

AFD -

Answer to the Request for Input to the Strategic Plan of the Green Climate Fund

The Agence Française de Développement (AFD), as a member of IDFC, is very pleased to answer to this request for input to the strategic plan of the GCF. As representative of a bilateral development bank, we value the partnership with the GCF, which has already helped us to strengthen climate change issues into our institutions and operations.

We have a key role to play in facilitating increased investment in sustainable development, including creating opportunities and a global framework to help redirect private investment, and to facilitate investment flowing to those countries and opportunities where the sustainability impact will be the greatest. Considering the objective of supporting GCF's mission, we strongly believe our partnership has the potential to participate actively to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

We hereby would like to propose the following inputs regarding the Strategic Plan of the GCF

1.) REGARDING GCF ACTIONS:

- The GCF has successfully established itself as a major source of international climate finance.
- The GCF has built strong partnerships with partner countries and accredited entities.
- Benefiting countries generally demonstrate a high ownership of the projects.
- A substantial number of projects has been approved by the GCF, which will contribute to achieving the 2°C/1.5°C goal and / or to strengthening the resilience of countries and the project beneficiaries.
- The GCF has positioned itself as a mechanism with the potential to deliver effective solutions to long standing issues related to finance, capacity building and technology transfer in the context of the climate change regime.

2.) CHALLENGES AND RECOMMENDATIONS:

2.1. Engagement with and support to Accredited Entities: The GCF has accredited a unique set of partners for the implementation. The accreditation procedure shall ensure that all institutions have the same capacities and standards in their respective accreditation category. At the same time the procedures within the GCF secretariat and the Accredited Entities are not yet optimal for achieving the objectives of the GCF and operational priorities and measures outlined in the Strategic Plan. Despite substantial differences in the capacity between the accreditation categories, all Accredited Entities are basically treated in a similar way. AEs with high capacities and existing standards receive a similar attention from the secretariat as AEs with lower capacities. It would be better if the Secretariat could provide more support, guidance and input to such AEs with less experience and lower capacities. At the same time the Secretariat should rely more on the proven capabilities of the more experienced Accredited Entities. In the same way, the GCF should differentiate between Institutions that directly implement the GCF funds themselves and institutions that channel the funds to an implementing entity and mainly monitor and supervise the funds. If the latter institutions have proven their experience, capability and reliability for such tasks the GCF should rely more on their supervision and monitoring and go less into details itself.

Recommendation: GCF should revisit its modalities of engagement with different Accredited Entities with a view to building more confidence on capacities, capabilities and standards assessed during the accreditation. AEs with less capacities should be more supported, AEs with higher capacities should be more relied on to achieve a higher efficiency and effectiveness of the operations. It would be of great advantage if GCF could give specific guidance, based on AEs own specificity and added value, on the type of investment they are expected to propose to match with GCF mandate.

2.2 Governance of the GCF: While the GCF has a well-defined governance structure, it may not be ideal for coping with the growing number of Funding Proposals and projects in the portfolio of the GCF. At board level, the voting system by consensus leads in some cases to difficulties for reaching decisions. There is a risk for political discussions and delayed decisions. If the decisions making process is unreliable, certain types of Funding Proposals may not be submitted to the GCF Board anymore. Moreover, there is also a risk for projects under implementation.

Recommendation: A review of the decision making process including a new voting system for the board that increases the efficiency is recommended, to give more visibility and comfort to AE.

2.3. Policies, guidance and regulatory framework: The GCF has developed a vast amount of policies, guidelines, recommendations for all areas of its work. Some of these documents provide necessary internal and external guidance for the GCF operations and to its partners. As the amount of documents keeps increasing, the complexity of such regulatory framework is reaching the point of being difficult to manage by partner countries, accredited entities and sometimes even to the GCF secretariat and the Board itself. This leads to inefficiencies in the operations of the Fund and its cooperation with partners. In addition it maximizes the likelihood of substantial legal, operational and reputational risks. The rigid system of policies and requirements also prevents potential innovative and paradigm shifting funding proposals to be submitted to the GCF. As an example, it is virtually impossible for instance to provide NOL of NDA when trying to put in place innovative Funds, which could have a very important impact at the end, but do not allow specific zones to be targeted up front.

Recommendation: Substantial reduction of the number and the complexity of GCF policies and guidelines. Focus on the most important issues that are necessary to achieve the GCF objectives.

2.4 Monitoring and Accountability Framework reporting requirements: The monitoring and reporting requirements of the GCF from the AEs substantially exceed the usual requirements of other donors in their cooperation with experienced Financial Development Institutions. Not only does this refer to the volume of information to be submitted, but also to the level of detail and the frequency of such reports (e.g. readiness & PPF/twice a year, accreditation self-assessment/every year). Besides of the complexities of the work involved, these administrative tasks deviate resources away from the core objective of enhancing climate change adaptation and mitigation, while increasing transaction costs on both sides, AEs and GCF Secretariat, without necessarily leading to a higher quality.

Recommendation: GCF should review Monitoring and Reporting requirements and simplify them, with the objective of higher operational efficiency. It is recommended to rely more on

the established monitoring and reporting systems of the AEs, and which are fundamental components of the systems assessed by the GCF accreditation.

2.5. Country Programming: It is positive that the GCF is in constant exchange with partner countries and that it tries to follow a strategic approach for country programming. In reality this seems to be difficult to bring country programmes and Accredited Entities together. Often Accredited Entities or their governments have already agreed on their own strategies with respective countries. In the same way interesting funding ideas may arise outside of the defined country programmes. The country strategies should therefore continue to serve as a guidance for focus areas of the countries but other Funding Proposals should still be allowed.

Recommendation: Country programming should not only be constructed with inputs from AE, as appropriate, but also be distributed amongst AEs.

2.6. Paradigm Shift: A definition for paradigm shift is still missing although this is one of the main funding criteria of the GCF. Because a paradigm shift could happen at very different levels of an intervention and within very different timelines, a concrete definition will probably be difficult also in the future. To ensure a wide range of transformative and innovative Funding Proposals, an open guidance on paradigm shift, that takes into account different regional context, national circumstances and respective capabilities, may be more helpful than a single definition.

Recommendation: Paradigm Shift should be interpreted in a very broad way to attract a diverse range of Funding Proposals that may all be needed to achieve the desired impacts of the GCF.

2.7 Instruments: The GCF offers a suitable range of financial instruments to achieve its objectives. Such instruments are especially grants, concessional loans, equity and guarantees. Lately the policy of the GCF has shifted to restrict the use of grant funding and promote more loans and other instruments. However, for achieving quick and high impacts in many project types incentives in form of grants (or grant derivatives) are needed. In addition, several countries are already now heavily indebted so that further loans for climate change would increase their economic difficulties and may have a negative impact on other areas of sustainable development. The GCF should therefore be open to consider all instruments including grants for all project types in all countries if the use of grants is justified and leads to higher / quicker results.

Recommendation: GCF should continue to use grants to achieve quicker and higher impacts or to higher leverages of co-financing and other third party funding.

Time is of the essence for climate change and in particular how private sector is achieving paradigm shift. GCF could also provide more agility to answer to private sector request.

2.8. Risks: The GCF is seen as generally risk averse. In its AMAs and FAAs with AEs, for instance, risks are often shifted to the AE. To be attractive especially for truly innovative and transformative projects the GCF should participate not only in financial risks (such as currency risks) but also in operational risks and success risks. NOLNOL

Recommendation: The GCF should participate more in financial, operational and success risks to attract more innovative and transformative Funding Proposals.