

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

Dear Sirs,

KfW, as member of the International Development Finance Club, is pleased to submit its response to the Request for Input to the Strategic Plan of the GCF, received on 28 March 2019. As a development bank, we value the partnership with the GCF and acknowledge its contributions already made to address climate change challenges in the world. In supporting the GCF's mission, we believe that such partnership has the potential to deliver effective solutions to long standing issues related to, amongst others, finance, capacity building and technology transfer in the context of climate change mitigation and adaptation.

On the specific request for inputs to better respond to Accredited Entities' needs on preparation and implementation of actions, seeking resources from the Fund and to improve the Fund's overall operations, we would like to present the following observations and recommendations for your perusal:

A) Achievements of the GCF

- 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 have been approved by the GCF which will contribute to achieving the 2°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 solutions to long standing issues related to finance, capacity building and technology transfer in the context of the climate change regime.

B) Observations and Recommendations

- (1) **Engagement with Accredited Entities:** 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 its 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. However, Accredited Entities with less experience and lower capacities may be in need of more support, guidance and input by the GCF Secretariat. At the same time the Secretariat could rely more on the capacities and proven procedures, processes and internationally recognized standards of the Accredited Entities in higher accreditation categories.

***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 lesser capacities should be more supported; AEs with higher capacities should be more relied on to achieve a higher efficiency and effectiveness of the operations.*

- (2) **Decision Making Process:** 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. An unreliable decision making process can pose a risk for successful project development, submission to the board and implementation.

***Recommendation:** GCF should review the decision making process including its voting system with the objective to increase the reliability.*

- (3) **Policies and regulatory framework:** The GCF has developed a vast amount of policies, guidelines, recommendations for all areas of its work. As the amount of documents keeps increasing after every Board meeting, the complexity of the regulatory framework is reaching the point of being difficult to manage by partner countries, Accredited Entities and possibly 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 increases the likelihood of substantial legal, operational and reputational risks for all partners. The rigid system of policies and requirements may also prevent potential innovative and paradigm shifting funding proposals from being submitted to the GCF.

Recommendation: *To examine the regulatory framework with a view to simplify and substantially reducing its complexity. The GCF should especially rely more on the rules, policies and procedures of the Accredited Entity that have been thoroughly examined by the GCF during the comprehensive accreditation phase.*

(4) Monitoring and Accountability Framework reporting requirements:

The monitoring and reporting requirements of the GCF substantially exceed the practices of other donors in their cooperation with experienced Financial Development Institutions. The volume of information and the level of detail requested as well as the frequency of such reports increases transaction costs for the GCF Secretariat and the Accredited Entity without necessarily resulting in a more effective accomplishment of the operational priorities and measures outlined in the Strategic Plan.

Recommendation: *To review the monitoring and reporting requirements and simplify them, with the objective of higher operational efficiency. It is further recommended to rely more on the established monitoring and reporting systems of the AEs which were assessed during the GCF accreditation.*

(5) 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 seems to shift towards restricting the use of grant funding and instead promoting loans and other instruments. However, for achieving quick and high impacts, incentives in form of grants (or grant derivatives) are often needed. In addition, several countries are already now heavily indebted so that further loans for climate change would increase their economic challenges and may have a negative impact on other areas of sustainable development.

Recommendation: *The GCF should remain open to use all instruments and in particular grants for all project types in all countries to achieve higher impacts and quicker results.*

(6) Pipeline Development: It is positively observed that the GCF is in constant exchange with partner countries and that it tries to follow a strategic approach for country programming. In practice, however, this bears the risk that country programmes are not fully owned by the countries themselves. Further, it may reduce the incentive for NDAs to

strengthen their capacities in order to enhance their role in country programming.

Recommendation: *To increase the country drivenness and the effectiveness of the pipeline development the NDAs should be strengthened in their capacities to working with Accredited Entities to jointly determine suitable activities for GCF funding.*

- (7) **Risks:** The GCF is seen as generally risk averse. In its AMAs and FAAs with Accredited Entities, for instance, risks are often shifted to the Accredited Entity. 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 participate more in financial, operational and success risks to attract more innovative and transformative Funding Proposals*

We thank you for considering KfW in this call for inputs and look forward to continuing our partnership for promoting a low-emission and climate-resilient development and the implementation of the Paris Agreement.

With kind regards,

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