

Input by the German Board Seat on the USP-2 Consultation Draft.01

We would like to thank the Secretariat for the consultation draft of the USP-2, responding to the guidance provided by the GCF Board at B.34 in October 2022. In this context, we welcome the opportunity to provide input on the first consultation draft of the USP-2. Below, we provide overall comments on the draft as well as detailed comments on individual sections of the draft.

We welcome the draft in principle including the structure of the draft, which is in line with the guidance provided by the Board at B.34, and **particularly welcome some key elements in the draft, including**

- Focus on **greening financial systems** in the mid-term goals and strategic objectives.
- **Strengthened support for resilience/adaptation as well as increased Readiness and Preparatory Support** in the mid-term goals and strategic objectives.
- **Improving access to GCF** as the top operational priority for 2024-27.

Building on these positive elements, we would like to highlight some areas where we see room for improvement in individual sections below, to enhance the level of ambition and to articulate **the urgency and necessity for a transformative, high-impact GCF-strategic plan more clearly**, to contribute to achieving the Paris Agreement objectives, with clear references to the 1.5°C-limit. This **relates in particular to the long-term vision** as well as how this translate to the mid-term goals. 2030 is the critical decade to keep 1.5°C within reach, GCF has a key role to play.

In addition, we would suggest for the USP to be more propositional on project pipeline prioritisation, specifically on how the GCF can prioritise Funding Proposals that add maximum impact. We would welcome more delegated authority provided to the Secretariat to prioritise Funding Proposals according to impact.

Finally, we note that the **draft currently lacks clear baseline/investment targets** for specific sectors. While we understand the aim to avoid tensions/trade-offs resulting from specific quantitative targets, certain guidelines for GCF-2 can ensure (and demonstrate to others) that GCF financing flows into priority/high-impact areas.

1. Detailed comments on individual sections:

Long-term strategic vision of the GCF:

- We welcome the clear focus in the long-term vision on supporting developing countries in the implementation of the Paris Agreement including NDCs, NAPs, etc., but would like to emphasise the need to increase ambition and close gaps in order to achieve the Paris Agreement goals.
- However, the urgency of ambitious, transformative climate action should be articulated more clearly. 2030 is the critical decade; this should be reflected, with clear references to keeping 1.5°C alive, and the need to halve global emissions by 2030, based on IPCC, and referring to the need to close the gaps that the IPCC highlights in its latest assessment report, which should inform the GCF in formulating its vision.
- To be more politically appealing, the USP could include a stronger political narrative that outlines why the GCF is the key instrument to implement the Paris Agreement and how USP-2 represents a significant leap forward for the GCF in comparison to existing strategies.

Mid-term goals for climate results – 2027/2030-2035

- 2030/35 and 2027 goals: It would be helpful to **clarify how the 2027 and 2030/35 goals interrelate** with and build on each other. The 2027 goals should be key milestones for

achieving the 2030/35 goals. In this context, it should be clarified which goals are for 2030 and which for 2035 and how 2030/35 goals contribute to keeping 1.5°C within reach. For example, systems transition impact goals are not reflected in 2027: decarbonisation goals are missing, despite the urgency to achieve milestones within the critical decade to 2030, instead there is only a focus on innovative solutions (rather than on scaling up key solutions to achieve the 1.5 limit). Also, it would be important to clarify which goals are for 2030 and which for 2035. Given that this is the critical decade, we need transformative, measurable action until 2030.

- **Systems transitions:** While we welcome this goal in principle, the scope and ambition of the goal should be further strengthened and ensured that benchmarks are compatible with keeping 1.5 within reach. In relation to energy, this includes not just electricity generation but also demand sectors including electrification. In relation to ecosystem transition, we were missing a goal to stop deforestation by 2025/2030.
- **Mid-term goal on greening finance:** We strongly welcome this goal. Yet, ambition should be further increased: we should have at least two sub-goals on greening finance, similar to other mid-term goals. The second goal could focus on setting up enabling regulatory environments, e.g. supporting green taxonomies, green finance policies, green central banking, etc.

Strategic objectives 2024-27:

- **Strengthening country Climate investment capacity/Objective 1:** We welcome the focus on readiness and preparatory support. However, the objective should be further strengthened in terms of ambition: it should not only focus on implementing (often insufficient) NDCs but also on updating them. Moreover, the list of activities under objective 1 are not particularly transformative – even if all activities are implemented, climate action would still not be fully embedded within economic governance and public financial processes as required to implement the Paris Agreement.
- **Building resilience to urgent climate threats/Objective 3:** We welcome the focus on locally-led adaptation and rapid expansion of climate information and early warning systems. Yet, more ambitious targets on prioritising the most vulnerable to climate change is needed, matching or exceeding actual IRM performance of 69% allocated to the most vulnerable. Moreover, more innovative ideas how to attract private sector for adaptation projects could be considered. In this context, we believe GCF should explore further options to respond to L&D more prominently and more effectively, in line with COP27 decisions on the "mosaic" of L&D solutions and accounting for the work of the upcoming Transitional Committee.
- **Forging coalitions for just systems transitions/Objective 4:** We appreciate the objective in principle, particularly on building public-private investment collaborations, de-risking private sector investment at scale and risk appetite. However, the objective needs to expand its scope and strengthen its ambition with clear benchmarks in line with keeping 1.5 within reach. In relation to energy, this includes not just electricity generation where renewable energy should be a clear focus given its clear benefits for climate impact for mitigation and adaptation as well as sustainable development (access to clean affordable energy for all). Also the link to systems transformation in demand sectors through (direct and indirect) electrification should be taken on board, with benchmarks for transitions in these sectors (transport, buildings, industry). In relation to ecosystem transition, we were missing a goal to stop deforestation by 2030. It is important not to see these just as long term transitions, rather reflect the urgency of the critical decade to achieve transformational impact.
- **Greening financial systems/Objective 5:** We strongly welcome this objective; incorporating climate risks into decision-making of financial institutions and strengthening access to green

capital markets are important elements. However, the draft needs be clearer that GCF-engagement on greening finance should not only be about incorporating climate risks but fully aligning operations of financial institutions with the Paris Agreement and setting up enabling policy environments.

Operational goals and institutional priorities for 2024-2027

- **Access/operation priorities:** We strongly welcome that improving access is identified as a core operational priority. Building on this, the draft could be further strengthened by:
 - increasing the transparency and predictability of project and (re-)accreditation cycle procedures;
 - addressing regional presence more urgently, as a key tool to facilitate access through decentralisation;
 - significantly reducing bureaucracy and the administrative burden on partner institutions;
 - enhancing differentiation between different AEs in (re-)accreditation procedures, according to their different capacities and needs.
- **Governance/institutional priorities:** We appreciate that improving the GCF's governance is listed as an institutional priority. However, we would want to include a clearer articulation of how improving GCF's governance structures can strengthen the GCF's impact and influence. Improving the agility, transparency and efficiency of the GCF's operating model is critical. This could build on key findings of the SPR in that regard, with clear indications where lessons have been learnt. Some more specific elements would be Moreover, we would welcome strengthening a "One-Board-Approach" as a key prerequisite to enhance positive, constructive collaboration in the Board and to enhance joint work across constituencies.
- **Review of USP-2:** We would like to request assurances that at the next review of USP, the Board will have the chance to update the mid-term goals, if necessary. This is a critical aspect, as it may turn out that more transformation, more ambition and more impact is needed to achieve the Paris Agreement in line with its ambition cycle.