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The attached note provides a response to question 5 of Workstream I (Scope, guiding principles, and cross-cutting issues) of the Transitional Committee for the Design of the Green Climate Fund.

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## 5. The Cancun Agreements refer to “balance” between mitigation and adaptation. How do we define and achieve “balanced allocation” between adaptation and mitigation?

### Background and overview

The meaning of ‘balance’ is inevitably context-specific. When used in UNFCCC decisions, the term ‘balanced’ may imply either a lack of agreement about whether a given distribution should be ‘equal’ or not, or an indication that other factors should be taken into account that may not require formal equality (as in the case of ‘balanced representation’).

Balanced allocation between adaptation and mitigation is an objective both for total fast-start finance (Cancun Agreements, para 95) and funds managed by the Green Climate Fund (GCF) (Annex I, para 1(c)). While it is not stated as an explicit objective for longer-term funding committed up to 2020, it may be inferred that the principle of balanced allocation would be applicable as well.

Some parties to the UNFCCC climate negotiations have argued that balanced allocation between adaptation and mitigation finance implies an even split of funding between the two, but this need not necessarily be the case. In order to understand how balanced allocation should apply in the context of the GCF, it is important to consider what the term means at two levels: (a) allocation of global climate finance mobilised in accordance with the UNFCCC; and (b) allocation of funds managed or mobilised by the GCF.

### Balanced allocation of total global climate finance

I propose that balanced allocation of total global commitments of climate finance for developing countries should be understood as *allocation between adaptation and mitigation that corresponds to the respective proportions of total finance needed for these objectives*.<sup>1</sup> At present estimates vary as to the proportion of global climate finance for developing countries that would be required for each objective.

The UNFCCC’s and World Bank’s estimates of investment and financial flows imply that adaptation needs in 2030 may be around 23–41 per cent or 17–36 per cent of total funding needs for developing countries respectively (UNFCCC 2007; World Bank 2009), while Project Catalyst’s estimates for the period 2010–12 are around 36–41 per cent (Project Catalyst 2010).

As available information and underlying needs will vary over time, needs should be re-assessed periodically (say every 3 to 5 years), and should be disaggregated by the estimated contribution of public and private finance to meeting total needs. In the longer term such analysis could be commissioned by the UNFCCC Secretariat or the Standing Committee on Finance. Combined with comparable national (and nationally owned) needs assessments, this information could be used as a benchmark for assessing the balance of global flows required.

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<sup>1</sup> Note that balance here implies something different to the concept of adequacy, which is about direct (not proportional) correspondence with needs.

## Balanced allocation of GCF funds

The GCF could play an important role in promoting balanced allocation due to its potential size and thematic scope. However, promoting balance does not mean that the GCF should simply mimic the proportions set out in overall global needs assessments. For reasons outlined below, balanced allocation of GCF funds could be understood as *allocation between adaptation and mitigation that corresponds to the respective proportions of total finance needed for these objectives after funding from other sources is taken into account.*

Mitigation activities are more likely to attract private finance (including carbon market finance), and while the GCF may have a significant role in catalysing private flows, it is likely that its role relative to other private finance will be smaller than its role relative to other public finance.

Other multilateral and bilateral sources of public funding will continue to be important, and these sources should likewise be encouraged to achieve collectively a balance that approximates the split of global public funding needed, while allowing some flexibility among individual sources to reflect their comparative advantage. These considerations suggest that the GCF's indicative allocation should ideally be based somewhere between the assessment of a) total needs from all sources (public and private) and b) total needs from public sources.

However, if other public sources continue to devote relatively low levels of funding to adaptation (as most countries have in their fast-start finance, with some exceptions), the GCF could play a gap-filling role in allocating a correspondingly higher proportion of its funds to adaptation than global assessments of public funding needs (Müller 2011). This would be consistent with the decision that a 'significant share of new multilateral funding for adaptation should flow through the Green Climate Fund' (Cancun Agreements, para 100).

Given that information about global needs will inevitably be imperfect, any thematic funding windows set up under the GCF should be flexible enough not only to adjust their scope to reflect periodic global assessments, but also to respond to variations in the level of countries' demand for funding from individual windows (access to which will in turn presumably be informed by credible assessments of national funding needs).

## References

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