



Transitional Committee for the Design of the Green Climate Fund

Summary of the Fourth Meeting, 16-18 October 2011, Cape Town

The Transitional Committee (TC) tasked with designing the Green Climate Fund (GCF) met for its fourth and final meeting on 16-18 October 2011 in Cape Town (TC4). The meeting followed three initial meetings of the TC already held in 2011 as well as technical workshops. The TC is made up of 40 representatives of governments (25 developing and 15 developed countries) and is tasked with presenting operational documents on the GCF to the UNFCCC COP17 in Durban in December 2011.

1. Meeting Outcome

Governments arrived in Cape Town with a tall order: to forge consensus on both technical and political elements of the GCF. While there was some consensus on technical issues, TC4 did not deliver at a political level. Under its mandate from Cancun, the TC had been working toward a 5-10 page governing instrument for the GCF, accompanied by a list of recommendations for setting up the Fund, which could be adopted by consensus among its members and then forwarded to COP17 for adoption. While the meeting did produce this document—with very few areas of divergence at the technical level at the very end—TC4 did not adopt the document by consensus. Instead, the Committee's report states that it considered the document and forwards it to the COP for consideration and adoption. In essence this means that COP17 will have to debate the GCF governing instrument without the comfort of knowing it was endorsed by the TC.

This political failure was largely a result of opposition from the USA and Saudi Arabia. In the final hours of TC4, the Co-Chairs presented the document to the Committee for consideration. The vast majority of members (all but two) reflected that the proposal was a solid compromise document and a good foundation for the operationalisation of the GCF. However, the USA voiced concerns about the close relationship between the GCF and the COP proposed in the Co-Chairs' document, as well as that the GCF needed to be part of a "balanced outcome" in Durban and therefore not wanting to prejudge the COP negotiations by endorsing it in Cape Town. Essentially, this indicates that the USA wishes to retain the GCF as a bargaining chip in Durban, rather than pre-agreeing and endorsing it at TC4. Many other TC members were disappointed by this outcome and voiced so on the floor.

As well as the governing instrument of the GCF, in its report to COP17 the TC also presented a list of recommendations for how to operationalise the GCF (e.g. process for electing the Board, a transitional secretariat). Like the governing instrument itself, these were considered but not adopted.

On one hand, the outcome from TC4 is positive: a single, clean document is now in the hands of the COP. However, on the other—and more importantly—the COP is now left to consider a document that does not enjoy consensus and that will certainly become part of the larger and more highly complex UNFCCC negotiations process.

2. Implications of TC4

COP17

The failure of the TC to adopt its report by consensus poses major questions for the likelihood of a positive outcome at COP17 for a number of reasons. First, the substantive concerns of the US—particularly on the close relationship between the GCF and the UNFCCC COP—will still be on the table in Durban and therefore remain an issue. Second, the GCF has always been branded by developed countries as part of a “balanced package” of outcomes from COP16 and COP17—that is, there will only be agreement on the GCF if there is progress in other areas of the climate change negotiations, such as mitigation in developing countries. Similarly, for developing countries, there can only be progress on mitigation once the GCF is agreed. COP17 therefore risks becoming stuck in a “catch 22” situation. Finally, the outcome of the TC underscores the urgent need for rapidly scaled-up consultations among governments, under the leadership of the South African Presidency. Some TC members cite lack of adequate high-level consultation as a reason for the lack of consensus in Cape Town at the political level. With only weeks remaining before delegations travel to Durban this is an ambitious task. While Durban undoubtedly represents an opportunity to build a political consensus and adopt the GCF governing instrument, as well as make progress on other areas of the negotiations, strong leadership and political deal-making will be required.

Climate Finance Landscape

Events at TC4 in Cape Town also have implications for the wider climate finance landscape. The GCF has been heralded by developing countries, and indeed many developed countries, as the centrepiece of the post-2012 international climate finance architecture. COP16 agreed, for example, that the majority of new multilateral funding for adaptation would flow through the GCF. However, without a clear path forward from TC4, there is a risk that the operationalisation of the Fund will be delayed if major political progress is not made in Durban. Without agreement in Durban it would be difficult to form a Board for the Fund, for example.

As a result finance that would have perhaps flowed through the GCF over the next budget cycle may now continue to flow through existing channels, such as bilateral agencies, the Climate Investment Funds of the multilateral development banks, the Adaptation Fund, and the funds managed by the GEF. Such channels may continue to be the major sources of finance at the country level for longer than expected at the outset of the TC process. Unfortunately this risks

that the critical areas of capacity development, readiness, and preparatory support—which are noted as a central feature in the GCF governing instrument—may continue to suffer from lack of resources over the next two years.

3. Details of the Document forwarded to COP17

Formally, the product of the TC's work in 2011 was a report containing a procedural summary of the year's work plus recommendations for next steps, with an annex containing the draft governing instruments of the GCF. While the report is largely procedural in nature, the annex covers the substantive design elements of the Fund. It contains objectives, guiding principles, governance arrangements, operational modalities, and monitoring and evaluation provisions.

Key elements of the draft governing instrument:

- 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 by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change”... “The Fund will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyze climate finance, both public and private, and at international and national levels. The Fund will pursue a country-driven approach, and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders”.
- Relationship to the UNFCCC COP and legal status: The GCF will operate under the guidance and authority of the COP, submitting annual reports to it and taking action based on guidance received. The Fund will have its own legal personality and status.
- Governance: The GCF will be governed and managed by a Board comprised of 12 developed and 12 developing country members, and supported by a fully independent secretariat based in a host country. The secretariat would support the Board and have an Executive Director. The World Bank will serve as interim trustee.
- Operational Modalities: The GCF will receive financial inputs from developed countries and other sources, including alternative sources. Finance will be disbursed through two thematic funding windows (mitigation and adaptation), as well as a private sector facility that will provide tailored support to engaging the private sector particularly local actors in developing countries. Capacity development, technology development and transfer, and readiness and preparatory activities will all be activities within the Fund and receive adequate resources.

Countries will be able to access the Fund accredited through entities of their choice, including national entities (“direct access”) and international entities (including the UN agencies, MDBs, IFIs, and regional institutions). The Board is also given the mandate to

explore enhanced direct access through funding entities. Finance will be disbursed in a variety of forms, including grants and concessional loans, although the GCF will adopt a risk-sharing policy with implementing entities to minimise its own risk (i.e. not undertake banking risks). The Board will develop an allocation formula, although this will include minimum floors for LDCs, SIDS, and Africa.

The Board will also explore options for complementarity with other funds.

- Monitoring, evaluation, and results: The Board will agree on and adopt fiduciary standards and environmental and social safeguards to be applied to all activities. The Fund will also have an evaluation unit. Involvement of stakeholders will be an important part of this process.