

**Submission to the Transitional Committee for the Design of the Green Climate Fund
SUMMARY OF NATIONAL, REGIONAL AND INTERNATIONAL DEVELOPMENT AND PRIVATE
FINANCE INSTITUTIONS WORKSHOP (“JOHANNESBURG CONSULTATION”)**

Johannesburg, South Africa, 29TH 31ST August 2011

The summary contained herein aims to communicate to the Transitional Committee (TC) of the UNFCCC Green Climate Fund (GCF) the following key messages on its design and broadly, the specific role of national and regional development finance institutions (DFIs) in the international climate finance architecture. The delegates request that the TC consider these contributions as they prepare the design and operationalisation of the GCF to be presented at COP17 in Durban, South Africa. The meeting was jointly organized by the Development Bank of Southern Africa and the World Resources Institute, with the support of the French Development Agency, and the messages reflect the collective views of the participants.

1. Design the GCF as a transformative and additional climate finance mechanism, that:

- 1.1. Significantly contributes to the objective of mobilising and securing US\$100bn per year by 2020 from developed countries, by financing scaled up interventions for adaptation and mitigation actions in developing countries;
- 1.2. Requires a broadly representative and transparent strategic, management and operating structure which is accountable to a broad stakeholder base (in addition to the COP) and is able to function in an efficient and timely manner ;
- 1.3. Blends its resources with other forms of public and private capital to finance the growing and urgent demands of developing countries for adaptation and mitigation support;
- 1.4. Constitutes one component of a broader global financial system that should mobilise other forms of capital, including the private sector and the asset management industry;
- 1.5. Recognises and mobilises the full range of existing development banks and financial institutions (national, regional and international including multilateral and bilateral institutions), the private finance institutions and other financial stakeholders as national and regional implementing agents for the GCF in providing appropriate financial instruments to foster climate related investments.

2. Design the GCF to bridge the gaps in the existing climate finance architecture that

- 2.1. Integrates national development priorities with climate change interventions to ensure that relevant programming developed by governments takes into account the impacts of climate change on vulnerable communities while also seeking to catalyse support for activities and programs targeted to low carbon growth economic growth and development through country and regional led programmes;
- 2.2. Embodies an accessible, transparent and effective institutional structure and operating modalities providing for country and regional level ownership that will enable access of the funds to a wide range institutions based at the community, national and regional level ;
- 2.3. Invests in an enabling environment to support the urgent economic, social and environmental system changes required for development and business models; and
- 2.4. Reconstructs the way in which funds are accessed and facilitates direct and intermediated access through the widest possible array of financial institutions;

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- 2.5. Promotes stronger coordination among the GCF, existing financiers and implementing agencies to reduce the risk of duplication of efforts, to promote synergies and, where appropriate, complementarities.
- 3. Acknowledge the central role played by regional, national, and sub-national DFIs in their ability to:**
 - 3.1. Develop a programme and project pipeline that directly aligns national priorities and climate interventions;
 - 3.2. Mainstream the deployment of low carbon and climate resilient interventions into national priorities;
 - 3.3. Mobilise their capital to leverage public and private finance directly at programme and project level; and
 - 3.4. Demonstrate synergies and effectiveness of development and climate finance.
 - 4. Create access and support modalities to catalyse scaled up interventions at national (including sub-national) and regional level:**
 - 4.1. Shift from project based support to national and regional sectoral and programmatic approaches, and policy based interventions;
 - 4.2. Promote the setting up of representative constituencies through adequate consultation particularly in regions where individual countries may not be able to bear the cost of accessing and developing climate intervention plans;
 - 4.3. Prioritise and incentivise aggregation of projects through the promotion of programmatic responses at sub-national, national and regional level (i.e. regional programmes to build low carbon and climate resilience societies);
 - 4.4. Provide support mechanisms to develop national and regional capacity to invest in evidenced- based policies and long- term planning, programme development, resource mobilisation and project execution and monitoring;
 - 4.5. Where appropriate and needed, invest in institutional strengthening and capacity building to prepare for the flow of resources from the GCF, including feasibility and risk assessment, project development and management, measuring, reporting and verification systems, and technical transfer; and
 - 4.6. Increase the absorptive capacity of small and vulnerable countries and rural communities by targeting the long- term planning, institutional strengthening and capacity building of their domestic financial institutions and providing sufficient funding packages that can be disbursed at national but also community level.

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- 5. Ensure that the GCF includes a funding stream to help DFIs develop a suite of financial instruments to make available to public and private stakeholders to cover incremental costs of climate projects across the programme and project life cycle. In doing so, it should seek to:**
- 5.1. Ensure there are transparent terms and conditions in the disbursement and support schedule of the GCF (i.e. no hidden costs) including bearing the cost of foreign fund management to ensure that a tangible benefit flows to the project;
 - 5.2. Provide policy development financing, mainly in the form of grants, to facilitate the mainstreaming of climate change into national and regional planning frameworks, e.g. R&D for long term planning, climate policy and consequential policy developments, technical assistance, technology transfer, capacity building, institutional strengthening;
 - 5.3. Provide support for risk mitigation, sharing and absorption mechanisms, e.g. guarantees on low carbon technology performance, securing off take arrangements, infrastructure adaptation premium;
 - 5.4. Provide support for national and regional institutions to extend the duration of their capital market issuances and crowd in institutional investors; and
 - 5.5. Ensure that it can disburse financial support in local currencies to mitigate hedging costs and currency fluctuations.
- 6. Encourage Parties to support and strengthen the role of the national and regional DFIs by:**
- 6.1. Assigning the national and regional DFIs a mandate to lead the integration of climate change issues into the national development priorities and actively identify opportunities to draw upon the funds available under the GCF in a coordinated and scalable manner;
 - 6.2. Recognising DFIs as key implementing agencies of the GCF to be accredited as financial intermediaries (e.g. nodal agencies), provided an internationally agreed set of fiduciary and social and environmental criteria are met;
 - 6.3. Promoting in country and across regional co-ordination between all key national, regional and international DFI's; and
 - 6.4. Developing a monitoring and due diligence system at the national and regional DFI level to enable the necessary level of accountability that will ensure the funds are disbursed in line with the country driven priorities and that meet the accountability and reporting needs of agencies, organizations and institutions providing financial support .

(Refer Annexure 1 for illustration)

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7. **Recognise the unique ability of the national and regional DFIs to leverage the private sector at programme and project level that are mainly investing at the “bankability” phase by**
 - 7.1. Providing temporary intervention/support to the private sector financing institutions on the residual risk components of the projects, e.g. in terms of untested technologies and interventions, or at early stages of project development. Basel 3 will increase the risk capital reserving costs making climate investments more costly for project proponents;
 - 7.2. Creating a sound policy environment for climate finance products to mitigate risk and enable project development at the pre investment phase, including extending loan duration; and
 - 7.3. Encouraging the Parties to the Convention to provide policy certainty and directional clarity to the private sector of the key national and regional climate change priorities, this in turn stimulates entrepreneurial investment.

8. It is acknowledged that the GCF is presently situated within the context of complex and bureaucratic climate finance architecture. Significant rationalisation and institutional reforms are needed to improve the effectiveness, transparency and accessibility of the associated institutional mechanisms supporting climate finance.

9. It is further acknowledged that post COP17, an implementation process for the GCF would commence including the appointment of a Board. The principles that govern and guide the Board, including the representation therein should constitute part of the COP17 submission. Key issues should include promotion of merit-based recruitment that is based on strong technical competencies that is relevant to both the substantive understanding of climate change issues as well as issues of program management, financial management and other capacities needed to effectively manage a large fund. Given that the GCF is a global fund that will seek to address climate change issues at the regional, national and community level, it should also seek to ensure a wide representative base.

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Annexure 1 – Illustrative depiction of the role of nodal agencies working in partnership with government to implement integrated development and climate priorities

