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BRIEFING PAPER

Rationalization of the Financial Mechanism of the UNFCCC: Options for Adaptation Finance

Alpha Oumar Kaloga with contribution by David Eckstein

– Advance Version –

GERMANWATCH

Brief Summary

This paper is a contribution to the important debate around the issues of coherence and coordination of the financial mechanism. In light with the recent decisions in Lima and the mandate given to the Standing Committee on Finance (SCF) in terms of rationalization, the paper analyses different options of the relationship between the Green Climate Fund (GCF) and Global Environment Facility (GEF) as well as between the GCF and Adaptation Fund (AF).

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Authors:
Alpha Oumar Kaloga with contribution by David Eckstein

Publisher:
Germanwatch e.V.

Office Bonn
Dr. Werner-Schuster-Haus
Kaiserstr. 201
D-53113 Bonn
Phone +49 (0)228 / 60 492-0, Fax -19

Office Berlin
Stresemannstr. 72
D-10963 Berlin
Phone +49 (0)30 / 28 88 356-0, Fax -1

Internet: www.germanwatch.org
E-mail: info@germanwatch.org

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Contents

Abbreviations

AC	Adaptation Committee
AF	Adaptation Fund
COP	Conference of the Parties
FM	Financial Mechanism
GCF	Green Climate Fund
GEF	Global Environment Facility
KP	Kyoto Protocol
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
NAPA	National Adaptation Programme of Action
SBI	Subsidiary Body for Implementation
SCCF	Special Climate Change Fund
SCF	Standing Committee on Finance
SIDS	Small Island Developing States
TEC	Technology Executive Committee
UNFCCC	United Nations Framework Convention on Climate Change

1 Introduction

The provision of financial support for mitigation and adaptation measures in developing countries is one of the most prominent issues on the agenda of the climate negotiations under the UN Framework Convention on Climate Change (UNFCCC). On the one hand, this is well-founded due to the legal obligations created by the Convention itself[1], and on the other, because the challenges faced by developing countries in addressing the consequences of climate change cannot be raised without the support of wealthy industrialised nations.

Acknowledging the critical role of finance in enabling developing countries to take ambitious climate action, the creation of the UNFCCC in 1992 entailed the establishment of a Financial Mechanism (FM), which per definition is intended to serve as a "mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology"[2].

Initially, the Global Environment Facility (GEF) was entrusted to serve as the sole operating entity of the FM, which has subsequently funded climate change activities through its Trust Fund. However, since the signing of the UNFCCC, the FM as one the institutional pillars of the Convention has been under constant development, with new funding institutions being created along the way to serve specific purposes and target groups.

The climate finance landscape is fragmented with broad range of existing climate funds, with distinct policies and guidelines under and outside[3] of the Framework Convention on Climate Change. Some of them are closely linked to the UNFCCC. For example the Global Environment Facility (GEF) – which also manages the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) – has been designated as operating entity of the Financial Mechanism of the UNFCCC in the 1990s and funds climate change projects through its different Trust Fund. The Adaptation Fund (AF) was established by the Parties to the Kyoto Protocol (KP) and operates under the authority of the Conference of Parties serving as the meeting of the Parties to the Kyoto Protocol[4]. Recently, the establishment of the Green Climate Fund (GCF) that was decided by the 16th COP in Cancun in 2010[5] adds another fund to the already complex and fragmented climate finance architecture. Formally, the GCF was designated as the second operating entity of the financial mechanism, but is still in the process of achieving full operationalization, set to be finalized by COP 21 in Paris at the end of 2015.

Article 11.1 of the Convention foresees the provision of financial resources to be entrusted to one or more existing international entities. In this regard, the COP has designated the Global Environment Facility and the Green Climate Fund as operating entities of its financial mechanism. The AF is not an operating entity of the financial mechanism, but a fund under the KP. The creation of the GCF was not motivated to further expand the already convoluted global landscape of climate finance. Rather, as also determined by the funds Governing Instrument (GI), the GCF. "will play a key role in channelling new, additional, adequate and predictable financial resources to develop-

[1] For instance, Article 4.3 of the UNFCCC states that "developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties [...]", https://unfccc.int/essential_background/convention/background/items/1362.php

[2] see Article 11.1 of the UNFCCC, https://unfccc.int/essential_background/convention/background/items/1377.php

[3] Given the focus of this paper, funds outside the convention will not be assessed. Other funds are for instance operated by the World Bank, such as the Clean Investment Funds (CIF), which again in turn consist of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). And finally there exist other regional funds such as the Congo Basin Forest Fund.

[4] Decision 5/CMP.2. See doc: FCCC/KP/CMP/2006/10/Add.1

[5] see Decision 1/CP.16, paras 102-111, http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf#page=17

ing countries and will catalyse climate finance, both public and private, and at the international and national levels."[6]

Nevertheless, in the last years, discussion has emerged on the best use of these different funds, as to better respond to the growing climate change impacts in developing countries. In this context, the UNFCCC Standing Committee on Finance, -established in Cancún, to "assist the COP in exercising its functions with respect to the financial mechanism of the Convention in terms of improving coherence and coordination in the delivery of climate change financing, rationalization of the financial mechanism [. . .]"[7] appears to be the right body to deal with this important task

In fact, sooner or later the question might come up, whether there is a need for rationalizing these UNFCCC-related funds (GCF, SCCF, LDCF, GEF Trust Fund, and AF) and if so, how such rationalization might look like. As of now, there exists however little experience with the closing of multilateral climate funds.[8]

With a focus on adaptation funding, the following paper elaborates on a potential rationalization of the Financial Mechanism, in order to enhance its effectiveness in delivering climate finance to the most affected people and communities. This paper is a contribution to this important debate around the issues of coherence, coordination of the financial mechanism. In light with the recent decisions in Lima and the mandate given to the SCF in term of rationalization, the paper analyses different options of the relationship between the GCF and GEF as well as between the GCF and AF. At the beginning, the paper will try to define what rationalisation means in the context of the financial mechanism as one of the tasks of the SCF. In doing so, a set of criteria will be introduced, which should help to undertake the rationalisation from an operational point of view. The role to be assigned to the Standing Committee on Finance (SCF), in terms of enhancing coherence and coordination in the delivery of funding through the dedicated climate finance architecture will be elaborated. The set of criteria will serve as tool for exploring options of co-existence as well as potential division of labour. These Criteria will then be used to analyse three different options. Following this reasoning, the paper will also analyse what the specifics of the GCF, GEF and AF are, including their strengths and weaknesses. Finally an analysis of the different options is being conducted.

[6] see Governing Instrument, para 2, http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf

[7] Para 121 Cancún Agreement.

[8] The CIF under the World Bank include in their respective basic document a so called sunset clause which states that the CTF (and similarly the SCF) "conclude its operations once a new financial architecture is effective". However as of now they still exist and no concrete discussion has taken place on closing them.

2 Rationalization: improving coherence and coordination in the delivery of climate change financing

The Conference of the Parties (COP) at its sixteenth session, decided to establish the SCF to assist the COP in exercising its functions with respect to the FM of the Convention, inter alia, in terms of improving coherence and coordination in the delivery of climate change financing[9]. At COP19, Parties requested the SCF to consider, in its work on coherence and coordination, inter alia, the issue of finance for forests, taking into account different policy approaches.[10] Recently, in Lima COP20, the SCF was requested to consider issues related to possible future institutional linkages and relations between the Adaptation Fund and other institutions under the Convention.[11]

The Oxford dictionary defines 'to rationalize' as "to reorganize (a process or system) so as to make it more logical and consistent."[12] In addition, according to the same source 'coherence' refers to the "quality of being logical and consistent".[13] In other words, this means in our context a process of building logical interconnection; overall sense or understandability among adaptation funds. While complementarity is understood as a relationship or situation in which two or more different things improve or emphasize each other's qualities.[14]

The SCF should, in fulfilling this mandate, not only recommend on the reorganisation of the FM, but also define clear interconnection among the different funds under the Convention, by strengthening the synergies among the different funds, with the view of coordinating in such a manner, that the overall outcomes of those funds are coherent and align with its article and helps reach a degree of coordination that will allow to achieve its ultimate goals.

In the SCF's adopted work plan for 2013–2015, it is proposed with regard to this specific function that the SCF may wish to consider the following possible activities, inter alia:

a. Provide the COP draft guidance to the operating entities of the financial mechanism of the Convention.

c. Analyse and assess the effectiveness and efficiency in the delivery of climate finance.

d. Provide input to the COP, including through independent reviews and assessments,

e. Preparation and conduct of the periodic reviews of the financial mechanism.

Enhancing coordination and coherence in the delivery of climate finance is an important issue, not only to reduce overlaps, but also to ensure effectiveness and efficiency of the whole climate finance architecture. In line with this, the SCF was explicitly tasked to interact with the Boards of the climate funds under the UNFCCC, as well as maintaining close linkages and liaising with the Subsidiary Body for Implementation (SBI) and the thematic bodies of the Convention, such as the

[9] Decision 2/CP.17, paragraph 121.

[10] Decision 7/CP.19, paragraph 11. It is also important to mention that the COP also requested the SCF to focus its soonest possible forum on issues related to finance for forests, including the implementation of the activities referred to in decision 1/CP.16, paragraph 70 (hereinafter referred as REDD-plus).

[11] Decision 2/CMP.10 para 7

[12] See Oxford Dictionaries, http://www.oxforddictionaries.com/definition/english/rationalize?q=rationalisation#rationalize__21

[13] http://www.oxforddictionaries.com/definition/english/coherence

[14] http://www.oxforddictionaries.com/definition/english/complementarity

Adaptation Committee (AC) and the Technology Executive Committee (TEC).[15] Currently all these funds apply different modalities, pursue different strategic objectives, which all emanate from different mandates given by the Convention. The implication of this fragmentation is that it requires developing countries to attune their priorities and plans, as to meet the standard of these funds, resulting in turn to fragmented national climate finance landscape. This situation in fact overburdens eligible countries, as they have to use different institutions and follow different reasoning to secure funding for their urgent needs.

Hence, the endeavour of rationalizing the financial mechanism has the purpose to increase effectiveness and efficiency in the delivery of climate finance in developing countries. By default, a rationalization could comprise minor adjustments in some procedures as to streamline them, as well as more substantive changes, such as a reorganization of the entire climate finance architecture. Given the current fragmentation of the current climate finance landscape, this could for instance result in a clearer division of labour among existing funding institutions or even the termination of specific funds (e.g. whose functions could instead be performed by the GCF) to simplify the architecture. In line with this task, the COP provided the SCF with the mandate to make recommendations to the COP on how to improve coherence, efficiency and effectiveness of the two operating entities of the financial mechanism.

Set of criteria for Rationalization of the Financial Mechanism

Below are six identified criteria that the SCF can use, when performing its tasks with regard to rationalisation and improvement of coherence and coordination in the delivery of climate change. This list is by no means exclusive and can be extended as the committee wishes and as deemed as necessary. Nevertheless, these criteria should be understood as one of practical way to approach the issue of rationalization and is meant to stimulate the debate on the post 2020 climate finance landscape.

Political feasibility

The assessment of the different options along the criterion of political feasibility shall analyse how likely such an option would be agreeable to all Parties. The result of this analysis is also decisive for the level of detail in which the other criteria shall be analysed. If it is clear from the beginning that as specific option is not likely to come into reality because of too many opponents, then there is no need for a detailed analysis thereof.

Potential legal constraints

In regard to this criterion it will be analysed whether there are any legal constrains which might hinder/ or would need to be overcome in order to make the respective option reality. One such constraint could for instance be that different legal bodies are deciding on the shaping of the different funds so that e.g. a merging of funds could not be decided by one legal body (e.g. the COP).

Continuance of special foci of AF, LDCF and SCCF

The question of whether or not it can be ensured that the special foci of the different funds remain might have a strong influence on the political acceptability of an option. Thus the different options will need to be analysed against this criterion.

[15] see http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/standing_committee_-_background_paper_on_functions_and_activities_final_.pdf

Streamlined application process for recipient countries

Each fund has its own application process. With the current landscape of climate funds, this can lead to many different application procedures, developing countries will need to respond to in order to access funding. Thus it will be crucial to analyse the different options in regard to whether a streamlined application process of the different funds is possible. Evaluation according to this criterion is only provisional, as the GCF has not yet decided upon its application process.

Avoidance of overlaps

The evaluation against this criterion will be of special importance for those options where GCF/AF resp. GCF/GEF would continue to co-exist. In order to use resources as effectively as possible, overlaps between funds should be reduced as far as possible. This would also make it more evident for developing countries to know where to apply for a certain project.

Flexibility and competition

This criterion shall investigate whether the respective proposed option would still allow funding flexibility in order to adjust to potential changes in needs. Further it should analyse whether an option would still allow for competition between different entities of the financial mechanism for funds allowing therewith for a race to the top in regard to the quality of funded projects, applied standards etc.

For the analysis of these criteria, the below mentioned questions will be considered:

Criterion	**Guiding questions**
Political feasibility	• How likely would such an option be agreeable to all Parties?
Potential legal constraints	• Are there any legal constrains which might hinder/ or would need to be overcome in order to make the respective option viable (e.g. a merging of funds could not be decided by one legal body (e.g. the COP)?
Continuance of special foci of AF, LDCF and SCCF	• Can it be ensured that the special foci of the different funds remain?
Streamlined application process for recipient countries	• Is there a possibility for a streamlined application process?
Avoidance of overlaps	• In order to use resources as effectively as possible, can overlaps between funds be reduced as far as possible?
Flexibility and competition	• Does the proposed option still allow funding flexibility in order to adjust to potential changes in needs? • Does the option still allow for competition between different entities for funds, allowing for a *race to the top*?

2.1 Overview of thematic focus and key modalities, overlaps and complementarities

Table 1 provides an overview of the focus and key modalities of different UNFCCC-related funds. Substantial overlaps but also some complementarities exist. We will note at the end of each sub-section, whether the GCF has innovative features in this regard.

Geographical focus and eligibility: In general, all funds focus on funding projects in developing countries. The GEF Trust Fund (GTF) also funds programs in economies in transition, while the LDCF specifically focuses on least developed countries. Generally, access is restricted to developing countries that are Parties to the UNFCCC. In the case of the AF, access to financial resources is further restricted to developing country Parties to the Kyoto Protocol, which de facto, does not make a big difference. With regards to the geographical focus, the GCF seems to have a standard scope of geographical coverage and is meant to finance climate action in all developing countries Parties to the Convention.

Thematic focus: LDCF and AF are exclusively focusing on adaptation. The LDCF provides support for capacity building, national planning and concrete action, while the AF's mandate is limited to funding for concrete projects. The GCF finances mitigation and adaptation, the SCCF adaptation and technology transfer (including mitigation technologies), and within that a broad set of activities. The GTF is the only one that clearly focuses on mitigation, although there was a small adaptation window in the past (GEF Strategic Priority on Adaptation). With regards to the thematic focus, the GCF is not particularly innovative as it supports also mitigation (including REDD+) and adaptation projects in all developing countries. However there is an explicit mandate for integrated mitigation and adaptation approaches that could lead to a broader field of funded activities.[16] It might also be good to consider the GEF TF separately from LDCF and SCCF (or not at all) as it does not finance adaptation but only mitigation etc. Also, GEF TF as a whole is not realistically threatened by closure as it is used by other MEAs such as CBD and UNCCD, while its CC functions may be reorganized or shut down.

The governance structure of the funds has diverse components: the voting powers in the governing board, the relationship to the Convention, the rules on implementing agencies, and the consultation/involvement of non-governmental actors.

The voting power (share of seats in governing boards) of developing and developed countries is a key governance question (see WRI, 2010). The GEF funds (GTF, SCCF and LDCF) have a voting system where industrialized countries are most powerful, as they have 50% of the votes, even excluding seats of Eastern European Group. In contrast, developing countries have almost 70% of votes in the AF due to the distribution of seats across UN regions and specifically for LDCs and SIDS. However, for the AF to build a quorum for a decision, two thirds of the members are needed. In the reality the AFB has never voted, and always works on a consensus basis.

The GCF can be seen as a compromise between the two systems, as the seats are equally divided between developed and developing countries.

[16] See paragraph 37 of GCF Governing Instrument.

Table 1: Focus and key modalities of different UNFCCC-related funds

	Global Environment Facility Trust Fund (GTF)	Least Developed Countries Fund (LDCF)	Special Climate Change Fund (SCCF)	Adaptation Fund (AF)	Green Climate Fund (GCF)
Operating since	1994	2002	2002	2009	Not yet
Geographical focus	Developing countries (w/o rich oil exporters), economies in transition	Least Developed Countries (LDCs)	Developing countries (non-Annex 1)	Developing countries "that are particularly vulnerable"	"Developing countries"
Eligible Countries	Parties to the UNFCCC	LDCs, Parties to the UNFCCC	Non-Annex I Parties to the UNFCCC	Parties to the Kyoto Protocol	Parties to the UNFCCC
Thematic focus	Mitigation (& adaptation in the past)	Adaptation (national programmes)	Adaptation, technology transfer	Adaptation	Mitigation & Adaptation
Governance					
Relation to the UNFCCC COP & Kyoto Protocol CMP	Under guidance of the UNFCCC's COP GEF, who manages the three funds, is an operating entity of the UNFCCC's financial mechanism (FM)			Under authority of the CMP; AF Board is operating entity of AF	Under authority of the COP, Operating entity of the UNFCCC FM
Voting power	50% developed & 50% developing & CEE weights votes according to contribution level if no consensus is possible	50% developed & 50% developing & CEE weights votes according to contribution level if no consensus is possible	50% developed & 50% developing/ emerging weights votes according to contribution level if no consensus is possible	31-37% developed & CEE & 63-69% developing (63% if Moldova/ Armenia are seen as CEE).if there is no consensus, 2/3 of members are needed to reach the quorum	50% developed & CEE / 50% developing to be defined

	Global Environment Facility Trust Fund (GTF)	Least Developed Countries Fund (LDCF)	Special Climate Change Fund (SCCF)	Adaptation Fund (AF)	Green Climate Fund (GCF)
Implementing Entities	Multilateral, national only for port-folio formulation, & reporting	Multilateral	Multilateral	Multilateral, Regional and National	Multilateral, regional, national and sub-national
Trustee	World Bank	World Bank	World Bank	World Bank (interim)	World Bank (interim)
Observer participation	Accredited observers, GEF-NGO network[17],			Accredited observers, regular civil society dialogue	Accredited observers, four active observers
Types of projects & programmes	Capacity building, policy support, some financing of technologies & infrastructure	Policy planning & capacity building, (NAPAs formulation and implementation)	Capacity building, policy support, some financing of technologies & infrastructure	Primarily concrete activities (but often with elements of capacity building, policy) South-South cooperation and technical assistance grants as part of readiness program to support accreditation	Not yet clear, probably different tools, more programmatic
Financial instruments	Grants (loans & risk instruments as co-finance)	Grants	Grants	Grants	Grants, concessional loans, result-based payments, other types on agreement of Board
Private sector mobilization	Private “co-finance” (mobilization often seen as deficient).	–	- (in some tech transfer projects)	-In some projects	Private sector facility

Sources: AFB 2012, Climate Funds Update 2010, GEF 2012b, GEF 20

[17] NGOs can receive funding from “small grants”, and (since GEF5) act as “project agencies”

The relationship to the Convention partly determines the governance structure. GTF, LDCF and SCCF are under the guidance of the COP, while their main governing body is the GEF Council (also serving as SCCF/LDCF council). Neither the GEF nor the GEF Council was established by the COP. The GCF is created by the COP and operates under its guidance of, and is accountable to it. The GCF Board has its own governance structure, which, however, has been established under the COP. Specific arrangements between the COP and the GCF Board has been adopted at COP 19.[18] .

In contrast, the AF operates under the authority of the CMP.[19] However, there is no real empirical evidence on the practical difference between "under the guidance" and "under the authority". Both the GEF and the GCF are operating entities of the UNFCCC's financial mechanism, while the AF Board is the operating entity of the AF.[20] The AF does not have legal capacity, but its board does possess one, conferred by the German government. The AFB has been conferred legal capacity by an act of the German Parliament,[21] the GCF enjoys a juridical personality and legal capacity conferred by South Korea,[22] while the GEF is not a legal entity in itself but closely linked to the World Bank.

An important governance question is related to the accessibility to the resources offered by those funds. The question is related to the different access modalities such direct and enhanced direct access or classic access through multilateral entities.[23] The AF has been the first UNFCCC-related fund that introduced a "direct access" modality. It has also funded an enhanced direct access project already, a small grant facility in South Africa implemented by the NIE SANBI.

The GEF has been allowing for direct access in case of national communications and national portfolio formulation but access to funding for full-sized programs is still restricted to multilateral organizations.[24] In 2011, the GEF Council has approved a pilot to accredit new institutions to serve as GEF project implementing partners. Accredited institutions will be called "GEF Project Agencies." In case of the GCF, direct access including enhanced direct access through national funding entities has been agreed as part of the GCF Governing Instrument,[25] with no thematic restriction. In its recent decision taken in June 2013, the role of direct access has been reaffirmed.[26] In addition, the GCF has requested at its eighth meeting its Secretariat to prepare terms of reference for modalities for the operationalization of a pilot phase that further enhances direct access.[27]

With regards to the trustee of the fund, there is no governing difference between the funds, as the World Bank is always the trustee, although only on an interim basis in case of the AF and the GCF. However, decision 3/CP.17 invited the Board of the GCF to select its trustee through an open,

[18] http://unfccc.int/resource/docs/2013/cop19/eng/10a01.pdf#page=14
[19] The AF is under authority of the COP serving as the Meeting of the Parties under the Kyoto Protocol (CMP).
[20] The inconsistent use of the word „operating entity" can probably be explained by the desire of developing countries that the GEF should not be the operating entity entrusted with the management of the AF.
[21] https://www.adaptation-fund.org/article/1309-germany-confers-legal-capacity-adaptation-fund-board
[22] Art 3 of The "Agreement between the Republic of Korea and the Green Climate Fund regarding the Headquarters of the Green Climate Fund" stipulates that the GCF shall possess such juridical personality and legal capacity as may be necessary to operate effectively internationally, to enter into this Headquarters Agreement, and for the exercise of its official functions and the fulfillment of its purposes, including the capacity to contract, to acquire and dispose of immovable and movable property, and to be party to, and to institute judicial proceedings.
[23] See Mueller, 2011.
[24] The GEF is in the process of accrediting GEF Implementing Partners (GIP) to have direct access to its resources. The GIP should assist recipient countries in the preparation and implementation of GEF-financed projects, which will enable them to access resources from GEF-managed trust funds directly. http://www.thegef.org/gef/agencies_accreditation
[25] GCF, 2012.
[26] GCF, 2013a.
[27] GCF/B.08/45; DECISION B.08/09; see http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compendium_fin_20141206.pdf

transparent and competitive bidding process, which may result in a different trustee in the future. As of now, the GCF has not initiated this process.

The governance structure also differs with regards to consultation of non-governmental stakeholders.[28] Accredited observers can attend GEF council meetings, are sometimes allowed to make statements but have no voting power. The GEF has also introduced some additional NGO participation tools, such as the NGO network that allows GEF-accredited NGOs to share their experience and elaborate inputs for program and project planning at the national, regional and global level.[29] For the GCF it was agreed to allow for four active observers (two from CSO and two from the private sector), which are allowed to sit in the Board's meeting room and can demand to speak. Further provisions in this regard have yet to be decided upon. The AF is open to observers from all NGOs accredited under the UNFCCC. While they do not have an established right to speak during the Board meeting, a civil society dialogue has emerged as common practice during Board meetings, where civil society organisations can raise issues. This is usually coordinated by the AF NGO network which has been established independently from the AF Board through the initiative of several organisations.[30]

Project types: GTF and SCCF projects use a mix of capacity building, policy planning and concrete investment in technologies. The LDCF focused on policy planning in the past by supporting the development of National Adaptation Programmes of Actions (NAPAs) but has now started to finance concrete projects identified in the NAPAs. In the case of the GCF, the exact project types are not yet known. Formally, all different approaches are eligible. However, there is the expectation by many that it would focus more on a programmatic or even policy approach, rather than funding single and isolated projects. Further, the creation of a private sector facility (PSF) indicates that projects and programmes with private investments might become more prominent compared to their relevance in other funds. In June 2013, the GCF Board took a first comprehensive decision on some modalities related to the PSF.[31] All of these private sector projects or programmes would need to be "consistent with a country-driven approach", according to the GCF governing instrument and would need to contribute to the paradigm shift identified in the governing instrument.[32] The AF is mandated to fund concrete adaptation projects and programmes, which, however, in practice also often contain elements of capacity building or policy mainstreaming but limited to about 10-12% of the project budget.[33]

Financial instruments: All operational funds (GEF, SCCF, LDCF, and AF) use only grants as financial instruments. In case of the GEF, there is substantial public co-finance provided as loans (particularly by the World Bank) but the GEF contribution itself only consists of grants. According to its GI, the GCF may use grants and concessional loans and might, if agreed upon, also use other "modalities, instruments or facilities". In June 2013, the GCF Board agreed after controversial negotiations to commence with grants and concessional lending.[34] Furthermore, it is foreseen that the GCF will also use performance-based payments like the AF does to a limited extent,[35] which is an innovative feature compared to ordinary grants. Therefore, the GCF will potentially use several innovative financial instruments (e.g. loans, performance based payments).

Private sector mobilization: The different modalities and instruments applied also have an impact on the potential to mobilize the private sector. In general, the private sector has no direct

[28] Abbott & Gartner 2011, Schalatek 2012
[29] GEF, 2009.
[30] see www.af-network.org.
[31] GCF, 2013b.
[32] GCF, 2012.
[33] Trujillo and Nakhooda, 2013
[34] GCF, 2013c.
[35] In the case of the AF, the release of funding tranches is linked to the delivery of project progress reports which have to be endorsed by the Adaptation Fund Board.

access to the funds, as only countries (directly or via multilateral agencies) can apply for funding. The private sector may have direct access to funds under the PSF in the GCF, but only at a later stage.[36] The private sector is seen by GEF documents as a source of co-financing, which is to be mobilized. However, existing GEF approaches to mobilize private capital, including attempts via the GEF Earth Fund, which should have focused on the private sector,[37] have been seen as rather unsuccessful. The amount of private capital mobilized by the GEF has also been dependent on the implementing agency and the project type.[38] In general, adaptation projects (within the AF, LDCF) have not focussed on mobilizing private capital, although programs have often targeted small-scale farmers, which can be seen as part of the private sector. Given the GEF's shortcomings in engaging the private sector, the GCF could fill a gap with its PSF. Despite the lack of specific mandate to the AFB to work with private sectors, several projects have been promoting public private partnership by financing project in ***(Papua New Guinea, Georgia, Cambodia, etc…)***, which built on a strategic approach involving the private sector Strengths and weaknesses of specific funds

Table 2 shows the strengths and weaknesses of the different funds. The older funds, particularly the GEF have established procedures and institutions. However, the "established" funds are more difficult to reform and re-shape given path dependency. In contrast, newer funds like the AF and presumably even the GCF are more open to use innovative modalities. The AF already enables direct access for all its funding (along with access through multilaterals), while for the GCF several innovative features are planned: direct access, result-based payments, programmatic approaches and a PSF. While the GEF also tries to incorporate some of these innovative modalities (direct access, programmatic approaches, tools for engaging the private sector), the past has shown that it has been difficult to both agree and also widely implement these features in GEF-governed funds.

[36] GCF 2013b.
[37] GEF 2010.
[38] Stadelmann, 2013.

Table 2: Strengths and weaknesses of different UNFCCC-related funds

	Global Environment Facility Trust Fund (GTF)	**Least Developed Countries Fund (LDCF)**	**Special Climate Change Fund (SCCF)**	**Adaptation Fund (AF)**	**Green Climate Fund (GCF)**
Strengths	Established procedures (funding, projects) and institutions (Council, STAP, NGOs), only fund focussing on mitigation	Only fund specifically targeting LDCs, established procedures, new tasks such as National Adaptation Plans	Established procedures	Direct access for all projects, established procedures, relatively fast project cycle, strategic focus on most vulnerable communities, result based disbursement of the resources	Innovative features: Direct access for mitigation and adaptation, result-based payments, programmatic approach, privates sector facility; low path-dependency
Weaknesses	Lengthy project cycle, direct access only for reporting & planning	No direct access, lengthy project cycle	Diverse foci (e.g. adaptation, technology transfer), no direct access, lengthy project cycle	Automatic funding source (CER levy) currently not functioning, so far 17 direct access projects submitted and at the same time lack of funding for multilateral projects[39]	Not yet operational, no funding pledged

[39] Due to provision that 50% of funding need to be provided via direct access.

3 Analysis of potential options for the relationship between GCF and other funds

This chapter will consider different options for the relationship between the GCF and other funds, based on a number of criteria.

3.1 GCF and GEF funds

The relation between GCF and GEF is of particular interest, since both are the only designated operating entities of the financial mechanism under the Convention. When it comes to the review of the financial mechanism under the UNFCCC – the 5th review has been finalized at COP20 – a potential focus will be on what lessons learned could be applied to both institutions to increase their effectiveness.[40]

3.1.1 GEF funds and GCF separately as current situation

Description of option

Under this option, there will be no direct link between the GCF and GEF funds. GCF and GEF would receive, govern and disburse their funding separately. At most, the GCF and GEF secretariat and potentially the governing councils of both might have regular exchange to identify potential overlaps and clarify their division of labor. This could be done based on recommendations by the SCF. In addition it might be possible that donors coordinate their funding with GCF and GEF.

Analysis along above mentioned criteria

On the positive side, this option is both politically and legally feasible, as this is the current state decided by Parties to the UNFCCC. It also assures that the specific foci of the SCCF and LDCF are kept, and that a fruitful competition between GCF and GEF funds could exist, allowing UNFCCC Parties to ask for transparency and effectiveness of climate finance. On the downside, coordination is difficult and overlaps are likely. For instance, as for now it is not clearly stated, which role each of the fund will play with regard to the formulation and particularly the implementation of NAPs. Both funds have received mandate to do so. Furthermore, the application processes for developing countries would not be streamlined in the likely case that the GCF uses a different application process than the GEF. This could be a burden for eligible countries, which would have to meet different modalities in order to finance project and programmes from a same plan. The left column in Table XY summarizes the strengths and weaknesses of the option where GCF and GEF are kept separately.

Conclusion

Keeping the funds separate is feasible but a mechanism for coordination has to be established for avoiding overlaps and strengthening synergies. One possibility is that each fund receives very clear

[40] See Background paper on the fifth review of the financial mechanism: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/scf_8_background_paper_fifth_review_of_the_financial_mechanism.pdf see Harmeling/Kaloga, 2013, for more information on the 5th review; at the 3rd meeting of the Standing Committee the question whether the review of the financial mechanism would mostly focus on the official operating entities led to controversial discussions (see Kaloga et al., 2013).

tasks, e.g. the LDCF is responsible for all adaptation activities in LDCs, the GEF focuses on capacity building for mitigation, and the GCF focuses, in line with its mandate to contribute to paradigm shifts, on larger scale mitigation programmes and investment-related mitigation activities as well as adaptation programmes in non-LDC developing countries. Regarding the latter, one could include the "paradigm shift" also in e.g. the LDCF work related to National Adaptation Plans which should have a longer term focus. Given the financial constraint of the LDCF to fully finance the NAPAs, it remains to see, how the resources mobilization of the LDCF will be reformed as to allow the funding of large scale projects commensurate to the NAPs.

Table 3: Options for GCF and GEF relationship (strengths and weaknesses)

	GCF and GEF funds separate	SCCF and LCDF integrated in GCF	GEF funds as GCF disbursement channels
Political feasibility	+	?	?
No legal constraints	+	+?	+?
Special foci kept	+	??	?
Streamlined application process	–	+	–?

3.1.2 GEF climate funds and functions integrated in GCF

Description of option

In this case, the LDCF and SCCF would cease to exist but either separate window for LDCs and technology transfer would be created within the GCF, or such funding would flow through the current mitigation and adaptation window. In that case, the allocation framework of the GCF should be further refined as to allow that special treatment accorded to LDCs is granted. Currently, the LDCs will likely feel that the GCF allocation is not sufficiently recognising their special circumstance. In fact, the GCF at its sixth meeting took a decision which "aims for a floor of fifty per cent of the adaptation allocation for particularly vulnerable countries, including least developed countries (LDCs), small island developing States (SIDS) and African States"[41] On the other hand, the GTF would continue to exist but it would focus on non-climate goals, such as biodiversity, desertification and chemicals. The climate change funding that was planned for the GEF would be channelled through the GCF. This option would constitute a functional integration, but not an institutional integration.

Analysis along above mentioned criteria

On the positive side, this option would avoid overlaps of funding strategies, and potentially reduce administrative costs. On the negative side, competition between GEF and GCF is being reduced, and international climate finance becomes more dependent on a well-functioning GCF. Furthermore, it is not guaranteed that specific funding windows would be established for LDCs or tech-

[41] GCF/B.06/18 ; DECISION B.06/06. See: http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B06_Decisions_Sixth_Meeting_final.pdf

nology transfer under the GCF, which implies that their specific foci would not necessarily be maintained, which in turn may create potential problems when seeking political approval.[42]

Another important point, of legal and institutional matter is bound with the question, which implication this option will have on the governing body and structure of the two funds

Conclusion

Integrating the GEF climate funding in the GCF may substantially reduce administrative costs of UNFCCC-related climate finance, but the political concerns regarding the secure continuation of specific funding (windows) (e.g. for adaptation funding for LDCs) have to be addressed. Furthermore, it has to be guaranteed that there is a sound competition for the scarce funding; contributors and recipients may need alternatives for the channelling of funds, in case that the GCF does not prove to be effective and efficient. Last but not least, as for now, it is not clear to which extent the LDCs will have easy access to the GCF. This needs to be ground tested, before the consideration of potential mergence.

3.1.3 GEF funds as GCF disbursement channel

Description of option

Under this last option, the different GEF funds would continue to exist but they would have to compete for funding under GCF with other multilateral and national entities, since the GCF would provide funding to the GEF funds for their project support. A sub-option would be that GEF funds receive a small core budget (either from the GCF or directly from industrialized countries) in order to establish core capacities and develop flagship projects while they have to apply to the GCF for further funding. In any case, the GCF would become the coordinator of UNFCCC-related flows. In principle this approach is also mandated through the GCF GI and subsequent decisions on access modalities, which also allows accrediting intermediaries. Under which criteria this would remain to be seen. However, the conditions set by the GCF may have implications on the GEF operations, if it wants to receive such funding. Another option would be that the GCF provides parts of its resources directly to the GEF funds, i.e. for adaptation in LDCs to the LDCF and for technology transfer and other adaptation projects to the SCCF. This can also be operationalized through a Memorandum of understanding between the GEF and the GCF. In regard to the latter it would however need to be clarified which kind of adaptation projects would then be funded by the SCCF in contrast to the LDCF and the AF.

Analysis along above mentioned criteria

On the positive side, funding can be better coordinated if all or most funds flow through the GCF, while the continuation of LDCF, SCCF and the GTF mitigation program assures still a basic level of fruitful competition between funds that will help to provide incentives for effective programme implementation. Especially if the GEF funds have to compete with other entities for funding, this would increase competition for them – even though not in relation to the GCF. This could trigger an upward spiral of the quality of programmes. A positive argument could also be that the GCF could set certain standards (e.g. regarding ambition in action, institutional effectiveness etc.) and only if the potential recipient agencies meet these standards they would be eligible for receiving funds. This could trigger an upward spiral of the quality of programmes.

[42] E.g. oil-producing countries may oppose the dissolution of the SCCF as the latter is the only fund that has economic diversification of countries affected by climate policy as funding purpose (even when never funding has been paid for this purpose.

On the downside, this structure may become very bureaucratic, if some funds are channelled via GCF, GEF and as a subsequent step via implementing entities to developing countries. Furthermore, it is not really clear whether the special foci of LDCF and SCCF can be kept, although the risk is lower than in the second option, where the two funds are integrated in the GCF. The right column in Table Y summarizes the strengths and weaknesses of using GEF funds as disbursement channels of GCF funding.

Conclusion

Summing up, there are several advantages of using GEF funds as GCF disbursement channels, such as keeping the balance between competition and coordination but it has to be assured that not too much funding is lost in the different bureaucracies.

Table 4: Options for GCF and GEF relationship (strengths and weaknesses)

	GCF and GEF funds separate	**SCCF and LCDF integrated in GCF**	**GEF funds as GCF disbursement channels**
Political feasibility	**+**	**?**	**?**
No legal constraints	**+**	**+?**	**+?**
Special foci kept	**+**	**??**	**?**
Streamlined application process	**–**	**+**	**–?**
Coordination, no overlaps	**–**	**+**	**+**
Flexibility and competition	**+**	**–**	**+**

+ = criteria met, ? = unclear, – = criteria not met

3.1.4 Conclusion: Recommendations GCF/GEF cooperation

The analysis suggests that the current situation of keeping the GCF and GEF separate has potential drawbacks, such as potential overlaps and the setting-up of two distinct and parallel bureaucracies. Therefore, at least some coordination between the two funds may be needed from the start. In order to improve coordination and lower bureaucratic costs, an integration of GEF climate-related funds and functions in the GCF structure might be an advisable option in the longer term. However, a functional integration of the climate-relevant aspects would only make sense once the GCF system is operational. In the intermediate term, the established institutional procedures of GEF funds offer the potential to channel funding during the time, when the GCF funding procedures are not yet settled. In case of a full integration of the GEF funds, it has to be assured that funding for specific purposes (e.g. adaptation for LDCs) will continue with a certain priority. This can be assured by e.g. setting aside a portion of GCF funding for these purposes, and a certain prioritisation for LDCs in adaptation can be regarded as being in line with the GCF GI.

Furthermore, in a fully integrated GCF system, a fruitful competition for receiving climate finance has to be assured, so that a full reliance on the GCF does not become a burden. Competition for funding could be strengthened by allowing for a wide range of actors to implement GCF projects and programmes (if integrated into a country-driven approach), and to uphold the possibility of channelling funds via multilateral and bilateral arrangements beside the GCF.

3.2 GCF and AF

The GCF and the AF are in a different relationship than GCF and GEF. First, this due to the fact that the AF is not an operating entity of the financial mechanism under Article 11 of the Convention, although the Kyoto Protocol is of course directly tied to the UNFCCC. In fact, the CMP decided that the Adaptation Fund Board would be an operating entity of the Fund.[43] Secondly, the AF works under the authority of, and is accountable to, the Meeting of the Parties to the Kyoto Protocol (CMP), while the GCF is accountable to and functions under the guidance of the COP.[44]

At COP18 in Doha a discussion emerged whether and how to bring the AF into the financial mechanism through designating it as an operating entity. A debate in that context may resurface in the future once the GCF is fully operational.

3.2.1 Option 1: Status quo

Description of option:

The AF is focused per its mandate on the implementation of concrete adaptation projects and programmes (not on planning, capacity-building etc.). Though de facto most projects contain policy mainstreaming or capacity building elements (which also provide learning-by-doing consequently capacity elements), the major focus in the projects are concrete actions. In light of this, the kick-off of the AF's own readiness programme is an important signal and milestone in the young history of the AF to tackle institutional support for accreditation and project development.

Furthermore, the scale of the projects is small, because of the USD 10 million cap per country. Projects submitted on behalf of governments need to show they are consistent with national policy and planning. The GCF can formally support projects, programmes, policies and other activities.[45] Its clear objective of supporting a paradigm shift signals a stronger focus on larger-scale approaches, such as programmes, policies, etc. However, in smaller countries even a USD 10 million project can already result in transformational changes. In addition, a programmatic long term large scale intervention requires that small, urgent and concrete sectoral interventions are upfront addressed. This is simply because long term and large scale projects and programmes build on short term concrete action. This is division of labour is more than needed, if the GCF is to achieve transformational change towards climate resilient development pathway, it has to strategically clarify, whether it will fund both small and large scale projects. The later makes sense, if the fund is to achieve transformational chance.

Analysis along above mentioned criteria

This option is presumably relatively easy to implement, since it would continue more or less the business-as-usual set-up of AF and GCF. However, if the GCF will go into single project funding, further discussions might be necessary in order to ensure the funds' compatibility and the avoidance of overlaps, e.g. by implementing a clear separation between concrete projects (AF) and adaptation planning and programming (GCF) in practice. Such a division of labour would however require that the AF receives sufficient funding at least for its actual demand as well as for scaling up the AF's country cap, as to ensure that funding for smaller scale adaptation projects remains available.

[43] See Decision 5/CMP.2, "Adaptation Fund", in Annex I to this document
[44] GCF/B.05/17: Draft arrangements between the Conference of the Parties to the United Nations Framework Convention on Climate Change and the Green Climate Fund
[45] Decision 1/CP.16

Moreover, in doing so, it is also critical to ensure certain level of coordination and coherence among the two funds. This can be addressed, through the development for instance of joint adaptation, outcomes and impacts indicators, that could lay strong foundation for the later implementation of transformational large scale programmes and plans to be funded by the GCF, while at the same time enabling recipient countries to increase their accessibility particularly to the GCF. Furthermore, in contrast to the AF, the GCF can also support capacity-building as well as policy development and planning in frame of its readiness activities. Under the assumption that the GCF does not focus on smaller scale projects, there would presumably not be much competition between the AF and the GCF. In case the AF does not have sufficient resources available, the GCF could still be allowed to fund smaller scale projects in order to allow for flexibility to respond to a change in needs.

Noteworthy, the AF has also launched its readiness programme. The AF's readiness programme aims to help strengthen the capacity of national and regional entities to receive and manage climate financing, particularly through the Fund's direct access. The GCF also has identified readiness programme as one of its strategic priorities following the objectives to help maximize the effectiveness of the Fund, and developing countries are in the driver's seat in programming its resources.[46] The GCF's readiness programme will be executed in collaboration with actors already involved in climate and development finance. Coordination will be the core activities of the GCF. Consequently, the two funds could undertake joint readiness activities, in particular for supporting NIE accreditation and project development by NIEs. GCF Board decision B.08/11 on "Revised programme for readiness and preparatory support" foresees for the coordination the option of signing MOUs with institutions involved in delivery of readiness support, including through information sharing and dialogues. This could be a good entry point for a partnership between the GCF and the AF. One could even assume that collaboration between the AF and GCF has already started, as GCF secretariat has participated in all the workshops of the AF readiness programme.

Moreover, the AF has set-up a project cycle and application procedures to which Parties have got used to and which allows, depending on the quality of the project and the speed of domestic revisions, for a relatively quick approval of projects (on average within 6-8 months). This option would reduce the need to develop a project-focused project cycle in the GCF, which would however only hold true for adaptation projects and not for mitigation or REDD+ projects. However, this would then also imply different application processes related to implementing entities and intermediaries for the AF and the GCF. For instance, though, as for now the GCF has yet to adopt a final approval process, it is however a shared view among key stakeholders that the application process, given the range of thematic areas covered by the GCF that this will be different from. In fact the GCF will deliberate on its proposal approval process and investment framework, as well as the remaining issues related to the accreditation, -for instance issue related to terms of reference for a pilot phase of additional modalities that further enhance direct access- at its ninth meeting.[47]

On the other hand, based on the Board decision at its eighth meeting, are all national implementing entities of the AF eligible to apply for fast-track accreditation for the basic fiduciary standards, as GCF entities. This is an important decision, as it one the one side recognized to some extent the AF's fiduciary standards, has been in line with those of the GCF. For the time being, the GCF will rely on the assessment of the AF, insofar as no gaps in the fiduciary and environmental and social standards have been identified.[48] In doing so, the assessment for accreditation of AF's entities by

[46] GCF/B.08/10:Revised Programme of Work on Readiness and Preparatory Support. See http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_10_Revised_Program_Work_Readiness_fin_20141007.pdf

[47] GCF/B.09/01: Provisional Agenda: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201503-9th/01_-_Provisional_Agenda_B.09__20150213_fin.pdf

[48] Decision of the GCFB B.08/03, paragraph (d) and (f). The latter specifically outlines gaps for fiduciary standards and environmental and social safeguards, which would be the focus of the fast-track accreditation.

the GCF will focus on gaps pertaining to transparency and accountability, insofar as they are relevant to the entity's intended activities, which are to be addressed by the entity.

3.2.2 Option 2: Integration

Description of option

This option would mean to some extent an integration of the AF into the GCF. There seem to be two options for doing this:

a) The AF could constitute the adaptation window of the GCF

b) The AF could be accredited as international intermediary, e.g. a "concrete adaptation facility" within the GCF adaptation window

No matter whether option a) or b) is applied, experiences from the AF could be taken into account. The Adaptation Fund Board highlights the following points as the particular strengths of the AF: a) direct access modality; b) streamlined and efficient project cycle; c) results-based project implementation and disbursement; d) enhanced transparency; partnership with civil society, in particular direct engagement of civil society in project monitoring; and e) ability to accommodate innovative funding sources.[49] Furthermore, an innovative feature of the AF is that it puts specific value and experience addressing the needs of particularly vulnerable communities. This is very critical particularly for adaptation projects. One would need to analyse these potential strengths further, but in case of a positive outcome of such analysis, the GCF could benefit from all of these aspects, and where it comes to funding of concrete projects one could discuss applying with potential adjustments/improvements the provisions and procedures of the AF.

Analysis along above mentioned criteria

Both options are likely to be difficult to implement, as they entail institutional, political and legal implications. On the one hand, this is due to the fact that the AF is a fund under the KP and hence the question occurs whether the USA would agree on including it in the GCF. Further, as analysed above there is a different decision making power in the AF Board and the GCF Board. The decision B.07/07 requests that the structure of the GCF and its secretariat will be reviewed no later than three years after the initial resource mobilization, recognizing that the structure of the fund, including that of the Private Sector Facility (PSF), is evolving.[50]

Furthermore, the CDM levy does only exist because of the KP. The AF will be under the KP for what it refers to the KP proceeds, for the rest it will be under the UNFCCC.

In the discussion around the ad-hoc working group on Durban Platform, some Parties have suggested relocating the AF as one of the financial instruments of the new agreement hoping that any market mechanism to be set-up in the new agreement would allocate a levy to the AF in order to continue financing urgent and concrete adaptation actions in developing countries.

This option would still allow pursuing the special focus of the AF of financing concrete adaptation projects and programmes, but would not be sufficient to fill the mandate of the GCF, which shall promote a paradigm shift towards climate-resilient development. Thus, while the experience of the AF could be very useful, the adaptation funding of the GCF would need to be enhanced in order to also cover larger scale programmes and achieve climate resilience development. If the AF

[49] https://www.adaptation-fund.org/sites/default/files/AFB.B.19.5 Strategic Prospects for the Adaptation Fund.pdf
[50] http://gcfund.net/fileadmin/00_customer/documents/MOB2014067th/GCF_B07_Decisions_Seventh_Meeting_fin_20140619.pdf#page=12

was (part of) the GCF adaptation window, a streamlined application process would be necessary for recipient countries in order to avoid different application processes for one fund depending on the specific focus of the project/programme. This could be based on the current application process of the AF and potentially being enhanced in order to reflect the necessary requirements for larger scale programmes.

Should the AF become a part of the GCF, the question of the institutional linkages between and governance structure of both funds should be at the heart of the discussion. Very likely it would be very likely that in the longer-term to close up the AF, as the goal of this option is to transform the AF as an integral part of the GCF. Obviously this option contains tricky political issues that need up-front be clarified.

3.2.3 Option 3: Subordination

Description of option

In contrast to the previous option, the AF and GCF would remain separate funds but the AF would receive (part of) its funding from the GCF. This option would see the AF as a disbursement channel of the GCF, where the GCF would distribute parts of its resources to the AF to fund adaptation activities. This could for example happen by accrediting the AF as an intermediary, which according to the recent GCF decision is a theoretically possible option.

This option could bring about a further subset of options:

a) The mandate of the AF stays focused on concrete adaptation projects and programmes. In this case all requests for specific programme funding coming to the GCF would be forwarded or directed to the AF for approval by channelling earmarked funding either to finance concrete adaptation activities, or to upscale the AF's resources for readiness. The GCF would direct funding to the AF for these activities. Other activities, such as larger scale programmes or capacity building and planning would be funded by the GCF directly.

b) The mandate of the AF would be expanded to cover all sorts of activities (and take the respective funding decisions) related to adaptation (programmes and policies, planning, capacity building) and the GCF would direct the funding for those activities to the AF. Thereby the AF would become the main channel where the funds would be disbursed for adaptation.

c) The AF competes with other entities for GCF funding or receives core funding from the GCF or developed countries and then needs to compete for any further funding.

d) A strategic partnership between the AF and the GCF, whereby the GCF would implement some of its activities – as this is a case with international institutions – supporting the GCF in its activities on readiness and preparatory support.

Analysis along above mentioned criteria

As a first step for option a) and b), this would require all Parties to agree that the provisions of the AF are those that should be taken for the way forward for parts of the adaptation projects (option a) or all (option b) adaptation projects. . Further, again, the fact that the AF is a fund under the KP might be a barrier to this, since it is not clear, whether in particular the USA would agree that parts of the adaptation funding or all GCF adaptation funding should follow a structure and provisions, in whose development it was not involved. This is unlikely to happen.

Further, para 5 of the Governing Instrument (GI) of the GCF might be another barrier, since it states that the GCF Board will have "full responsibility for funding decisions". This will bring about the discussion of whether the GCF Board needs to take all detailed funding decisions, or whether these decisions can be devolved to other institutions which operate under certain provisions and guidelines set up by the GCF. The decision on 'pilot phase on enhanced direct access' to be taken at the next GCF Board meeting will further address this issue. Yet even then, some oversight power of the GCF Board would presumably be necessary in order to make this option politically feasible.

Option c) seems rather unlikely, since it would degrade on the one hand the importance of the AF strongly, if it would need to compete with other entities for funding. In addition this would presumably lead to a lot of bureaucracy if funding flowed from the GCF to the AF and then to the implementing entity. Further the application processes would be rather bureaucratic. Therefore this option will not be further discussed. However, they may be some constellations that will help to avoid the increase of the overall administrative cost, at the expense of urgent projects needed in poor countries. According to the paper by the AF Secretariat, this can be addressed through an agreement between the principal (GCF) and the agent (the Fund). After all, it should be possible not to duplicate the processes, which means that over-all the sum-total of administrative costs should remain the same as if the projects were handled without an intermediary.[51] In this case, the AF Secretariat will not charge any additional fees, for screening, monitoring of the funds entrusted, as this already belongs to its core tasks. The management and execution fees will be charged by the implementing entities following the AF provisions.

In terms of streamlining application processes, option a) would not necessarily offer a streamlined process, since the funding decision for different types of projects/programmes would still be taken by different funds. However, one could aim to align the AF procedures as far as possible to those of the GCF. Under option b), the application process could presumably be streamlined, since the funding decision would be taken by one fund.

Overlaps could presumably be well avoided, since option a) would include a clear division of labour and option b) would leave all funding decisions to one fund. If the GCF would devolve all or specific funding decisions to the AF Board, it would have to ensure that the decisions follow its guidelines.

Option d) would be less problematic, as the AF would simply engage with the GCF in a partnership with the GCF – following the example of other institutions – in frame of its readiness activities. In that case, the AF would not implement urgent and concrete small-scale adaptation activities, but conduct certain specific readiness activities on behalf of the GCF. However, it may require additional legal arrangements and a political will to support this partnership.

Option d) could also be implemented in the manner that the AF continues funding concrete adaptation actions. This means also to consider the extent to which the AFB could co-exist with the GCF Board, without creating different layers. From an interesting angle, a co-existence will definitely create different layers, leading to the increasing of the administrative cost. A way out of this impasse will be to avoid providing resources to the AF for specific purposes such as financing a single activity. Rather the GCF after each resources mobilization rounds, could allocate a certain amount, based on its objectives and strategic direction channel a certain amount to the AF, while allowing the AF to dispose of the resources applying the aforementioned joint developed indicators. In this constellation, it is imaginable that the GCF undertakes regularly a review of the AF port-folio, with the view of assessing the extent to which the AF's funded projects align with its set objectives.

On first sight, no restraints on flexibility become evident, since in both options all funding would at the end be provided via the GCF and hence it should be able to respond to changing financing needs. However, as mentioned above, having all funding flowing through only one fund might also

[51] AFB/B.24-25/1 Potential linkages between the AF and the GCF

be perceived as reducing flexibility for recipients, since there is only one fund available where they could access funding.

The AF is under the authority of the CMP, unlike the GCF, which is under the authority of the COP. This means that the COP and the CMP will have to play a key role in the process that requires further decisions by both and would entail a protracted process in order to make this option viable.

3.2.4 Conclusion

The option to keep GCF and AF separate seems to be politically most feasible and also presumably encounter least legal constraints. If this option was to be pursued, a clear division of labour would however be necessary and application processes should be streamlined as far as possible, as to avoid overlaps and enhance synergies. If any sort of integration of the AF into the GCF structure should take place in the future, this would only make sense, once the GCF is up and running. Otherwise this would mean stopping the funding process of a functioning fund in order to wait for the full operationalization of a not yet functioning fund. Further, if an integration should take place, it needs to be considered whether the specific characteristics (i.e. focus on concrete adaptation projects, direct access) of the AF should be maintained also in the future.

Table 5: Options for GCF and AF relationship

	GCF and AF separate	AF integrated in GCF	AF as GCF disbursement channels
Political feasibility	+	–/unclear	–/unclear
Legal constraints	+	–/unclear	–/unclear
Special foci kept	+	+	+
Streamlined application process for developing countries	–/unclear	+	unclear
Coordination, no overlaps	–	+	+
Flexibility and competition	+/unclear	+/–	+/–

4 Conclusion

All options have their pros and cons. The specific option to pursue will also depend on the priorities given to the different criteria. Overall, it seems – which is not surprising – that the politically most feasible option and the option with least legal constraints would be the one where the status quo is maintained and the different funds co-exist next to each other. However, with a new fund entering the scene, it will then be important to clarify the specific tasks of the different funds, in order to avoid increasing overlaps between the funds. The question remains however, in how far this option would be in line with the task of rationalizing the financial mechanism to be undertaken by the SCF. In addition, the option of establishing a partnership between the AF and the GCF in frame of readiness activities seems to be pertinent – as mentioned above – and a good exercise to see how well both funds could work together, until the other options are implemented or the GCF becomes operational.

When looking at all funds together, it becomes obvious that also a clear coordination of work between the AF and the GEF funds is required. It may be politically challenging to make the AF conduct all adaptation activities of the GCF, as LDCF and SCCF may also be potential implementers of adaptation activities.

If AF or GEF funds should be incorporated into the GCF, the point of time will be of crucial importance. It does not appear advisable to do so before the GCF is up and running. Otherwise this might hinder already functioning funds in pursuing their tasks, while the GCF cannot yet take up these tasks. However, if AF or GEF funds should have to be incorporated in one way or another into the GCF, this might need to be reflected in the current set up of the governance structure. But discussing this already now bears the danger that donor countries would not provide further funding into the AF or GEF funds (which again would hinder them in pursuing their tasks), since they might argue that they rather wait until the funds are linked to the GCF and their future role is fully clear.

Thus the question when this discussion should take place can have great implications. The last review of the financial mechanism, which was concluded by COP20, was a missed opportunity to bring about the process of rationalization. However, this rather comes too early, at least with a view of taking a decision. But it might be a place to discuss potential criteria to look into, and then decisions might be taken as part of the next review of the financial mechanism.

Another option could also be to consider potential rationalization after the GCF has been running for some time and first experiences in regard to the type of projects/programmes being funded by the GCF have been made.

5 Literature

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6 Annex

Table 6: Focus and key modalities of different UNFCCC-related funds

	LDCF	SCCF	AF	GCF
Operating since	2002	2002	2009	Not yet
Geographical focus	Least Developed Countries (LDCs)	Developing countries (non-Annex 1)	Developing countries "that are particularly vulnerable"	"Developing countries"
Eligible Countries	LDCs, Parties to the UNFCCC	Non-Annex I Parties to the UNFCCC	Parties to the Kyoto Protocol	Parties to the UNFCCC
Thematic focus	Adaptation (national programmes)	Adaptation, technology transfer	Adaptation	Mitigation & Adaptation
Relation to the UNFCCC COP & Kyoto Protocol CMP	Under guidance of the UNFCCC's COP; GEF, who manages the three funds, is an operating entity of the UNFCCC's financial mechanism (FM)		Under authority of the CMP; AF Board is operating entity of AF	Under authority of the COP, Operating entity of the UNFCCC FM
Voting power	50% developed & 50% developing & CEE weights votes according to contribution level if no consensus is possible	50% developed & 50% developing/ emerging weights votes according to contribution level if no consensus is possible	31-37% developed & CEE & 63-69% developing (63% if Moldova/ Armenia are seen as CEE).if there is no consensus, 2/3 of members are needed to reach the quorum	50% developed & CEE / 50% developing to be defined
Implementing Entities	Multilateral	Multilateral	Multilateral, regional and national	Multilateral, regional, national and sub-national
Observer participation	Accredited observers, GEF-NGO network, NGOs can receive funding from "small grants", and (since GEF-5) act as "project agencies"		Accredited observers, regular civil society dialogue	Accredited observers, four active observers
Types of projects & programmes	Policy planning & capacity building, (NAPAs formulation	Capacity building, policy support, some	Primarily concrete activities (but often with	Not yet clear, probably different tools, more

	and implementation)	financing of technologies & infrastructure	elements of capacity building, policy) South-South cooperation and technical assistance grants as part of readiness program to support accreditation	programmatic
Financial instruments	Grants	Grants	Grants	Grants, concessional loans, result-based payments, other types on agreement of Board
Private sector mobilization	-	- (in some technology transfer projects)	In some projects	Private sector facility

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For further information, please contact one of our offices

Germanwatch – Bonn Office
Kaiserstrasse 201
D-53113 Bonn, Germany
Phone: +49 (0)228 / 60492-0
Fax: +49 (0)228 / 60492-19

Germanwatch – Berlin Office
Stresemannstr. 72
D-10963 Berlin, Germany
Phone: +49 (0)30 / 2888 356-0
Fax: +49 (0)30 / 2888 356 -1

E-mail: info@germanwatch.org

or visit our website:

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