Green Climate Fund (GCF)

Access and accreditation modalities
Inputs from practitioners

IDFC Climate Finance Work Program and the Green Climate Fund (GCF)

The International Development Finance Club (IDFC) is a network of 20 leading national, regional and international development finance institutions. The members of IDFC play a key role in bridging critical funding gaps of sustainable development projects and programs, in catalyzing investment in new economic, social and environmental sectors, and in co-developing with governments, the private sector and civil society enabling regulatory and policy environments, including by building technical competencies and strengthening institutions. In particular, IDFC members have a successful and measurable track record of integrating climate change issues and related risks into their development mandates. IDFC members committed close to USD 80 billion in 2012 to mitigation and adaptation projects, programs and activities around the world.

More information is available at www.IDFC.org.

In the context of the international debates and negotiations on climate change, IDFC established a Climate Finance Work Program, to offer support to the UNFCCC and Green Climate Fund processes and initiatives. Among others, the IDFC Climate Finance Work Program explores concrete and innovative developmental responses consistent with the objectives and operating modalities of the GCF, and the overall efforts of the international community to close the mitigation gap and adapt to the changing climate. This includes promoting partnerships to leverage local and international private capital towards climate activities.

The GCF process calls for a close collaboration with stakeholders of the climate finance architecture like those represented within IDFC, to contribute to the Fund's progressive establishment and operationalization. In 2013, IDFC, in association with UNDP, submitted to the GCF Board and Secretariat a concept paper containing proposals regarding the business model framework of the Fund[1]. The present document represents a second contribution from IDFC regarding the access and accreditation modalities of the Fund.

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[1] Paper available at http://www.idfc.org/Downloads/IDFC_Concept_Paper_GCF_Business%20Model.pdf

Context and rationale

One of the key innovative features of the Green Climate Fund (GCF) is the promotion of "*direct access*" and "*enhanced direct access*" to its resources, through the accreditation of sub-national, national and regional implementing entities, intermediaries and funding entities. The founding document of the GCF (Governing Instrument) and subsequent Board meetings have highlighted the importance of this modality to access the Fund's resources.

For this to become reality, however, the GCF operating and accreditation modalities will need to strike the right balance between:

- An inclusive approach that would effectively allow recipient countries to choose from -and the GCF to work with - a wide range of relevant entities to implement its resources, including national, regional and international development finance institutions that can intermediate and blend GCF resources with their own. Such an inclusive approach would enable the GCF to have the best leverage effect and to scale up the financing of a wide range of climate relevant investments.
- The need to ensure that concerned implementing entities and intermediaries follow and apply "*best practice*" fiduciary standards and environmental and social (E&S) safeguards, as required by the Governing Instrument of the GCF.

GCF Board discussions have identified this tension between making the Fund accessible to a wide range of actors, and the need to accredit such entities on the basis of robust standards. However, the Board has not yet found the middle ground on this issue.

The reflections on the fiduciary standards and E&S safeguards of the GCF, and how these would be implemented through an accreditation procedure, need to be considered in the context of the primary objectives of GCF, which are to "*promote the paradigm shift towards low emission and climate resilient development pathways*" and "*strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders*"[2]. In other words, achieving climate impact at scale is the strategic aim of the GCF, fiduciary and E&S standards are additional conditions.

Furthermore the GCF Board has agreed in October 2013 that the "*guiding framework for the Fund's accreditation process should (i) Enhance country ownership, (ii) Accommodate different capacities and capabilities of countries; and (iii) Accredit entities in a transparent, objective and credible manner, in line with the Fund's objectives, results and guiding principles*." Hence, without questioning their importance, fiduciary and E&S standards should neither be detrimental to the Fund's strategic aim of delivering effective climate finance, nor to the Fund's political aim of country ownership and respect of countries' capabilities. Summarising, the initial accreditation criteria and fiduciary and E&S standards should allow the participation of a wide range of implementing entities, intermediaries and funding entities, while requesting their dynamic adaptation to stricter fiduciary and E&S standards over time where required.

Based on the experience of a number of development finance institutions from both developed and developing countries, including members of the International Development Finance Club (IDFC), the following paragraphs explore a range of concrete options to design the accreditation criteria of the GCF in a way that they provide incentives and generate enthusiasm for more climate action in a broad range of potential implementing entities and

[2] Cf. Governing Instrument of the GCF

intermediaries, while ensuring that good and sufficient fiduciary and E&S practices are in place and, where necessary, refined over time.

This accumulated experience is based among others on the concrete practice of IDFC members regarding the implementation and/or intermediation of a wide range of international funds and resources. IDFC members have a solid track record in this regard, with the successful implementation of substantial amounts of finance originated from, among others, multilateral entities like IDB, developed regions and countries like the EU (EC facilities, EIB), Nordic countries (NIB), UK (DFID), France, Germany, Spain, Italy, Norway, Finland, the Netherlands, Austria (OeEB), Japan, Canada (ACDI), … but also from developing countries (China, India, Korea, …). When implementing or intermediating such resources, IDFC members have applied the corresponding fiduciary and environmental and social requirements.

Accreditation criteria
Status of discussions and comments on the "Progress Report" of February 2014

At the GCF Board meeting held in Bali last February, the GCF Secretariat presented a Progress Report on the "*Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, Including the Fund's Fiduciary Principles and Standards and Environmental and Social Safeguards*"[3]. The progress report was considered by the GCF Board at the meeting, but no decision was taken.

The proposed accreditation criteria cover two main areas: fiduciary standards and Environmental and Social (E&S) safeguards.

Regarding **fiduciary standards**, the Progress Report tabled in February proposes that the GCF adopts a differentiated approach making a distinction between basic and specialized fiduciary standards. Basic fiduciary standards would apply to all accredited entities whereas additional specialized fiduciary standards would apply to those accredited entities playing the role of financial intermediaries. In other words, entities that would manage grants from the GCF and deliver them in the form of grants would need to follow the basic standards. Financial entities that have banking capacities and are therefore able to blend GCF resources with their own to provide a wide range of financial instruments to end beneficiaries, would be required to apply specialized standards based on professional banking standards.

This differentiated approach for fiduciary standards seems operational, although both basic and specialized fiduciary standards still need to be detailed in future documents. In particular, some criteria relating to project cycle management (institutional capacity to carry out project/programme preparation and appraisal; project implementation; oversight and control; monitoring and evaluation; or project risk management capabilities), which appear under the "specialized fiduciary standards" in the Progress Report could actually be considered as "basic standards", as these relate to core functions expected from any implementing entity or intermediary. Also, the definition of the specialized standards should take into account the fact that many – if not all – of the potential financial intermediaries of the GCF are banking institutions that already apply banking regulations of their country or region and have a strong professional track record as banking structures. The specialized standards could be built on the existing financial sector regulatory frameworks.

[3]See http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B06_09_Guiding_Framework_for_Accreditation_fin_20140211.pdf

However, such a differentiated approach is not envisaged in the Progress Report of February for the **E&S safeguards**. The documents proposes that the E&S criteria should apply to all projects and programs funded by GCF, irrespective of the existing E&S standards and regulations at the national level. This approach may be a barrier for national institutions, and particularly national financial institutions that could operate as intermediaries, which have to apply their own country and banking regulations. As for the fiduciary standards, when defining the E&S standards of the GCF and the related accreditation procedures, due consideration shall be given to the existing country-based regulatory framework, in line with the intent of the GCF to ensure and promote country ownership principles.

Also, the Progress Report does not indicate whether these criteria should apply to the accredited institution as a whole (which could then potentially exclude numerous national financing entities bound by law or regulation to apply their own country and banking rules) or would apply only to projects funded or co-funded (e.g. through blending mechanisms with the intermediaries) by the GCF, independently from the adoption of an overall E&S policy at the standards required by the GCF. In other words and in this case, an entity that would not apply the GCF standards as a general policy for its entire portfolio may still be able to implement GCF resources in relation to a GCF funded project if it raises the level of its standards for that specific operation. This second approach would be more flexible and effective, as the GCF would require its standards and safeguards for the projects it would fund, but would not impose them institution-wide.

Last but not least, the approach to accreditation criteria proposed in the Progress Report does not take into account the climate related commitments and/or climate relevant experience of candidate implementing entities or intermediaries and hence the orientation of the respective institutions towards the Fund’s strategic aim. It would probably make sense for the GCF to propose differentiated partnerships with implementing entities and intermediaries, depending on their dynamism in terms of mainstreaming climate change in their own portfolio/strategies/operational modalities. For instance, enhanced access to GCF resources (i.e. programmatic approaches managed by funding entities) could be granted for those implementing entities or intermediaries that can show a strong commitment and robust experience in the implementation of climate change financing. Moreover, this would generate an incentive for implementing entities and intermediaries to further take into account climate change considerations within their strategies and operations, with a potential indirect influence on other flows and actors, in line with the overall purpose of the GCF of promoting a paradigm shift.

<u>Striking the right balance – a differentiated and dynamic approach ?</u>

The following approach could be envisaged to find the right balance between robust and sufficient E&S practices and sound fiduciary practices on the one side, while maintaining the capacity of the GCF to channel its resources through a wide range of implementing entities and intermediaries and incentivize and influence their activities:

1. **Define eligibility criteria** that would need to be fulfilled by any entity applying for accreditation (equivalent to minimal requirements). For instance, project management capacity could be considered as a minimal requirement for any implementing entity. Eligibility criteria could also comprise the application of national laws, regulations and/or banking rules.

2. **Differentiate accreditation criteria** (both fiduciary and E&S criteria) according to categories of implementing entities and intermediaries, and their specific mandate, context and situation. For instance, criteria for entities implementing readiness programs - essentially related to "soft" components" that would be financed with grants, shall be different than those required for implementing entities or intermediaries financing "hard" investments such as infrastructure projects using loans or other non-grant financial instruments.

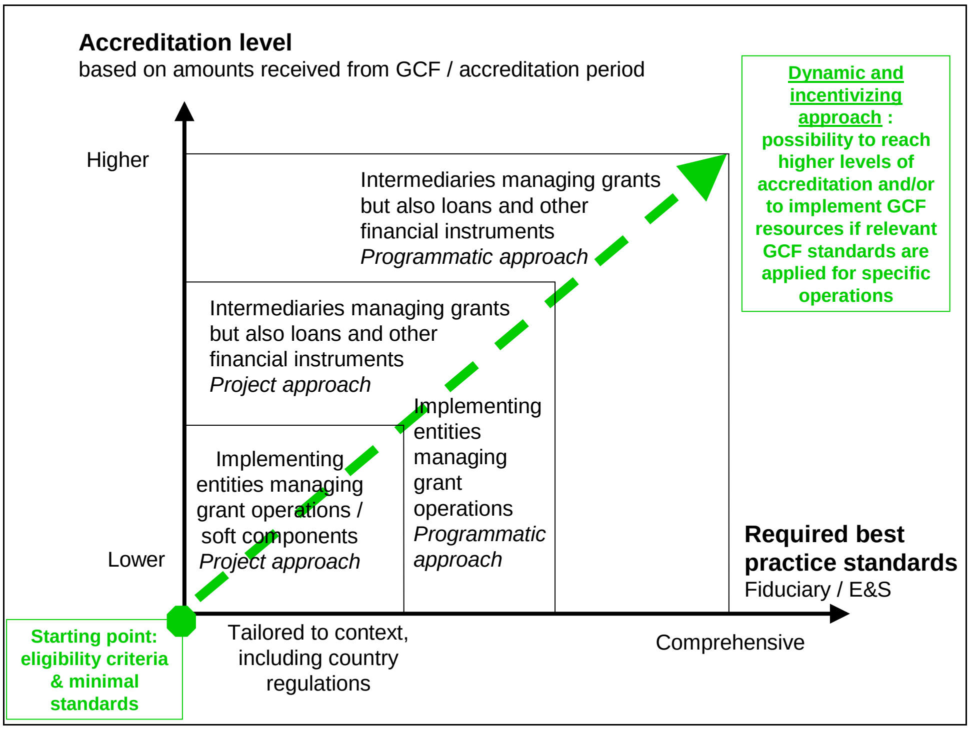
3. **Adopt a dynamic approach by setting several levels of accreditation.** Such levels could be based for instance on caps on amounts of GCF resources that could be accessed, on the duration of accreditation before a review takes place, and/or on the capacity to implement programs rather than only projects. According to the category of implementing entities and intermediaries, the factors to consider to determine the level of accreditation could comprise : existing degree of mainstreaming of climate change within the strategies and operating modalities of the considered entity; level of standards and/or effective improvements in the standards of the considered entities (after review); application of such standards for GCF-related activities or institution-wide; … In all cases, and irrespective of the level of accreditation, any eligible institution as defined in point 1 above, should be given the possibility to implement GCF resources in relation to a GCF funded project if it demonstrably commits to, and shows that it has the capacity to apply, the relevant GCF standards for that specific operation.

Such an approach would make it possible for a wide range of implementing entities, including entities in Least Developed Countries and Small Island Developing States, to obtain some level of and/or temporary accreditation. At the same time, the approach would provide an incentive for all concerned entities to reach over time "*best practice*" standards and increase their capacity to implement even more GCF resources over longer periods of time and in a more flexible manner (programmatic approach – funding entity level).

The implementation of this differentiated and dynamic approach to accreditation would require an adequate monitoring capacity by the GCF Secretariat, or some appointed expertise. These additional administrative functions and costs seem however manageable when considering the corresponding benefits of bridging the issue of accrediting a wide range of entities with varying degrees of capacity and promoting best practice standards and safeguards.

The following graph illustrates the proposed approach :

Accreditation modalities : a differentiated and dynamic approach



The adoption of such a differentiated and dynamic approach to accreditation would be critical to the achievement of the GCF's overarching objectives, as it would ensure:

- a rapid launch of GCF operations ;
- an efficient use of the technical and financial capacities of a wide range of existing entities (accreditation levels being tailored according to such capacities);
- while providing key incentives to a growing number of institutions that are interested to become implementing entities or intermediaries, to further mainstream climate change within their strategies and operating modalities, and reinforce when appropriate their fiduciary standards and E&S safeguards, in order to reach higher levels of accreditation, hence contributing to the transformational objectives of the Fund.

In other words, a differentiated approach to accreditation with a dynamic adjustment towards "best practice" standards and safeguards, would preserve the priority of the strategic and political objectives of the Fund, i.e. (i) effective climate finance and impact at scale, and (ii) recipient country ownership, while at the same time launching even a broad development and improvement process as concerns the (iii) additional conditions such as E&S criteria.