

Access Modalities for the Green Climate Fund: Lessons from the Existing Financial Mechanisms

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1. Access Modalities

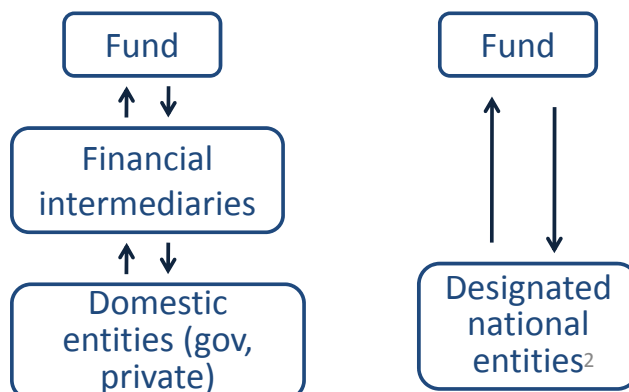
- Challenges of accessing financial resources were claimed repeatedly since as early as 1994.

Expressing concern over the difficulties encountered by developing countries Parties in receiving the necessary financial assistance from the Global Environment Facility owing to, inter alia, the application of the Global Environment Facility operational policies on eligible criteria, disbursement, project cycle and approval, the application of the concept of incremental costs, and guidelines which impose considerable administrative and financial costs on developing country Parties (Decision 11/CP.2)

- How can access to financial resources be improved?**

- Three types of access modalities

- Access through international financial intermediaries
- Access through domestic financial intermediaries
- Direct access



2.1 Access through International Financial Intermediaries

- Multilateral Development Banks and UN organizations act as implementing agencies.
- Implementing agencies function as intermediaries:
 - Helping a recipient country to develop a project concept,
 - Submitting it to a Fund
 - Implementing and supervising the project
 - Preparing the terminal report to the Fund

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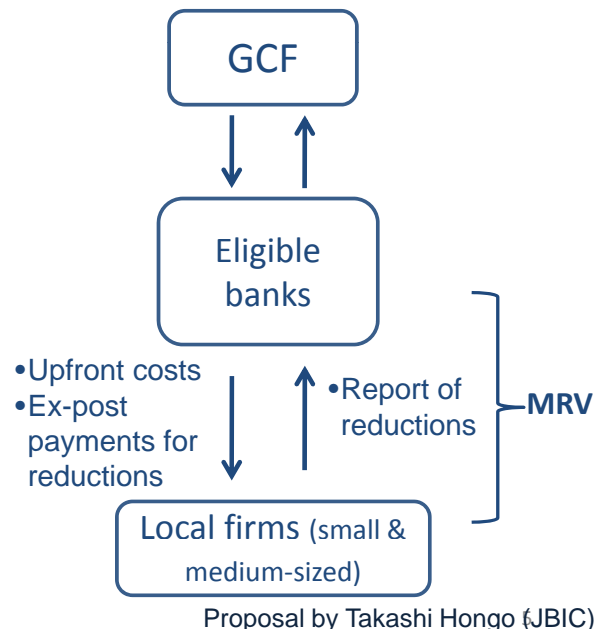
2.2 Access through International Financial Intermediaries: Advantages and Challenges

Advantages	Challenges
<ul style="list-style-type: none">➤ Potential for greater synergies by creating healthy competition among implementing agencies (bringing together implementing agencies with distinct “comparative advantage”)➤ Mainstreaming of climate change concerns into the work of the implementing agencies➤ Utilisation of expertise of implementing agencies (including high fiduciary standards and safeguard policies)	<ul style="list-style-type: none">➤ Slow project cycle—Projects may have to go through dual approval/project cycles. Challenges on streamlining the project approval process.➤ High administrative costs including corporate budget and implementing agency fees➤ Limited engagement of domestic entities

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3.1 Access through Domestic Financial Intermediaries

- Broaden the eligibility of financial intermediaries to non-international organizations with sufficient fiduciary standards and project management skills
- Based on the model of “two-step” loan
- Combination with the performance-based incentive system (ex-post payments for CO₂ reductions achieved at ex-ante carbon price) could facilitate implementation of mitigation projects.
- The establishment and capacity-building of a “handy” MRV system is crucial for the performance-based incentive system.



3.2 Access through Domestic Financial Intermediaries: Advantages and Challenges

Advantages	Challenges
<ul style="list-style-type: none"> ➤ Tapping local expertise held by domestic financial institutions ➤ Allowing a wider range of private sector engagement (esp. small- and medium-sized firms) ➤ Providing incentives for emissions reductions, if performance-based incentive system is applied ➤ A “win-win-win” solution <ul style="list-style-type: none"> • GCF can avoid financial risk associated with direct investment to local firms. • Local banks can expand their investment portfolios. • Local firms can receive upfront costs and improves predictability for cash flow. 	<ul style="list-style-type: none"> ➤ Improvement in domestic institutions’ risk management is required. ➤ Weaker Safeguard policies compared to the case of the involvement of international organizations as intermediaries ➤ Question over equitable access among recipient countries (diverse levels of capacity among developing countries)

4.1 Direct Access (DA)

- Various interpretations of what constitutes DA
- DA generally refers to: access to financial resources by a designated national entity of a recipient country, while bypassing a financial intermediary such as multilateral development banks and other external implementing agencies
- Existing Examples: Global Fund to Fight AIDS, Tuberculosis and Malaria, the Adaptation Fund, the GEF for preparation of national communications
- Slightly different governance structure and access modality among the existing examples.

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4.2 Direct Access: Advantages and Challenges

- Given a relatively new modality, and few case studies available, only preliminary interpretations of pros/cons possible
- Full-fledged assessment is yet to come

Advantages	Challenges
<ul style="list-style-type: none">➤ Faster implementation of projects/programs (faster impact generation anticipated, addressing existing needs)➤ Enhanced country ownership➤ Allowing multiple domestic stakeholder engagement/ enhanced opportunities for synergies among stakeholders➤ Fulfilling country priorities and needs rather than donor needs/priorities	<ul style="list-style-type: none">➤ Improvement in recipient countries' risk management is required.➤ Weaker Safeguard policies/monitoring system compared to the case of involvement of international organizations as intermediaries➤ Question over equitable access among recipient countries (diverse levels of capacity among developing countries)

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5. The Way to Move Forward

- Above mentioned access modalities are NOT mutually exclusive.
 - could play complementary roles depending on the capacity level of recipient countries
- Implications of utilizing domestic institutions for equitable access
 - Importance of capacity building of domestic entities
- Options for ensuring complementary roles
 - Combined Approach:** Discretion is given to recipient countries to choose the types of access modalities (the Adaptation Fund).
 - Phased Approach:** At the earlier stage, international intermediaries play a major role in providing capacity building and implementing projects. As the overall capacity of domestic institutions increases, the role of international intermediaries is to be gradually replaced by domestic institutions.

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Thank You Very Much

- Policy briefs will shortly be available for:
 - ✓ more detailed description on access modality,
 - ✓ other issues including thematic funding windows and private sector involvement.
- For more info, please contact tamura@iges.or.jp

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