Same old, same old … Too late for a paradigm shift?

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Open letter to the GCF Board and supporters of enhanced/devolved access in the wake of the Paris Board meeting (GCF/B.05)

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Benito Müller

Many of you will have heard me complain about the impression that the discussions of the GCF Board have become focused on needles, with no reference to trees, let alone the wood. Or, less metaphorically (echoing Jos Buys' intervention in Paris) that before we continue with all this detailed work there must be a discussion on the fundamental nature of the Fund, including whether it is going to be a 'fund-of-funds' with 'wholesale' or 'enhanced' access modalities, or whether it is going to be same old, same old, like all the other multilateral funds. In short, are operational funding decisions ('activity allocations', see below) to be centralised, with the Secretariat *becoming the operational centre of the Fund* (as envisaged in paragraph 7 of the Board's 2014 work plan), or are they to be devolved to accredited funding entities? (Another, related elephant in the design shop is, of course, the envisaged ultimate annual scale of operations: is it going to be hundreds of millions, billions, or tens of billions?).

The trend appears to be towards the centralised model. Thus, most of the background papers for the Business Model Framework discussion have been focused on 'best practice in other multilateral funds', leaving little or no room for the question: what if this 'best practice' is simply not good enough for achieving the GCF objectives?

This was the case for the Access Modalities paper which was designated to be *an assessment of current experience, lessons learnt, best practice, and benefits and disadvantages of access modalities including direct access through implementing entities and international access through other intermediaries, drawing from other relevant multilateral funds*. And it was equally true for the more recent Allocation paper.

Many of you will also be aware that I was quite critical with regard to the change in definition of "resource allocation" that occurred in the course of drafting this paper (for more on this, see my *On Resource Allocation Systems*). Initially, the definition referred to *indicative allocations of monies to categories that may be countries or types of activities or types of financial instruments*, in conformance to the use of the term in the context of other multilateral funding institutions (IDA, GEF, AF etc). In the final published version, however, the definition became much broader, including references to the *execution of financial instruments* and the *project cycle*, where the focus was said to be *on the design stage of the project or programme –up to the time the proposal is approved by the Board*.

It seemed curious that project cycle aspects, which are normally referred to in terms of project/programme ('activity') finance, should be subsumed under the concept of resource allocation, particularly since the background paper itself was focused almost exclusively on resource allocation in the initially adopted more narrow traditional sense. The reason only becomes apparent in the draft decision (now adopted) that came with the paper. Unlike the paper itself, the draft decision was almost exclusively about activity approvals:

*resources will be allocated … based on the ability **of a proposed activity** to promote a paradigm shift*. Accordingly the Secretariat has now been requested *to develop and present an initial process for due diligence and approval of proposals to the Board at the second meeting of 2014*.

It thus clearly looks as if the GCF will follow the traditional 'in-house' multilateral funding model. Does that exclude enhanced access? Not necessarily, but it makes it more problematic, simply because it creates an inherent potential conflict of interest for the Secretariat with regards to whether funding decisions should be kept in-house or devolved.

As the Board has not as yet had the opportunity *to consider additional modalities that further enhance direct access, including through funding entities with a view to enhancing country ownership of projects and programmes* [Paragraph 47, GCF GI], there is indeed still the possibility that the GCF will have Enhanced Direct Access through National Funding Entities.

But what about ***Enhanced International Access***, through International Funding Entities ('intermediaries') such as the UN climate change funds (LDCF, SCCF, Adaptation Fund), or other international entities providing climate finance, such as the GEF, the CIFs, or the MDBs. It would be highly regrettable, if that were ruled out. Why? For a number of reasons.

For one, it is clear that no matter how quickly the in-house capability is developed, using existing institutions will still be a much quicker way of delivering funds to where they are urgently needed. Take ordinary direct access, as practised by the Adaptation Fund. Does it really make sense to wait until the GCF has operationalised its in-house project finance procedures and its own accreditation process for National Implementing Entities in order to be able to fund direct access projects if one could do so almost immediately by simply using the Adaptation fund itself, which actually has a backlog of proposals it cannot fund (see Megan Rowling's *Cash-strapped Adaptation Fund puts climate projects on hold*)?

Another reason stems from the fact that no matter how dominant the GCF's in-house activities might become, these other institutions will continue to finance climate change. In other words, there will always be the need for *improving coherence and coordination in the delivery of climate change financing* [*Presentation by the Co-chairs of the Standing Committee on Finance at SBI38*]. While the Standing Committee has been requested to make recommendations of how this could be achieved for the operating entities of the UNFCCC financial mechanism (i.e. GEF and GCF), the only way to do so in the wider context is through the provision of funds, i.e. by accrediting these international funders as GCF funding entities.

"Paradigm shifts" are very often referred to in GCF parlance, but mostly in the context of *low-emission and climate-resilient pathways* (as in the one-page Allocation decision, where it appears no fewer than four times). However, if the GCF is to achieve its objectives, then "same old, same old" finance paradigm will also not suffice. We will need a shift away from the centralised paradigm embraced by the Mayor of Songdo (see *A Delhi Vision for the Green Climate Fund Business Model Framework*), envisaging the GCF HQ being *home to 8000 staff members from around the world*, to the decentralised devolved system of Enhanced (Direct) Access. I only hope the Board will be willing/able to tackle this long-overdue foundational discussion head-on at its next meeting in February 2014.