

October 2014

Comments and Analysis:

Readiness and Preparatory Support Programme

Review Note for the 8th meeting of the Green Climate Fund (GCF)

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Introduction

At the 7th Board meeting in Songdo there was a deliberate concentration on the bare minimum essential requirements so that the Fund could get up and running. There is still a long list of issues that have postponed to the upcoming 8th meeting in Barbados in October 2014. One of the key issues for Least Developed Countries (LDCs) and Small Island Developing States (SIDs) is the revised program of work on readiness and preparatory support.

The following note outlines the key considerations for readiness support, and makes recommendations for more targeted and effective support for developing countries. Specific considerations for discussion in Barbados include:

- Both long and short-term readiness support is needed so that countries can develop a pipeline of viable projects in the short term, but can be assisted to climb the ‘readiness ladder’ over time.
- Readiness should address systemic issues, and keep in mind the ultimate ‘paradigm shift’ objective of the GCF.
- Monitoring and evaluation should constitute a key part of readiness support.
- Readiness has a key role to play as a precursor to private sector engagement.

In order to attract investment from the Green Climate Fund (GCF), governments in developing country must create an attractive climate that will foster investment. Readiness will help provide such an environment through reducing risks and ensuring that funding is suited to a particular country context and need. Readiness support will help increase the capacities of a country to design, plan and implement appropriate and effective climate responses, respond to GCF call for proposals, and help ensure that developing countries can create a pipeline of programmes and projects that can be supported by GCF. Developed countries must offer financial and technical support for these ‘readiness’ activities that will create appropriate conditions. Readiness includes any activity that helps move a country into a better position to attract financing for climate-friendly projects or technologies.

Overview of Progress and key decisions

Guided by priorities of the Fund's allocation framework, work of the readiness programme is already underway with US\$ 30 million in initial support¹. A readiness team has been established by the Secretariat in its Country Programming division –supported by Regional leads in Africa, Asia, Latin America and Caribbean, and Pacific Islands. The Readiness Programme is intended to support (at least) the following four priority activity areas²:

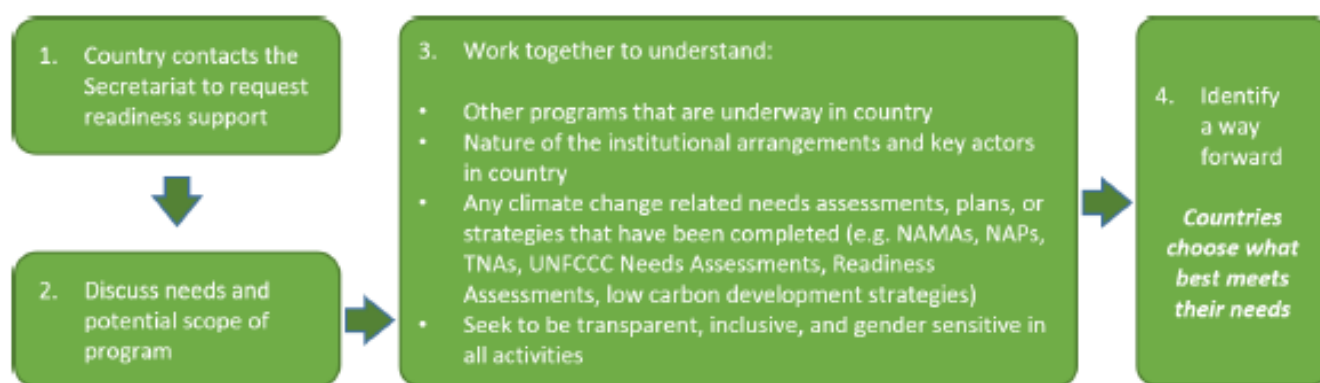
- **Selecting and establishing a National Designated Authority (NDA) or focal point** - the Secretariat is to assist countries to identify and mandate a focal point to engage with the Fund. Such an institution will typically have the capacity to oversee economy-wide, and multi-sectoral policies and programmes. In the context of the country's sustainable development goals, this institution would also be able to effectively advance the GCF's 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.
- **Creating a 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 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.
- **Selecting intermediaries or implementing entities** – During the initial phase, countries may choose accredited International intermediaries (as opposed to opting for direct access), or an Implementing Entities (IEs) as interim vehicles for this purpose, while for other countries it may be their preferred modality for accessing the Fund's resources also in the long-term. This involves two steps; i) selection of a suitable entity (or entities), followed by, ii) 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 international) to access the Fund's resources and carry out the necessary due diligence and oversight.
- **Developing an initial pipeline of programme and project proposals** – Proposals for

¹ From the governments of Korea and Germany.

² See 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

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. 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.

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 particular needs of the country seeking support. This country-driven flexibility is seen as crucial to the success of the readiness support programme. An overview of the Readiness program is offered below³:



In February 2014, the Board tasked the Secretariat with developing a delivery plan for the implementation of readiness activities, in consultation with countries and existing initiatives. At the 6th Board meeting the Secretariat was requested to elaborate a revised detailed programme of work, for consideration by the Board, which included the following⁴:

- Readiness activities to be undertaken in countries based on requests for support resulting from a consultation with countries and stakeholders;

³ Readiness and Preparatory Support Program Update, July 2014 – available at http://www.gcfund.org/fileadmin/00_customer/documents/Readiness/Readiness_Newsletter_July_2014_FINAL.pdf

⁴ Decision B.06/11, Decisions of the Board – Sixth Meeting of the Board, 19-21 February 2014, GCF/B.06/18, 17 April 2014, Meeting of the Board, 19-21 February 2014, Bali, Indonesia

- A delivery plan for the implementation of these readiness activities. The delivery plan will be developed in consultation with countries and existing initiatives. It will include a timeline and modalities for implementation;
- Options for entering into partnerships with existing initiatives, including sub-national, national, regional and international actors, in order to implement the readiness activities supported by the Fund;
- Decide that from the resources available or to be made available in the Green Climate Fund Trust Fund, the allocation of funds in the amount of US\$ 1 million to the Secretariat for the preparation of a detailed programme of work;
- The Secretariat is requested to seek transparency, complementarity, and coherence amongst existing initiatives, and to establish and maintain an information-sharing platform and dialogue and facilitate South-South exchanges;
- The Secretariat is requested to review the modalities for the delivery of readiness support once the Fund's accreditation and allocation policies are approved, with a view of ensuring consistency with the other established operational modalities of the Fund, for consideration by the Board.

Currently, 40 countries have appointed an initial National Designated Authority or a Focal Point, and several countries have designated a Focal Point as an interim measure, to at least commence dialogue with the Secretariat while NDA arrangements are being agreed. Countries who need more time to agree on an appropriate NDA arrangement may consider designating a Focal Point as an interim measure so that they can begin the process of dialogue with the Secretariat. Fourteen countries have already requested readiness support, and the Secretariat has begun working with government representatives and other stakeholders to understand their needs and opportunities⁵.

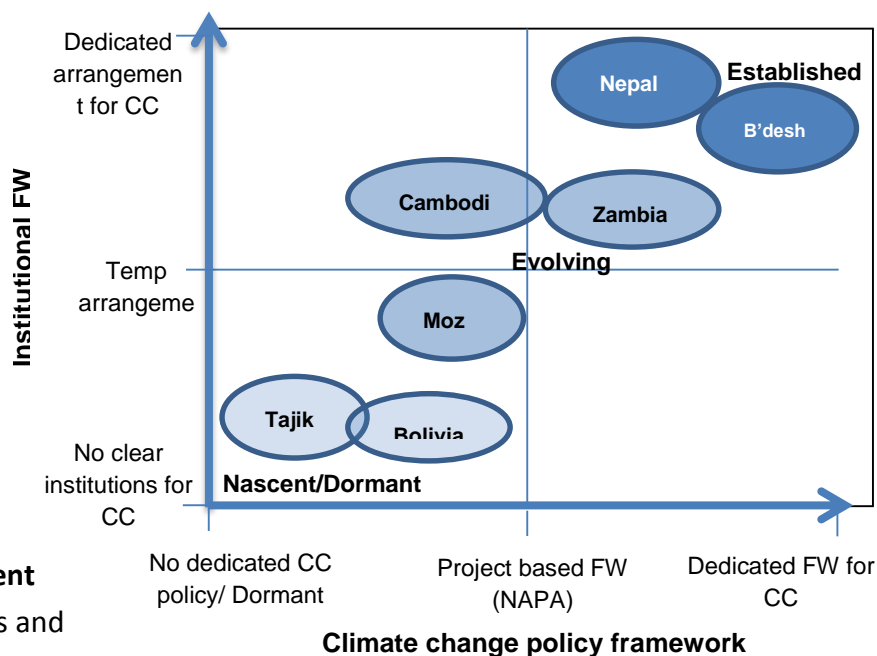
⁵ Supra Note 2

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- Readiness support can be distinguished by national readiness, private sector readiness and stakeholder readiness.

National readiness support for building resilience:

- Bespoke national readiness⁶ support will allow countries to move up the readiness ladder:** Countries would need readiness support depending on their current preparedness levels. Drawing from CIF experience, support could be provisioned across three levels of readiness, for example.



- **Nascent:** Countries with **nascent** or **dormant** policy frameworks and institutional arrangements where:
 - Climate change is not addressed beyond disaster preparedness.
 - Climate change programme may exist but with a limited mandate, and arrangements are nearly dormant.
- **Evolving:** Countries with **evolving** policy frameworks and institutional arrangements.
 - Recently moved from project based policy frameworks (E.g those resulting from NAPA) to develop programmatic or national level policy frameworks.
 - Countries in this category have recently moved from adhoc to more institutionalised arrangements.
- **Established:** Countries with **established** policy frameworks and dedicated institutions for climate change.
 - Climate resilience objectives are reflected in policy frameworks, strategies and action plans.
 - Climate resilience is beginning to be reflected across planning cycles.
 - Climate change is institutionalised within various ministries, departments and agencies.

Whilst systematic ongoing support is necessary to ensure that countries are eventually able to use the support received from the GCF in a targeted and efficient manner in order

⁶ National readiness is defined based on the nature of (a) policy and planning framework (b) institutional arrangements that exist in the country prior to the funding programme.

to promote the intended transformation. At the same time, in the short term, support must be offered to developing countries to ensure pipeline of bankable projects exist and are aligned with the investment criteria of the Fund that can be financed.

- **Monitoring and evaluation support as an integral part of readiness** – the Initial Results Management Framework (RMF) is another topic that is to be discussed at the 8th Board meeting in Barbados, and it acknowledged that the indicators in the RMF are still relatively complicated, and their measurement may present a hurdle for developing countries that lack capacity in the complex area of Monitoring & Evaluation (M&E), particularly for adaptation activities. There is therefore the opportunity to expressly integrate capacity building for monitoring and evaluation as an additional priority activity area into the process of readiness support. As noted in the Results Management Framework paper, experience from CIF monitoring and evaluation experience suggests that a large number and complex indicators can overextend the capacity of national monitoring and evaluation systems⁷. However, oversimplification is not the best response since it's equally important that core indicators measure impact. Therefore, it is important that readiness support address gaps in the capacity of national monitoring and evaluation systems⁸.

- **Common readiness challenges may take years to overcome** – there are a number of common readiness challenges that may exist in developing countries. These may include:
 - Improving coordination - enhancing the quality and flow of information between all actors and agencies that work on climate change issues.
 - National policy framework - developing policies that incentivize investment in climate-friendly sectors.
 - Capacity - training people in government, civil society and the private sector to understand and engage on climate issues.
 - Transparency - keeping track of how and where climate funding is flowing within the country.
 - Fiscal management - strengthening the financial management capacities of institutions to meet the accountability requirements of international funds.

Overcoming such challenges may take many years of sustained effort. This consideration should be factored into readiness programming, and at the same time should not prejudice against investment in full-scale projects and programs.

- **Systemic challenges should be factored into readiness support** - In tackling the above challenges, a 'paradigm shift' could be achieved, but again this is likely to take a number of years. The four priority activity areas detailed as part of the Readiness programme are

⁷ Supra Note 17, page XII

⁸ Supra Note 17, page XII

relatively narrow, and have a short-term horizon⁹. In keeping with the ultimate aim of the GCF to promote the paradigm shift towards low emission and climate-resilient development pathways, readiness support should tackle these broader issues.

- **Clearer links with accreditation process** – under the Direct Access track of the accreditation process there is an additional assessment of ‘readiness’. If a lack of capacity is identified for an entity seeking accreditation, then bespoke readiness and preparatory support will be offered by the Secretariat. However, the actual operational details of the readiness and preparatory support for accreditation that will be on offer still needs further elaboration and explicitly detailed under the Programme on Readiness and Preparatory Support. As noted in the IIED Comments and Analysis paper on Accreditation (also provided for review ahead of the 8th Board Meeting), it is important to ensure that readiness support that is offered is context specific, and that lessons from this process are recorded and integrated into future readiness support for other developing country entities seeking accreditation.

- **Thematic split of readiness support** – as part of the Investment Framework, the Fund is aiming for a 50/50 split in the allocation of funds between mitigation and adaptation. Readiness support should mirror this objective as far as possible whilst remaining country-driven, but there is currently no specific provision. This should be a consideration in the development of readiness support, as well as ensuring that priority is given to LDCs and SIDS for adaptation readiness activities.

- **Ongoing support for concept and proposal development** – initially, the Secretariat is to provide readiness grants to contribute to the proposal development costs of priority programmes and projects in order to get them ready to be financed¹⁰, but it is not clear how long this will go on for. Under the Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding (GCF/B.07/03) there is no mention of support on offer for the development of the concept note, or indeed for various steps mandated in the preparation of a proposal; namely feasibility studies, financial and economic analyses, socioeconomic and gender assessments, and a review of compliance with Performance Standard 1 of the Fund’s interim environmental and social safeguards¹¹. The Board may wish to consider how support can be offered to IEs and EEs to build their capacity to generate high quality and feasible project proposals. This could constitute an additional vital step in the Readiness program detailed above in the diagram.

⁹ Brown, L.H. & Terpstra, P., 2 messages for the Green Climate Fund on Supporting Readiness, World Resources Institute – available at <http://www.wri.org/blog/2014/02/2-messages-green-climate-fund-supporting-%E2%80%9Creadiness%E2%80%9D>

¹⁰ 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, page 4

¹¹ Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding, GCF/B.07/03, 8 May 2014, Meeting of the Board, 18-21 May 2014 Songdo, Republic of Korea, page 6

- **Readiness support or engaging with the private sector** - a clear need has been identified to engage private sector actors in scoping potential interventions¹². However, barriers remain to private sector investment. A recent Climate Investment Funds (CIF) evaluation found that capacity and awareness issues and lengthy investment plan approaches have undermined and discouraged private sector engagement¹³. Furthermore, risk aversion and limited knowledge of different funding instruments amongst funders with different risk appetite and knowledge, has also stifled CIFs appetite for risky projects. Engagement with the private sector can be viewed from two perspectives;
 1. Capacity building and awareness generation to engage with the private sector - Country preparedness is needed to better design private sector initiatives, prior to leaping into investments. There must be more clarity on what is expected from the private sector. There is no 'one-size-fits-all' solution, as different countries will have vastly different regulatory environments and levels of private sector development, and these factors should be included in readiness support that is offered¹⁴.
 2. Training the private sector to understand and engage with climate change issues¹⁵- the business agenda is not about climate change; if it is not related to pure economics there is unlikely to be investments. Training is required for the private sector particularly SMEs so that climate-related investment makes business sense and allows 'first movers' to develop a valuable competitive edge through capitalizing on climate-related projects. There are several existing opportunities that businesses can invest in and learn from¹⁶.

Readiness support must include the entire spectrum of stakeholders – IIED has undertaken a status review of the Pilot Programme for Climate Resilience (PPCR) operations across a number of countries¹⁷. A key lesson that can be extracted is that often prioritisation decisions are indeed country-led, but were predominantly steered by some key ministries, and Multilateral Development Banks (MDBs) that prioritised investments in alignment with the line ministries and MDBs existing pipeline areas. It is therefore essential that alternative proposals from a range of different ministries, as well as civil society be taken on board. Their capacity to develop project proposals must be developed. Readiness support must be available for each of these actors to help ensure that GCF financed programmes and projects are more than just business as usual; sub-national entities, civil society and other ministries should be encouraged to prepare proposals through readiness support.

¹² Supra Note 2

¹³ ICF International. 2014. Independent Evaluation of the Climate Investment Funds. Washington, DC: World Bank, page 48

¹⁴ Rai, N. et al., What can the Green Climate Fund learn from SREP's role in engaging the private sector? IIED Briefing, March 2014

¹⁵ See Brown L. H. & Terpstra, P., 2 Messages for the Green climate Fund on Supporting Readiness, WRI Blog – available at <http://www.wri.org/blog/2014/02/2-messages-green-climate-fund-supporting-%E2%80%9Creadiness%E2%80%9D>

¹⁶ Supra note 8

¹⁷ Full reports available from the IIED website - <http://pubs.iied.org/search.php?a=Neha%20Rai>