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IDFC Development Banks propose Smart Partnership for UN Green Climate Fund

I. Background

The International Development Finance Club is a network of 19 development finance institutions with mandates for national, sub-regional, regional and international activities around the world. Each institution has a critical role in co-developing with governments enabling regulatory and policy environments, bridging critical funding gaps, building technical competencies, strengthening institutions and catalyzing investment in new economic and social sectors. The members of the IDFC are key players in collaborating with the governments, private sector and civil society and towards advancing the sustainable development agenda. The IDFC members have a successful and measurable track record of integrating climate change issues and related risks into their development mandates.

II. Addressing the challenge of climate change and Green Climate Fund (GCF)

The world is at the threshold of immense climate variability impacting both developed and developing nations in different levels of intensity. Economic and social costs are mounting, and the environmental degradation and unsustainable use of natural resources threatens the livelihoods of many forms of life on the planet and leaves a poor inheritance for future generations. While developing countries seek to provide economic opportunities and social cohesion in their constituencies, climate change threatens any real development return. The IDFC members strongly believe that a recommitment of developed and developing countries to the principles of sustainable development incorporating low carbon and climate resilient economic and social choices is needed.

Given the size and nature of the challenge, the IDFC members encourage the COP17 negotiating parties to deliver a bold and pragmatic response. The establishment of the GCF has the potential to bridge existing finance gaps in the international climate finance architecture and accelerate the ability of developing countries to implement their mitigation and adaptation interventions. It is equally important to note that the GCF may complement other funds, entities and channels of climate finance. The GCF and related funds, entities and channels of climate finance reside within a global financial system that is able to mobilize other forms of capital, including the private sector and institutional investors to finance initiatives needed to face the threat of climate crisis.

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The GCF is expected to be a vital source of climate financing in the near future, playing a key role in channeling new, additional, adequate and predictable resources to support developing countries in implementing actions towards low-emission and climate-resilient development pathways. For the GCF to be effective, it is important that it is based on a country-driven approach, through effective involvement of relevant institutions and broadly representative stakeholders¹. In this context, the group of development banks represented by the IDFC offers to be part of the solution building a Smart Partnership with the GCF as accredited implementing entities.

III. Development Banks role in climate financing

The IDFC members believe that it is critical to secure country ownership of the climate change response and seek meaningful participation of civil society and affected communities at the design and implementation phase of climate interventions. The IDFC members recognize the significant efforts of the private sector, development institutions and civil society in achieving a more balanced approach to mitigation and adaptation interventions. The development banks further recognize the need for policy certainty and predictability of financial support to enable effective collaborations between public and private capital.

The IDFC members believe they have the necessary characteristics to serve as accredited implementing entities to channel climate finance into mitigation and adaptation programmes and projects in a country and regional driven basis. The development banks that compose the IDFC enjoy acceptance and trust from both the donor countries and recipient countries because of their strong integration with national and sub-national policies, their historical involvement in accomplishing infrastructure and industrial development and their significant field expertise across a broad range of development disciplines. A learning platform between members allows for steady and rapid transition towards low-carbon and social-inclusive development. Resources, including grants, loans and technical assistance, can be leveraged, intermediated and delivered through established and trusted implementation channels applying best practice fiduciary standards as well as social and environmental safeguards. Through existing institutional infrastructure, the IDFC members have the mobility to develop and implement climate programmes in a timely and efficient manner.

Thus, the IDFC members support the implementation of the GCF and believe that a smart partnership between the GCF and the IDFC members will address complex and immediate resource and delivery constraints, in particular the urgent channeling of climate finance to the most vulnerable countries. The IDFC members propose that under the umbrella of the

¹ Draft governing instrument for the Green Climate Fund. (Fourth meeting of the Transitional Committee – October 18th, 2011).

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GCF, IDFC members in cooperation with other international/national development agencies and the private sector create a decentralized national and sub-regional approach to the delivery of development-oriented climate finance. The smart partnership between the GCF and the IDFC members enables the multiple leveraging of GCF resources by:

- Delivering funds directly into the sub-regional, national and local investment frameworks as an incentive to mobilize private capital;
- Blending with other public resources from national and bilateral sources;
- Combining climate finance with their own and market capital;
- Ensuring the build-up of revolving funds under its loans programs; and
- Accelerating the mainstreaming of climate change issues and related risks at project and programme inception.

The smart partnership would be underpinned by effective monitoring, reporting and verification of climate interventions at local, national and sub-regional level through appropriately designed assessment tools.

The IDFC members support the ownership of the climate change response at all levels and fully sponsor innovative development responses that incorporate investment and risk management approaches and improve active engagement with the private sector. Specifically, the GCF resources should be complementary to those already available and empower recipient countries to strengthen local capacities in planning, programming and project implementation. In addition, such resources should be both relevant and catalytic to allow recipient countries to advance in their national development objectives including low-carbon and climate-resilient development that assures the adaptation needs of the poorer and more climate-exposed populations, job creation, poverty reduction, support for vulnerable groups such as women and children and trigger localization of technology.

IDFC members are exploring possibilities to collectively significantly expand financing for climate and environment projects, to pay careful attention to the carbon intensity of their portfolio and to strengthen the climate resilience of their investments. IDFC will strengthen their efforts to co-develop innovative instruments with public and private financing institutions including the GCF. These efforts will aim to enhance effective cooperation between relevant financial institutions with clearly established and transparent mechanisms and demonstrate the principles of country-ownership.

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IV. The pledge

The IDFC members pledge their support to the constituencies that they serve to leverage the resources of the Green Climate Fund. The development banks constituting the IDFC recognize the need to create direct access to climate finance within the GCF framework and support modalities to catalyze scaled up interventions at local, national and sub-regional level. The members further pledge their support to collaborate with the private sector, civil society, multilateral and UN institutions as well as other Development Finance Institutions (DFIs) at local, national and sub-regional level based on Nationally Appropriate Mitigation Actions (NAMAs) and National Adaptation Programmes of Action (NAPAs) as decided by the respective responsible government. Specifically, the IDFC members pledge their support in developing a comprehensive developmental response to climate change at all levels, including assisting governments to (i) establish standards for NAMAs and NAPAs, (ii) to finance green economy investments, such as green infrastructure investments (including guarantee and credit enhancement mechanisms) and (iii) creating climate finance monitoring, reporting and verification frameworks to track impacts over time. In addition, the IDFC members pledge their support to developing new and enhancing existing market based mechanisms to increase the funds available for climate interventions.

The IDFC members pledge their support to the GCF design and governing structures (including the Board to be established) to contribute their technical expertise and knowledge in the development of the GCF's programmes, financing strategies, policies, procedures and portfolio management. Through the growing network of IDFC members, experiences and practices may be exchanged to facilitate the capacity and institutional strengthening of similar development banks across the world. The development banks within the IDFC are willing to share their experiences in developing environmental and social standards as well as how to leverage private and public capital to support risk sharing arrangements. The IDFC believes this Smart Partnership will contribute to the GCF's purpose of making a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change.