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# Management response to the Independent Evaluation of the Adaptation Portfolio and Approach of the Green Climate Fund

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## **Summary**

This document presents the Secretariat management response to the *Independent Evaluation of the Adaptation Portfolio and Approach of the Green Climate Fund* undertaken by the Independent Evaluation Unit (IEU). This is a reissue of document GCF/B.28/17/Add.01, published on 15 March 2021, and does not incorporate recent developments.

## I. Introduction

1. The Secretariat welcomes the *Independent Evaluation of the Adaptation Portfolio and Approach of the Green Climate Fund* undertaken by the Independent Evaluation Unit.

2. This evaluation report includes several key findings of importance to GCF operations and programming, including the Fund's positioning in adaptation finance, capacity for adaptation planning, catalysing the private sector, access modalities, results measurement, and innovation and risk. The Secretariat has reviewed the key recommendations in each area and described how to address them. In many cases, the recommendations dovetail with actions already being undertaken by the Secretariat or reinforce the planning being undertaken as part of the Updated Strategic Plan for 2020-2023. Such actions include expanding the guidance available to country partners, the diversification of financial instruments without undermining the access to grant funding, improvements to the results management and measurement frameworks, and greater cooperation across the Secretariat and with other climate funds. Some of the recommendations, such as policy guidelines for programmatic approaches or project-specific accreditation, would require further mandates from the GCF Board. In those cases, the Secretariat stands ready to implement and operationalise the relevant Board decisions.

3. Specific responses to each of the key recommendations in the evaluation are detailed further below.

Recom- mendation #	Recommendation	Response
<p><b>Key Recommendation 1 – Positioning in adaptation finance</b> The GCF should clarify its role in and vision for climate adaptation and implement methods to enhance complementarity with other climate funds and funding agencies, and promote coherence in programming.</p>		
1(a)	The GCF should consolidate its unique position in adaptation finance, including the mandate to finance projects at scale with a high-risk appetite.	<p><b>Agree.</b> GCF has a higher risk appetite in pursuit of impact and will take educated risks – to support technology development and transfer, first loss positions or participation in higher risk tranches – to demonstrate the viability of innovative approaches and deliver scale.</p>
1(b)	The GCF should promote efficiency by pursuing greater coordination of adaptation efforts with NDAs, AEs and local stakeholders at the national and regional level.	<p><b>Agree.</b> The GCF encourages and supports countries to work with national institutions wherever possible, and they are the priority institutions for the RPSP.</p>
1(c)	The GCF should use its convening and catalytic power to develop a set of best practices from stakeholders (including climate funds, NDAs and AEs) to share across the GCF ecosystem.	<p><b>Agree.</b> There is ongoing collaboration with other climate funds, and a work plan with a list of countries where sequenced, parallel and co-financing options can be done. AEs are actively requested to identify such opportunities in the context of complementarity and coherence as part of their EWPs, and this has been included in the respective templates and guidance. Similar considerations are encouraged from countries as they develop Country Programmes.</p>
<p><b>Key Recommendation 2 – Capacity and adaptation planning</b> The GCF should clarify RPSP for adaptation planning, address technical challenges, support matchmaking efforts and build monitoring of results of RPSP support.</p>		
2(a)	The GCF should raise awareness, reach and use of RPSP grants for adaptation planning in vulnerable countries.	<p><b>Agree.</b> The Secretariat has been proactively communicating adaptation planning support with all developing countries, including vulnerable countries, via GCF events (e.g. Regional Dialogues), CoP events, the NAP Expo, the GCF website, and other means. Vulnerable countries account for 67% of adaptation planning funding requested and 59% of funding approved.</p>

2(b)	The GCF should address technical capacity challenges in NDAs, including through training clusters of government officials to build sustained knowledge.	<p><b>Partially Agree.</b> The GCF provides TA support for proposal development and advises NDAs on delivery partners, including helping them identify such partners through competitive processes (e.g., Colombia). GCF will continue to provide clearer guidance on adaptation planning support and on the appraisal criteria, to ensure the quality and value for money of the grant proposals.</p>
2(c)	The GCF should facilitate matchmaking between countries and locally and regionally embedded RPSP delivery partners. This will relieve a constraint for some countries when accessing RPSP support.	<p><b>Agree.</b> The GCF provides TA support to vulnerable countries upon their request. The Secretariat will evaluate what is affecting delivery rates and consider extending further support to countries if they so require.</p>
2(d)	The GCF should monitor the quality of RPSP adaptation planning through building and fast-tracking an outcome/impact measurement framework.	<p><b>Agree.</b> The Secretariat is developing a Readiness Results Monitoring Framework (RRMF) that will include the impact/outcome indicators. The RRMF will be shared with the Board at B.29.</p>
<p><b>Key Recommendation 3 – Scale and the private sector in adaptation</b></p>		
<p>The GCF should define its approach to engaging with and catalyzing finance from the private sector in GCF support and programming windows.</p>		
3(a)	The GCF urgently needs a strategy for the private sector, in particular in adaptation finance. The strategy should include guidance on (i) which private sector actors the GCF wants to engage with and how; (ii) what is considered minimizing market distortions and moral hazard; (iii) which sectors hold opportunities for adaptation; and (iv) how the instruments at its disposal should be used.	<p><b>Agree.</b> The Updated Strategic Plan calls for the development of a private sector strategy, focusing on, inter alia: supporting climate-oriented local financial systems, green banks, markets and institutions; and de-risking and addressing barriers, including currency fluctuation, to mobilize private sector resources at scale for climate investments in developing countries, including a greater role in supporting climate change adaptation. Such a private sector strategy should seek ways to incentivize private investment in adaptation. To date, some limited engagements and funding of mostly agri-business related projects has been undertaken, and this year a number of equity funds focused on adaptation are under development. Further work and development, including using new instruments such as resilience bonds and</p>

		insurance, will be needed and will be proposed as part of the overall review of private sector strategy being undertaken later this year.
3(b)	The GCF should consider a private sector approach that addresses capacity support to small and medium-sized firms. The GCF should clarify what the RPSP can do for small and medium-size private sector companies.	<b>Agree.</b> Some of this support is already provided through the MSME RfP, although a coordinated strategy across the Secretariat also needs to consider prioritizing the accreditation of AEs that work with MSMEs and understand the local context.
3(c)	In piloting the project-specific assessment approach, the GCF Board should consider the needs of the adaptation portfolio, including engagement of the private sector.	<b>This recommendation is for consideration by the GCF Board.</b> The updated accreditation framework, including the project-specific accreditation approach (PSAA), continues to be developed by the Accreditation Committee of the Board and is included in the Board workplan for 2021. Pending consideration by the Board of the framework and PSAA, including any areas of focus that the Board may identify therein, the Secretariat would implement and operationalize the framework and PSAA accordingly.
3(d)	The GCF should strengthen incentives to support cooperation between the DMA and PSF in jointly assessing projects and identifying opportunities, particularly for blended finance.	<b>Agree.</b> The recently revised Operations Manual calls for greater cooperation among all divisions, including DMA and PSF, as part of the interdivisional project team for each funding proposal. This is already being operationalized, as DMA sector specialists routinely review the technical aspects of funding proposals led by PSF, while PSF financial specialists review the financial structuring and market linkages for funding proposals led by DMA.

**Key Recommendation 4 - Access and business model**

The GCF should respond to the urgency in adaptation by addressing policy gaps and the use of financial instruments and modalities.

<p>4(a)</p>	<p>The GCF should explore options to address the adaptation needs of the most vulnerable within its targeted geography.</p>	<p><b>Agree.</b> GCF already prioritizes adaptation action in LDCs/SIDS and African countries with a target of maintaining an allocation floor of at least 50% of adaptation funding to particularly vulnerable developing countries, while aiming to build on IRM outcomes. GCF exceeded this in the IRM by allocating 69% of funding in grant equivalent terms to SIDS, LDCs and African states. The Updated Strategic Plan and Country Programme guidance also encourage countries, in developing pipelines for the GCF, to prioritize the most impactful investments for their respective national and regional contexts, informed by adaptation needs especially for the most vulnerable people and communities. GCF already is starting to act as a fund-of-funds for serving communities for locally-led adaptation (e.g., Blue Action Fund) and Enhanced Direct Access could be used further to enhance this modality.</p>
<p>4(b)</p>	<p>The GCF should find ways to remove barriers related to availability of and requirements for data to verify climate vulnerability, and should consider alternative systems of (traditional) knowledge. The GCF should urgently clarify the role and use of climate rationale in the funding proposal review and appraisal process, to reduce the burden of project preparation and development by AEs.</p>	<p><b>Agree.</b> The GCF secretariat promotes the funding of projects for the generation of climate information including early warning systems. This can be done via Readiness and regular funding proposals. The Secretariat also supports efforts to clarify the type of data that is required to verify climate vulnerability in funding proposals, so that AEs have incentive to include promising adaptation components in cross-cutting projects without fear of insufficient data. In 2021, the Secretariat will present to the GCF Board a paper on steps to enhance the Climate Rationale of GCF funded activities, which will aim to better clarify the information relevant to demonstrating the climate impact of adaptation projects, including making distinction between climate information, hazards, exposure and proposed interventions.</p>
<p>4(c)</p>	<p>The GCF Board should finalise the policy on programmatic approaches, with due consideration of the perspectives of AEs. Such approaches should include single- and multi-country programmes and provisions to streamline the processes for</p>	<p><b>This recommendation is for consideration by the GCF Board.</b> Programmatic approaches provide an opportunity for adaptation programming at greater scale, and are a key way to improve access to adaptation finance. Vulnerable countries, such as SIDS and LDCs, may</p>

	<p>sub-project approval and changes, while ensuring appropriate due diligence. The GCF should recognize the regional aspects of adaptation challenges and solutions, and re-emphasise the potential of regional DAEs depending on adequate staffing capacity at the Secretariat.</p>	<p>struggle to attract private capital for adaptation on their own, and a programmatic approach would facilitate such investment by reducing risk. Because many ecosystems/biomes are transnational (Amazon, Congo, Sahel, etc.), such mechanisms may require regional approaches. Certain climate-resilient products or services also may need multiple markets to scale up properly, necessitating a multi-country approach.</p>
4(d)	<p>The GCF should diversify the financial instruments it uses in adaptation projects, particularly those that increase scale through higher co-finance ratios. In particular, the GCF can increase the use of equity investments, guarantees, devolved and blended finance. The use of such instruments is not a substitute for grant instruments, but rather a complement to them.</p>	<p><b>Agree.</b> Innovative market-based financing mechanisms are key tools to increase mobilization and impact as outlined in the Updated Strategic Plan. From B.18 onwards the share of other financial instruments for adaptation financing has increased, where appropriate, including loans and guarantees for public sector adaptation projects and equity for private sector projects. The Secretariat will continue to seek ways to incentivize private sector investment in adaptation and develop the capacity of DAEs to work with higher leverage instruments. However, it should be noted that the Board, under the USP, has indicated an intent to maintain the share of grant financing, in particular for adaptation. There may accordingly be a tension between maintaining the adaptation share of total financing, increasing the adaptation share through PSF, and the Board's directions on instruments.</p>
4(e)	<p>The GCF should consider developing a stakeholder engagement policy. Inclusive stakeholder engagement that delivers meaningful and active participation in project design and implementation should be strengthened, and it should not only include NDAs and focal points, but also CSOs, indigenous communities, and the private sector. This can reduce material risks from project implement, including maladaptation.</p>	<p><b>Partially Agree.</b> The Fund has best-practice options for country coordination and multi-stakeholder engagement, adopted in decision B.08/10. The recently published Country Programme Guidance provides additional encouragement to involve CSOs as early as possible to make project design and implementation an inclusive process, and all Readiness grants supporting pipeline development also include activities targeting CSOs to ensure their early engagement. A guidance note on designing and ensuring meaningful stakeholder engagement on GCF-</p>

		<p>financed projects also has been published to guide AEs in establishing meaningful consultation and engagement processes in funding proposal development.</p>
<p><b>Key Recommendation 5 – Results and impact measurement</b> The GCF should address adaptation related measurement challenges to enhance active monitoring, project and Fund-level aggregation and facilitate learning and steering.</p>		
<p>5(a)</p>	<p>The GCF Secretariat should further engage with other climate funds and communities of practice to refine indicators, measurement and aggregation clarity, including improving the Fund-level indicator of direct and indirect beneficiaries.</p>	<p><b>Agree.</b> The Secretariat has already started to strengthen its internal capacity on results management and impact reporting and impact reporting through conceptualization of the IRMF. The draft IRMF includes result indicators that are harmonized with those of peer organizations. The Secretariat has initiated a collaborative platform on measurement and indicators with the other major climate funds and is also taking into consideration the existing best practices and how they can be integrated in the GCF work on adaptation.</p>
<p>5(b)</p>	<p>Recognising the limitations of the current set of indicators, the GCF should address challenges in adaptation-related measurement on project- and fund-level indicators.</p>	<p><b>Agree.</b> The limitations of the current set of adaptation indicators in the PMF are well noted, and the Secretariat has already embarked on improving the indicators through the development of IRMF. Adaptation related indicators have been fine-tuned in the draft IRMF document which is ready for discussion with the Board at B.28. In addition, with a view to responding to the main concern of limited guidance over reporting requirements against results indicators (including adaptation indicators), work is currently underway to develop an accompanying Result Handbook to the IRMF which aims to provide clearer definition, a measurement tool, and guidance for each indicator within the IRMF. The development of the Results Handbook will include some piloting exercises with AEs to help refine these tools prior to IRMF implementation.</p>



5(c)	As adaptation result areas are broad, the GCF should also trace results at the sectoral level for portfolio management. This will allow aggregation at the portfolio level to facilitate greater knowledge of results and comparability with other climate funds.	<p><b>Partially Agree.</b> The current RMF/PMF and the draft IRMF have considered this. For example, adaptation-related supplementary indicators in the draft IRMF include looking at the number of beneficiaries reached by sector such as food security and or water security.</p> <p>Balancing between potential complexity vis-a-vis the capacities of AEs, and considering that sectors might contribute to various results areas, the Secretariat considers it prudent to continue with reporting against the 8 results areas adopted by the Board and with which AEs are already familiar.</p> <p>At the same time, the Secretariat may conduct some ex-post analysis on sectoral basis, but this would be done separately from the overall result reporting and mainly for learning purposes.</p>
5(d)	The GCF should consider whether an adaptation investment is meeting a national priority by linking results areas to an indicator for a country's adaptation needs.	<p><b>Agree.</b> As part of the investment criteria, each funding proposal is required to indicate alignment with national priorities (e.g., NAPs, NAPAs, etc.) which are independently verifiable. Furthermore, and in line with the principle of country ownership, each funding proposal must receive clearance from National Designated Authorities confirming that they are aware and agree with the submission of the proposal to GCF.</p>
5(e)	The GCF should utilise results-based financing to a greater extent within its adaptation portfolio. This would create an incentive structure for implementing agents to deliver on time, to budget appropriately and for results to be verified by independent third parties.	<p><b>Agree.</b> This is well noted and can be adopted as applicable/appropriate in the structuring and monitoring of the projects.</p>

**Key Recommendation 6 – Innovation and risk**

The GCF should address the ongoing lack of clarity and guidance to its approach on innovation.

6(a)	As innovation is part of the strategic priorities for 2020-2023, the GCF should clearly identify and incentivize innovation.	<p><b>Agree.</b> The Secretariat is promoting technical, financial, institutional and policy innovation through the development of sector guides. These guides will provide an overview of country needs and evidence-based programming experiences in each sector and identify opportunities for high impact, paradigm-shifting investments to guide proposal development for the GCF in line with its investment criteria and the Updated Strategic Plan. The Secretariat will continue to seek financial innovation through blended finance structures for adaptation projects where appropriate, without adversely affecting access to grant financing for adaptation.</p>
6(b)	The GCF should define the delivery of successful structures, systems, organizations as actual project impacts. For example, support for innovative structures, such as blended finance vehicles for adaptation, which are successfully used in mitigation (e.g., in FP099: Climate Investor One) but not yet in adaptation.	<p><b>Agree.</b> PSF is currently developing a number of adaptation related funds which will use equity. When appropriate partners are identified, further risk inclined products such as resilience bonds and insurance will be explored.</p>
6(c)	The GCF should strengthen programmatic approaches in adaptation finance, as they are important to leverage lessons from one project to another and to foster innovative replication. The focus here is on transferring knowledge between projects in the same sector or results area. This should involve different AEs that execute different projects, but closely interact to exchange knowledge, capabilities and approaches.	<p><b>Agree.</b> The Secretariat is pursuing such an approach as part of the Great Green Wall initiative. At the request of Sahelian Ministers in September 2020, IFAD and other GCF accredited entities will submit projects for funding consideration by the GCF's Board, under a Great Green Wall umbrella programme. This approach will enhance synergies between projects, increase their impact, and ensure harmonised monitoring and evaluation. If successful, similar approaches could be used in situations where there are similar opportunities for collaboration in various regions, sectors or results areas.</p>