



## Strategic Divisions of Labour

### Submission to the Green Climate Fund Board

Decision B.11/03 invites observer organizations to make submissions to the GCF Secretariat on the elements contained in paragraph (c) by 1 December 2015. This submission is in response to the element of this paragraph stipulating that the measures to be considered in the GCF Strategic Plan should *inter alia* focus on ‘*ensuring that the GCF is responsive to developing country needs and priorities, while ensuring country ownership, [and] enhancing direct access [...]*’. With respect to this element, we believe certain ‘architectural’ considerations are absolutely key, in particular the issue of what is to be administered ‘in-house’ and what is to be left to others, or ‘outsourced’.

We have for some time supported the view that the GCF should ultimately outsource all ‘retail’ activities – that is, to use the GCF terminology, micro projects (less than \$10 million) – and only keep ‘wholesale’ programmes to be administered in-house, so as to avoid the scenario that the Economic Council in post war West Germany wished to avoid when establishing KfW in 1948, namely to create: ‘*a large institution entrenching itself with a huge bureaucracy and encroaching on the territory of the established banks. The KfW is to be a small and unbureaucratic body with a small management board, a capital distribution agency that passes on capital from domestic sources, from international sources or from counterpart funds as quickly as possible.*’

Outsourcing could be to national implementing entities under the (enhanced) direct access modality, or to international implementing entities as part of international access. A common concern in this context is that outsourcing is regarded to be inefficient, because it is seen to merely add additional administrative layers which ‘all want their cut’. This can indeed be a danger, but it is not inevitable: It really depends on how the outsourcing is structured. Proper outsourcing means delegating responsibilities which should then no longer be catered for in-house. If it were otherwise, i.e. if outsourcing was necessarily less efficient than in-house management, why would so many private sector firms outsource a large variety of activities?

Decentralization and devolution of decision making is as essential to achieving paradigm shifts as is finding the right type of projects and programmes to fund. These retail decisions must be outsourced, and they should predominately be outsourced to in-recipient-country institutions through the GCF ‘signature access modality’ of Enhanced Direct Access. As mentioned above, we believe that no retail activities should be managed and approved in-house by the GCF Secretariat or Board. However, as there will be a demand for internationally funded micro projects for many years to come, this means that such projects will need to be catered for by an international division of labour, either through outsourcing or through some form of explicit or implicit understanding between the GCF and other international funders, such as the Adaptation Fund, which has a proven track record not only in funding concrete micro adaptation projects, but also in pioneering the direct access modality and managing an innovative finance resource and could very well become the GCF’s specialized retail agent for this sort of retail activities.