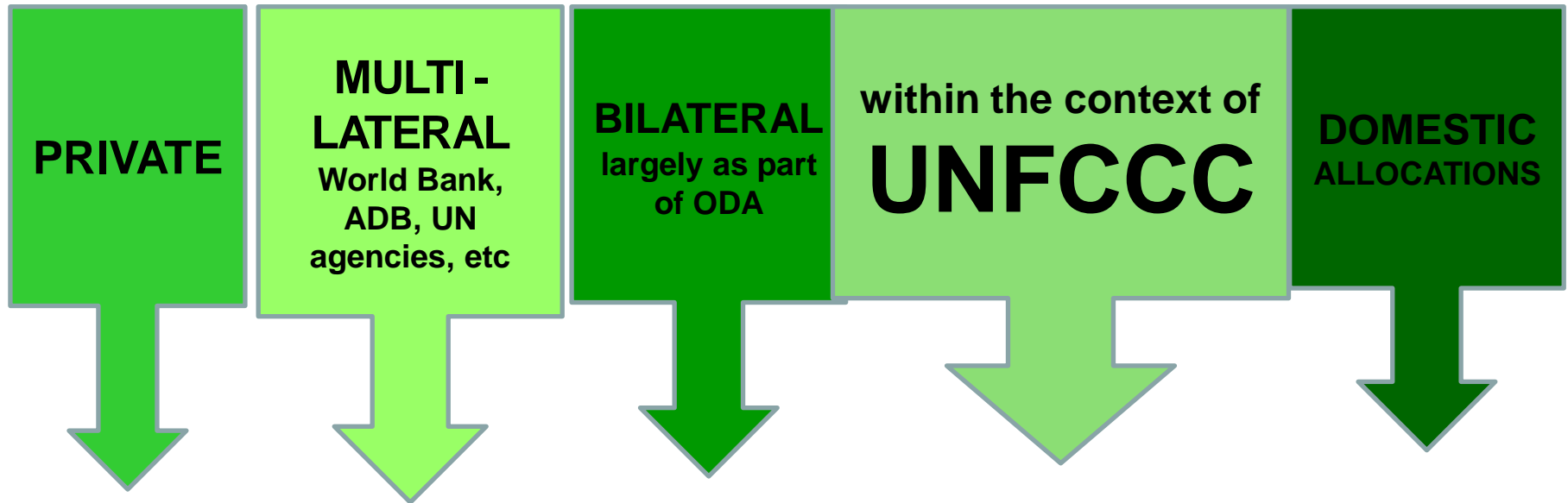
\$93bn out of \$97bn is used for mitigation measures;

Adaptation: public funds (\$4.1bn)

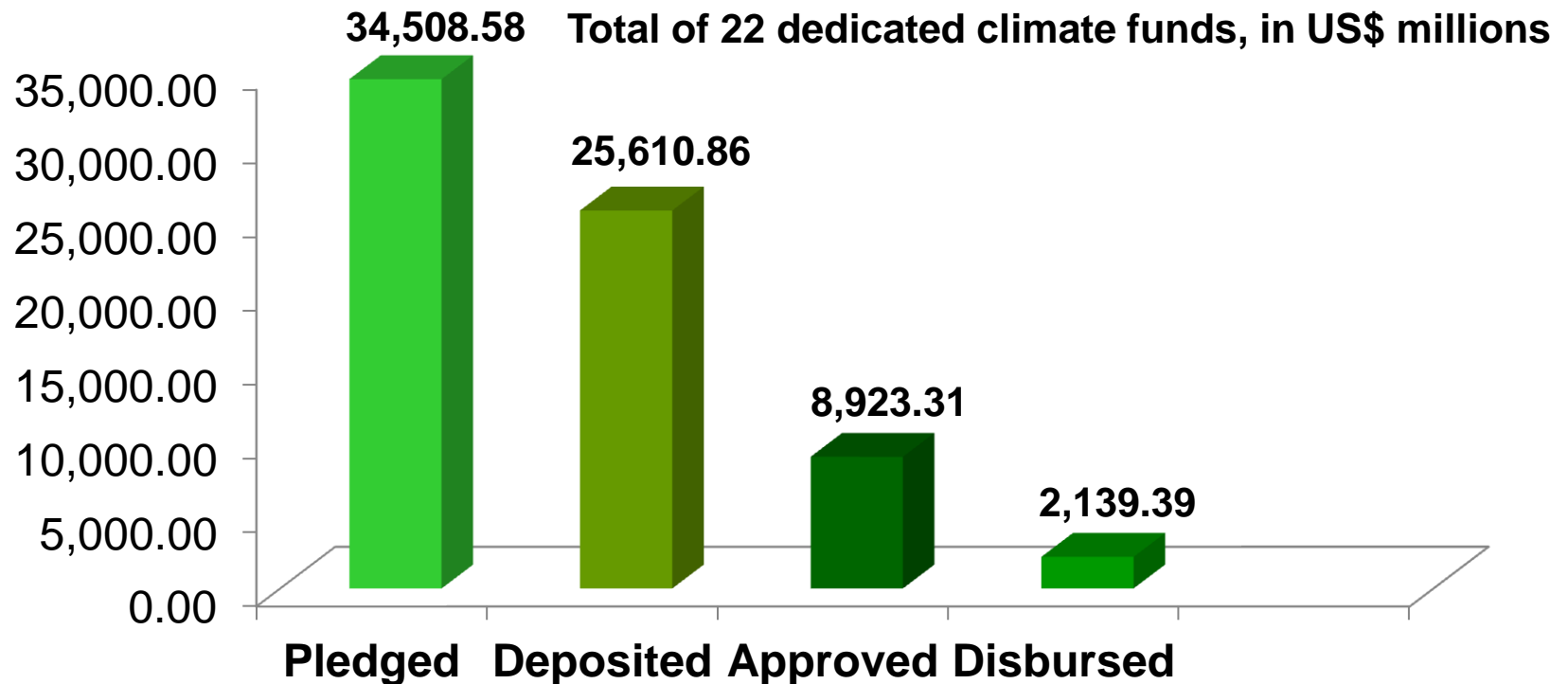
Mitigation: private sector (\$57bn), public funds (\$25bn)



Climate Finance FLOWS



Current Funding Globally: Pledged vs. Deposited vs. Approved vs. Disbursed



Source: www.climatefundsupdate.org; February 19, 2013

Climate Finance Obligations under UNFCCC

ARTICLE IV, UNFCCC:

“Developed country parties shall provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of...”

(= climate costs over and above a business-as-usual approach)

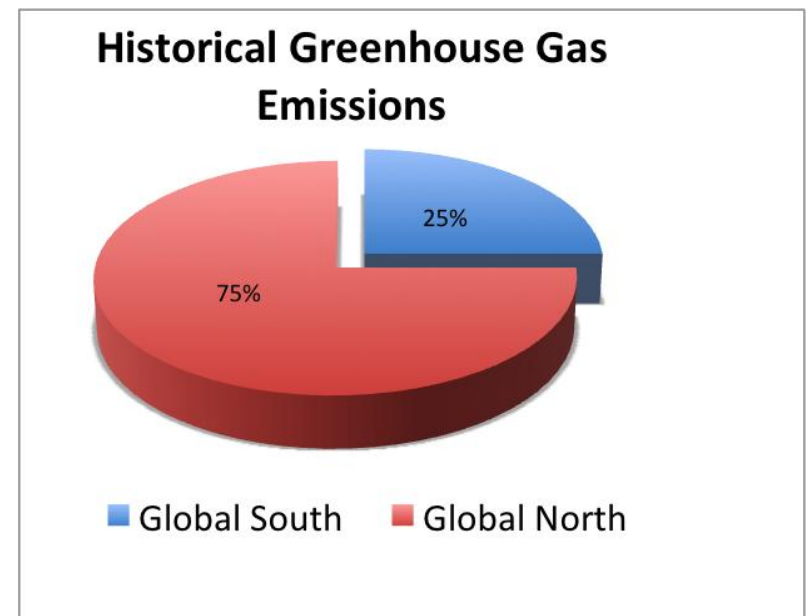
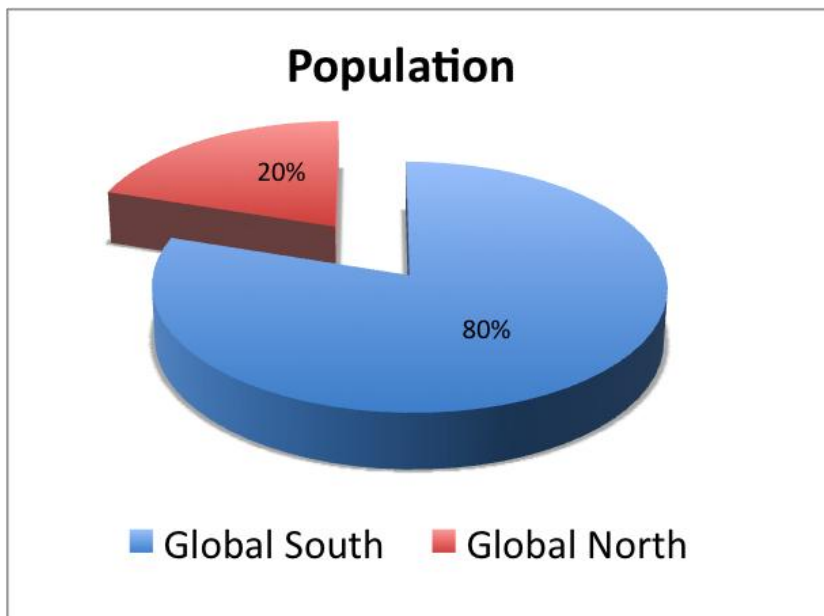
- implementing measures to reduce emissions
- management and conservation of sinks
- preparing for adaptation
- integrating climate change into other national policies
- promote cooperative research, exchange of information and education and awareness-raising
- developing inventories and reporting on emissions and sinks

UNFCCC Climate Finance Obligations

- ▶ FINANCE CRITERIA (Bali Action Plan 2008): **adequate, predictable, sustainable, new & additional** (= no uniform definition; civil society: on top of development assistance & recognized ODA goal of .7% of GNI)
- ▶ Needs to address linkages between sustainable development, poverty eradication and necessary climate action by financing low-carbon, climate-resilient and gender-equitable measures in developing countries
- ▶ Not “**climate aid**” but “**climate debt**” = **mandatory and compensatory transfer payments North to South** (UNFCCC preamble: “*common but differentiated responsibilities and respective capabilities...*”)
- ▶ Should be delivered as **grants** (minimum for adaptation, LDCs and SIDS), not in form of loans
- ▶ CURRENTLY: reliance on **mostly voluntary payments, often as loans** with contributions and disbursements lagging far behind pledges

Climate Debt

→ Applying the polluter-pays-principle (Rio Convention)



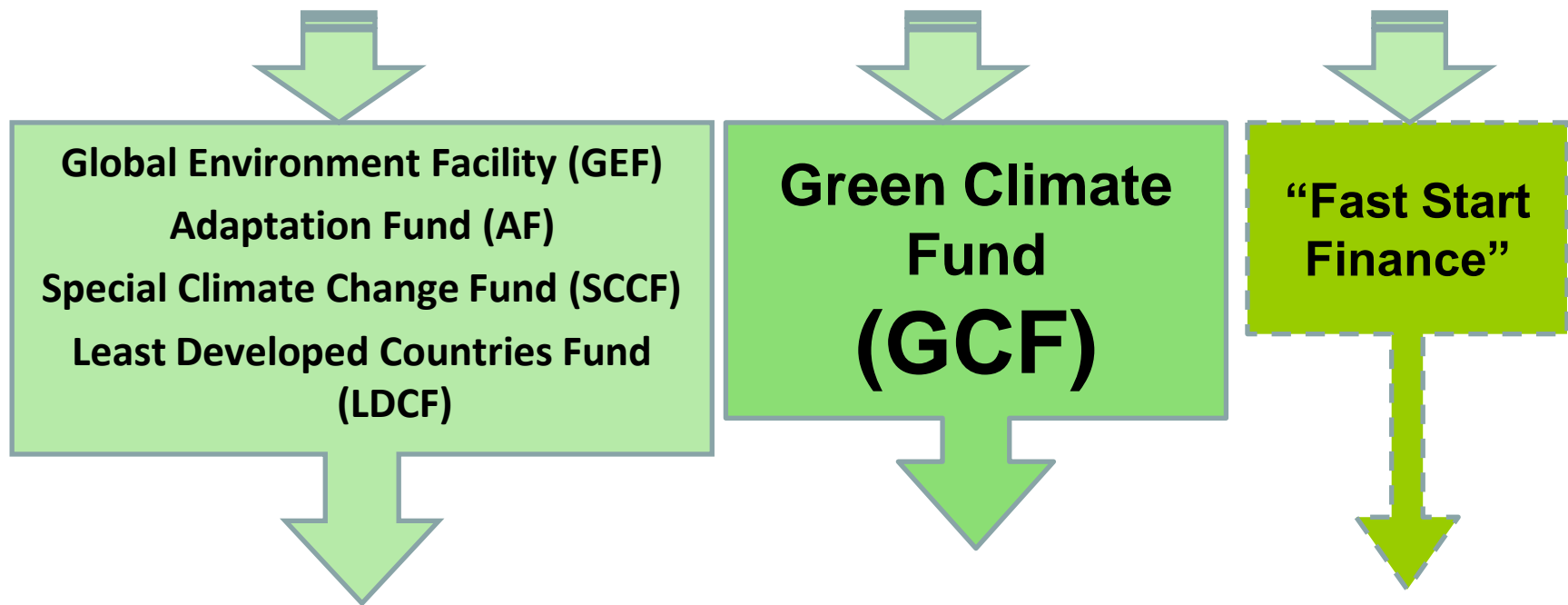
Copenhagen Accord (2009) – Climate Finance Commitments under the UNFCCC

Developed countries pledge

- **New and additional resources up to \$30 billion 2010–2012** (Fast Start Financing)
- **Jointly mobilize \$100 billion per year by 2020**
(variety of public, private, bilateral, multilateral, and ‘alternative’ sources)

Green Climate Fund (GCF) – channel significant share of new multilateral funding for adaptation

within the context of the
UN Framework Convention on Climate Change (UNFCCC)



Recipient Countries
DEVELOPING COUNTRIES

Green Climate Fund (GCF) -- Background

- Urgency and scientific background for action on climate change established by successive reports of the **Intergovernmental Panel on Climate Change (IPCC)**
- Idea of a Green Fund pushed by Mexico and others since early 2000s
- Establishment urged by developing countries in the context of the UNFCCC as counterpart to existing climate financing instruments (bilateral, under WB, GEF)
- Part of the **financing mechanism of the UNFCCC** (like GEF) → *“accountable to and function under the guidance of the Conference of the Parties (COP)”*
- Not donor-driven, but expression of principle of *“common but differentiated responsibilities and respective capabilities”* (CBDR), country-preferences
- Complementarity and coherence: contribution of the GCF to the “rationalization” of the global climate finance architecture
- Is to become the main global fund for climate change finance

GCF – Decisions and Design Process

- UNFCCC COP 16 decision in Cancun to set up a Green Climate Fund (2010)
- Design process in the Transitional Committee (TC)
 - 40 member country body (25 developed, 15 developing countries)
 - 4 design meetings over 8 months in 2011
 - Technical work supported by a Technical Support Unit (TSU) with seconded experts from MDBs, UN agencies, bilateral agencies
 - Looking at best practices of existing financing instruments
 - Culminated in elaboration of **GCF Governing Instrument (GI)**
- GCF Governing Instrument approved by UNFCCC COP 17 in Durban (2011)
- Accompanying decision sets a number of deadlines for GCF establishment
- GCF reports to UNFCCC COP annually to receive guidance (first in 2012)

GCF – Mission and Vision

Governing Instrument section on “objectives and guiding principles” :

- *“In the context of sustainable development , the Fund will promote **the paradigm shift** towards low-emission and climate resilient development pathways”*
- *“... will play a key role in **channeling new, additional, adequate and predictable financial resources to developing countries** and will catalyse climate finance, both public and private, and the international and national levels”*
- *“... will pursue a **country-driven approach**....”*
- *“... will be **scalable and flexible** and will be a continuously learning institution guided by processes of monitoring and evaluation*
- *“... 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.**”*

GCF – Governance Arrangements

- New Board (24 members, 12 from developed, 12 from developing countries, with 24 Alternate members) started work in August 2012 to operationalize the GCF as early as possible (hoped for start for funding 2014/2015) → **CHALLENGING WORK PLAN AND TIME LINE**
- So far 3 Board meetings, with 2 more expected for 2013 → seen as a “decision-making, not negotiating body” (*Corporate Board*)
- **Independent Secretariat** to be established in Songdo, South Korea (2013) – operates currently with Interim Secretariat
- **Juridical personality and legal capacity** (as intl. organization) to be derived via national parliamentary act and through host country agreement
- New **Executive Director** to be selected by the Board in June
- **World Bank as Interim Trustee** (until Spring 2015) – has set up **GCF Trust Fund** receiving country contributions (only US\$ 8.25 mio pledged so far)

GCF – Operational modalities I

- **Eligibility:** all developing country Parties to the Convention, for “agreed full and agreed incremental costs” for mitigation, adaptation, technology development and transfer, capacity-building and preparation of national reports (such as NAMAs, NAPAs, NAPs)
- **Funding windows:** GCF to have **thematic funding windows**, starting out with windows for mitigation and adaptation (additional possible...)
- **Readiness and preparatory support:** GCF with resources for readiness and preparatory activities and technical assistance, including in-country institutional strengthening to meet GCF standards and safeguards (fiduciary as well as environmental and social) → early financing planned
- **Private Sector involvement:** GCF to establish **private sector facility** enabling direct and indirect support for private sector activities → controversial – heart of GCF “Business Model Framework” discourse

GCF – Operational Modalities, II

- **Access modalities:** through accredited national, regional and international **implementing entities**; coordinated on national level through national designated authority
 - **Direct Access:** countries will nominate subnational, national or regional implementing entities for accreditation to receive funding; Board can also consider “enhanced direct access” = national trust funds which would make all funding decisions
 - **International Access:** access to accredited international entities, including UN agencies, MDBs, IFIs and regional institutions
- **Allocation:** balanced allocation between adaptation and mitigation and results-based approach, while taking into account needs of LDCs, SIDS and African States and using minimum allocation floors
- **Approval:** timely disbursement; simplified processes for small-scale activities

GCF – Fiscal Mechanisms

- **Financial inputs:** developed country Parties to the UNFCCC, but also other sources “public and private, including alternative sources” , with Board to decide on “phased approach” – ad-hoc contributions, followed by periodic replenishment process most likely (decision at next Board meeting)
 - BUT: political discussion about “burden-sharing”;
 - no mandatory financial assessments, only voluntary contribution;
 - time-line is politically sensitive: development of business model framework prior to contributing country pledges?
- **Financial Instruments:** grants and concessional lending; other modalities, instruments or facilities to be approved by the Board
- **Fiduciary standards:** Board to agree, adopt and ensure application of best practice fiduciary standards, including in implementing entities → with support for strengthening capacities in recipient countries

GCF – M & E and Accountability Mechanisms

- **Monitoring:** results measurement framework with performance indicators; periodic review of “impact, efficiency and effectiveness”
- **Evaluation:** periodic independent evaluations of the Fund performance to be published by an independent evaluation unit (to report to the Board); the COP might commission additional independent assessments and will receive all evaluation reports → relationship GCF – COP politically contentious
- **Information disclosure policy** to be developed by the Board
- **Independent integrity unit:** work with Secretariat and report to Board to investigate allegations of fraud and corruption
- **Independent redress mechanism:** mechanism to receive complaints from recipient countries GCF-operations affected people, evaluate and report to the Board

GCF – Input, Participation, Safeguards

- **Environmental and social safeguards:** Board to agree on and adopt best practice environmental and social safeguards; will strengthen capacities of recipient countries to meet them → CHALLENGE: application via implementing entities, financial intermediaries, private sector
- **Expert and technical advice:** Board to consider establishing expert or technical advice panels → relationship to UNFCCC is contentious here
- **Observer input:** participation of accredited observers at Board meetings
 - Active Observers: 2 each from CSOs and private sector to participate in Board meetings; coordinate observer input
- **Stakeholder input and participation:** mechanisms to be developed to promote their input “in the design, development and implementation of the strategies and activities to be financed by the Fund”
 - CHALLENGE: ensure early, comprehensive and meaningful country-level input

Further Information:

- Heinrich Böll Stiftung North America: www.boell.org
- Climate Funds Update: www.climatefundsupdate.org
- Information on Climate Finance and the Green Climate Fund, including summary reports of all TC and GCF Board Meetings
<http://www.boell.org/web/140.html>
- Information on Gender and Climate Change/Financing
<http://www.boell.org/web/141.html>

THANK YOU !