International Development Finance Club
IDFC

GCF call for inputs: review and update of the Strategic Plan for 2024-2027

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1. Does the GCF's long-term strategic vision – of promoting *paradigm* shift and supporting developing countries in the implementation of the Paris Agreement and UNFCCC – remain relevant and ambitious? Has the GCF set out sufficiently clearly how it will deliver its long-term strategic vision?

GCF's mission remains highly necessary and relevant. Considering latest IPCC reports and global call for action especially on adaptation at COP26, ambition could be even enhanced further. The GCF's commitment authority (with roughly USD 2.5bln a year enabling to support USD 9bln total investments[1]) remains low compared to always growing estimated needs. The GCF's incentives and risk appetite capacity must thus seek to maximize both the climate impacts and paradigm shift potential, and the leverage ratio on financial flows.

GCF aims at supporting projects enabling a paradigm shift. Thanks to its wide and unique range of instruments, it helps structuring pilot projects to build strong business cases that are likely to be replicated without the support of the GCF. As a fund, its strategic vision is by instance "project-driven". However, the way in which the GCF could better serve Paris Agreement's objectives and especially the objective 2.1.c (of making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development) is still in discussion, with no consensus, as of today, on the approach to be privileged, between a "project-driven" and a "partner-driven" approach. The second one would go beyond the GCF's own operations. It would carry the ambition of redirecting the AEs' overall activity (and not only the one with the GCF), with the primary objective of stopping any carbon-intensive activity or any activity likely to harm the efforts made on climate.

Such a "partner-driven" approach would anyway require the GCF to be able to support its partners' efforts to align with Paris Agreement (in addition to supporting their capacity to operate with the GCF), by providing methods, tools and technical assistance. The support from the IAEs that can share experience of alignment with Paris Agreement should be encouraged. The GCF could rely on its large network of partners to bring this support to DAEs, so that the RSDP remains focused on building the countries' capacity and programming (in support to the GCF's own operations).

2. What global, regional, national and subnational developments, trends, needs and opportunities relevant to adaptation and mitigation programming in developing countries should the GCF take into account in preparing for its second replenishment period? What lessons can be learned from experience to date?

Representing only 7% of total volumes, adaptation remains the "poor relation" in the global climate finance landscape. GCF's target of 50% is hardly reached, and only at the cost of colossal efforts from the Secretariat to prioritize the relevant FPs. Besides, experience to date demonstrates that, despite the same efforts from the Secretariat to prioritize FPs, the GCF is also underperforming in terms of direct access and private sector financing. More worryingly, matching the three strategic objectives

[1] Post B33, GCF had committed USD 10.8bln funding to 200 projects or programs, representing a total value of USD 40.3bln. So, USD 1 from the GCF could leverage on USD 3.7 total investment.

proves to very difficult, due to a lack of programming from DAEs in adaptation and/or targeting the private sector.

The GCF should address this issue of the lack of programming from the DAEs with the support of IAEs who can help building the DAEs' capacity to originate FPs in line with the GCF's strategic objectives. This support could take the form of technical assistance, mentoring programs, or joint projects/programs in which the DAEs could take advantage of the large size/Category A and high fiduciary standard status of the IAEs and be on-boarded as co-financiers or Executing Entities (when not yet accredited).

Strengthening the support to country programming in close collaboration with all the AEs, DAEs and IAEs, taking into account their respective comparative advantages, should also facilitate the achievement and matching of all strategic objectives, while giving the stakeholders the necessary predictability.

The GCF should contemplate being present as early as possible in the programming chain, by supporting the development of national Long-Term Strategies and their translation into sectoral objectives. This would help build very ambitious Country Programs involving all stakeholders (including the local private sector), maximizing complementarities and synergies, and providing clear guidance and assignments to all. The same efforts should be made on the Entity Work Programs, to be strongly articulated with the CPs, with active steering by the Secretariat.

Country Programming is a useful tool as it helps developing countries with the integration of climate into planning, investment decisions and implementation across governments and public entities. Discussions that it raises would help develop Public Private Partnerships taking into account climate challenges. In fact, as per our experience as a DAE, origination of climate projects turns out to be a long and complex process requiring thoughtful planning and increased resources. We find that a lack of knowledge of climate criteria or a confusion between sustainable projects and climate projects is very common. In other words, there is a lack of maturity of local stakeholders, which prevents an easy structuring of projects.

3. <u>How should GCF further elaborate its role within the climate finance landscape, in light of its comparative advantages? How should GCF seek to differentiate its focus from other sources of climate finance? Where are the opportunities for complementarity, coherence and partnerships with others?</u>

The GCF has a unique position to support climate finance development within the global landscape. Its non-grant instruments also give it a unique capacity to catalyze financial flows from the private sector. GCF should build on these comparative advantages to fine-tune its positioning within the international architecture, more particularly in comparison to peers like the GEF and the Climate Investment Fund (CIF).

The GCF can make a difference in the climate finance landscape by co-funding large transformational multi-donor initiatives, including private sector. GCF could provide the seed money to incentivize other financiers to collaborate. This may reduce the number of deals p.a. that GCF co-funds, and better align GCF capacity with requirements.

The GEF is the historic fund in charge of protecting the environment. It equals the GCF in terms of financial contribution to date, though it has been operating for almost 30 years now (vs. slightly more than 5 years for the GCF). The GEF's activity generates climate co-benefits even if these are not its primary objective. The interaction between climate and nature is nevertheless increasingly highlighted by the international community, which are likely create overlaps or gaps, and certainly new opportunities for synergies between the GCF and the GEF. There are already some rooms for a greater complementary between them. For e.g. the management of natural protected areas requires many actions that do not relate to climate and as such, cannot be supported by the GCF, though protected areas have a very large potential for mitigation and adaptation that the GCF struggles to capture and maximize.

The CIF was established only a few years prior to the GCF. It was originally supposed to be temporary but it is still operating today. It received half less contributions than the GCF so far (slightly above USD 10bln). Its mission is very similar to the one of the GCF. The CIF has notably taken leading positions in major deals to Accelerate Coal Transition in the emerging countries since COP26: Cf. the pledge for South Africa, followed by India, Indonesia and Philippines. The CIF so tends to be the privileged instrument for the Just Energy Transition Partnerships in the emerging countries which call for huge and unprecedented financial commitments from the North in consideration for their very high potential for paradigm shift. As such, the CIF does not fully compete with the GCF which wouldn't have been able to commit at such an early stage. Besides, conversely to the GCF, the CIF's activity is much more flexible as it is not constrained by any allocation target for adaptation and for the vulnerable countries.

The global architecture could move again this year (with the COP27 to come and the UN biodiversity conference that will follow, with possible new announcements from the North in support to the Global Biodiversity framework), which may impact the mandate of the climate funds. The GCF needs to prepare for these potential future developments and their consequences on its positioning, especially with respect to the GEF. The GEF could also be much inspiring in terms of governance or the way it operates. Last but not least, the Just Energy Transition Partnerships should have huge and unprecedented transformational impacts that may create new benchmarks in the field of mitigation and influence the mandates or the contributors' strategy with regard to each fund.

Lastly, to support a smother implementation of valuable adaptation and mitigation FPs, also the role of the NDAs should be further reviewed. Reaching out to the NDAs and the obtaining of no-objection letters (NOLs) still remain one of the hardest steps in FPs approval process. Maybe these passages may be facilitated by enhancing the participation of the NDAs in the country programming. Indeed, based on experience, the uncertainty of the process to involve the NDAs and to obtain the NOLs prevents many AEs to promote larger multi-country programs that could better support the strategic objectives of the GCF.

4. Do the GCF's strategic objectives and portfolio targets capture appropriate ambition for the second replenishment period? How could GCF evolve these in a way that sets clear, actionable, measurable programming goals aligned with its strategic vision?

In view of the latest IPCC findings, the GCF's action is more necessary than ever. A greater focus could be given on adaptation, where the financing gap is the larger and the incentives even more needed. The support to mitigation should however continue and focus on innovative projects with a high paradigm shift potential. In the same vein, the fund's allocation target for the volume of adaptation finance benefiting to the vulnerable countries (at least 50% in grant equivalent terms) could also be enhanced further, in line with the current outcomes of the GCF.

The AEs could be given differentiated mandates and responsibilities in the fields of mitigation and adaptation, depending on their expertise and positioning. Echoing the debates at B33, the IAEs could also be assigned specific objectives in terms of assistance and capacity building of DAEs.

If an additional allocation target for DAEs is undesirable, as it would be likely to further block the fund's activity, the USP-2 should nevertheless promote collaboration between DAEs and IAEs on country programming and encourage co-financings and joint FPs on the fund's most strategic priorities.
The same goes for private sector financing, which should not be sought through a specific target but through a larger presence of the GCF upstream in national programming with the involvement of the private sector.

5. How can the GCF better respond to developing countries mitigation and adaptation needs and ensure country-ownership of programming? What role should the readiness and preparatory support programme, support for national adaptation planning, and country programmes play?

Supporting programming and dedicating resources to the elaboration and implementation of national Long-Term Strategies and their translation into sectoral programming and financeable projects or programs should give the GCF a privileged position to build Country Programs that are sufficiently ambitious and the most aligned with the GCF strategic priorities, after considering alternative sources of climate finance. This support could be sourced from the RSDP, of which it is the core business.

Besides, though the project-driven approach is inherent to the status of the GCF as a fund, the GCF should try to be more partner-driven to seize all opportunities to accelerate the implementation of Paris Agreement. The Accreditation and Partnership team could be given greater responsibilities in supporting the AEs' efforts in aligning with Paris Agreement, building on the GCF's large network of technical experts and partners.

6. How should GCF continue to build its paradigm shifting portfolio through its next programming period? What opportunities for adaptation and mitigation programming, and opportunities to improve the funds programming processes, can the GCF capture?

Beyond ensuring a better quality of projects, being present at an earlier stage in support to national LT strategies would also make it possible to encourage coalitions of actors in support to larger and more ambitious projects or programs, like what the CIF is doing on decarbonization in the emerging countries. The GCF could do the same. It could lead major deals on adaptation in the vulnerable countries, which feasibility could be supported by the PPF.

The GCF would gain on developing partnerships beyond its portfolio of operations. All opportunities enabling to enhance the skills and capabilities of local financial institutions, either existing or future DAEs, should be seized. The GCF could thus rely on the existing networks, like the International Development Finance Club.

The IDFC gathers 27 international, regional and national development banks. As part of the IDFC Climate Facility, it supports collaboration between IDFC members on the theme of climate, builds the capacity of members to originate climate projects and encourages joint actions between members.

The GCF contributed to the IDFC Climate Facility through USD 700thd sourced out from the readiness program. These funds were used to support applicants before and after the accreditation decision. Bancoldex and TDB more specifically received assistance in the pre-accreditation phase with needs assessments and action plans. The contribution also enabled to support DAEs in their post-accreditation phase and in the re-accreditation process when relevant. DBSA, CAF, CABEI, BNDES, CDG and PTSMI could thus share experience and advice.
This collaboration between GCF and IDFC shall be pursued and be focused on pipeline development in the GCF key strategic priorities, such as adaptation, private sector mobilization, access to climate finance for MSMEs …

7. <u>Building on its private sector strategy, what actions and partnerships should GCF pursue to catalyze private sector finance at scale?</u>

The financial conditions of the loans are too restricted and do not correspond to the reality of the destination markets. The GCF should be more market-oriented and should elaborate on these different market conditions to end up with different positioning according the regions/countries. Flexibility is a necessary condition for private sector activity.

The programmatic approach is also much needed to scale up PSF activity. The framework for the programmatic approach within the GCF needs to be advanced further and stabilized. Targeting diverse countries and diverse beneficiaries (offering different macroeconomic situation, market conditions, trends, etc.) is a good market practice and a natural risk mitigant that is fully inherent to the private sector activity and without which these programs would not succeed in mobilizing private co-financings.

Overall, in order to further embrace the private sector logic, we see gaining more transparency regarding GCF expectations and possible contributions as key. The challenge would be for DAEs to see GCF engaging sufficiently early in the processes to be able to express its expectations and thus provide private players with a clear view of its intervention's possible terms (quantum, pricing, expected outputs and conditions). We believe GCF responsiveness at an early stage would allow to engage a constructive discussion with private stakeholders at each milestone of the project.

We believe addressing the local currency challenge, would increase GCF competitiveness and alleviate a burden from both the private sector and the Accredited Entity perspectives. In fact, the added value of GCF intervention in terms of concessionality could be seriously damaged by the significant cost of hedging mechanisms. One could ideally suggest to consider the possibility for GCF to directly invest in local currency or offer, as part of its contribution package, a customized hedging mechanism.

8. <u>What steps can GCF take, in collaboration with its country partners, accredited entities and delivery partners, to ease and accelerate access to GCF resources, as well as strengthen the role of Direct Access entities?</u>

To keep partners motivated and on board, the GCF needs to continue to streamline its processes. Experience to date shows that, despite the important efforts already made in this sense, there are still plenty rooms for simplification in the appraisal phase as well as in the execution phase. The GCF should definitely align with the standards of other major donors like the EU, the Global Partnership for Education or Central African Forest Initiative (CAFI).

At the appraisal phase, the GCF should systematically rely on the status of AE and not elaborate on aspects already covered by the accreditation/reaccreditation processes. This would save considerable time both at the level of the Secretariat and at the level of the AE. In particular, AFD is regularly challenged on ESS monitoring aspects, on its procurement procedures or redress mechanism. Yet, its procedures in these areas have been fully reviewed and certified during accreditation, so it should not be asked on these aspects for each project. The Secretariat seems sometimes stuck in procedures that it does not understand itself, that it is not able to explain to AEs and that are blocking. In particular, AFD encounters great difficulty in getting consistent information on incremental costs and the level of concessionality.

We understand the ITAP panel has developed a list of questions to be addressed by project type or sector, in order to ensure that the GCF criteria are met. We are wondering to what extent the Secretariat can share this document with accredited entities early in the process. As the iTAP due diligence is an important step in the approval process, we strongly recommend that the iTAP panel be more geographically diversified in terms of composition. We suggest including a member from Africa who would be in a better position to understand local constraints, such as lack of climate rationale data.

Having more flexibility on the formal documents requested (NOLs, co-financing letters, etc.) would also be a real advantage, as appraisal cycles are sometimes blocked for simple questions of wording that require restarting collection processes.
Last but not least, the review of project documents by the teams of the Secretariat should be more centralized. This lack of coordination leads to a multiplication of exchanges and misunderstandings within the teams.

<u>Currency Risk:</u>
The DBSA has faced certain challenges in implementing approved GCF programs due to the inherent requirement for hedging the GCF USD exposure either at DBSA level or at the sub-project level where project beneficiaries are required to enter into hedging arrangements with hedge counterparties which hedging arrangements could negatively impact the concessionality of the GCF funding to GCF funded activity . The DBSA is of the view that to improve the implementation of approved GCF programs, modalities should be introduced at the GCF fund level where the GCF is principally responsible for managing the currency risks for funded activities that support sub projects that generate revenue in local currency. This will limit the USD and Local Currency mismatch at either the AE level or at the sub project level. With currency risk being managed at the GCF Fund level, AEs that operate in jurisdictions that do not utilize a GCF Holding Currency (USD, JPY, EUR and GBP) can invariably support more projects as GCF concessional funding can be provided in local currency and be blended with local private capital to support the catalyzation of low carbon and climate resilient projects.

9. <u>What enhancements or adjustments to operational modalities, policies or institutional capacities might be required to support successful execution of the GCF’s strategic vision and programming priorities?</u>

The predictability of GCF decisions is one of the governance issues, another one being the transaction cost imposed on all GCF partners.
The time to react on requests from AEs could be greatly improved, particularly when it comes to calls for funds or budget variations. For example, during the last disbursement request submitted to the GCF, AFD had to wait 3 months to receive the funds, which did not comply with the contractual framework, AFD having met all its obligations and the GCF having to disburse normally within 30 days after reception of the request. The GCF should definitely be more “client-oriented”.

There seems to be significant imbalances in the times allocated to each task, much particularly in the implementation phase, notably with too much time spent on reviewing the APRs with very long and unacceptable delays. Besides, the APR's level of detail is too micro. The secretariat should not go into so much detail on each review. The mid-term and end-term evaluation audit missions are the right steps to do that.
Also, the fact that any new policy may be enforceable (as per the AMA) to all projects being implemented does not create the environment ensuring the contractual security that is necessary for good business relationships with local partners.

Last but not least, the GCF does not envisage any multi-partner framework between AEs while other international donors already have some (eg. the European Commission). Such frameworks would allow more AEs to partner together under a FP sharing the different skills and expertise of each other, thus generating greater value added for the project.

10. Are the measures for measuring, monitoring and reporting progress towards the GCF’s strategic vision, objectives and priorities sufficient, or how could these be strengthened?

GCF performance indicators are difficult to measure during the implementation phase. Additional resources are needed to the achievement of the latter throughout the implementation of the project. As already said above, there are too many redundant questions from one APR to another. Questions have inflated over the years, which make the APRs very cumbersome.
The Secretariat should take the time to consult the FAA and previous responses before asking questions.