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International Renewable Energy Agency

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Note on Cooperation with Climate Finance Institutions

I. Introduction

1. At the ninth Council, the Secretariat provided an overview (document C/9/DN/2) of activities in the lead-up to Paris, including a summary of options on how to engage with dedicated climate finance institutions to advance the work of the Agency and support Members. Given the interest in the topic of climate finance during the discussion, this note expands on those options in order to seek feedback from the Council on the direction to take.

2. As the global resolve to act on climate change has strengthened, increasing amounts of finance have been dedicated to supporting action to control harmful emissions and address the impacts of climate change as it unfolds. Such climate finance can complement other sources of finance to support the deployment of renewables, and, if used effectively, steer other funding into low-carbon options such as renewables. A number of dedicated climate finance channels have been created, and dedicated institutions have been established and resourced.

3. Countries are working with these climate finance channels to advance their domestic and international climate policies. These policies overlap to a significant extent with domestic and international renewable energy policies, and are hence closely related to IRENA´s mission and activities. For the United Nations Climate Change Conference in Paris (COP21), more than 160 states have submitted Intended Nationally Determined Contributions (INDCs), many of which include references to renewable energy policies or will trigger such policies in the implementation phase.

4. The purpose of this note is to discuss options for IRENA’s engagement with climate finance initiatives, in particular the Green Climate Fund (GCF).

II. The climate finance landscape

5. While definitions vary, climate finance generally refers to the financial resources paid to cover the costs of mitigating climate change and adapting to the impacts of climate change. According to the Climate Policy Initiative (CPI), ‘climate finance’ typically includes the financial resources paid to cover the costs of transitioning to a low-carbon economy and to adapt to, or build resilience against, current

and future climate change impacts[1]. Defining climate finance as total (not only the incremental) investment costs plus public framework expenditures, CPI includes both public and private financing when estimating the flow of annual climate finance.

6. Under this methodology, climate finance flows were estimated to be USD 359 billion and 331 billion in 2013 and 2014, respectively. Climate finance flowing into the renewable energy sector accounted for 84% of all climate finance flow in 2013 and 71% in 2014. Some of the decline can be linked to the rapid decline of solar PV investment costs[2]. Some can be explained by the increase of the portion of climate finance dedicated to adaptation activities, which grew from 6% of the total flow in 2013 to 9% in 2014. The proportion of public finance remained stable at around 40%.

7. Under the United Nations Framework Convention on Climate Change (UNFCCC), developed countries committed to mobilising USD 100 billion a year by 2020 to advance the global paradigm shift towards low-emission and climate-resilient development pathways. This funding can come from multiple sources, including the private sector. To estimate progress towards achieving this goal, the Organisation for Economic Co-operation and Development (OECD) and CPI jointly developed an accounting framework[3] that established a methodology to estimate an aggregate volume of public and private climate finance mobilised by developed countries, indicating progress towards the USD 100 billion goal. Climate finance under this framework was estimated to be USD 61.8 billion in 2014 up from USD 52.2 billion in 2013.

III. Climate Finance Institutions

8. Public climate finance is provided through several channels including international, bilateral and national development finance institutions. Of the international institutions, the Global Environment Facility (GEF), Climate Investment Funds (CIFs) and more recently and most notably the Green Climate Fund (GCF) are the prominent channels of global public sector climate finance. In total, these three institutions account for more than USD 20 billion for climate finance, of which about USD 8 billion come under the CIFs, and USD 10 billion that have been pledged to the GCF.

9. In addition, bilateral agencies play an important role and channel a large share of public climate finance to developing countries. These are typically backed by national governments (and thus have high credit rating), so that they can provide concessional loans and assume some level of political and project-level risks. Many development finance institutions, in particular the regional development banks and the World Bank, also function as implementing entities to other climate funds, serving the role of bridge finance between projects and investors, often by taking on more subordinated positions.

[1] CPI Brief on Climate Finance Definitions, 2014
[2] Actual new installed capacity increased from 34 to 40 GW in 2014. Source: CPI Global Landscape of Climate Finance, 2013 & 2014
[3] The framework measures bilateral and multilateral public climate finance based on Parties' expected reporting to the UNFCCC, from MDBs and key climate funds, climate-related officially supported export credits, predominately to renewable energy, together with supplementary Party reporting, and a preliminary and partial estimate of private finance mobilised by bilateral and multilateral channels attributed to developed countries.

1. The Global Environment Facility (GEF)

10. The GEF is an operating entity of the financial mechanism of the UNFCCC with over 20 years of record in environmental funding. For the 4-year GEF-6 programme, a funding envelope for the Climate Change Focal Area of USD 1.26 billion has been allocated covering climate change, deforestation, and land degradation. GEF also has an active Small Grants Programme (SGP) that provides direct grants, including for project development.

11. IRENA is working with the GEF through the United Nations Development Programme, which is one of the implementing agencies of the GEF. This includes co-financing the projects funded under the IRENA/ADFD Project Facility and project development grant funding for the Facility's candidate projects. Furthermore, options for collaboration on the ACEC project facilitation platform are being explored.

2. The Climate Investment Funds (CIFs)

12. The CIFs were established in 2008 and are administered by the World Bank, but operate in partnership with five partner multilateral development banks (ADB, AfDB, EBRD, IDB, WBG). The CIFs finance programmatic interventions in selected developing countries with the objective of improving understanding of how public finance is best deployed at scale to assist transformation of development trajectories. Pledges since 2008 amount to a cumulative USD 8.1 billion. USD 796 million of the total pledged amount supports the Program for Scaling-Up Renewable Energy in Low Income Countries (SREP), helping 63 developing countries pilot low-emissions and climate resilient development channelled through the MDB partners. Under the objective of creating new economic opportunities and increasing energy access through the production and use of renewable energy, a key feature of the SREP is its ability to blend SREP resources with other sources of financing (development bank partners) to tailor terms to a target level of concessionality, which typically vary depending on project-specific factors. Renewable energy technologies supported include solar, wind, bio-energy, geothermal, small hydro power, and cooking stoves.

13. IRENA has been in contact with CIF and has offered providing programmatic support under the Scaling-up Renewable Energy Program (SREP). Discussions are also under way on options to work together on RE data collection and dissemination.

3. Green Climate Fund (GCF)

14. One of the most relevant and prominent sources is Green Climate Fund (GCF). This is the most recent climate finance institution. Originating from the political agreement in Copenhagen in 2009, it was established in 2010 by the Parties to the UNFCCC. The objective of the GCF is to achieve a paradigm shift towards low-carbon and climate-resilient development pathways. With its secretariat headquartered in the Republic of Korea since 2014, the GCF has advanced towards deciding on its first set of project activities in November 2015. Countries have already pledged contributions to the GCF totalling over USD 10 billion. Half of this amount could be used for climate change mitigation, with renewable energy and energy efficiency playing an important role.

15. Access to GCF resources is managed through national, regional and international implementing entities and intermediaries that have been accredited by the Board of the Fund. The GCF distinguishes between direct access through implementing entities accredited at the national level and international access through entities operating internationally. Twenty entities have been recently accredited through the international access and direct access track. The role of an implementing entity is the management

and oversight of project implementation, which includes the origination and preparation of a funding proposal, the subsequent management of the implementation process until its conclusion (project management) on behalf of the provider of the Fund. Funding mechanisms include grant finance, debt, equity, and guarantees channelled through and blended with other funds by intermediaries.

16. The Fund's fit-for-purpose accreditation approach for implementing entities intends to match the nature, scale and risks of proposed activities to the application of the fiduciary standards and environmental and social safeguards (ESS). The guidelines on the fit-for-purpose approach foresee an operationalization of a risk-based evaluation of accreditation applications. The fit-for-purpose approach thus offers some degree of flexibility for accreditation.

17. The GCF Readiness Programme focuses on a broad set of measures, including strengthening capacities of national designated authorities (NDAs) and accrediting entities, information and expertise sharing, preparing a strategic framework and pipeline development.

18. IRENA has initiated discussion on potential options for collaboration with the GCF by introducing the scope and substance of the core activities of the Agency. Such cooperation will be based on the programmatic expertise of IRENA and the Fund's financing capacity and requirements. Possible options for engagement are outlined in the following section. In formulating these options, attention has been paid to avoiding any potential conflict of interests between the different forms of engagement or with other activities. According to the GCF Secretariat, in the absence of explicit rules the potential for a conflict of interest can be addressed on a case by case.

IV. Climate Finance Institutions

1. Support GCF in the evaluation of project and funding proposals in the field of renewable energy

19. A priority area would focus on programmatic aspects. Such activity would be done in partnership with the GCF secretariat whereby IRENA would offer its expertise in developing a programmatic basis for renewable energy activities of the GCF. The evaluation of project/funding proposals is currently one of the main bottlenecks of GCF. Some international organisations already support the GCF in evaluating project proposals in their specific fields, such as FAO in the field of agriculture and forestry.

20. IRENA could support the GCF in shaping its funding approach to renewable energy related funding proposals for different countries and project types. This support would build on current activities and mainly be linked to country support and partnership activities. It would also build on expertise and data from REmap and other country-specific analysis and from renewable energy finance work on risk mitigation and project facilitation. Such a partnership could be a one-off arrangement to assist with the initial business plan, or it could be a longer term arrangement to offer advice on a continuous basis.

2. Delivery partner for beneficiary countries under the Readiness Programme

21. IRENA could take on the role of a delivery partner of the GCF's country readiness programme and support beneficiary countries in developing the programmatic basis for renewable energy projects. This could cover resource assessments and feasibility studies in countries using tools, such as RRAs or 'quick-scans' and expand a renewables-focused knowledge network in the country consisting of investors, lenders, developers, experts, and government entities. The work could also include support to developing and validating a pipeline of bankable project, which is of particular relevance to those

countries that use the direct access route to receive GCF funding. Cooperation could take place with countries' NDAs, as GCF focal points and with other delivery partners.

22. Such engagement can start immediately based on current IRENA activities, including work under the clean energy corridors, the SIDS Lighthouse Initiative (LHI), the Global Geothermal Alliance (GGA); the RRAs, and the Sustainable Energy Marketplace. Such a role does not require any specific registration or accreditation. It is country-driven, which means that activities should be initiated by beneficiary countries, and it is these that can then request funding from the GCF. Initially, the focus would be placed on countries which have identified renewable energy as their main climate-related activity area, for instance in their Intended Nationally Determined Contributions (INDCs).

3. Accredited implementing entity

23. Accreditation as an implementing entity could be limited in scope, in line with the fit-for-purpose accreditation approach. For IRENA, it is proposed that the scope would, at least initially, be limited to project development stage funding and to micro-scale projects. It would only cover renewable energy projects and be limited to funding through grants or convertible grants. This would make the accreditation process simpler compared to broader-based accreditation and build directly on IRENA experience, including through its partnership with the Abu Dhabi Fund for Development (ADFD).

24. It would be important to specify and establish, as necessary, project management and fund allocation procedures, as well as environmental and social safeguards (ESS). Grants through accreditation only would, however, be easiest, given the limited extent of the financial operations involved. Expanding accreditation to other instruments would create more challenging requirements especially with regard to fiduciary standards.

25. One major benefit to IRENA being an accredited entity would be the access to project development financing, which is one of the scarce resources in renewable energy finance globally. Micro-scale funding includes projects up to USD 10 million per project, which would in most cases be sufficient for the kind of renewable energy projects envisaged. Funding under the IRENA/ADFD Facility is in the range of USD 5-15 million per project with co-financing of at least the same amount from other sources.

26. Accreditation will take time, an estimated lead time of 6-12 months, and require substantial engagement. The accreditation and related funding would be a natural continuation of the IRENA/ADFD Facility, and could be closely linked to the Sustainable Energy Marketplace, allocating funding for projects registered in the marketplace on a selective basis. This would provide an opportunity to activate investors, increase the interaction and possibly coordination in the Marketplace, and help to allocate the funds in an efficient way to maximize impact. In the longer term, IRENA could still choose to engage in larger-scale financing activities, if done in a partnership with financing institutions like it is currently done with ADFD.

4. Next steps

27. It is proposed to pursue all three steps in parallel, but recognizing that they entail different lead times before impacts can be observed. As a priority, it is proposed to focus on support to the GCF secretariat in assessing project and funding proposals in the field of renewable energy. IRENA would continue discussions with the GCF to understand the current needs and opportunities in more detail, and match them with current and planned activities. Once topical and relevant needs are identified, an approach to strategic support can be taken forward.

28. In parallel, work can be initiated to become a delivery partner under the readiness programme for one or more countries. On a systematic basis, the GCF Readiness Programme would be proposed as part of all country level activities at an early stage. The aim would be to keep updated information on plans that developing country members have in using GCF funding for renewables. Countries for which this is considered appropriate would be encouraged to apply for funding from the GCF readiness programme with IRENA as the delivery partner.

29. Finally, work would start to complete the application process for IRENA to become an Accredited Entity with a limited scope to provide project development grants and micro-scale financing. This would require work to demonstrate the Agency's experience and its adherence to environmental and social safeguards. It would be envisaged to take about 6-12 months. The activities would be closely linked to project facilitation within the scope of Sustainable Energy Marketplace. The scope would be limited grants and convertible grants, and a focus would be placed on projects registered in the Sustainable Energy Marketplace. It is possible to submit funding applications already during the second phase of the accreditation, i.e. after the completeness check of the information submitted. Therefore, it would be possible to receive funding decisions by the GCF by the end of 2016.

30. As a matter of principle, the cost of direct facilitation of concessional financing for projects should be closely linked to the project activity to ensure adequate allocation of resources. This applies to the cost of the IRENA/ADFD Project Facility and would also apply to any similar activity. As an implementing entity, funding is usually in the form of a management fee based on the volume of transactions. Partnership arrangements of international finance institutions, including climate finance institutions foresee a fee of up to 10% of the transaction volume. If support is more limited the percentage would be lower.

31. Concerning the different forms of engagement with the GCF discussed above, different approaches would apply. Direct engagement with the GCF secretariat would be based on a direct agreement (e.g. a Memorandum of Understanding) between IRENA and the GCF, which would define roles and responsibilities, including cost sharing arrangements. For the GCF Readiness Programme some USD 30 million have been set aside, with funding limited to USD 1 million per country, which could be used to cover the cost of activities focused on renewables. Formal accreditation would entail establishing a formal arrangement to cover some of the management costs resulting from the engagement.

V. Areas for discussion

- What are countries' priorities in accessing climate finance for renewable energy programmes and plans? How closely do they see the role of climate finance in supporting the implementation of INDCs?

- What are the expectations of member states in the kind of support that IRENA should provide on accessing climate finance and channelling climate finance into effective support for renewable energy activities?

- How can climate finance be most effective in advancing the scale-up of investment into renewables?