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

The Development Bank of Southern Africa (DBSA), 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 *regional* 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

- **Strengthening country ownership and integrating efforts to meet country-specific needs, requirements, and circumstances;**

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.

Recommendation: Country programming should not only be constructed with inputs from AE, as appropriate but should provide flexibility for new ideas to be considered.

- **Motivating and supporting country-driven and paradigm-shifting actions to drive towards low-emission and climate-resilient development pathways**

The interpretation of paradigm shift could be limiting where relevant context is not taken into account. 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.

Recommendation: Paradigm Shift should be interpreted such that it allows flexibility with regard to regional/country context.

- **Sustaining support for countries to invest in knowledge, institutional and human capacity development**

It is apparent that many national institutions including NDAs and emerging AEs in Southern Africa would continue to rely on GCF "readiness" support to systematically address climate finance gaps and opportunities. In our experience, the process for unlocking such support is not optimal and could be improved.

- **Supporting capacity development of national institutions for climate change adaptation and mitigation project pipeline development and successful implementation of funded activities**

The GCF has accredited a unique set of partners for the implementation. Accredited Entities include NGOs, government institutions, UN organizations, national, regional and bilateral (development) financing institutions as well as multilateral development banks and private sector institutions. 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.

- **Motivating and supporting transformation toward sustainable financial systems**

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 especially for adaptation projects. 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 classification of countries (without taking into consideration structural inequalities within countries) poses a further risk that projects in need for grant related instruments are prejudiced and cannot be supported as a result. 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 regardless of the country classification.

Recommendation: Projects in middle Income developing countries should not be excluded from receiving grant related instruments, but should be evaluated based on the merits of the projects and rationale for motivating for such instruments (as long as the principle of "least concessionality is applied).

- **Pursuit of ambitious results, greater impacts and fundamental transformation in order to significantly contribute to the achievement of 1.5°C goal and close the Greenhouse Gas (GHG) emission gap by 2030**

There should be room provided to AE to develop high impact programmes that could attract institutional investors at scale and in a way that reduces GCF involvement over time (thus reducing the strain on GCF resources)

- **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 that ensures efficient decision making is recommended, to give more visibility and comfort to AE.

- **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 after every Board meeting, 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.

Recommendation: Substantial reduction of the number and the complexity of GCF policies and guidelines. However, ensure availability of policy guidelines for key issues that are necessary to achieve the GCF objectives (reduce gray areas and limit inconsistant application based on individual interpretation).

- **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 selfassessment/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.

- **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 but also in operational risks and success risks.

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