Joint CSO Submission: Green Climate Fund Strategy for Accreditation

Introduction
The Green Climate Fund (GCF) provides developing countries access to its resources solely through accredited implementing entities (AEs). After three rounds of Board-approved accreditation, the GCF has now accredited 33 AEs (19 international, 5 regional and 9 national) with some 80 applicants in the pipeline. While the Board with has approved a strategic plan for the Fund (Decision B.12/20), a complementary strategy for accreditation has yet to be developed and approved by the Board.

At its 12th meeting in March in Songdo, the Board took note of the progress of the Accreditation Committee to develop a strategy on accreditation (Decision B.12/21). This strategy is intended to be developed through engagement with relevant stakeholders, and governed by the guiding principles of country ownership; potential to contribute to the GCF’s mandate of supporting the paradigm shift; balance and diversity; efficiency in terms of cost, time, and resources; fairness; effectiveness; and transparency.

This joint submission reflects contributions by a group of civil society observer organizations actively engaged in the GCF in response to the invitation by the Secretariat dated April 18, 2016, for “inputs on the strategy on accreditation in relation to the questions in the report of the Accreditation Committee on the progress on developing a strategy on accreditation.” The posed questions are listed below, immediately followed by CSO responses.

Questions and Responses:

(a) What are the lessons learnt from the Accreditation Panel and the Secretariat in the initial operationalization of the accreditation framework? AND

(b) How can future accreditation decisions best support the GCF in fulfilling its mandate and in achieving the desired impacts?

Please note: We’ve combined letters (a) and (b) as we think it will be clearer if we identify lessons learned and propose ways forward within a single response.

- The lack of a clear strategy that prioritizes country ownership and direct access has produced a pool of accredited entities heavily weighted toward MDBs, developed country institutions, and international banks. There is little public knowledge of how applicants are prioritized for consideration, but the perception is that accreditation seems to be considered on a “first come, first served” basis, with little explicit consideration given to building a diverse array of partners that can best serve the needs

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1 CSO accredited observer organizations that contributed to this joint CSO submission: ActionAid USA, BankTrack, Centre for 21st Century Issues, Friends of the Earth US, Heinrich Böll Stiftung North America, Institute for Policy Studies, Interamerican Association for Environmental Defense (AIDA), Oxfam, Oxford Climate Policy, and Sierra Club.
of the Fund and developing countries. This favors large international and developed country public and commercial entities, which are then at an advantage in accessing GCF funding more quickly, to the detriment of regional, national, and sub-national direct access applicant entities. This may also discourage smaller, direct access entities from applying, though they are precisely the entities with which the GCF should partner. The expectation that the vast majority of the GCF’s resources in 2016 (for which the Board has set the ambitious goal of approving US$ 2.5 billion) will go to international access entities bears this out.

To remedy this imbalance, the Board should develop explicit criteria for how the Accreditation Panel and Secretariat should prioritize consideration of applicants. The criteria should result in an accreditation strategy that facilitates a significant increase of direct access to GCF resources for regional, national, and sub-national entities.

- **The current accreditation process lacks adequate transparency.** The identity of applicant entities is made public only after the Accreditation Panel provides its recommendation and the applicant comes up for Board approval. This lack of transparency constrains the public’s ability to engage in the accreditation process, and even to actually know what is or is not working vis-à-vis the accreditation process.

  Applications should be made public on the GCF website when filed, with limited redactions in the case of commercially sensitive information. At a minimum, applicant entities should be encouraged to voluntarily disclose their applications on the GCF website. This would help create a peer pressure-based norm of transparency.

- **Entities seeking accreditation are currently being evaluated based on whether they have adopted certain policies rather than their ability to implement activities in a manner consistent with the Fund’s policies.** The Accreditation Panel apparently limits its review to “the applicant’s website, as well the websites of relevant regulators to complement the information provided by the applicant in its application.”\(^2\) This overlooks a vast wealth of information about applicants from other sources, and could result in the AP’s failure to consider real-world practices of applicants (rather than just policy positions on paper) with potentially serious ramifications for the GCF in practice and in reputation.

- **Indicators for assessment of accreditation applications are needed.** Clear and transparent indicators on how to assess information presented by an entity is crucial to ensuring the integrity of the accreditation process and its outcomes.

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\(^2\) GCF/B.12/07 “Consideration of Accreditation Proposals,”
• **The public should have the opportunity to comment on accreditation applications.** The public, especially affected communities, must be given a credible opportunity to comment on the actual effects of past operations of an applicant for consideration by the Accreditation Panel and Board. Toward this end, the accreditation process should include a period of public comment, whereby submissions made via the GCF website would be considered alongside documentation provided by the applicant. This would help the Fund to identify and avoid potential controversies, and provide the Panel with a more complete picture of the entity’s implementation record than the current process, which relies largely on information provided by the applicants themselves.

• **The Accreditation Panel would benefit from increased expertise.** The Accreditation Panel has often highlighted the challenges its experts face when assessing the extent to which an applicant has the necessary capacities to implement the social, environmental, fiduciary, and gender requirements in project/program management and implementation. Correspondingly, the Accreditation Panel would greatly benefit from third party verification of an applicant’s ability to implement the GCF’s safeguards, standards, and policies.

• **The current fit-for-purpose accreditation approach is not working well for smaller national entities.** Many of these have actual implementation experience but are lacking elaborated codified policies. In particular with respect to fiduciary standards, fit-for-purpose lacks adequate differentiation; the same set of basic fiduciary principles applies to all applicants irrespective of the project scale and risk. This works to the disadvantage of many potential smaller national and sub-national direct access entities that actually have appropriate implementation experience and meet national fiduciary standards.

    The accreditation strategy should encourage direct access entities applying for Category C micro-scale project implementation to submit relevant third party verification and testimony, including by affected/beneficiary communities of prior projects/programs managed by the applicant entity, as a possible temporary substitute to elaborated policies to speed up their accreditation. Such an accreditation submission should then automatically trigger a targeted technical assistance action plan to help the entity address the lack of codified policies.

• **The strategy should take into account ongoing GCF work on a simplified proposal approval process for small-scale activities.** The current fit-for-purpose accreditation approach should be complemented by creating avenues for community, women, and Indigenous Peoples groups (local entities) to directly access small-scale grants, for example, through a Secretariat-level grant funding mechanism (similar to the Forest

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3 A small grant in this context would not refer to the scale typology under the accreditation approach (projects with a total funding of up to USD 50 million), but as funding disbursed in a significantly more miniscule amount (e.g. up to USD 100,000 – in comparison, the GEF/UNDP Small Grants Programme provides grants of up to USD 50,000, with the grantees receiving USD 25,000 on average).
Investment Program’s Dedicated Grant Mechanism) without having to be formally accredited. National small-grants programs serving those communities should also be prioritized under the Enhanced Direct Access (EDA) pilot, with national/regional entities submitting such proposals receiving priority accreditation.

- To avoid future scandals and to fulfill its “paradigm shifting” mandate, the GCF accreditation strategy should include minimum standards for applicant entities, one of them being the end of direct financing of projects not compliant with a 1.5°C/2°C world and the Paris Agreement, including any coal or other fossil fuel investment. The operations of some of the current accredited entities continue to contradict the paradigm shift mandate of the GCF and pose reputational risk. Deutsche Bank and Credit Agricole, for example, have already financed or are planning to continue to finance new coal power plants around the world. Just months after its accreditation, Deutsche Bank financed the Punta Catalina coal power project\(^4\) in the Dominican Republic last December, and Credit Agricole is planning to finance the Tanjung Jati-B 2 coal power plant\(^5\) in Indonesia. This is inconsistent with the latest science on the economic transformations necessary to meet the temperature targets of the Paris Agreement,\(^6\) not to mention the mission of the GCF.

Entities seeking accreditation should be required to present a five-year vision, to coincide with the accreditation period, to be shared with the Board and the general public. This should include explanations of, among others, (1) how the entity would contribute to a paradigm shift towards low emission, climate resilient development in the context of sustainable development; and (2) how each entity's specific experience and work will enable the country (or countries) in which it will operate to meet its national and international commitments on climate change. This document should help assess the contribution of a specific institution and its suitability for partnering with the GCF.

\(\text{(c) How can the Fund leverage the relationships with AEs (their comparative advantage, ability to mainstream climate considerations across their pipeline, and level of engagement with the GCF as strategic partners) to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development?}\)

- By accrediting, building capacity in, and channeling funding through small direct access entities that other international funds are unable to reach, the GCF can be paradigm-shifting even before considering what activities it funds. How the GCF funds projects and programs through what kinds of entities is potentially as transformational as what projects and programs it funds. By working with small, locally-grounded national and

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4 See [http://coalbanks.org/dodgydeal#punta_catalina](http://coalbanks.org/dodgydeal#punta_catalina).
5 See [http://coalbanks.org/dodgydeal#tjb2](http://coalbanks.org/dodgydeal#tjb2).
subnational entities – potentially including community groups, Indigenous People’s organizations, women’s cooperatives, local financial intermediaries, and more – the GCF can support local ownership and control over its funded activities. This will ensure that GCF projects and programs have lasting impact and are sustained well beyond the period of time in which GCF funding is actually flowing. Helping to build local institutional capacity – not only through readiness support but also through innovative modalities like enhanced direct access – would be a major step towards the transformational impact that the GCF seeks.

- The GCF can leverage relationships with AEs to propagate a climate-friendly agenda by pressing them to stop financing climate destructive activities such as coal and other fossil fuel projects around the world. As part of the assessment of an AE’s portfolio shift after 5 years of accreditation, progressive support for green financing must be documented and evaluated, but more importantly, an irreversible progression toward complete cessation of brown financing should be measured. This should include specific targets on the reduction, and ultimately cessation, of fossil fuel financing for all activities of a specific AE, including lending, underwriting, and asset management.

**In line with the purpose of decision B.11/10, paragraph 35 on the conditions for re-accreditation, how can the Fund maximize its impact on accredited entities to transform their overall portfolio and adopt the best climate policies?**

For a more detailed elaboration of the following response, please see a separate submission by WWF International, Friends of the Earth US, Heinrich Böll Stiftung North America, and Sierra Club -- *Recommendations to GCF on Contribution of overall portfolios of accredited entities to GCF objectives*.

Decision B.11/10 mandates a review of the extent to which the overall portfolio of an AE seeking re-accreditation has shifted in support of low-carbon and climate-resilient development in the context of sustainable development. For this purpose, the Board has requested the Accreditation Panel to develop a “baseline on the overall portfolio of accredited entities, including those already accredited at an earlier stage” (Decision B.12/29). Various ongoing initiatives and efforts to assess climate-related impacts of investments and financial flows include, *inter alia*, the Sustainable Energy Investment Metrics, the Montreal Carbon Pledge, and the Portfolio Carbon Initiative. The Accreditation Panel should draw on these insights, approaches, and methodologies and adapt them to fit GCF needs. In addition, because most existing methodologies focus on mitigation, the GCF may need to develop methodologies for measuring shifts in investment portfolios that strengthen resilience to climate change and avoid climate vulnerability and maladaptation.

Sophisticated baselining methodologies are currently available for some, but not all, climate-relevant sectors and asset classes. However, best practice in this area is evolving rapidly. As a continuously learning institution, the GCF should adopt an approach to
portfolio evaluation that takes on board best-practice measuring tools as they become available. While a comprehensive baseline methodology may take time to develop, the GCF should begin by requiring baselining in sectors and asset classes where appropriate methodologies are currently available, and ramp up over time. For entities already accredited, information should be submitted to the GCF within a firm time limit as a condition of future project approvals and disbursements to that entity (similar to current practice in which the AP certifies that accreditation conditions have been fulfilled satisfactorily before they are formally removed).

While the GCF can and should expect all AEs to evolve their portfolios in line with the paradigm shift that the GCF seeks to support, it may need to differentiate reporting requirements depending on the capacities and scale/financial intermediation categories of the entity. For example, reporting requirements for AEs accredited for micro/small-scale activities without financial intermediation should be less onerous than those for entities accredited for medium- and large-scale activities with financial intermediation.

The shift toward greener investment, the decrease and eventual phasing out of brown investment, and climate-proofing and resilience-building should all be comprehensively documented (with sector/technology specific metrics where available). The AEs must present clear financial data for all their activities - including lending, underwriting, and asset management - with results compared to their initial targets. Compliance with best climate policies available at the time and achievement of objectives should be prerequisites for re-accreditation.

(e) How should the Fund approach the question of limits and prioritization regarding the number and nature of organizations that can be accredited, especially taking into account applications from countries with no national entities accredited yet?

- Direct access entities must be pro-actively prioritized. The current portfolio of 33 GCF accredited entities is deeply unbalanced, less so with respect to an “entity count” (58% international access vs. 42% direct access) than in their potential to access and implement GCF funding. The majority of the 19 international access entities are accredited for medium-scale (over USD 50 million to USD 250 million) and large-scale projects (over USD 250 million), while most of the 9 national direct access entities focus on micro (up to USD 10 million) or small-scale activities (up to USD 50 million). Assuming maximum funding based on their fit-for-purpose accreditation capacity, over 80% of the current disbursement potential lies with international entities.

To urgently rectify this, the Fund should consider the pros and cons of a temporary freeze on the accreditation of international access entities until such time as at least 50% of potential GCF funding can be implemented through accredited direct access entities, striving for an even higher percentage over time and growing proportionally with the overall financing available for the GCF.
In the short term, better balance could be achieved by, for example, granting top priority accreditation to national entities that plan to submit a proposal for enhanced direct access (EDA) programs under the EDA pilot proposal. Additionally, the Accreditation Committee could produce a report with regards to the pros and cons of limiting the number of accredited entities in various ways, to keep the Fund in a manageable condition. In such a case, a number of variables would have to be considered to ensure a balanced portfolio of accredited entities. This could include a cap on the total GCF funds that could be programmed through international access AEs. Other possibilities could include a cap on overall accreditations. The Accreditation Committee could consider whether, taken together, several accredited national entities per recipient country can offer a balanced and comprehensive spectrum of capacities needed to enhance country ownership and address country priorities.

- At its 8th meeting, the Board recommended that international entities applying for fast track accreditation propose, “as an important additional consideration of their fast track accreditation application,” how they intend to “strengthen capacities of or otherwise support potential subnational, national and regional implementing entities and intermediaries to meet, at the earliest opportunity, the accreditation requirements of the Fund in order to enhance country ownership” (Decision B.08/03 (j)). It is not clear whether these entities have put forward such proposals, if/how those proposals have been evaluated in the fast track accreditation process, and if/how they will be held accountable for the implementation of these proposals.

The Accreditation Strategy should reiterate and strengthen this recommendation in order to incentivize this support and recommend further that it apply to all international applicants under both the fast and the normal track. It should make clear that accreditation and re-accreditation of international entities (and to a certain extent regional entities in a position to do so) will be based in part on their documented ability and willingness to fulfill this critical role. Accordingly, they should be required to submit five-year engagement and implementation plans that demonstrate how they will strengthen capacities of or otherwise support potential subnational, national and regional entities.

(f) How should the accreditation process address the objectives of the Fund in terms of balance, i.e. what is balanced? What modalities may be needed in order to achieve the desired outcome?

Defining balance in the context of the GCF accreditation process is admittedly a challenge. Over the long term, the portfolios of accredited entities must be assessed in terms of their ability to meet the adaptation and mitigation needs of developing countries and the communities in those countries in order to deliver on the paradigm shift mandate of the GCF. This may necessitate a flexible approach to the question of balance which can evolve over time. For example, the GCF will have to balance the fact that many countries need access to funding, but the volume of funding that is perceived
as balanced may vary based on the overall size of the country, number of people, and level of vulnerability.

The current accreditation process has not led to a balanced outcome. Balance between international and direct access entities is one critical factor, and it cannot be judged only on the basis of headcounts. “Balance” must account for the size of entities, the scale and risk of projects/programs for which AEs are accredited, the types of sectors addressed, and the accreditation for specialized fiduciary standards.

In the short term, the best way to redress the current imbalance between international and direct access entities is to prioritize accreditation applications of non-accredited regional/national/sub-national entities, especially those submitting an EDA program proposal. Such priority accreditation should be coupled with targeted readiness support measures as necessary (for example, in cases where accreditation conditions might have to be applied). Additionally, readiness support for accredited direct access entities should be provided to help entities meet the standards required to access larger sums of money under the fit for purpose approach.

The Fund should allocate additional resources as necessary to increase the rate of viable direct access entities applying for accreditation. The use of in-country capacity building to facilitate direct access, including through improved NDA country coordination and meaningful stakeholder engagement, should be also pursued. This should be a major focus of the Fund’s readiness and preparatory support program.

(g) When taking future accreditation decisions, how should the Fund incorporate geographic and thematic considerations?

- In all its operations, including through the accreditation process, the GCF must consider the means by which to uphold the 50/50 split between GCF resources for adaptation versus mitigation.

- Stock-taking with regard to geographic balance should be done periodically (perhaps semi-annually), with steps taken to remedy any imbalances, including through the provision of appropriate readiness support.

(h) Should the accreditation framework (including the fiduciary standards and environmental and social safeguards) be implemented so as to fit and reflect the diversity of channels, inter alia national systems and the private sector, i.e. how “fit for purpose” can we be? If so, how?

One area that requires further exploration and consideration under the accreditation framework is the creation of a facility or dedicated mechanism that could channel money directly to smaller actors that cannot seek accreditation (for example, under ongoing work on simplified approval processes for small-scale activities). The current accreditation process, despite its fit-for-purpose objectives, does not suit small scale
actors that play a fundamental role in their respective national climate change agendas and are vital for an effective and sustained shift toward low-carbon and climate-resilient development in GCF recipient countries. Community-based actors, Indigenous Peoples, and women groups, among others, should be able to implement projects and programs in-country, according to their respective capacities.

(i) How should the accreditation strategy be articulated with the other Fund policies, including those related to the use of financial instruments, risk management and the Private Sector Facility?

The accreditation strategy should first and foremost be focused on meeting the needs of recipient countries and delivering sustainable outcomes and impact. The GCF should not accredit entities with track records of violating human rights norms and standards, including on gender equality and the rights of Indigenous Peoples. The GCF should also refrain from accrediting entities which have been found by their respective grievance mechanisms to have violated their own social or environmental safeguards, as this would be counter to the objectives of the Fund.

(j) In order to fully implement the Accreditation Strategy, what revisions or new elements should be brought to the current accreditation framework and the Fund’s existing policies, including measures related to simplification of the process, staffing and accountability?

- The fit-for-purpose approach should be further refined so that it is possible for smaller direct access entities to achieve accreditation in a reasonable period of time. For example, subnational entities that will only implement local projects and programs at a small scale, in close consultation with local communities and stakeholders, should be able to go through a simplified process in line with their existing capacity (supported by readiness funding as needed).

- New elements should be included in the accreditation framework to reflect the new processes mentioned above – including requiring applying entities to disclose their policies regarding the exclusion of climate destructive projects such as coal and other fossil fuel projects, and policies and statements mentioning the energy shift of their portfolios.

- Staff should refrain from soliciting accreditation applications from international access entities.