South-South Solidarity in Climate Finance

A GCF OPERATED SOUTHERN SOLIDARITY FUND

Concept Note*

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Speaking at a dinner hosted by the Indonesian government during the recent Green Climate Fund Board meeting in Bali, Mr. Bambang Brodjonegoro, the Vice Minister of Finance, stated:

> 'During this Board Meeting in Bali, Indonesia announces its pledge to contribute to the Fund. Indonesia also stands ready if all countries are required to contribute for the capital base of the Fund. I am hoping this contribution can support the Fund's activities in helping developing countries to prepare and finance emissions reduction and adaptation programs, including capacity building programs under the South-South Cooperation that replicate the success stories of climate change programmes in other countries. I do hope other more capable countries can consider making pledges, or adding to their pledges, or making an indication of their pledges during this Bali meeting.'[2]

The significance of this announcement should not be underestimated. It signals the readiness of a major developing country to provide voluntary support for South-South Cooperation on climate change through the Green Climate Fund (GCF).

Developing country contributions have been a highly controversial issue from the very beginning of the GCF design, resulting in the rather minimalist, but very carefully crafted, two-paragraph section on 'Financial Inputs' in the GCF Governing Instrument:

29. The Fund will receive financial inputs from developed country Parties to the Convention.
30. The Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources.

At the heart of the controversy is, on the one hand, the view of some developed countries thus mandated to provide financial inputs that − given (i) their own financial difficulties and (ii) the economic growth of some of the larger 'emerging economies' such as China, as well as the level of prosperity in some of the smaller G77[3] countries such as Singapore and Qatar – they will not be able to convince their taxpayers to provide financial inputs to the GCF, at least not at the scale that is required to deal with the problem of climate change, in the absence of developing country contributions.

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On the other hand, there is the view in some developing countries that this call for voluntary developing country contributions is not so much about enabling developed countries to provide more finance, but about shifting the financial burden of climate change (even further) to developing countries. Moreover, there is the fear that allowing for voluntary input would be the first step on the slippery slope to mandatory developing country contributions, which is seen to be inconsistent with the prevailing differentiated responsibilities.

However, this Note is *not* about whether these views and concerns are correct or justified, but – taking them at face value − about whether there might be a way forward to reconcile them.

Table1 South-South Foreign Assistance[*]		
2011	*US $m*	*as % of GNI*
Kuwait	145	0.20%
Brazil (2009)	362	0.02%
Qatar	729	n/a
India	731	0.04%
UAE	737	0.20%
China	2,500	0.08%
Saudi Arabia	5,000	0.90%
Total	**10,204**	

[*] www.globalhumanitarianassistance.org/country-profiles

There are already significant flows of South-South Foreign Assistance (Table 1), and developing countries should also be given the opportunity to provide support to their peers for climate change activities without having to fear unwarranted consequences. Moreover, such support should be able to avail itself of the best available delivery systems, such as hoped to be established under the Green Climate Fund, in particular through Enhanced Direct Access, where operational decision-making is devolved to recipient countries.

Is there a way for developing countries to provide voluntary financial support for their peers while availing themselves of the (potential) advantages of the GCF architecture, without compromising their stance regarding differentiated responsibilities? Given judicious ring-fencing, both architecturally and with respect to the nature of such support, this could indeed be possible.

To avoid the contributions being interpreted as counting towards differentiated responsibilities, they would have to be clearly identified, consistent with their voluntary status, as a matter purely of South-South *solidarity*. The allocation of these southern solidarity contributions should be left to the developing countries as the intended contributors and recipients, with the general infrastructure (access modalities, administrative services and so on) provided by the GCF.

There are a couple of architectural features in the GCF which might be considered for this purpose, namely a 'funding window' (currently introduced only for adaptation and mitigation), and a 'facility' (as in the GCF's Private Sector Facility), but neither of them would provide the required sort of ring-fencing. There is, however, a precedent in the other operating entity of the financial mechanism which might just be able to satisfy these requirements, namely the Marrakech climate funds.

In December 2001 (Marrakech) the COP decided 'that a least developed countries fund shall be established (in accordance with decision 7/CP.7), to be operated by an entity entrusted with the operation of the financial mechanism, under the guidance of the Conference of the Parties.'

'When the Bank considered the invitation from the Council, the Bank concluded, after having reviewed the provisions of the Instrument, that it will not require an amendment to the existing Instrument, because the Instrument does not preclude the GEF from managing additional trust funds in its capacity as the financial mechanism for the UNFCCC.' [4] The Least Developed Country Fund (LDCF) and the Special Climate Change Fund (SCCF) were subsequently established, not on the basis of the GEF Instrument, but through a 'multi-donor trust fund administration agreements (TF AA) entered into between the [World Bank] as trustee … and parties contributing to such funds. … following the decision of [COP 7] to invite the GEF to operate such funds.'[5] In 2006, the GEF established a dedicated executive body for the LDCF and the SCCF ('LDCF/SCCF Council') with the proviso that 'any decisions or actions directly affecting only the LDCF, [and] the SCCF ... will be delegated to the LDCF/SCCF Council'[6]

Following these examples, the idea proposed here is for the COP to decide (i) to establish a *Southern Solidarity Fund* (SSF) with a developing country Board to receive voluntary contributions from developing countries for South-South climate change cooperation, and (ii) to request the GCF, as operating entity of the financial mechanism, to operate the new fund. As there is no provision in the GCF Governing Instrument inconsistent with such a request, and as the GCF itself has legal personality, there should be no problem in setting up such a trust fund operated by the GCF, with the developing country GCF Board members sitting as the SSF Board.

To be quite clear, in the proposed setup the GCF would not 'own' the SSF but − as Operating Entity of the Financial Mechanism − simply operate it. Following the LDCF and the SSCF model, contributions to the SSF would, in particular, not count as contributions to the GCF trust fund, and would therefore not count towards the GCF allocation targets. The GCF would simply make available its administrative capacities and access modalities for the operations of the SSF. Indeed, with regards to the latter, one of the (potential) key advantages of channelling South-South climate cooperation through an SSF operated by the GCF would be to make use of Enhanced Direct Access, as currently discussed in the GCF Board.

As it happens, I am firmly convinced that foreign assistance (of whatever provenance) should involve the sort of consolidation of international funding streams with decentralised (in-country) decision making of Enhanced Direct Access, with its enhanced country ownership. In other words, South-South assistance should, in my mind, be using a consolidated EDA model, whether it is through the GCF trust fund itself (if and when the GCF adopts EDA) or through an SSF (independent or operated by the GCF). Enhanced country ownership by recipients is desirable regardless of whether the funding originates in developed or developing countries, which is why a Southern Solidarity Fund with Enhanced Direct Access is a good idea in its own right.

Endnotes

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2 GCF Secretariat, Press Release, 22 February 2014, GCF-PA.02/14.

3 The Group of 77, together with China, traditionally represent developing countries in the context of the UN.

4 GEF (2006a), 'Governance of the Climate Change Funds' (GEF/C.29/5), 9 August 2006, paragraph 12; www.thegef.org/gef/node/517

5 Ibid.

6 GEF (2006b), 'Joint Summary of the Chairs Special GEF Council Meeting', 28 August 2006.