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PREFERRED ENHANCED ACCESS

Submission in response to the invitation by the Co-chairs of the Green Climate Fund to Civil Society Organisations to present background information material and views on the matters raised in their information note on the informal discussion on the business model framework of the Green Climate Fund, to be held on 12 March 2013 in Berlin.

This submission is based on a Background Paper (‘OIES Brief’[1]*) written for a consultation meeting on a Vision Document for the Green Climate Fund, held in New Delhi 15-16 February 2013.*

Benito Müller[2] 1 March 2013

It is often said the Green Climate fund (GCF) must be ‘transformational’. Usually, the object of such transformation are taken to be developing countries –e.g. [2][3]: “*some measure of transformational change (for example, some demonstration of fit of activity with national strategy/innovation/fiscal effort)*”− but no such transformations will be possible without a concomitant ***transformation of the existing multilateral funding modalities*** themselves.

This transformation of funding modalities can be described as the change from ordinary (direct) access to ***enhanced (direct) access***, involving a fundamental ***devolution of (operational) decision-making***, in accordance with the well-known subsidiarity principle. It is the answer to many of the questions asked in the information note, and many others depend on whether such a transformation is carried out or not.

Enhanced Access through Funding Entities

Funding Entities, as envisaged in the GCF Instrument[4] and referred to in the information note [42], would be entities accredited by the GCF which are delegated the task of operational decisions (approval, evaluations etc.) for GCF eligible activities.[5] As indicated in the information note, Funding Entities could be *sub-national, national, regional and international*.

The OIES Brief concludes that the GCF will not be able to function effectively at scale if it does not make ***Enhanced Direct Access*** (EDA) through ***National Funding Entities*** (NFEs) the mainstay of its operations. Given this, the question that remains is how to deal with the residual need for ordinary access, where the operational decisions are not delegated to the country level, but retained internationally?

[1] http://www.oxfordenergy.org/wpcms/wp-content/uploads/2013/02/A-Delhi-Vision.pdf
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[3] “[*n*]” refers to question number *n* in the Co-Chairs’ information note.
[4] In paragraph 47, the GCF Instrument stipulates that *the Board will consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes.*
[5] NB: As such, ***Funding Entities are fundamentally different from Implementing Entities*** and should not be confused or conflated with them.

There is no doubt that, at scale, the Board would no longer be able or willing to be directly involved in these operational (project cycle) decisions, particularly if, as some think, it should be a high-level political body. Ideally, as mentioned above, the devolution should be to the country level. In cases where that is not possible, this leaves two options: either the Secretariat or enhanced access through International Funding Entities such as the Adaptation Fund, the LDC Fund, the SCCF and others.

We believe the GCF should, from the very outset, focus exclusively on the Enhanced Access option, and not begin to develop its own project cycles. The GCF (Board and Secretariat) should be engaged in operationalising COP guidance, but not in applying it. They should prepare the operational guidelines (in accordance with COP guidance), and ensure accountability, but they should from the very outset refrain from being directly involved in project/programme approvals. There are existing Funding Entities (both at the international and national level) which have existing capabilities to assess and approve project proposals and which, through accreditation, can made to follow the GCF operational guidelines as developed by the Board.

Particular Feed-back to the Information Note

I. Structure and organization of the Fund

B. Basic structure and organization of the Fund

[4] What is the optimal structure for the GCF?

[5] In light of the GCF as a continuous learning institution, should the Fund employ a "phased approach" to build its business model?

There will have to be some phased approach, simply because the enabling environment for the suggested mainstay operational modality has to be created (see [49]) But if the transition is from Enhanced International Access to Enhanced National Access, there it will not significantly impinge on the central administrative structure of the Fund. If, on the other hand the GCF decides to create its own in-house project cycle, then there may be a conflict of interest in the GCF Secretariat with regard to supporting the establishment of NFEs.

[6] Could the business model of the Fund be organized around financial instruments (for example, a grant facility and a concessional lending facility in addition to the private sector facility (PSF) foreseen in the Governing Instrument)?

No need to become (another) bank: use enhanced access by existing institutions, be they at the international or national level, which already have the expertise and the capitalization and who can accordingly deal with the risks involved. The GCF should simply support these activities through subsidy grants. In short, there is no need for the GCF to engage in giving out loans itself, and hence no need for a lending facility.

D. Financial input

[12] What form of contributions (for example, grants, concessional loans and capital contributions) should the Fund be open to? What impact will different forms of contribution have on the Fund's operations?

If the GCF itself does not lend, then there is no for contributions that would be most suited to cover these activities, such as loan contributions.

[13] How will the Fund mobilize significant amounts of funding from other sources, and what innovative financial mechanisms or incentives will be considered?

The OIES Brief highlights the need to use innovative financial mechanisms that are not nec3essarily tied to a carbon price. Two examples are singled out, either because they have existing precedents, or are in the process of being established: The International air Passenger Adaptation Levy, and the Financial Transaction Tax.

E. Allocation

[14] Will there be an ex-ante allocation of funds to countries? If so, what would be suggested as the criteria for such allocations?

[15] Will allocations be agreed in bulk or on a programme/project basis?

[17] Will there be different allocation criteria for mitigation and adaptation funding?

All of these three questions are extremely important, and should not be decided without an indepth analysis of best practices and experiences in other funds.

F. Complementarity

[18] How will the GCF fit with the existing architecture?

[19] Where will the GCF add value over and above existing funds?

By adopting enhanced access as preferred access modality, the GCF will not only be able to use the exisitng architecture, and to impose a degree of coherence through the GCF operation procedures which will have to be followed under enhanced access

II. Private sector facility

[27] How would the PSF be more effective at mobilizing national private sector actors in developing countries?

[35] How will country ownership and transaction costs be addressed for PSF-supported activities? What will be the fit between PSF-supported activities and country planning processes?

The best way to mobilize the national private sector as well as ensuring country ownership is to delegate the 'mobilization' to the national level, i.e. to national PSF in National Funding Entities.

III. Access modalities

[42] What are the options for providing access to resources through sub-national, national, regional and international implementing and funding entities?

[44] How will direct access under the Fund be defined and operationalized? Will there be one definition or will there be a range of ways for countries to access finance?

[45] How should the Fund guarantee effective access to the most vulnerable populations?

[47] What kind of national institutions are needed to facilitate national implementation and What kind of national institutions are needed to facilitate national implementation and execution?

[48] Will the Fund or national entities be directly responsible for oversight, monitoring and reporting of grant and/or concessional lending?

These questions are crucial to establishing enhanced access, but - as in the case of resource allocation [14-7] - they require a pilot programme to find out the answers. Fortunately there are already a number of national institutions that are meant to carry out the sort of functions that one would expect of an NFE and they could be involved in such a programme from the very outset.

49 Will the GCF's funding be made available to assist countries in the process of establishing national implementing entities and to assist in the accreditation process?

If the GCF were to adopt Enhanced Direct Access as the preferred access modality, then there can be no doubt that it would have to support the establishment of suitable NFEs, on the basis of the experiences from the EDA pilot programme proposed above.