

Comments to the Drf-1 USP from DeNeLux Board seat

Overall, the draft is in line with what has been agreed on at previous board meetings and has moved in the right direction from the zero draft. We have drafted our comments under similar headlines as in the USP to be applicable to the next updated draft.

Long-term vision:

- The seat considers the long-term vision to be too weak on stressing the importance and urgency of ambitious, transformative climate action with reference to 1.5°C. 2030 is a critical decade and this USP will be instrumental in keeping us on the path to keep within this temperature limit.
- The Drf-1 has clearly incorporated a stronger narrative for the GCF but the GCF long-term vision could be even more politically attractive by very clearly spelling out the comparative advantage and added value of the GCF. In this respect, the draft should include lessons-learned including from the Second Performance Review.
- In regards to the Drf-1 annex, it is considered to be quite weak and could benefit more from lessons-learned.

Mid-term goals:

- The goals go in the right direction but could be further strengthened, especially in terms of transformative, high-impact ambition and a clear focus on keeping 1.5°C alive.
- On 2030-2035 mid-term goals: We would encourage further elaborating how these are translated and related to the other mid-term goals (by 2027).
- Important mid-term goal on greening financial system. It could be further elaborated with a sub-goal on enabling environments, green taxonomies and policies etc.
- The seat would further support adding a sixth mid-term goal on decarbonization with reference to the 2020's being the critical decade.
- Would the USP DRF.01 (if adopted in its current form) imply changes to the IRMF, or to the (draft) IRMF Handbook, or to the current list of result areas/result indicators? If so, which ones? Will the (draft) IRMF Handbook be tabled for adoption at B.35? If not, why not?

Strategic objectives:

- The strengthened focus on resilience/adaptation support, including for SIDS and LDCs, as well as increased Readiness and Preparatory Support among the key priorities of the draft is welcomed.
- While the focus on innovation, emerging technologies and de-risking is positive, private sector engagement could feature more prominently. Diversification of financial instruments is important, especially to crowd in private investment for financing climate solutions in developing countries. That is why the specific mention of developing blended finance instruments, as well as using new financial instruments and exploring the potential to use these instruments in novel ways to address certain vulnerabilities in developing countries is appreciated. The private sector needs to be involved more and become a fundamental part of the GCF.

- The objective of most adaptation projects is to increase resilience and to prevent climate damage. As such, adaptation action and loss and damage action can be seen in a continuum, which makes it likely that certain adaptation projects may in the future be eligible for financing from the new L&D Fund. Did GCF, in its strategy for 2024-2027, consider to anticipate on the appearance of the L&D Fund in the climate finance landscape during GCF-II? If not, why not?
- On ‘early warning systems’ in DRF.01 Although the seat stresses that it strongly supports this specific action as a mid-term goal, the draft is lacking a standing on what types of actions to ‘avert, minimize and address’ loss and damage might be undertaken by the GCF and thereby which types of actions are *not* within the scope of the GCF.
- On locally-led adaptation, we strongly support the specific focus on targets in the strategic objectives and the use of more devolved finance to increase resilience of the most vulnerable groups. We would, however, like to see as part of the strategic objectives, specific reference to the increased use of nature-based solutions, which is not included in the current version. Nature-based solutions are important tools to address, e.g. adaptation, mitigation, biodiversity and poverty.
- On climate resilience, a more ambitious target on prioritizing the most vulnerable is critical and we would like to see the floor of adaptation funding going towards the most vulnerable countries be raised and exceeding actual IRM performance of 69 percent allocated to LDC, SIDS and African states.
- The DRF-1 contains very few quantitative objectives for 2027. We agree that such objectives will depend on the size of the replenishment and on the nature of proposals received. But an effort could be made to be a bit more ‘precise’ in describing our goals.
 - It is recalled that the GEF in 2022 worked with various replenishment scenarios (small, medium, large) with quantitative objectives for each scenario. Why can’t the GCF do that? Why is there, in DRF.01, e.g., no target for private sector co-financing or for the share of adaptation activities that should be locally led, etc.?

Operational/institutional priorities:

On Access:

- On project pipeline prioritization, the draft should clearly state how the GCF can prioritize maximum impact in prioritizing funding proposals and in this clearly state the trade-offs and tensions between different objectives.
 - As the climate crisis is felt more and more acutely everywhere in the world, and as the GCF reaches maturity with a project pipeline that exceeds the available resources, the fund has the potential luxury to ‘choose’ the best projects. Therefore, in our view, GCF needs a fundamental discussion about where its money has the highest added value. Should projects that have the highest potential to contribute to “the paradigm shift towards low-emission and climate-resilient development pathways” take precedence over proposals whose potential in this regard is less obvious? Currently proposals received by the Secretariat are studied in a first-come-first-serve order (i.e. chronologically). Same with iTAP, isn’t it? Would there be any justification *not* to prioritize proposals with the highest impact?
 - Following the question above, it is also highlighted that the catalytic impact of the GCF is indeed a strong property of GCF projects. In the event that these projects would – we assume – largely be mitigation activities, we would stress that

prioritizing the most vulnerable and ensuring a high threshold of adaptation would remain a high priority for the seat, all while keeping the balance between adaptation and mitigation projects.

- o Good to note that enhancing access is a core operational objective for GCF, but the draft could further increase ambition with regards to transparency and predictability of project/accreditation procedures as well as give consideration to differentiate approaches to support those with least capacity – especially SIDS and LDCs – to access funding.
- o Further updates to the SAP are needed in this regard, e.g., delegation of authority. The USP needs to be more ambitious in this regard and needs to move away from the current approach and practice of one-size-fits-all FP approval process.
- o This is also relevant in regards to private sector engagement as the SAP-procedures were introduced to allow for a quicker approval process. The objectives of the GCF cannot be reached if the GCF does not seek more private sector involvement and if it does not facilitate private sector cooperation. The GCF needs to set out clearer ambitions in terms of its cooperation with the private sector, both for funding and for project proposals.
- o The USP draft avoids one serious obstacle to access: language. Many developing nations, especially in Africa and Latin America, cannot meaningfully join in GCF's future strategy discussions, because the very documents in which those strategies are laid-out are hard to access for them. It is therefore desirable that the current and subsequent USP drafts be made available in French and Spanish. Without wishing to open a box of Pandora the introduction of French and/or Spanish project proposals might also be considered.
- o The seat would also welcome a regional GCF presence to accelerate decentralization and build up capacity regionally.

On Accreditation:

- o The need for an Accreditation Strategy with strategic directions/priorities for accreditation should be emphasized in DRF.01. And this must be accomplished soon, preferably in 2023/24.
- o On DAEs, the issue of capacity continues to be a challenge. It is important to find ways to further strengthen opportunities for IAEs to cooperate with DAEs to limit this capacity constraint.