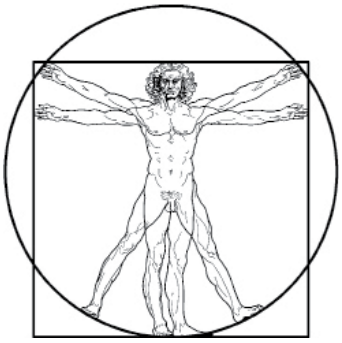

The importance of involving stakeholders in the GCF

Background Material

LDC/ecbi Finance Circle
Green Climate Fund Board Reception,
Hotel Bristol, Geneva
24 August 2012

ecbi

European Capacity Building Initiative

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CONTENTS

The Importance of Involving Stakeholders in the Green Climate Fund

Speaking Notes for the LDC/ecbi Reception for the Green Climate Fund in Geneva,

Hotel Bristol, 24 August 2012

Benito Müller and Anju Sharma

Background

One of the key achievements of the LDC Group members of the Transitional Committee was the inclusion of ***enhanced direct access***[1] through ***funding entities*** in the Instrument of the Green Climate Fund:

> *Recipient countries will nominate competent subnational, national and regional implementing entities for accreditation to receive funding.* ***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***.[2]

There are a number of reasons why it has been felt that such enhanced direct access, with its devolution of decision making according to the ***principle of subsidiarity***, i.e. 'the principle that a central authority should have a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level.'[3]

For one, there are reasons of ***legitimacy*** and ***effectiveness***. It has long been argued that climate change has to be mainstreamed into national policy making. But it is questionable whether such a process can ever be fully effective if the decisions of how to implement it are taken abroad, outside the policy process which is meant to be engaged. Where there can be no doubt is that for most adaptation activities, which ultimately amount to civil protection, only the relevant governments have the legitimacy to decide who is to be protected and how. As concerns funding for mitigation, it also stands to reason that a full devolution of funding decisions on a quantity-performance basis increases effectiveness, not least because the national level is better equipped to ensure performance (see [2] and [3]).

In the context of the overall ambition for climate finance laid down in the Cancun Agreement (mobilization of up to $100 billion annually by 2020), National Funding Entities can also be argued for in terms of ***efficiency***. Managing funds – approving, monitoring, and evaluating funded activities – requires personnel. A recent report based on public sector funding agencies – donor agencies, MDBs – estimated that it takes between 240 and 400 people to manage $1 billion (see [4]). While it is unlikely that all of the Cancun funds would be managed in that way, or for that matter be additional to what is being managed already, expectations are such that the management is likely to require several thousand additional personnel. And it stands to reason that the most efficient scenario is not to house them in donor agencies or multilateral funds, but in the recipient countries.

[1] For more on the concept of EDA and some examples of National Funding Entities, see [1].
[2] Green Climate Fund Instrument, paragraph 47, emphasis added.
[3] Oxford English Dictionary.

The Role of (local) Stakeholders[4]

In recent decades, civil society around the world has clearly demonstrated that they have a key role to play in promoting effective implementation of funded activities, particularly with regard to:

- Relaying information − translating local-level experiences to inform national and global decision-making, and global and national policies for local implementation;
- Ensuring ownership, accountability, transparency, equity, and effectiveness in global and national decision-making and implementation; and
- Planning, implementing and monitoring activities at low cost, sometimes with better access to remote populations, and while promoting innovative approaches.

Although the importance of stakeholder involvement and ownership in funding decisions is widely recognised, it has not been sufficiently operationalised by existing financial entities. Most of them have some level of participation by global stakeholders, but hardly any (certainly not enough) by local stakeholders, whose lives are most affected by the funded activities. They focus on 'horizontal' stakeholder participation (at the global level) rather than strengthening vertical participation (at the national and local level). Yet, stakeholder participation is critical at the level of implementation.

The GCF should internalise lessons learnt by the other entities from the very start, and make a strong stakeholder process a key element in the design of the GCF. Three key aims should be kept in mind:

1. ***To establish strong 'bottom-up' stakeholder networks and links between the entities that take decisions on which activities are to be funded, and national and local stakeholders whose lives will be affected by the funded activities***. National and sub-national civil society networks play a very important role in relaying information from the global and national level, to the local level (for instance, on what funds are available and how to access them quickly and efficiently); and from the local level to decision-makers at the national and global level (for instance, on barriers and successes in implementation).
2. ***To consider ways in which stakeholder participation (in identifying, planning, implementing and monitoring funded activities) can be adequately funded, without compromising their important role as a watchdog.*** A small percentage of the funds allocated to countries could be marked for the setting up and maintenance of independent, accountable and transparent civil society networks.
3. ***To ensure that there are easily accessible 'redress mechanisms' at every level of decision-making, to which stakeholders can take their grievances.*** Three minimum criteria are necessary for these redress mechanisms to be credible: ***independence, public accountability*** and ***effectiveness***. To ensure the ***independence*** of the mechanism, members should be chosen from outside the institution, and their budget should be independent and adequate. For ***public accountability***, the public should have access to every stage of the redressal process. To be ***effective***, the mechanism must have the authority to ensure that their recommendations are acted upon.

To conclude, there are a number of ways in which the Green Climate Fund can benefit from a close collaboration with (non-government) stakeholders (and *vice versa*), ways which relate to different elements of the GCF architecture. Some of them would be covered by the Rules of Procedure for GCF Board meetings (stakeholders as 'observers'), but they are by no means the only ones. Others would, for example, have to be placed in the context of the rules and procedures of access modalities, in particular Enhanced Direct Access (stakeholders as accountability 'watchdogs'). These roles need to be reflected in the upcoming work of the GCF Board to complete the initial operationalisation of the Fund by the Transitional Committee. And this will take a considerable amount of thought and Board guidance, it is difficult to see how this could be carried out effectively and efficiently without a dedicated group of GCFB members.

[4] This part is based on [5], p.3. For a more detailed analysis on which these recommendations are based, please see [6].

References:

[1] Müller, Benito (10 August 2011), "Enhanced Direct Access", Submission to the Transitional Committee, Oxford Institute for Energy Studies, www.oxfordclimatepolicy.org/publications/documents/OIESsubmissiononEnhanced.pdf

[2] Ghosh, Arunabha, Benito Müller, William Pizer, and Gernot Wagner (August 2012), 'Mobilizing the Private Sector: Quantity-Performance Instruments for Public Climate Funds', *Oxford Institute for Energy Studies, Energy and Environment Brief*. hwww.oxfordenergy.org/2012/08/mobilizing-the-private-sector-quantity-performance-instruments-for-public-climate-funds/

[3] Müller, Benito, Samuel Fankhauser, and Maya Forstater (*forthcoming*). 'How to Allocate Green Climate Fund Resources: Quantity-Performance methods for enhanced direct access resource allocation to National Funding Entities', *Oxford Institute for Energy Studies, Energy and Environment Brief*.

[4] Ciplet, David, Benito Müller, and J Timmons Roberts (Oct. 2010), *How many people does it take … to administer long-term climate finance?* ecbi Policy Report, www.oxfordclimatepolicy.org/publications/documents/StaffingIntensityOctober2010.pdf

[5] Müller, Benito and Anju Sharma (20 May 2011), "Submission of views regarding the questions for the first technical workshop of the Transitional Committee suggested by the co-facilitators of Work stream I", OIES.

[6] Sharma, Anju (2010), *The Reformed Financial Mechanism of the UNFCCC: Renegotiating the role of civil society in the governance of climate change*. Oxford Institute for Energy Studies. www.oxfordenergy.org/2010/03/the-reformed-financial-mechanism-of-the-unfccc-renegotiating-the-role-of-civil-society-in-the-governance-of-climate-change/

ecbi Finance Circle

Speaking Notes for the ecbi Finance Dinner with Transitional Committee members in Mexico City, 28 April 2011

Benito Müller

For a number of years, I have been working on possible reforms of the Financial Mechanism of the Climate Change Framework Convention. One of the central outcomes of this work has been the conclusion that a significant consolidated fund is crucial to such a reform. This is why I am particularly pleased that the Global Climate Fund is to be an ***operating entity of the Convention designed under its aegis***.

What I would like to do here is to step back for a moment and ask the question that led to this conclusion, namely:

Why do we need a Financial Mechanism?

There are many valid reasons why it is important to have some framework for climate finance flows to developing countries. Some have put forward a need for coordination to increase efficiency and effectiveness. These are no doubt valid reasons, but for me, the raison d'être has always been the need to ensure −at least a degree of− what I think of as ***global social justice***.

To put it slightly less philosophically, we need the Financial Mechanism as a tool to rectify imbalances in the overall financial regime, be that ***thematic imbalances*** (‘mitigation’ versus ‘adaptation’) or imbalances in terms of ***who does or does receive funding***.

There is little doubt in my mind that a large share even of public sector finance for developing countries is going to be done ***bilaterally***. The question is, what do we do if we realize that, for some reason or other, most of these flows are used for, say, mitigation, and that there is not enough bilateral adaptation funding? What do we do if we realize that there are a number of ‘climate orphan’ countries, countries, that – although entitled – do not get adequate bilateral climate finance?

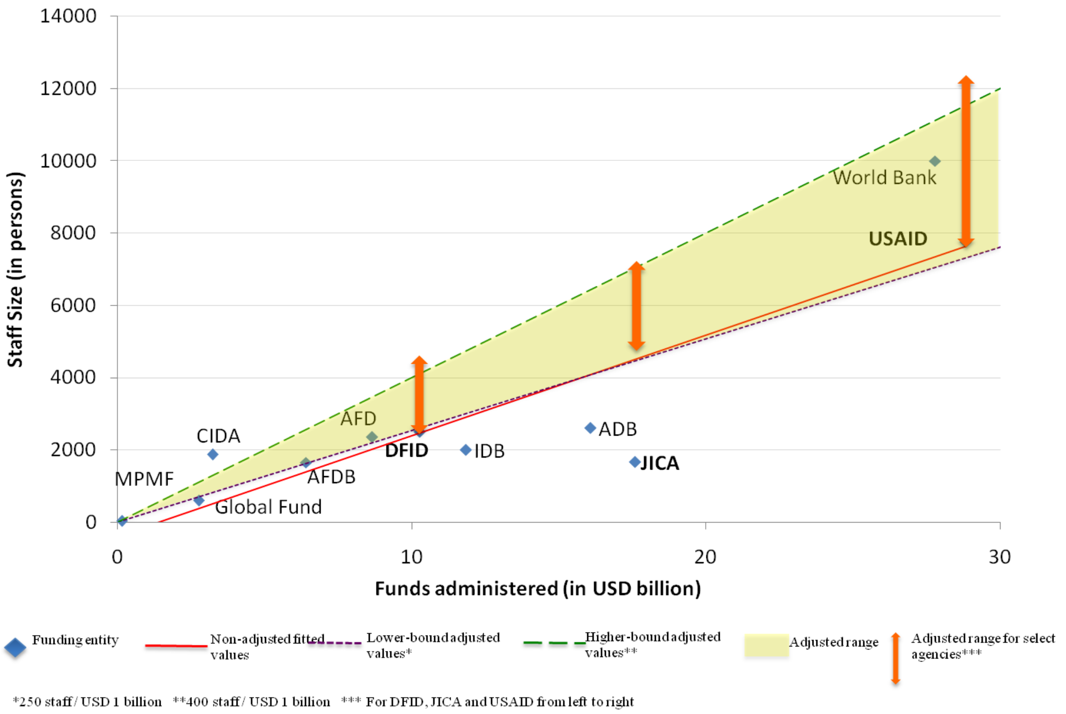
It is, in my view, unrealistic to think that we can tell donor agencies what or who they should fund bilaterally. The only solution is what most countries have established domestically, namely a sufficiently large consolidated fund to address and rectify such imbalances in the overall regime. This is my personal vision for the Green Climate Fund.

How can this be done?

As I need not tell you, this is not an easy question, and it is complicated by two facts which I think are at the heart of the design of the Green Climate Fund. There are two sets of expectations which may seem to imply ***mutually incompatible designs***. One the one hand there is the expectation that the Fund is to ***start disbursing soonest possible***, preferably just after Durban, and then there is the expectation that ***it is to work 'at scale'***

We do have examples of international funds that have been set up at relatively short notice, but they are all of a type which, for a number of reasons, I believe will not work effectively or efficiently at scale. Let me just highlight one of them.

A year ago, we commissioned a study to look at the question of **How many people does it take … to administer long-term climate finance?**[1] The answer published last October was: ***between 250 and 400 per billion USD***.



According to the authors, this is a ***conservative estimate*** and simply a reflection of the fact that if one does wish to spend money effectively and subject to certain fiduciary standards, then one needs people to administer that money.

Assuming that, in the longer term, the Green Climate Fund is meant to administer ***$10bn or $20bn***, one would therefore be looking at between ***2500 and 8000 people*** to manage these funds.

The question for the architecture of the Green Climate Fund is:

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[1] **How many people does it take … to administer long-term climate finance?**with David Ciplet, and J Timmons Roberts. ecbi Policy Report *Oct-10*

Do we really want a skyscraper of people processing climate change projects and programmes?

I believe that this would not be desirable. To be quite clear, the issue here is not the number of people needed, but the ***centralized decision making model*** of traditional funds. This is why we have for some time been looking at alternatives, in particular at the idea of a ***'throughput' model*** in which the consolidated funds are disbursed to ***National Funding Entities*** which not only take over the bulk of the administration, but also the funding decisions.

In this context, I would like to refer to another ecbi Policy Report which has looked at the role of such ***National Funding Entities in the transition to a new paradigm of global cooperation on climate finance***.[2]

The Report looks at a number of such National Funding Entities as they have emerged over the past couple of years. From the Report it emerges that it will take ***some time and a considerable institutional capacity building effort*** for such a throughput mechanism to become operational.

This is where the ambition of scale seems to conflict with the wish for a speedy operationalisation of the Green Climate Fund. But the two do not necessarily exclude one another, provided the ***architecture of the Fund is kept sufficiently flexible***.

In order to fly, the Green Climate Fund will in my view need two arms (or wings): A ***funding arm***, which functions along the traditional funding model, and a ***disbursement arm***, channelling funds directly to national funding entities.

To ensure a speedy commencement of funding activities, the current design focus would have to be on the former, but it is, I believe, essential for the blueprint of the Fund to include the concept of the latter, if it is to live up to the expectations of scale.

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[2] Luis Gomez-Echaverri **National Funding Entities: Their role in the transition to a new paradigm of global cooperation on climate change** ecbi Policy Brief *Oct-10*

ENHANCED DIRECT ACCESS

Submission to the Transitional Committee on the issue of Thematic Funding Windows (Workstreams II & III)

Submitted through the UNFCCC constituency of Research and Independent NGOs

10 August 2011

Benito Müller

This submission has two aims. In the first instance, it is to synthesise some of the reasons that have been put forward as to why, at the scale envisaged in the Cancun Agreements, the climate finance regime in general, and the Green Climate Fund, in particular, will have to involve a fundamental ***devolution of decision making to National Funding Entities*** (NFEs).[1]

The second aim is to give an idea of what such NFEs might look like by reference to an existing national trust fund −the ***Bangladeshi Climate Change Resilience Fund*** − and a recent proposal for a ***Pakistani National Green Climate Fund***

The Adaptation Fund Model

Over the past few years the term 'direct access' has become part of the core vocabulary of climate change finance. It entered the debate in the context of the ***Adaptation Fund*** (AF) negotiations, where it was used as a short-form for 'access to funding without involvement of intermediary (international) implementing entities.' After the establishment of the Adaptation Fund with the option of 'direct access,' the AF Board (AFB) operationalised the concept for the AF. The model chosen was to have ***National Implementing Entities*** (NIEs) – alongside the familiar ***Multilateral Implementing Entities*** (MIEs) – carry out the ***fiduciary risk management*** on behalf of the AFB. For that, NIEs have to satisfy specific fiduciary standards designed by the AFB in order to be accredited by the AF. At the moment, the AF has 4 accredited NIEs, all related to government agencies.

Under the AF direct access model, projects/programmes are proposed by ***executing entities*** to the designated NIE which can forward it for approval to the AFB, if it has country endorsement. The model therefore includes a ***degree of devolution of decisions to the national level***, namely the pre-selection of projects/programmes. However, the ultimate selection of what is to be funded remains outside the recipient country, at the AFB level. For more on the AF model, see Appendix 1.

[1] For a listing of literature on the topic, see http://www.oxfordclimatepolicy.org/rfm.shtml

Enhancement through National Funding Entities

There have been arguments for some time that, in due course, the AF model of direct access will have to be enhanced by moving to a ***full devolution of decision-making*** to ***National Funding Entities***. The rationale for introducing such national decision-making goes beyond 'direct access' to a multilateral fund.

For one, there are reasons of ***legitimacy*** and ***effectiveness***. It has long been argued that climate change has to be 'mainstreamed' into national policy making. But it is at least questionable whether such a process can ever be fully effective if the decisions of how to implement it are taken abroad, outside the policy process which is meant to be engaged. Where there can be no doubt is that for of much of adaptation funding, which ultimately amounts to civil protection, only the national government has the legitimacy to decide who is to be protected and how. As concerns funding for mitigation, it also stands to reason that a full devolution of funding decisions on a performance basis increases effectiveness, not least because the national level is better equipped to ensure performance.

In the context of the overall ambition for climate finance laid down in the Cancun Agreement (mobilization of up to $100 billion annually by 2020), National Funding Entities can also be argued for in terms of ***efficiency***. Managing funds – approving, monitoring, and evaluating funded activities – requires personnel. A recent report based on public sector funding agencies – donor agencies, MDBs – estimated that it takes between 240 and 400 people to manage $1 billion.[2] While it is unlikely that all of the Cancun funds would be managed in that way, or for that matter be additional to what is being managed already, expectations are such that the management is likely to require several thousand additional personnel. And it stands to reason that the most efficient scenario is not to house them in donor agencies or multilateral funds, but in the recipient countries.

These are some of the reasons that have been put forward for basing the emerging global climate finance regime on National Funding Entities. As concerns the Green Climate Fund, this has a number of important implications. For one, it means that if it is to work at scale, the GCF will have to enhance its direct access mode by adopting a ***throughput model of resource allocation to in-country NFEs***. But this will not be possible overnight. The first task for the GCF towards such enhanced direct access will have to be an extensive and focused effort of ***institutional capacity building*** in the recipient countries to create the enabling environment for this throughput model of direct access. It also means that there will have to be a pilot programme to determining which National Funding Entity model is most suited for the purposes of the GCF. For example, it stands to reason that the Adaptation Fund NIEs, being focussed on implementing adaptation projects and programmes, may not automatically be best at handling the more extensive functions expected of NFEs. We are at the moment simply not in a position to tell what would work, and what would not.

The rest of this brief is to give an idea of how NFE could be structured by looking at two examples: The existing Bangladesh Climate Change Resilience Fund and a recent proposal for a Pakistani Green Climate Fund.

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[2] David Ciplet, Benito Müller, and J Timmons Roberts, *How many people does it take … to administer long-term climate finance?*. ecbi Policy Report, *Oct-10*
http://www.oxfordclimatepolicy.org/publications/documents/StaffingIntensityOctober2010.pdf

The Bangladesh Climate Chance Resilience Fund

History

Bangladesh, a country acknowledged as being particularly vulnerable to the impacts of climate change, has had a national ten-year ***Climate Change Strategy and Action Plan*** (BCCSAP) since September 2008. In December of the same year a draft concept Note[3] on a Multi-Donor Trust Fund for Climate Change (MDTF) to support the implementation of this national strategy was circulated. *The benefits of having a MDTF*, according to the Note, *are many: high-level coordination, elimination of overlaps, donor harmonization, flexibility in fund management, transparency, and the possibility of attracting additional funds from both local and external sources.* The MDTF was meant to become *a 'one-stop' mechanism for large-scale climate change financing in Bangladesh.*

The MDTF was to be institutionally divided into a ***Policy Council***, a ***Management Committee***, a ***Secretariat***, and an ***Administrator***.[4] A ***Trustee*** was to disburse the funding under two windows: an ***on-budget window*** for funding public sector projects; and, an ***off-budget window*** for funding projects from civil society. However, the concept very soon ran into considerable opposition, particularly from Bangladeshi civil society organisations, primarily due to the envisaged involvement of the World Bank in the management of the MDTF.

In the course of the following protracted negotiations regarding an international climate change fund, the Government of Bangladesh in 2009 established the ***Bangladesh Climate Change Trust Fund***, supported exclusively through its annual budgetary allocation ($385 million since FY2008/9) for adaptation and capacity building. In 2010, the international negotiations finally resulted in the establishment of the ***Bangladesh Climate Change Resilience Fund*** ('the Fund'), currently supported by contributions from the UK ($86.7 million), Denmark ($1.6 million), EU ($10.4 million) and Sweden ($11.5 million). [5] Like the MDTF, the Fund is conceived as a 'one-stop mechanism' with two funding windows: an on-budget window for public sector projects and an off-budget window for civil society and private sector projects. The off-budget window is currently earmarked for 10% of the funding, and is managed through the Palli Karma Sahayak Foundation (PKSF)[6] as an implementing entity. In May 2011 the Fund approved its first project (the construction of 50 new cyclone shelters and reparation of about 50 others along with the construction of rural roads), and has since approved two further projects.

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[3] Government of the People Republic of Bangladesh, Multi-Donor Trust Fund For Climate Change (MDTF), Draft Concept Note, 22 December 2008

[4] Country Director of the World Bank.

[5] The creation of two separate climate change funds has given rise to further criticism: *An alliance of civil society and non government organisations has demanded an autonomous body with democratic ownership of the government and other stakeholders for management of the climate funds of the country. … They also called for a single national mechanism to manage all local and international climate funds under the guidelines of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP).*[BSS, "Democratic ownership of climate funds demanded", *Daily Sun,* 20 July 2011, http://www.daily-sun.com/?view=details&type =daily_sun_news&pub_no=281&cat_id=1&menu_id=10&news_type_id=1&news_id=58885&archiev =yes&arch_date=20-07-2011]

[6] http://www.pksf-bd.org/

Governance

The Fund is governed a two-tier system, consisting of (i) a ***Governing Council*** − chaired by the government[7] − to provide overall strategic direction and guidelines, and to ensure alignment with the BCCSAP, and (ii) a ***Management Committee***, responsible for developing a work programme, ensuring implementation in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. A ***Secretariat,*** established at the Ministry of Environment and Forests (MOEF), is to support both the committees on a day-to-day basis. Finally, the World Bank Bangladesh office serves as ***Trustee*** of the Fund, for a 1 percent compensation. All investments of the Fund are implemented and executed by the Government of Bangladesh and designated domestic agencies. The role of the World Bank, apart from trustee function, is to provide mainly technical and advisory services, knowledge dissemination, programme administration, and project preparation, appraisal and supervision.

Functions

A ***Governing Council*** provides overall strategic direction and guidance to the Fund and ensures its alignment with the BCCSAP. The primary responsibilities of the Governing Council are to:

- Provide advisory guidance on programme strategic goals and alignment with CCSAP, grant criteria and high-level issues, such as, transfer of fiduciary management responsibility to GOB
- Oversee overall management and utilization of BCCRF
- Approve DPPs prepared for projects to be funded by BCCRF
- Review the achievement of results envisaged by the BCCRF
- Provide advocacy support
- Issue resolutions at close of Governing Council meetings endorsed by the majority (defined as 80% of members)

A ***Management Committee*** is responsible for developing a work programme, ensuring that the Fund is implemented in line with the agreed implementation manual, and considering grant requests submitted by various line ministries and other eligible institutions. The primary responsibilities of the Management Committee are to:

- Review and endorse the Implementation Manual
- Review and endorse the Fund's work programme and budget allocations
- Carry out a detailed review of and endorse grant requests submitted by the Secretariat
- Recommend projects for preparation (including DPP by the line agency and appraisal of the World Bank),
- Ensure that grant requests submitted are in line with the agreed implementation manual

Both the Governing Council and the Management Committee include representatives from line ministries, Development Partners and Civil Society.

A ***Secretariat***, established at the Ministry of Environment and Forests' Climate Change Department, supports the Management Committee and Governing Council and manages the day-to-day operations of the BCCRF.

The ***World Bank*** Bangladesh Office provides a number of functions to the Fund:

[7] Council Chair: Minister of Environment and Forests (MOEF), Council Secretary: Secretary MOEF

- *Resource Management Staff:* establish Activities Codes, allocate BB, establish TF accounts structure, process contracts, other.
- *Legal Department:* drafts Agreement with Donors and Grant Agreements with Recipients.
- *Procurement Specialist:* provides technical support and clearance for procurement methods for contracting all services, goods, or works financed by the TF.
- *Financial Management Specialist:* responsible for defining eligible disbursements for recipient-executed grants, carrying out accounts audits, reviewing independent audit reports, and performing due-diligence on recipients and NGO executing activities.
- *Loan Department:* disbursing recipient grants.
- *Client Connection:* interface with clients

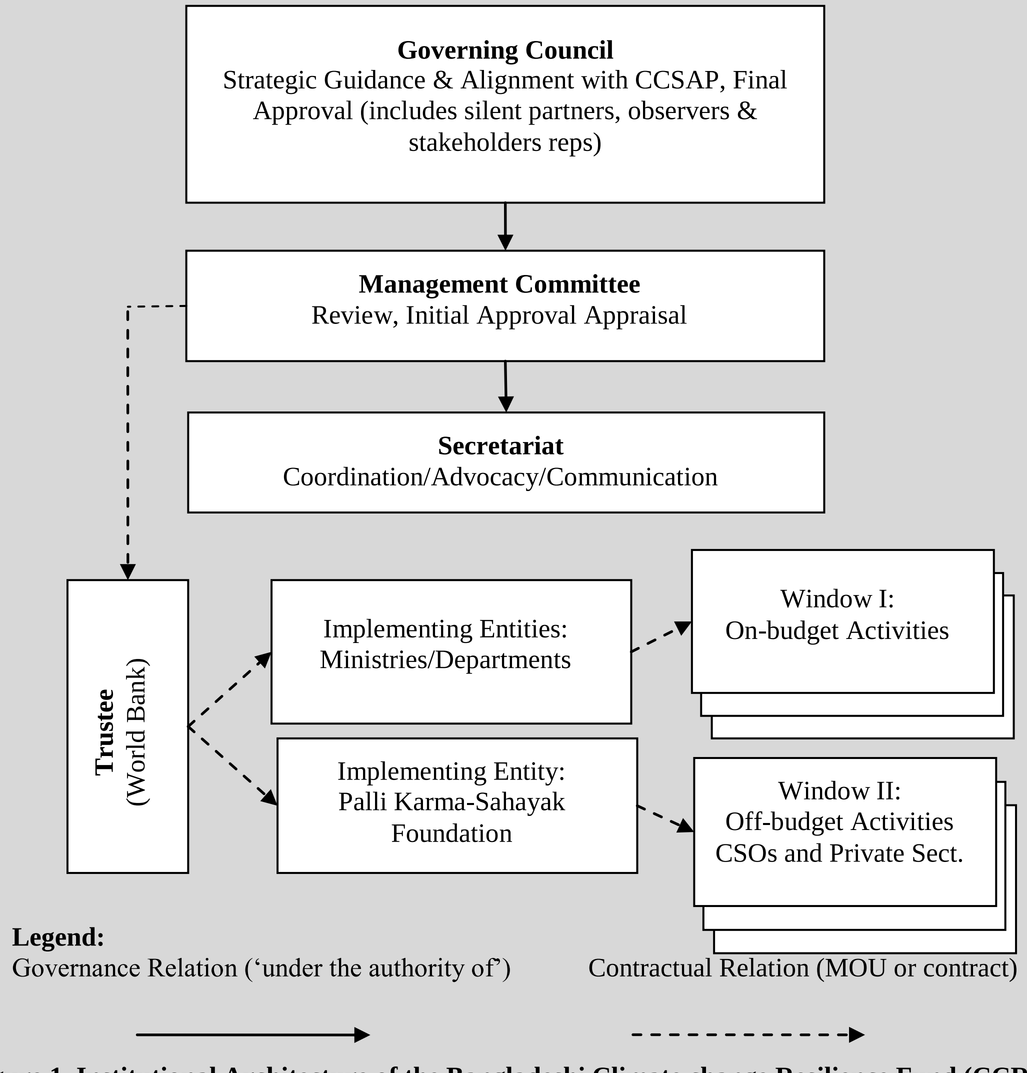

Figure 1. Institutional Architecture of the Bangladeshi Climate change Resilience Fund (CCRF)

A Pakistani National Climate Change Fund[8]

Pakistan's financing needs for mitigation and adaptation actions are estimated to range between US $ 14-31 billion a year. During the past two years, projects amounting to approx. U$ 14.5 billion were launched in the country of which U$ 1.5 billion were made available from the national budget. This was matched by foreign assistance amounting to U$ 3 billion. Notwithstanding the increased budgetary allocation and foreign assistance, the gap between the resources and needs is huge and likely to stay the same.

The international community has thus far agreed to mobilize US $ 100 billion annually with effect from 2020, in addition to promising US$10 billion annually for three years (2010-12) for quick start financing. Simply put, the need for financing by the developing countries will exceed the supply. This situation is unlikely to change in the near or long term future. Also if countries like Pakistan want to mitigate the adverse impacts of climate change, they will have to rely on domestic resources to a considerable extent.

Many developing countries have already recognized this and have developed national funding mechanisms devoted to climate change. Some countries are either establishing or putting into operation, dedicated national funding entities. The common features amongst these national funding entities are:

a. Desire to upgrade national action on climate change;
b. Secure and manage funding to support this action both from international and national sources;
c. Ensure that these activities are fully mainstreamed into their development strategies and plans;
d. Accord certainty to local and foreign investors in the carbon market; provide incentives to the local and international financial entities for their operations in the country;
e. Guarantee insurance to foreign investors as well as donors that climate change actions will be cohesive and in line with both national and international priorities; and
f. Ramp up and mobilize local financial resources through levies, regulatory incentives as well as by promoting climate risk management tools such as crop/flood insurance etc.

Even though some of these emerging local funding entities differ on their specific objectives, their sources, and their governance, all of them address their climate change-related priorities. Some have focused on objectives, such as Bangladesh on climate resilience, Amazon Fund of Brazil on sustainable forest management, and China on clean energy investments. In addition, most are also mobilizing funding of their own from other national sources such as in the case of Brazil which benefits from oil revenues, India from coal, China from CDM proceeds, and Ecuador from pledges against its decision to forego oil exploration in a vast area of Ecuador.

Pakistan's situation clearly indicates the need for creating a National Green Climate Change Fund, which would operate as a national body responsible for overseeing, coordinating and directing all governmental and non-governmental financial resources for climate change-related projects in the country. It will function as the country's representative body in the international financial regime for climate change.

The Climate Change Fund will be directly responsible to the Prime Minister's Committee on Climate Change and will work closely with the National Authority on Climate Change Cell and the CDM and NAMA Council. It will operate solely as a financial arm of the Climate Change Institutional Mechanism, directing and allocating funds for projects undertaken by the Climate Change Cells and CDM cell whilst not undertaking projects on its own.

Proposed Composition

The National Green Climate Change Fund (NGCCF) should have representation from both the private and public sectors. It will ensure donors' participation in its decision-making process. The

[8] Reproduced with kind permission by the publisher from Farrukh Iqbal Khan, with Sadia Munawar, *Institutional Arrangements for Climate Change in Pakistan*, Sustainable Development Policy Institute (SDPI), Project Report Series # 19, July 2011

NGCCF will be governed by a Board, serviced by a Secretariat and will have a Trustee to ensure fiduciary management of its funds. The members of the Board will include representatives from the following:

a. Ministry of Finance;
b. Ministry of Industries;
c. Ministry of Environment;
d. Ministry of Agriculture;
e. Ministry for Science and Technology;
f. Ministry of Commerce;
g. Three representatives from the civil society, academia and think tanks;
h. Three representatives from the private sector;
i. Chairperson of the CDM and NAMA Council;
j. Executive Director of the National Authority on Climate Change.

Terms of reference of the National Climate Change Fund (NCCF)

Oversight

- Ensure that financing is delivered to projects in line with climate change–related national strategies.
- Ensure that climate change activities to be financed are duly mainstreamed into these national development strategies.
- Establish, and to manage, performance criteria for financing and delivery of results if and when needed.
- Coordinate financial resources and approve funding requests.
- Establish systems for review, monitor, and where applicable, accredit and verify performance.

Financial Support

- Receive and manage funds from global funding mechanisms (including additional ones that may be established). Mobilise and leverage additional resources.
- Ensure responsible and sound fiduciary management of funds. Manage the programme cycle of funds disbursed.

Standard Setting

- Develop relevant national eligibility and performance criteria.
- Develop economic, social, and environmental safeguards to ensure that activities funded are in line with national priorities.
- Establish methods for performance assessment and evaluation in general, and more specifically for funding, where the measure of performance does not have obvious ready-made standards and metrics (policies and measures).

Accountability

- Develop the ability to report on performance, either for internal performance assessment purposes or for performance reporting if and when needed.
- Ability to maintain registers if and when needed.
- Monitor and evaluate.
- Reach out to civil society and stakeholders in general.

Appendix 1. Decision-making in Direct Access through NIEs

'Direct access' – as implemented by the Adaptation Fund Board (AFB) – is schematically represented in Figure 1.1. Its defining characteristic is the involvement of National Implementing Entities, as national-level bodies involved in the AF project cycle.

As regards decision-making, the fact that certain decisions are taken in country is the only difference between direct and multilateral access in the AF model. The nature of these decisions and functions are laid out in the AF Operational Guidelines.[9]

Decision-making in the Adaptation Fund Project Cycle

According to the Operational Guidelines (Para. 39), *the project cycle of the Adaptation Fund for any project or programme size begins with a proposal submission to the Secretariat by the NIE/MIE chosen by the government of the recipient country/ies. The submission is followed by an initial screening, project review and approval.* However, there are a number of decisions that are taken prior to the submission to the Secretariat.

- For one, to enter the project cycle as conceived above, proposals have to be ***endorsed by the relevant national governments***.[10]
- Secondly, there will at some point inevitably be a project ***appraisal*** ('proposal elaboration' in Fig. 1.1) at the level of the ***Implementing Entities*** which project proponents will have to pass for the proposal to be forwarded for country endorsement.

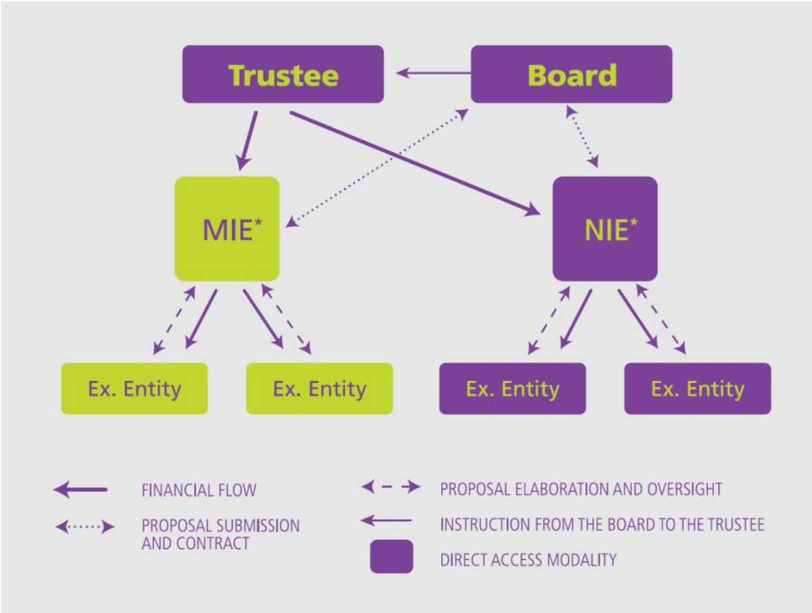

Figure 1.1. Modalities for Accessing Resources of the Adaptation Fund
Source: Adaptation Fund Brochure: p.5;
http://www.adaptation-fund.org/sites/default/files/AF_broch_CRAblue_lores1.pdf

[9] http://www.adaptation-fund.org/policies_guidelines

[10] *20. Every proposal for funding must be endorsed by the requesting government.*
21. Each Party shall designate and communicate to the Secretariat the authority that will endorse on behalf of the national government the projects and programmes proposed by the implementing entities.

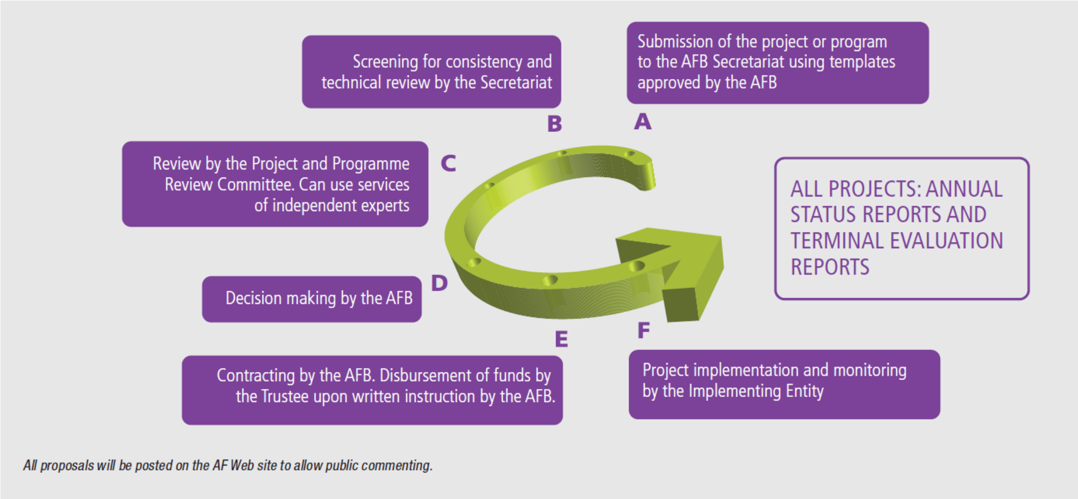

Figure 1.2. The Adaptation Fund (one-step) Project Cycle

Source: Adaptation Fund Brochure: p.7;
http://www.adaptation-fund.org/sites/default/files/AF_broch_CRAblue_lores1.pdf

In short, there is a ***pre-selection process*** for project proposals to be forwarded to the Adaptation Fund, and the key to the direct access route is that the decisions involved are all ***devolved to the recipient country level***, indeed – given the nature of the existing NIEs – ***to the recipient governments*** (see Box 1.1.). The decision whether a (pre-selected) proposal gets funded, however, remains 'abroad', ultimately at the level of the Adaptation Fund Board (based on recommendations by the AFB Secretariat, and the AFB Programme and Review Committee (see Figure 1.2.).[11]

Adaptation Fund Monitoring, Evaluation and Review

While the *Board is responsible for strategic oversight of projects and programmes implemented with resources from the Fund, the Ethics and Finance Committee, with support of the Secretariat, will monitor the Adaptation Fund portfolio of projects and programmes*.[Para. 47] *Implementing entities shall ensure that capacity exists to measure and monitor results of the executing entities at the country-level*.[Para. 48]

[11] *40. In order to expedite the process of approving projects and reduce unnecessary bureaucracy, it is proposed that small-size projects undergo a one-step approval process by the Board. The proposed project cycle steps are as follows:*

(a) The project proponent submits a fully developed project document based on a template approved by the Board (Annex 3, Appendix A). Proposals can be submitted to the Board through the Secretariat three times per year or as may be decided at any time by the Board depending on the flow of requests and the available resources. The timetable for the submission and review of proposals will be synchronized with the meetings of the Board to the extent possible.

(b) The Secretariat will screen all proposals for consistency and provide a technical review. It will then forward the proposals with the technical reviews to the Projects and Programmes Review Committee for review, based on the criteria approved by the Board (Annex 3). Screening by the Secretariat will be conducted as soon as possible, and within fifteen (15) working days.

(c) The Secretariat will send all project proposals received with technical reviews to the Project and Programmes Review Committee four weeks prior to the Adaptation Fund Board meeting. The Project and Programmes Review Committee will review the proposals and give its recommendation to the Board for a decision at the Meeting. The Committee may use services of independent adaptation experts to provide input into the review process if needed. The Board can approve or reject a proposal with a clear explanation to the implementing entities. Rejected proposals can be resubmitted after consideration of the reasons for rejection.

(d) The proposals approved by the Board will be posted on the Adaptation Fund website. Upon the decision, the Secretariat in writing will notify the proponent of the Board decision.

Box 1.1. Accredited Implementing Entities of the Adaptation Fund (as of August 2011).

NATIONAL IMPLEMENTING ENTITIES

- ***Planning Institute of Jamaica*** (planning agency of the government) http://www.pioj.gov.jm
- ***Centre de Suivi Ecologique***, Senegal, http://www.cse.sn (Ministry of environment)
- ***Agencia Nacional de Investigacion e Innovacion***, Uruguay, www.anii.org.uy
- ***Fonds national pour l'environnement National Environment Fund***, Benin, http://fnebenin.net

MULTILATERAL IMPLEMENTING ENTITIES

- ***The United Nations International Fund for Agriculture Development***
- ***The World Bank***
- ***The World Meteorological Organization***
- ***The United Nations Development Programme***
- ***The United Nations Environment Programme***
- ***The United Nations World Food Programme***
- ***The African Development Bank***
- ***The Asian Development Bank***

Source: http://www.adaptation-fund.org/page/implementing-entities (accessed 10 Aug. 2011)

Submission to the Transitional Committee by Ms Carol Mwape (TC member Zambia)

The following revised language is proposed for insertion in the Draft Instrument (TC-4/2) after para. 51, as part of sub-section '**5.3 Funding windows and Fund structure'**, replacing the existing paragraphs 52-58 (including the relevant sub-headings).

* * *

Direct Access and Grants

52. The Fund will have a direct access and grants facility enabling access to Fund resources through accredited implementing and funding entities. Recipient countries will determine the modes of access.

53. *Funding entities*, which may be sub-national, national or regional legal entities or international organizations, will be entitled to approve programmes or projects in accordance with the relevant guidelines developed by the Board, and shall receive resources from the Fund for that purpose. *Implementing entities*, which may be sub-national, national or regional legal entities or international organizations, will implement eligible activities approved and funded by the Board.

54. Recipient countries will designate a national designated authority that will be responsible for coordinating and, if appropriate, endorsing programme and project proposals in the context of national plans and strategies, including through consultation processes.

55. Recipient countries may nominate competent sub-national, national and regional implementing or funding entities for accreditation to receive funding. Once accredited, an entity may enter into agreements with multiple executing agencies, consistent with fiduciary principles and standards as well as environmental and social safeguards developed by the Board and appended to this Instrument, at the regional, national and/or sub-national level, for the implementation of particular activities under the oversight of accredited implementing or funding entities, as appropriate.

56. The Board will develop, manage, and oversee an accreditation process for all implementing and funding entities based on specific accreditation criteria that reflect the Fund's fiduciary principles and standards and environmental and social safeguards.

57. The Board may develop different levels of accreditation, with differentiation for types of activities or entities as may be deemed appropriate and necessary to achieve the objective and principles of the Fund, while maintaining consistency with the Fund's fiduciary principles and standards and environmental and social safeguards.

58. The Fund will enter into financing agreements with the implementing and funding entities and will oversee compliance with those agreements. Accredited implementing and funding entities will be liable to the Fund for finance from the Fund that they manage.

* * *

Additional, related textual changes:

(i) Paragraph 2 (Objectives), second sentence: insert "and expanding" after "effective"

(ii) Add appropriate reference to "funding entities" to any occurrence of "implementing entities"

The role of non-governmental actors

SUBMISSION WITH REGARD TO WORK STREAM II, SUB-WORK STREAM 2
Submitted through the UNFCCC constituency of Research and Independent NGOs

Anju Sharma[1]

8 June 2011

Dealing with climate change in an effective and timely manner will need “all hands on deck”. The Green Climate Fund (GCF) will benefit enormously by harnessing the expertise, energy, innovation, commitment and passion of non-government actors – in planning, implementing and monitoring funded activities. While designing the rules and procedures for the role of non-government actors, the lessons learnt by existing global financial institutions/ arrangements must be taken into account.

A key lesson from past efforts to engage non-government actors is that providing access for a few representatives at global meetings/ decision-making sessions is not enough. This limited interaction only allows a superficial level of engagement at the global level – it does not reach out sufficiently to non-government actors at the national and local level, where the activities are actually being implemented.

Instead, the challenge is to ensure better representation and inclusion of non-government actors at the national and local levels. Non-government communities and individuals whose lives are directly affected by the activities of the Fund must have the necessary arrangements in place to participate in decisions on funding, and to convey their experiences and concerns to decision-makers.

In other words, the challenge is not so much about improving horizontal, global-level engagement, as it is to improve vertical, ‘bottom-up’ national and local-level engagement. (Such engagement will undoubtedly be easier to implement in an overall institutional arrangement that follows the Principle of Subsidiarity and delegates disbursement decisions to national and sub-national entities – for instance, through National Funding Entities.)

Why engage with non-government actors?

Before designing the rules and procedures for engaging non-government actors in the disbursement and use of climate finance, it may be useful to revisit the benefits of doing so.

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In recent decades, non-government actors have proved their ability to implement projects and activities effectively, promote innovative solutions, and achieve results at lower costs. They sometimes have better access to target audiences, are able to promote better synergies and contribute towards more effective monitoring. They can also lend greater legitimacy to global institutions/ bodies such as the GCF, by improving the level of local-level input in decision-making.

National and sub-national non-government actors, in particular, have a good understanding of national circumstances, and political resources including social networks, an intricate knowledge of institutional relationships and tacit rules of political engagement, and a continued presence, which is needed to take advantage of sporadic opportunities for change, and to ensure long-term programme success. The domestic community is also likely to have more legitimacy for demanding change from national governments, and can afford to be more critical of national policies.

In the specific case of climate change finance, non-government actors can play at least three important roles:

- Bridge the gap between global or national decision-making and local implementation by translating local level experiences to inform and influence global decision-making; and global policies and decisions for local implementation.
- Plan, implement and monitor activities to achieve international goals, and promote innovative approaches.
- Contribute towards improving accountability, transparency, equity and effectiveness at all levels (global, national, local) of decision-making and implementation.

The barriers so far

Few global financial institutions/ arrangements have managed to harness the full benefit of non-government engagement. The main barriers have been:

- An emphasis mainly on engaging non-government actors at the global level, with very limited emphasis on reaching out to national and sub-national non-government actors. Combined with the practice of most international financial institutions of making disbursement decisions at the global level with very little input from national stakeholders, this has largely isolated national non-government constituents.
- Limited funding and other resources (including, for instance, knowledge, capacity and institutions) to empower national and sub-national actors to take on a bigger role.
- Lack of effective dispute resolution procedures, to ensure that non-government actors have the institutional arrangements in place to register complaints and objections, and ensure they are heard.

Overcoming the barriers

The GCF must therefore be willing to invest effort into designing a new paradigm for non-government participation, particularly at the national and sub-national levels, rather than using earlier designs as a template. Non-government actors must be engaged in this design from the very start, to ensure a well-integrated process. A few elements of this new design, proposed to overcome the barriers described above, could be as follows:

1. ***A 'bottom-up' process of engaging non-government actors, built up from the local to the national/ global level***.

This could be achieved by investing in National Stakeholder Networks. Sub-national members of this network could then regularly elect representatives for a fixed term, to represent them at national and global meetings (thus eliminating the current random selection of representatives), and to ensure the integrity of the Network. Strong accountability measures should be in place.

2. ***Adequate and independent resources***.

A more formalised role for non-government actors will undoubtedly need further investment – however, this is an investment that is long overdue, and will prove cost effective in the long run through improved local implementation of global goals. Several global processes strive for effectiveness and accountability at the national and local level, without investing in root causes that make both elusive. In order to ensure its independence and integrity, the networks should receive a fixed percentage of the funds allotted to each country.

3. ***Effective redress mechanisms***.

An independent process to enforce mutual accountability (between the GCF, national governments and non-government actors) should be in place from the start. If needed (depending on the disbursement rules of the GCF), such a redress mechanism should be available at the national as well as global level. Previous experience indicates that at least three minimum criteria to ensure the credibility and independence of a redress or appeals mechanism: independence (members should be chosen from outside the institution, and their budget should be independent and adequate); public accountability (the public should have access to every stage of the redress process) and effectiveness (the mechanism must have the authority to ensure that their recommendations are acted upon).

Conclusions

A key shortcoming of most global funding mechanisms is that the people whose lives are most affected by the funded activities, most often have the least say. The GCF should be willing to rectify this grave and costly omission (the success of the funded activities has suffered as a result), by going back to the design board when defining the role of non-government actors, instead of relying on a faulty template.

OBSERVERS AND THE GREEN CLIMATE FUND

Submission in response to the initial consultation by the Interim Secretariat of the GCF on observer participation in the proceedings of the Board of the GCF

19 March 2012

Benito Müller and Anju Sharma

We would like to thank the Interim Secretariat to the Green Climate Fund for the opportunity to participate in this initial survey on observer participation in the proceedings of the GCFB.

We appreciate that the issues raised in the survey are about the role of 'observers participation in the proceedings of the Board of the GCF', but we also feel the need to emphasize that *there must be more to civil society participation in the running of the GCF than serving as observers to the Board*. We hope that the process put in place for the former will not prejudge and limit civil society participation in the overall functioning of the GCF, once it is up and running, as the functions are likely to vary considerably.

Observers can be helpful to efficacy of the GCF in a number of different ways. For example, they can help increase the transparency of the Funds proceedings, they can provide expertise, they can help the Board in obtaining feed-back on the performance of the Fund, indeed they could be used as part of a complaints mechanism etc.

Each of these functions may require different (complementary) forms of engagement. Transparency, say, can be increased through simply allowing observers to be present at the meeting, as well as observe virtually through the use of webcasting. Other functions may be better served through more active involvement, as for example through the use of 'active' observers. However, to achieve the maximum benefit of such engagement, they must have representative legitimacy from their 'constituency', in particular for the stakeholder groups that will be the ultimate target of the GCF, and be most affected by its activities.

We believe that in the current design phase, the GCF Board ought to launch an in-depth consultation on the modalities for civil society participation in the functioning of the Board and the activities of the GCF, once it is fully operational, when civil society engagement will need to go deeper than just observers or even active observers, to ensure that their strengths are fully taken on board in tackling climate change.

There is, at present, no fully satisfactory model for ensuring effective civil society participation, although past experiences have contributed to a much better understanding of what is needed in future. For instance, we have published a number of papers addressing it in the context of the

UNFCCC negotiations,[1] the involvement of civil society in the governance of the financial mechanism,[2] in general, and the GCF in particular.[3]

The issues circulated for initial consultation are essentially about the ***form*** of observer participation, and as such, we believe, cannot sensibly be answered in the absence of some further clarity about the ***functions*** that GCF observers are meant to have. This, we believe, should be the first objective of the in-depth consultation. For the initial participation of observers in the GCF Board meetings, we propose the following interim arrangement:

- Adopt the modalities for ***ordinary observers*** from the ***Adaptation Fund Board***, including the accreditation procedure, the admittance of observers to the Board room (with overflow facilities), the modalities for closed session proceedings, and the webcasting of proceedings.
- Use the procedural rules of the ***Climate Investment Funds*** for ***active observers***, with the exception of their selection, which for the interim period should be carried out at the beginning of each meeting by the observers present at the meeting.

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[1] Benito Müller, *UNFCCC – The Future of the Process: Remedial Action on Process Ownership and Political Guidance,* Climate Strategies Brief February 2011.

[2] Anju Sharma, *The Reformed Financial Mechanism of the UNFCCC: Renegotiating the role of civil society in the governance of climate finance* OIES EV 50, April 2010.

[3] Anju Sharma, *The role of non-governmental actors: Submission with regard to Work Stream II, Sub-Work Stream 2*, Oxford Institute for Energy Studies June 2011.