

SUBMISSION OF THE SOUTH CENTRE TO THE TRANSITION COMMITTEE TO DESIGN THE GREEN CLIMATE FUND

ON THE ISSUES OF WORKSTREAM 1 – SCOPE, GUIDING PRINCIPLES, CROSS CUTTING ISSUES

The following is a Submission of the South Centre, an inter-governmental organization comprising developing countries, and an Observer organisation of the UNFCCC, to the Transition Committee to Design the Green Climate Fund. This Submission is on the issues relating to Workstream 1 of the Committee, and broadly follows the themes of the workstream provided by the Co-Facilitators. The Centre may wish to revise this Submission in due course. The Centre will also make Submissions on other workstreams.

1. Objectives

It is proposed that the following be the Objectives or among the Objectives of the GCF:

1. The Green Climate Fund is designated as an operating entity of the financial mechanism of the Convention under Article 11, and that is accountable to and functions under the guidance of the Conference of the Parties, with the objective to support projects, programmes, policies and other activities in developing country Parties. (From Para 101, Cancun decision).
2. The Fund will contribute to the full, effective and sustained implementation of the Convention, in relation to implementation of commitments for the provision of financial resources, as mandated under Articles 4.3, 4.4, 4.5 and 4.9 of the Convention and in accordance with Article 11.
3. The objective of the Green Climate Fund is to manage the large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of achieving a balanced allocation between adaptation and mitigation (from terms of Reference of the Transition Committee).
4. The Fund will contribute to the goal of achieving coherence in the global financial architecture for financing for climate-related activities, under the authority and governance of the COP.

2. Principles

The following are among the Principles proposed for the Fund:

1. The Fund will maintain consistency with the policies, programme priorities, and eligibility criteria adopted by the decisions of the COP and all “activities (including those related to funding) relevant to climate change undertaken outside the framework of the financial mechanism” consistent with Decision 11/CP.1, op. para 2(a).
2. The Fund shall operate under the principles of equity and common but differentiated responsibilities
3. It will operate under the authority and guidance, and be fully accountable, to the COP;
4. It will have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance (Article 11.2);
5. It will enable direct access to funding by the recipient countries.
6. It will be country-driven and demand-driven, with recipient countries being involved during the stages of identification, definition and implementation, and responding to the needs and circumstances of the developing countries. The Fund will recognise, promote and strengthen the significance of engagement at the country level, in order to give effect to the principles of a country-driven approach, and direct access to funding.
7. The Fund will enable a holistic programmatic approach to funding, aimed not only at specific projects or activities, but at transformational change.
8. The Fund will make optimal and appropriate use of the full range of means of implementation available and to allow for large scale of implementation.
9. The Fund would facilitate linkages between the various funding sources and separate funds in order to promote access to the variety of available funding sources and reduce fragmentation.

3. Thematic scope and windows

3.1 Scope and mandate

The scope and the themes for funding should take their mandate from **the Convention, the Bali Action Plan and the relevant parts of the Cancun decision.**

All Parties to the UNFCCC have recognized the need to “urgently enhance implementation of the Convention in order to achieve its ultimate objective in full accordance with its principles and commitments” (Preamble, Bali Action Plan). The provisions of the Convention thus provide the starting point for any discussion of climate finance, and ultimate yardstick against which any effort to scale up climate finance and more effectively operationalize the UNFCCC financial mechanism must be measured.

3.1.1 Implementing the Convention

The UNFCCC includes a set of commitments regarding financing for climate change. In relation to **communication of information related to implementation**, the Convention (Article 4.3) commits the developed countries to provide new and additional financial resources to meet the “agreed full costs” incurred by developing countries in complying with their obligations to provide national communications (as set out in Article 12.1).

In relation to **implementation of other commitments** by developing countries, the Convention (Article 4.3) commits developed countries to provide such financial resources needed to meet the “agreed full incremental costs” of implementing certain measures (as set out in Article 4.1). In summary, these include:

- Formulating and implementing national and regional programmes containing **measures to mitigate** climate change and to facilitate adequate **adaptation** (Article 4.1(b));
- Cooperating in the **development and transfer of technologies** to mitigate climate change in all relevant sectors (including energy, transportation, industry, agriculture, forestry and waste management) (Article 4.1(c));
- Cooperating in the conservation and enhancement of **sinks and reservoirs** of greenhouse gases including **biomass, forests, oceans and other ecosystems** (Article 4.1(d));
- Cooperating in preparing for **adaptation** to the impacts of climate change, develop appropriate plans for coastal zones, water and agriculture and protection and rehabilitation of areas affected by drought, desertification and floods (Article 4.1(e)).
- Taking climate change into account in relevant policies and actions, and employing appropriate methods to **minimizing adverse effects** of projects or measures to mitigate or adapt to climate change (Article 4.1(f)).
- Promoting **scientific and other forms of observation** etc. to improve understanding of climate change and the consequences of response strategies (Article 4(g)).
- **Exchange and communicate information and promote education, training and public awareness** (Articles 4(h)-(j)).

In relation to the **adverse impacts of climate change**, the Convention (Article 4.4) commits developed countries to assist developing countries that are particularly vulnerable to the adverse effects of climate change in meeting the costs of adaptation to those adverse effects.

In relation to **technology transfer**, the Convention (Article 4.5) commits developed countries to take all practicable steps to “promote, facilitate and finance” the transfer of or access to environmentally sound technologies and know-how, and in the process to support the enhancement of endogenous capacities and technologies in developing countries.

The Convention provides that **the Conference of Parties is responsible for seeking to mobilize financial resources** in accordance with Article 4, paragraphs 3, 4, and 5 and Article 11 (Article 7(2)(h)). It is also responsible for arranging for the provision to developing countries of technical and financial support for national communications and in **identifying technical and financial**

needs associated with proposed projects and response measures under Article 4 (Article 12.7).

Also most relevant to the Transition Committee’s mandate, the Convention establishes a **financial mechanism** to provide financial resources on a grant or concessional basis, and to function under the guidance of and be accountable to the Conference of Parties (Article 11). Among other things, it requires the Conference of Parties, and the entity or entities entrusted with the operation of the financial mechanism, to agree on arrangements for the “determination in a predictable and identifiable manner **the amount of funding necessary** and available for the implementation of this Convention and the conditions under which that amount shall be periodically reviewed” (Article 11(3)(d)).

3.1.2 Fulfilling the Bali Action Plan

The **importance of enhanced action to implement the Convention was recognized in the Bali Action Plan**, in which Parties resolved to “urgently enhance implementation of the Convention in order to achieve its ultimate objective in full accordance with its principles and commitments.”

The Bali Action Plan thus launched “a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012”.

In relation to finance, the Bali Action Plan recognizes the need for “**enhanced action on the provision of financial resources and investment** to support action on mitigation and adaptation and technology cooperation”, and identifies a range of areas for further consideration (see box).

Finance elements of the Bali Action Plan

In relation to enhanced action on financing, the Bali Action Plan calls for consideration of:

- (i) Improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties;
- (ii) Positive incentives for developing country Parties for the enhanced implementation of national mitigation strategies and adaptation action;
- (iii) Innovative means of funding to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation;
- (iv) Means to incentivize the implementation of adaptation actions on the basis of sustainable development policies;

(v) Mobilization of public- and private-sector funding and investment, including facilitation of climate-friendly investment choices;

(vi) Financial and technical support for capacity-building in the assessment of the costs of adaptation in developing countries, in particular the most vulnerable ones, to aid in determining their financial needs

The Bali Action Plan also links mitigation actions by developing countries and the provision of financing, technology and capacity building by developed countries, in a **measurable, reportable and verifiable manner** (paragraph 1(b)(ii). In considering paragraph 1(b)(ii) as a means by which to enhance implementation of the Convention a number of the Convention's articles are particularly relevant, including:

- The commitment of developed countries to provide agreed full incremental costs (Article 4.3) to enable developing countries to implement programmes containing measures to mitigate climate change (Article 4.1);
- Recognition that developing countries “may, on a voluntary basis, propose projects for financing, including specific technologies, materials, equipment, techniques or practices that would be needed to implement such projects, along with, if possible, an estimate of all incremental costs, of the reductions of emissions and increments of removals of greenhouse gases, as well as an estimate of the consequent benefits” (Article 12.4); and
- Recognition that the extent to which the developing countries implement their commitments depends on “the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology” (Article 4.7).

In the Bali Action Plan, Parties recognized that delay in reducing emissions significantly constrains opportunities to achieve lower stabilization levels and increases the risk of more severe climate change impacts. **Enhancing action to implement the Convention's finance commitments is therefore an urgent priority** and a necessary condition for progress on other issues.

3.2 Thematic Areas for financing

The South Centre proposes the following thematic areas or “windows” for the Fund to finance:

1. Adaptation activities

2. Mitigation activities

3. Technology development and transfer

4. Capacity building of and institutional development in developing countries

5. Scientific development and preparation of national communications

There can be the designation of sub-themes or sub-windows linked to the above. For example, under Mitigation, there can be sub-themes of energy, industry, building, transportation, forests, agriculture, etc.

In the rationale for and operation of the themes and windows, it is important to refer to and base them on the relevant provisions of the Convention, the Bali Action Plan and the Cancun decision.

The provisions of the Convention establish a number of areas that require financing. These include the following (organized thematically):

Adaptation:

Developed countries have committed to:

- Provide agreed full incremental costs for cooperation in **preparing for adaptation** to the impacts of climate change;
- Provide agreed full incremental costs for cooperation in **developing appropriate plans** for coastal zones, water and agriculture and protection and rehabilitation of areas affected by drought, desertification and floods;
- Provide agreed full incremental costs for **formulating and implementing national and regional programmes containing measures** to facilitate adequate adaptation; and
- Assist particularly vulnerable developing countries in **meeting the costs of adaptation to adverse effects**.

Mitigation: Developed countries have committed to:

- Provide agreed full incremental costs for **formulating and implementing national and regional programmes containing measures** to mitigate climate change by addressing emissions by sources and removals by sinks of all greenhouse gases; and
- Provide agreed full incremental costs for cooperating in the **conservation and enhancement of sinks and reservoirs of greenhouse gases** including biomass, forests, oceans and other ecosystems.

Technology development and transfer: Developed countries have committed to:

- Provide agreed full incremental costs for cooperating in the **development and transfer of technologies to mitigate climate change in all relevant sectors** (including energy, transportation, industry, agriculture, forestry and waste management);
- Take all practicable steps to **finance the transfer of environmentally sound technologies and know-how** to developing countries; and
- Support the **enhancement of developing countries' endogenous technologies and capacities**.

Communications, capacity building and other actions: Developed countries have committed to:

- Provide agreed full costs required by developing countries to: prepare a **national greenhouse gas inventory**; undertake a general description of **steps taken or envisaged to implement the Convention**; and provide other information relevant to achievement of the objective of the Convention;
- Provide agreed full incremental costs of cooperating in **scientific and other forms of observation** to improve understanding of climate change and the consequences of response strategies; and
- Provide agreed full incremental costs of cooperating in exchanging information and promoting **education, training and public awareness**.

In the Cancun decision, the following was agreed to in relation to capacity building:

- *Also acknowledging* that, in addition, there may be specific capacity-building activities that require support to enable developing countries to undertake the enhanced implementation of the Convention,
- *Decides* that capacity-building support to developing country Parties should be enhanced with a view to strengthening endogenous capacities by inter alia:

- (a) Strengthening relevant institutions at various levels, including focal points and national coordinating bodies and organizations;
- (b) Strengthening networks for the generation, sharing and management of information and knowledge, including through North–South, South–South and triangular cooperation;
- (c) Strengthening climate change communication, education, training and public awareness at all levels;
- (d) Strengthening integrated approaches and the participation of various stakeholders in relevant social, economic and environmental policies and actions;
- (e) Supporting existing and emerging capacity-building needs identified in the areas of mitigation, adaptation, technology development and transfer, and access to financial resources;

- *Also decides* that financial resources for enhanced action on capacity-building in developing country Parties should be provided by Parties included in Annex II to the Convention and other Parties in a position to do so through the current and any future operating entities of the financial mechanism, as well as through various bilateral, regional and other multilateral channels, as appropriate;

In each of the above areas, financial resources are required to enable developing countries to effectively implement their commitments under the Convention. In light of this, the Convention requires the Conference of Parties and the entity or entities entrusted with the operation of the financial mechanism to agree on arrangements for the “determination in a predictable and identifiable manner the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed” (Article 11.3(d)).

It is proposed that when deciding on the themes to fund and the thematic windows, that the

terms of reference of the themes be based on and take into account the authorization for them as cited above (i.e. the Convention, the Bali Action Plan, the Cancun decision, etc).

4. Size and Scale of the Fund

4.1 General

It is the expectation that the GCF will be the main and major Fund of the Convention and indeed of the global climate efforts to support and enable developing countries. Thus the scale of the GCF should be large in absolute and relative terms (i.e. in relation to other existing funds and channels).

This is also indicated in the Cancun decisions. Para 95 notes the commitment by developed countries to provide new and additional resources, approaching USD 30 billion for the period 2010–2012; Para 97 decides that scaled-up, new and additional, predictable and adequate funding shall be provided to developing country Parties, and Para 98 *recognizes* that developed country Parties commit to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries; and Para 100 *decides* that a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund.

It should be noted that Para 100 specifically mentions that a “significant share” of new adaptation funding should flow through the GCF. The other paragraphs referred to above do not specifically mention the role of the GCF; but it can be assumed that a significant part of new financing of mitigation, technology and capacity building is also meant to be channeled through the GCF, since so much importance was placed on the establishment of the GCF before and during the negotiations at Cancun and indeed in the present post-Cancun period.

Just as importantly, Appendix 3 of the Cancun decision on the terms of reference for the design of the GCF specifically refers in Para 1(c) to “Methods to manage the large scale of financial resources from a number of sources and deliver through a variety of financial instruments”.

Thus it must be concluded that the GCF is intended to manage a large scale of financial resources. This large scale has implications in shaping the organs of the Fund (such as the size of the Secretariat), and the nature and scale of the institutions in the developing countries.

As to specific details of the scale required, the Convention itself provides more guidance.

The Convention requires the Conference of Parties and the entity or entities entrusted with the operation of the financial mechanism to identify the scale of financing that is needed to implement the Convention.

They are required to agree on arrangements to determine in a predictable and identifiable manner “**the amount of funding necessary and available for the implementation of the Convention and the conditions under which that amount shall be periodically reviewed**” (Article 11.3(d)). The Convention also requires the Conference of Parties to “seek to mobilize financial

resources” in accordance with Article 11, as well as Articles 4, paragraphs 3, 4 and 5.

In practice, determining the amount of funding necessary for the implementation of the Convention requires consideration of a number of related questions:

- What are the **main thematic areas** that require financing (e.g. adaptation, mitigation, forests, technology, national reporting etc)?
- For each area **what costs** are to be covered **and at what level** (e.g. full costs, incremental costs, other)?
- How can these costs be **accurately estimated** (e.g. what studies and methodologies)?
- How will assessments differ based on final outcomes of **other negotiating parameters** (e.g. how will adaptation costs and mitigation costs differ for global goals of 1, 1.5 and 2°C)?

An assessment of the scale of financing, in turn, provides important context when examining how the financing will need to be raised (i.e. its sources) as well as how it is governed in practice.

4.2 Full and incremental costs

Determination of the amount of funding necessary for the implementation of the Convention requires **an evaluation, of each of the thematic areas covered by the Convention and collectively, of the type of costs to be covered – including those which are to be financed at agreed “full costs” and at agreed “full incremental costs”**, as well as financing required to address other commitments described in the Convention.

The **full costs** to developing countries of national communications can be estimated on the basis of actual historical costs. Future cost estimates should presumably include any additional costs associated with enhanced measurement, reporting or verification under the Convention and the Bali Action Plan.

The Convention requires developed countries to assist developing countries that are particularly vulnerable to the adverse effects of climate change in “**meeting the costs of adaptation** to those adverse effects”. Under the Adaptation Fund (established under the Kyoto Protocol) funding is provided “on full adaptation cost basis of projects and programmes to address the adverse effects of climate change”.¹ In this context, full costs is defined to mean “the costs associated with implementing concrete adaptation activities that address the adverse effects of climate change.”²

Different approaches have been advanced to calculate and assess **incremental costs**. The Global Environment Facility, reflecting its diverse focal areas, has adopted a generic five-step process to evaluate incremental costs based on the expected “global environmental benefits”.³ This involves:

¹ Adaptation Fund Board, *Operational Policies and Guidelines for Parties to Access Resources from the Adaptation Fund*, p. 2, para. 14

² *Id.*

³ Global Environment Facility, *Operational Guidelines for the Application of the Incremental Cost Principle*, 14 May 2007

- A determination of the environmental problem, threat, or barrier, and the “business as-usual” scenario (i.e. what would happen without the GEF?);
- Identification of the global environmental benefits and fit with GEF strategic programs and priorities linked to the GEF focal area;
- Development of the result framework of the intervention;
- Provision of the incremental reasoning and GEF’s role; and
- Negotiation of the role of co-financing.

The Montreal Protocol and Convention on Biological Diversity, by contrast, each require the development of more detailed “indicative lists” of incremental costs.⁴ Under the Montreal Protocol a request for financing of a **project’s incremental costs are evaluated in light of general principles:**

- The most cost-effective and efficient option should be chosen, taking into account the national industrial strategy of the recipient Party (e.g. Does infrastructure have alternative uses to decrease capital abandonment? How to avoid deindustrialization and loss of export revenues?);
- The list of cost items in a project proposal should be carefully scrutinized to ensure there is no double counting;
- Savings or benefits gained at the strategic and project levels during the transition process should be taken into account according to criteria decided by the Parties; and
- Funding of incremental costs is intended as an incentive for early adoption of ozone protecting technologies. The Executive Committee is to agree to timescales for payment.⁵

The Montreal Protocol has agreed **indicative lists to enable a more precise calculation of incremental costs.** These include items such as:

- The capital cost of converting existing facilities;
- Patents, designs and incremental costs of royalties;
- Cost of retraining personnel;
- Costs of adapting technologies to local circumstances;
- Costs from premature retirement of facilities or enforced idleness;
- Costs of establishing new production facilities for substitutes of capacity equivalent to capacity lost when plants are converted or scrapped;
- Net operation costs of new facilities;
- Cost of import of substitutes; and
- Costs of certain research and development.

In certain cases, **specific quantitative methodologies** are provided for the calculation of incremental costs.⁶ The Multilateral Fund meets incremental costs once they are agreed.

⁴ Convention on Biological Diversity, Article 20.2 Financial Resources

⁵ Ozone Secretariat United Nations Environment Programme, *Handbook For The Montreal Protocol On Substances That Deplete The Ozone Layer – 7th Edition*, 2006, p. 424

⁶ The Eighteenth Meeting of the Executive Committee decided that the incremental cost of certain technological upgrades would be calculated as: $IC = [CC - NPV(FI)] + NPV[FbB - Fbp]$, where, IC is the incremental cost, CC is the capital cost of the conversion project, FI is future baseline investments (that would have occurred absent the conversion), Fbb is the future baseline benefits (that would have occurred absent the conversion), Fbp is the future benefits with the conversion project and NPV refers the net present value of a stream of costs/benefits. *See*,

The Montreal Protocol’s approach to the calculation of incremental costs offers considerable lessons for the climate regime. Use of the Protocol’s technical bodies to develop lists of incremental costs in different sectors has facilitated a practical and solution-oriented approach and encouraged participation by experts from developed and developing countries, the private sector, academia and civil society. **In the context of climate change, a sector-by-sector approach (using, for instance, the mitigation and adaptation sectors referenced by the IPCC) could help to replicate key lessons in the context of the UNFCCC**, while recognizing also that climate change affects a more diverse set of issues, actors and economic sectors.⁷

4.3 Estimating financial needs and costs of adaptation, mitigation, etc.

Drawing on the thematic areas and types of costs to be covered, as well as the level of action agreed by developing countries, **the scale of financing should be estimated on the basis of clear methodologies and processes**. Estimates should seek to be comprehensive and reflect the relevant provisions of the Conventions. Such an approach is necessary for Parties to comply with their collective commitment to ensure “determination in a predictable and identifiable manner the amount of funding necessary and available for the implementation of the Convention”.

Unfortunately, very few of the estimates offered so far provide comprehensive estimates of the funding necessary for the implementation of the Convention. A critique of some of the estimates and the methodologies for arriving at them are in other papers of the South Centre.

The World Bank has estimated that the **cost of adaptation** activities required in developing countries amount to \$75-100 billion a year, while the comprehensive IIED-Grantham Institute study led by Martin Parry estimated about \$400-500 billion is needed by developing countries to meet annual adaptation costs in developing countries. On **mitigation**, the World Bank’s World Development Report 2010 estimated that: “In developing countries mitigation could cost \$140 to \$175 billion a year over the next 20 years (with associated financing needs of \$265 to \$565 billion.)”. This estimate is associated with the stabilizing greenhouse gas concentrations at 450 ppm. The Bank distinguishes between mitigation cost (which it defines as the incremental costs of a low-carbon project over its lifetime) and incremental investment needs (the additional financing requirement created as a result of the project).

The proposal by the G77 and China for financing equivalent to at least 1.5% of Annex I GDP (roughly \$600 billion) is approaching (but still below) the order of financing required.

To ensure ongoing assessments of the level of climate finance based on sound scientific and economic assessments, **a process should be established to ensure that the amount of financing necessary for the implementation of the Convention is periodically reviewed and updated** in accordance with Article 11.3(d). As is the case with some other funds – such as the

Handbook For The Montreal Protocol On Substances That Deplete The Ozone Layer (2006), p. 424; and UNEP/OzL.Pro/ExCom/18/75, Decision 18/25 par 57

⁷ K. Madhave Sarma, Technology Transfer Mechanism for Climate Change, <http://www.igsd.org/docs/SarmaTT%2024Mar08.pdf>

Multilateral Fund – recommendations for the level of financing should be provided regularly based on sound technical and economic advice from bodies that are accountable to the Parties, for consideration by the Conference of Parties.

4.4. Phasing in the large scale of the Fund

It may not be feasible to expect that the full amount of long-term flows of funds required or agreed on are made available at the start of the Fund's establishment or operations. Thus, there can be a plan for the phasing in of the volume of resources. The Transitional Committee should decide on activities that require funding in the initial phase of the Fund, the second phase and so on. For example, in the initial phase, the funding of capacity building and institutional development in developing countries should already be provided, as well as consideration of programmes or projects that are already "mature" in planning or in operation. The initial expectation of the flow of funds should also be mapped out, by the Committee and subsequently by the COP and the Board.

5. Encouraging and ensuring a Country driven approach and the role of a Country Coordination Mechanism

5.1 Defining and Supporting A Country-Driven Approach

It is vital that the Fund is driven by the developing countries, which are the recipients of the funds. The reason is that the Fund's aim is to support them to implement climate policies, measures, actions and activities. The more effectively this is done, the more effective is the impact of the Fund and the resources used. Thus the Fund's resources have to be allocated in the most appropriate forms and for the most appropriate uses, that are suitable for the recipient countries. The Fund has to be tailored to the needs and circumstances of each country. Therefore a country driven approach is required, with the full participation of the countries concerned.

This approach is recognized by the Cancun decision in its section on Capacity Building, which reaffirmed that "Capacity-building should be a continuous, progressive and iterative process that is participatory, country-driven and consistent with national priorities and circumstances." This principle should also apply to the overall operations and methodology of the Fund.

Other provisions of the capacity building section of the Cancun decision are also relevant in this regard:

- Reaffirming that capacity-building is essential to enable developing country Parties to participate fully in addressing the challenges of climate change, and to implement effectively their commitments under the Convention,
- *Decides* that capacity-building support to developing country Parties should be

enhanced with a view to strengthening endogenous capacities at the subnational, national or regional levels, as appropriate, taking into account gender aspects, to contribute to the achievement of the full, effective and sustained implementation of the Convention, by, inter alia:

- (a) Strengthening relevant institutions at various levels, including focal points and national coordinating bodies and organizations;
- (b) Strengthening networks for the generation, sharing and management of information and knowledge, including through North–South, South–South and triangular cooperation;
- (c) Strengthening climate change communication, education, training and public awareness at all levels;
- (d) Strengthening integrated approaches and the participation of various stakeholders in relevant social, economic and environmental policies and actions;
- (e) Supporting existing and emerging capacity-building needs identified in the areas of mitigation, adaptation, technology development and transfer, and access to financial resources;

- Para 131. *Also decides* that financial resources for enhanced action on capacity-building in developing country Parties should be provided by Parties included in Annex II to the Convention and other Parties in a position to do so through the current and any future operating entities of the financial mechanism, as well as through various bilateral, regional and other multilateral channels, as appropriate;
- 134. *Encourages* developing country Parties to continue to report through their national communications, in accordance with the “Guidelines for the preparation of national communications from Parties not included in Annex I to the Convention”, on progress made in enhancing their capacity to address climate change, including on the use of the support received;
- 135. *Invites* developing country Parties in a position to do so to provide information, through annual submissions to the secretariat and other appropriate channels, on progress made in enhancing their capacity to address climate change, including on the use of the support received;
- 136. *Requests* the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to consider ways to further enhance the monitoring and review of the effectiveness of capacity-building, for consideration by the Conference of the Parties at its seventeenth session;
- 137. *Also requests* the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to further elaborate the modalities regarding institutional arrangements for capacity-building, for consideration by the Conference of the Parties at its seventeenth session;

The above provisions in the Cancun decision provide the framework for the modalities for capacity building and institutional development in developing countries that can include:

- (1) the organization at the national and sub-national level for the planning of climate-related activities,
- (2) the placement of these activities in the broader economic and social plans of the country,
- (3) the estimation of financial requirements (including through international cooperation) for implementing the climate activities,
- (4) the system for applying to obtain international climate financing,
- (5) the establishment of the system of receiving and allocating international climate financing, including through the GCF,
- (6) the establishment of a system for accountability of the receipt and use of the funds and the system of managing the funds.

In addition, in accordance with the Cancun decision on capacity-building, the Fund could encourage developing countries (including through funding at the initial phase of the Fund) to undertake the following processes and activities:

- (a) Strengthening relevant institutions at various levels, including focal points and national coordinating bodies and organizations;
- (b) Strengthening networks for the generation, sharing and management of information and knowledge, including through North–South, South–South and triangular cooperation;
- (c) Strengthening climate change communication, education, training and public awareness at all levels;
- (d) Strengthening integrated approaches and the participation of various stakeholders in relevant social, economic and environmental policies and actions;
- (e) Supporting existing and emerging capacity-building needs identified in the areas of mitigation, adaptation, technology development and transfer, and access to financial resources;

5.2 Supporting Country Coordinating Mechanisms

The GCF can also encourage developing countries to establish country coordinating mechanisms that involve the various relevant Government Departments and Ministries, as well as the Government coordination with the stakeholders and national players, including small and medium enterprises, financial institutions, the farmers, the informal sector, the consumers and the trade unions, academia and scientists and other civil society groups.

Effective national cooperation and coordination can help to ensure the early and effective uptake of available financial resources and maximize their results. Ultimately, **cooperation among numerous actors – across different sectors and at the local, regional and national level – will be necessary** to scale up actions to address climate change. The country coordination mechanisms would have to link up with the relevant components of the GCF secretariat, expert panels and at the higher levels with the Board.

In encouraging the establishment of the country mechanism, the GCF can learn from the experience of other Funds. Mechanisms to catalyze and structure cooperation have played a key role in what are often regarded as the most successful funds, including the Multilateral Fund and Global Fund.

The success of the Montreal Protocol has in no small part had to do with strong support for effective national cooperation. Parties to the Montreal Protocol have undertaken substantial efforts to engage stakeholders, with most Parties operating national steering committees involving representatives of government ministries (e.g. agriculture, defense, environment, finance and industry), various industry associations, technical experts, non-governmental organizations and various international implementing agencies and bilateral donors.⁸ Collaboration among stakeholders is been further supported through national “ozone offices” which serve as a focal point and engage with the Multilateral Fund and Ozone Secretariat. These focal points have been organized into nine regional and global networks to facilitate the exchange of information, best practices and technology transfer.⁹ They also engage with relevant bodies under the Montreal Protocol, including the Technical Options Committees (organized around key sectors) and an overarching Technical and Economic Assessment Panel (comprising the co-chairs of each of the options committees and other experts). Together, this constellation of institutions has enabled effective cooperation in the implementation of the Montreal Protocol, with the support of financial resources provided through the Multilateral Fund.

The Global Fund’s “country coordinating mechanism” provides an effective model to enhance national cooperation. According to Global Fund documentation:

The Global Fund recognizes that only through a country-driven, coordinated and multi-sector approach involving all relevant partners will additional resources have a significant impact on the reduction of infections, illness and death from the three diseases. Thus, a variety of actors, each with unique skills, background and experience, must be involved in the development of proposals and decisions on the allocation and utilization of Global Fund financial resources. To achieve this, the Global Fund expects grant proposals to be coordinated among a broad range of stakeholders through a Country Coordinating Mechanism (CCM), and that the CCM will monitor the implementation of approved proposals.¹⁰

Country Coordinating Mechanisms have played a key role in developing proposals and overseeing the use of resources provided by the Global Fund. Their functions include coordinating the submission of national proposals, selecting organizations as “principal recipient” for grants, monitoring implementation, evaluating performance and ensuring consistency with other priorities. The Global Fund recommends that countries strive to include in their Country Coordinating Mechanisms representatives from: government; the academic and educational sector; NGOs and community-based organizations; people living with HIV/AIDS, TB and/or Malaria; key affected populations; private sector; religious and faith-based organizations; and multilateral and bilateral development partners in-country. Underpinning the

⁸ Sarma, K. Madhava. *Lessons from the Success of the Montreal Protocol*, in “The Montreal Protocol: Celebrating 20 Years of Environmental Progress” Cameron & May, 2007, p. 134

⁹ *Id.*

¹⁰ The Global Fund, *Guidelines and Requirements for Country Coordinating Mechanisms* p. 1

role of country coordinating mechanisms is the need to promote true partnerships and engage a wide range of stakeholders in identifying gaps and finding solutions to the challenges addressed by the Global Fund (See Annex 2).

The experience of the Montreal Protocol and Global Fund suggests that **a constellation of formal and informal institutions – involving different stakeholders, sectors and levels of organization – is a key ingredient of success.** In the case of climate change, these institutions include the formal arrangements of the UNFCCC financial mechanism – i.e. its operating entities, funds, trustees, secretariat, expert panels and so on. It also includes the informal networks and partnerships that are required for effective action in practice. Designing these institutions raises a range of questions about the “governance of finance”.

6 The special nature (or value-added) of the Fund and the complementariness with other funds

The terms of reference for the Transition Committee includes that it should consider “Methods to enhance complementarity between the Fund’s activities and those of other bilateral, regional and multilateral funding mechanisms and institutions.”

It is the expectation that the GCF would have a specific special nature and role. Its establishment arises from a felt deficiency in international climate financing, that the amounts are inadequate, that there is fragmentation, and that there is no existing Fund with adequate significance that is tailored to fulfill the commitments in the Convention in accordance with the objectives, principles and provisions of the Convention.

The design and operation of the GCF should thus strive to remedy this deficiency. The Terms of Reference of the Transition Committee requests that it consider “Methods to manage the large scale of financial resources from a number of sources and deliver through a variety of financial instruments, funding windows and access modalities, including direct access, with the objective of achieving a balanced allocation between adaptation and mitigation”. This comprehensive mandate given to the TC strongly implies the intention of the COP that the GCF be the major financial entity in the Convention, and that it has the potential to be the defining Fund in international climate financing.

Thus the GCF should be designed in line with this special status. In the UNFCCC negotiations, a key confidence building measure that will have positive implications in the overall atmosphere would be the successful establishment and operation of the GCF, which would be the major instrument through which the financial commitment of developed countries can be fulfilled, recognized, and verified, and which would contribute the financial aspect of support required to enable developing countries to fulfill their own obligations to undertake climate actions. This provides the GCF with a pre-eminent role in international climate financing that goes beyond the technical aspect of collecting and distributing funds. It would also have the political role of mobilizing the implementation of commitments of developed and developing countries.

As the latest Fund for climate activities, the GCF should complement its role and activities within the constellation of all the other existing various funds. However, since the GCF has a special status inside the Convention and in the universe of climate organizations for being the embodiment of the expression of political commitments, this status should eventually attract other funds to complement themselves to the GCF. The GCF has to set the example, of what good climate financing is, both from the point of the MRV of financing commitments of developed countries, and of the good use to which the financial resources will be put to use in developing countries. The more specific aspects of how the GCF is to relate to other specific funds can be further discussed by the Transition Committee and also by the Standing Committee, etc.

NOTE: A South Centre research paper on Operationalising the UNFCCC Finance Mechanism can be obtained at the website www.southcentre.org

The South Centre can be contacted in relation to this Submission at director@southcentre.org