

Green Climate Fund

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# Modalities for Readiness and Preparatory Support

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**GCF/B.01-13/08**

26 February 2013

**Meeting of the Board**

13-15 March 2013

Berlin, Germany

Agenda item 12

### **Recommended action by the Board**

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.01-13/08 *Modalities for Readiness and Preparatory Support*;
- (b) Provides guidance on the policy matters outlined in the document; and
- (c) Adopts the decision presented in Annex I to this document.

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## Modalities for Readiness and Preparatory Support

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### I. Introduction

1. At its second meeting in Songdo, Republic of Korea, in October 2012, the Board approved the list of documents to be prepared for the first Board meeting in 2013 (GCF/B.02-12/12, annex VI). The Board requested the Interim Secretariat to prepare a document addressing the following matters regarding the modalities for readiness and preparatory support:

- (a) Priority areas for readiness and preparatory support;
- (b) Mechanisms for allocation, delivery and simplified approval process for readiness and preparatory support; and
- (c) Complementarity of modalities for readiness and preparatory support with other channels of climate finance.

2. This document explores these matters, recognizing that many decisions on the final form of Fund's support for readiness activities need to be taken in the context of decisions on the access modalities, business model framework, results framework and private sector engagement of the Fund and the role of the independent Secretariat, amongst other key considerations.

3. The Board may wish to consider the case for fast progress on readiness activities in the immediate term. Investments to this end have the potential to help the Fund strengthen its effectiveness. The Board may therefore consider whether it would wish to invite further exploration of "no regrets" options for early action on this matter prior to the full operationalization of the Fund.

### II. Readiness and preparatory support and the role of the Green Climate Fund

4. The Governing Instrument stresses that the Fund is intended to help realize a "paradigm shift" towards low carbon and climate resilient development. Support for readiness activities as part of wider efforts to deliver climate finance and mobilize investment has the potential to help the Fund achieve this goal and ensure that available finance for climate change activities is used effectively. Paragraph 40 of the Governing Instrument suggests that the Fund's readiness and preparatory support could assist developing countries, as needed, to:

- (a) Develop coordinated strategies and associated pipelines of effective interventions to be supported by climate finance, in accordance with existing national efforts such as low-emission development strategies or plans, nationally appropriate mitigation actions (NAMAs), national adaptation plans of action (NAPAs), national adaptation plans (NAPs) and other related activities (consistent with paragraph 36 of the Governing Instrument);
- (b) Improve ability to mobilize and manage finance from multiple sources and scale up effective programmes, notably by engaging the private sector (including small and medium size enterprises in developing countries and financial intermediaries);
- (c) Strengthen recipient ability to monitor and evaluate impact, consistent with the Fund's results framework, and to foster learning and ensure effectiveness (consistent with the aspiration of the Fund to support continuous learning and maximise impact). The nature of such support is contingent on agreement on the results framework for the Fund;

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- (d) Enable direct access to the Fund by supporting developing country-based institutions' fiduciary, environmental and social risk management practices to meet agreed standards (consistent with paragraphs 64 and 66 of the Governing Instrument). The form of such support is contingent on agreement on access modalities and accreditation processes for the Fund.

### III. Complementarity and lessons learned

5. A preliminary review of readiness-related finance was commissioned by the Interim Secretariat to prepare this document. The review suggests that a large number of activities are underway, involving a significant number of international institutions.<sup>1</sup> Since 2001, at least US\$ 440 million was committed to activities that are clearly linked to the objectives of climate finance readiness, through a variety of initiatives.<sup>2</sup> While it is not clear exactly how much funding is being spent in individual countries or regions, efforts appear to be concentrated in Sub-Saharan Africa, East Asia and the Pacific. Activities have also been focused on lower-middle-income countries.

#### 3.1 Lessons from existing climate funds

6. The experience of the Climate Investment Funds (CIFs) and Global Environment Facility (GEF) confirms that attention to the institutional and political context for proposed investments at the outset of developing investment strategies can help realize the "paradigm shift" the Fund seeks. Efforts to strengthen capacity and readiness are most likely to be effective if they are part of an ongoing longer-term engagement and linked to larger investments and finance. Stakeholder inclusion at the outset is helpful. A lack of focus on readiness activities can delay and reduce the effectiveness of larger-scale investments in climate change mitigation and adaptation.

7. The experience of the Least Developed Countries Fund (LDCF) shows that pipeline development needs to be strategic. Pipeline development needs to be closely linked to national climate change response strategies and priorities and owned by recipient institutions and stakeholders. Proposed projects need to have a clear strategic purpose and be accompanied by a viability strategy.

8. Readiness activities for direct access need to be placed in a broader context and take account of the strategic interaction on various components of readiness, including the development of strategies, plans and pipelines, and national implementation capacity. The Adaptation Fund experience suggests that establishing a national implementing entity (NIE) is an important step, but may not, in and of itself, ensure that finance is used effectively in line with national development objectives and priorities. Direct access needs to be pursued in the context of strengthening national institutions' capacity to programme and manage climate finance to low-emission and climate-resilient development effectively.

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<sup>1</sup> The existence of programmes on readiness-related matters, however, does not mean that these programmes have been effective or are adequate with respect to the challenges at hand.

<sup>2</sup> Many relevant initiatives may have been inadvertently excluded, particularly initiatives that were supported through bilateral channels. Furthermore, financial contributions to readiness-related initiatives could not in all cases be quantified.

## 3.2 Cross-cutting lessons

9. The following lessons emerge:
  - (a) Systems and processes (such as accreditation processes, project approval processes, monitoring and evaluation systems, fiduciary standards, etc.) need to be made as clear as possible from the outset and recipient countries' institutions need support to build and demonstrate that they meet agreed standards;
  - (b) Flexibility and sustained support are needed. Investment strategies and associated pipelines need to be country-driven, continuous, progressive and iterative. Climate investment plans and strategies are necessarily living documents that need to be revisited periodically in order to respond to inevitable (and often desirable) changes in knowledge, costs, viability, political conditions, and circumstance. One-off readiness support will not necessarily suffice to ensure necessary updates and adjustments to keep country programmes effective are made;
  - (c) A focus on building the institutional capacity at local and national levels is necessary. Many readiness-related activities supported by existing funds to date have relied (or are perceived to have relied) on external consultants, who often have weak ties to the national institutions that need to be strengthened in order to deliver on the challenges of climate change in the longer term. This requires sustained engagement over an extended period of time.

## IV. Potential principles and priorities for readiness and preparatory support

### 4.1 Principles

10. The review of completed existing activities and the experience of existing climate funds suggest that Green Climate Fund support for readiness-related activities might add the most value if it is:
  - (a) Flexible, to accommodate the diverse socio-economic and geopolitical needs and characteristics of different countries;
  - (b) Responsive to changes in circumstances and offered at appropriate scale (to national needs);
  - (c) Purposeful and collaborative, aimed at building lasting institutional capacity within recipient countries rather than relying excessively on external expertise and international institutions;
  - (d) Sustained and available on an ongoing basis (if needed);
  - (e) Integrated into core investments in mitigation and adaptation;
  - (f) Inclusive of relevant stakeholders, targeting both the public and private sectors;
  - (g) Fostering continuous improvement and learning from different approaches to readiness; and
  - (h) Delivered with transparency and accountability.
11. Support for readiness activities should avoid:
  - (i) Creating unwarranted new obstacles to accessing finance; and
  - (j) Placing unwarranted burdens on recipients.

12. Further deliberations on these principles by the Board are necessary. An early agreement on these principles would provide a useful basis for prompting greater coordination and focus in the immediate term.

## 4.2 Priorities

13. Immediate progress can be made on the following readiness activities, although the precise approach and emphasis need to be contingent on the Fund's business model framework:

- (a) Explore coordinated strategies to respond to climate change and associated pipelines for structured and viable delivery of climate finance; and
- (b) Improve the ability to mobilize and manage finance from multiple sources and scale-up effective programmes, notably by engaging the private sector.

These "no regrets" measures can proceed in a coordinated manner, consistent with national needs and priorities.

14. Progress on the following readiness activities, (a) and (b) below, is contingent on the decisions on access modalities and results framework:

- (a) Strengthen recipient ability to monitor and evaluate impact, consistent with the Fund's results framework, to foster learning and ensure effectiveness; and
- (b) Enable direct access to climate finance by enhancing fiduciary and environmental and social risk management processes to meet agreed standards.

On these matters, initial efforts (to understand needs and capacities at national level) could proceed.

## V. Mechanisms for allocation, delivery and simplified approval

15. Readiness and preparatory support will need to be structured to fit the business model of the Fund, which, as noted, remains to be agreed. Some possible approaches, drawing on the experience of existing funds, might include:

- (a) Flexible packages of readiness support could be accessible to countries. Countries could be eligible to access a maximum amount of funding for readiness activities. They might identify the matters on which readiness support is sought and provide a brief explanation of how it would be used (implementing partners) and justify what it would achieve. This might present a flexible approach to delivering support. There is, however, some risk that this might result in a less strategic orientation of readiness support activities. Furthermore, there may be some risk of duplication of efforts, as it might not prompt countries to take a holistic approach to considering needs or build on efforts that are already underway (such as NAPs, NAMAs and other relevant studies).
- (b) Readiness support could be offered to countries on the basis of identified needs, though still on a flexible basis to help address countries' specific needs. Parties interested in accessing readiness support could access some support to identify their key needs with respect to agreed objectives for readiness support and a strategy for using available Green Climate Fund readiness finance to meet identified needs. Such assessments would be structured to build on (rather than duplicate) any complementary processes (such as NAMAs and NAPs) and relevant studies or efforts, and reflect their findings and conclusions. The assessment would also identify ways in which complementary institutions and existing initiatives are supporting relevant activities. Such an approach would involve some up-front investment of time, effort and resources to take stock of efforts underway in country and key needs. Special care would need to be taken to

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- ensure that recipient country stakeholders and institutions drive the process and avoid replicating past experience of excessive reliance on external consultants. There is, nevertheless, a risk that such an approach might pose complicating burdens on recipient countries.
- (c) Link readiness support to the thematic funding windows of the Fund. Many climate finance readiness activities have been developed in the context of specific sectoral needs, with reference to adaptation and mitigation considerations. Such an approach might allow readiness activities to be more closely linked to particular programmes and approaches for which Green Climate Fund support might be sought. Related activities might also be supported through the private sector facility of the Fund.
  - (d) Create a separate readiness facility. Such a facility might support a focus on cross-cutting matters and considerations that allow effective access to and use of finance to incorporate climate change into overarching development-related spending. However, this might create challenges in ensuring that readiness efforts are directly related to the specific programmes and interventions that deliver mitigation and adaptation benefits. It is also possible to consider hybrid options that link a readiness finance facility to thematic windows.
16. As the discussions on the business model framework of the Fund progress, the Board may wish to discuss and provide guidance on the following matters to guide further work on the modalities for readiness and preparatory support:
- (a) **Modalities:** There is a strong case for both grants and technical assistance to be made available, given the suite of capacities that need to be built and the value of internationally available technical expertise and knowledge to developing such capacities;
  - (b) **Level:** The Fund's support for readiness activities is likely to be particularly needed at regional, national and sub-national levels. Regional programmes have the potential to help maximize synergies and pool capacities to make effective investments at scale. Global programmes could focus on facilitating learning;
  - (c) **Eligibility:** Experience with existing climate funds suggests that access to readiness support can be helpful in all countries, including more advanced economies. Tailored approaches are needed. There may, however, be a case to be made for giving least developed countries and small island developing States preferential access to readiness support;
  - (d) **Scale:** Early agreement on the scale of finance likely to be available for readiness-related activities may be helpful, but will only be possible in the context of wider deliberations on the scale of the Fund as a whole.

## VI. Options and next steps

17. Table 1 below outlines the schedule of decisions before the Board and its implications for making progress on the delivery of readiness and preparatory support.

**Table 1: Indicative timeline of decisions to inform the design of readiness and preparatory support by the Fund**

Work programme	Indicative schedule in 2013	Implications
Establishment of the independent Secretariat	March to September	Will clarify the terms and capacity available to support progress on readiness matters.
Access modalities	March and June	Will clarify the terms on which readiness might help countries access the Fund most effectively.
Private Sector Facility and related matters	March, June, September	Will clarify the potential for readiness activities to support effective private sector investment in countries consistent with national priorities and development needs.
Complementarity and coherence	June and September	Will clarify how readiness activities supported by the Fund might relate to complementary initiatives supported by bilateral and multilateral initiatives, and the potential for learning.
Programme and project funding cycle	September	Will clarify how readiness support might be incorporated and structured in relation to the cycle (and should be informed by thinking on how to maximize the impact of potential readiness support).
Funding approval process and criteria	September	
Fiduciary principles and standards	June and September	Will clarify the nature of the standards that implementing entities will need to meet and inform the deliberations on appropriate forms of readiness support in this regard (notably in the context of enabling direct access to the Fund).
Environmental and social safeguards	June and September	
Financial instruments and terms	June and September	Will inform the available forms of readiness support (and should be informed by deliberations on instruments necessary for readiness).
Matters relating to programming modalities	June and September	Will clarify how readiness support might be incorporated and structured in relation to the cycle (and should be informed by thinking on how to maximize the impact of potential readiness support).
Assistance for entities seeking accreditation	June and September	Central to deliberations over how to deliver readiness support for national institutions seeking direct access to the Fund.
Results management framework	June and September	Central to deliberations over how to structure readiness support to strengthen recipient ability to monitor and evaluate impact.
Monitoring	September	

18. There may be a case to be made for a short-term progress on readiness activities in the period before the Fund is fully operational. As noted, some aspects of readiness support may be able to proceed in the context of strengthening countries' ability to respond to climate change consistent with national needs and priorities on a "no regrets" basis. Furthermore, there are several parallel initiatives supporting relevant activities underway. New support for readiness activities through the CIFs has been proposed and a large number of bilateral, multilateral and independent research institutions have developed substantial knowledge and experience on relevant matters.

19. The Board may wish to consider exploring options to make short-term progress on readiness over the coming months, as such efforts may have the potential to help the Fund make a "running start" once it is operational. Options might include: convening processes to facilitate learning and coordination with complementary initiatives; further work to identify complementarities and gaps in existing efforts; the elaboration of principles and priorities for readiness finance; and potentially exploring options for fast track accreditation of entities to support readiness activities. The Interim Secretariat could be requested to elaborate possibilities to this effect for upcoming Board meetings.



## **Annex I: Draft decision of the Board**

The Board, having reviewed document GCF/B.01-13/08 *Modalities for Readiness and Preparatory Support*,

Approves the scope of further work on the modalities for readiness and preparatory support set out in Annex II of document GCF/B.01-13/08.

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## **Annex II: Scope of further work on the modalities for readiness and preparatory support**

1. March to September 2013: The Interim Secretariat will prepare a document on the modalities for readiness and preparatory support for consideration by the Board at its meeting in September 2013. In doing so, the Interim Secretariat will operate under the guidance of the Co-Chairs and take into consideration the guidance on the modalities for readiness and preparatory support provided by the Board during its meeting in March 2013, as well as the guidance provided by the Board on the Fund's access modalities, financial instruments, results management framework and project funding approval cycle. The document will lay out the detailed elements of the modalities for readiness and preparatory support.

2. Board meeting in September 2013: The Board will consider the modalities for readiness and preparatory support and approve the key policy matters relating thereto.

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