

ANSWERS TO THE QUESTIONS ASSOCIATED WITH GCF's STRATEGIC PLAN

- Does the GCF's long-term strategic vision – of promoting paradigm shift and supporting developing countries in the implementation of the Paris Agreement and UNFCCC – remain relevant and ambitious? Has the GCF set out sufficiently clearly how it will deliver its long-term strategic vision?

Ans: As the world's largest climate fund, GCF's mandate prevails on its fundamental goal of supporting developing countries raise and realize their Nationally Determined Contributions (NDC) ambitions towards low-emissions, climate-resilient pathways. In implementing its strategic vision, the GCF has made commendable efforts in directing financial resources, knowledge generation and capacity building support to developing countries where climate change induced problems are rampant.

However, there are few recommendations for the upcoming strategic plan to make it more action-oriented for Bangladesh:

- GCF in its Strategic Plan 2020-2023 has stated its broad objectives and priorities but provided no guidance on how the Accredited Entities and NDAs should design its action plan in the country context to achieve greater mitigation and adaptation impact within the respective time frame. Thus, the SP 2024-2027 should have a clear pathway from outputs through outcomes to the long-term goal, for the AEs and NDAs to achieve the GCF's mandate and overall vision.
- The key aspects of paradigm shift as defined by GCF are sustainability, scalability, replicability and additionality, which are often difficult to rationalize in the Funding Proposal as it is vague and ambiguous. Therefore, GCF should strategize on providing specific indicators or measurement criteria to capture expected paradigm shift for a faster access to the Fund. Furthermore, developing countries like Bangladesh often lack sufficient Monitoring & Verification tools that are appropriate and required for measuring paradigm shift. Hence GCF should strive to provide tools needed for measurement which in turn would ease in smoothening the articulation and justification process of paradigm shift.
- GCF mentioned in its Strategic Plan 2020-2023 that it will support for a wider alignment of financial flows with countries' climate plans and strategies. However, in case of Bangladesh there is a significant gap between GCF finance received and the country's budgetary requirement to tackle impacts of climate change. Mobilization of GCF resources as planned in the Country Programme seems to be off-track and is impractical to achieve with the current GCF appraisal process.

GCF's strategic vision, although ambitious, needs to consider the significant difference between its committed amount (which stands at USD 10.4 billion) and the disbursed amount (which is around USD 2.7 billion). Compared to the committed amount, the disbursement rate is around 26% which is just 1/4th of the total committed amount that is reaching the targeted countries. These are areas where GCF should focus on in enhancing access to ensure relevance of its strategic vision in the long term. Even in IDCOL's case, our FAA signing for GCF's first approved project took a considerably long time due to the various terms and conditions that required extensive and lengthy negotiation during the finalization of the Agreement.

- **What global, regional, national and subnational developments, trends, needs and opportunities relevant to adaptation and mitigation programming in developing countries should the GCF take into account in preparing for its second replenishment period? What lessons can be learned from experience to date?**

Ans: GCF's second replenishment period should endeavor to take proactive steps in extending support on how to onboard the private sector by creating a favorable investment environment. GCF's initiatives in its strategic area *"De-risking and addressing barriers, including currency fluctuation, to mobilize private sector resources at scale for climate investments in developing countries, including a greater role in supporting climate change adaptation"* seems to be absent in Bangladesh.

GCF should have a guideline on how it can support to leverage private sector financing and create a low-cost financing environment favorable to the private sector. Notably, the concessional loan bearing interest rate of 0.75% and 0.5% service charge are no longer concessional at 1.25% in major convertible currency after considering the exchange rates. GCF presently has no system in place to absorb the currency risk and therefore the effective rate is not attractive to crowd in private investments

Furthermore, GCF require the Accredited Entities to not to withhold any Taxes or other deductions from any amounts to be transferred by the Accredited Entity to the Fund, in such case these costs are borne by the AEs making the GCF fund expensive to implement. Thus, GCF should have an understanding with the NDAs on such matters so that tax exemption on the GCF fund can be availed to ensure its concessionally.

GCF should also focus on why financial instruments of equity, results-based payments and guarantee have not yet been mobilized at a large scale and strive to make these instruments more popular among accredited entities as these instruments will play a crucial role in mobilizing private sector financing on a broader spectrum in the future.

The need for authenticated and up-to-date data from the national source is imperative in delivering appropriate references while writing funding proposals and hence GCF support in collecting and consolidating these data within the country's national archive would accelerate the proposal writing process. GCF should also hold regional knowledge sharing platform where countries like Bangladesh, India, Pakistan etc. can participate and share their experiences and form connection through these events. This in turn would promote regional connectivity and knowledge-sharing among nations.

Based on past experiences of various projects approved in Bangladesh, undergoing GCF review while seeking for grant financing for adaptation projects are a challenging process that requires rigorous due diligence. Hence, the entire process of grant approval within the adaptation programming should facilitate simplified proposal requirements from GCF to enhance access to grants in areas where there is a dire need to address the problems induced by climate change.

Although mitigation financing, which is essentially loan financing under GCF, is comparatively less complicated, nevertheless a difficulty that has been encountered so far is the availability of a robust emission profile and emission reduction potential data, which would catalyze the rate at which mitigation projects/programmes are approved. This stands true also in the case of adaptation

projects/programmes, in the sense that in envisioning the bigger picture, GCF should strategically finance and develop knowledge hubs, for both adaptation and mitigation, that will be directed towards addressing their various requirements (in terms of data, information, references etc.) associated with faster approval of the funding proposals. GCF can target developing countries through clustering them into regions (which is already in place within the GCF such as Asia Pacific, Latin America etc.) and tactically move forward in addressing these concerns.

- **How should GCF further elaborate its role within the climate finance landscape, in light of its comparative advantages? How should GCF seek to differentiate its focus from other sources of climate finance? Where are the opportunities for complementarity, coherence and partnerships with others?**

Ans: The ways on which GCF can further elaborate its role in the climate finance landscape are as follows:

- Through forming partnerships with different national and international organizations, GCF should de-risk its financing to make it rightfully concessional and address barriers to mobilize private and public sector resources at scale.
- Since Bangladesh has graduated from an LDC to a lower middle-income country, the development funds have become expensive but in terms of vulnerability towards the climate, Bangladesh is still a very climate vulnerable country ranking 7th according to the Global Climate Risk Index 2021¹. However, the difference in cost of financing that GCF is offering is not comparatively favorable in relation to other development finance rates.
- With respect to the procedural complexities involved, sourcing grant from GCF (which is accessed through a direct access entity) is difficult and takes much more time, compared to grants provided by other development sources such as World Bank, because it comes through a sovereign source as a result the process of accessing grant is much more faster compared to GCF's process. But comparatively, it is more important for Bangladesh to access climate finance because the climate impacts have a more instantaneous adverse effect on our country. The adversities induced by climate change instantly affect the country and hence to recover from this situation, quicker and easier access to climate finance is required.
- During an unforeseen disaster induced by climate change, the governments of the developing country are exhausting the national budget dedicated for country's development. Whereas there should have been a process to quickly access these post-disaster funds under GCF.

Moreover, the opportunities for GCF that bridge the complementarity, coherence and partnership aspects with others are as follows:

- GCF should develop a window facilitating an Emergency Response Fund which will be designed to provide support to countries that are tackling the severe climate impacts. Notably, there are always a group of vulnerable people/communities who are severely affected by the impacts induced by climate change. Thus, although GCF is investing for enhancing the resilience of these people, nevertheless, in conjunction with long-term resilience, these group

¹ <https://www.tbsnews.net/environment/climate-change/bangladesh-remains-7th-most-vulnerable-climate-change-191044>

of people/communities also require immediate emergency response relief when they are hit by unforeseen climate calamities. This is because the kind and type of vulnerability keeps on changing as each successive years go by, and it is becoming increasingly more difficult to predict the type of vulnerabilities that might occur in future. As such, there is a dire need for the development and implementation of an Emergency Response Fund.

- In addition, there is a need for a framework/guideline of how this Emergency Response will be developed, implemented and channelized. That is, with whom should partnerships be formed in the context of an emergency, a framework which will facilitate this process in the case of an emergency and make access to such options comparatively easier. Currently, there exists no such guideline or framework which explain how these Emergency Response Fund will be implemented. The availability of clear a guideline is essential so that we do not need to go through the complex funding approval process of seeking for GCF funds following the conventional rules.
 - GCF may consider having a long-term strategic partnership with the government of AEs in developing countries, through the provision of budgetary support related to climate change. GCF may do this by disbursing countries based on the achievement of key results (including prior results) related to climate change in alignment with GCF investment criteria just like World Bank's Program-for-Results Financing approach. By doing this GCF can promote sustainable development and improve the efficiency and effectiveness of the utilization of Fund.
 - GCF should also emphasize on developing some procedural waivers based on past performance to accelerate and streamline the approval process of AEs. For example, when World Bank works with IDCOL, they provide some procedural waivers through assessing the past performance of the institution, that is, IDCOL. Hence, to develop long term strategic alliance with the national Direct Access Entities, based upon past performance of DAEs, GCF can introduce some procedural waivers in order to FastTrack the funding proposal approval process and also provide some additional support to DAEs.
- **Do the GCF's strategic objectives and portfolio targets capture appropriate ambition for the second replenishment period? How could GCF evolve these in a way that sets clear, actionable, measurable programming goals aligned with its strategic vision?**

Ans: Although GCF's strategic objectives and portfolio targets are embedded in its ambitious actions for combatting climate change, nevertheless in order for its programming goals to remain clear, actionable and measurable, its financial resources should pass the test of being measurable, reportable and verifiable. In addition, the GCF should focus on policies and programmes to collaborate with the private sector, donors and civil societies to build the capacities of all relevant stakeholders to understand and improve access to climate finance. Creating sustainable funding mechanisms through streamlining the application and review process for project/programme approval can be imperative in developing vivid and measurable goals aligned with its strategic vision.

The Rapid assessment of the progress of the Green Climate Fund's Updated Strategic Plan published on April 2022 states that "with business-as-usual performance, the GCF is likely to meet less than 1 per cent of mitigation and adaptation costed needs from the GCF-eligible countries' NDCs. Overall, the evaluation team was unable to assess whether this level of ambition is sufficient, as there is no

relevant, measurable target for the GCF set out in the USP.” If this is the real ambition that GCF is targeting to set in the upcoming replenishment, then it should be communicated to the GCF eligible countries specially LDCs and developing nations so that they can prepare accordingly and start to focus on building national fund to tackle impacts of climate change. Otherwise GCF must come up with an effective strategy to leverage private finance through blended finance. GCF must understand the country context and as per that must invest in new business models and financial instruments and practices to establish a proof of concept for the private sector.

GCF has to leverage the risk management capacity of its partners and its own set of investment, risk and results management frameworks, GCF can accept higher risk to support early-stage project development as well as policy, institutional, technological and financial innovation to catalyze climate finance.

- **How can the GCF better respond to developing countries mitigation and adaptation needs and ensure country-ownership of programming? What role should the readiness and preparatory support programme, support for national adaptation planning, and country programmes play?**

Ans: The role of NDA is paramount in ensuring country ownership with regard to the GCF modalities and over the years GCF has been effectively strengthening country ownership through structured dialogues and capacitating NDA as well as AEs through various offline and online programs such as workshops, missions, physical visits etc.

While the GCF seems to be taking consistent steps to strengthen and institutionalize country ownership through NDAs, the current level of this institutionalization must be channeled more strategically to effectively contribute to the paradigm shift. That is the case for readiness and preparatory support activities, which should shift towards a phase based more on “implementation” and place increasingly more emphasis on building countries’ project pipelines, as has been already developed in the case of Bangladesh through its Country Programme. As the GCF evolves and matures from its earlier years of institutional development, NDA’s agency and authority will also increasingly matter not only to direct activities towards a paradigm shift, but also to assess their progress through NDA’s roles of monitoring and in-country coordination. This also emphasizes on the need for updating the Country Programme from time to time to include relevant climate change projects within the national pipeline.

Promoting the paradigm shift by enhancing country ownership will require more relevant stakeholders to be engaged at the national level. Therefore, readiness support and support for adaptation planning should also target other stakeholders, such as DAEs, civil society, and the private sector. GCF should ensure that capacity building of NDAs need to be geared at improving their technical understanding of financing. This provides NDAs with better assessments of and influence on the development of innovative projects, and can effectively involve a larger basis of national stakeholders.

- **How should GCF continue to build its paradigm shifting portfolio through its next programming period? What opportunities for adaptation and mitigation programming, and opportunities to improve the funds programming processes, can the GCF capture?**

Ans: The GCF could aim to nurture its paradigm shifting portfolio through fully operationalizing country-ownership by adopting the iterative and long-term readiness and preparatory support, directly accessible also to non-state actors, in a way that builds the capacity and responds to the needs of multiple in-country stakeholders, including in particular at the sub-national and local levels by focusing on needs and capabilities of vulnerable communities, women, Indigenous Peoples, and the local private sector. The GCF can further explore the avenues of scaling up GCF Investments, programming and prioritizing Pipeline Development through:

- a) Increased access by more direct access entities;
- b) Increased funding for countries identified by the Governing Instrument as particularly vulnerable, and for those that promise the most direct benefits to affected communities and populations; and,
- c) Stronger support for activities in countries or regions that receive readiness financing, but thus far have been unable to submit full project proposals. This could involve many more projects of a smaller scale, but with proven low-carbon and climate-resilient approaches that could be replicated manifold, including through scaling up and further streamlining the Simplified Approval Process (SAP).

The GCF should scale up its investments through reaching out and capacitating more implementation partners which will ensure more equitable access of the Fund to a range of partners.

- **Building on its private sector strategy, what actions and partnerships should GCF pursue to catalyze private sector finance at scale?**

Ans: The GCF should commit to high standards for the inclusiveness of all its activities through forming partnerships with the private sector. The GCF can undertake a variety of actions to support engagement of the private sector in catalyzing private sector financing such as:

- i) Develop a well-defined road map for the involvement of the private sector in planning and climate change policy frameworks, through consultation with the private sector. Integrate private sector considerations into climate-related policies and plans by including specific roles and responsibilities, concrete actions and timelines for specific actors. Needless to say, in supplementing GCF's private sector strategy, the Government as well as the NDA also has a vital role to play in this case.
- ii) In Bangladesh hedges are not yet possible as the country has less liquid and less developed capital markets. In such case due to high currency risk, GCF financing cannot be used at scale for local currency lending to help increase the capacity of domestic capital markets, local financial institutions and enterprises including MSMEs to attract large-scale financing for climate mitigation and adaptation impact. Thus, GCF should explore new modalities to reduce foreign exchange risk related to GCF financing to attract private sector.
- iii) Global trends highlight the potential of guarantees and equity to mobilize more capital than any other instrument as they expand developing countries' access to capital markets at a lower cost and longer maturities. Risk mitigation facility to provide project-based guarantees without sovereign indemnity could be one of the effective ways to crowd-in private investment in large infrastructure projects in Bangladesh. GCF can enable our access to these resources by developing guideline or toolkits describing how these instruments can be used in the country context to leverage private finance.

- iv) Focus on specific sectors which have both a better developed role for the private sector in policy frameworks as well as an importance in climate policy framework (e.g. Bangladesh's Nationally Determined Contribution or INDC). This includes the energy, infrastructure and agriculture sectors. These sectors present an opportunity to unlock climate finance with quicker and more meaningful impacts.
- v) GCF needs to de-risk more conservative private sources of finance and has to show how the risk appetite of GCF differs from other climate multilateral funds, which is to take on risks that other funds/institutions are not able or willing to take, by increasing instances in which GCF takes educated risks – to support technology development and transfer, first loss positions or participation in higher risk tranches – to demonstrate the viability of innovative approaches and deliver scale

- **What steps can GCF take, in collaboration with its country partners, accredited entities and delivery partners, to ease and accelerate access to GCF resources, as well as strengthen the role of Direct Access entities?**

Ans: The GCF should release more evidence-based guidance of good practice in challenging areas for project preparation. There is particular demand for guidance on meeting the criteria on paradigm shifts, and the climate and economic cases for action. As has been said time and again, streamlining the approval process of review of submitted proposals will enable to accelerate the fund approval process.

Since GCF disburses only in major convertible currency therefore DAEs are forced to bear the foreign exchange risk to pass the GCF concessionally downstream. However, DAEs capital structure will not be able to sustain such exposure over the long term, thus GCF should introduce a mechanism to overcome this biggest hurdle for the developing nation.

PPF is important for Bangladesh to improve its database and to produce solid estimates of sectoral greenhouse gas emission. PPF along with the Country Readiness support can ensure availability of reliable emission profile and emission reduction information which will enable the Government to identify more number of projects and thereby, strengthen the project pipeline on low-emission development. At the moment, key barrier to include more sectors and sub-sectors under the mitigation activities is unavailability of reliable data. IDCOL seeks support from NDA and GCF to develop a solid database so that we can include transformational projects and programmes under various sectors to achieve the country target for low emission development.

The GCF Secretariat should strengthen its country engagement processes. Though Regional and global dialogue meetings arranged by GCF, government agencies, accredited entities, and implementing partners should be capacitated for leading the project design and approval process, with DAEs being the main target in order to enhance direct access

The GCF can endeavor to create a forum which could provide ideas and proposals to inform the ongoing UNFCCC debate on a potential merger of climate funds and attracting non-government contributions to the GCF. A forum could also help share experiences of grant and non-grant financing of GCF projects.

IDCOL so far has received remarkable guidance from the country programming team in building its project pipeline, such handheld guidance is very important to discuss projects openly to understand its viability under GCF.

As mentioned before if GCF could disburse countries/AEs based on the achievement of key results (including prior results) related to climate change in alignment with GCF investment criteria just like World Bank's Program-for-Results Financing approach. By using a country's own institutions and processes, and linking disbursement of funds directly to the achievement of specific program results will make GCF accessing process much more faster rather than spending 2-3 years in just developing the Funding proposal.

- **What enhancements or adjustments to operational modalities, policies or institutional capacities might be required to support successful execution of the GCF's strategic vision and programming priorities?**

Ans: GCF's design elements, strategic approach, policies and operational modalities should be improved further, notably with the view to enhancing value for money, actively integrating civil society actors and effectively leveraging private finance. That being said, the GCF's institutional structure will have to become more attractive to donors. The GCF will have to take into account to align the Fund's goals with the donors' interest so that donors have some form of decision-making right with respect to their contributions. A clear earmarking of funds may motivate donors to raise more funds.

In addition the Private Sector Facility window and the Enhanced Direct Access window of GCF will have to become an attractive financial vehicle for future donors. A major triggering factor in enhancing access to the PSF and EDA of GCF will require a sufficiently streamlined application procedure.

More generally, the successful execution of GCF's strategic vision and programming priorities will depend on whether it responds quickly to the needs on the ground (that is, the climate change crisis of countries that are most affected by it), uses its resources efficiently and develops new initiatives that deliver mitigation and adaptation more effectively and at scale. Overall, these goals are not expected to be achieved overnight rather it will require a lengthy learning process. However, it can be hoped that the actors in the field will remain open to innovative approaches to move forward in achieving successful execution of GCF's strategic vision.

- **Are the measures for measuring, monitoring and reporting progress towards the GCF's strategic vision, objectives and priorities sufficient, or how could these be strengthened?**

Ans: Despite the fact that GCF has a stringent monitoring and evaluation system already in place, GCF can take initiatives to strengthen the Monitoring & Evaluation (M&E) coordination among all its stakeholders, particularly NDAs, DAEs, IAEs etc. A substantial portion of GCF's monitoring and reporting procedure can be enhanced through extensive capacity building among all its relevant stakeholders from whom it requires monitoring assessments and reports. Simplification and streamlining of the monitoring procedure will further help in improving the measuring, monitoring and reporting progress of GCF. Moreover, making provision for both quantitative and qualitative indicators in the reporting template can help in illustrating a more comprehensive and well-articulated representation of monitoring. Developing tools and indicators (such as surveys, data quality assurance mechanism through development of MIS

specific to the reporting requirement etc.) to assess the cumulative results of the overall M&E progress report may also aid in strengthening the reporting mechanism.

GCF could further endeavor to develop an M&E approach separately for the adaptation and mitigation programmes which in turn could help countries interested in establishing long-term climate adaptation and mitigation evaluation programmes that integrate with national development M&E systems.