

DISSECTING THE GREEN CLIMATE FUND

Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III)

Submitted through the UNFCCC constituency of Research and Independent NGOs

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‘Thematic Funding Windows’?

The Cancun Agreement stipulates (Paragraph 102) that the Green Climate Fund (GCF) is to *support projects, programmes, policies and other activities in developing country Parties using thematic funding windows*. While there is some intuitive understanding of the kind of things the Fund is meant to support, the notion of a ‘thematic funding window’ is rather more obscure.

Funding Windows – Ring-fencing and earmarking

A Background Note¹ on the subject by the Technical Support Unit (TSU) for the Transitional Committee explains the notion of a ‘thematic funding window’ as *a sub-structure within a fund that allows for specialisation in and a focus on a particular sector, issue, or access modality*. But then, one may wonder, what exactly is meant by ‘sub-structures’ in this context?

In my understanding, ‘funding windows’ are, first and foremost, budgetary line items. As such they can be used either to *ring-fence certain assets*,² or to *earmark certain contributions*.³ Any eligible party would like to make sure that they actually get something. This is why there is a belief that if one has a funding window, funding will be assured. The trouble with this is that, in most cases, the existence of funding windows also means that contributors (‘donors’) can pick and choose which window they want their contribution to go to, and this is by no means the same as having some existing funds ring-fenced for a purpose. For example, it is not self-evident that an LDC window in the GCF would necessarily be attracting larger contributions than the LDC fund.

Indeed, if – as has been argued elsewhere⁴ – the GCF is to serve as tool *to rectify imbalances in the overall climate finance regime* – be that (‘thematic’) imbalances between, say, overall financing for mitigation and adaptation, or ‘geographic’ imbalances between donor ‘darlings’ and ‘orphans’ – then windows which allow for earmarked contributions are most likely to be counterproductive. Given that the imbalance in the regime is due to bilateral funding choices by the same actors who would be able to earmark funding windows for their GCF contributions, it stands to reason that the earmarked allocations to the windows would be as imbalanced as the overall

¹ *Workstream III: Operational Modalities: Sub-workstream III.2: Managing Finance – Background note: Thematic windows*; TC-2/WSIII/4; 29 June 2011

² *ring-fence, v.:* To separate off or protect with an effective or comprehensive barrier or procedure. Also: to reserve for a particular purpose. [OED]

³ *earmark, v.:* To set aside (money, etc.) for a particular purpose. [OED] *funds – “Ango-China window for CCS projects.*[OED]

⁴ Benito Müller and Anju Sharma, *Submission of views regarding the questions for the first technical workshop of the Transitional Committee suggested by the co-facilitators of work stream I*, 20 May 2011;

regime. Funding windows hence do not guarantee funding, and they can subvert the aim of balanced and equitable funding if they can be earmarked for contribution.⁵

One way of overcoming the problems of earmarked contributions, should they be permitted, would be to assure a significant ‘core income’ for the GCF through what has become known as *international innovative finance*, such as the International Air Passenger Adaptation Levy proposed by the LDC Group. While the Transitional Committee cannot negotiate such innovative sources, it should certainly consider them in its discussion of ‘finance entry points.’⁶

What ‘themes’?

The funding windows referred to in the Cancun Agreement are qualified as being ‘thematic’, but what exactly does this mean? The TSU Background Paper seems to take a rather broad view - essentially anything that funding can be ‘focused on.’ It finds that *among existing funds there are four broad categories of thematic funding windows:*

(a) Themed by scope (e.g. mitigation, adaptation)

These windows are defined by the substantive focus of activities under the window. or examples, these might be arranged as mitigation, adaptation, etc.

(b) Themed by geography (e.g. particular countries or regions)

These windows are defined by the countries that are eligible to access them. These could be particular regions, such as Africa, or countries with particular geographic characteristic (whether physical, such as SIDS, or socio-economic, such as LDCs).

(c) Themed by instruments/modality (e.g. private sector, multilateral access, direct access, bilateral access)

Windows under this category would focus on particular financing instruments or access modalities. An instrument focus could, for example, be private sector instruments; an access modality focus could, for example, be direct access.

(d) Hybrid Options

The three categories of windows above can be combined into various hybrid options. This could take the form of substantive windows (such as mitigation, adaptation, etc) in which there are specific funds ring-fenced based on geography or particular access modalities. Alternative, this could take the form of a single window with both a substantive and geographic focus.

This interpretation of ‘thematic window’ may be apt if one wishes to cover as many ‘sub-structures’ of other funds as possible, but it does not reflect the sense in which it is used in the Cancun Agreements. That sense is more narrow, reflecting the use of ‘thematic’ in other UNFCCC funds, and indeed in the TOR of Transitional Committee itself.⁷ More specifically, the paragraph 102 use of ‘thematic funding windows’ refers to the traditional UNFCCC funding areas of *mitigation, adaptation, technology transfer, capacity building* and certain particularly vulnerable groups of countries (*LDCs, SIDS, Africa*), but not to ‘themes’ identified in terms of ‘modalities’ and ‘instruments.’

Funding Windows and Institutional Architecture: thematic versus functional divisions?

The architectural connotations of the everyday meaning of ‘window’ should not mislead one into assuming that ‘funding windows’ need to be reflected in the institutional architecture of the GCF.

⁵ Of the 6 funds examined in the Background Paper, all except the GEF Trust Fund allow for earmarking to ‘windows’.

⁶ Workstream III, Sub-workstream 1.

⁷ ‘thematic bodies established under the Convention’[Appendix III, 1(h)]

Of course, it may make sense to have the GCF sub-divided into a number of functional units – say ‘*Divisions*’ of the Fund.⁸ But there is no *a priori* reason why this internal division should coincide with the budget-related ‘funding windows’.

Indeed, there are good reasons why this may not be the best way to proceed. The fact is highly likely that there will be different instruments and access modalities in the architecture of the GCF. For one there will both be *multilateral* and *direct access*, and there may well be some form of ‘private sector instruments’, say, as used in *Public Private Investment Funds*.⁹ While there may be some thematic areas – in the more narrow sense specified in the preceding section – for which some of these instruments and access modalities are less appropriate, most of the areas would have to be given access to all available instruments and modalities.

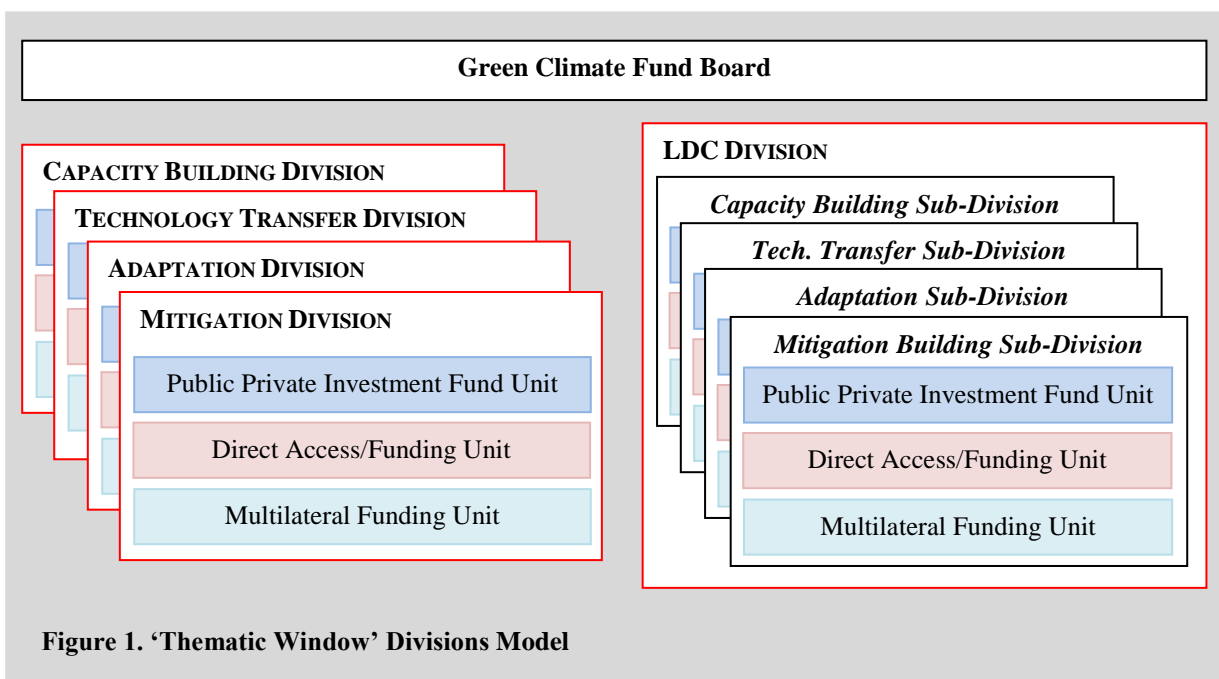


Figure 1. ‘Thematic Window’ Divisions Model

Thus if one were to use *thematic area Divisions*, one would have to accommodate most if not all of these functional instruments and modalities in each of the Divisions, as illustrated in Figure 1. The structure would become even more complex if one were to introduce Divisions based on ‘regional’ thematic windows. It is unlikely that, say, an ‘LDC Division’ would be restricted to just one of the traditional thematic areas. This could necessitate the introduction of *thematic Sub-Divisions*, which in turn would have to accommodate all the relevant instruments and modalities.

While it is difficult to see how one could disallow thematic areas to avail themselves of most if not all of the available instruments and modalities, it is easier to see that the running of these instruments and modalities may not need expertise in all the thematic areas. For example, if ‘direct access’ involves the devolution of funding decisions to institutions (‘National Funding Entities’, NFEs) in the eligible recipient countries, then clearly the skills to assess projects/programmes for approval are no longer needed at the GCF level. What is needed, instead, are the technical skills and expertise to *evaluate and audit the entities receiving direct access funding*.

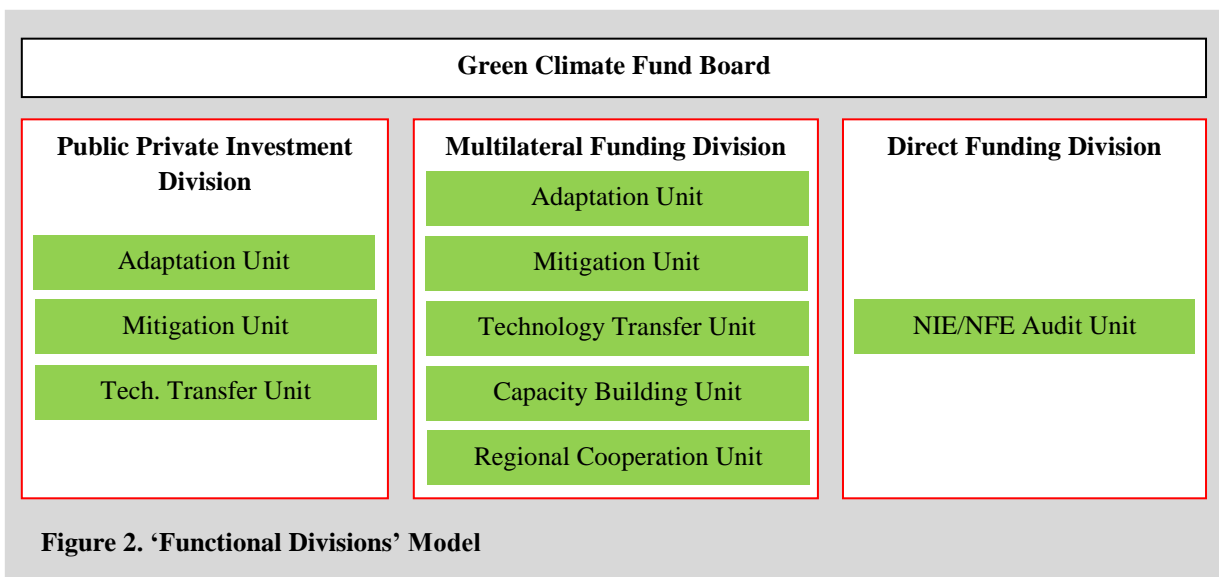
Not being sufficiently familiar with what range of skills is needed to run a *Public Private Investment Fund*, I do not know whether and to what extent thematic knowledge is required, but it stands to reason that the investment experience needed over-and-above such thematic knowledge

⁸ In Müller and Sharma 2011, the term chosen for these sub-divisions was ‘Arms’, but that clearly becomes somewhat awkward if there are more than two of them.

⁹ See Section III. Combining Financing Instruments, Example 1 in *Workstream III: Operational Modalities; Background note: Further information on financing instruments*, TC-2/WSIII/3, 29 June 2011

would warrant the introduction of a separate division, if it were decided to have the GCF engage in this sort of investments.¹⁰

What is clear is that, in terms of thematic areas, *traditional multilateral funding* of projects and programmes – with funding decisions taken at the multilateral fund level – will have to involve all eligible themes (and more).¹¹ Moreover, this type of access modality will require extensive expertise of the thematic subjects and, as argued elsewhere,¹² will be the most personnel intensive (staff per funding) of the potential GCF operations.



At the same time, precisely because this funding mode is well known, setting up a '*Multilateral Funding Division*' would be possible in a relatively short time. Assuming available start-up funds, it would also be able to start disbursing much more quickly than for example a Direct Funding Division, which would first have to create the institutional enabling conditions for direct funding (i.e. NFEs).

Summary

Thematic Funding Windows should be treated with caution, particularly if contributions can be earmarked for them, and they should be considered as budget lines and not institutional sub-entities of the GCF.

If, as argued elsewhere,¹³ an institutional sub-division of the GCF is inevitable, then its basis should not be thematic windows, but functional aspects, namely the access modalities and financing instruments of the GCF.

In practice, the blueprint for the GCF should envisage a number of *Divisions*, starting with a traditional Multilateral Funding Division, to be complemented over time with a Direct Funding Division, and possibly with some form of private sector instrument, such as a Public Private Investment Division.

¹⁰ Figure 1 also reflects my intuition that some themes, such as capacity building, might not lend themselves naturally to investments of this sort, but this only a guess on my part.

¹¹ Traditional funding will have to be provided not only as a safeguard for those eligible countries that could not otherwise access funding, but also because there may be areas, such as regional collaboration, which may not lend themselves to any other funding mode.

¹² Müller and Sharma, 2011.

Available

http://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/oies_wsi_270511.pdf

¹³ *Op. cit.*

at: