DELHI VISION STATEMENT: THE GREEN CLIMATE FUND

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DISCUSSION DRAFT: Climate Change Finance Unit, DEA, Ministry of Finance, India. This paper also draws on the discussions at a Consultation Meeting held in New Delhi on 15-16 February, 2013, where several distinguished participants joined and consultations were also held earlier with the private sector and civil society. Our thanks to all of them for their contributions.

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1/4/2013

DELHI VISION STATEMENT

PREAMBLE

To the Delhi Vision Statement

The Preamble provides the main cross-cutting issues on which the Vision Statement papers on the Vision, Financing and Instruments and Outcomes of the GCF are based on.

The UNFCCC Green Climate Fund (GCF)---Objectives, Finances, Instruments and Outcomes

Preamble: At the second Board Meeting of the GCF (held in 18-20 October 2012, in Songdo, Republic of Korea), the Board Member for India (Dipak Dasgupta) offered to prepare a "Vision Statement" to help frame for the Board and stakeholders some key issues and options in operationalising the GCF. The enclosed set of three papers provides such a ***Delhi Vision Statement for Enhanced Operationalization of the GCF***. In the coming weeks, we plan to hold more consultations with all Board Members and stakeholders, to include additional views.

A word on the process. India convened a Consultation Meeting of a small group of Board Members, Alternates and Advisers and stakeholders in New Delhi between February 15-16, 2013 to help prepare such a Vision Statement. The meeting was co-hosted with the UNDP, India. Given the urgency of the task, it was felt that a small-group meeting would be most effective:

- Six Board Members, Alternates and/or their representatives participated from India, Egypt, the Philippines, Saudi Arabia, Sweden and Zambia.
- In-depth parallel consultations were held with the private sector with domestic and global experience (financial institutions, energy companies, and mid-sized firms and industries).
- Extensive parallel consultations were held with representatives of civil society organizations operating in India and South Asia, and networked with global civil society organizations.
- Special sessions were addressed by Mr. J. M Mauskar, co-chair of the Ad-hoc Working Group on Durban Platform for Enhanced Action (ADP), established by CoP 17; Dr. R. K. Pachauri, Chair of the Inter-Governmental Panel on Climate Change (IPCC), and by Dr. Raghuram Rajan, Chief Economic Adviser, Government of India (and Co-Chair of the G-20 Framework Group), as well as other academic and knowledge organizations.
- The Consultation Meeting was facilitated by a two-member informal, 'wise counsel' panel consisting of: Prodipto Ghosh (Member of the Prime Minister's Council on Climate Change, India), and Martin Khor (Executive Director of the South Centre, Geneva).

A number of participants thus contributed to the process, and our sincere thanks to all of them. A draft of the Vision Statement was shared with key participants, and their comments are reflected to the extent possible in the document. However, the responsibility for the preparation of the Vision Statement remains that of the India Member of the GCF Board.

Three relatively short papers, with Annexes, comprise the Delhi Vision Statement for Enhanced Operationalization of the GCF, which are attached: (i) An Overall Vision; (ii) Financing the GCF; and (iii) Instruments and Outcomes. In reading these three papers, it is useful to start up-front with four strategic issues on which there was a very strong consensus across all participants and stakeholders:

(1) *Urgency of Actions to address Climate Change and Its Financing*: When climate change and similar longer-term catastrophic events are relatively distant events in the horizon, difficult actions and decisions in a globally cooperative effort may be often postponed or deferred---as the academic literature suggests. This is all the more so when the global economic situation is confronted simultaneously by many other challenges and public finances everywhere are under stress. However, the sense of urgency with which citizens worldwide now expect their governments and cooperative public policy to respond, especially over the past few years, has changed. Extreme climatic events worldwide have soared. Loss and damages from a surge in climatic disasters are outpacing the ability of smaller local governments, private sector and the worldwide insurance industry to handle; simultaneously, the scale of human catastrophe is rising. This is putting to rest doubts that may have earlier existed in the public mind that anthropogenic climate change is a rapidly unfolding global catastrophe that will leave no country or community unaffected---which augers better for more decisive global action sooner[2]. Recent examples: cyclones in the Philippines and Bangladesh; heat wave, drought, and storm surges in the USA; Russian heat wave; Australian heat wave and drought; European droughts; floods and droughts in Sub-Saharan Africa; cyclones in the Pacific and Caribbean islands combined with rising sea-levels; and others. The attached Annex points to these impacts, and rising public concerns. It is especially worth noting that despite public policy preoccupation with the global financial crisis since October 2008, climate change issues in the media, reflecting public opinion, have now (since June, 2012) overtaken concerns with financial crisis; and in a more durable longer-term perspective, citations to ‘climate change’ and ‘disasters’ in the universe of published books globally have overtaken those related to ‘recession’ and ‘famines’ since 2006.

[2] Milinski Manfred, TorstenRohl and JocchemMarotzke, 2011. “Cooperative Interaction of rich and poor can be catalyzed by intermediate climate targets”, Climate Change Letters, 15th October (Max Planck Institute for Evolutionary Biology, Plon).

As a consequence, the Board of the Green Climate Fund will be now expected to address its "operational readiness", especially financing of climate change mitigation and adaptation actions in developing countries on a scale and significance commensurate with its mandate and rising climatic disasters, with an equal sense of urgency and cooperation---and not to defer decisions based on possible debates and divides about the relative roles of the public vis-à-vis the private sectors, the lack of public finances, the lack of a sufficient domestic 'political constituency', or indeed, the lack of sufficient commitment in all countries to the over-arching goals of dealing swiftly with climate change actions and its financing. That time of 'divides' is, however, past. The GCF Board faces an urgency of dealing with its mandate more aggressively than before, and has a window of no more than a year or so till 2015 to start credible and meaningful actions and decisions. In their absence, recent 'game-theoretic' papers suggest that globally cooperative efforts on climate change may stall[3]. We face a fork in the road: either we go further down the path of the 'tragedy of the commons' with varying degrees of commitment and 'free-riding'[4]; or, we are able to sense the urgency of the situation and global public concerns and respond adequately.

(2) *Accountability and Transparency*: The Green Climate Fund, faced with the task of responding quickly and effectively to a rapidly unfolding challenge, must be equally publicly accountable to be effective. The GCF was created under the Provisions of the UN Framework Convention on Climate Change (UNFCCC). Its mandate is clearly therefore, to address, and realize in substantial measure, the Ultimate Objectives of the Convention---scaled-up mitigation efforts and adaptation actions. The GCFs' actions must be rooted in the Convention's Principles and Provisions. It must function with exemplary transparency and accountability to the Conference of Parties (CoP), a wide range of stakeholders, including the private sector and civil society, and ultimately, the people of the world. What this means operationally is opening up the GCF decisions as much and as far as possible to external public oversight, information and even participation. A smaller Board and a more equal governance structure (unlike other organizations created decades earlier after the Second World War) were meant to create more nimble and flexible decision-making, and equal representation of developing countries'

[3] Wood, Peter, 2010. Climate Change and Game Theory: A Mathematical Survey, Crawford School, The Australian National University, Centre for Climate Economics & Policy.

[4]The *free rider problem* is when individuals andnations consume more than their fair share of a resource, or shoulder less than a fair share of its costs. See also Nordhaus, William (2005). "Paul Samuelson and Global Public Goods", A Commemorative Essay, Yale University.

needs. If we fail to meet either, because of relatively 'closed' procedures, or decisions that are perceived, rightly or wrongly, to be taken 'behind the scenes' by a set of fewer and traditionally influential countries, then the GCF will lose its 'transformational' opportunities under its mandate established in the Governing Instrument.

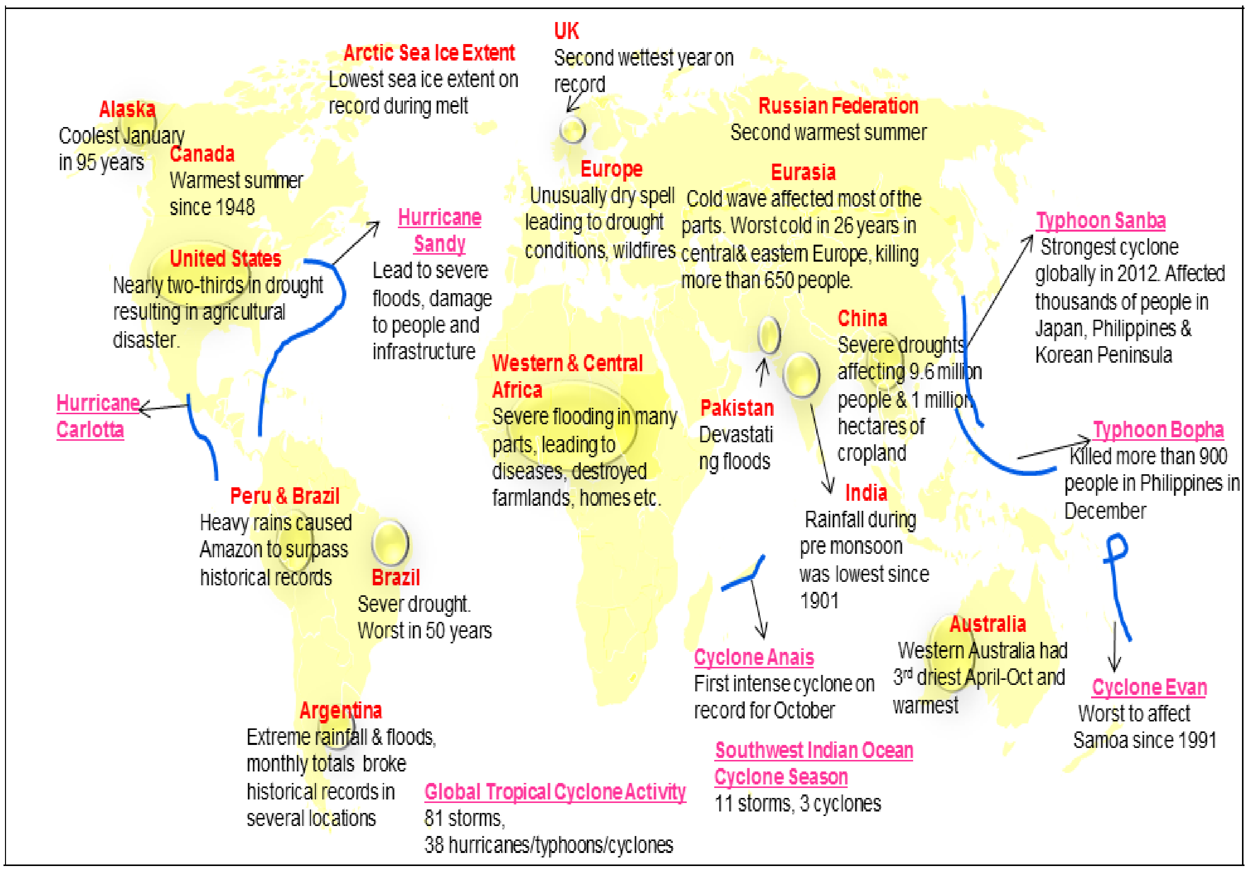
(3) *Scale of Effort*: The GCF is designed to be the only or main permanent financial institution established under the Convention, where developed countries are expected to contribute under the Convention sufficient financial resources, technology transfer, and capacity building in developing countries for climate change mitigation and adaptation. The scale of resources to be provided immediately through the GCF to developing countries must be sufficient to meet the scale of demands and its urgency. The existing architecture of climate change finance—through a patchwork of bilateral, multilateral and special agencies, several with 'sunset' or 'interim' clauses---is currently not able to meet these needs. In 2012, the amount of public finances actually flowing across borders (*disbursed*) from a myriad of such often 'temporary' funding agency sources, and constrained by other source national and 'multilateral' objectives, was only some US$1.2-1.5 billion, which contrasts with the ambition to provide resources of US$100 billion a year by 2020[5]. At minimum, the quantity of financial resources to be channeled through the GCF by developed source countries in the next 3 years (2014-2016) needs to rapidly rise in scale to some US$30 billion annually, to provide a predictable and stable source of finance that is credible to public and private participants. The alternative proposal---to start small---has the problem of not signaling the scale of effort required to persuade countries to act faster. Its unprecedented dimensions and complexity will also require the GCF Board to innovate–in terms of options for implementation, access to technologies, work with destination country level policies, leverage new sources of financing and 'crowd-in' such financing and delivery of services for better outcomes.

(4) *Country Ownership and Initiative*: The greatest source of effectiveness of GCF supported activities, and leveraging and 'crowding-in' of private and public resources lies in full and devolved country ownership of GCF activities. The activities of the GCF must be conceptualized, initiated, and owned by the

[5] Data reported by Climate Funds Update, 2012. http://www.climatefundsupdate.org/data, accessed 5 March, 2013. While 'Fast Start' pledges are self-reported to have been substantial and exceeded the commitment of US$30 billion between 2010-2012, reports and analyses suggest that what is being 'counted' is often done differently, what is 'new and additional' is unclear, and the data evidently does not provide much confidence about what has been actually disbursed and where it is going (Source: Smita Nakhooda, Overseas Development Institute, reported op.cit.)

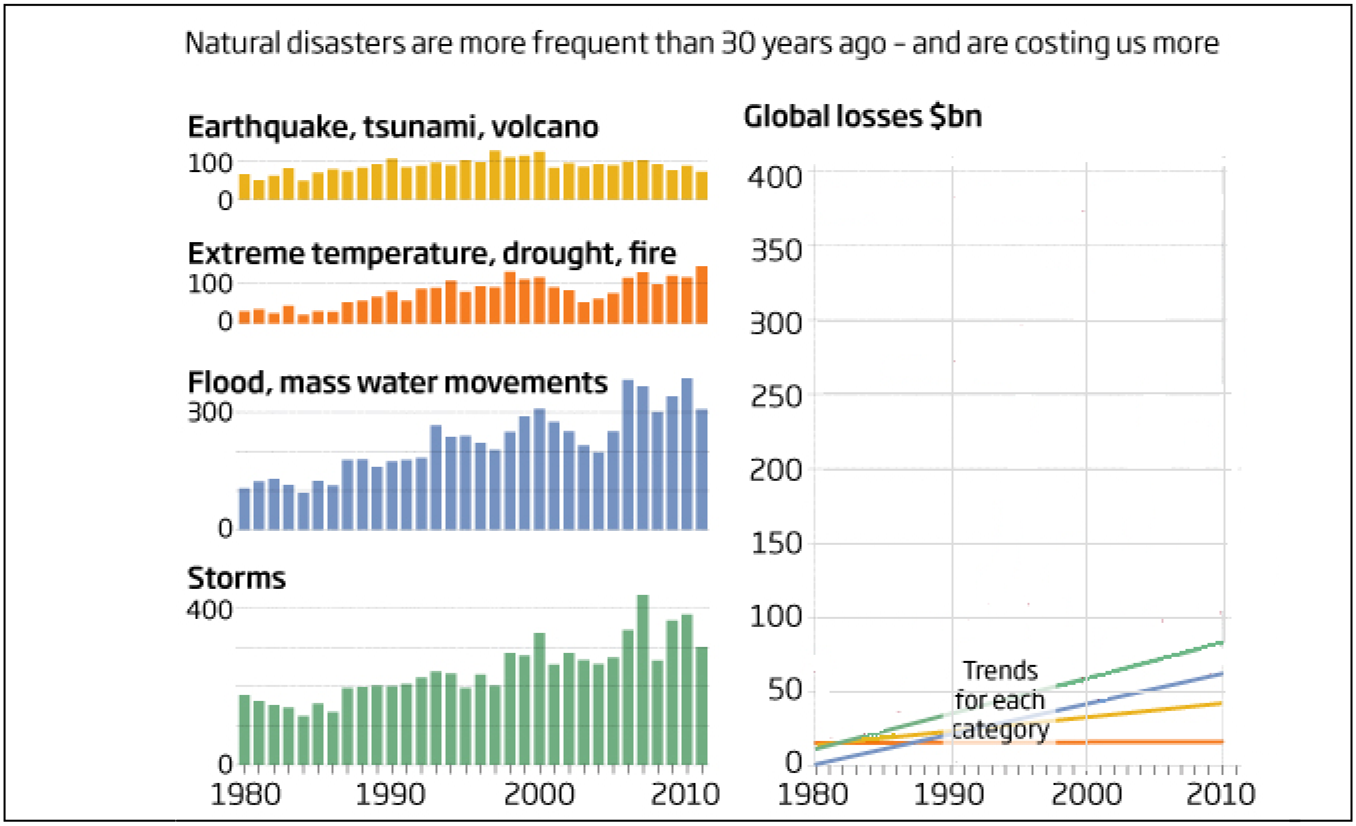
developing countries themselves. These must respond to the initiatives and priorities of local communities, women, the youth, and indigenous peoples. If there is one crucial lesson that we have learnt from other successful global funds to deal with global public goods, and from the vast amounts of ongoing academic research on community based efforts, it is this: financing and design objectives may be global, but effective implementation and ownership must be local[6]. The activities should thus synergize with and support, and not impede, the realization of local, national aspirations and understanding of key issues and challenge.

Global Climate Disasters and Extreme Events in 2012



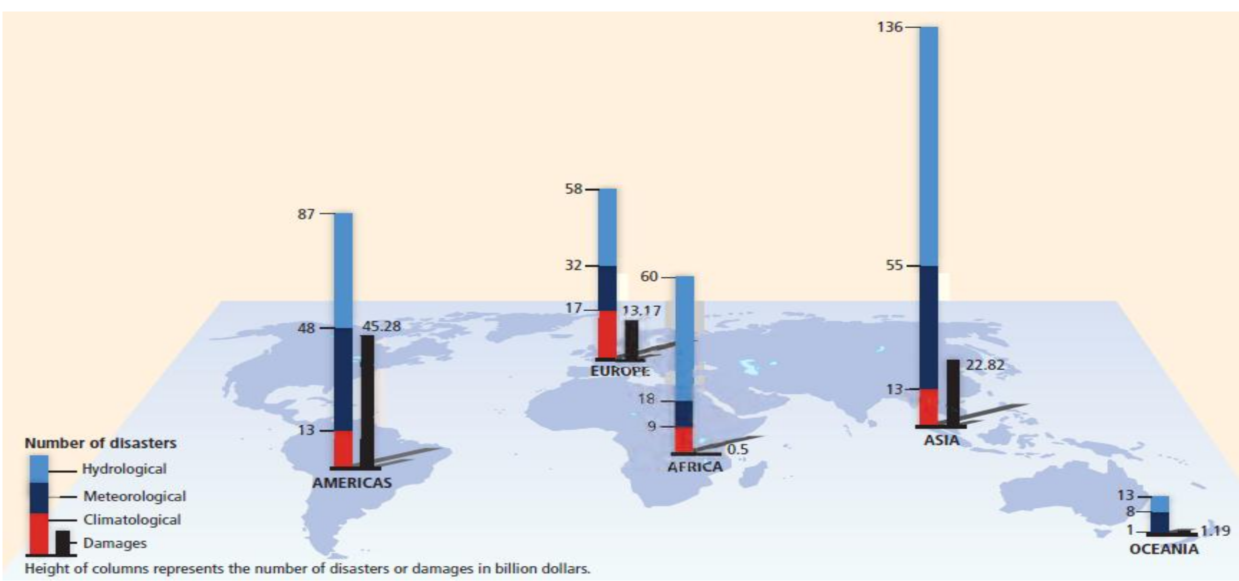
Data Source: National Oceanic & Atmospheric Administration

[6]Ostrom, Elinor (1990). *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press.ISBN 0-521-40599-8.

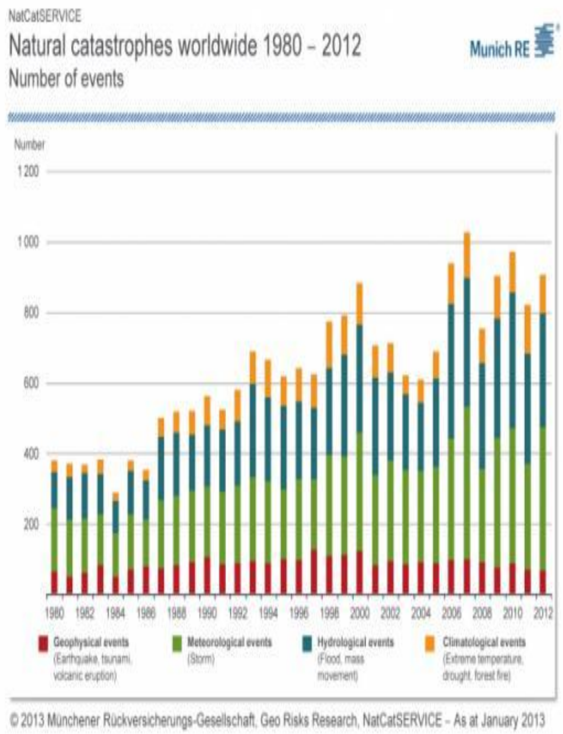


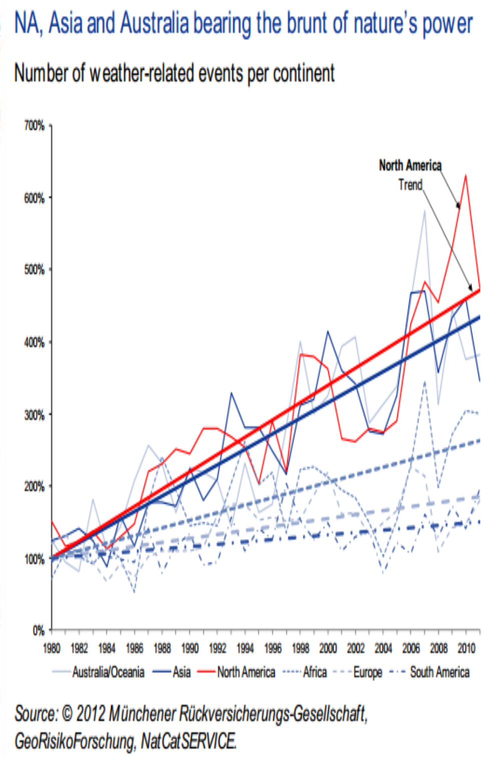
Source: New Scientist, 16th January, 2012

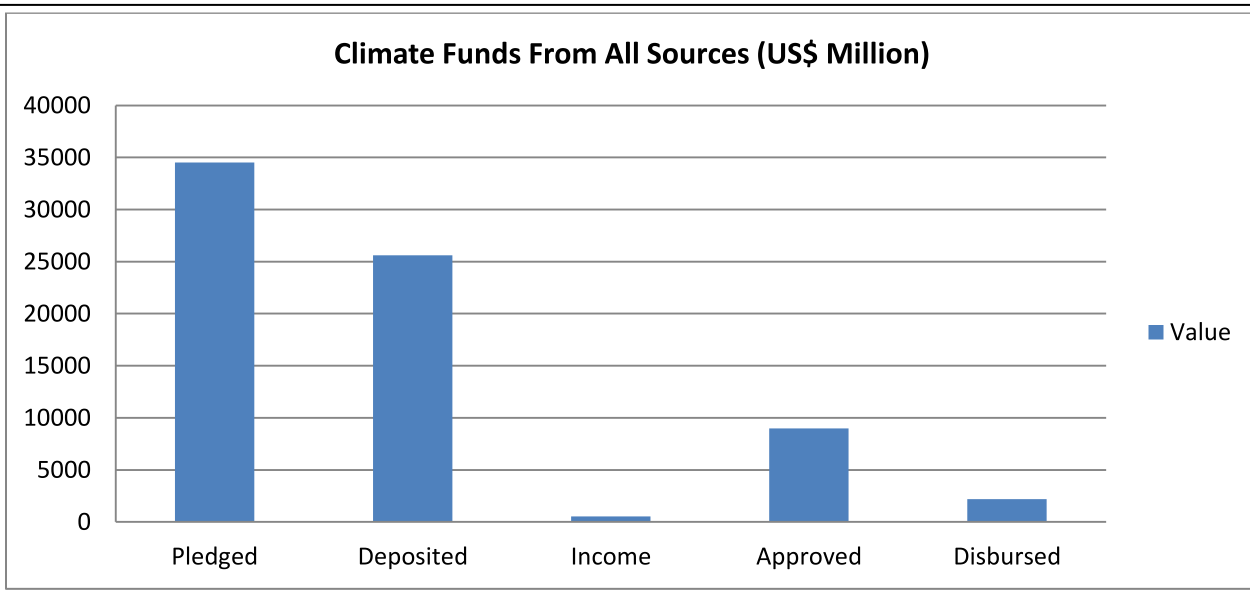
Weather and climate-related disasters are more frequent and affect many more in developing countries, whereas monetary damages are higest in developed countries (2000-2008)



Source: Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation, IPCC 2012



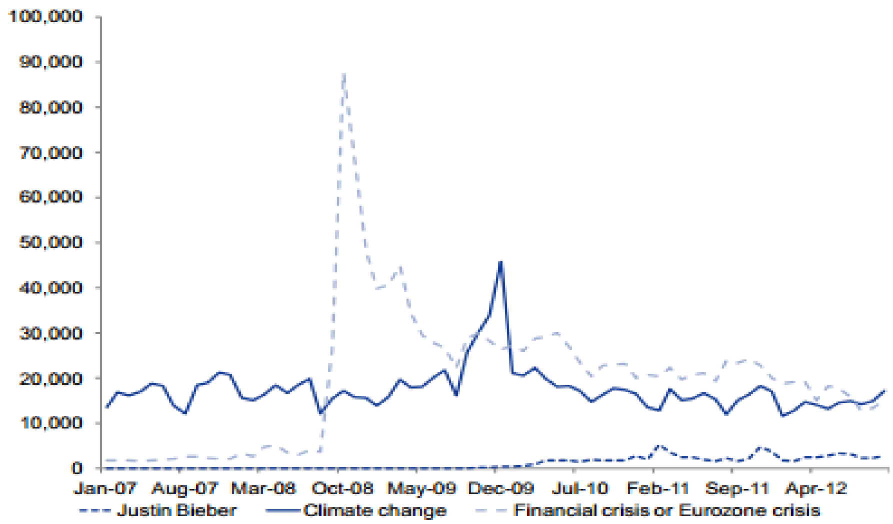




Source: Climate Funds Update, Status of Funds. http://www.climatefundsupdate.org/data accessed 5 March, 2013.

Climate change is moving up the social agenda

Number of news articles referencing climate change/financial or Eurozone crisis/Justin Bieber



Source: Factiva, Goldman Sachs Research.

I .AN OVERALL VISION FOR THE GCF

I. An Overall Vision

The Green Climate Fund: More than 20 years after the first proposals were put on the table for a dedicated fund for the UNFCCC, the Green Climate Fund was finally launched in Durban in 2011.

Objective is clear: "to support projects, programmes, policies and other activities in developing countries"

Nature of the GCF is also clear: established by the COP, designated as an operating entity of the financial mechanism of the Convention, under Article 11 of the Convention.

- guided by and accountable to the COP;
- guidance to consist of policies, programme priorities and eligibility criteria.
- Provision of financial resources on a grant or concessional basis, including for the transfer of technology.

Most of the key elements of an overall vision are thus already present in articles of the Convention adopted in 1992 and agreed to by 195 Parties, recent COP decisions and the Governing Instrument. We add to these provisions in terms of two basic questions: (1) Why do we need the GCF? (ii) What is it expected to achieve?

(1) Why do we need the GCF?

Given a limited space for further global greenhouse emissions (GHGs) from both developed and developing countries, the goal of stabilization of atmospheric concentrations to limit future global warming will require two simultaneous shifts: (i) dramatically lower emissions in developed countries, and (ii) shift to more climate-resilient path of growth and reduced future emissions in developing countries. One cannot do without the other.

As far as the second shift is concerned, the reason that financing from developed source countries to destination developing countries is expected to play a critical role is straight-forward: the current consumption of available 'carbon-space' by developed countries is larger than on an equitably-shared basis (e.g., per capita emissions). Financing from source countries is therefore a means to offset the costs to developing countries to encourage their shift to a lower-carbon, climate-resilient path of growth and development. There is no other possible way out and this is essentially what is reflected in the formal agreements under the Convention.

For the GCF, its ability (or not) to deliver on the financing---new, additional, predictable, full incremental cost, taking into account over-riding development priorities of developing countries---is thus central and inextricably linked to the ultimate objective of the Convention itself. Absent such a financing mechanism in the GCF, the chances of success are limited.

Box 1: Recalling the Key Articles of the Convention

Article 2 of the Convention states the overall objective. "The ultimate objective of the Convention and any related legal instruments that the Conference of the Parties may adopt is to achieve, in accordance with the relevant provisions of the Convention, stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner."

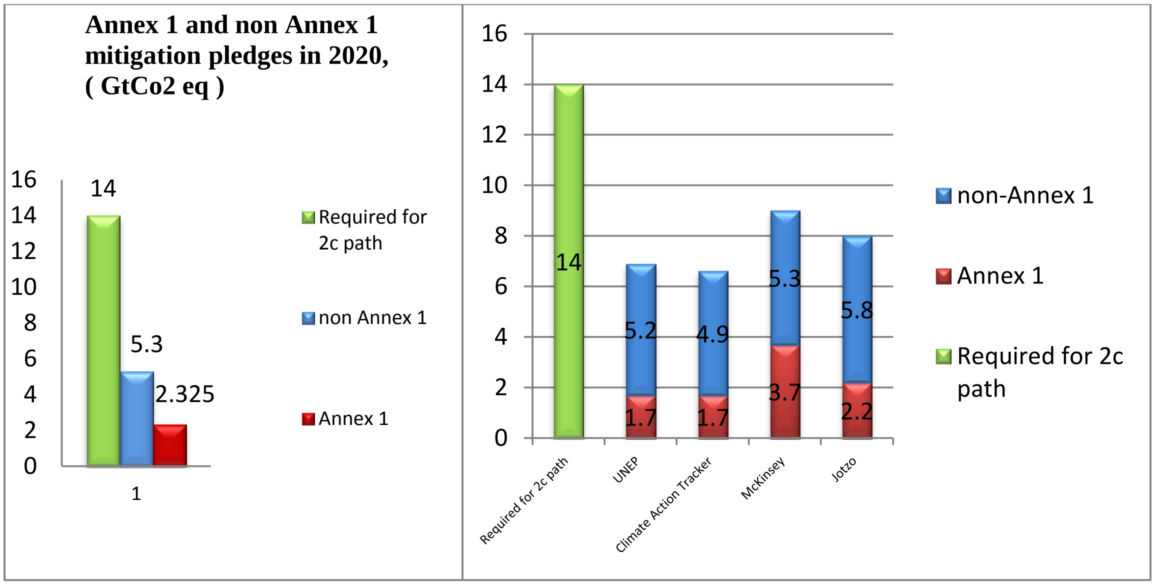
Article 4.3 of the Convention spells out the financing objectives. "The developed country Parties and other Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1 (*national information*). They shall also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by paragraph 1 of this Article and that are agreed between a developing country Party and the international entity or entities referred to in Article 11, in accordance with that Article. The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties."

Article 4.7 lays out the link between the two objectives above: "The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties."

Article 11 deals with the envisaged financial mechanism under the Convention, including provision of resources on a grant or concessional basis, operating under the guidance of and accountability to the COP, balanced representation, and interim arrangements to be improved upon over time.

There is an additional aspect. It turns out that developing countries as a group are already doing more than the developed countries themselves on mitigation commitments. Four separate studies suggest that the combined mitigation pledges of developing countries amount to more than twice the mitigation pledges of developed countries (Stockholm Environment Institute, June 2011).

Figure 1: Developing Countries Mitigation Pledges Outpace Developed Ones

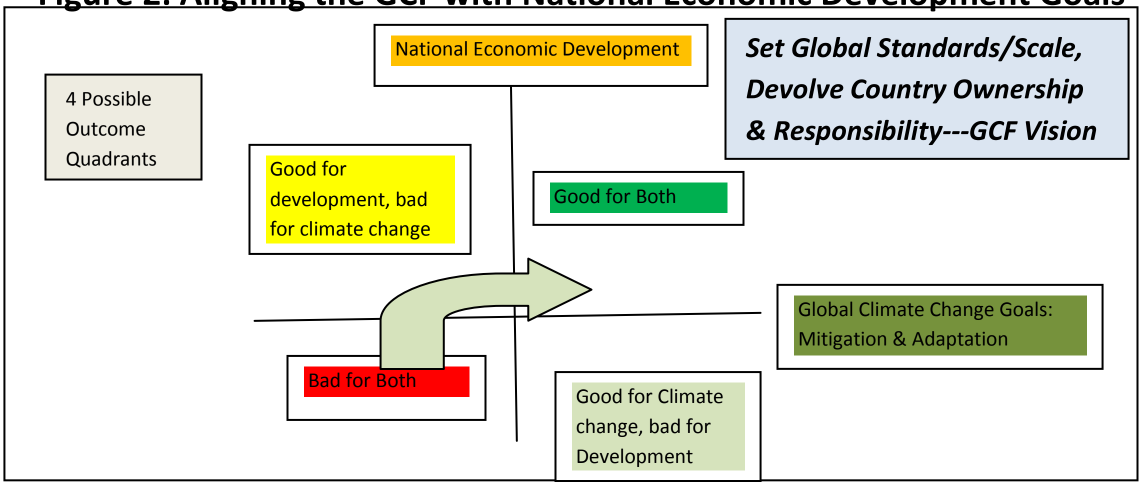


Source: Sivan Kartha and Peter Erickson, 2011. Comparison of Annex 1 and non-Annex 1 pledges under the Cancun Agreements, Stockholm Environment Institute. Note: The averages were done for high pledge scenarios.

Developing countries will also tend to do more with national financing and policies that are in their national interest---e.g., where a more climate-resilient growth path is also consistent with their development goals. For example, if mitigation activities in clean energy also result in greater domestic energy security, and less pollution loads with better health outcomes, or greater adaptation spending to protect citizens. Sometimes termed 'co-benefits', however, the benefits are often longer-term but costs large immediately, in contrast to the case in OECD countries[7]. Nevertheless, the fact is that developing countries will often apply development policies and investments that also generate global benefits for mitigation. To that extent, the best course is to align GCF activities closely with national development priorities.

[7]Co-benefits of Climate Policy, Netherlands Environment Assessment Agency, Background Study for the OECD, 2009.NavrozDubash, D. Raghunandan, GirishSant and Ashok Sreenivas, 2012. "A Climate Change Policy for India: Exploring a Co-Benefits Based Approach", CPR Working Paper.

Figure 2: Aligning the GCF with National Economic Development Goals



In sum, why we need the GCF is to ensure the success of a globally cooperative effort towards a safer planet, and to ensure that developing countries continue to be on a path of a low-carbon, climate-resilient growth to which they have already pledged in one way or another, and where development remains an overriding priority.

To quote from a speech by the Prime Minister of India at the Rio+ summit in 2012: "*Many countries could do more if additional finance and technology were available. Unfortunately, there is not enough evidence of support from the industrialized countries in these areas*."

(2) What is it Expected to Achieve?

The objectives and principles are in the Governing Instrument (GI) of GCF. Two elements are especially important: (i) make a 'significant and ambitious' contribution to global efforts to combat climate change; and (ii) seek a 'balance' between adaptation and mitigation.

Box 2: Objectives and Principles of the GCF in the Governing Instrument

- Significant and ambitious contribution to global efforts to combat climate change.
- Promote paradigm shift towards low-emission and climate-resilient development pathways : (a) limit or reduce their GHG emissions; (b) adapt to impacts; (c) needs of countries particularly vulnerable.
- The Fund will be:
- Guided by the principles and provisions of the Convention.
- Operate transparently and accountably, guided by efficiency and effectiveness.
- Key role in new, additional, adequate and predictable financial resources to developing countries
- Catalyse climate finance, public and private, and at the international and national levels.
- Country-driven, involve institutions and stakeholders.
- Scalable and flexible; continuously learning, monitoring and evaluation.
- Seek balance between adaptation and mitigation

There is no easy analytical way to define what is ‘significant and ambitious’. But it may be useful to think of it as a scale and predictability issue (as foreshadowed in Art. 4.3 of the Convention). If financing resources are too small, there is not much incentive for developing destination countries to take it seriously in terms of aligning their policies and programs; nor for developed source countries to justify their contributions. Predictability is another complicating issue. If there is no predictability, even if the scale is broadly agreed, there is no incentive for developing destination countries to commit to longer-term shifts in investments and policies; conversely, committing to predictable financing for developed source countries is likely to involve a time element risk.

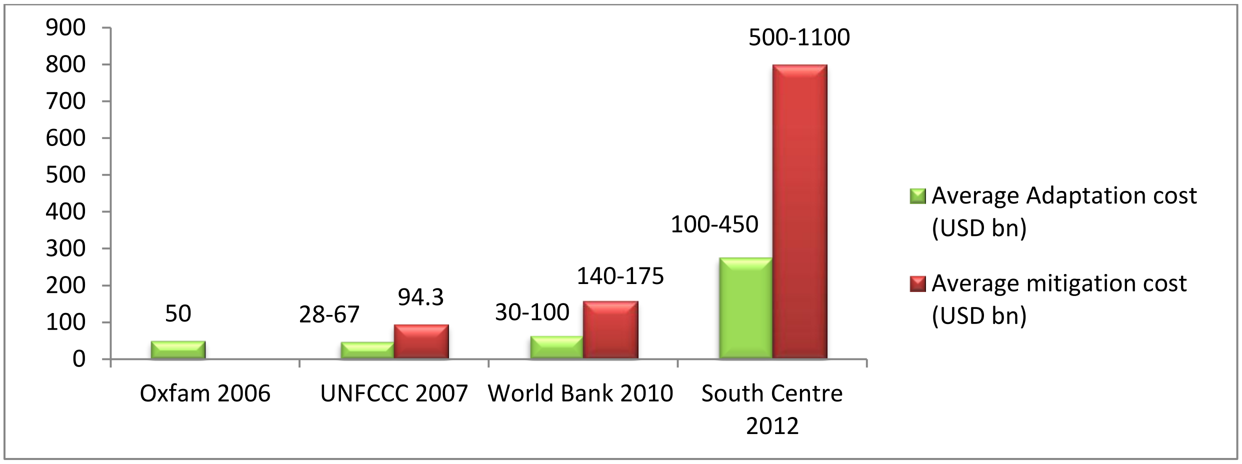
These issues generally apply to all global public goods, and have sometimes been termed as the ‘Westphalian’ dilemma. The reason is that it is very difficult to persuade individual sovereign countries to commit, in advance, to such binding actions given the constraints of their domestic constituencies. In the preamble, we have discussed why this is such a crucial barrier. The only realistic way out may be to commit a scale and predictability of financing of a sufficient size up-front. Deferring and delaying such commitments, while it might be justified for many other reasons, runs a very large risk therefore of never getting off the ground. If the scale and predictability is not present from the start, then the venture will fail. Economists and lawyers looking at these problems[8] both agree that a ‘great bane of international cooperation is the much-scorned free rider’. We need to find incentives to ‘deter individual countries to remain on the sidelines’ (Mayer, May 2012). Up-front financial contributions are one such tool. It appears to have worked most recently in the case of the Montreal Protocol.

The other complicating issue is the balance between adaptation and mitigation. The topic comes up repeatedly. The interests of source developed countries are usually towards mitigation, and that of developing countries towards adaptation. How should one decide a right balance? One approach is a ‘meta-approach’, to estimate some global size of mitigation and adaption needs in developing countries. As climatic disasters and costs of mitigation are rising, these have increased in the past few years. Nevertheless, the results over time suggest that the balance between mitigation and adaptation costs is probably in the proportion of 70:30. But this is only an aggregate number. Another approach is to focus attention to the needs of the most vulnerable

[8] William D. Nordhaus, 2005. Paul Samuelson and Global Public Goods, a commemorative essay, Yale. Timothy L. Mayer, 2012. Global Public Goods, Governance Risk, and International Energy, University of Georgia School of Law, Duke Journal of Comparative & International Law, (forthcoming). Eric Brousseau and Tom Dedeurwaerdere, 2012. Global Public Goods and The Participatory Governance Challenge, in Brousseau, Dedeurwaerdere and Siebenhuner ed. Reflexive Governance and Global Public Goods, Cambridge (MA).

countries, such as small islands and low-income countries (leading to the dedicated Adaptation Fund, for example).

Figure 3: Climbing Adaptation and Mitigation Costs



Sources: Oxfam (2006); UNFCCC (2007); Montes, South Centre (2012). Note: Numbers are for different time periods, 2010-2015 are usually the lower ones, and estimates for 2030 the high end ones. They are usually annual averages.

A third way is a 'grounds-up' approach. If a devolved decision-making approach is adopted, as is argued throughout this Vision Statement, then the appropriate balance between mitigation and adaptation will depend on each country's circumstances and needs, and then adding-up. This will of course leave the question of deciding the issue of how to allocate a given pool of global financial resources between countries---which the GCF Board will also need to decide, probably using a combination of a (i) needs- and capacity based allocation criteria, with a probable bias towards small island and low-income countries; and (ii) a results and effectiveness based criteria for global goals, which will probably bias results towards GDP and population weights. None of this is likely to be hugely divisive, provided some sensible 'rules of thumb' for collective decision-making are applied, and provided the allocation criteria are transparent.

II. FINANCING THE GCF

DISCUSSION DRAFT: Climate Change Finance Unit, DEA, Ministry of Finance, India. This paper also draws on the discussions at a Consultation Meeting held in New Delhi on 15-16 February, 2013, where several distinguished participants joined and consultations were also held earlier with the private sector and civil society. Our thanks to all of them for their contributions.

II. Financing the GCF

Introduction

We start first with the existing architecture of global climate finance**,** and why the GCF going forward has to be designed more carefully to avoid fragmentation. We then indicate the possible sources to raising a large enough scale of financing for the GCF as crucial. Finally, we turn to questions about private sector financing, why this has to remain anchored within national programs and not a function of direct financing by the GCF itself.

A. The Existing Architecture on Climate Finance: Problems

Currently, there is a large fragmentation of sources of finance at the global level for financing climate change activities. This has a distortionary effect in directing the resources/funds where they are needed the most, and simultaneously gives rise to the problems of overlapping, confusion and duplication of efforts in allocating resources. Additionally, the funds so far have focused mainly on mitigation action not adaptation, and gone mainly to a few, mostly middle-income countries. However, the basic problem is bigger: the funding was often determined by external actors without many inputs from destination countries. In a nutshell, the existing Funds are too small to have any meaningful impact, transaction and administrative costs are too high, and results in no 'incentives' for agencies or recipients to scale up finances and creates distorted 'biases' to fulfill each source/agency sub-objectives, over which destination users have no control. Hence, there is need for a different approach vis-a-vis scale, funding modalities, approvals, and type of coverage.

Box 1: **Why?: The "Fragmentation" of Sources**	**Why?: Problems at the Destination**
• 9 Source countries • 7 national source funds • 19 bilateral institutions • 7 UNFCCC funds • 10 non-UNFCCC mechanisms • 11 non-UNFCCC agencies: 7 MDBs and 4 separate UN agencies	• Funds too small to have any meaningful impact • Transaction and administrative costs too high. • No 'incentives' for agencies or recipients to scale up • Distorted 'biases' to fulfill each source/agency sub-objectives, over which destination users have no control • No 'predictability' or 'additionality

Source: Climate Funds Update

B. Raising Finances for the GCF

The magnitude of resources needed is so large that there will always be questions about the Predictability, Adequacy, Timeliness, and Sustainability of Financing---unless the finances for the GCF can be secured right from the start.

In order to ensure that urgent requirements of developing countries to meet the challenges posed by climate change, the GCF will require significant provision from developed countries in the immediate term, for its operations to begin on a credible scale and diversity – geographic, thematic, and modality-wise. Further, given that rapid scaling up of GCF resources to enable developing countries to respond to the climate change challenge is adequate, the sourcing of GCF resources from developed countries needs a firmer footing. There is also an urgent need to tap alternative funding at scale, through agreed measures that would ensure that there is no net incidence on developing countries, or their entities, or citizens. It should also be emphasized that in any option to mobilize private funds, only the grant element can be counted as climate change finance

Box 2: Resolving the Uncertainty in Finances

Uncertainty in financing and the existing architecture creates disincentives for both the private and public sector. "*Even moderate amounts of policy uncertainty can act as a hefty tax on investment, and that otherwise sensible reforms may prove damaging if they induce doubts as to their permanence"*. Intensive consultations with the private sector in India confirms this.

Where is the money going to come from? The IMF and World Bank argues the following on public finances in developed countries:

- Carbon Taxes + Carbon Offsets**:** A carbon price of $25 per ton of carbon dioxide (CO2) in Annex II economies could raise around $250 billion in 2020.
- Sectoral Measures/Taxes: A globally coordinated carbon charge of $25 per ton of CO2 on these fuels could raise approaching $40 billion per year by 2020. Market-based instruments (MBIs) for international aviation and maritime bunker fuels have been proposed. However, no net incidence on developing countries has to be ensured. Creating a challenge on how to do this.

<u>Given very fiscally constrained circumstances now in some developed countries, this Vision Statement recommends that developed countries can jointly raise bond financing at this time from global capital markets in the order of US$30-50 billion to immediately fund the GCF at very low costs</u>. This would provide the much needed confidence in global markets. It would also be easily justified by the growth enhancing impact globally of more spending on climate-resilient growth. Carbon and other taxes in developed countries would in due course become possible and easily cover the costs of such bond financing---again with no incidence on developing countries. The last Olympics cost US$14 billion.

As far as private finances are concerned, some pooling arrangements may help. But the GCF has to be extremely risk-averse and cautious on such proposals--- to avoid additional financial burden on it, in terms of the risks associated with the private sector.

- Pooling with private funds: Public policy and finance can play crucial dual role: first, by establishing the incentive frameworks needed to catalyze high levels of private investment in mitigation and adaptation activities, and second, by generating public resources for needs which private flows may address only imperfectly.

Source: Dani Rodrik, 1989. Policy Uncertainty and Private Investment in Developing Countries, NBER Working PaperNo.2999, Source:Richard K. Lattanzio, 2011.International Climate Change Financing: The Green Climate Fund (GCF). ,Congressional Research Service

C. Leveraging global funds with national funds?

Building the right financing instruments is also important for downstream impacts on leveraging. Here, there are two broad financial instruments-Possible Grants and Loans. There is no explicit provision for loans in the Governing Instrument (GI) or in the Convention. But in a national context, using GCF funds, both instruments can leverage national public and private finances and may be suitably employed to raise climate change finance[9]. For example, a 50% grant financing from the GCF may make possible additional domestic public financing of the balance 50%. And similarly, to support private sector financing nationally, such as competitive reverse- bidding to determine 'viability-gap funding', which is more transparent.

Box 3: Engaging the Private Sector

Two broad approaches**:**

- Funding the private sector through a grant component would make the climate related investment comparable in terms of risk adjusted returns of other (conventional) investments
- Not funding the private sector directly, but promotion of a policy, regulatory, and governance environment in developing countries, through "transformative funding", that would facilitate private sector investment in low carbon, climate resilient activities".

Both the above may be pursued simultaneously, with the objective of reaching scale so that subsidies are no longer required

- Leveraging private finance: The private sector is mainly guided by the motives of investing in profitable goods and services and competition. Competitive, profit-oriented private initiatives are essential in seeking out and implementing least cost options for climate mitigation and adaptation. The dominant scale of global private capital markets and growing fiscal challenges in many economies also suggest that the large financial flows required for climate stabilization and adaptation, in the long run, may be largely private in composition. But in itself, it does not require any public subsidy or support. If they can do it, they should do so.

Source: World Bank and IMF,2011. , Mobilizing Climate Finance: A Paper prepared at the request of G20 Finance Ministers.

[9]UNDP, 2011. Blending Climate Finance Through National Climate Funds.

If the leveraging is done through MDBs, which on-lend to national entities, then the financing is only countable towards the grant equivalent of such financing. One of the mandates of the Convention is that the finance provided by developed countries will be ‘new and additional’. Moreover, climate change finance has to be in the form of grant and concessional finance, as emphasized by Article 11.1 of the Convention,

“A mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology, is hereby defined. It shall function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria related to this Convention. Its operation shall be entrusted to one or more existing international entities”.

Box 4: “Aid Paradigm” versus “Responsibility Paradigm”

- “Aid Paradigm”: In the traditional ODA or MDBs model, “donors” accept no responsibility for causing the underlying condition (e.g. low levels of development, poverty, climate change) in the “recipient” that is sought to be alleviated by the “aid”. The claim is that the assistance is provided solely on considerations of “solidarity” of “donor” with the “recipient”.
- This enables “donors” to determine quantum, modalities, extent of concessionality of funding, priorities, besides specific activities, and proponents that may be funded, and through which agencies.
- Governance structure of funding agencies (bilaterals, MDBs) is heavily weighted in favor of “donors”.
- According to Responsibility paradigm, causal responsibility determines responsibility to address climate change. This has the following implications:
    - Quantum of contributions must be explicitly based on responsibility and capability, and not discretionary.
    - Activities, priorities, modalities, extent of concessionality of funding no longer the prerogative of the “donors”, but should be collectively agreed between source and destination countries.
    - Funding institutions must have an agreed “balance” between source and destination countries in their decision making structures, and should be transparent and fair.

Adaptation activities have to be primarily grant-based. The appropriate overall balance of deployment of GCF resources between adaptation and mitigation will emerge from the country-driven nature of GCF activities. In allocating resources for adaptation, the GCF should take into account the urgent and immediate needs of the most vulnerable developing countries.

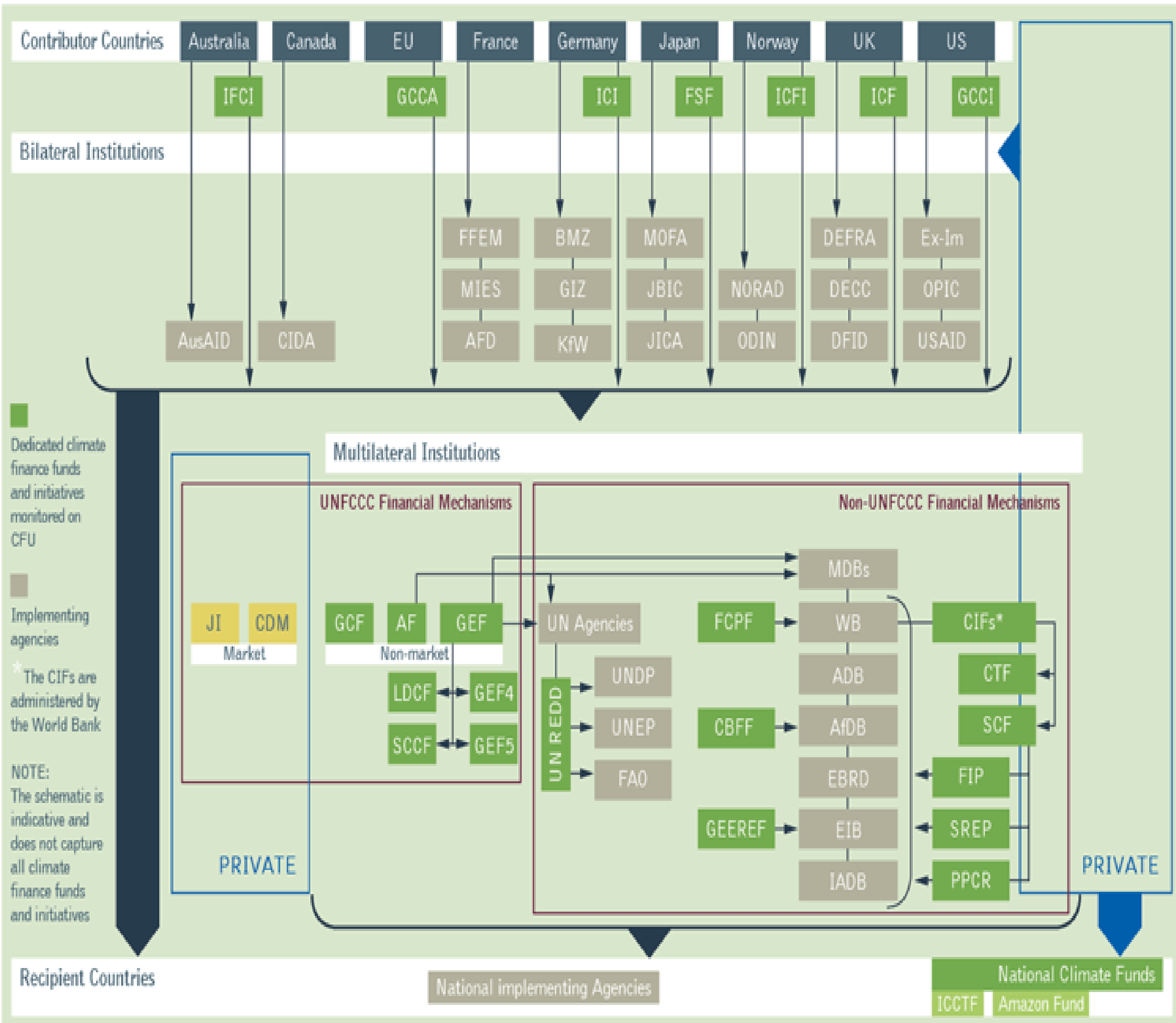
Box 5: Actual Results of Grants Vs Loans

Developing countries require new and additional funds to tackle climate change. There may be a place for concessional loans to support some mitigation activities, for example where cheap capital is needed to cover high start-up costs of renewable energy projects, which will be paid back over time. But paying for adaptation should always be provided in the form of grants. Loan- based financing, even if concessional, can become crippling for poor and vulnerable communities who should be prioritized for support in adapting to climate change. Additionally, it had been observed, that there was a continuing gap in adaptation financing, which has received just 21 per cent of Fast Start flows(Fast start Finance-2010-12), and it is in fact loans rather than grants that make up nearly 60 per cent of funds.

Source: Oxfam, 2012, The climate 'fiscal cliff': An evaluation of Fast Start Finance and lessons for the future.

Annex

Figure 1: Existing Architecture: Too complicated



Source: Climate Funds Update

Figure 2: Pledges that don't get transformed into deposits & even less to disbursements

Fund	Focus	Amount		
		Pledged (USD m.)	Deposited (USD m.)	Disbursed (USD m.)
Climate Investment Funds				
Clean Technology Fund	M	4 388	484	9
Forest Investment Program	M	562	34	2
Scaling-up Renewable Energy	M	300	24	
Pilot Programme for Climate Resilience	A	982	175	9
Congo Basin Forest Fund	M	165	165	
Forest Carbon Partnership Facility	M	221	166	4
MDG Achievement Fund[a]	A	90[a]	90[a]	56[a]
UN-REDD Programme	M	74	54	30
Sub-total - mitigation		5 710	927	45
Sub-total - adaptation		1 072	265	65

Source: Development Perspectives for a Post-2012 Climate Financing Architecture, OECD

III. INSTRUMENTS & OUTCOMES FOR THE GCF

III. Instruments and Outcomes

Our focus is on choices:

a) *Between a relatively centralized vs. a country driven and devolved process, with high access standards in the former versus simplified/improved access* in the latter---or, between a 'supply-driven' bureaucratic organization versus an innovative 'demand-driven' process;

b) *In bridging the gap between a results-based funding vs. a needs-based funding, and finding the right instruments to achieve both*---likely to apply to most aspects of instruments, windows and outcomes

c) *The role of the private sector---when and under what circumstances in the supply of 'public goods' in dealing with climate change challenges,* also related to the role of MDBs.

d) *Stakeholder--engagement to ensure transparent and accountable processes and outcomes,* which will shape many other processes and results.

Global Goals, Country Ownership

The case for a centralized, top-down bureaucratic organization and functions of a GCF is relatively straight-forward. It borrows essentially from a old model of MDBs and similar international organizations (set up at a time after the Second World War and immediately beyond, when national entities in developing countries were perceived to be weak, versus international entities based in capitals of industrialized countries). It was also perceived to be less risky and more reliable in delivering fiduciary and other controls, with greater accountability to citizens of source countries. Essentially, this follows an older 'aid-paradigm'.

Later history suggests that such a 'supply-driven' model has some notable failures. First, it leads to relatively high administrative costs. Second, some of the 'knowledge' activities, because of location in places distant from where the level of action is, often misses key issues. And third, because of extensive 'controls' sought, combined with a lack of ownership, leads to poor outcomes. Recognizing these challenges, most have now moved towards country-ownership, more flexible processes, and more results-based or outcomes focused approach. Why would it make sense for the GCF to go backwards?

Instead, an illustrative flow-Chart of how the GCF instruments and outcomes might be best achieved through a devolved country-based system is set out in the Annex.

(i) More Country Ownership. In order to have the greatest impact on the ground at least administrative cost, the activities of the GCF should be conceptualized, initiated, and owned by the developing countries themselves. Lessons from across the world in terms of effective design suggest that national governments have to take ownership of the projects and programs----ensuring that the proposed activity is consistent with the national climate change strategies and action plans, and following consultations with in-country stakeholders.

(ii) With Global Standard Setting. The role of the GCF should concentrate on setting global priorities (e.g., mobilizing required funds, and allocating them to purposes such as mitigation, adaptation, technology-access, capacity-building and by groups of countries in differing circumstances). It should also set global standards on processes and outcomes on what works best and why, and less about detailed administrative oversight and controls. A review of programmatic and country-based approaches, towards meeting global goals on climate change---and reliable information from countries towards that--- is all that is required.

(iii) Within-Country Devolution. Within countries, a measure of devolution is also essential---to the lowest relevant and competent levels. This means instruments and outcomes in terms of direct access to GCF resources by farmers, micro, small and medium enterprises (MSMEs), in particular where women, youth, and communities take the lead.

The GCF should rapidly put in place systems of accreditation of Implementing Agencies, which may be in the public, NGO, or private sector, or involve their partnerships, and include regional or even global MDBs, the latter for specific functions---such as regionally important activities, or other well-defined regional (e.g. regional meteorology, or capacity-building) or global public goods (e.g., access to technology). We will come later to the role of MDBs in relation to raising or supporting private finance.

So in sum, the national implementing authorities (or national funding entities, as may be the better case) are the fulcrum through which the GCF would best function. Programmatic activities may well be much more important than project based ones. Individual projects should be essentially about demonstrating new technologies and innovative financing and implementation. By devolving functions to national authorities, the system will put extra-ordinary pressures on them to deliver more and better, account for what is delivered, and encourage them to innovate and 'crowd-in' multiple other actors.

One issue is fiduciary standards. Somebody has to verify that global public monies have been well used for the purposes stated and established. At the end, that risk belongs rightly to national authorities and systems, so that only "post-audited" monies should be 'reimbursable'. This is not an invitation for detailed audits, but instead a reliance on national systems, backed up by risk-based external audits by reputed agencies within countries. The point is to strengthen national systems, not to supplant them.

Results versus Needs Based

Sotoo, with outcomes. The devolved process will require a strong system of ex-ante and ex-post outcomes projections, measurement and reporting carried out by reputed firms and agencies nationally with international standards. The GCF will do well to set the standards expected and finance the strengthening of such capacity over time in national entities. In this regard, the systems of accreditation and devolution of functions should embody lessons learned from the experience of other comparable multilateral funds (e.g. Adaptation Fund), as well as of financial institutions in developing countries.

Nevertheless, relying heavily on outcomes alone will bias GCF activities towards countries, mostly middle-income, larger, and with better capacity, in terms of public and private sectors and civic society.

A needs-based approach has to be therefore part of the solution. These will typically be higher in countries because of differing starting circumstances---lower incomes, smaller, resulting in lower capacity, and/or greater vulnerability to global climate change shocks. All these categories, LDCs, SIDs and Africa, are well recognized in the Convention and the Governing Instrument. Part of the answer has to be greater allocation to these countries (in per capita terms). The other part has to be a focus on capacity building, and improved related access to external support and technologies.

Private Sector "Window"

The private sector already plays a large role in global climate change mitigation. Some estimated orders of magnitude suggest that some US$55 billon in clean energy finance flowed across borders to developing countries in 2012[10] (contrasted with the US$1.2-1.5

[10] See Bloomberg, New Energy Finance 2012. Global Trends in Renewable Energy Investments, Franfurt School UNEP Collaborating Cente.Pew Charitable Trust, 2012. Who's Winning the Clean Energy Race? World Economic

billion in public finance). Private equity and bond funds dedicated to green and clean sectors are also spreading. Virtually all of this had no requirement for, and did quite fine without any public support, and there were no evident market-failures: financing flowed to energy efficiency projects with high rates of private return, and to profitable new investments in wind, hydro, solar and other projects---with the policy backing of many national governments to promote such clean energy shifts, such as higher feed-in tariffs and enlarged markets created by public policy. Would adding more global public money, already seriously deficient, to chase the global private sector help raise more private financing ('small tail wagging a very big dog') to address climate change challenges?

Far more important from the private sector's point of view, which we canvassed and discussed in Delhi, are several issues: (a) national public policy setting, tailored to every country's unique circumstances, to encourage more private investment, which is limited by public funds, including essential public spend on trunk infrastructure in clean energy, transport, etc, which the GCF can support.; (b) reducing high transaction costs of accessing global public funds and those from MDBs; and (c) high interest rates, shorter maturity and credit rationing by the national financial sector because of perceived greater risks in private alternative energy investments, which again the GCF can help national financial entities to address---in a globally open market. The best course is for the GCF to support countries to accelerate their pace of private partnerships---not to supplant these through global windows. Private sector also cannot address adaptation, which are almost always pure public goods. However, partnerships with the private sector are always very useful where their role is to deliver services, even in adaptation, by open competition with other public sources---in PPP or other modes.

MDBs can probably usefully pool their capital with private capital to raise more private financing regionally or globally, as they are currently doing, but this: (a) does not address private sector financing challenges on the ground; and (b) often distorts financing towards high-return private activities, and lobbying by such firms, with little or no public goods characteristics. The resulting flows are also heavily biased towards middle-income countries with fast growth and are not easily "counted" as global climate change financing to shift to more climate-resilient paths. The best course is to allow MDBs to approach nationally designated authorities to access GCF funds for innovative support where these address clearly identified "market-failures". Anything else, such as global windows of access, are fraught with very big risks that the GCF does not have the capacity to either manage or bear.

Forum,, 2013. The Green Investment Report—The ways and means to unlock private investment for green growth. Buchner, Barbara et.al. October 2011. The Landscape of Climate Finance: A CPI Report. Climate Policy Initiative, Venice.

In conclusion, the “Private sector” comprises a wide spectrum, ranging from farmers, through MSMEs, to larger national and international entities. The GCF should support devolved funding through national Implementing Agencies and National Financing Entities, including resources from the adaptation and mitigation windows, which will remains available for private sector entities.

Intensified Stake-holder Engagement

From global experiences with all successful global funds---even when they are small, narrow and technical---and results on transparency and accountability, there is a very strong case for expanded stake-holder engagement, with communities, civic society, NGOs, the private sector and media. Getting public support is crucial for climate change financing and the role of the GCF[11].

This engagement with stake-holders by the GCF will need to be nurtured and expanded through innovative means---open communications, for example, by web-casting proceedings of the Board, and giving them a more prominent place in Board meetings and ideas exchanges. One possibility is at least one full day or pre-meetings to such discussions at all Board meetings---where the agenda is otherwise inevitably crowded with administrative details so that few ideas are allowed to emerge from the wider community. An expanded roster of both developed and developing countries' accredited representatives in such discussions is also crucial---with some explicit financial support and a larger ‘seat at the table’ useful and important.

Beyond this, stake-holder engagement within a devolved model will also become far more likely. A centralised model will always limit participation of stake-holders to a few---by inevitable design. A devolved model will force much more effective and ‘on the ground’ engagement. The GCF will also need to communicate successes and lessons to stakeholders at all levels, and the wider public through public media, in order to build confidence in and credibility of the institution. Modern, cost-effective means, enabling two-way communication, is the best way to reach such a large audience, especially the next young generation, who need to be a focus of the GCFs communication strategy. Again, a devolved model is perhaps the best way of ensuring this transparency and accountability for results.

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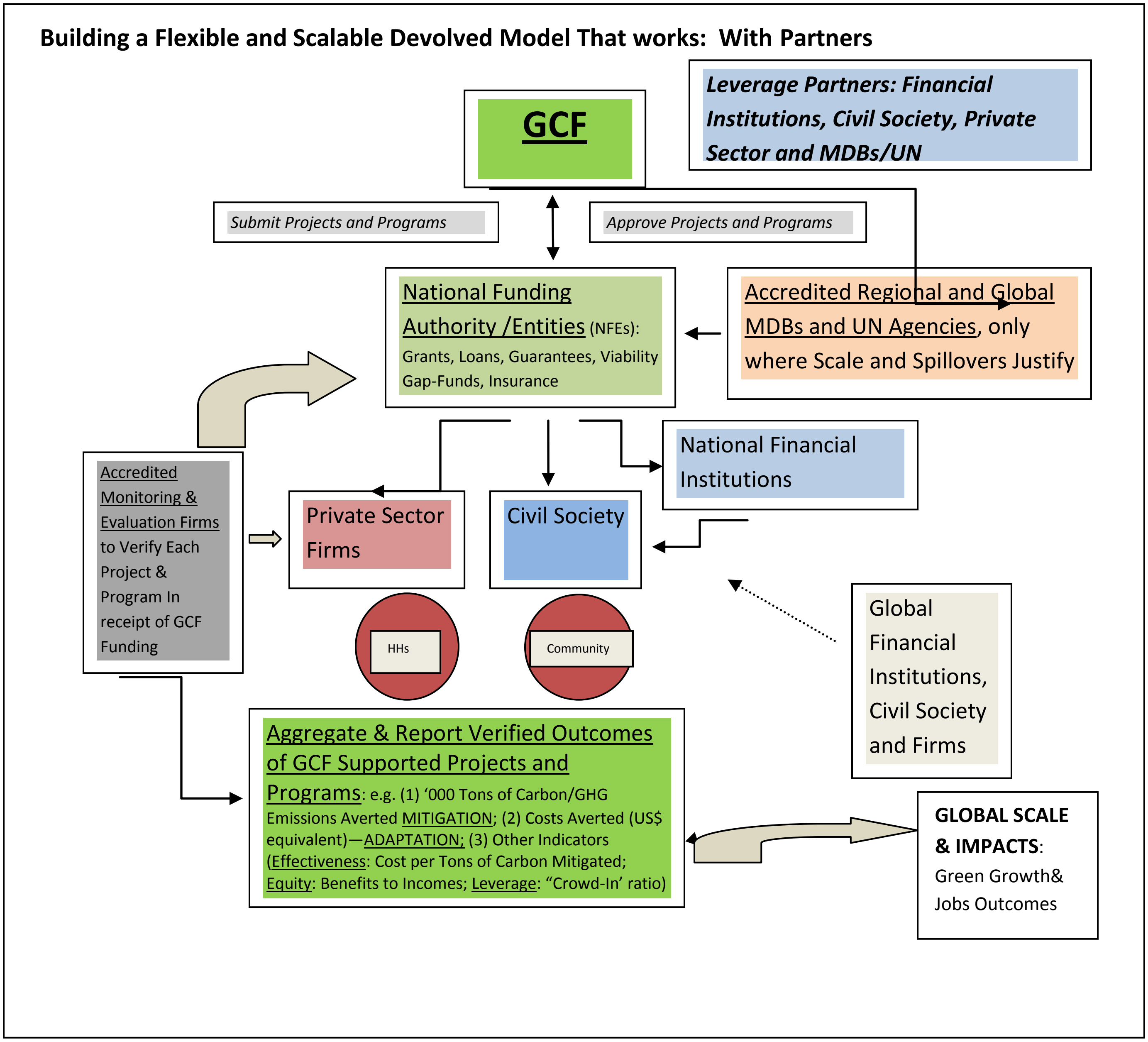
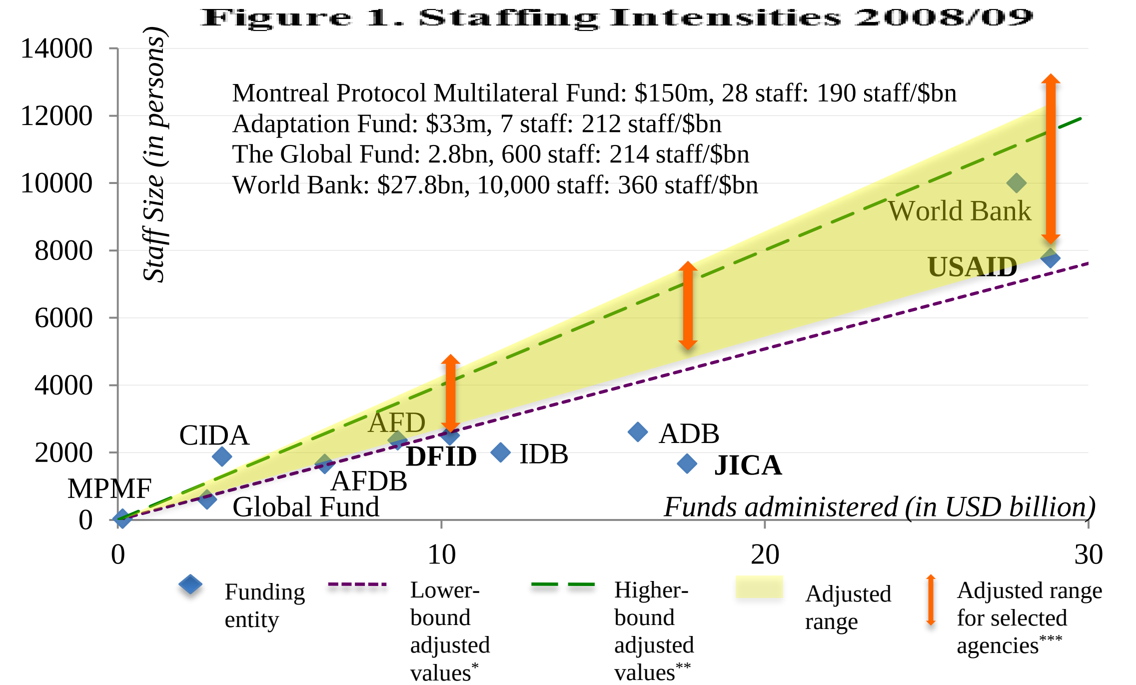
[11] The Pew Research Center reports climbing levels of public concern with climate change and global warming, both in developing and developed countries. In developing countries, where informed, public concern with climate change is highest and climbing. In developed countries, the concern has traditionally been highest in Europe, modestly weakening in the recent economic context. Pew surveys also report that in the United States, for example, about two-thirds of citizens are now concerned with global warming, up 10 percentage points since 2009, with seniors (age over 65) more skeptical and the majority of young (below 30) most agreeing with the science and anthropogenic causes (PEW October 15, 2012).


Building a Flexible and Scalable Devolved Model That works: With Partners
GCF
Leverage Partners: Financial Institutions, Civil Society, Private Sector and MDBs/UN
Submit Projects and Programs
Approve Projects and Programs
National Funding Authority /Entities (NFEs): Grants, Loans, Guarantees, Viability Gap-Funds, Insurance
Accredited Regional and Global MDBs and UN Agencies, only where Scale and Spillovers Justify
National Financial Institutions
Accredited Monitoring & Evaluation Firms to Verify Each Project & Program In receipt of GCF Funding
Private Sector Firms
Civil Society
HHs
Community
Global Financial Institutions, Civil Society and Firms
Aggregate & Report Verified Outcomes of GCF Supported Projects and Programs: e.g. (1) '000 Tons of Carbon/GHG Emissions Averted MITIGATION; (2) Costs Averted (US$ equivalent)—ADAPTATION; (3) Other Indicators (Effectiveness: Cost per Tons of Carbon Mitigated; Equity: Benefits to Incomes; Leverage: "Crowd-In' ratio)
GLOBAL SCALE & IMPACTS: Green Growth& Jobs Outcomes

Staffing and Administrative Costs Climb with size and centralisation



*250 staff / USD 1 billion **400 staff / USD 1 billion *** For DFID, JICA and USAID from left to right

Source :ciplet et al(2010)

Box 1: Relevant GCF Governing Instrument Provisions in respect of Country Ownership and Initiative

"3.….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…..while promoting environmental, social, economic and development co-benefits…."

"31. The Fund will provide simplified and improved access to funding, including direct access, basing its activities on a country-driven approach and will encourage the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects."

"45. Access to Fund resources will be through national, regional and international implementing entities accredited by the Board. Recipient countries will determine the mode of access….."

"46. Recipient countries may designate a national authority. This national designated authority will recommend to the Board funding proposals in the context of national climate strategies and plans, including through consultation processes. The national designated authorities will be consulted on other funding proposals for consideration prior to submission to the Fund to ensure consistency with national climate strategies and plans."

"47. Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes."

"49. The Board will develop, manage and oversee an accreditation process for all implementing entities based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards."

"63. The Board will agree on, adopt, and ensure the application of best practice fiduciary principles and standards to the Fund's entities, the trustee's function related to the Fund, and to all operations, projects and programmes financed by the Fund, including the implementing entities."

Box 2: Relevant Provisions of the GCF Governing Instrument with respect to activities to be need based and ensure results:

"3. ….The Fund will strive to maximize the impact of its funding for adaptation and mitigation,…"

"35….The Fund will finance agreed full and agreed incremental costs for activities to enable and support enhanced action on adaptation, mitigation (including REDD-plus),[1] technology development and transfer (including carbon capture and storage), capacity building and the preparation of national reports by developing countries."

"38. The Board shall also ensure adequate resources for capacity-building and technology development and transfer. The Fund will also provide resources for innovative and replicable approaches…."

"40. The Fund will provide resources for readiness and preparatory activities and technical assistance, such as the preparation or strengthening of low-emission development strategies or plans, NAMAs, NAPs, NAPAs and for in-country institutional strengthening, including the strengthening of capacities for country coordination and to meet fiduciary principles and standards and environmental and social safeguards, in order to enable countries to directly access the Fund.

"45. Access to Fund resources will be through national, regional and international implementing entities accredited by the Board. Recipient countries will determine the mode of access and both modalities can be used simultaneously.´

"47. Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes."

Box 3: Relevant Provisions of the GCF Governing Instrument with respect to Private Sector

"41. The Fund will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels."

"42. The operation of the facility will be consistent with a country-driven approach."

"43. The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs."

"44. The Board will develop the necessary arrangements, including access modalities, to operationalize the facility."