

## **Inside the Green Climate Fund**

We were privileged at the EFG meeting on 21 November to hear from Peter Carter, who chairs a panel of experts reporting to the Board of the United Nations Green Climate Fund. This was set up by the Cancun COP in 2011 to 'make a significant and ambitious contribution to the global efforts to combat climate change'. A kind of hybrid between a bank and a development agency, it started operations in 2015. It was intended to promote a 'paradigm shift', taking risks and using innovation to achieve the goal of a less than 2° rise in the global temperature above pre-industrial levels. It is generally acknowledged that this target is unlikely to be met. The GCF's remit includes mitigation, adaptation and poverty alleviation and in particular it aims to encourage developing countries to make ambitious efforts in such areas as renewable energy, resilient ecosystems and sustainable forestry. Its main guiding principles are gender equality, transparency with regard to how the money is used, and that projects should be in line with the national needs of the country where they are based.

It is still very small in financial terms. Its \$10 billion seed capital represents about 3% of overall climate finance. And about 90% of climate finance generally is spent on mitigation, that is helping people deal with the effects of climate change, which means that only 10% is used to reduce greenhouse gas emissions. There are some private investors in the GCF but it is mostly publicly funded, including by Luxembourg taxpayers, who make the greatest per capita contribution at €95 per head. Other major contributing countries are the USA, Japan, UK, France and Germany.

Unlike, for instance, the European Investment Bank, there are two separate stages in its operations. Firstly, entities that want to propose projects have to be accredited. Due diligence has to be done on these entities, which can be government ministries, financial institutions, NGOs, private companies, etc. and this is done by the 6-member Accreditation Panel, chaired by Peter. Accreditation is a tough and lengthy process: the Panel has to be sure that the entity complies with a raft of international standards, not only with regard to financial practices but also social and environmental responsibility, gender mainstreaming, etc. It takes about 6-12 months; applicants tend not to be turned down outright, but often they are asked to supply more details about their operations or change their practices. For instance, entities with interests in coal mining would be excluded, so an entity applying for accreditation might need to divest from its coal interests. It is also important to ensure that the money from the Fund will actually help the aims of the project, rather than, for instance, increasing the salaries of the entity's staff. So far the panel has accredited 40 entities, including the EIB; 80 are in the pipeline and another 80 have shown interest. Accreditation lasts for five years and then has to be renewed. One current problem is that the process tends to favour large rather than small entities, although small entities in developing countries would gain a lot from GCF support.

Once an entity has been accredited, it can go on to the second stage of the process, proposing projects for funding. A separate panel looks at various criteria for the projects, such as paradigm shift, positive impact on climate change, sustainable development, whether it fulfils a need in that country, and viability, though there is at present no criterion for additionality. So each project will have been screened in different ways by two different panels, and once a project is up and running there is every reason to expect that it will be well managed and effective.

Projects vary in size; about 20 have so far been approved. Two examples: an EIB project helping small farmers in Madagascar to increase their resilience to climate change; and a Luxembourg-sponsored project on better management of wetlands and forests in Peru, which will entrust indigenous communities with the management of resources, improve their livelihoods, and empower women in the decision-making processes. No project is yet sufficiently advanced for an evaluation of whether it has fulfilled its remit.

Given the urgent need to tackle climate change, there has been pressure to get the GCF up and running as quickly as possible, a process described as 'like a new plane having its engine bolted on in mid-flight'. The two-stage way in which it operates might seem unduly cumbersome, but the hope is that it will speed up once a large number of entities have been accredited and their projects can be approved more quickly.

It is too early to tell whether the GCF is succeeding in what it was set up to do, but Peter is optimistic. Another issue is whether the GCF, among the many other banks and agencies working in this field, adds anything significant. Peter thought that it does, because being a UN agency its approach is less top-down and more flexible, and it carries more weight in developing countries. If its activities can be scaled up it would make a significant contribution.

Many of those present were eager to hear Peter's take on the likely impact of Donald Trump's election. Unsurprisingly, this was not optimistic: the US is likely to cut funding to the GCF, and also to send less talented people to work with it than those currently in post. The only possible positive is if there is a boost to US private sector technology enterprises. In addition, carbon emissions from the US will increase if coal-fired power stations are allowed to resume operations, though some felt this would not be a major factor since renewable energy costs are coming down all the time and coal is likely to be uncompetitive.