# Concentration of GCF resources

## WHAT IS AT ISSUE?

## Discussion Note*

Benito Müller[1]

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## 1 Introduction

The most emotional, not to say antagonistic exchange of words during the recent Board meeting of the Green Climate Fund was about the proposed *Policies and Procedures for the Initial Allocation of Fund Resources*[2] and, in particular, about the proposal to introduce a five per cent "universal single country cap" on how much a country could maximally receive of the total GCF funds allocated. The proposal − put forward by the GCF Secretariat in Paragraph 20 of the relevant background paper (GCF/B.06/05) – was meant "*to ensure that Fund resources are deployed equitably across eligible developing countries.*"

Whilst some contributing countries may have wished to have such a cap for political reasons − so as not to be seen to be sending money to some of the larger eligible developing countries for example − the debate was essentially between developing countries, and it was about justice and equity.

- The opponents of the country caps argued that, given the global public good character of emission mitigation, it would be wrong to limit the global efficiency and effectiveness of GCF funds by introducing an artificial cap.
- The proponents argued that for reasons of distributive justice, it would be wrong if some eligible recipients go empty handed because others grabbed all the available resources: *After the adoption of the decision, Zaheer Fakir (South Africa) wanted the following statement to be in the record of the meeting: "Our preference for a reasonable and fair country allocation system requires the consideration of a flexible country cap, that will ensure that excessive concentration of resources is avoided, that a balanced distribution of resources is guaranteed, …."*[3]

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In the course of the debate, the proponents' narrative focused more and more on the notion of '(excessive) concentration.' As such, the argument was reminiscent of the debate on the morality of (excessive) concentration of income among individuals, where it is sometimes thought that since we are all equal in the sense of having more or less the same basic needs, scarce resources should be distributed more or less equally, and that consequently there should be a "fat cat" income cap. Yet, while this may be valid for the income of individuals, it is, at the very least, questionable whether it can be automatically applied to the income of nations.

## 2 Adaptation Funding

For example, it has been argued[4] in the context of the Least Developed Country Fund (LDCF) that 38 per cent of adaptation funding should go to Bangladesh. Would that be an excessive concentration of resources, making Bangladesh an "adaptation funding fat cat" among the 48-member LDC Group? Would a cap, such as the one proposed for the GCF, be justified in the case of the LDCF?

The principle of the sovereign equality of nations, for one, does not necessarily imply that all nations have the same "basic needs". As it happens, the 38 per cent figure for Bangladesh was calculated on the basis of a "vulnerability adjusted impact exposure headcount" used as measure for adaptation funding needs, but it is clear that whatever measure one uses, Bangladesh will have significantly higher national funding needs than many other LDCs such as Kiribati, simply because of differences in size. In short, concentration is not an evil per se. There are cases where it is morally justified.

In the case of adaptation, the idea of a single country cap should therefore, as suggested in Paragraph 20, be replaced by "*a third-tier, country-based, allocation system*" in proportion to adaptation funding needs − estimated, for example, in terms of the number of inhabitants exposed to climate change impacts and the intensity of these impacts (their vulnerability). Indeed, given the Bali decision to earmark at least fifty per cent of adaptation funding for Particularly Vulnerable Countries (PVCs), the money in this PVC envelope and the remainder of the adaptation funding should be allocated separately to PVCs and non-PVCs, both in proportion to the respective funding needs.

## 3 Mitigation Funding

The main difference to adaptation[5] is that for mitigation, global efficiency (cost effectiveness) − that is to say getting as much (near- and long-term) global mitigation benefit for the available funding as possible, regardless of geographic considerations − is a morally justifiable objective, not least with reference to the demands of *inter*generational justice. It is also clear as a matter of basic economics that an introduction of caps is bound to reduce the overall efficiency of the allocation. Is this a price that must be paid if one wishes to ensure that everyone receives a fair *intra*-generational share?

It has been argued that instead of mixing up equity and efficiency objectives in a grand unified formula with the result of attaining neither, each objective should be assigned its own dedicated funding envelope/stream: To obtain, on the one hand, the "biggest global mitigation bang for the buck" for the sake of intergenerational justice, part of the funding for mitigation should be set aside to be allocated on a purely competitive basis, without any exogenous constraints.[6] To satisfy, on the other, the demands of intra-generational (distributive) justice, such an "efficiency envelope" would have to be complemented with an "equity envelope".

This leaves the question of whether the demands of intra-generational distributive justice ("equity") require measures against (excessive) funding concentration − such as a single country cap − for this equity envelope? Whatever the answer, the one thing that is clear is that, since efficiency would be dealt with separately, efficiency-based arguments would no longer be applicable in this context.

Are there other arguments that could validly be used in favour of limiting the concentration of resources allocated under the equity envelope? It has, for example, been argued that it is important to avoid "empty eligible hands", that is to say, to ensure that everyone who is eligible gets something. Yet, this cannot be turned into an argument for introducing a (single) country cap. After all, if the top 20 recipients reach the five per cent cap, then all the funding will have been allocated and everyone else will be left empty handed, even though the system has a cap. In other words, setting a country cap does not mean that some eligible countries will not be left empty handed.

The only way to guarantee the avoidance of empty eligible hands is by using the analogue to a minimum wage, that is to say by introducing a ***single country floor allocation***. Moreover, to do justice to the demands of sovereign equality, such floors should indeed be universal, i.e. flat per country amounts. This, of course, applies not only to mitigation, but also to adaptation and any other kind of funding.

As it could well be the case that certain legitimate mitigation related funding needs cannot be addressed through the purely competitive allocation under the efficiency envelope − in particular if that is done through "Quantity Performance" transactions relating purely to emission reductions[7] − it could also be advisable to introduce a ***needs-based allocation*** in the equity envelope (over and above the floor amounts), provided there is a suitable needs measure. In the absence of such a measure, one might simply opt for the least concentrated allocation possible, namely to give everyone the same amount on egalitarian grounds.

As it happens, using such an egalitarian allocation for the whole equity envelope, together with the competitive allocation of the complementary efficiency envelope, would simply amount to the introduction of a flat country floor allocation, with the remainder of the mitigation funding being allocated competitively without further constraints.

# 4 Summary

In the case of ***mitigation***, two separate funding envelopes/streams should be introduced, one dedicated to efficiency and the other to (intra-generational) equity.

The funding under the efficiency envelope should be allocated purely competitively, without constraints on concentrations. The equity envelope should be allocated in proportion to those ***mitigation funding needs*** that cannot be adequately addressed by the funding flowing through the efficiency envelope, and by introducing a ***flat single country mitigation funding floor***. In the absence of a suitable measure for these special mitigation funding needs, the mitigation equity envelope as a whole could be divided equally among recipient countries, which would be tantamount to introducing a uniform country mitigation funding floor in the system as presently envisaged by the GCF Board.

In the case of ***adaptation***, resources should be allocated in ***proportion to country adaptation funding needs***, estimated, say, in terms of the number of people exposed to climate change impacts and the intensity of these impacts (their "vulnerability"). This should be carried out separately with respect to the funding set aside for particularly vulnerable countries, and to the funding for the other countries. In both cases, one might also wish to introduce a flat (single country) ***adaptation funding floor***.

# 5 Endnotes

[1] Director Energy and Climate Change, OIES; http://www.oxfordenergy.org/author/benito-muller/
Managing Director OCP; http://www.oxfordclimatepolicy.org/publications/mueller.shtml
Director ecbi; www.eurocapacity.org
E-mail: benito.mueller@philosophy.ox.ac.uk

[2] http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B06_Allocation_fin_07Feb14.pdf

[3] Meena Raman (2014), "Green Fund adopts key decisions on operations, TWN Info Service on Climate Change 3 March 2014
http://www.twn.my/title2/climate/info.service/2014/cc140301.htm

[4] All of the arguments referred to in this Note are listed in the Review Note 'Policies and Procedures for the Initial Allocation of Fund Resources' (GCF/B.06/05) that was prepared for the Bali meeting of the Board, and is available at
www.eurocapacity.org/finance/documents/Initial_Resource_Allocation_final_pdf

[5] This is not to say that cost effectiveness should not be a consideration in evaluating adaptation projects but merely that in the context of allocating adaptation resources to countries, funding needs prevail.

[6] Note that in this case, any concentration of funding would be fair, provided the competition was fair.

[7] Certain activities, such as capacity building, cannot be funded through payments for emission reductions.