

Green Climate Fund

Detailed Programme of Work on Readiness and Preparatory Support

GCF/B.06/14

11 February 2014

Meeting of the Board

19-21 February 2014

Bali, Indonesia

Agenda item 14

Recommended action by the Board

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.06/14 *Detailed Programme of Work on Readiness and Preparatory Support*; and
- (b) Adopts the draft decision presented in Annex I to this document.

Detailed Programme of Work on Readiness and Preparatory Support

I. Introduction and linkages with other documents

1. At its October 2013 meeting, in its decision B.05/14, the Board requested the Secretariat *“...to present to the Board, at its first meeting in 2014, a detailed programme of work relating to the provision of readiness and preparatory support, with relevant timelines and resource needs...”*
2. Decision B.05/14 on the modalities for readiness and preparatory support, was taken by the Board after considering document GCF/B.05/14, including:
 - (a) Various modalities for allocation, access and delivery of readiness and preparatory support; and
 - (b) Relevant initiatives by other agencies to enhance climate-finance readiness in developing countries.
3. The decision also took account of previous Board deliberations on readiness and preparatory support.¹
4. The recommendations put forward in this document are informed by Board decisions, documents and deliberations and are intended to operationalize decision B.05/14.
5. This document should be read together with document GCF/B.06/02 *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility*, which provides a framework for documents presented to the February 2014 Board meeting.

II. General considerations

6. Readiness and preparatory support is a core function of the Secretariat. This support will be managed by the Secretariat. The support will be delivered either directly by the Secretariat's three operational divisions (led by the Country Programming Division) and/or indirectly through the Fund's partnerships with other relevant agencies. Details on delivery modalities are provided in Chapter IV.
7. Readiness and preparatory support is also a continuing function of the Secretariat. While the readiness workload will be relatively large during the initial phase of Fund operations, preparatory support will always be needed as developing countries continue to fully develop proposals and strengthen their institutions.
8. Many partner agencies have been financing or delivering support, often for many years, for climate change readiness in countries that are now also eligible for financing from the Fund. The Secretariat already has working-level contacts with many of these agencies and plans to compile and maintain a database of relevant initiatives. For the use of the Fund's own readiness resources, the Secretariat proposes giving priority to countries and activities that are not yet benefiting from support from other agencies. In cases where the Secretariat decides to engage with countries that are already supported by other agencies, it will use the available outputs of other agencies as a starting point for the Fund's readiness work programme in those countries. In line with decision B.05/14, it will also coordinate with these agencies, in order to avoid duplication of equivalent activities (identified below) undertaken by them. Taken together,

¹ Documents B.01-13/08 and B.05/14.

these measures are intended to ensure global coherence and knowledge sharing across all readiness activities. Details on delivery modalities are provided in Chapter IV.

9. In order to strengthen countries' institutions and capacity, readiness support will be delivered mainly as locally-sourced technical assistance, where such local capacity exists. The Fund will make readiness grants to countries through accredited entities. If there are not yet any accredited entities available in a particular country during the initial period, the Secretariat will directly contract service providers until it can work through an accredited entity. Given that the Secretariat will have very lean staff resources, the Secretariat will explore the most cost-effective ways of promptly providing such direct readiness support.

10. Readiness support will be available to both public and private entities. In the case of private entities, the Private Sector Advisory Group (PSAG) will advise on final modalities. Most likely, in a first phase, the newly accredited intermediaries and/or implementing entities² (IEs) (sub-national, national, regional or international) would undertake the bulk of project identification and appraisal on behalf of the Private Sector Facility (PSF). In a second phase, the PSF could provide capacity building to countries' national and sub-national intermediaries or IEs (including local financial institutions) that are not yet active in climate investment projects, so that they can become accredited with the Fund and improve the Fund's reach into the private sectors of low-income countries. In order to complement the work of the PSAG, the Secretariat proposes to set aside funding for two studies. The PSAG will be consulted closely during the processing of the studies:

- (a) How best to integrate the PSF into the readiness modalities (tentative budget: US\$ 200,000); and
- (b) How best to integrate local actors, including small-and medium-sized enterprises and national and sub-national intermediaries (referred to in the Governing Instrument), including private banks, into readiness modalities (tentative budget: US\$ 200,000).

11. At this point, the Fund is expected to be in a position to start deploying about US\$ 30 million-equivalent of readiness funding initially. While the Fund does not earmark contributions, this amount would broadly correspond to contributions provided by Germany and the Republic of Korea in 2014 to the Green Climate Fund Trust Fund. Given that this amount of funding is likely to be relatively small compared to the readiness needs of countries, the Fund will prioritize the use of these funds (as described below), and will work to deliver readiness support to countries in collaboration with other climate change partner agencies active in supporting the Fund's readiness activities. The point of contact for the Secretariat will be the national designated authorities (NDAs) or focal points, and until they are established, other relevant agencies identified by the country. As more countries provide funds to the Fund for readiness, the Secretariat can expand the scope of its activities.

III. Priority activities

12. Based on decision B.05/14, the Secretariat will be supporting four high-priority readiness activities (elaborated below). These activities are neither sequential nor mandatory, and one or more activities may take place in parallel in a given country. The Secretariat proposes providing support for any of these activities, depending on the needs of the eligible country. This country-driven flexibility is crucial to the success of the readiness support programme.

² For the remainder of the document, if reference is made to implementing entities, this also encompasses intermediaries insofar as they perform the functions of implementing entities.

3.1 Establishment of a national designated authority or focal point

13. Eligible countries are encouraged to establish an NDA that will act as an interface between the country and the Fund, and communicate the country's strategic priorities for financing low-emission and climate-resilient development across its economy. If the establishment of an NDA is not possible, the Secretariat will assist countries to identify and mandate a focal point to engage with the Fund. The Board will consider best-practice guidance for the establishment of NDAs or focal points at its February 2014 meeting (document GCF/B.06/07).

14. At its June 2013 meeting, the Board requested that eligible developing countries establish an NDA or mandate a focal point as soon as possible and prior to June 2014. Such an institution would typically have the capacity to oversee economy-wide and multi-sectoral policies and programmes. In the context of the country's sustainable development goals, this institution would also be able to effectively advance the objective of promoting a paradigm shift towards low-emission and climate-resilient development pathways with support from the Fund. Illustrative readiness and preparatory support activities may include support for in-country multi-stakeholder consultations to identify the appropriate NDA or focal point, or establishing coordination mechanisms in the country.

3.2 Strategic framework

15. Upon request, the Secretariat will assist eligible countries, along with their appointed NDA or focal point, to define and develop their strategic framework for interaction with the Fund. The initial strategic framework would comprise relevant existing policy and strategy documents, including budget and economic planning documents, nationally appropriate mitigation actions (NAMAs), national adaptation plans (NAPs) and national adaptation programmes of action (NAPAs). The NDA or focal point would provide a short overview document to explain climate change-relevant linkages between these strategy documents and how they relate to planned Fund activities.

16. The initial strategic framework is neither mandatory nor does it have to be comprehensive for a country to engage with the Fund. However, the better the strategic framework is defined, the more rapidly the country will be able to move from project-specific support to programmatic and strategic approaches of support from the Fund. In the context of strengthening country ownership, the Board will also consider best-practice guidance for coordination mechanisms and stakeholder engagement in the country.

3.3 Selection of intermediaries or implementing entities

17. For most developing countries, the objective of global climate finance architecture is to have simplified and improved access to international climate finance, including direct access through sub-national, national or regional intermediaries and IEs, to channel these resources to programmes and projects. Intermediaries may also combine or blend Fund resources with their own finance. During the initial phase, some eligible countries may choose accredited international intermediaries or IEs as interim vehicles for this purpose, while for others it may be their preferred modality for accessing the Fund's resources also in the long term.

18. The process will proceed in two steps: first, selection of a suitable entity (or entities), and then, capacity building of the selected entity. The Secretariat will assist interested eligible countries, along with their appointed NDA or focal point, to select at least one suitable intermediary or IE (whether sub-national, national, regional or international) to access the Fund's resources and carry out the necessary due diligence and oversight. Over the next few months, the Fund will be finalizing the accreditation requirements for such institutions if they

are to be accepted as an intermediary or IE of the Fund. Once the accreditation requirements have been approved by the Board, the Secretariat will then provide assistance to prepare the country's proposed sub-national, national or regional intermediary or IE for accreditation with the Fund.

3.4 Initial pipeline of programme and project proposals

19. The Board will consider the Fund's initial proposal approval process, including the criteria for programme and project funding at its May 2014 meeting (a progress report is provided as document GCF/B.06/08). In the meantime, the Secretariat will provide readiness grants to contribute to the proposal development costs of priority programmes and projects in order to get them ready to be financed. This will be done in consultation with NDAs and focal points.

20. Proposals for programmes and projects to be financed by the Fund may come from a variety of executing entities (EEs) in-country, including public sector entities, private sector firms and not-for-profit entities. Once the Fund's Board has approved financing for a particular project, the EE is the project owner that will receive the financing and manage and administer day-to-day operations. As a first step in project preparation, EEs will need to work with an accredited intermediary or IE to prepare proposals that are finance-ready. In this case, the flow of funds for readiness support (as distinct from the future financing of the project itself) would be from the Fund through the accredited entity to the service providers working with the proposed EE. As noted above, in cases where the intermediary or IE is still seeking accreditation with the Fund, the Secretariat may provide readiness grants for such proposal development by directly contracting service providers. In this case, the flow of funds for readiness support would be from the Fund directly to the service providers working with the proposed EE. Suitable "firewall" arrangements would be put in place within the Secretariat to avoid possible conflict of interest. It will be in the Fund's best interests to proceed as rapidly as possible with the accreditation of IEs, so as to minimize the demand for direct contracting of readiness support by the Secretariat.

21. The programme and project pipelines thus developed will be tracked by the Secretariat, and brought forward for funding approval once the Board approves the funding criteria of the Fund, and the resources for funding of programmes and projects are available.

IV. Delivery modalities

22. As noted above, readiness support will be delivered:

- (a) In response to requests from countries;
- (b) Under the leadership of the Secretariat's Country Programming Division;
- (c) To the extent possible through locally-sourced technical assistance (consulting services) that meets the defined criteria of the request for proposals; and
- (d) In close collaboration with climate change partner agencies active in supporting the Fund's readiness activities. In some cases, the Fund's readiness resources will be complemented/leveraged by in-kind contributions of partner agencies, for example, the self-financed costs of their staff participating in joint missions.

23. For intermediaries (sub-national, national, regional or international) that have their own funds available for co-financing, the eligibility to receive readiness grants from the Fund would be closely reviewed, since these entities would also be in a position to recover the costs of preparing and appraising Fund-related projects or programmes through their lending charges on projects that are successfully financed. Such grants, if any, would generally be reserved for national or sub-national intermediaries only, to enhance direct access.

Similarly, readiness grants would only be provided on an exceptional basis to international IEs that deliver readiness support in a developing country. Readiness support from international IEs should normally be an integral part of the national programme agreed between the international IEs and the developing country government.

24. Upon request, the Secretariat will mobilize an initial scoping mission to the country. Together with the country authorities, the team will:

- (a) Define a work programme for delivering readiness support, as needed, in any of the four priority activities listed above; and
- (b) Identify local service providers for future in-country delivery of technical assistance. Tentative Fund budget per country: one Secretariat staff; two Fund consultants; ten days in-country; total US\$ 60,000. This cost could vary significantly according to the size of the country and the likely size and timing of the country's future engagement with the Fund.

25. Upon request, the Secretariat will mobilize an NDA or focal point capacity-building support team to assist the selected NDA or focal point to prepare an initial strategic framework for the country's interaction with the Fund. Tentative Fund budget per country: one Secretariat staff (10-15 days in-country); two consultants (or a firm), locally-sourced where possible, on longer-term contract; total US\$ 100,000. Scope of work could include mapping out:

- (a) National programming exercises relating to climate change (such as NAMAs, NAPs, NAPAs and national development strategies) and identifying the gaps that need to be filled;
- (b) Existing sources of funding for climate finance, including concessional (25 per cent or more grant element on net present value terms) versus non-concessional finance, and the roles of the various institutions/ministries involved; and
- (c) The amount of new and additional concessional climate finance that may be needed to help finance the incremental costs of meeting the country's contribution to the legally binding agreement of 2015.

26. Upon request, the Secretariat will mobilize a direct access readiness team to assist the potential national intermediary or IE candidates to achieve a minimum level of preparedness to submit their requests for accreditation, including required institutional fiduciary capacity and the capacity to apply the Fund's environmental and social safeguard standards. Tentative Fund budget per country: one Secretariat staff (ten days in-country); four locally-sourced consultants (or a firm); total US\$ 150,000.

27. Upon request, the Secretariat will mobilize an initial pipeline support team to assist national intermediaries or IEs to prepare an initial pipeline of priority project/programme proposals for Fund review. Tentative budget per country: one Secretariat staff (ten days in-country); four consultants (or a firm), locally sourced where possible, on longer-term contract; total US\$ 150,000.

28. The overall allocation of the Fund's scarce readiness support funding across competing priorities needs to remain flexible and responsive to country-driven requests, as well as to periodic guidance from the Board. As part of the regular reporting to the Board, the Executive Director will report on deployment of readiness funds, both looking back and looking forward. By this means, the Board will have regular opportunities to provide guidance on the allocation criteria. During the initial period, the Secretariat will seek to maintain a broad geographic balance while, at the same time, giving priority to:

- (a) Requests that are expected to lead to early and sizeable results from future programmes and projects to be financed by the Fund;
- (b) Requests where the Fund's readiness resources can be significantly leveraged with the resources and collaboration of partner agencies; and

- (c) Requests from particularly vulnerable countries and other countries with special circumstances.

V. Recommendations

29. The Board may consider allocating the initial readiness funding of US\$ 30 million as follows:

- (a) Twenty-five per cent (US\$ 7.5 million) for initial scoping missions upon invitation by the country to take stock of the country's requests for readiness support in the four categories identified above;
- (b) Twenty-five per cent (US\$ 7.5 million) to fund the activities under categories 1-3 that emerge from scoping missions as urgent readiness priorities of the country;
- (c) Fifty per cent (US\$ 15 million) for developing initial pipelines of programme or project proposals, with an initial cap of US\$ 1.5 million for any one proposal.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.06/14 *Detailed Programme of Work on Readiness and Preparatory Support*:

- (a) Takes note of the priority activities and delivery modalities for readiness and preparatory support;
 - (b) Authorizes the Executive Director to commit and disburse available readiness and preparatory support funds for the programme of work set out in document GCF/B.06/14;
 - (c) Requests the Executive Director to report to the Board twice a year on:
 - (i) The progress of committing and disbursing available funds; and
 - (ii) The indicative programme of work going forward;
 - (d) Calls on potential contributors to provide additional resources to the Fund to enable it to scale up its programme of work on readiness and preparatory support.
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