Strategic Programming for the GCF First Replenishment

Input from the Stockholm Environment Institute (SEI)

Overarching Comments and Reflections

The replenishment of the Green Climate Fund (GCF) represents a key opportunity in the history of the Fund to take stock of progress and achievements, identify emerging gaps or weaknesses, and chart the course forward for a more successful and impactful Fund that can support developing counties by facilitating a paradigm shift toward low-carbon climate-resilient development pathways. In this context, the document GCF/B.22/Inf.12, Strategic Programming for the Green Climate Fund First Replenishment, lays out a bold vision for the next phase of the Fund's operations to support Board Members and potential donors, reassuring stakeholders that the fund is not only succeeding and fulfilling its mandate, but has a robust plan for innovation and leadership in the climate finance landscape.

Generally speaking, SEI welcomes the proposals made by the GCF Secretariat in this document and our close review of its contents leaves us feeling optimistic about the future of this critical institution. Three specific elements, all of which emerge clearly in to focus throughout this document, are particularly appreciated:

1) **Broadening of Paradigm Shift to Include Approach and Institutional Partnerships**

First and foremost, a unique feature of the GCF is its mandate to promote paradigm shifts toward low-carbon climate resilient development pathways, setting it apart from other similar funds or institutions. However, much of the GCF's work in the past has conceptualised paradigm shift as principally linked to catalysing investment and upscaling climate action. While undoubtedly a critical element of the GCF's activities, this document on strategic programming recognises that an under-utilised dimension of GCF's paradigm shifting ability is linked to its unique position within the climate finance landscape. We welcome the ways in which this document explicitly reflects on the GCF's role vis-à-vis other climate funds and its opportunities for developing best-practices in the climate finance landscape, drawing attention to emerging or under-funded areas of work, and to work with partners, particularly of low capacity, to develop the institutional structures, skills, and technical capacity to engage with the GCF and others by supporting country planning and project pipeline preparation.

In brief, the GCF has the potential to facilitate paradigm shift not only through its project funding, but in the way it works with partners to push the conversation forward.

2) **Introduction of Strategic Requests for Proposals**

Related to the above, we are pleased to see the introduction of strategic RfPs, intended to draw attention to emerging areas of interest or historically under-funded sectors where climate action is urgently required. We feel that this will allow the Secretariat to not only support countries in developing and financing projects which they have brought to the GCF of their own volition, but identify areas of recognised importance by the international community, including by the IPCC, in NDCs, and in other relevant climate policy documents, and facilitate new work to fill these gaps. This might include issues like transboundary climate risks, which are increasingly recognised as an issue by the policy community and a potential entry-point for improving global cooperation around climate change action. Given the GCF's size, mandate, and role in the climate finance community, these landscape-level assessments of needs, funding gaps, and the development of strategic RfPs to intervene while maintaining a strong sense of country ownership should be welcomed.

At the same time, we recognise that in the past similar structures and programmes designed by the Fund may have struggled to attract applicants with well-developed projects or programmes. As such, this work will need to be aligned with ongoing efforts as part of Readiness 2.0 programming or other elements of GCF partnership development to assure that strategic RfPs can be accessed and utilised.

3) **Focus on New Financial Modalities, Instruments, and Innovations**

Finally, we are likewise made hopeful by the focus on new financial modalities, instruments, and innovations referenced throughout the document. Naturally, there are exceptionally good reasons to rely on more traditional modalities for finance provision, most important grant funding, supplemented as suitable by loans, guarantees, and equities. Yet, as there is increasing recognition in the community that private sector actors have a central role to play in climate finance provision and increasing resilience worldwide, there is a necessity for the GCF to think creatively about how best to work with those types of actors. Expanding interest in insurance is undoubtedly a useful starting point, though we welcome the possibility for the GCF to act as an innovative technology incubator or up-scaler, develop green or climate bonds and the necessary certification and impact reporting systems to accompany them, as well as exploring opportunities for de-risking and simplifying private sector investments in order to crowd-in financing, including through lending in local currencies and strengthening local markets.

While the bulk of our reactions to this document have been strongly positive, that is not to say there are not also areas of concern. In particular, we would welcome clarity or additional language surrounding four elements:

1) **Embedding Climate Rationale and Incremental Cost Approaches in Project/Programme Proposals**

To begin, we recognise the need for and welcome an increased focus on climate rationale in project or programme proposals. As the world's largest dedicated climate fund, it is critical for activities to clearly make the case for how proposed work contributes to emissions reduction, reduces vulnerability, or builds resilience. At the same time, we also recognise that climate information alone is often insufficient to build such a case. Climate rationale and climate data should be read alongside a concomitant 'risk rationale,' relying on relevant social and economic data, quantitative and qualitative, which aims to describe the factors which contribute to climate vulnerability and should therefore be addressed, particularly in the context of adaptation projects. It is well understood in the literature, including in numerous IPCC reports, that strong linkages exist between climate change adaptation and development activities and it will be necessary to consider a wide variety of factors that contribute to climate risk and vulnerability in addition to specific climatic changes. For this reason, we would encourage the Secretariat to underscore the need to include additional risk information alongside climate data. This is something the World Adaptation Science Programme (WASP) may be interested and able to assist with.

Likewise, we also recognise that discussions surrounding climate rationale are likely to have implications for incremental costing approaches. In this context, we would encourage the Secretariat to consider the strong, and often inextricable, linkage between adaptation and development and design the relevant incremental costing policies in such a way as to not preclude the financing of important and needed adaptation activities, in part by making available full-cost financing for adaptation projects as often as possible.

2) Options for Streamlining Access to Funds

Second, it is widely recognised that a challenge faced by the GCF is the ability for developing countries, particularly those with low capacity, to access GCF financing. One key element to resolving this challenge is sure to be the completion of the numerous outstanding policies under consideration by the GCF board to improve clarity, as well as readiness activities crafted with the intention of supporting project and programme design. This challenge is noted on several occasions throughout the document, including in reference to evolving the process for project proposals and streamlining the simplified approval process, though more information on how these goals might be achieved is necessary.

3) Financing Support for Ecosystems and Ecosystem Services

Third, regarding the impact area related to Ecosystems and Ecosystem Services, we would like to call attention to the fact that most activities included under this subsection refer to "ecosystem services" rather than "ecosystems" themselves. In a recent review of the Adaptation Fund portfolio undertaken by SEI, researchers found that the majority of projects related to ecosystems focused on ecosystem-based adaptation for the benefit of human communities, rather than improving the resilience of the ecosystems for their own sake (Atteridge et al., *In Press, Available Upon Request)*. While a similar assessment has not yet been undertaken for the GCF, we strongly suspect the same is likely to be true.

This is an oversight of the climate finance community broadly and there is likely scope to increase finance flows channelled to ecosystem conservation, preservation, or other activities that while country-driven are not explicitly for the direct benefit of people and communities. This may perhaps be an interesting area to develop a strategic RfP moving forward.

4) Metrics for Investment and Impact, Particularly for Adaptation

Finally, we would like to draw attention to the somewhat problematic use of 'number of beneficiaries' as the key performance indicator for adaptation activities. Recognising the difficulties in devising sector- or context-specific indicators for adaptation investment and impact, the significant heterogeneity in quantification approaches and types of intervention make this an exceptionally poor metric for understanding the substantive benefit of adaptation interventions and may lead problematically to the systemic under-financing of potentially transformative projects or activities. Again recognising the unique role of the GCF in the broader climate finance landscape, this could and should be seen as an opportunity for the GCF to develop best-practice approaches and drive the community forward.

Importantly, this issue is not limited to adaptation projects. While less problematic overall, relying centrally on the key performance indicator of emissions reductions for mitigation projects also poses challenges, particularly for energy access interventions where emissions reductions may be minimal, but work facilitates a transition to low-carbon development pathways that are more climate resilient. As with above, a reliance on the key performance indicator alone has the potential to lead to the systematic under-financing of energy access activities which are an important segment of the GCF portfolio, particularly in the context of pursuing paradigm shifts.

In total, we find the document GCF/B.22/Inf.12, Strategic Programming for the Green Climate Fund First Replenishment, to be a very promising step forward for the GCF during this crucial historical moment. Given the urgency expressed by the recent IPCC Special Report on Warming of 1.5°, the need for institutions like the GCF is abundantly clear, particularly institutions who embrace their role as global leaders, willing to develop and set best practices to move the community forward, draw attention to emerging issues or key areas that are underfunded, and embrace their unique mandate and ability to work with a multitude of partners, building capacity and catalysing investment in both the public and private sector. The GCF's first replenishment should be seen as an opportunity to step boldly forward to confront the magnitude of climate challenge faced by our society today; the approach articulated here makes us optimistic that the GCF will be able to do exactly that.

Specific Comments and Reflections

In addition to our overarching comments and reflections above, we would like to offer several specific comments and reflections, structured to mirror to the subsections of the strategic programming document.

I. Executive Summary: Toward a successful and ambitious GCF replenishment

Page 3 – In the paragraph beginning "In only four years…" it is unclear if statements regarding the size of the GCF pipeline refer to the demand on GCF resources or total project size.

Page 4 – In the paragraph beginning "At its twenty-first meeting…" we suggest information be included regarding the timeline of the proposed scenarios. While it is clear later in the document that these are based in-part on the capacity of the iTAP, Secretariat, and Board to prepare and review proposals, it would be helpful at this stage to add a footnote to this effect and in-text information regarding the relevant time-frame to improve clarity.

Page 5 – We strongly welcome the inclusion of the paragraph "Investing in institutional transformation."

Page 5 – In the paragraph beginning "Supporting science-based, systems thinking…" an opportunity exists to include information regarding 'risk rationale' and additional data-sources or information beyond climate data. True systems thinking in this regard will necessitate this, rather than focusing on climate science alone.

Page 5 – We strongly welcome the reference to "more deliberate deployment of strategic programming through RfPs to target investment areas where there is strong alignment of country needs and paradigm shift potential."

Page 5 – We are very encouraged to see and strongly support the focus on "more deliberate use of country programming, programming tools, and operational and policy reform, including improved accessibility" and see this as critical to the Fund's success during its first replenishment as articulated in this document.

II. The GCF: A unique role in a complex global context

Page 8 – In the paragraph beginning "Pursuit of the integration of climate action with sustainable development goals…" a reference may be useful to the technical paper produced by UNFCCC in 2017 on this topic[1] and/or to SEI's NDC-SDG Explorer tool[2], which explicitly links climate actions described in all submitted NDCs to the relevant SDGs and indicators.

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[1] http://tep-a.org/technical-paper/

[2] https://ndc-sdg.info/

Page 8 – In the paragraph beginning "Against this global backdrop…" the description of fossil fuel investment is helpful, though would benefit from information on fossil fuel subsidies as well as investment.

Page 11 – In paragraphs 3-5, describing the complementarity of the GCF to other climate financiers, we would welcome more information on the specific approaches to collaboration, coherence, or complementarity with other climate funds. SEI is currently part of a project consortium working on this topic, including looking specifically at the GCF's relationship to other climate funds[3]. Initial results are expected in late 2019.

III. The Opportunity: Realizing Developing countries' climate ambitions

Page 12 – The section related to Nationally determined contributions (NDCs) could also recognise the important role played by NDCs in enhancing ambition through subsequent submissions. There is an opportunity for the GCF to work with developing countries to not only implement the goals identified in NDCs, but to assist with the development of future NDCs and enhance ambition. This would articulate nicely with the GCF's stated interest elsewhere in this document in investing in institutional transformation.

Page 12/13 – In the section titled "Countries NDCs reflect priorities for action across different sectors" the NDC Explorer Tool[4] may be a helpful resource, as it documents the inclusion of different sectors in detail across all NDCs, as well as other potentially helpful categorisations of information from the NDCs.

Page 18 – The phrase "non–iPMS" is used on several occasions on this page without definition or explanation, which may be useful for readers.

Page 20 – We appreciate the inclusion of the section titled "There is significant opportunity for the GCF to mobilize wider finance flows to help developing countries meet their climate investment needs," particularly references to the need to shift funding within commercial lending instructions and institutional investors. The GCF accreditation process, especially policies related to portfolio shifting within the re-accreditation process are an important opportunity to take this work forward.

Page 21 – In the paragraph beginning "Integrating 'climate rationale' into decision-making" we strongly agree that climate rationale should be a fundamental component of accessing GCF financing. Importantly, this should be considered alongside 'risk rationale' and related information, including both quantitative and qualitative data, to understand the contributing factors to climate vulnerability that are not likely to be captured by climate information alone.

Page 21 – In the paragraph beginning "Building the enabling environment and knowledge-sharing mechanisms" we recommend the inclusion of additional text recognising the need to

[3] https://www.sei.org/projects-and-tools/projects/share-spare-explaining-nature-determinants-climate-finance-coordination/

[4] https://klimalog.die-gdi.de/ndc/#

develop modalities to support additional permanent staff within relevant institutions in developing countries, and for the GCF to act as a developer of 'best practices' in this regard.

IV. Scenarios for ambitious mitigation and adaptation impact

Page 28 – Within the impact area subsection on energy generation and access, we note that transitions to clean energy generation and expanding energy access are likely to have different key-performance indicators and energy access programming as such is less well represented in the GCF portfolio than energy generation activities. It would be helpful to consider these issues and their performance indicators separately to the degree possible.

Page 29 – Within the impact area subsection on climate information and early warning systems, we note that while important, climate information alone is likely to be insufficient to determine and manage the multitude of factors that contribute to climate risk. This section should be broadened to focus on climate and risk information, including early warning systems and take a wider approach to supporting the data needs of developing countries that goes beyond climate modelling specifically.

Page 29 – Within the impact area subsection on agriculture and food security, we note that an emerging area of research focused on transboundary climate risks suggests that agricultural supply chains may be critical pathways of climate risk flow, connecting countries to one another which may be geographically distant. Additional elements would be appreciated such as: (e) identify and manage transboundary climate risks embedded within agricultural supply chains through planning and joint programming,

Page 29 – Within the impact area subsection on ecosystems and ecosystem services, we note that proposals (a) and (b) relate directly to ecosystem services, while (c) invokes ecosystem services indirectly in the form of carbon sequestration. Additional elements which focus on the benefits of ecosystem conservation and protection would be appreciated, such as: (d) identify opportunities to support ecosystem health through conservation and protection.

Page 30 – The sections on institutional transformation, planning, and policy environments, and Technology and innovation are both appreciated, including references to institution building, planning policy and regulatory support, and the piloting, deployment, and scale up new and innovative technologies or programmes.

Page 30 – Within the impact area subsection on insurance, we note that insurance is but one of many possible modalities to support climate risk management and work with private sector actors, including green or climate bonds and local currency lending. We would encourage the broadening of this impact area to focus on "Pioneering financing instruments" which includes these additional elements and focuses on the role of the GCF as a developer of best practices and leader of the larger climate finance community. In particular, reference to the development of certification and impact reporting systems for green or climate bonds would be appreciated.

V. Programming Directions

Page 34 – The key strategic direction on "Investing in institutional transformation" is appreciated and a critical element to the success of this approach.

Page 34 – The key strategic direction on "Supporting science-based, systemic thinking" is appreciated and underscores the need to 1) consider the need to include risk information alongside climate information for a complete view of the relevant systems contributing to climate risk, and 2) bring in emerging research on transboundary climate risks, which suggests that a systemic approach to climate risk beyond national borders may be important and a useful vehicle for deepening collaboration.

Page 35 – In the key strategic direction on "Operational excellence and reform…" additional text would be useful that underscored the GCF's role in setting best practices for the wider climate finance and sustainable development landscape.

Page 35 – For the outcome driven focus areas, additional structure would be appreciated. It is somewhat unclear how or why these items have been selected and how they relate to other parts of the document or strategic planning process. Additionally, as with above, a focus area on transboundary climate risks may be an important focus for the GCF to emerge as a thought leader, and it would be appreciated to broaden the 'piloting and deployment of new insurance products' to 'green financial products' more generally.

Page 36 – The inclusion of portfolio level goals are appreciated. Care should be taken to assure that the leverage goal is related principally to mitigation funding rather than adaptation. Additionally, important questions remain to be answered regarding measurement of the resilience and institutional transformation goals, though we are hopeful that the GCF could again develop best practices in this regard.

Page 38 – Country-based allocations…for climate information services should include information on risk and other relevant information or data sources beyond climate modelling and data alone.

Page 38 – It is currently unclear what is meant by the "Evolution of a wider country-oriented resource allocation approach."

Page 38 – Text related to the use of SAP projects as incubators for innovation, as well as strategic programming through RfPs are appreciated.

Page 39 – Regarding the development of RfPs, we are interested to know what types of market analysis might be utilised to select potential topics. This could include not only an overview of country priorities via the NDCs, but also relevant research including IPCC reports and other mechanisms to capture emerging issues or needs.

Page 40 – Regarding climate bond issuance, while we are supportive of this idea, work will need to be undertaken in parallel to develop a certification and impact reporting system for such bonds to assure that their content and relative quality is transparent to investors.

Page 40 – We note that fit-for purpose readiness support including standard packages is another critical element to the success of this approach.

VI. Operational Implications

Page 44 – Regarding the three options presented for use of the PPF as a key 'link' in the project development cycle, we support an efficient combination of all three elements, though would like to underscore the particular importance of increasing centralised readiness funding, as well as overall staff headcount.