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International Climate Change Financing: The Green Climate Fund (GCF)

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Summary

Over the past several decades, the United States has delivered financial and technical assistance for climate change activities in the developing world through a variety of bilateral and multilateral programs. The United States and other industrialized countries committed to such assistance through the United Nations Framework Convention on Climate Change (UNFCCC, Treaty Number: 102-38, 1992), the Copenhagen Accord (2009), and the UNFCCC Cancun Agreements (2010), wherein the higher-income countries pledged jointly up to \$30 billion in “fast start” climate financing for lower-income countries for the period 2010-2012, and a goal of mobilizing jointly \$100 billion annually by 2020. The Cancun Agreements also proposed that the pledged funds are to be new, additional to previous flows, adequate, predictable, and sustained, and are to come from a wide variety of sources, both public and private, bilateral and multilateral, including alternative sources of finance.

One potential mechanism for mobilizing a share of the proposed international climate financing is the UNFCCC Green Climate Fund (GCF), proposed during the 2009 Conference of Parties (COP) in Copenhagen, Denmark, accepted by Parties during the 2011 COP in Durban, South Africa, and currently under implementation. When operational, the fund would aim to assist developing countries in their efforts to combat climate change through the provision of grants and other concessional financing for mitigation and adaptation projects, programs, policies, and activities. The GCF is to be capitalized by contributions from donor countries and other sources, potentially including innovative mechanisms and the private sector. The GCF would complement many of the existing multilateral climate change funds (e.g., the Global Environment Facility, the Climate Investment Funds, and the Adaptation Fund); however, as the official financial mechanism of the UNFCCC, some Parties believe that it may eventually replace or subsume the other funds. While many Parties expect capitalization of the GCF to begin in the fall of 2014, many issues remain to be clarified, and some involve long-standing and contentious debate. They include what role the GCF would play in providing sustained finance at scale, how it would fit into the existing development assistance and climate financing architecture, how it would be capitalized, and how it would allocate and deliver assistance efficiently and effectively to developing countries.

The U.S. Congress—through its role in authorizations, appropriations, and oversight—would have significant input on U.S. participation in the GCF. Congress regularly determines and gives guidance to the allocation of foreign aid between bilateral and multilateral assistance as well as among the variety of multilateral mechanisms. In the past, Congress has raised concerns regarding the cost, purpose, direction, efficiency, and effectiveness of the UNFCCC and existing international institutions of climate financing. Potential authorizations and appropriations for the GCF may rest with several committees, including the U.S. House of Representatives Committees on Foreign Affairs (various subcommittees); Financial Services (Subcommittee on International Monetary Policy and Trade); and Appropriations (Subcommittee on State, Foreign Operations, and Related Programs); and the U.S. Senate Committees on Foreign Relations (Subcommittee on International Development and Foreign Assistance, Economic Affairs, and International Environmental Protection); and Appropriations (Subcommittee on State, Foreign Operations, and Related Programs). As of FY2015, the U.S. Administration—through its State, Foreign Operations, and Related Programs 150 account—has made no specific budget request for appropriated funds to be contributed to the GCF.

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Introduction¹

Many voices, domestic and international, have called upon the United States and other industrialized countries to increase foreign assistance to lower- and middle-income countries to address climate change.² Proponents maintain that such assistance could help promote climate-friendly and high-growth economic development in these countries, while simultaneously protecting the more vulnerable nations from the effects of a changing climate. For their part, most, if not all, lower-income countries have stated that their success at combating climate change depends critically on receipt of international financial support. They argue that mitigating climate change pollutants, adapting to the effects of climate change, and building climate resilience into their development agendas incur costs above and beyond their normal economic growth trajectories. These costs are particularly challenging to nations that have scant resources compared to industrialized countries, do not recognize themselves as the historical sources of climate pollution, and consider alleviating poverty as their first priority.

The Green Climate Fund (GCF) is an international financial institution connected to the United Nations Framework Convention on Climate Change (UNFCCC).³ The GCF was proposed by Parties to the UNFCCC during the 2009 Conference of Parties (COP) in Copenhagen, Denmark, and its design was agreed to during the 2011 COP in Durban, South Africa. The fund aims to assist developing countries in their efforts to combat climate change through the provision of grants and other concessional financing for mitigation and adaptation⁴ projects, programs, policies, and activities. The GCF is to be capitalized by contributions from donor countries and other sources, potentially including innovative mechanisms and the private sector. The GCF would complement many of the existing multilateral climate change funds (e.g., the Global Environment Facility, the Climate Investment Funds, and the Adaptation Fund); however, as the official financial mechanism of the UNFCCC, some Parties believe that it may eventually replace or subsume the other funds. Expectations by many countries, specifically developing countries,

¹ This report assumes a general understanding of climate change science, policy, financing, and international negotiations. For further background on climate change science and policy, see CRS Report RL34266, *Climate Change: Science Highlights*, by Jane A. Leggett, and CRS Report RL34513, *Climate Change: Current Issues and Policy Tools*, by Jane A. Leggett; for further background on international climate change financing, see CRS Report R41808, *International Climate Change Financing: Needs, Sources, and Delivery Methods*, by Richard K. Lattanzio and Jane A. Leggett; and for further background on the international climate change negotiations, see CRS Report R40001, *A U.S.-Centric Chronology of the United Nations Framework Convention on Climate Change*, by Jane A. Leggett.

² Most industrialized countries currently deliver some financial and technical assistance through a variety of bilateral development programs and multilateral financial institutions. “Bilateral” assistance involves direct transfers from one country to another; “multilateral” assistance is distributed through international organizations and agencies such as the United Nations and the World Bank Group.

³ The UNFCCC and its processes are discussed in greater detail in the next section, “Financial Assistance and the United Nations Framework Convention on Climate Change.”

⁴ “Mitigation activities” refer to actions taken to reduce or reverse the forces that contribute to global climate change (examples include transitioning to a low-emissions energy supply; capturing the opportunities in energy efficiency improvements in buildings, transportation, and industry; reducing deforestation and improving sustainable forest management to better serve as GHG emissions sinks; and employing more low-emissions and sustainable agriculture practices). “Adaptation activities” refer to adjustments made in natural or human systems in response to actual or expected climate change and its effects (examples include employing climate-resistant crop varieties, improving irrigation systems, integrating sustainable land management into agricultural planning, protecting water resources, managing coastal zones, designing infrastructure for extreme weather or for sea-level rise, and improving public health services).

are that the GCF becomes very large (i.e., in the range of several tens of billions to over \$100 billion annually) and serves as the predominant institution for climate change assistance in the developing world.⁵ These countries believe that the agreement to establish the GCF has been a key success in the recent international negotiations. But others caution that ambitious steps need to be taken to ensure that the fund is implemented and operated correctly in order to achieve an adequate buy-in by donor countries of its effectiveness and by recipient countries of its legitimacy.

The GCF is currently under implementation. While the governing board, a host city, and the basic design of the fund have been agreed to by Parties, many structural aspects have yet to be determined. These include most of the procedures, principals, and standards by which the fund would operate. Prospective dates to complete these various arrangements have been laid out over the course of 2014, and some Parties target the U.N. World Leaders' Climate Summit in September 2014 to announce the agreement and begin the capitalizing of the fund. Others remain skeptical of this timeline, as there are many issues that need to be clarified, some involving long-standing and contentious debate. They include

- what role the GCF would play in providing sustained finance at adequate levels;
- how it would fit into the existing development assistance and climate financing architecture;
- what sources of financing would capitalize it; and
- how it would allocate and deliver assistance efficiently and effectively to developing countries.

The U.S. Congress—through its role in authorizations, appropriations, and oversight—would have significant input on U.S. participation in the fund. Congressional input on the GCF may include

- whether and when to participate in the fund;
- whether and how much to contribute to the fund, and with what source or sources of finance;
- whether fund contributions would carry specific guidance in distribution and use;
- how contributions to the fund would relate to other U.S. bilateral, multilateral, and private sector climate change assistance; and

⁵ Many developing countries have stated their support for a large and centralized fund for climate change assistance to be housed at the UNFCCC, capitalized primarily by public contributions, and funded at or near the level of the estimated costs for climate change activities in the developing world. While cost estimates vary greatly depending upon the analysis (see “Cost Estimates” section in CRS Report R41808, *International Climate Change Financing: Needs, Sources, and Delivery Methods*, op cit.), many countries have acknowledged the annual \$100 billion figure as a target. To put this figure in context, in FY2010 the United States provided \$1.3 billion for international climate change assistance, split almost equally between bilateral and multilateral programs. Further, the FY2010 U.S. budget authority for *all* foreign operations programs, both bilateral and multilateral, at the Departments of State, Treasury, and the Agency for International Development, totaled \$32.8 billion, or approximately 3% of all FY2010 U.S. discretionary spending. Beyond the existing multilateral funds, total global contributions to international climate change assistance have been difficult to track due to the lack of international standards. Transparency of financial contributions and standardized accounting procedures are included in the package of agreements currently under negotiation by Parties to the UNFCCC.

- whether and when to consent to negotiated treaty obligations, if submitted.

Financial Assistance and the United Nations Framework Convention on Climate Change

The UNFCCC was the first formal international agreement to acknowledge and address human-driven climate change. The U.S. Senate provided its advice and consent to the Convention's ratification in 1992, the same year it was concluded.⁶ For the United States, the UNFCCC entered into force in 1994. As of January 2014, 195 governments are Parties. As a framework convention, the UNFCCC provides a structure for international consideration of climate change but does not contain detailed obligations for achieving particular climate-related objectives in each Party's territory. It recognizes that climate change is a "common concern to humankind," and, accordingly, requires parties to (1) gather and share information on GHG emissions, national policies, and best practices; (2) launch national strategies for addressing GHG emissions and adapting to expected impacts; and (3) cooperate in preparing for the impacts of climate change. The UNFCCC did not set binding targets for GHG emissions; however, it did commit the higher-income Parties (i.e., those listed in Annex II of the Convention)⁷ to provide unspecified amounts of financial assistance to help lower-income countries meet the broad, qualitative obligations common to all Parties.⁸

As the treaty entered into force and the UNFCCC Conference of the Parties (COP) met for the first time in 1995, the Parties agreed that achieving the objective of the UNFCCC would require new and stronger GHG commitments. As a first step toward meeting this objective, the 1997 Kyoto Protocol was drafted and entered into force with a stated aim to reduce the net GHG emissions of industrialized country Parties (Annex I Parties) to 5.2% below 1990 levels in the period of 2008 to 2012. The United States signed the Kyoto Protocol in December 1997. However, at the time, opposition in Congress was strong.⁹ The Kyoto Protocol was not submitted to the Senate by President Bill Clinton or by his successor, President George W. Bush. Thus, the United States is not a Party to the Protocol.

In 2007, UNFCCC Parties reconvened negotiations for further commitments beyond the Kyoto Protocol, and agreed to negotiate a suite of agreements that included new GHG mitigation targets for Annex I Parties, "nationally appropriate mitigation actions" for non-Annex I Parties, and other commitments for the post-2012 period. The mandates (referred to as the Bali Action Plan) specify that the products of negotiation should be ready by the end of 2009. Due perhaps to high

⁶ United Nations Framework Convention on Climate Change, Treaty Number: 102-38, October 7, 1992, the resolution of advice and consent to ratification agreed to in the Senate by Division Vote.

⁷ UNFCCC Annex I Parties include the industrialized countries that were members of the OECD (Organization for Economic Cooperation and Development) in 1992, plus countries with economies in transition (the EIT Parties), including the Russian Federation, the Baltic States, and several Central and Eastern European States. Annex II Parties consist of the OECD members of Annex I, but not the EIT Parties.

⁸ For more information on the UNFCCC and U.S. participation in international climate treaties, see CRS Report R41175, *International Agreements on Climate Change: Selected Legal Questions*.

⁹ See the Byrd-Hagel Resolution (S.Res. 98) in July 1997, wherein the Senate expressed its opposition (95-0 vote) to the terms of the Berlin Mandate (the 1995 UNFCCC COP agreement that led to the adoption of the Kyoto Protocol) by stating that the United States should not sign any treaty that does not include specific, scheduled commitments of non-Annex I Parties in the same compliance period as Annex I Parties, or that might seriously harm the U.S. economy.

expectations, as well as continued divergence among Parties on some key issues, the 2009 COP in Copenhagen, Denmark, did not produce a legally binding treaty, but a short, non-legally binding political document called the Copenhagen Accord.¹⁰

The Copenhagen Accord was a policy document drafted by leaders of about two dozen countries in the final hours of the 2009 COP, and subsequently acknowledged by 114 countries. The Accord sat in sharp contrast to the Kyoto Protocol, as its bottom-up and nationally appropriate model differed greatly from the top-down implementation of the Protocol. Provisions in the Accord included voluntary GHG mitigation efforts by all Parties, adaptation and forestry actions, technology transfer mechanisms, and transparency and reporting standards, as well as financial provisions by developed country Parties. The Accord also established the “Green Climate Fund” (GCF) to serve as the operating entity of the financial mechanism of the Convention.

Cancun Agreements and the Green Climate Fund

Many of the elements of the Copenhagen Accord, the Bali Action Plan, and the UNFCCC were adopted officially at the 2010 COP in Cancun, which yielded several decisions collectively called the Cancun Agreements.¹¹ The establishment of the GCF—as well as some other financial arrangements mentioned in the Copenhagen Accord—was a central aspect of the negotiations, and was entered into the negotiating text of the UNFCCC’s Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).¹² Climate finance provisions in the Cancun negotiating text (1/CP.16) included the following:

- **Fast Start Financing.** The agreement put forth a collective commitment by developed country Parties (not specified in the text) to provide new and additional resources approaching \$30 billion for the period 2010–2012 to address the needs of developing countries (the allocation, or “burden-sharing,” among countries was not specified in the text) (1/CP.16§95).
- **2020 Pledge.** The agreement took note of the pledge by developed country Parties (not specified in the text) to achieve a goal of mobilizing jointly \$100 billion per year by 2020 to address the needs of developing countries (the allocation, or “burden-sharing,” among countries was not specified in the text) (1/CP.16§98).
- **Sources.** The agreement outlined that the pledged assistance was to be scaled-up, new and additional, predictable and adequate, and that it may come from a wide

¹⁰ See UNFCCC Decision 2/CP.15, Copenhagen Accord, FCCC/CP/2009/11/Add.1, at <http://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf>.

¹¹ See UNFCCC Decision 1/CP.16, The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, FCCC/CP/2010/7/Add.1 at <http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf#page=2>.

¹² The Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) is the negotiating track of the COP that serves “to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to, and beyond 2012.” This is in contrast to the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) (for which the United States is not a Party, but an observer). Both Working Groups are tasked with producing negotiating texts with the aim of moving the texts to an agreement among Parties to the UNFCCC COP.

variety of sources, including public and private, bilateral, multilateral, and alternative (1/CP.16§§97, 99).¹³

- **Balanced Package.** The agreement recognized that the financial pledges were offered in the context of continued negotiations toward a balanced package of commitments by all Parties that would include, among other items, meaningful actions on mitigation¹⁴ and transparency¹⁵ (1/CP.16§98).
- **Green Climate Fund.** The agreement opened the way for the establishment of the GCF, to be designated as an operating entity of the financial mechanism of the UNFCCC, accountable to and under the guidance of the COP, to support projects, programs, policies, and other activities in developing country Parties (1/CP.16§102).
- **Transitional Committee.** The agreement stipulated the formation of a Transitional Committee to design the fund, comprising 40 members, with 15 members from developed country Parties and 25 members from developing country Parties, with experience and skills in the areas of finance and climate change, in accordance with given Terms of Reference (1/CP.16§§109–110).

The Durban Platform and the Green Climate Fund

The basic design of the GCF, recommended by the Transitional Committee, was adopted officially at the 2011 COP in Durban, South Africa, which yielded several decisions collectively called the “Durban Platform.”¹⁶ The design of the GCF was a central aspect of the negotiations, and the approved guidelines, referred to as the “Governing Instrument of the Green Climate Fund,” was entered into the negotiating text of the UNFCCC’s Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA). Decisions on the GCF in the Durban negotiating text (CP.17)¹⁷ included the following:

- **Status.** The agreement designated the GCF as “the operating entity of the Financial Mechanism of the Convention” to be “accountable to and function under the guidance of the Conference of Parties to support projects, programmes, policies and other activities in developing country Parties” (3/CP.17§3).

¹³ The United Nations convened an advisory panel in 2010 to investigate issues regarding the sourcing of climate finance. The report by the U.N. High Level Advisory Group on Climate Change Financing was released in November 2010 and can be found at <http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup>. For a discussion of the various proposed public, private, and alternative sources, as well as the issues revolving around the mobilization of international climate finance, see also CRS Report R41808, *International Climate Change Financing: Needs, Sources, and Delivery Methods*, by Richard K. Lattanzio and Jane A. Leggett.

¹⁴ “Mitigation” commitments refer to the formalized pledges taken by developed country Parties, or the nationally appropriate measures being taken by developing country Parties, to reduce GHG emissions.

¹⁵ “Transparency” commitments refer to the negotiated provisions whereby all major economy Parties (including the large emerging economies) must report on the progress they are making in meeting their mitigation commitments (targets and actions), and all Parties providing financial assistance must report their contributions through commonly accepted formats.

¹⁶ See UNFCCC Decisions accepted by COP 17 at http://unfccc.int/meetings/durban_nov_2011/meeting/6245/php/view/decisions.php.

¹⁷ See UNFCCC Decision 3/CP.17, Launching the Green Climate Fund, at <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>. Text appearing in the “Annex” is referenced in the textual notes with a letter “A” before the paragraph number.

- **Governance.** The agreement set forth the composition of a board, to have 24 members, composed of an equal number from developing and developed country Parties, with representation from relevant United Nations groupings including Small Island States (SIDS) and Least Developed Countries (LDC) (3/CP.17§A9). The decision invited Parties to submit their nominations for board membership (3/CP.17§10). Functions of the board were to include designing operations, establishing funding windows, approving funding, selecting implementing agencies, defining an accreditation process for implementing agencies, developing fiduciary standards and environmental and social safeguards, and building a framework for the monitoring and evaluation of performance.
- **Host Country.** The agreement began the process of selecting a host country for the GCF, asked Parties to submit expressions of interest, and required a final decision for endorsement by the 18th session of the COP (3/CP.17§§12-13).
- **Management.** The agreement tasked the board with establishing an independent secretariat to execute the day-to-day operations of the fund, to be in place no later than by the 19th session of the COP (3/CP.17§§15, 19).
- **Trustee.** The agreement asked the board to open a transparent and competitive bidding process for the selection of a trustee, either to replace or continue the services of the World Bank, as interim trustee (3/CP.17§16).
- **Board Meetings.** The agreement authorized the board to set up an interim secretariat immediately with the goal of convening the first board meeting. The first two board meetings were hosted by Switzerland and South Korea (3/CP.17§24).
- **The Governing Instrument.** The agreement adopted the guidelines for the general operation of the fund. This included rules and procedures for the board, secretariat, and trustee, as well as initial discussions on fund structure, eligibility, access, allocation, standards, and evaluation (3/CP.17§Annex).¹⁸

The Doha Gateway and the Green Climate Fund

The GCF Board formed in 2012¹⁹ and began a series of meetings to decide on recommendations to bring before the UNFCCC at the 2012 COP in Doha, Qatar. Decisions on the GCF in the Doha negotiating text (CP.18)²⁰ included the following:

- **Host Country.** The agreement endorsed the consensus decision of the GCF Board to select Songdo, Incheon, Republic of Korea as the host of the GCF. The GCF Board and the Republic of Korea were asked to conclude the legal and administrative arrangements for hosting the fund, and to ensure that juridical personality and legal capacity are conferred to the GCF (6/CP.18§§3, 4).

¹⁸ For the full “Governing Instrument for the Green Climate Fund,” as annexed to Decision 3/CP.17, see <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>.

¹⁹ For a list of GCF Board members, see the fund’s website, <http://www.gcfund.org/board/members-of-the-board.html>. As of April 2014, Mr. Leonardo Martinez, Deputy Assistant Secretary, Office of Environment and Energy, Department of the Treasury, serves on the board for the United States.

²⁰ See UNFCCC Decisions accepted by COP 18 at http://unfccc.int/meetings/doha_nov_2012/meeting/6815/php/view/decisions.php.

- **Governing Instrument.** The agreement recognized the Governing Instrument for the GCF, and asked the board to develop the final arrangements for the Instrument’s provisions (7/CP.18).

The Warsaw Outcomes and the Green Climate Fund

At the November 2013 conference in Warsaw, Poland, the GCF Board reported on the progress of the implementation of the Governing Instrument, including the work accomplished on the development of procedures, allocation of resources, securing of funding, establishment of a secretariat, selection of a trustee, and initiation of inter-fund linkages with other relevant thematic entities. Decisions on the GCF in the Warsaw negotiating text (CP.19)²¹ included the following:

- **Secretariat.** The agreement established the independent secretariat and named Ms. H la Cheikhrouhou as the executive director (4/CP.19 2).
- **Guidance.** The agreement adopted official guidance from the COP on policies, program priorities, and eligibility criteria for the fund to include (1) balancing resources for mitigation and adaptation, (2) pursuing country-driven approaches, and (3) confirming that all developing country Parties are eligible to receive resources (4/CP.19 9).
- **Arrangements.** The agreement laid out the governing arrangements between the COP and the GCF, including provisions for guidance, reporting, cooperation, review, and evaluation (5/CP.19).
- **Funding.** The agreement called for “ambitious and timely contributions” by developed country Parties by COP 20 (4/CP.19 13).

Recent Developments

During board meetings in 2013 and 2014,²² the board stated that securing financing for the fund was incumbent upon making progress across the full range of criteria for implementation in the Governing Instrument as outlined in Decision 3/CP.17. The board targeted the U.N. World Leaders’ Climate Summit in September 2014 as an opportunity officially to report on its progress and request financial pledges. The board laid out a set of criteria to fulfill prior to this date, including a determination on the following:

- Initial structure for the Fund and its secretariat, its administrative policies, best-practice fiduciary principles and standards, and environmental and social safeguards.
- Financial risk management and investment framework.

²¹ See UNFCCC Decisions accepted by COP 19 at http://unfccc.int/meetings/warsaw_nov_2013/meeting/7649/php/view/decisions.php, including UNFCCC Decision 4/CP.19, Report of the Green Climate Fund to the Conference of the Parties and guidance to the Green Climate Fund, and UNFCCC Decision 5/CP.19, Arrangements between the Conference of the Parties and the Green Climate Fund, at <http://unfccc.int/resource/docs/2013/cop19/eng/10a01.pdf#page=13>. Text appearing in the “Annex” is referenced in the textual notes with a letter “A” before the paragraph number.

²² See meeting documents at <http://www.gcfund.org/meetings.html>.

- Initial results areas, core performance indicators, and results management framework.
- Procedures for accrediting national, regional, and international entities that will implement activities for the fund or intermediate finance to such entities.
- Policies and procedures for the initial allocation of fund resources, including results-based approaches.
- Initial proposal approval process, including criteria for program and project funding.
- Initial modalities for the operation of the fund’s mitigation and adaptation windows, and the Private Sector Facility.
- Terms of reference of the fund’s independent units on evaluation, integrity, and grievance redress.

Outstanding Challenges for the Fund

Observers²³ have noted that the GCF confronts many challenges in design, scope, governance, and implementation that must be decided either by the board or by the Parties to the UNFCCC prior to its operation. Several of the most significant challenges left unanswered or unaddressed by the negotiating text include the following:

Relationship of the Fund to the Convention

As currently conceived, the GCF is intended to operate at arm’s length from the UNFCCC, with an independent board, trustee, and secretariat. The Governing Instrument states that the GCF is to be “accountable to and function under the guidance of the Conference of Parties” (3/CP.17§A4) (i.e., similar in legal structure to the Global Environment Facility), as opposed to “accountable to and function under the guidance *and authority* of the Conference of Parties” (i.e., similar in legal structure to the Adaptation Fund). While subtle, the distinction carries import, and negotiators from China and the Group of 77²⁴ have—for the moment at least—kept the latter structure in conversation in an effort to ensure representation by all Parties of the UNFCCC. The majority of developed country Parties, however, opposes the Adaptation Fund model as inefficient and overly politicized for two key reasons: (1) the COP would have direct authority over the selection and release of all board and secretariat members, and (2) the COP would have final approval over all rules and guidelines proposed by the board. Keeping the fund independent from the COP has been a key negotiating point for the United States. Given the current language of the negotiating

²³ Many economic and environmental civil society organizations have watched and reported on the UNFCCC climate negotiations in general, and the GCF negotiations in particular. For more analyses on the design challenges outlined in this report, among others, as well as on other proposed fund models, see, for example, Neil Bird, Jessica Brown, and Liane Schalatek, *Design Challenges for the Green Climate Fund, Climate Finance Policy Brief No. 4*, Heinrich Böll Foundation North America and Overseas Development Institute, January 2011; Nigel Purvis and Andrew Stevenson, “Climate Negotiations and International Finance,” *Resources*, Winter/Spring 2011, No. 177, pp. 16-18; and Benito Müller, *Time to Roll Up the Sleeves—Even Higher!: Longer-term Climate Finance after Cancun, Oxford Energy and Environment Brief*, Climate Strategies and the Oxford Institute for Energy Studies, January 2011.

²⁴ The Group of 77 is an official U.N. negotiating group composed of developing countries. Founded in 1964 in the context of the U.N. Conference on Trade and Development (UNCTAD), it now has over 130 members.

text (7/CP.18§1), and the design of the board to carry equal representation between developed and developing country Parties, this issue may already be resolved.

The World Bank as Trustee

The role of the World Bank in the GCF has been, and continues to be, controversial. The Governing Instrument confirms the World Bank as the interim trustee, subject to review after three years of fund operation (3/CP.17§A26). Most believe that once established, a subsequent shift in institutional arrangement is doubtful. Many developing countries hold the World Bank in a negative light, believing it to be non-transparent, overly bureaucratic, and reflecting solely the interests of higher-income countries, which command greater decision-making power by virtue of their greater financial contributions. Additionally, some Parties see the potential for conflicts of interest during the implementation phase of the fund, since the Bank (1) already operates a portfolio of Climate Investment Funds that might compete against the GCF for potential donor country contributions, and (2) has been asked to serve as support staff to aid in designing the operational procedures, project selection criteria, performance standards, and safeguard measures for the new fund. Despite these concerns, some Parties remain unconvinced that an adequate substitute exists, claiming that no other extant institution could undertake the proposed financial administration and fiduciary standards with the same level of confidence from the donors.

Mobilization of Funds

The Cancun negotiating text is silent on sources, with no proposal for how finance would flow into the fund. The text simply “takes note” of “relevant reports on the financing needs and options for mobilization of resources to address the needs of developing country Parties with regard to climate change adaptation and mitigation, including the report of the High-level Advisory Group on Climate Change Finance [AGF]” (1/CP.16§101). The Governing Instrument elaborates little on the sources of funding beyond two short statements: (1) the fund “would receive financial inputs from developed country Parties to the Convention,” and (2) the fund “may also receive financial inputs from a variety of other sources, public and private, including alternative sources” (3/CP.17§§A29-A30). The Doha and Warsaw negotiating texts simply reiterate this language, calling for “ambitious and timely contributions by developed countries,” and inviting “financial inputs from a variety of other sources, public and private, including alternative sources” (4/CP.19§§13, 15). Most see the faint mention of sources as unsurprising. The 2010 report by the AGF concluded that the goal of mobilizing adequate and predictable climate finance to developing countries on the order of \$100 billion annually would be “challenging but feasible.”²⁵ Further, while it is acknowledged that adequate international finance would likely require a range of sources (including public finance, development bank instruments, carbon markets, and private capital), little unity exists among COP Parties as to the balance between public and private sources, developed and developing country participation in international carbon markets or tax schemes, and the political feasibility of other large-scale fund mobilizations. Several other multilateral fora have taken up the issue of climate finance sourcing, including the G-20 and the Major Economies Forum.²⁶ However, the means by which the issue may be resolved during the fund’s implementation is unclear.

²⁵ See AGF Report, op cit.

²⁶ The “G-20” refers to the Group of Twenty: a forum for finance ministers and central bank governors established in (continued...)

Operational Modalities

The Governing Instrument outlines several design aspects regarding the operation of the fund, including “complementarity, eligibility, structure, access modalities, and financial instruments” (3/CP.17§§A31-A56). Each category engenders debate among Parties, and the negotiating text leaves a number of issues open for consideration during implementation.

- **Complementarity.** While little has been decided regarding the eventual size and scope of the GCF, its formation is being viewed by many as a means through which to simplify the complex network of multilateral and bilateral funding mechanisms that currently provide climate change assistance to developing countries. Many early proponents of a global fund had envisioned that such an institution would play the role of a “fund of funds,” or an “umbrella,” under which to collect both the resources and the comparative advantages of the other mechanisms. As it currently stands, the Governing Instrument gives little indication that such an ambition is to be pursued by the GCF. It states, instead, that the fund would “operate in the context of appropriate arrangements between itself and other existing funds under the Convention, and between itself and other funds, entities, and channels of climate change financing outside the Fund” (3/CP.17§A33). Nevertheless, the fate of the other funds would be called into question by the establishment of the GCF. At present, the Adaptation Fund is the sanctioned U.N. mechanism in support of climate change assistance for adaptation actions. The Global Environment Facility is the sanctioned UNFCCC financial mechanism in support of mitigation actions. The World Bank’s Climate Investment Funds were designed originally to sunset in 2012 at the presumed commencement of the new UNFCCC mechanism. It is possible that the eventual scope of the GCF may overshadow and/or replace these funds.²⁷ Conversely, it is also possible that the GCF may be deemed inadequate to existing arrangements in the eyes of potential donors.
- **Eligibility.** The Governing Instrument text states that “all developing country Parties to the Convention are eligible to receive resources from the Fund” (3/CP.17§A35). Presumably this characterization would include middle-income countries like Brazil, India, South Africa, and China. The United States is on record as objecting to this arrangement.²⁸

(...continued)

1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. The “Major Economies Forum” refers to a forum of 17 major developed and developing economies established in 2009 to facilitate dialogue on energy and climate issues.

²⁷ Recent funding levels for the above-mentioned multilateral funds are as follows: Global Environment Facility, \$3.5 billion pledged for the period 2011-2014; Climate Investment Funds, \$6.1 billion pledged for the period 2009-2012; Adaptation Fund, based on a formula of 2% of the Certified Emission Reduction units issued for projects of the Clean Development Mechanism of the UNFCCC Kyoto Protocol.

²⁸ U.S. Congress, House Committee on Foreign Affairs, Subcommittee on Oversight and Investigations, *U.N. Climate Talks and Power Politics*, 112th Cong., 1st sess., May 25, 2011, S.Hrg. 112-22, p. 20, wherein Todd Stern, U.S. Special Envoy for Climate Change, in responding to questions, stated that “after I arrived in Copenhagen in 2009, I did my first press conference. And I was asked about funding for China. And I said I didn’t really anticipate that U.S. funds, which are limited in any event, would be most wisely spent going to China.”

- **Structure.** While the Copenhagen Accord specifies that the GCF would support activities related to “mitigation including REDD-plus,²⁹ adaptation, capacity building, technology development and transfer” (2/CP.15§10), the Cancun negotiating text dropped such references, opting instead to state that the GCF would use “thematic funding windows” (1/CP.16§102). The Governing Instrument further unsettles the structure of the fund by stating that the GCF would “initially have windows for adaptation and mitigation”; but would likewise “ensure adequate resources for capacity-building and technology development and trade” as well as “consider the need for additional windows” (3/CP.17§A37-A39). Further, the board is tasked with “balancing” the allocation of resources between adaptation and mitigation (3/CP.17§A50). With present funding by existing financial institutions decidedly tilted toward mitigation actions,³⁰ there is likely to be a strong expectation—by developing countries as well as certain civil society organizations—that adaptation actions receive a significant portion of support from the GCF. Currently, no allocation formula has been provided, nor has a definition of “balance.”
- **Access.** Consideration of how countries would access funds from the GCF, and which agencies and organizations would be allowed to acquire funds to implement projects, remains an ongoing issue of debate. Currently, most multilateral financial assistance for climate change activities in developing countries is channeled through third-party implementing agencies (e.g., U.N. agencies, multilateral development banks, major nongovernmental organizations).³¹ The Governing Instrument invites international entities to provide services for the GCF; however, it emphasizes “direct access” modalities as a way to enhance recipient country ownership in the process (3/CP.17§A45-48). Direct access has become a prominent, new arrangement in climate finance delivery, allowing the recipient country to access financial resources directly from the fund, and/or allowing it to assign an implementing agency of its own choosing. This operational freedom has been a rallying point for many developing country Parties. The modality is also supported by many developed country Parties as a means to secure broader competition and greater country ownership. Nevertheless, implementation of direct access arrangements may prove to be slow and difficult, because they would likely require the same stringent level of fiduciary standards, competitive procurement practices, and environmental and social safeguards demanded of existing third-party implementing agencies. The Governing Instrument places the burden of

²⁹ “REDD-plus,” or “Reducing Emissions from Deforestation and Forest Degradation,” activities refer to mitigation-relevant activities in support of forestry and sustainable land management.

³⁰ Some of the reasons donor countries more readily provide financial assistance for mitigation projects as opposed to adaptation projects may include (1) mitigation actions serve to benefit the global environment, whereas adaptation actions often only provide benefits at the local level; (2) mitigation actions in the form of large-scale infrastructure projects associated with low-carbon technological development often are prioritized by donor countries because they support—and are incentivized by—global investment and the private sector, whereas local adaptation projects often find private sector mobilization more difficult to facilitate; and (3) mitigation actions in the form of large-scale infrastructure projects often are easier to monitor, verify, assess, and evaluate compared to smaller-scale, local adaptation projects.

³¹ Several multilateral funds currently use some model of direct access, including the U.N. Adaptation Fund and the Global Environment Facility, which have begun to accredit national agencies in recipient countries as official implementing agencies for fund disbursement.

developing “an accreditation process for all implementing entities” on the board (3/CP.17§A49).

- **Instruments.** As for the choice of instruments, the Governing Instrument states that financing would be provided “in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board” (3/CP.17§A54). Observers stress that climate finance can take a variety of forms; however, debate consistently arises between donor and recipient countries as to the appropriateness of debt-based instruments (i.e., loans) for humanitarian aid. While the general presumption is that climate finance in support of adaptation actions in developing countries should be provided on grant terms, this is less customary with regard to mitigation actions. Thus, many see it as important for the GCF to secure a good match between the type of finance and the object of financing, retaining sufficient funds to provide grants when necessary, as influenced by both the country and the project profile.

Relationship of the Fund to Other U.S. Climate Finance Commitments

At present, there have been no official contributions to the GCF beyond small amounts for the fund’s administrative budget.³² Further, there have been few pronouncements regarding redirection of current or future bilateral or multilateral financial assistance into the fund.³³ Nor have the eventual size, scope, or sources of financial contributions been decided in the negotiating text or voiced officially by the UNFCCC, Parties to the COP, or members of the board. The only specific financial allocation tied directly to the GCF in the Cancun negotiating text is “that a significant share of new multilateral funding for adaptation *should* flow through the Green Climate Fund” (1/CP.16§100, italics added).³⁴ This statement does not define “new” or “significant”; does not identify specific contributors or recipients; and does not assign specific amounts, allocations, or changes to bilateral aid, mitigation assistance, or current levels of funding. The Governing Instrument elaborates little on the sources of funding beyond two short statements: (1) the fund “would receive financial inputs from developed country Parties to the Convention,” and (2) the fund “may also receive financial inputs from a variety of other sources, public and private, including alternative sources” (3/CP.17§§A29-30).

As of FY2015, the U.S. Administration has made no specific budget request for appropriated funds to be contributed to the GCF.

³² Contributions for the fund’s administrative budget of approximately \$10 million have been made or pledged by the governments of Australia, Finland, Netherlands, Republic of Korea, Sweden, Denmark, France, Germany, Japan, Norway, and the United Kingdom of Great Britain and Northern Ireland.

³³ A few countries have offered unofficial pledges, including, for example, approximately \$45 million by Sweden; see <http://www.government.se/sb/d/17126/a/228841>.

³⁴ It has been suggested by some Parties that the inclusion of this statement may be the result of Parties’ experiences with the U.N. Adaptation Fund, which serves as a reminder of the challenge to raise funds directly from countries’ national budgetary contributions and the reluctance of such countries to commit a significant share of these funds to UNFCCC-sponsored adaptation projects.

The relationship of the GCF to other climate finance commitments by the United States can be outlined as follows:

- **UNFCCC Fast Start Financing Pledges.** The collective pledge by developed country Parties to provide new and additional resources approaching \$30 billion for the period 2010-2012 was *not* tied to the GCF. Fast start funds were provided as bilateral and multilateral contributions made through authorized appropriations by donor country governments.
- **UNFCCC 2020 Pledges.** The collective pledge by developed country Parties to the goal of mobilizing jointly \$100 billion per year by 2020 is *not* tied directly to the GCF. The Cancun negotiating text makes clear that “funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources” (1/CP.16§99). When operational, the GCF would be one of many possible public and multilateral sources. While any financial assistance that is channeled through the GCF would likely be considered a part of the \$100 billion goal, the entirety of the \$100 billion goal is not expected to be provided solely by the GCF, and no estimation of the GCF’s presumed share has been suggested officially. Many Parties, as well as the AGF report, have suggested that development bank instruments, carbon markets, and—especially—private capital would be critical to mobilizing assistance at the level pledged.
- **Bilateral Aid.** The GCF would not necessarily interfere with current or proposed bilateral climate change assistance to developing countries. The GCF would be another multilateral mechanism for climate change assistance that would exist alongside bilateral activities, much the way that the Global Environment Facility and the Climate Investment Funds currently do. U.S. allocations between and among bilateral and multilateral assistance channels would continue through authorized congressional appropriations.
- **Other Multilateral Aid.** The GCF Board has been tasked with determining the complementarity of the GCF with respect to other U.N. multilateral mechanisms. Thus, the negotiations may produce some alteration in the landscape of the multilateral choices provided by the UNFCCC. Development bank mechanisms such as the Climate Investment Funds may or may not be reevaluated by their governing boards in light of the final implementation of the GCF. Presumably, choices would remain available to donor countries. U.S. allocations among multilateral assistance channels would remain based on congressional guidance and would continue through authorized congressional appropriations.

Issues for Congress

Members of Congress hold mixed views about the value of international financial assistance to address climate change. While some Members are convinced that human-induced climate change is a high-priority risk that must be addressed through federal actions and international cooperation, others are not as convinced. Some are wary, as well, of international processes that could impose costs on the United States, redirect funds from domestic budget priorities, undermine national sovereignty, or lead to competitive advantages for other countries. Regardless of current views, the United States is a Party to the UNFCCC and has certain obligations under the treaty. The executive branch continues negotiations and implementation of the UNFCCC

obligations, while committees of Congress engage in oversight (from home and at the international meetings), providing input to the executive branch formally and informally, and deciding program authorities and appropriations for these activities.

As Congress considers potential authorization and/or appropriations for the GCF, it may raise concerns regarding the cost, purpose, direction, efficiency, and effectiveness of the UNFCCC and existing international financial institutions. These concerns may be weighed against the design characteristics of the GCF in an effort to assess its potential performance. Congress may then be required to determine the allocation of funds between bilateral and multilateral climate change assistance as well as among the variety of multilateral mechanisms. Congress may also wish to gauge and give guidance to the new fund's relationship with domestic industries and private sector investment, as well as the spillover effects of U.S. participation on technological innovation, humanitarian efforts, national security, and international leadership. Potential authorizations and appropriations for the GCF would rest with several committees, including the U.S. House of Representatives Committees on Foreign Affairs (various subcommittees); Financial Services (Subcommittee on International Monetary Policy and Trade); and Appropriations (Subcommittee on State, Foreign Operations, and Related Programs); and the U.S. Senate Committees on Foreign Relations (Subcommittee on International Development and Foreign Assistance, Economic Affairs, and International Environmental Protection); and Appropriations (Subcommittee on State, Foreign Operations, and Related Programs).

Additional issues for Congress concerning the climate negotiations in general, and the GCF in particular, may include the means to establish a more desirable form of agreement (or lack thereof); the compatibility of any international agreement with U.S. domestic policies and laws; the adequacy of appropriations and fiscal incentives to achieve any commitments under the agreement; and any requirements for potential ratification and implementing legislation, should a formal treaty emerge from the negotiations.

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