Can the Green Climate Fund change the game on climate finance?

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MORE ON CLIMATE FINANCE

U.S. one dollar bills blow near the Andalusian capital of Seville in this photo illustration taken on November 16, 2014. REUTERS/Marcelo Del Pozo

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Governments are gathering in Berlin today to confirm the details of their support to a major new United Nations fund for financing climate responses in developing countries.

Capitalization of the Green Climate Fund (GCF) is essential to building confidence in the U.N. Framework Convention on Climate Change (UNFCCC) process, and efforts to agree an ambitious global agreement on increased action on climate change.

The GCF has been in incubation for the last four years. A target of $10 billion was proposed by UNFCCC Executive Secretary Christiana Figueres in May 2014. Developing countries in the G77 for their part have proposed a target of $15 billion.

But many have worried that the GCF would end up just another one of the many funds that the UNFCCC process creates that never raise much money, and therefore struggle to tackle the problem they were created to solve.

There are signs, however, that the GCF could be well placed to overcome at least some of the challenges faced by past funds.

A STEP FORWARD

The significant pledges to the GCF that began over the past months are therefore hugely encouraging, on several levels.

At its seventh Board Meeting in Songdo, the GCF Board was able to reach agreement on the eight essential decisions required to begin the process of mobilising resources for its operationalization.

The ODI and Heinrich Boell Foundation Climate Finance Fundamental on the GCF outlines key developments in designing the Fund over the past year, and its priorities and objectives.

First, the pledges that have been indicated are substantial: by the 17th of November the tally stood at about $8.5 billion, though exact amounts, terms and conditions remain to be specified at Thursday's pledging meeting in Berlin.

These pledges make the GCF the largest multilateral climate fund to be launched. The World Bank administered Climate Investment Funds (CIF) were launched with $6.1 billion in hand (though it now manages more than $9 billion).

GCF pledges are directly linked to commitments made under the UNFCCC to mobilise finance. The GCF will have more than eight times as much funding as other financial mechanisms of the Convention: the Global Environment Facility's climate change focal area received $1.26 billion for its sixth replenishment, for example.

Countries largely see the GCF as a new channel for their climate related spending, but the extent to which these represent new commitments of funding varies.

The German contribution was specifically budgeted for, and German government representatives have specified that it is additional to wider climate related spending. While the UK has yet to officially indicate its pledge, media reports suggest it will be on the order of $1 billion. This represents a significant share of allocated climate spending through its £3.6 billion ($5.6 billion) International Climate Fund.

In the case of the U.S., pledges will need to be appropriated by legislators (which may be a difficult process). Most countries are likely to count their contributions towards official development assistance and development finance budgets.

The indicated pledges send a much-needed positive signal of commitment to global action on climate change, and confidence in the GCF. But there are crucial details to be clarified.

The GCF can accept loans and grants. It is likely that some of the pledges will include loan contributions, but their exact form and terms will only become clear after this week's meetings.

The type of money it raises will affect the type of finance it can offer recipients: the GCF will offer both grants and loans. The levels of concessionality remain to be agreed by the Board.

RIGHT INVESTMENT, RIGHT PLACE

The major challenge for the GCF will be to make the right investments in the right places; to do this it will need to be able to take the right risks.

The GCF needs to support a portfolio of investments that makes a material difference to low emission and climate-resilient development in recipient countries. To succeed, the GCF will have to establish itself as relevant to the mainstream investment priorities of developing countries.

The Fund has the potential to support developing country based investors in infrastructure and other climate relevant sectors' low emission and climate resilient approaches.

Developing countries have also recognised the need to collaborate and learn from each other in responding to climate change, including through south-south cooperation.

While cooperation on action on climate change is growing, it is often dominated by activities that exacerbate rather than combat climate change. For example, China recently established a $5 billion fossil fuel fund with Mexico.

GCF finance has the potential to help support south-south investment programs prioritise low emission and resilience enhancing approaches instead.

Another major challenge will be to find new and more effective approaches to engage diverse private sector actors.

There is a risk, however, that high pressure to commit funding quickly may result in compromises on the quality of investments. The actual disbursement of funding to programmes can be even more complex, particularly if they are not well designed to fit country need and context from the outset.

As the GCF gets to work, an ambitious vision for the impact of funded programs will need to be realised through its portfolio. This takes work up front to engage the right stakeholders and identify the right investments, as well as at the point of oversight when programs come to the Board for final approval.

Many of these issues are explored in a forthcoming ODI report that takes stock of the effectiveness of existing climate funds.

LOOKING FORWARD

The capitalization of the GCF could reduce tensions in the UNFCCC negotiations, and shift attention to where they should be: on action to mitigate and adapt to climate change.

But operationally, the difficult part begins after this week's pledging meeting. Contributors will need to keep their promises by depositing pledges. Experience from past funds suggests that it can be a slow process to turn pledges into actual deposits to funds. And the Fund will need to realise its potential to be a more effective climate fund than those that have preceded it.