

Accessing the Green Climate Fund

A Primer for Climate Finance Stakeholders of Nepal

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The term 'climate finance' has often been a subject of contestation because of lack of internationally agreed upon definition. It has been loosely defined by institutions working on climate change as any amount of money allocated and disbursed for reducing greenhouse gas emissions or helping countries/communities adapt to the negative impacts of climate change. While there could be national and sub-national funds allocated for this purpose, the term 'climate finance' will refer to 'international climate finance' in this brief. The international climate finance is the amount of money flowing from developed to developing countries using different financial mechanisms and sources (e.g. bilateral, multilateral, dedicated climate funds, private). These mechanisms and sources could use a variety of financial instruments for this purpose, e.g. grants, (concessional or non-concessional) loans, debt swaps, (credit or risk) guarantees, project equity, etc. Between 2000 and 2012, Nepal has already received climate finance in excess of 600 million USD (Baral, P. & Chhetri, R., 2014; NPC, 2011) although allocation of such money as climate finance has been questioned (Baral, P. & Chhetri, R., 2014).

This brief has shed light on Green Climate Fund (GCF), one of the multilateral financial entities that was established at the Conference of the Parties (COP) 16 by 194 governments, and is guided by the principles and provisions of the United Nations Framework Convention on Climate Change (UNFCCC). The World Bank serves as the interim trustee of the GCF, subject to a review three years after operationalization of the Fund, and is governed by a Board, consisting of equal number of members from developed and developing countries. Nepal, being a Party to the UNFCCC, is eligible to access funds from the GCF for its climate change priorities.

Investment Areas – Results Management Framework

The GCF supports low-emission and climate resilient projects and programmes in developing countries. It has identified four mitigation and adaptation results areas each (see the adjoining results management framework) for financing projects and programmes. In addition to these, five crosscutting investment areas have been identified, namely forestry, sustainable agriculture, resilience, climate compatible cities and energy generation and access. These crosscutting areas could cover both mitigation and adaptation. The priority areas identified by Nepal's National Climate Change Policy (NCCP), the National Adaptation Programme of Action (NAPA) and the Low Carbon Economic Development Strategy (LCEDS) align with the GCF's investment priorities (see the table below).

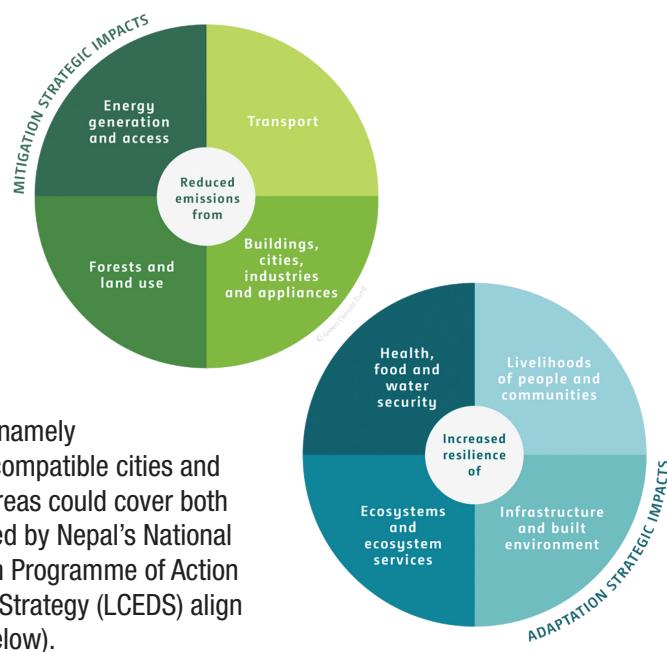


Fig. Results Management Framework of the Green Climate Fund (Source: GCF, 2015a)



Nepal's priority areas	GCF investment areas	Livelihoods of people and communities	Infrastructure and built environment	Ecosystems and ecosystem services	Health, food and water security	Transport	Buildings, cities, industries and appliances	Forests and land use	Energy generation and access	Sustainable agriculture	Climate compatible cities	Resilience
Agriculture, fisheries & livestock water, forest and biodiversity			×	×				×		×		
Services related to agricultural development	×							×		×		
Disaster management, incl. GLOF monitoring	×	×										
Forest & ecosystem management			×					×				
Public Health					×							
Clean energy (solar, wind, hydro) & energy efficiency									×			
Climate smart urban settlement		×					×				×	
Climate resilient development												×
Environment friendly transport						×						
Climate smart agriculture					×					×		
Buildings, waste & industrial energy efficiency		×					×				×	
Tourism and Cultural Heritage	×											×

In allocating its resources, the Fund aims for a 50:50 balance between mitigation and adaptation over time. It also aims to allocate a minimum of 50 percent for adaptation funding to particularly vulnerable countries, including Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African States.

Investment Criteria – Initial Investment Framework

The GCF Board has decided following six investment criteria for assessing project/programme proposals submitted by the National Designated Authority (NDA).

1. Impact potential: Potential to achieve fund's objectives and results areas explained above
 2. Paradigm shift potential: Impact beyond a one off project/programme investment
 3. Sustainable development potential: Wider benefits and priorities, including environmental, social, economic and gender-sensitive development impact
 4. Needs of the recipient: Vulnerability and financing need of the beneficiary country and population
 5. Country ownership: Existence of and coherence with national climate and other policies, capacity of accredited or executing entities and engagement with all relevant stakeholders
 6. Efficiency and effectiveness: Economic and financial soundness of the proposed projects/programmes (cost-effectiveness, co-financing, etc.)
- The accredited entity, while submitting the project/programme proposal, is expected to respond to all six of the investment criteria. Although there are activity specific sub-criteria and indicative assessment factors, only applicable or relevant ones are expected to be given due consideration.

Financing and Access Modality

There are two tracks of accessing the GCF financing.

A. Direct Access Track

Under this track, the developing countries gain direct access to GCF funds because designated national bodies directly implement the selected projects/programmes. This is a unique approach, as the funding doesn't need to go through any multilateral/regional or external agency. This increases the country ownership of selected projects/programmes and also helps build institutional and technical capacity of recipient country.

Enhanced Direct Access (EDA)

An Enhanced Direct Access (EDA) is a concept introduced to the GCF where both funding and management decisions take place at the national level. Under EDA, the accredited institution in the developing country will receive certain amount of funding and make its own decision to select or approve projects/programmes to be implemented. This modality has only been approved so far for a pilot programme for some EDA proposals.

B. International Access Track

Under this track, multilateral agencies, regional agencies, private banks and other private entities gain access to the GCF funds, and thereby manage the selected projects/programmes themselves. These agencies do not need to be nominated by a National Designated Authority (NDA), and thus directly interact with the GCF Secretariat. Examples of accredited institutions under this track include the World Bank, the United Nations Development Programme (UNDP), Kreditanstalt für Wiederaufbau (KfW), the Asian Development Bank (ADB), etc.

National Designated Authority (NDA) as a GCF Focal Point

A National Designated Authority (NDA) is the national focal point within a country for engaging with the Green Climate Fund. NDA makes sure that the projects/programmes supported by the GCF align with the national policies and priorities. Its mandate and responsibilities comprise a range of functions, as illustrated in the adjoining figure.

One should carefully note the subtle difference between a NDA and a focal point. A country can mandate a focal point until its NDA has been selected (as an interim arrangement). During the process of identification of a NDA, the focal point is responsible for engaging with the GCF. The country has to submit a legal opinion to the GCF on the status and authority of the focal point. Under the "Green Climate Fund Readiness Programme for Nepal", UNDP and UNEP are helping build institutional and technical capacity of the Ministry of Finance (MoF) as the NDA to the GCF.

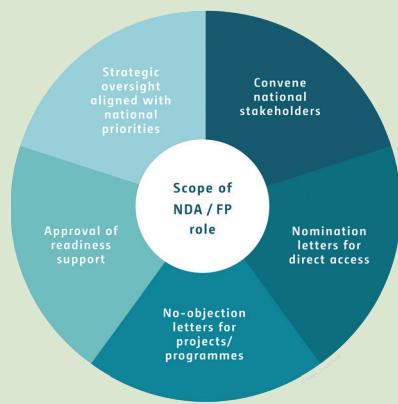


Fig. Key roles and functions of a National Designated Authority (NDA) (Source: GCF, 2015b)

Implementing Entities (IEs)

A **National Implementing Entity (NIE)** is any sub-national or national public or private agency that has (i) a legal status, (ii) an institutional system with robust policies, procedures and guidelines, and (iii) a track record, which demonstrates that it implements these policies, procedures and guidelines (IIED, 2016). A NIE is nominated by the NDA or focal point to directly manage/implement projects/programmes funded by the GCF. The NDA may nominate more than one NIE for accreditation in a country. In some cases, both NDA and NIE may be the same institution although it is not a typical case. An NIE should align with GCF's objectives and also meet GCF's fiduciary standards and social and environmental safeguards through an accreditation process. Few potential NIEs for Nepal could be relevant line ministries, development banks, institutions like Agriculture Development Bank Limited (ADBL), Poverty Alleviation Fund (PAF) and Alternative Energy Promotion Center (AEPC) or a combination of some or all of them.

An **International Implementing Entity (IIE)** or **Multilateral Implementing Entity (MIE)** or **Regional Implementing Entity (RIE)** includes public, private or non-government institutions operating at a regional or international level. Examples include the World Bank, the Asian Development Bank (ADB), Acumen Fund, Inc., the United Nations Development Programme (UNDP), etc. The Private Sector Facility (PSF) supports private sector entities.

Private Sector Facility (PSF)

The Private Sector Facility (PSF) is a mechanism under which the GCF can directly provide grants, concessional loans, risk guarantees or other forms of financial products (e.g. green bonds, refinancing, credit lines, equity financing) to accredited private companies or passed on to such companies by accredited intermediaries. For this, the GCF Board seeks advice from a Private Sector Advisory Group (PSAG). It should be noted that PSF supports both funding windows – adaptation and mitigation.

An **Executing Entity (EE)** is a body responsible for the execution of projects/programmes on the ground. An EE has to be accredited by the NIE. Sometimes, both EE and NIE could also be the same institution. Similar to NIE, there could be several EEs in a country. Potential EEs for Nepal could be civil society organizations or even the government line agencies and departments themselves.

An **Intermediary** is a public or private entity (financial or non-financial) with accredited capacity for intermediation, and could be international, regional, national or sub-national entity. It should have "demonstrated additional specialized capacities that enable it to intermediate or administer grants and/or loans, blend the Fund's resources, including with its own, and, in general, provide tailored instruments to EEs, conclude agreements with EEs corresponding to the type of instruments extended, disburse funds to, and, in the case of loans, receive debt service from, EEs, and ensure that the EE adheres to the Fund's interim environmental and social safeguards, initial fiduciary standards and other requirements (GCF, 2014)." An intermediary could also be an Implementing Entity (IE) because of such additional capacities for intermediation.

Accreditation Process and Procedure – Accreditation Framework

Accreditation is a rigorous process whereby the prospective entity should demonstrate that it has the capacity to manage GCF funds in accordance with the standards and criteria set out in the GCF accreditation application. Any entity seeking accreditation to the Green Climate Fund needs to submit a completed application through the Fund's Online Accreditation System (OAS). The application is assessed against three basic criteria:

- i) Fiduciary principles and standards
- ii) Environmental and social safeguards
- iii) Gender policy

In addition to the aforementioned three criteria, the GCF applies an innovative “Fit for Purpose” accreditation approach based on the following four yardsticks. This is a tiered approach and classifies applicant entities according to the intended scale, nature and risks of their proposed activities (IIED, 2016).

Fit for Purpose

- i) Mandate and Track Record
 - Alignment with fund's objectives
 - At least three years of operations
- ii) Fiduciary Functions
 - Basic (key administrative & financial capacity; transparency & accountability)
 - Specialized (project management; grant award and/or allocation mechanisms; on-lending and/or blending)
- iii) Environmental and Social Risk Category
 - High – Category A
(Activities with potential significant adverse environmental and/or social risks and/or impacts)
 - Medium – Category B
(Activities with potential mild adverse environmental and/or social risks and/or impacts)
 - Low – Category C
(Activities with minimal or no adverse environmental and/or social risks and/or impacts)
- iv) Project size
 - Micro (>10 million USD)
 - Small (10-50 million USD)
 - Medium (50-250 million USD)
 - Large (>250 million USD)

[Source: GCF, 2016b]

Fast Track Accreditation

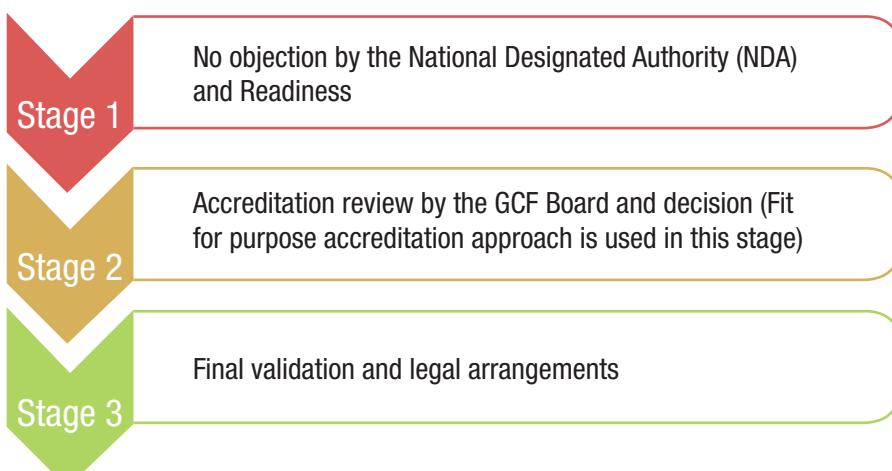
Entities are eligible to apply under the Fund's Fast-Track Accreditation process if both of the following criteria are met.

- i) The entity was accredited by one or more of the following funds by 09 March 2016:
 - a) Global Environment Facility (GEF)
 - b) Adaptation Fund (AF)
 - c) Directorate-General Development and Cooperation – EuropeAid of the European Commission (DG DEVCO)
- ii) The entity is in full compliance with the relevant accreditation requirements of the fund(s) they are accredited to:
 - a) GEF's Minimum Fiduciary Standards and Minimum Standards on Environmental and Social Safeguards
 - b) AF's fiduciary standards
 - c) DG DEVCO's fiduciary standards under the 6-pillar assessment

In cases where the demonstrated capacities of such entities are not fully compatible with GCF's standards, they are subject to gap analysis and further review. Without exceptions, all entities need to go through Stage 3 (final validation and legal arrangements) of the accreditation process (see below).

[Source: GCF, 2016a]

Accreditation is a three-stage process.

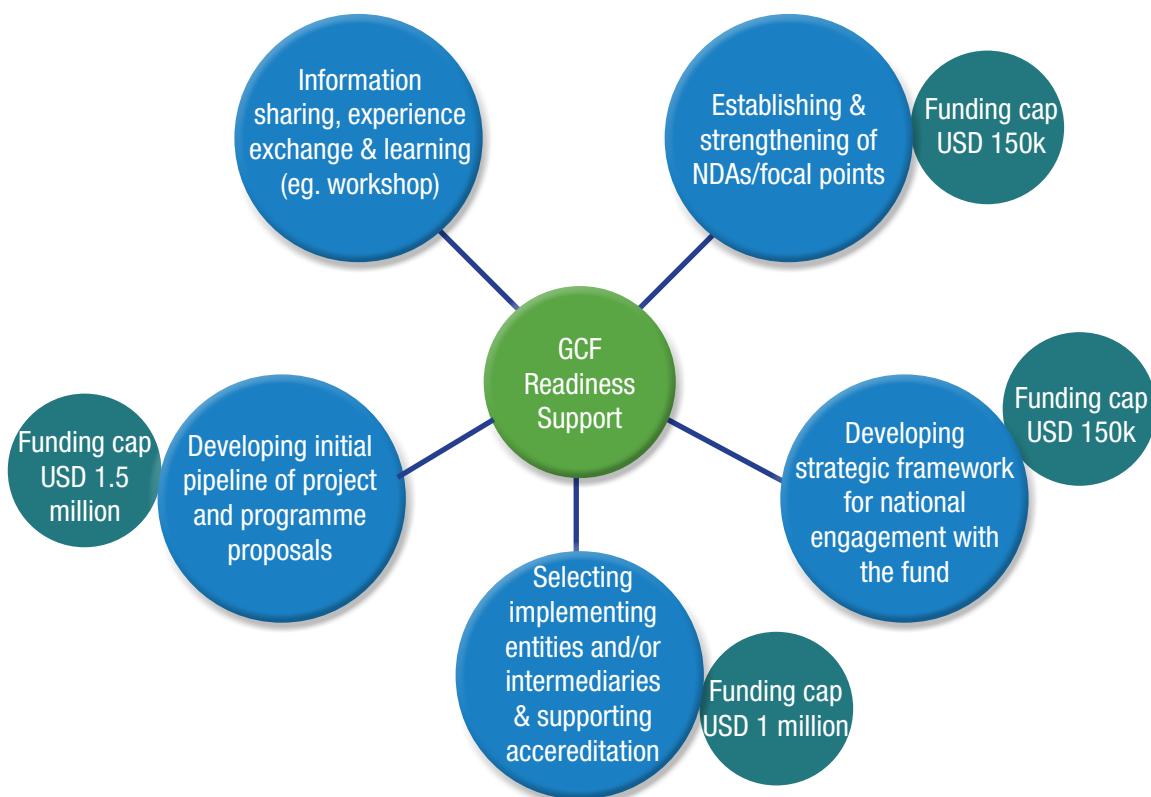


After getting accreditation, an accredited entity can submit project/programme proposals anytime for funding or in response to call for proposals from the Fund. Funding proposals will be evaluated against the Fund's investment criteria (refer to page 2).

Globally, 41 entities have been accredited as of October 2016 and 60+ are still in the pipeline (IIED, 2016). Of the total accredited entities, 23 are international, 10 are national and 8 are regional. The timeframe for accreditation is six months, provided all necessary documents have been submitted on time.

Readiness and Preparatory Support

The GCF Readiness Programme supports developing countries build their capacity to access resources from the Fund, deploy accessed resources in the country, and monitor and report on expenditures. In doing so, the readiness programme helps build or strengthen (existing) institutional mechanisms so that they could be compatible with both GCF's standards as well as the country's internal planning, budgeting, programming and monitoring systems. In short, it provides technical and financial support to the NDAs/focal points and to direct access entities that have been nominated by an NDA/focal point for accreditation in the following five activity areas (also called five pillars).



[Source: Parthan, B., 2016]

The GCF has allocated USD 16 million globally for readiness and preparatory support. Apart from the GCF, the German Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) and the German Ministry for Economic Cooperation and Development (BMZ) have also provided funding to UNEP, UNDP, WRI, GIZ and KfW to offer assistance and support to developing countries for GCF readiness and preparation. Nepal has received USD 1.5 million from the latter whereby UNDP and UNEP in collaboration with the Ministry of Finance (MoF) are implementing the "Green Climate Fund Readiness Programme for Nepal" with financial support from BMUB.

Immediate support available for Nepal

- USD 1 million per calendar year for GCF readiness
- Under Project Preparation Facility (PFF), a maximum amount of USD 1.5 million (not exceeding 10 per cent of the total GCF funding volume to be requested for the underlying project) to provide financial support to accredited Direct Access Entities in project development
- Up to USD 3 million through the Fund's Readiness and Preparatory Support Programme modalities, to support the formulation of National Adaptation Plan (NAP) and/or other national adaptation planning processes
- Submit a funding proposal upto a maximum amount depending on the entity's accreditation category.

Nepal – A step away from accessing GCF financing

The project “Green Climate Fund Readiness Programme for Nepal” has already been launched in Nepal, being implemented by the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). Although the initial focus of this programme has been on building technical and institutional capacity of the Ministry of Finance (MoF) as the NDA to the GCF, below are some of the immediate tasks this project needs to accomplish.

- Strengthen the NDA with adequate knowledge and skills on GCF in order to facilitate timely communications between the GCF and the Government of Nepal.
- Identify strategic investment priorities in coordination with all relevant Ministries and other stakeholders, and make sure these align with country's national climate policies as well as other thematic policies along with the GCF's objectives and investment criteria.
- Based on identified investment priorities, facilitate the nomination of potential NIEs (including the private sector), organize stakeholder consultation to shortlist and finalize one or more NIE(s) to be submitted to the GCF for accreditation.
- Build the capacity of shortlisted NIE by strengthening fiduciary as well as social and environmental safeguards standards so that they can meet all of the GCF's accreditation criteria.
- In consultation with all relevant stakeholders and in line with country's strategic investment priorities, identify projects that qualify for funding through adaptation, mitigation and/or PSF window.
- Develop a pipeline of project level activities and identify potential EEs for effective implementation.

Although Nepal can access the GCF financing through accredited Multilateral Implementing Entities (MIEs), Regional Implementing Entities (RIEs) and/or other International Implementing Entities (IIEs), Nepal should strive for Direct Access to GCF financing. The direct access process looks challenging and lengthy in the beginning, but experiences from the Adaptation Fund's direct access modality tell that it becomes rewarding in the long run. The readiness and preparatory exercise for direct access helps strengthen country's technical and institutional capacity as well as increase country ownership of funded projects and programmes.

Nepal can take inspiration from some of the accredited entities in other countries, types of financial instruments used, types of projects funded as well as access modalities used by those countries. A snapshot of this is presented in the table below.

Annex: A Snapshot of GCF approved projects/programmes

Strategic Impact Area	GCF Results Area	Name of Project	Country	GCF Financing (USD in million)	Co-financing (Y/N)	Financial Instrument	Access Modality	Accredited Entity	Executing Entity
Adaptation	Health, food and water security	Urban Water Supply and Wastewater Management	Fiji	31	Y	Grant	International	Asian Development Bank	Fiji Ministry of Finance
	Health, food and water security	Support of Vulnerable Communities in Maldives to Manage Climate Change-Induced Water Shortages	Maldives	23.6	Y	Grant	International	UNDP	Maldives Ministry of Environment & Energy
	Livelihoods of people and communities; Infrastructure and built environment	Climate-Resilient Infrastructure Mainstreaming in Bangladesh	Bangladesh	40	Y	Grant	International	KfW	Local Government Engineering Department of Bangladesh
	Health, food and water security; Ecosystems and ecosystem services; Infrastructure and built environment	Increasing Resilience of Ecosystems and Communities through Restoration of the Productive Bases of Salinized Lands	Senegal	7.6	Y	Grant	Direct (National)	Centre de Suivi Ecologique (CSE)	International Union for Conservation of Nature (IUCN); National Soil Science Institute (INP); Réseau Africain pour le Développement Intégré (RAD)
	Livelihoods of people and communities	Scaling Up of Modernized Climate Information and Early Warning Systems in Malawi	Malawi	12.3	Y	Grant	International	UNDP	Department of Disaster Management Authority (DoDMA)
Mitigation	Energy generation and access	Energy Efficiency Green Bonds in Latin America and the Caribbean	Mexico	20 (Guarantee) and 2 (Grant)	Y	Mix of Guarantee and Grant	International	Inter-American Development Bank (Private)	Inter-American Development Bank
Both Adaptation & Mitigation	Energy generation and access	KawiSawi Ventures Fund in East Africa	Rwanda, Kenya, Uganda	20 (Equity) and 5 (Grant)	Y	Mix of Equity and Grant	Direct (Regional)	Acumen Fund, Inc. (Private)	Acumen Capital Partners LLC
	Forests and land use; Livelihoods of people and communities; Ecosystems and ecosystem services	Building the Resilience of Wetlands in the Province of Datem del Marañón, Peru	Peru	6.2	Y	Grant	Direct (National)	Peruvian Trust Fund for National Parks and Protected Areas (Profonape)	PROFONANPE

[Source: The Green Climate Fund website]

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About PRC

Prakriti Resources Centre (PRC) is furthering the notion of sustainable development and environmental integrity, focusing primarily in climate change, low carbon development and food security. PRC engages with diverse stakeholders including policy makers, government institutions, NGOs, academia and private sector for research and policy influence.

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