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Opportunities for the Green Climate Fund in 2015

By Pete Ogden and Gwynne Taraska March 23, 2015

The Green Climate Fund, or GCF, is an important new multilateral tool for investing in projects in developing countries that reduce their greenhouse gas emissions and enhance their ability to adapt to a changing climate. Its broader mission is to create a paradigm shift in development, so that economic growth is both climate resilient and decoupled from dependence on fossil fuels.[1]

As recently as last year, however, the GCF was almost nothing except unrealized potential. It lacked the resources—or even any firm expectation of resources—necessary to begin delivering on its core mission.

Things look quite different as the board of the GCF officially convenes for the first time in 2015: More than 30 countries—both developed and developing—have made pledges to the fund that total more than $10 billion over the next few years.[2] The United States accounts for $3 billion of this total. (see Table 1)

Now is the time to take the next steps. Countries must begin to deliver on their promised contributions, and the GCF must start to showcase its capacity to serve as an essential new tool for the mobilization and delivery of climate finance for years to come.

2015: Time for countries to start delivering

President Barack Obama made an important first move in February 2015, when he requested $500 million for the GCF in his fiscal year 2016 budget.[3] This would constitute an initial installment toward the full $3 billion pledge. It is now Congress' turn to appropriate funding. The United States has a legacy of bipartisan support for multilateral climate finance, and now is no time to reverse course. In 2008, for example, the George W. Bush administration led efforts to launch a forerunner to the GCF—the multilateral Clean Investment Funds, or CIF—which the United States has consistently funded regardless of which party occupied the White House or had a majority in Congress.[4] The United States has also consistently funded the Global Environment Facility, or GEF—which was established in 1991 to work on climate and other environmental issues—over six renewal periods.[5]

Only when the United States and other countries start to provide these resources at the necessary levels can the GCF begin to make its mark on curbing greenhouse gas emissions; spurring sustainable economic development; creating new opportunities for private-sector investment in clean energy, energy efficiency, and adaptation measures; and helping ensure that the impacts of climate change do not erase hard-won development gains.

Opportunities for the GCF to begin to fulfill its potential

As countries begin to follow through with their pledges this year, the Green Climate Fund must also do its part.

Specifically, it can and should begin to lay the groundwork for two of its most distinctive and important features: its emphasis on financing adaptation and its goal of harnessing the private sector.

First, the GCF is dedicated to addressing the increasing shortfall in adaptation finance due to the growing frequency and severity of climate-fueled weather events.[6] The fund aims to raise support for adaptation to meet its support for mitigation over time, and it will channel at least half of its adaptation funding to countries that are particularly

TABLE 1

Pledges to the Green Climate Fund through 2014 (in millions)

Country	Pledge	Country	Pledge	Country	Pledge
United States	$3,000	Netherlands	$125	Czech Republic	$4.5
Japan	$1,312	Korea	$100	New Zealand	$3
United Kingdom	$1,126	Finland	$100	Panama	$1
France	$971	Switzerland	$100	Latvia	$0.47
Germany	$940	Denmark	$72	Monaco	$0.4
Sweden	$550	Belgium	$64	Chile	$0.3
Italy	$313	Austria	$25	Indonesia	$0.25
Canada	$265	Mexico	$10	Poland	$0.11
Norway	$258	Luxembourg	$6.3	Liechtenstein	$0.06
Australia	$166	Peru	$6	Mongolia	$0.05
Spain	$150	Colombia	$6		

Note: Total varies from the GCF estimate, which is nearing $10.2 billion (see the Austria source below), due to fluctuations in exchange rates.

Sources: Austria: Green Climate Fund, "Total Pledges Nearing USD 10.2 Billion," Press release, December 11, 2014, available at http://news.gcfund.org/wp-content/uploads/2014/12/release_GCF_2014_12_10_austria_pledge.pdf; Norway: Green Climate Fund, "Green Climate Fund Nears US$ 10 Billion Following Norway Pledge," Press release, December 5, 2014, available at http://news.gcfund.org/wp-content/uploads/2014/12/release_GCF_2014_12_05_norway_pledge.pdf; Spain: Green Climate Fund, "Spain Announces Contribution to Green Climate Fund," Press release, November 28, 2014, available at http://www.gcfund.org/fileadmin/00_customer/documents/Press/GCF_Press_Release_2014_11_28_Spain_pledge.pdf; Sweden: Green Climate Fund, "Sweden Increases Level of Ambition for Climate Change Action," October 23, 2014, available at http://news.gcfund.org/swedish-contribution/; Latvia, Chile, Poland, Liechtenstein: Green Climate Fund, "Outcome of the First GCF Pledging Conference and Pledges as of December 31, 2014" (2015), available at http://www.gcfund.org/fileadmin/00_customer/documents/In_between/Inf.01_Rev.01_-_Outcome_of_the_First_GCF_Pledging_Conference_20150218_fin.pdf; All others: Liane Schalatek, Smita Nakhooda, and Charlene Watson, "Climate Finance Fundamentals 11: The Green Climate Fund" (Washington: Heinrich Böll Stiftung North America, 2014), available at http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9376.pdf.

vulnerable, including African states; the least developed countries, or LDCs; and small-island developing states.[7] Cyclone Pam, which devastated the Pacific island country of Vanuatu on March 16, demonstrated the urgent need to scale up resilience funding for vulnerable regions.[8]

Second, a core part of the GCF is its private-sector facility, which will work to leverage private investment. This is necessary if the GCF is to reach the funding level required to cause a paradigm shift in development. The private sector has already shown interest in funding climate efforts: It accounted for 58 percent of global climate finance in 2013.[9] In addition, other multilateral funds, such as the GEF, have shown initial success in engaging the private sector. The GEF facilitated $5.65 billion in private investment over its past two renewal periods—GEF-4 and GEF-5. The Green Climate Fund has the institutional structure to improve on this preliminary success.[10]

The GCF can demonstrate that it is beginning to fulfill its potential as an effective and essential tool to facilitate low-carbon and climate-resilient development by taking the steps outlined in the following three sections.

1. Commit to a suite of projects that demonstrates the GCF's unique features and breadth of capacity

The GCF should commit to an inaugural set of projects in 2015. While only a fraction of the $10 billion pledged over multiple years will become available this year, the fund should aim to select a set of projects that showcases its versatility and unique attributes. It can do this by:

- **Investing in a mitigation project in a developing region that does not result in an isolated improvement but instead instigates a step change toward a clean economy:** A singular strategy of the GCF is to identify the critical funding gaps that may be relatively small but will have a ripple effect when filled.

- **Investing in adaptation in a low-income region that is particularly vulnerable to climate change impacts:** Again, the project should not be an isolated improvement but rather a catalyst for a shift in the region's resilience level.

- **Attracting significant private-sector investment:** This is necessary to show that the GCF can mobilize the funding level needed to implement similar projects on a global scale.

Such an initial set of projects would demonstrate that it is possible to decouple development from rising emissions; to make strides in resilience in the least developed countries; and to achieve these aims at scale. It would also establish the GCF as an essential tool for realizing these possibilities.

2. Demonstrate that the GCF has a sustained ability to identify and fund projects with transformational potential

Even if fully funded, the GCF cannot and should not aim to support every project that comes its way. Rather, it should discriminate between projects that would advance its mission and projects—however worthy—that would be better addressed by other forms of bilateral and multilateral support. To do this, the fund will need to complete its investment framework, which contains the criteria by which it will assess proposals. The broad criteria of the framework are already developed and include the potential for impact and the vulnerability of the recipient country, among others. However, the board of the GCF will need to decide on more fine-grained factors in order to enable the fund to consistently determine which projects are most likely to contribute to a step change in clean and resilient development. The board is currently considering a proposed set of these factors. For example, a subcriterion of the vulnerability of the recipient country could be the vulnerability of particular groups within it, such as children or minorities.[11]

In addition, the fund will need to accredit an initial set of entities—regional, subnational, national, or international—to present submissions to the GCF and to channel funds to specific projects. Ensuring that a significant percentage of accredited entities are subnational, national, or regional will help ensure that the GCF is receiving proposals that take into account the needs of a specific area and identify the funding gaps that, when filled, can unlock further progress. To date, the GCF's accreditation panel has recommended seven applications to the board, four of which are from national or regional entities.[12] This constitutes a progressive departure from the CIF, which disbursed funds exclusively through multilateral development banks.[13] Although the GCF is expanding the pool of entities that will serve as intermediaries, it requires that entities meet strict environmental, social, and fiduciary criteria for accreditation.[14]

3. Build out the private-sector facility

Through 2015 and 2016, the GCF will need to build out its private-sector facility. The GCF board has before it a set of proposed methods for increasing private investment in the GCF and its projects. These include targeting commercial banks and private wealth; offering a range of products, such as bonds; and pursuing new techniques such as crowdfunding.[15]

In the future, the GCF will need to leverage private finance not only for clean energy projects, but also for adaptation projects in order to reach its goal of increasing adaptation funding over time to equal the scale of its mitigation funding.[16] Although there is little data on the amount of private investment in adaptation, there is an enormous market for clean energy goods and services that can be—and is being—leveraged through targeted public support. For instance, the U.S. Overseas Private Investment Corporation, or OPIC, has had success in recent years scaling up support for U.S. clean energy projects and investments overseas, reaching $1.2 billion in 2013.[17]

Figuring out how to attract private investment in adaptation is a key challenge, but innovative answers are beginning to emerge. For instance, insurance companies are partnering with publicly funded entities such as the Global Facility for Disaster Reduction and Recovery to provide catastrophe insurance to vulnerable Pacific island countries.[18] Going forward, cellular phone companies might invest in the installation of networks that can facilitate early warnings of extreme weather events.[19] Agribusiness, for its part, could invest in training programs for farmers on techniques to avoid climate-induced yield reductions.[20]

Whether it is used for mitigation or adaptation, the fund's mobilization of private investment is good for businesses globally. It will help open new markets, as both the GCF and its private-sector facility aim to implement projects in the least developed countries and across a diversity of regions to ensure that development gains are not confined to a small set of middle-income countries. It is also worth noting that past projects of other multilateral funds have presented companies with export opportunities. Amerisolar, Clipper Windpower, AECOM, SunEdison, and Johnson Controls, for example, have supplied technology, equipment, and services for projects spearheaded by the CIF.

Conclusion

This year will be a formative one for the Green Climate Fund. Over the coming months, the fund could start to transform from a promising idea—with promised support from many countries—into a lasting and effective tool for international climate finance. But this will happen only if countries follow through on their pledges and the GCF begins to deliver on its principles.

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