



Transitional Committee for the Design of the Green Climate Fund

Summary of the Second Meeting, 12-14 July 2011, Tokyo

The Transitional Committee (TC) tasked with designing the Green Climate Fund (GCF) met for its second meeting on 13-14 July 2011 at the UNU in Tokyo (TC2). The meeting followed the first TC meeting held in Mexico City in April 2011, and a technical workshop held in Bonn in June 2011. The TC is made up of 40 representatives of governments (25 developing and 15 developed countries) and is tasked with presenting operational documents to the UNFCCC COP17 in Durban in December 2011.

Overall Analysis

Many delegates came away from TC2 with a more positive spirit than earlier meetings of the TC, perhaps due to positive impressions about the skilful chairing. The meeting was mainly a tabling of options and members listening to each other's positions, leaving focussed negotiations on key issues to TC3 and TC4.

A wide range of procedural and technical issues (briefly outlined below) were addressed at the meeting. Perhaps most significantly, TC2 set in motion an agreed process for the development of a single framework document or "instrument" for the GCF for adoption in Durban. In its remaining meetings the TC will now focus on developing this short (20-25 page) document. It will also develop a mandate for the future GCF Board to flesh out the finer details of the Fund.

The day immediately before TC2, a workshop was held on lessons learned from existing funds and institutions¹. While the workshop was a useful exchange of information on these funds, there was not a significant transfer of this into discussion at the actual TC meeting, and the funds that presented¹ largely remained as descriptions of existing practices. The GEF and IDA presentations were of particular interest for UNDP and are available at http://unfccc.int/cancun_agreements/green_climate_fund/items/5855.php.

¹ GEF, IDA, Multilateral Fund of the Montreal Protocol, the Climate Investment Funds, and the Global Alliance for Vaccination and Immunisation (GAVI)

Technical Issues

The technical work of the TC is divided in four workstreams, each with two co-facilitators drawn from the TC membership. These workstreams are clustered around different design issues and each reported on their work at TC2 (presentations are available at http://unfccc.int/cancun_agreements/green_climate_fund/items/6038.php) and members then discussed key issues still requiring decision. Key elements include:

- *Workstream I (Objectives and Guiding Principles)*

There is convergence on the **general principles** of the GCF, including that it should contribute to the goals of the Convention, deliver on scaled-up, predictable, new and additional financing to all developing countries, be scalable over time, achieve balance between adaptation and mitigation funding, utilise results-based approaches, and catalyse private finance across different scales. The TC discussed developing a single-sentence objective as well as to further elaborating their understanding of the meaning of “**transformational**”. This will also be dealt with at a technical half-day workshop on 11 September (see timeline below).

A key message from TC2 was that there is some appetite for the GCF to be innovative and state of the art. A number of donor countries noted that this is important for persuading their domestic constituencies to approve contributions to the Fund. However, a potential point of divergence here is on the issue of results and conditionalities for funding.

- *Workstream II (Governance and Institutional Arrangements)*

Governance issues are among the most political among the TC, but also where the most guidance is provided in the Cancun Agreements. However, there are a number of key outstanding issues. For example, many members expressed the need for a quick decision on the **legal status** of the fund. While some members expressed the need for further understanding on the issue, there was no fundamental objection to the need for legal status.

On the selection of Board members, some expressed that the COP should not have any role in the selection process while others see a stronger link.

On the secretariat, there remains a further need to define “independence”, although some members clearly define independent Secretariat as not being affiliated to other organisations. Similarly, many members expressed views on the selection of the permanent trustee, including an open bidding process.

In addition, the **relationship between the GCF and the UNFCCC COP** is highly political (should the GCF be “guided by” the COP? Or be under its “authority”?). The Cancun Agreements provide that the GCF will be “accountable to and function under the guidance of the COP”; however, some G77 members continue to push for stronger linkages.

- *Workstream III (Operational Issues)*

From an implementation perspective, this workstream is “where the rubber hits the road” as one TC member note. Some significant progress has now been made including:

- Broad agreement on receiving multiple forms of financial inputs to the fund through both a replenishment cycle (for governmental inputs) and a system of continuous inputs (for non-governmental inputs).
- General agreement on the use of multiple access modalities, including both a “significantly scaled up” **direct access** modality where a variety of national and regional institutions can directly access GCF finance as well as a multilateral modality using “**a range of different types of institutions across the multilateral system**”. Members also agree that a country should be able to use multiple access modalities simultaneously.
- Agreement that the GCF should use a **programmatic approach** for disbursement, although this may require scaling up over time from individual projects
- The need to support **institutional strengthening** to support direct access and implementation within recipient countries. There is also general convergence that the Fund should provide some financial support for such readiness activities.
- The need to catalyse **private finance** through the Fund’s activities and agreeing on a process for regional consultations on this issue. There was some confusion among members about the precise nature of the role of the private sector. A half-day workshop on this issue will take place on 11 September (see timeline below)

One key issue remains on the table without clear convergence from TC2: the **thematic funding windows** of the GCF. Three broad positions have emerged: the first (held widely among developing countries and some developed countries) is to have two initial windows, one for mitigation and one for adaptation, with the GCF Board able to add further windows later; the second (held by a number of developed countries, particularly the UK) is to have “instrument-based windows” based on grant finance, concessional loan finance, and private sector issues; the third (held by SIDS and LDC representatives) is the need to have specialised funding for vulnerable groups within these wider overarching windows, either through a scaled-up Least Developed Countries Fund (LDCF) under the GCF or a new modality. There does seem to be consensus emerging that the windows whatever their configuration will not be entities by themselves but rather ways to divide funds. From a development perspective, the windows question is of paramount importance in determining which countries are able to access financing in an equitable manner across windows.

- *Workstream IV (Monitoring and Evaluation)*

A number of key issues have risen in importance in workstream IV, notably the use of an **independent evaluation unit** and the need for a clear **results framework**. Members are converging on some key issues for the results framework, including **gender indicators**. There is also progress on the fiduciary standards for the Fund and general agreement that the standards currently used by the GEF and AF are appropriate for the GCF.

Cutting across the four technical workstreams is the question of the **overall institutional model** of the GCF. In particular, this relates to whether the GCF is simply a trust fund or itself has banking functions. The argument for the latter comes from a number of developed countries who want to see the GCF able to receive and directly disburse non-grant finance, rather than working through intermediary banks. This is of relevance for from an implementation perspective, as the nature of implementing agencies/partners is potentially different based on this model.

A second and closely related issue is that of the **relationship between the GCF and existing climate funds**. TC2 discussed the possibility of bringing the LDCF and SCCF into the GCF, and one member (Sweden) also proposed bringing the Adaptation Fund under the GCF as an adaptation window. There are many divergent views on these issues; however, it is noteworthy that they are now under active discussion in open meetings.

TC Procedural Issues

As within the UNFCCC negotiations, the TC process is highly political when it comes to procedural issues. A key issue at TC1 was the election of Chairs and Vice-Chairs. Following TC2 the TC now has three Co-Chairs and two Vice-Chairs². In Tokyo this issue was dealt with relatively quickly and contributed to an improvement in the atmosphere among members. There are also two co-facilitators for each of the four workstreams into which the work of the TC has been divided to date. There was general agreement at the meeting that all officers will have a role in drafting of the document that will be tabled in Durban.

TC2 also agreed a **workplan** for the rest of its work with a clear recognition that the process will result in a single framework document or “GCF Instrument”. This workplan also provides for one final round of submissions from TC members and observer organisations by July 29, 2011 (see below for an outline of this workplan).

At the concluding session, a group of twelve developing countries³ tabled a **draft framework document** for information at the meeting. This takes the form of a submission for discussion, rather than a negotiating text. The draft is branded as “a work in progress” and food for thought as the TC develops the final framework document for COP17. The submission is largely based on existing material from the South Centre and 2008 G77 proposal for the Fund. The tabling of this draft was not, as some had expected, a major derailing of the TC meeting; indeed, its label as an input to discussions rather than negotiating text was seen as useful by other members. The draft gives a good idea how some of the most vocal the G77 participants see the Fund--that is, a vertical fund based on direct access that is under the authority of the UNFCCC COP. While comprehensive, some reaction from other members was that such an approach is perhaps more along the lines of a business-as-usual fund. Noteworthy for UNDP is that the draft does not assign an implementing role to the Fund’s independent secretariat.

² Co-Chairs: HE Trevor Manuel (South Africa), HE Ernesto Cordero (Mexico), HE Kjetil Lund (Norway). Vice-Chairs: Amb. Burhan Gafoor (Singapore), Ewen McDonald (Australia).

³ Argentina, Burkina Faso, China, the Democratic Republic of Congo, Egypt, El Salvador, Gabon, India, Morocco, Nicaragua, Philippines, Saudi Arabia and Zambia

On a more negative note, TC2 spent some significant time discussing the composition of the Technical Support Unit (TSU) that was created by the Cancun Agreements to support the TC. Nicaragua, supported by a number of other developing countries, tabled a formal submission concerning the involvement—and alleged conflict of interest—of the World Bank Group in the TSU. This continues negativity from TC1 and will likely represent a continual theme in future meetings. As yet, however, this issue has remained confined to procedural matters and not been raised in relation to the potential role of the World Bank within the future operations of the GCF.

Further Meetings before Durban

There will be two further meetings of the TC, plus one additional technical workshop. The workplan is as follows:

- Final submissions from TC members and observer organisations due July 29
- Draft framework document as well as technical documents circulated August 28
- Second technical workshop, 11 September 2011 in Geneva (half day on transformational change and half day on private sector)
- TC3, 12-13 September 2011 in Geneva
- Revised draft framework document circulated 4/5 October
- TC4, 19-21 October 2011 in Cape Town

In addition to this formal schedule, a number of **regional consultations** are planned by individual TC members and organisations. These mainly focus on the role of the private sector, although also encompass broader issues on the GCF. Two meetings are so far planned:

- 29-31 August in Midrand, South Africa. Organisers: DBSA, WRI, and AfD
- 1-3 September in Singapore. Organisers: Govts. of Japan and Australia with ADB