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 of "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), currently under negotiation by Parties to the Convention. If established, the fund would be capitalized by contributions from donor countries and other sources and used to support climate change mitigation and adaptation projects, programs, policies, and other activities. The GCF would complement, or perhaps replace, many of the existing multilateral climate change funds (e.g., the Global Environment Facility, the Climate Investment Funds, the Adaptation Fund) and become the official financial mechanism of the Convention. A UNFCCC-appointed Transitional Committee has been tasked with designing the CGF, with the intent of bringing a finished proposal for a decision before the UNFCCC 17th Conference of Parties in Durban, South Africa, November 28-December 9, 2011. Many issues remain to be clarified during negotiations, and some involve long-standing and contentious debate. They include what role the CGF 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 legally and institutionally governed, 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 fund. As negotiations proceed, Congress 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 negotiated design characteristics of the new fund in an effort to assess its potential performance. Congress may then be required to determine and give guidance to the allocation of funds between bilateral and multilateral climate change assistance as well as among the variety of multilateral mechanisms. 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).

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Introduction[1]

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 would depend 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 would incur costs above and beyond their normal economic growth trajectories. These costs would be particularly challenging to nations that have scant resources compared to industrialized countries, and consider alleviating poverty as their first priority.

The Green Climate Fund (GCF) is a proposal by Parties to the United Nations Framework Convention on Climate Change (UNFCCC)[3] to establish an international financial institution to assist developing countries in their efforts to combat climate change. The fund would be capitalized by contributions from donor countries and other sources and used to support climate change mitigation and adaptation[4] projects, programs, policies, and other activities. The GCF would complement, or perhaps replace, many of the existing multilateral climate change funds (e.g., the Global Environment Facility, the Climate Investment Funds, the Adaptation Fund) and become the official financial mechanism of the UNFCCC. Expectations by many countries, specifically developing countries, are that the fund may be very large (i.e., in the range of several tens of billions to over $100 billion dollars annually) and serve as the predominant institution for climate change assistance in the developing world.[5] These countries believe that the agreement to

[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 International Climate Change Negotiations*, 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, "Background on 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).

[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 (continued...)

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 designed and implemented 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 in the planning stage. Its scope, governance structure, sourcing, and disbursement mechanisms are currently under negotiation by Parties to the UNFCCC. Having been mentioned first in the UNFCCC-adopted Copenhagen Accord of December 2009, a decision was made to establish the fund during the UNFCCC 16th Conference of Parties (COP) in Cancun, Mexico, in December 2010. Negotiations have since turned to the design of the fund, over the period of March to November 2011, and under the auspices of a COP-appointed Transitional Committee, with the intent of bringing a finished proposal before the UNFCCC 17th COP in Durban, South Africa, November 28–December 9, 2011.

Many issues remain to be clarified during negotiations, and some involve long-standing and contentious debate. They include:

- what role the CGF would play in providing sustained finance at adequate levels,
- how it would fit into the existing development assistance and climate financing architecture,
- how it would be legally and institutionally governed,
- how it would be capitalized, and
- how it would allocate and deliver assistance efficiently and effectively to developing countries.

The United States is a Party to the UNFCCC negotiations. It also is represented on the UNFCCC COP-appointed Transitional Committee to negotiate the design of the CGF. The U.S. representative is Marisa Lago, Assistant Treasury Secretary for International Development and Markets, U.S. Department of the Treasury. Ms. Lago is supported by the U.S. Department of the Treasury's Office of Energy and Environment. If and when the Transitional Committee reaches consensus on a design for the fund, and if and when the proposal is brought before the COP for a decision, 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 a potential UNFCCC-established fund may include:

- whether and when to participate in the fund;
- how much to contribute to the fund, and with what source or sources of finance;

(...continued)

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

After providing a brief background on the history of the climate negotiations leading up to the proposal of the GCF, this report (1) reviews the terms of the agreement for the design of the fund, (2) outlines outstanding design issues, and (3) addresses the relationship of the fund to other U.S. commitments for international climate change assistance. The report ends with a summary of congressional issues of relevance to the fund.

Background on 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 2011, 194 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.

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[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*, by Emily C. Barbour.

However, at the time, opposition in Congress was strong.[9] The Kyoto Protocol was not submitted to the Senate by President Clinton or by his successor, President George W. Bush.

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) specified that the products of negotiation should be ready by the end of 2009. Due perhaps to high expectations, as well as continued divergence between 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 among 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 negotiations, 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 a joint pledge by developed countries of up to $30 billion in "fast start" climate financing for developing countries for the period 2010–2012, and a goal of mobilizing $100 billion annually by 2020. The Accord also established the "Green Climate Fund" (GCF) to serve as the operating entity of the financial mechanism of the Convention.

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] Climate financing was one aspect of the negotiations.

The Cancun Agreements on Climate Finance

The establishment of the Green Climate Fund—as well as some other financial arrangements mentioned in the Copenhagen Accord—was decided on by Parties at the 2010 COP in Cancun, Mexico, and entered into the negotiating text of the UNFCCC's Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA).[12] Selected provisions include:

[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.

[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.

Financial Pledges

- **Fast Start Financing.** The agreement puts 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) (§95).
- **2020 Pledge.** The agreement takes 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) (§98).
- **Sources.** The agreement outlines that the pledged assistance is to be scaled-up, new and additional, predicable and adequate, and that it may come from a wide variety of sources, including public and private, bilateral, multilateral, and alternative (§§97, 99).[13]
- **Balanced Package.** The agreement recognizes that the financial pledges are offered in the context of continued negotiations toward a balanced package of commitments by all Parties that includes, among other items, meaningful actions on mitigation[14] and transparency[15] (§98).

The Green Climate Fund

- **Green Climate Fund.** The agreement opens 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 (§102).
- **Thematic Funding Windows.** The agreement states that the fund should employ thematic funding windows (i.e., sub-accounts targeted at specific climate change activities, such as mitigation, adaptation, forestry, capacity-building, etc.). The allocation among these categories was not specified in the text, only that it should be "balanced" between adaptation and mitigation (§102).
- **Adaptation.** The agreement notes that a "significant share" of any new multilateral funding for adaptation should flow through the GCF (§100).

[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.

- **Governance.** The agreement sets up a 24-member Board for the fund, comprising an equal number of members from developing and developed country Parties (not specified in the text), wherein representation from developing country Parties is specifically to include relevant U.N. groupings, including regions, small island States, and the least developed countries (§103).
- **Trustee.** The agreement designates that the fund has a trustee, separate from the Board and the UNFCCC, to manage the financial assets of the fund, maintain appropriate financial records, and prepare financial statements and other reports required by the Board, in accordance with internationally accepted fiduciary standards. The agreement invites the World Bank to serve as an interim trustee, subject to a review after three years of operation (§§104–107).
- **Secretariat.** The agreement calls for the creation of an independent Secretariat to support the operation of the fund, with guidance from the Board (§108).
- **Transitional Committee.** The agreement then stipulates 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 (§§109–110).
- **Technical Support Unit.** The agreement then tasks the COP to make arrangements for supplying a support staff for the Transitional Committee, to be sourced from relevant U.N. agencies, international financial institutions, multilateral development banks, and the Global Environment Facility (§111).
- **Standing Committee.** Finally, the agreement establishes a permanent Standing Committee under the UNFCCC to assist the COP in exercising its functions with respect to the financial mechanism of the Convention. The roles and functions of the Standing Committee are yet to be defined by Parties, but the provision allows for further discussion on the legal relationship between the fund and the UNFCCC (§112).

The Transitional Committee

A Transitional Committee is tasked with developing an operational design for the GCF and recommending it for approval at the UNFCCC 17th COP in Durban, South Africa, from November 28 to December 9, 2011. The issues to be addressed by the Transitional Committee are outlined in a Terms of Reference section in the Cancun Agreements, and include:[16]

- legal and institutional arrangements for the fund;
- rules of procedure for the fund's Board, and the role of the Secretariat;
- financial instruments, funding windows, and access modalities to be employed by the fund;
- complementarity with other funds and institutions; and

[16] The Terms of Reference for the design of the Green Climate Fund can be found in Appendix III of the Cancun Agreements, op. cit.

- provisions for standards, safeguards, independent performance evaluations, technical advice mechanisms, and stakeholder participation.

Design Challenges of the Fund

Observers[17] have noted that the Green Climate Fund confronts many challenges in design, scope, governance, and implementation that must be negotiated by the Transitional Committee and, eventually, the UNFCCC Conference of Parties. Several of the most significant challenges include:

Timeline of the Negotiations

Many developing (i.e., recipient) country Parties and their civil society organizations have high expectations for the GCF. They are pushing for the Transitional Committee to deliver on several of the more long-standing and contentious points of negotiation (e.g., sourcing of funds, assessment of contributions, determination of burden-sharing, targets for disbursement). However, other Parties—including the United States—are insisting that the Transitional Committee concentrates solely on the technical design characteristics of the fund (as it was tasked to do by the Cancun Agreements) in order to deliver a timely and manageable product to the COP. Notwithstanding, the Terms of Reference for the CGF are extensive. The Transitional Committee met once on April 28 and 29, 2011, in Mexico City,[18] and has agreed to meet on three more occasions prior to the UNFCCC 17th COP in Durban, South Africa, from November 28 to December 9, 2011. Even in the best of circumstances, many believe that it would be difficult to successfully negotiate a design for the fund during this time frame, much less address the more long-standing and contentious issues. Some observers have suggested that it may be several years before the Transitional Committee can report a final design to the COP.

Scope of the Fund

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

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17 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.

18 The April meeting of the Transitional Committee succeeded in electing three co-chairs to the committee (Mexico, South Africa, and Norway), as well as dividing the Terms of Reference into four tentative clusters of issues, or work-streams (Scope, guiding principles, and cross-cutting issues; Governance and institutional arrangements; Operational modalities; and Monitoring and evaluation), that were then delivered to relevant support staff in the Technical Support Unit, under the guidance of co-chairs, to be researched and reported on by the next Transitional Committee meeting in Tokyo, Japan, in July.

the comparative advantages of the other mechanisms. As it currently stands, the negotiating text from the Cancun Agreements gives little indication that such an ambition is to be pursued by the GCF. It refers, instead, to "aligning" the GCF with other institutions. Nevertheless, the fate of existing multilateral financial mechanisms may 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 initially designed 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.[19] Conversely, it is also possible that the CGF, if established, may prove inadequate to existing arrangements in the eyes of potential donors.

Fund Governance

Many decisions on governance await the deliberations of the Transitional Committee. While the composition and selection of the Board and the Secretariat are important considerations, two other bodies have provoked significant debate: the Trustee and the Standing Committee.[20]

- **The Trustee.** The role of the World Bank in the GCF has been, and continues to be, controversial. The Cancun negotiating text invites the World Bank to serve as the interim trustee, subject to review after three years of fund operation (§107). 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 design 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 for the Transitional Committee 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.
- **The Standing Committee.** The Cancun negotiating text establishes a committee (its size, composition, and participation are not specified in the text) to help the COP in exercising its functions with respect to the financing obligations in the

[19] 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.

[20] During the April 2011 Meeting of the Transitional Committee, it was reported that Nicaragua caused a stir by accusing the World Bank of "Arthur Andersen syndrome," presumably referencing the accounting firm's responsibility in the Enron affair. See Lisa Friedman, "Negotiations: Nations begin to plan details of Green Climate Fund," *ClimateWire*, May 2, 2011. Similarly, the language regarding the Standing Committee produced considerable debate among negotiators during the UNFCCC intersessional meeting in Bonn, Germany, from June 6-17, 2011.

Convention. The committee is specifically tasked to improve "coherence and coordination in the delivery of climate change financing, mobilization of financial resources and measurement, [and] reporting and verification of support provided …" (§112). While currently vague, the roles and functions of the Standing Committee are to be defined further by Parties during AWG-LCA negotiations. Some[21] see the text on the Standing Committee to be a "place-holder" for postponing the more controversial issues until later. Others believe it was included to provide a direct, sustained, and authoritative link between the UNFCCC and the GCF Board, perhaps to open a channel for future mandates to flow directly from the COP to the Board.

Fund Mobilization

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]" (§101). Most see the absence of this item under the Transitional Committee's Terms of Reference 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."[22] 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 Meeting.[23] However, the prospect of the issue being resolved during the course of the Transitional Committee's deliberations appears to be slight.

Fund Disbursement

The Transitional Committee's Terms of Reference mention three main design aspects with respect to the disbursement of funds: "financial instruments, funding windows and access modalities" (Appendix III, §1c). Each category engenders debate among Parties.

- **Instruments.** As for the choice of instruments, observers[24] stress that climate finance can take a variety of forms: it can be provided as grants, concessional loans, market-based loans, equity investments, or guarantees. However, debates consistently arise between donor and recipient countries as to the appropriateness

[21] Bird, op cit., p. 4.

[22] See AGF Report, op cit.

[23] The "G-20" refers to the Group of Twenty: a forum for finance ministers and central bank governors established in 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.

[24] Bird, op cit., p. 6.

of debt-based instruments (e.g., 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.

- **Windows.** While the Copenhagen Accord specified that the GCF would support activities related to "mitigation including REDD-plus,[25] adaptation, capacity building, technology development and transfer" (§10), the Cancun negotiating text has dropped such references, opting instead to state that the GCF would use "thematic funding windows" (§102). Whether or not the question of "balance" among these windows is addressed by the Transitional Committee remains to be seen. With present funding by existing financial institutions decidedly tilted toward supporting mitigation actions, there is likely to be a strong expectation—by developing countries as well as certain civil society organizations—that adaptation actions would receive a significant portion of support from the CGF. Some allocation formula is likely to be expected from the Transitional Committee, if for no other reason than to allow subsequent funding decisions to be adequately rule-based.
- **Access.** Finally, 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, almost all 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).[26] Whether and which of these agencies would be accredited to manage GCF funds is not specified; however, language in the Cancun negotiating text does mention one specific modality: "direct access" (Appendix III, §1c). 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.

[25] "REDD-plus," or "Reducing Emissions from Deforestation and Forest Degradation," activities refer to mitigation-relevant activities in support of forestry and sustainable land management.

[26] The only current exception to this practice is the U.N. Adaptation Fund, which has begun to accredit national agencies in recipient countries as official implementing agencies for fund disbursement. Council Members for the Global Environment Facility have begun discussions on a similar practice. This practice is referred to as "direct access."

Relationship of the Fund to Ongoing Negotiations

Many Parties have stressed the importance of the design choices to be made by the Transitional Committee, and the influence that these choices may have on the ability of the fund to attract both the longer-term financial pledges of donor countries and the leveraged investment of the private sector. A few, including the United States, contend that the engagement of finance ministries—as opposed to climate negotiators—is critical to ensuring the best technical design and the best use of funds. Some observers[27] have cautioned that a poorly designed fund could cause the multilateral effort to deteriorate into endless political squabbles as opposed to effective technical conversations about how best to capitalize and leverage resources. Nevertheless, while some critics see climate negotiators as ill-equipped to adequately debate issues of finance, their expertise remains relevant to other aspects of the negotiations. Many Parties remain focused on the need for a "balanced package" of commitments to arise from the UNFCCC climate negotiations. They, including the United States, stress that the design of a financial mechanism should not outpace elaborations on other issues, such as GHG mitigation and transparency commitments, to be made by developed and developing countries alike.

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 Cancun negotiating text states that the GCF is to be "accountable to and function under the guidance of the Conference of Parties" (§102) (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 77[28] have—for the moment at least—kept the latter structure in conversation in an effort to ensure adequate representation by all Parties of the UNFCCC. The majority of developed country Parties, however, oppose 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. Given the current language of the negotiating text, and the proposed design of the Board to carry equal representation between developed and developing country Parties, this issue may already be resolved.

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

At present, there have been no funds pledged specifically to the Green Climate Fund. Further, there have been no pronouncements regarding redirection of current or future bilateral or multilateral financial assistance into the fund. Nor have the size, the scope, or the sources of financial contributions been decided in the negotiating text or voiced officially by the UNFCCC,

[27] For example, see comments made by Athena Ballesteros of World Resources Institute in an article by Lisa Friedman, "Cancun: Countries Get to Work Designing Green Climate Fund," *ClimateWire*, January 3, 2011.

[28] 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.

Parties to the COP, or members of the Transitional Committee. 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" (§100, italics added). 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. However, its inclusion 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.

In regard to the GCF's relationship to other climate finance commitments by the United States:

- **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 is *not* tied to the GCF. In fact, the GCF is unlikely to be operational before the end of 2012. Fast start funds most likely would continue as current 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" (§99). If established, 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. 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 Transitional Committee and the GCF Standing Committee have 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 any proposal that comes out of the UNFCCC. 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 Green Climate Fund, if established, 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 proposed design characteristics of the new fund 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 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; 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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