

# Organisation strategy for Sweden's cooperation with the Green Climate Fund for 2016–2018



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## 1. Introduction

### *Scope of the strategy*

This strategy forms the basis of Sweden's cooperation with the Green Climate Fund (GCF) for the remainder of the Fund's initial resource mobilisation period, 2016–2018. An organisational assessment of the Fund will be possible ahead of the formulation of the next strategy, as the Fund only became fully operational in November 2015. The strategy will also guide Sweden's positions in the negotiations on the upcoming four-year budget for 2019–2022, or the replenishment cycle of the Fund (GCF1) expected to begin in 2017. The outcome of negotiations will be important for how the Fund contributes to the implementation of the new climate agreement and the 2030 Agenda, and in particular SDG 13 on climate action adopted by the UN General Assembly in September 2015. The strategy comprises funds as authorised by the Riksdag.

The strategy is guided by the Fund's role as part of the financial mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) with its overall objective to stabilise the concentration of greenhouse gases in the atmosphere at a level that will prevent dangerous human interference with the climate system. The strategy is based on the Government's objective for international development cooperation: promoting better living conditions for people living in poverty and oppression. It is also guided by the Policy for Global Development (Govt Bill 2002/03:122) with its overarching objective of contributing to equitable and sustainable global development, and the Swedish strategy for multilateral development cooperation.

### *The GEF's mandate*

At the UN Climate Summit in Cancún in 2010, the parties agreed to establish a new climate fund: the Green Climate Fund. Like the Global Environmental Facility (GEF), the GCF is part of the UNFCCC financial mechanism. The Fund has no country representation; instead its funds are channelled to a series of national, regional and international accredited implementing entities. The Fund's mandate is to make a significant contribution to global efforts to achieve the goals set by the international community to combat climate change by funding transformative climate change adaptation and action to reduce greenhouse gases,

including forestry action, in developing countries. The Fund provides support for both mitigation and adaptation investments and aims for a 50:50 balance over time. It also aims for a floor of 50 per cent of the adaptation allocation for particularly vulnerable countries, including least developed countries (LDCs), small island developing states (SIDS), and African States.

By virtue of its size and as part of the UNFCCC financial mechanism, the Fund is expected to become a key player in the future climate architecture and contribute to the consolidation of the current climate finance landscape, which today is marked by fragmentation. At the first resource mobilisation meeting in November 2014 and at the 20th session of the Conference of the Parties (COP20) in Peru, some forty countries, both traditional donors and some non-Annex I Parties,<sup>1</sup> made pledges to the Fund exceeding a total of USD 10 billion for 2015–2018. Consequently, the Fund is currently the single largest multilateral climate fund. Sweden's core support amounts to SEK 4 billion, making it the single largest per capita donor.

### *Governance*

The Fund was established as an operating entity of the financial mechanism<sup>2</sup> under the UNFCCC. The Fund thereby receives overall guidance from the Conference of the Parties. The Fund is governed by a board composed of 24 members and an equal representation of developed and developing countries. As the sixth largest donor to the Fund, Sweden is one of six countries that currently have a seat on the Board.<sup>3</sup> The other board members are represented in constituencies of two or more countries. Sweden's position on the GCF Board is therefore one of the Government's main platforms for giving practical effect to climate and development policy objectives and priorities.

## 2. Focus and Swedish priorities

Sweden's development cooperation must be based on and characterised by a rights perspective and poor people's perspectives on development. The rights perspective means that human rights and democracy must be regarded as fundamental to development. The perspectives of poor people on development means that the situation, needs, circumstances and priorities of poor women, men and children must be the starting point for poverty reduction and the promotion of equitable and sustainable development.

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<sup>1</sup> The list, annexed to the Kyoto Protocol, comprises the industrialised countries, including the countries of the former Eastern Bloc.

<sup>2</sup> Alongside the Global Environmental Facility (GEF).

<sup>3</sup> The current governing period will end in 2018.

Development cooperation must be economically, socially and environmentally sustainable, and promote gender equality. The basis of development cooperation is an integrated approach to the challenges, needs and conditions of people and societies. Special emphasis is given to the poorest countries.

Efforts to limit climate and environmental impacts and promote sustainable use of natural resources are a prerequisite for sustainable development and poverty reduction. Climate change risks deepening social and economic disparities, which in turn may lead to more and deeper conflicts. International climate cooperation is therefore also an important conflict-prevention tool. It is also a human rights issue, as climate change poses a threat to people's economic and social rights.

Environmentally and climate-resilient sustainable development and sustainable use of natural resources are therefore top priorities in Sweden's development cooperation. With its mandate to contribute to climate-related public goods in developing countries, the GCF is highly relevant to the Government's development policy objectives. Through its financial support to the GCF, its work on the Board and its dialogue with the Fund's leadership, the Government contributes to the Fund's objectives. It also thereby contributes to the Fund's support for the implementation of the three major development agreements the world's countries adopted in 2015: the Paris Agreement, the 2030 Agenda, and the Addis Ababa Action Agenda on Financing for Development.

The Government assesses that the GCF should continue to focus on its overarching purpose, which is to make a significant contribution to global efforts to achieve the goals set by the international community to combat climate change. The focus should be on environmentally and climate-resilient sustainable development and sustainable use of natural resources, which are also prioritised areas in Sweden's development cooperation. Other Swedish development cooperation priorities such as sustainable, inclusive economic development and gender equality are important tools for enabling the Fund to achieve environmentally and climate-resilient sustainable development and sustainable use of natural resources. The Government intends to support the GCF's efforts in these three areas based on the following priorities.

*Environmentally and climate-resilient sustainable development and sustainable use of natural resources*

- Develop and protect the GCF's role as a financial mechanism under the UNFCCC and seek added value in the international climate finance architecture to avoid overlapping mandates and ensure that the funds can be mutually supportive in the best possible way.
- Continue to pursue and actively contribute to the accredited entities' carbon footprint decreasing over time, which should also be a criterion for future re-accreditation.
- Promote clear investment guidelines and criteria that help the GCF's investment portfolio achieve the desired impact by contributing to transformative action by developing countries to build sustainable communities. The assessment of projects and programmes should be guided by the level of climate impact reduction and increased resilience to climate change, and of innovation, replicability, scalability and cost-effectiveness.

- Promote the financing of programmes rather than individual projects with a view to strengthening the Fund's transformative impact and exploiting synergies.
- Strengthen the links between the GCF's work and the implementation of the 2030 Agenda and the global goals with the greatest bearing on climate-related goals.
- Promote results-based financing, especially for investments to reduce emissions.

#### *Sustainable, inclusive economic development*

- Promote the development of the GCF into an effective catalyst for external capital, and especially for private capital, including by developing new financial instruments for the private sector such as guarantees and insurance.
- Take steps to enable the GCF to help remove investment barriers for the private sector in adaptation projects.

#### *Gender equality*

- Take measures to ensure that the GCF actively integrates gender equality into its work and supports projects promoting women's entrepreneurship and more jobs for women, thereby promoting gender equality in recipient countries.
- Work towards regular monitoring of the GCF's gender equality work and the gender impact of GCF-funded initiatives and partnerships with accredited entities.

### 3. Priorities concerning the organisation's working methods

A Strategic Plan for the GCF was adopted at the Board's twelfth meeting in March 2016. The Plan defines the GCF's overarching vision and its operational priorities. However, a number of key policy decisions are still needed to provide concrete guidance that can ensure the fulfilment of the Fund's objectives and vision (e.g. the 50:50 allocation of funding between mitigation and adaptation) as well as a coherent assessment of projects in accordance with the Fund's objectives. Guidance is also lacking on key issues such as how to achieve greater private sector collaboration. As increased predictability is crucial, the Board should urgently agree on a clear and transparent investment and risk management framework. Another important issue in this context is agreement on procedures to enable board decisions to be made in the absence of consensus.

Against this background, the Government intends to promote the following issues concerning the organisation's working methods:

- The Fund's mandate is to contribute significantly to global efforts to achieve the goals set by the international community to combat climate change.
- The Fund is responsible for financing transformative climate change adaptation and action to reduce greenhouse gases, including forestry action such as REDD+, in

developing countries. Sweden should therefore work to ensure that climate benefits of projects, their degree of innovation, scalability, repeatability and the level of co-financing will be the basic criteria for future project selection. Special emphasis must be given to the poorest and most vulnerable countries.

- Sweden must also work for the highest possible level of development effectiveness by strengthening national ownership, enhancing cooperation with civil society, the private sector and others, and ensuring that operations are designed against the backdrop of a world in which financial flows other than traditional aid play an important role.
- Sweden will assist the least developed and most vulnerable countries in their efforts to absorb international climate finance by strengthening these countries' ability to obtain access to the Fund's resources, including through increased direct access.
- Sweden will also promote increased private sector collaboration and a clear and transparent investment and risk management framework. This is an important tool that can give investors and other stakeholders important indications regarding the Fund's ambitions and risk appetite, both in terms of the types of projects the Fund is willing to invest in and the amount of risk the Fund is willing to take.
- Furthermore, Sweden should work to explore the opportunities for increased private sector collaboration in the GCF by further developing and implementing new financial instruments such as guarantees, insurance and green bonds. The choice of financial instruments should be based on an analysis of the instruments' potential leverage in relation to the costs associated with the instrument, as well as the potential impact on the Fund's risk appetite.
- Sweden will also safeguard the Fund's effectiveness, including by working to achieve a clear strategy on which and how many entities will be accredited in the future to achieve an appropriate geographical and thematic balance without jeopardising the Fund's effectiveness.
- Sweden should also work to ensure that the Board can agree on the Fund's decision-making procedures in the absence of consensus so as to strengthen the predictability and credibility of the Fund's decisions. These are also important prerequisites for increased private sector collaboration.
- Gender equality received extensive consideration during the Fund's start-up phase and key policy documents are in place. However, there is scope for the Fund to develop further. Sweden should take active steps to ensure a shift from gender-sensitive to gender-responsive action in the Fund's gender equality work in recipient countries.
- Sweden should also work to ensure that the Fund systematically integrates a gender perspective and conflict sensitivity into its activities – particularly in conflict-affected countries and fragile situations – to minimise potential adverse side effects and contribute to conflict management and sustainable peace.
- The GCF maintains a relatively high level of transparency in its work by, among other things, allowing civil society to monitor and participate in board meetings and the development of key resolution documents. However, Sweden should work to

strengthen transparency regarding both project applications and applications for future accreditation in the preparation and decision-making stages. Sweden should also promote greater interaction with civil society.

The Government assesses that the impact of these issues may help to achieve the anticipated results set out in section 2 above.

#### 4. Advocacy channels for implementing the strategy

With its policy emphasis on environment and climate change, and its comparatively large share of core support, Sweden is well positioned to influence the GCF's activities. Sweden has been on the Board since the Fund's establishment, initially by forming a single constituency with Belgium. As Sweden became the sixth largest donor to the Fund in the current initial resource mobilisation period, 2015–2018, it now has its own seat on the Board.

To achieve the objectives set out in sections 2 and 3 above, the primary focus of the work of the Government Offices and other relevant government agencies should be on:

- active participation in the work of the GCF Board including the Board's working groups and committees,
- ongoing bilateral dialogue with the GCF at both political and official level,
- close cooperation with relevant agencies and other stakeholders in Sweden,
- monitoring and participating in preparations for the meetings of the parties under the UNFCCC that provide guidance for future GCF work,
- harnessing Swedish expertise whenever possible and promoting recruitment of Swedish staff to the Fund.

#### 5. Collaboration with relevant agencies

Collaboration with relevant agencies is considered essential if Swedish priorities and goals are to gain traction. The GCF will operate in countries where Sweden conducts bilateral climate action, which is why it is important to draw on Sida's country-specific knowledge when reviewing projects. Sida also possesses expertise in adaptation-related projects. The Swedish Energy Agency has an important role to play in reviewing emission-reduction investments. Swedfund has special expertise in risk assessments for private sector investment in developing countries.

Sida (or another agency where appropriate) may make decisions at national level concerning co-financing with the GCF. Sida (and other agencies where appropriate) is required to keep the Government Offices (the Ministry for Foreign Affairs and other relevant ministries) informed regarding co-financing of projects with the GCF. This will be done on an ongoing basis.

## 6. Risk management

The Fund is still under development and there are high expectations and pressure on it to quickly become fully operational on a large scale. The time pressure increases the risk that initial decisions will not be sufficiently well founded and supported, at the expense of the Fund's internal and external effectiveness. Experience from similar funds also shows that building a project pipeline takes time. This in turn can limit the Fund's ability to allocate large volumes in the short term. Sweden should work actively to strengthen the Fund's ability to quickly build a pipeline, for example by working through the Fund's Board to ensure that the necessary central policy decisions and guidelines are in place and by promoting capacity-building initiatives, such as project development support especially to the LDCs and SIDS within the framework of the Fund's resources. The organisation's ability to achieve short-term results may also be limited if all the pledges are not honoured on time. Ahead of the Climate Change Conference in Paris in 2015, Sweden succeeded in its efforts to have several EU countries formalise their pledges. Sweden should continue its efforts to ensure that other countries' outstanding pledges are formalised as soon as possible.

## 7. Follow-up

The Government Offices (Ministry for Foreign Affairs) will follow up this strategy on an ongoing basis, including at the organisation consultations that the Ministry convenes with other relevant ministries, Sida and other relevant agencies. Organisation consultations will be held once a year.