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LDCF Business Model

Q&A

Discussion Note[1]

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Contents

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Introduction

This Note is based on conversations with some key stakeholders and is aimed at clarifying the ideas that were behind both: paragraph 8 of the 2015 Guidance to the Global Environment Facility GEF (Decision 8/CP.21) requesting a technical review of two activity proposals, in relation to the idea of the LDCF adopting a 'capacitator' programme priority; and the follow-on 2016 draft Guidance to the GEF on Matters relating to the LDCF, as submitted to the COP by the Standing Committee on Finance.

1. What problem?

What is the problem that the LDCF capacitator programme priority is meant to address? In the discussion of the informal Working Group on the future of the LDCF (convened by the LDC Group Chair in July 2015[3]) it was abundantly clear that what has been termed 'absorptive capacity' for climate finance – and, to be more precise, the lack of in-country (institutional) capacity to support the formulation of viable project proposals – is a serious problem for LDCs. This problem has been around for some time and is not solvable by flying in outside consultants on a project-by-project basis.

What is the evidence for this? There is, for one, the opinion of the LDC Working Group, as well as the survey of LDCF GEF focal points carried out by the GEF Secretariat in the course of carrying out the technical review requested by COP 21 (see below).

It would, no doubt, be good to underpin this expert opinion with further quantitative evidence, but I believe the strength of the consensus on the gravity of the issue should suffice to ensure that the problem is taken seriously and not brushed under the carpet. Moreover, lack of 'absorptive capacity' is of course as much a problem for donors/contributors as it is for eligible recipients. So, let us for the sake of argument assume the problem exists and, as such, is not new.

2. What solution?

What exactly would it take to solve the 'domestic institutional capacity gap' in question?

2015 GEF Guidance.

The LDC Working Group put forward two activities to address this issue, namely:

(a) piloting concrete climate change activities particularly relevant for LDCs;
(b) enhancing longer-term institutional capacity to design and execute such activities.

The LDC Group representatives on the Standing Committee subsequently introduced a request for a Technical Review of the programme priorities of the LDCF, with a focus on (a) and (b), which was adopted by the COP in Paris as part of the 2015 Guidance to the GEF.[4]

This was carried out by the GEF Secretariat in the first half of 2016, with a view to *inform the LDCF/SCCF Council and the COP in their deliberations on the future role of the LDCF*.[5] Although it was originally referred to as pertaining to agenda item 5 of the 20th LDCF/SCCF Council Meeting in early June 2016, it never actually made it on the agenda. It was published on 15 August as an

[3] Faced with the perennial dearth of funding, the Chair of the LDC Group in the UNFCCC convened a Working Group on the future of the LDCF which comprised LDC Group members and representatives from the GEF Secretariat, UNDP, and civil society. The Group discussed a number of issues, among them the role of the LDCF in the new financial architecture (with the GCF) and its attractiveness to funders.
[4] Paragraph 8 Decision 8/CP.21.
[5] Technical Review, Executive Summary, p.i.

Addendum to the Report of the GEF to COP 22 in Marrakech,[6] without prior deliberation by the LDCF Council.[7]

In the course of preparing the Technical Review, the GEF Secretariat carried out *informal consultations, as well as a survey of GEF Operational Focal Points, UNFCCC Focal Points and other key stakeholders in LDCs*. One of the aims of this survey was to gauge the importance given to (a) and (b) as prospective LDCF programme priorities. The Review reports that 19 of 26 respondents (73 per cent) rated (a) as being extremely relevant; whereas 11 per cent ranked it as the top priority.[8] As for (b), 21 out of 26 respondents (81 per cent) rated it as being extremely relevant, and a third of respondents ranked it as the highest priority.[9]

Despite this, the conclusion of the Technical Review with regard to (a) and (b) was merely that, due to an alleged lack of clarity in the terminology used in the Guidance,[10] "*there may be a need for the COP to define these key terms.*"[11]

2016 Draft GEF Guidance

In response, the LDC Group Chair met the LDC SCF member and other stakeholders in the margins of the 2016 ecbi Oxford Fellowships and Seminar (September 2016), and started to put together new draft guidance to be submitted to the SCF, in the hope that it would be clear enough to be acted upon. The LDC Group proposal was included in the SCF draft Guidance in the following terms:

"*Requests* the Global Environment Facility, taking into account the conclusion of the technical review of the program priorities of the LDCF[12] and in accordance with decision 5/CP.7, paragraph 11 (a) and decision 2/CP.7, paragraph 17 (a), to add an additional programming priority for the LDCF to strengthen institutional capacity of the national climate change secretariats or focal points of the least developed country Parties, for supporting local project developers, inter alia:

(a) in identifying potential funding sources, both national and international and;
(b) by providing support and advice in formulating project proposals and documentations."

3. What about avoiding duplication?

There is no doubt that avoiding duplication – or to be more precise, avoiding ***unnecessary*** duplication – is generally desirable. Yet there can be reasons for duplication, not least if demand is not satisfied (and if one thinks an element of competition might be useful). In any case, it is useful to take stock of other initiatives that might already be doing this. What springs to mind, in particular, is the recently established GCF ***Project Preparation Facility*** (PPF). Is the additional programme priority requested in the SCF draft Guidance to the GEF not already envisaged in the Operational Guidelines (OG) of the PPF?

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[6] GEF Secretariat, "Technical Review of the Program Priorities of the Least Developed Countries Fund", Addendum to the Report of the Global Environment Facility to COP 22, 15 August 2015.
[7] At the time of writing, it was also not on the agenda of the October 2016 LDCF Council meeting (See Annotated Provisional Agenda).
[8] Technical Review, p. 17.
[9] Technical Review, p.19.
[10] *"What is not clear…, is what is intended by "concrete" and "climate change activities"*[p.17]. *"The concept of 'longer term capacity' is not defined in COP guidance"*[p.18].
[11] Technical Review, p.17.
[12] FCCC/CP/2016/6/Add.1.

As it happens, according to the latest OG (relevant language annexed below) the focus of the PPF is on the provision of "resources to prepare studies" [OG para. 4.b] – such as pre-feasibility and feasibility studies; environmental and social, gender studies; risk assessments, etc. [OG, paras. 16.a - c] – to GCF Accredited Entities. Moreover, the OG suggest that the PPF should focus on the preparation of small and medium-sized activities [para. 3], i.e. projects and programmes of between $10m and $250m. In most cases, this is far greater than the size of projects envisaged as being supported by the LDC Climate Secretariats under the LDCF capacitator scheme.

Of course, if there is no in-country capacity to carry out these studies, then the PPF will have to rely on international experts, which is probably why the GCF Secretariat offers to "assist accredited entities in procuring qualified expertise" [OG, para. 12]. (If there is in-country expertise, then it stands to reason that NDAs would be in a better position to provide this assistance than the GCF Secretariat.)

So, how does all this compare to the idea of a 'capacitator' programme priority as outlined in the draft 2016 GEF Guidance? It seems to me that there is very little overlap at all. For one, what the draft Guidance proposes is ***not*** another facility designed to prepare projects for a particular funding source, but a specialized, tailor-made facility for enhancing ***in-country institutional capacity*** to support local project developers in identifying potential funding sources, and for supporting the formulation of project proposals and associated documentation, once a potential source is identified.

In short there is no duplication between the proposed LDCF capacitator programme priority and the traditional idea of a fund-specific project preparation facility, as exemplified in the GCF PPF.

4. What Business Model?

Who should be providing this solution and how? In the early days of the GCF – between September 2012 and September 2013 (GCFB.2 – GCFB. 5) – there was a lot of debate on the GCF "Business model framework". Although the notion was not uncontested and was seen by some as being too close to private sector language, I believe it can in, some cases, be useful to look at private sector practices when discussing architectural options for multilateral climate funding. In the context of who should carry out the said LDC capacitator function and how, two 'bread-and-butter' business model distinctions are particularly useful, namely: ***wholesale*** vs ***retail***, and ***in-house*** vs ***outsourcing***.

Should it be the GCF? Following the vision of Nick Dyer (former UK GCF Board member), I believe for a number of reasons that in the longer term the GCF should be a purely wholesale organization, outsourcing the management of any micro (and nano) projects to specialized retail outlets. Such outsourcing would preferably take place at the country level through Enhanced Direct Access and, where this is not possible, through multilateral retail outlets, such as the Adaptation Fund in the case of international access to micro/nano adaptation projects. In short, I do not think that turning the GCF into a Megastore retailer working out of Songdo is a viable option.

Public sector stakeholders sometimes give the impression that outsourcing is to be avoided in principle, because it is thought to amount to nothing but the introduction of 'another layer of bureaucracy' that just adds additional overheads/transaction costs. There is no doubt that this can happen, and that it should be avoided. But it is not inevitable: otherwise why would the private sector engage in it? It is simply a matter of inefficient (i.e. bad) outsourcing. Outsourcing can, (particularly when this relates to outsourcing into recipient countries) not only increase the effectiveness and efficiency of the business, it may be the only way forward for the business to reach the desired scale. (NB: outsourcing is also ***not*** tantamount to fragmentation!)

This is why I do ***not*** think the GCF should be hosting the LDC capacitator facility. But why should it be carried out by the LDCF? Well, for one it is the one fund that was created specifically to serve LDCs, and has the buy-in of the LDC Group. Trying to abolish it without their consent would, I believe, be politically unwise. Much better to find a purpose which both they and (sufficiently many) contributors can buy into. The second reason is, of course, that the GEF itself has just been charged with a major Capacity-building Initiative for Transparency (CBIT), which could lead to fruitful synergies with the LDCF as LDC capacitator fund/facility.

Annex: Operational guidelines for the GCF Project Preparation Facility

1.2 Lessons learned from existing project preparation facilities

2. PPFs are evolving in a fragmented landscape and few of them are dedicated to climate finance. Their total amount is limited compared to the demand and only a fraction is targeted to climate-related projects.

3. In addition, existing PPFs are either for large or micro projects. As evidenced in Annex 1, the project preparation facilities of multilateral development banks (MDBs) are primarily targeted at large-scale infrastructure projects while climate funds provide financing mainly to micro activities. As such, countries struggle to find financing for the development of climate related projects, in particular small- and medium-size projects.

4. The review of various reports highlight the fact that PPFs have faced some challenges in achieving their desired impacts.

(a) Lack of country ownership has sometimes hindered the development of projects, especially in the area of public–private partnerships;
(b) Providing resources to prepare studies may not be sufficient if other obstacles are not addressed, including the enabling environment and efficiency of procurement processes, in particular for the selection of private operators; and
(c) Lastly, achieving scale and limiting transaction costs—as the fragmentation of the PPFs did not foster the elaboration of standards and tools, the development of programmatic approaches, and the replication of successful models across geographies.

2.2 Request and implementation

12. The AE will be responsible for the implementation of the activities upon approval. The Secretariat may also assist accredited entities in procuring qualified expertise to facilitate the speed of delivery and quality of the outputs.

2.3 Funding thresholds

(a) Pre-feasibility and feasibility studies and project design including baseline data, technical studies, and detailed designs, financial and economic analysis, etc.;
(b) Environmental and social, gender studies including environmental and social impact assessments, environmental and social management plans, resettlement action plans, and gender assessments and action plans;
(c) Risk assessments including technical, institutional, operational, financial, social and environmental components;
(d) Identification of programme and project level indicators aligned with the results management framework of the Fund, and support for the monitoring and evaluation of impacts;

(e) Pre-contract services including revision of tender documents, consultancy services required to carry out the preparation of project tender documents, selection of contractors, etc.; and
(f) Other project preparation activities where necessary and with sufficient justification.

14. The PPF will follow the funding thresholds agreed in decision B.11/11. Thus, support for each PPF request will be limited to a maximum amount of USD 1.5 million, not exceeding 10 per cent of the total GCF funding volume to be requested for the underlying project.

III. Eligible activities for financing under the PPF

16. Based on the justification of need, the PPF will support the following activities:

(a) Pre-feasibility and feasibility studies and project design including baseline data, technical studies, and detailed designs, financial and economic analysis, etc.;
(b) Environmental and social, gender studies including environmental and social impact assessments, environmental and social management plans, resettlement action plans, and gender assessments and action plans;
(c) Risk assessments including technical, institutional, operational, financial, social and environmental components;
(d) Identification of programme and project level indicators aligned with the results management framework of the Fund, and support for the monitoring and evaluation of impacts;
(e) Pre-contract services including revision of tender documents, consultancy services required to carry out the preparation of project tender documents, selection of contractors, etc.; and
(f) Other project preparation activities where necessary and with sufficient justification.