

## 9<sup>th</sup> GCF Board meeting in Songdo, South Korea

# Why 2015 will determine what kind of climate fund the GCF will be Board achieves groundbreaking accreditation decision but misses opportunity to start work on investment strategy

Felix Fallasch and Bianka Kretschmer

2015 is a critical year for the Green Climate Fund as the Fund is set to finally start running its operations, bringing to life the mechanisms that the Board has been designing over the past three years. Thus the Board had a lot on its plate when it met for the first of its three meetings scheduled for this year. The 9th GCF Board meeting that took place in Songdo, South Korea, 24 - 26 March 2015 aimed at bringing the Fund closer to its goal of approving the first funding proposals at its October meeting to have in place a first portfolio of projects and programmes by COP 21 in Paris. This would be a key input to the negotiations under the UNFCCC, building momentum towards adopting an ambitious agreement in 2015 and demonstrating the Fund's capacity to become a credible player in the international climate finance architecture. This goal puts a lot of pressure on the Board to deliver, this year, the last key decisions to put in place all the necessary elements to receive, assess and approve funding proposals.

Last year saw several significant achievements by the Board that moved the Fund closer to its ability to programme and disburse resources: In the first two meetings in 2014, the Board reached agreement on the essential eight requirements that it had identified as necessary to become ready to receive resources. After the Fund was officially declared open for business, the Board, at its third meeting in 2014, adopted important decisions for a robust capitalization, including the policies for receiving funding that enabled the successful initial resource mobilisation of the Fund with total pledges of US\$ 10.2 billion by 25 developed and 8 developing countries. This makes the GCF the largest climate fund to date and the Board's main task this year is to decide how the Fund's resources will be spent. This in turn will have implications for the Fund's ability to meet the mandate that was given to it by the international community when it created the GCF four years ago: to promote the paradigm shift towards low-emission and climate-resilient development pathways.

While living up to the expectations of having a portfolio ready by Paris, the Board must not fall short in fulfilling the GCF's transformational vision. For this, the Fund needs new and innovative funding models that will have a noticeable impact on the global emission trajectory and that will engage different actors than other climate funds. While for some aspects, the recent Board meeting delivered outcomes that brought the Fund closer to achieving this mission such as accrediting its first implementing entities and further developing the Fund's investment framework, it was less successful for other aspects such as defining the concrete results that the Fund wants to achieve through analyzing its potential impacts in the already agreed result areas.



## Accreditation of the first seven Implementing Entities – On track to operationalize country ownership

The decision to accredit two national and one regional institution among the Fund’s first seven implementing entities marks the beginning of a new era in the international climate finance landscape. For the first time a major multilateral climate fund will channel its funding directly through institutions that are rooted in its recipient countries. With the Centre de Suivi Ecologique in Senegal and the Secretariat of the Pacific Regional Environment Programme (SPREP) two of these newly accredited entities are based in Least Developed Countries (LDCs) and Small Island Developing States (SIDS) which are recognized as particularly vulnerable to the adverse effects of climate change. The newly established direct access to the GCF will help these countries to embark on the implementation of their national adaptation and mitigation priorities.

Centre de suivi écologique, Senegal
Fondo de Promoción de las Áreas Naturales Protegidas del Perú
Secretariat of the Pacific Regional Environment Programme
Acumen Fund, Inc.
Asian Development Bank
Kreditanstalt für Wiederaufbau
United Nations Development Programme

*Box 1: First seven entities accredited at the 9<sup>th</sup> Meeting of the Fund*

How is the GCF's accreditation process different? Direct access has been piloted before in other funds, particularly the Kyoto Protocol Adaptation Fund. The novelty of the GCF accreditation approach is that it allows institutions to chose an accreditation tier (micro/small/medium/large) that best fits the purpose of the activities it wants to undertake while applying the same stringent fiduciary standards and social and environmental safeguards to all applicant entities.

The Board’s accreditation decision at the Songdo meeting shows that the Fund’s fit-for-purpose approach can be instrumental in making it more accessible to national and regional institutions and, over time, giving the opportunity to all developing countries to access GCF funding through the direct access track while at the same time giving countries the opportunity to work with their partners of choice.

The fit-for-purpose approach also contributes to institutional capacity building, because it is complemented by the Fund’s strategic priority on readiness and preparatory support that ensures that countries can receive the support needed to help their institutions to meet the Fund’s standards that are amongst the most stringent accreditation requirements on the international level. Further, the variety of entities that will be able to get accreditation will allow the fund to extend its reach for more effective and successful implementation on the ground.



The composition of the first set of accredited entities is an important signal that the GCF takes country ownership seriously by showing that its direct access modality will make the Fund accessible to national and regional institutions. The challenge ahead will be to continue accrediting a balanced set of entities and to give equal priority and treatment to national and regional entities vis-a-vis international organisations. The Board recognized this challenge and requested the Secretariat to aim for a balance in the list of entities considered for accreditation at the next Board meeting. Currently there are over 33 further entities in the pipeline, showing the enormous interest in the Fund by institutions all over the world. This interest will help to further raise the Fund's profile and the Board should continue to engage a diverse set of actors as this will be paramount in achieving the Fund's transformational mandate.

### What are the Board's tools for ensuring that it delivers on the Fund's objective?

With USD 10 billion pledged to the Fund, the Board now faces the critical task of ensuring that the Fund's activities will deliver on the ambitious objectives that were set for the Fund by the international community in the GCF Governing Instrument:

- To make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change
- To contribute to the ultimate objective of the UNFCCC
- To promote the paradigm shift towards low-emission and climate-resilient development pathways [...] taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change

These objectives are a carefully crafted reflection of the goals and ambition that the international community has unanimously agreed to in the UNFCCC process and they make the GCF the only climate fund that is specifically mandated with aligning its investments with the goal of stabilising global greenhouse gas emissions through the indirect reference to the 2 degrees target. This overarching goal has guided the Board in the development of the policies and procedures for the Fund during the last years. The recent Songdo meeting advanced the further implementation of this goal in the Fund's operations.

In this context, the Board at this stage faces a two-fold task:

1. On the individual project level, the Board must ensure that all the projects and programmes that it approves for funding contribute to and are consistent with the Fund's objectives.
2. On the level of the Fund's overall impact, the Board must ensure that the sum of all projects and programmes makes a difference; e.g. for the mitigation area to have a noticeable impact on bringing the global emission trajectory towards a level that is consistent with the 2 degree target.



There were two agenda items in Songdo that are essential for completing this task: The further development of the Fund's Investment Framework and an analysis of the expected role and impact of the GCF.

## Investment Framework - The Board's Quality Assurance Tool

In only a few months time, the Board will start to receive its first project proposals. A frequent question that Board members will ask themselves when deciding whether to approve a proposal will be: Does this project have the potential to contribute to the Fund's objectives? At the same time, project development officials in the countries will ask themselves the question: Is the GCF the right fund to support my country's particular project?

With the Investment Framework, the Board has developed a tool that helps answering these questions by providing the parameters for an objective assessment of the quality of each proposed project/programme. This assessment is conducted by an Independent Technical Advisory Panel that is composed of international experts and that will evaluate proposals against the Fund's objectives. The investment framework spells out the specific criteria and assessment factors that the Panel will have to use for this evaluation. While the six overall investment criteria had been agreed previously, the specific assessment factors for each of these criteria were up for decision at this Board meeting. As part of the already agreed investment criteria, the 2 degree target had been successfully included in the Fund's investment framework - a major innovation in the international climate finance architecture since the GCF is now the only climate fund that explicitly has to align its investments with the stated climate objectives of the international community. To ensure that this innovative criterion will be effectively implemented and applied by the Panel in its work of reviewing funding proposals, the Board has now included an assessment factor in the investment framework that looks into the expected contributions of the project to global low-carbon development pathways consistent with a temperature increase of less than 2 degrees. This means that project proposals need to demonstrate that the technologies they apply are part of the energy mix under 2 degree emission scenarios.

Therefore recent news reports that accuse the GCF Board of refusing to ban coal projects from the Fund are not entirely accurate since they ignore the role of the investment framework as the basis for ensuring the Fund's environmental integrity. In fact, although it is true that the Board did not agree to a list of excluded technologies, the defined sub-criteria and assessment factors agreed to at this meeting have the potential to exclude certain technologies from being acceptable to be funded by the GCF. Through the inclusion of the 2 degree target in the investment framework the range of technologies to be funded under the GCF is limited to those that are consistent with a 2 degree emission trajectory. Taking into account that an IEA analysis shows that coal use would fall by 33 per cent by 2035 relative to 2011 under a 2 degree scenario, with power sector coal demand at half the current level (IEA 2013), it should be very difficult for coal proposals to pass the Fund's quality test.

The Investment Framework is often mistaken for an additional layer of conditionalities for accessing GCF funding. However, it is not designed in a way that questions countries'



prerogative in developing projects that are in line with their national priorities, but it sets objective quality parameters that enable the Board to make an informed funding decision based on the reassurance that projects meet internationally agreed objectives and the ambition of the Fund. The investment framework's criteria will also help project development officials in the Fund's recipient countries to better understand why a project was approved by the Board or not because they know *ex ante* the criteria that will be applied for its assessment. Thus it will also contribute to making funding decisions more fair and transparent, which is in the interests of all countries that will be applying for GCF funding.

An issue that could not be fully resolved by the Board at the Songdo meeting is the application of minimum benchmarks for each of the Fund's investment criteria. These benchmarks would complement the assessment factors by giving the Independent Technical Advisory Panel an indication of the ambition (quantitative and qualitative) that all project proposals need to demonstrate in order to qualify for funding from the GCF. While the Board agreed, in principle, to apply benchmarks and further agreed that these will be differentiated taking into account the specific needs and circumstances of the respective countries, it could not agree on the benchmarks itself. These will be developed by the Secretariat for consideration by the Board at its thirteenth meeting which will take place in mid-2016. In practice, given that there is no exclusion list that explicitly bans certain non-transformational technologies from the Fund, minimum benchmarks constitute a necessary prerequisite for the Board to approve only transformative project proposals. Further, on a larger scale, without agreed minimum benchmarks, it will be difficult for the Board to ensure that the results of individual projects funded by the GCF will add up to an overall impact of the Fund that is significant and ambitious, as set out in its Governing Instrument.

### **Impact analysis: Lost opportunity for developing a 2 degree investment strategy**

With the Investment Framework the Board in Songdo further advanced a tool that has the potential to ensure that the individual project and programme proposals that it approves will contribute to and are consistent with the Fund's objectives. The Board however is lacking a comparable tool for ensuring that the sum of the Fund's projects (i.e. its investment portfolio) achieves an impact in its 14 initial result areas that have been agreed previously as the broad scope of activities that can be supported through the Fund (GCF/B.05/23 – Annex I).

Existing multilateral climate funds have often been criticised for having only a marginal impact and being unsuccessful in altering the trend of increasing greenhouse gas emissions in developing countries. To avoid that the GCF will end up in a similar situation, the Board will need to ensure that it not only operates with result areas but clearly defines the results that it wants to achieve in these areas.

The Songdo meeting must be considered a lost opportunity in this regard. At the preceding meeting in Barbados the Board had requested the Secretariat to undertake an analysis of the potential impact that the Fund can achieve in each of its 14 result areas based on the



level of funding that it has available. This work was intended to inform a Board discussion on further defining the results it wants to achieve in its initial result areas. Defining these results is essential for the Board to retain its ability to strategically develop the Fund's project portfolio in a manner that is consistent with its objectives.

The Secretariat paper that was prepared for the Songdo meeting preempted much of this discussion as it suggested the definition of five priority areas specific to different regions, something that was not acceptable to most Board members and ultimately the discussion was not able to sustain the momentum in the Board to further define the Fund's results. The Songdo decision therefore defers any further work on the Fund's investment portfolio to the time when it reaches USD 2 billion but no later than two years after the first funding decision. On the one hand this gives the Board time to first get an overview of the types of projects it will receive by countries, on the other hand this decision limits the Board's ability to further strategically steer the development of the Fund's initial investment portfolio.

## Conclusion - The way forward

The Songdo meeting was successful in bringing the Fund closer to approving its first funding decisions. It accredited the Fund's first implementing entities and put in place the remaining elements of the Fund's project approval cycle. The meeting however also showed that 2015 is a decisive year in the final design phase of the Fund and that the Board must not compromise the Fund's overarching goal to be bold and transformational in the rush towards approving its first projects and programmes. The ability of the Board to steer the course of the Fund once it will move towards its operational phase will be crucial to ensure that the GCF will become the dynamic and innovative institution that its founders had in mind when establishing it in 2011. With the Investment Framework the Board has a potentially strong tool at hand to ensure that individual projects meet the Fund's objective. However, to unfold its full potential, the existing investment criteria and assessment factors will need to be complemented with meaningful minimum benchmarks that will 1) guide the ITAP in its independent assessment of project proposals and 2) help the Board to focus the Fund's activities on truly transformational projects and programmes.

The missed opportunity at the Songdo meeting to further define the Fund's results however significantly limits the Board's ability to strategically direct its investment which in the end will determine in what kind of Fund the GCF will turn once operational and how successful it will be in its mission to promote a paradigm shift.

## References

IEA (2013) World Energy Outlook 2013, International Energy Agency, Paris, France

