



Green Climate Fund Briefing Note

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BRIEFING NOTE OF THE 4TH MEETING OF THE TRANSITIONAL COMMITTEE FOR THE DESIGN OF THE GREEN CLIMATE FUND: 16-18 OCTOBER 2011

REPORT OF THE TRANSITIONAL COMMITTEE TO THE CONFERENCE OF THE PARTIES

The Secretary introduced the draft report of the Transitional Committee to the Conference of the Parties (TC-4/2) and Co-Chair Manuel explained that the document consists of two parts: the Committee's draft report to the COP; and the draft GCF governing instrument. Members then provided general comments on the draft report and identified issues that need to be discussed in relation to the draft instrument.

Issues identified for further discussion include: the objectives of the GCF; the GCF's guiding principles; the GCF's fiduciary standards, including whether new standards should be developed or whether existing standards should be used; selection or appointment of members of the GCF board; relationship between the GCF and the COP, particularly whether the GCF would be under the authority of, and accountable to, the COP; operational modalities of the GCF board; allocation of funds under the GCF; direct access to funds; leveraging of funds for the GCF; complementarity; the GCF's legal form and status; transitional arrangements; role of the private sector; funding windows; independence of the GCF; and the ambition and purpose of the GCF.

Reconvening on Monday morning, 17 October, Co-Chair Manuel noted the previous day's "intense discussions" on how to move forward and explained that the Committee would "test" informal group discussions for 1.5 hours in the morning. He announced four informal groups on:

- governance issues (including the Fund's relationship with the COP, legal status and issues related to the Board, its operation and modalities), facilitated by Faruk Khan (Pakistan);
- the Fund's structure, its operations and the private sector, facilitated by Rob Stewart (Canada);
- fiduciary standards, and environmental and social safeguards, facilitated by Tosi Mpanu Mpanu (Democratic Republic of the Congo); and
- objectives and guiding principles, facilitated by Manfred Konukiewitz (Germany).

Co-Chair Manuel highlighted that the informal groups should focus on structuring a political agreement rather than drafting text. The US, supported by several others, stressed the importance of transparency in the Committee's work and proposed that observer organizations should be allowed to participate in the informal groups. Saudi Arabia opposed, preferring to follow the common UN practice of not allowing observers into informal meetings. Highlighting the "feeling from the room," Co-Chair Manuel indicated that observer organizations would be allowed to attend the informal meetings. He explained that the plenary would reconvene in 1.5 hours.

During the resumed morning plenary, informal group facilitators briefed delegates of progress.

Facilitator Konukiewitz reported "good, in-depth discussions" on *objectives and principles*. He noted broad convergence on the need to strengthen the text on the level of ambition and urgency, and identified broad support for an Alliance of Small Island States (AOSIS) proposal on this issue. Facilitator Konukiewitz explained that as some Committee members had expressed difficulties with the concept of "transformational change," broad support had been found for referencing the 2°C target and a "paradigm shift" to signal the need to deviate from the business-as-usual. He said divergent views remained on text indicating

The 4th meeting of the Transitional Committee for the design of the Green Climate Fund (GCF) was held from 16-18 October 2011 in Cape Town, South Africa. The aim of the meeting was to conclude discussions for the design of the GCF ahead of the 17th session of the Conference of the Parties (COP 17) to the UN Framework Convention on Climate Change (UNFCCC).

At COP 16, the COP decided to establish a GCF, with arrangements to be concluded between the COP and the GCF to ensure that it is accountable to and functions under the guidance of the COP. The GCF will support projects, programmes, policies and other activities in developing countries using thematic funding windows. The COP also decided that the GCF will be designed by a Transitional Committee, which is to develop and recommend for approval to COP 17, a number of operational documents for the GCF. The Transitional Committee (TC) comprises forty members with experience in the area of finance and climate change: fifteen members from developed country Parties; and twenty-five members from developing country Parties.

At TC-4, members discussed the draft governing instrument for the GCF and a draft report of the TC to the COP, which contains, among other things, the TC's recommendations to the COP. The TC could not reach an agreement to adopt the recommendations and the instrument, and so simply decided to forward them to the COP for its consideration and approval. The final outcome from the meeting was thus a report containing the report of the TC, the Committee's draft recommendations to the COP and the draft governing instrument for the GCF.

OPENING OF THE MEETING

The fourth meeting of the Transitional Committee for the design of the Green Climate Fund opened on Sunday afternoon, 16 October 2011. Co-Chair Trevor Manuel (South Africa) explained that the meeting would focus on issues on which there is no convergence, and that the Committee needs to provide the clarity that the climate change negotiations require to progress to the next level. He recalled that after TC-3, a document had been circulated containing elements of a possible outcome from the Committee and that a new draft has now been produced, incorporating feedback received. Co-Chair Kjetil Lund (Norway) urged members to look for solutions that everyone can live with, stressing that the outcome of this meeting will determine whether there will be a GCF next year.

ADOPTION OF THE AGENDA: Members adopted the provisional agenda and annotations (TC-4/1).

ADOPTION OF THE REPORT OF THE 3RD MEETING: Co-Chair Manuel introduced the report of TC-3 (TC-3/3). France recalled that he had requested that the Secretary of the TC provide information on the mapping of finance and the Secretary responded that a short overview note on this issue had been prepared and would be provided to delegates. The Philippines recalled that she had requested that legal opinion be sought on the issue of institutional conflict of interest and the Secretary responded that a note on the issue was being prepared. The TC-3 report was adopted with the understanding that these documents would be provided.

that the Fund will channel “new, additional and predictable financial resources” and on leveraging additional public and private finance. Facilitator Konukiewitz also reported discussions on how to reference the Convention’s principles in the text, with some members objecting to highlighting only the principle of common but differentiated responsibilities. He noted widespread support for a reference to all Convention principles. Facilitator Konukiewitz also reported discussions on the balance between adaptation and mitigation, with convergence on the need to clarify language on what are key benefits and what are co-benefits. Facilitator Konukiewitz expressed optimism that the group’s discussions would allow the Co-Chairs to develop new text enjoying broad consensus, if not full consensus.

On **fiduciary standards, and environmental and social safeguards**, Facilitator Mpanu Mpanu reported broad agreement on the importance of considering these issues, and that the focus should be on existing standards. He also identified agreement that standards should be robust, and that discussions should not be linked to other inconclusive ongoing discussions, such as on safeguards under the mechanism to reduce emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD+). He said the group had also discussed how to take into account national standards. Facilitator Mpanu Mpanu indicated that there was no agreement on the COP’s role in improving fiduciary standards and environmental and social safeguards, and noted broad agreement such standards should not become conditionalities.

On **governance issues**, Facilitator Khan explained that the informal group had focused its first meeting on the relationship between the Fund and the COP, which covers, *inter alia*, the Executive Director, trustee and reporting between the COP and the Fund. He noted convergence on the need to reference Convention Article 11.3 (arrangements between the COP and the operating entity or entities of the financial mechanism) in the text. He reported, *inter alia*, broad agreement that there should be an annual report by the Fund, and that the details of such report should be defined in the document between the Fund and the COP. Facilitator Khan expressed confidence that that while the issues discussed by the group are difficult, it will be possible to reach basic agreement on them. He said continuing discussions with the same format would be helpful, while suggesting that drafting be done simultaneously by the Co-Chairs.

On **the Fund’s structure**, its operation and the private sector, Facilitator Stewart explained that the informal group had held one round of comments. He said the comments showed general convergence on the need to streamline and simplify the text on issues, such as Fund replenishments, complementarity, accreditation, allocation and programming. He also said comments had addressed funding windows, with many members highlighting the need for a REDD+ funding window. Later on Monday, Stewart highlighted issues that require further discussion, including: direct access; the role of the private sector and the interface with national entities and governments; windows; and allocation. Co-Chair Manuel then invited comments from delegates.

On financial inputs, Saudi Arabia said there is a need to: define the role and scale of different sources of financing, particularly the roles of public and private financing; and recognize spillover effects on developing countries’ sustainable development pathways. The US called for reference to the ability of GCF contributors to direct their contributions to specific windows or facilities. Spain opposed reference to a “multi-year replenishment process” and, together with the US,

called for flexibility to allow countries, other than developed countries, to contribute to the GCF. Germany, opposed by the Philippines, called for reference to co-financing. The Philippines supported retaining the reference to “multi-year replenishment process” and with some others, said this should be through assessed contributions of developed countries.

On operational modalities, Zambia called for language allowing the inclusion of national funding entities, alongside national implementing entities, as entry points for enhanced direct access to recipient countries. Ethiopia called for specifying in the text that international entities such as UN agencies and multilateral development banks will participate in the management of the GCF only upon the request of the GCF and will be accountable to the GCF board. Saudi Arabia said in the allocation of funds, consideration must be given to countries affected by the impact of response measures. Burkina Faso said private finance should be supplementary to public finance.

On **objectives and guiding principles**, Facilitator Konukiewitz said three issues require further discussion. He said the first is how to capture the sense of urgency and ambition in the Cancun Agreements for the objectives of the fund. He explained that AOSIS had submitted a proposal in this respect, and that in addition, other proposals had been made, including some referring to the 2°C temperature goal. Konukiewitz said the second issue relates to key benefits and co-benefits, and the third, to the GCF’s financing, with some members opposing reference to the channeling of new, additional and predictable financial resources, and to leveraging additional public finance.

Nicaragua suggested deleting the reference to “a shift to sustainable, low-emission and climate-resilient development pathways,” saying this is not agreed language. He also opposed reference to a specific temperature goal. Saudi Arabia said leveraging private finance should not be an objective of the GCF. Bangladesh called for retaining the reference to the principle of equity and France preferred referring to Convention principles generally, rather than referring to any specific principle. France also suggested language referring to “catalyzing” public and private finance.

On **safeguards and standards**, Facilitator Mpanu Mpanu said issues identified as needing more work include: how to recognize national standards and practices; how the GCF can provide capacity building; the role of the COP in approving fiduciary standards; and how to prevent standards from being conditionalities.

The US said it is beyond the GCF board’s mandate to build fiduciary standards in developing countries, saying this should be left to appropriate multilateral and bilateral groups. Zambia said the reference to stakeholders should also include civil society participation and India said fiduciary standards should also apply to the private sector.

On Tuesday morning, 18 October, Co-Chair Manuel explained that the Co-Chairs had been working during the night on new text that would be released in parts by lunchtime. He highlighted the Committee’s deadline in the evening, stressing the need to report results of its work to COP 17 in Durban. He underscored that the Committee has a “fundamentally important responsibility” and its failure would have negative consequences for the poorest and most vulnerable people in the absence of the rules and resources to operationalize the Green Climate Fund. Co-Chair Manuel further explained that some of the Co-Chairs would lead the plenary while others would consult on the most difficult issues.

Members then commented on new text on **objectives and guiding principles**. Barbados, with Ethiopia, praised the new text, while Saudi Arabia stated that the text is not acceptable. Brazil supported the text, while highlighting the need to

reflect properly the nature of developing country mitigation commitments. He proposed replacing language on developing countries limiting or reducing greenhouse gas emissions with language on reducing the growth of greenhouse gas emissions.

The Philippines underscored the need to use language on Annex I and non-Annex I countries and reflect Annex I countries' historical responsibility. She also suggested, *inter alia*, replacing language on "low-carbon" development with "sustainable and climate-resilient development pathways." Denmark stated that the text was "moving in the right direction" and opposed to changes proposed by Brazil and the Philippines. Japan underlined support for the text. Switzerland emphasized the importance of text that is in line with the Convention's ultimate objective in Article 2.

Supported by Egypt and Saudi Arabia, the Philippines stressed that "effectiveness" and "efficiency" are not "principles" as indicated in the text, but "means." Egypt, with Saudi Arabia, identified the need to include the principle of common but differentiated responsibilities, and Bangladesh, with Saudi Arabia, proposed referencing the principle of equity. The US noted that the Fund should be guided not only by the relevant Convention principles but the relevant Convention provisions.

China suggested clarifying that financial resources will go from developed countries to developing countries. Saudi Arabia stressed that the Fund's objectives should include addressing the impact of response measures, and suggested replacing language on "low-carbon" development with "low-emissions" development.

On *operational modalities*, Pakistan suggested moving text on the Fund evolving over time and becoming the main global climate change fund to the section on objectives and guiding principles.

Denmark stressed the importance of a results-based approach and identified the need to strengthen related text. The UK supported referencing results, and emphasized the need to take advantage of tools that enable countries to understand the impact of financing. The Philippines indicated that text related to payment for verified results is "very problematic" and underscored the requirement for *ex ante* financing under the Convention that enables developing countries to take action. Nicaragua underscored that developing countries are not able to implement projects without financing.

Pakistan stated that a results-based approach is "an essential ingredient of fund management." Switzerland stressed the need bear in mind the Convention's ultimate objective of stabilizing greenhouse gas concentrations and opposed all formulations in the text that contradict this objective. He stated that a "results-based" approach should be the Fund's focus given the need to have less carbon dioxide in the atmosphere and more resilience on the ground.

The US emphasized the need for flexibility to enable the Fund to evolve over time and experiment with new things, including mobilizing resources. He also proposed deleting reference to "grant" funding, calling for flexibility concerning the Fund's financing instruments and forms. Spain stressed the need to clarify the activities that the Fund will be financing and the functions of the Board. She highlighted that financial resources will go to developing countries but they may come from a variety of sources.

The Philippines noted that since "simplified and improved access" to funds has not worked over the past fifteen years, including language on "direct access" is necessary. She said reference to national climate plans is too restrictive, highlighting the need to take into account all relevant national planning activities. Switzerland stressed the importance of retaining reference to "low-carbon development strategies."

He noted that while such strategies are embedded in overall sustainable development strategies, their main objective is low-carbon development and a paradigm shift.

Highlighting the reality of competition over funding, Samoa suggested adding language on minimum allocations for least developed countries (LDCs) and small-island developing States (SIDS). Saudi Arabia stressed the need to take into account the impact of response measures and not only impacts of climate change. The UK and the US underscored the need for language on private sector direct access.

Saudi Arabia raised concerns over references to alternative funding, proposing to indicate that the Fund's resources will come from developed country public funding and supplementary private funding. The UK stated that language on funds coming only from developed countries is "too restrictive" and rules out any other country wishing to contribute in the future. Switzerland recalled the "impressive" financing offer made by President Lula of Brazil in Copenhagen.

The Philippines, opposed by the US, stressed the need to include a funding window for technology development and transfer. China, supported by the Republic of Korea, proposed adding two separate funding windows for technology and capacity building, stressing the need for stand-alone capacity-building projects. France, Spain and others identified the need for a REDD+ funding window.

On complementarity and coherence, Pakistan emphasized the need to bring back the element of coherence in the text. Zambia identified the need to strengthen text on the role of recipient countries. Brazil stressed that a mere coordinating function for the national authority is not acceptable and China emphasized that countries must be able to decide what role their national authorities will have. Gabon suggested emphasizing the role of regional development banks.

On new text on *monitoring, evaluation and fiduciary standards*, Germany, supported by Egypt, suggested deleting wording that the Board will "develop" fiduciary standards. Egypt stressed that the intention is not develop anything from the scratch. Germany proposed that the Board "adopt" such standards, while Egypt preferred indicating that the Board will "agree on" fiduciary standards, allowing it to choose from a menu of standards. Germany underscored the need for the standards to be binding and Egypt proposed that the Board "adopts and agrees" on the standards.

Brazil highlighted that there are no internationally agreed social and environmental safeguards, and COP approval would therefore be needed for such standards. The Philippines called for carefully observing the Committee's terms of reference, saying the standards should applied to the Fund's activities rather than to the activities supported by the Fund. She also highlighted the importance of a link to the thematic bodies, including the Adaptation Committee and the Technology Executive Committee. Concerning stakeholder input and participation, the Philippines stressed that the onus should be on the Fund and not on the recipient countries.

The UK stressed the importance of monitoring and evaluation, including for accountability and external transparency. He proposed language on monitoring the Fund's "impacts." The UK also stressed the importance of an independent evaluation unit. With Brazil, he said the unit rather than the Board should decide on the frequency and contents of the evaluations. Italy noted that according to common practice, there is a relationship between the Board and the evaluation unit.

Highlighting differences in developing countries' capacities, Barbados expressed concern over the US proposal to delete language on strengthening institutional capacity and, with Zambia, the Republic of the Congo, Burkina Faso and China,

underscored the need for the Fund to support capacity-building activities. China emphasized that a strong national system is a precondition for the ability to meet high standards and all developing countries need support in this regard. Barbados proposed that the Board take into consideration specific national circumstances of developing countries as well as the types of projects while ensuring that quality of standards is not undermined. Nicaragua emphasized that it will not be possible to apply the same standards and performance indicators to all developing countries.

On the *AOSIS proposal on issues related to post-Cape Town operationalization of the GCF*, Brazil said the TC should not decide the constitution of the GCF board, which should be done within regional groups and constituencies. He said the interim secretariat should not build on the TSU because of conflict of interest issues. Denmark highlighted the importance of having qualified and expert secretariat and said the current Technical Support Unit (TSU) would be useful in this regard. The Philippines said there should be a time limit for the interim period. The US said it is too early to discuss transitional arrangements, noting such arrangements would be distilled from the governing instrument being discussed. Egypt made some proposals for interim arrangements pending identification of the host country including: establishing an interim secretariat in 2012, which could be administratively co-located with a neutral UN body, such as the UN office in Nairobi; and appointing an interim head for the secretariat for a one-year period, to undertake specific functions relating to the first year of the fund's operations.

The meeting was then suspended for further discussion.

Later in the evening, Co-Chair Manuel introduced a new document containing the draft report of the Transitional Committee to the COP and an annex containing the draft governing instrument. He explained that there would be an additional annex containing the names of the Committee members. He then invited comments on the document.

Many members supported forwarding the document to COP 17, while expressing dissatisfaction with some aspects of it. China expressed concern regarding limiting contributions to the GCF to developed country parties and also withdrew its proposal to have a capacity building window under the GCF. The UK opposed reference in the text to the COP endorsing the selection of a host country. Japan supported the document on the understanding that the GCF board's decision making procedure would include a voting mechanism when consensus cannot be reached. The US called for more work on: the relationship between the COP and the GCF; legal status; balancing direct access and private sector activity; and participation in the GCF, particularly regarding which countries can contribute to it. Burkina Faso supported the document, noting however that the creation of new funding windows would require endorsement by the COP.

Saudi Arabia said some Committee members' views had not been reflected in the document, such as those relating to the impact of response measures, and financial inputs, specifically regarding clarifying that public finance from developed countries is the primary source of funds. He said he could not accept the document as it was, and suggested taking the document to the COP while indicating that the views of some Committee members had not been taken into account.

Co-Chair Manuel then presented the report for adoption. The US and Saudi Arabia opposed adoption of the report. The US, opposed by other members, suggested holding an additional Committee meeting to address outstanding issues. Brazil, supported by others, suggested forwarding the text to the COP with a note stating that there was no consensus. The meeting was then suspended for further informal consultations.

When the meeting reconvened, the US proposed alternative language stating that specified paragraphs in the draft report had been adopted by the Committee but divergent views were expressed on annex 1, containing the Committee's recommendations to the COP, and annex 2, containing the draft governing instrument. The Democratic Republic of the Congo, together with other members, opposed this proposal. Singapore, supported by some members, proposed that the text should simply state that the Committee adopted the text in Chapter III (the Transitional Committee's recommendations to COP 17), rather than stating that the Committee adopted the text by consensus. He further proposed stating the Committee submits the report to COP 17 for its consideration and approval. The US suggested an amendment to this proposal to the effect that the text in Chapter III was "considered" by the Committee, rather than "adopted." Switzerland proposed having language stating that text was considered and supported by a broad majority of Committee members. This last proposal was not supported, and Co-Chair Manuel said the proposal as initiated by Singapore and amended by the US would be used.

Final Outcome: The main outcome of the meeting was the report of the Transitional Committee to COP 17 (TC-4/3). The report contains the report of the Committee to the COP, the Committee's draft recommendations to the COP and the draft governing instrument for the GCF. In the report, the Committee states, *inter alia*, that the draft report was discussed at TC-4, that the Committee's recommendations to the COP were considered on 18 October, and that the report is submitted by the Committee to COP 17 for its consideration and approval.

In the draft recommendations, the Committee recommends that COP 17 should:

- take note of the report of the Committee;
- approve the governing instrument of the GCF as contained in Annex I of the report;
- request the UNFCCC Executive Secretary to invite regional groups and constituencies to nominate their Board members;
- request the Executive Secretary to invite parties to submit expressions of interest to host the GCF;
- invite voluntary contributions for the start-up of the GCF;
- request the Executive Secretary to set up an interim secretariat immediately after COP 17 to provide technical, administrative and logistical support to the Board;
- set the date for the first meeting of the Board; and
- consider the process for selection of trustee of the GCF.

The draft governing instrument for the GCF outlines the GCF's objectives and guiding principles, stating that in the context of sustainable development, the objective of the Fund is to promote a paradigm shift towards low-emissions and climate-resilient development pathways. It also outlines the GCF's governance and institutional arrangements, including its relationship to the COP and legal status, as well as the GCF Board's rules of procedure, and roles and functions. In addition, the instrument outlines the rules relating to the GCF's: administrative costs; financial inputs; operational modalities; financial instruments; monitoring and evaluation; fiduciary standards; environmental and social safeguards; accountability mechanisms; and termination.

CLOSURE OF THE MEETING

Past midnight, the meeting came to an end with Co-Chair Manuel expressing his appreciation to the Transitional Committee members and staff for their time and hard work. He noted that although the outcome was "sub-optimal", a lot of effort had gone into working towards an outcome. Vice-Chairs Burhan Gafoor (Singapore) and Ewen McDonald (Australia) also thanked the co-chairs, the facilitators and the Committee members. Co-Chair Lund then closed the meeting.