Annex Eight
Financing Priorities for the Green Climate Fund

A. Current Overview of Fund Pledges

The Green Climate Fund (GCF) is the pre-eminent financing instrument for the UNFCCC in addressing the climate crisis. As of July 2019, the Board of the GCF approved 113 projects with a total commitment of US$5.5 billion since its launch in 2015.

Initial financial resources mobilized for the GCF totalled US$10.3 billion (or $9.9 billion on a grant-equivalency basis for loans), which included a US$3 billion pledge from the United States.[1] Only US$1 billion of this US pledge has been paid into the Fund, with no further payments expected as the US has indicated that it is withdrawing from the Paris Climate Agreement. The result is that the Fund has had only US$7.1 billion in paid-up pledges to commit to projects. As of July 77% of the paid-in pledges has been committed to projects.

Using a provider's GNI share of total GNI as an estimate of its fair share of the US$10.3 billion in total pledges, eight providers exceeded their fair share contribution to the GCF, of which four were among the top five providers (Japan, United Kingdom, France and Germany).[2]

Table One: Initial Resource Mobilization for the GCF

Millions of US Dollars

Provider	Pledge	Share of Total Pledge	Share of Actual Contributions to July 2019*
1. United States	$3,000	29.2%	14.0%
2. Japan	$1,500	14.6%	21.0%
3. United Kingdom	$1,211	11.8%	13.1%
4. France	$1,036	10.1%	13.4%
5. Germany	$1,003	9.7%	14.1%
6. Sweden	$ 581	5.6%	8.1%
7. Italy	$ 334	3.2%	2.8%
8. Canada	$ 277	2.7%	2.2%
9. Norway	$ 271	2.6%	2.9%
10. Australia	$ 187	1.8%	2.2%
11. Other Providers**	$ 900	8.7%	6.2%
12. Total Pledges	$10,300	100%	100% of $7,140

* Providers may complete their pledge in the remaining months of 2019.

** A total of 48 countries/regions/cities have made a pledge to the Green Climate Fund to date, including 9 developing countries.

[1] See Green Climate Fund, "Status of Pledges and Contributions made to the Green Climate Fund, 24 January 2019," accessed August 2019 at https://www.greenclimate.fund/documents/20182/24868/Status_of_Pledges.pdf/eef538d3-2987-4659-8c7c-5566ed6afd19.

[2] The other four were Finland, Norway, Sweden and Luxembourg.

Acknowledging that the remaining $2 billion in the US pledge will not be paid into the Fund, just over $1 billion from initial pledges from other providers remain outstanding as of July 2019.[3] If these pledges are honoured, the Fund has available only US$2.8 billion to allocate from these initial pledges until the Fund is fully replenished.

B. Replenishment of the GCF

The GCF Board launched the Fund's first replenishment process at its meeting in October 2018. But in doing so, the Board was not able to agree on a target goal for this round of replenishments, or establish a framework for how financing should be shared among potential providers. Pledges are entirely voluntary and determined by national provider priorities.

An approach to replenishment without ambitious targets is unfortunate given the centrality of the Green Climate Fund as the pre-eminent financing instrument for the UNFCCC and the Paris Climate Agreement. According to the Paris Climate Agreement, "a significant share of new multilateral funding for adaptation should flow through the Green Climate Fund" (UNFCCC 2016, Decision 1/CP.16 paragraph 100). In demonstrating their commitment to the Paris Climate Agreement, providers must maximize resources for the GCF.

Prior to the launch of the Fund in 2015, a number of stakeholders including developing countries, the Secretariats for the GCF and the UNFCCC suggested a resource mobilization target of between US$10 billion and US$15 billion for the Fund's initial resource mobilization. As noted above, US$10.3 billion was achieved. At recent meetings on replenishment (Oslo in April 2019) several GCF Board members referenced $10.3 billion as a minimum goal for the first replenishment, but this target was not agreed.[4]

CSOs are calling for more ambition, given the certainty that adaptation needs will be increasing significantly in the next decade, alongside urgent requirements for mitigation. The GCF Secretariat estimate their current programming capacity at $3 billion per year, which should increase by at least 10% each year to realistically address increasing need. **Such a scenario would require replenishment at $15.3 billion covering the years 2020 to 2024**.[5] GCF must have the scale of resources to ensure that developing countries maximize the ambition of their Nationally Determined Contributions (NDCs).

[3] Luxembourg, Belgium, Finland, the Netherlands, Spain, Australia, Norway, Canada, Italy, France, and the United Kingdom have outstanding balances on their original pledge. According to the GAC project browser, Canada disbursed the remaining funds in its commitment in March 2019. Australia unfortunately may join the US in not honouring its total initial pledge given the new government's refusal to participate in the GCF in the future.

[4] See J. Waslander and Patricia Quijano Vallejos, "Setting the Stage for the Green Climate Fund's First Replenishment," World Resources Institute, Working Paper, September 2018, accessed August 2019 at https://www.wri.org/publication/green-climate-fund-first-replenishment.

[5] Jan Kowalzig (Oxfam), "Refilling the Green Climate Fund: Will Rich Countries Pledges Match Expectations," March 2019, German Climate Finance, accessed August 2019 at *https://www.germanclimatefinance.de/2019/05/13/will-pledges-green-climate-fund-match-expectations/*.

A $15.3 billion target requires all providers, at a minimum, to double their initial resource commitment, taking account the fact that the US will not be contributing. The $3 billion US commitment represented almost 30% of the initial resource mobilization in 2015.

Germany, Norway and the UK have established a path toward this ambitious target. Each has announced that they would be doubling their previous pledge for this first replenishment of the Fund. This implies a pledge of US$540 million for Norway, approximately US$1.7 billion for the UK (GBP1.44), and US$2 billion for Germany. The German pledge represents 13% of the US$15.3 billion goal (Germany's fair share on a GNI basis is 8.5%). The UK's announcement at the 2019 G7 meeting is 11% of this target (the UK fair share is 6%). For Norway, the pledge is 4% of the target (Norway's fair share on a GNI basis is 1%). Together these three pledges make up 28% of the finance needed to realize $15.3 billion.

While these three pledges are very welcome, major increases in all providers pledges will be required even to meet the level of the initial resource mobilization of $10.3 billion, but also aim for at least the more ambitious four-year target of US$15.3 billion. In this context, a Canadian contribution of only $300 million (US$277 million) to the first GCF replenishment, representing no increase, is not only deeply disappointing, but it also falls far short of requirements. This announcement was in fact buried in a longer list of 2019 G7 funding announcements.[6]

Canada committed a similar Cdn$300 million in the initial resource mobilization for the Fund. But Cdn$110 million of this commitment was in the form of a loan, which in its US dollar grant-equivalency (the calculation of concessionality of a loan) was valued at only US$20 million by the Fund.[7] This initial pledge of US$277 million was 2.7% of the US$10.3 billion, whereas Canada's fair share on a GNI basis would have been 3.8%.[8] Canada's new pledge represents only 1.8% of the US$15.3 billion target.

Canadian CSOs have been calling for Canada to join other providers in a major increase in its ambition of its financial commitment to the GCF as well as improve the terms of this pledge accordingly. Canada's overall disbursements for post-2020 should also increase, with a Cdn$6.76 billion pledge for the 2021/22 to 2025/26 period (see section XX of the paper), Canada's fair share of US$100 billion in annual climate finance committed by all providers for this period. This

[6] See https://pm.gc.ca/en/news/backgrounders/2019/08/26/creating-better-future.

[7] See Green Climate Fund, Status of Pledges, op. cit. Since 37% of this pledge was in the form of a loan (US$101.6), when calculated at its grant equivalency of only US$20 million, the pledge was valued by the GCF at US$195.5 million or 70% of its nominal value. Among all providers, only Canada and France provided a portion of their pledge in the form of a loan. In August 2019 there is no additional information on the terms of the new Canadian pledge of $300 million..

[8] Canada's fair share is calculated based on the 6-year average share of its Gross National Income (GNI) in the total GNI for all DAC providers. While a reference to provider "fair share" is a proxy for a provider's ambition for the GCF, it should be noted that there is no agreed framework for the GCF based on the notion of fair share, however calculated. All contributions are voluntary and based on national-decision making processes. The World Resources Institute calculates fair share based on GNI, historic contributions of GHG emissions, and GHG emissions per capita.

commitment on the part of Canada would allow a contribution to the GCF of $900 million, including the $300 million already committed in 2019.

Unlike the recent announcement, Canadian support for the GCF at this level sends a very strong signal of the importance of multilateralism, in which developing countries fully participate, in addressing climate adaptation and mitigation. It also commits Canada to play a leading role in further reform of the GCF to realize its ambitions for assistance to developing countries, with priority to Least Developed and Small Island Developing States and the most vulnerable populations in the context of mainstreaming gender equality and women's empowerment.

C. A Review of Green Climate Fund Allocations

The GCF's core objectives and guiding principles are consistent with Canada's Feminist International Assistance Policy and its stated objectives for international climate finance.

The Fund fully supports the commitments in the 2015 Paris Climate Agreement by[9]

- Aiming for "for a 50:50 balance between mitigation and adaptation investments over time."
- Aiming "for a floor of 50 percent of the adaptation allocation for particularly vulnerable countries, including Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African States. "
- Aligning "with the priorities of developing countries through the principle of country ownership."
- Paying "particular attention to the needs of societies that are highly vulnerable to the effects of climate change, in particular Least Developed Countries (LDCs), Small Island Developing States (SIDS), and African States.
- Engaging "directly with both the public and private sectors in transformational climate-sensitive investments."
- Ensuring the [mainstreaming of] gender perspectives from the outset of its operations as an essential decision-making element for the deployment of its resources" and placing "gender as a key element of its programming architecture, and its commitment to gender equality centres on gender-responsive climate action programmes and projects that benefit women and men."[10]

How has the GCF performed since its launch in 2015 in relation to these objectives?

[9] See Green Climate Fund, About the Fund, accessed August 2019 at https://www.greenclimate.fund/who-we-are/about-the-fund.

[10] See the policies and approaches for gender equality at https://www.greenclimate.fund/how-we-work/mainstreaming-gender and https://www.greenclimate.fund/how-we-work/mainstreaming-gender/gender-action-in-practice.

Of the $5,485 million in 113 project commitments, a project-by-project analysis suggests some worrying trends in relation to the adaptation/mitigation balance, priority to LDCs and SIDS, and regional priorities for Sub-Saharan Africa. The following trends in allocations to date (July 2019) can be observed:

i. **The GCF is a long way from achieving a balance in allocations to adaptation and mitigation**, with currently 38.6% allocated to adaptation and 61.4% to mitigation.[11]

ii. **More worrying, this balance between adaptation and mitigation has not been improving in Board approvals over time.** Adaptation received 42% of project commitments in the November 2015 to October 2017 period, but declined to only 36% of project commitments since March 2018. The latter period also accounted for 55% of all project commitments by the Board.

iii. **There is seemingly no priority for Least Developed (LDCs) and Small Island Developing States (SIDS), with only 24% of project funds committed to these countries to date.** Lower Middle Income Countries (LMICs) received 28% of the project funds, and Upper Middle Income Countries received 24%. Regional projects were allocated 29% of project funds.

iv. **However, LDCs and SIDS did receive 50% of project funds that were explicitly devoted to adaptation.** When projects that were coded to both adaptation and mitigation purposes are taken into account (divided equally between these two purposes), LDCs and SIDS were allocated only 39% of the adaptation funds.

v. **Mitigation projects were highly concentrated in LMICs (58%), UMICs (71%) and Regional programs (75%)**, with 35% in LDCs and SIDS.

vi. **Sub-Saharan Africa received only 21% of all project finance.** Within these funds, 49% was devoted to adaptation and 51% to mitigation. The Pacific region received only 7% of project funds, but 72% of these funds were for adaptation.

vii. **Asian countries received 21% of project financing**, with 17% to the Americas and 5% to the Middle East and North Africa. Global programs accounted for 29% of program financing.

In relation to the modalities for project allocations, country ownership is strongly and positively reflected in the process for submitting projects for consideration by the Fund, which are ultimately approved by a Board that is representative of diverse country constituencies. Nevertheless, as

[11] Projects coded both adaptation and mitigation have been distributed evenly between these two purposes. Three projects that were coded both adaptation and mitigation have been reallocated by the author based on a reading of project documentation – one to adaptation and two to mitigation.

consensus has been required, DAC provider members of the Board have a strong influence in shaping overall priorities and approaches. At its July 2019 Board meeting there was agreement to amend this aspect of governance, with a four-fifth majority carrying a decision where consensus is not possible.[12]

Given its stated emphasis on delivering climate assistance for the poorest and most vulnerable countries, loans often involving private sector actors, play a considerable role in many projects and countries irrespective of their income status:

i. **For all projects, 50% of the resources are delivered as loans**, with 44% grants, 6% other modalities such as equity and guarantees.

ii. **While 76% of project resources are in the form of grants for LDCs and SIDS**, 23% of these resources for LDCs only are in the form of loans.

iii. **On the other hand, Upper Middle Income Countries received 44% of project finance in the form of grants**, and only 50% in the form of loans. LMICs received 53% of their resources as grants. Regional projects, often with private sector partners, received 77% of their finance as loans.

iv. **The share of loans in adaptation purpose projects was 23%, while mitigation was financed with 67% of resources as loans**.

The Green Climate Fund project summary information does not indicate sector priorities for approved projects. A review of the short descriptions of the 113 projects, applying some **broad sector classifications**, gives an approximate breakdown by sector (i.e. the sector share of the total amount for all approved projects):

Renewable Energy – 20%
Energy Efficiency – 20%
Water Management – 14%
Agriculture - 7%
Rural Development – 4%
Forestry and REDD+ – 4%
Housing – 3%
Other sectors – 11%
Unknown – 17%

The GEF has a strong policy commitment to mainstreaming gender equality. The Fund reports that 84% of all approved funding proposals contained an initial gender assessment and 67% contained a project-level gender and social inclusion action plan. The project / program dashboard, however, given no indication of the degree to which mainstreaming is actually achieved, and it does not break down beneficiary populations by gender. Working with UN Women, the GCF has recently developed a handbook on Leveraging Co-Benefits Between Gender Equality and Climate Action, on integrating gender equality and leveraging co-benefits between gender equality and climate action.

[12] With the exception that 4 developing or 4 developed countries may block a decision that is otherwise approved by four-fifths of the Board.

D. Increasing the Effectiveness of the Green Climate Fund for Adaptation

The GCF has recovered from a major governance and management crisis in early 2018 with a new Executive Director, a review of Board governance issues and strong Board support for its first replenishment. Nevertheless, a robust replenishment must be accompanied by renewed and concerted attention to realizing the guiding principles for the Fund – 1) priority to LDCs and SIDS as well as Sub-Saharan Africa, 2) progress in achieving a balance between adaption and mitigation, 3) strengthening the public sector in transformative climate adaptation that ensures full engagement with the needs of the poorest and most vulnerable, and 4) providing evidence at the project level that gender equality and women's empowerment goals are reflected in project outcomes.

Adaptation needs cannot be separated from development challenges. Recently, some developed country members have been seeking a narrow approach in financing adaptation by the Fund. The Secretariat brought a proposal to the July 2019 Board meeting, which has been deferred. In this proposal to the Board, project proponents would be asked to identify only those components that relate to adaptation by providing a baseline hypothetical proposal assuming no climate impacts. The Fund would provide resources only for the incremental difference in budgets between these two versions of the project.[13]

This proposal has been strongly criticized by developing countries and some CSOs in its attempt to limit funding through false distinctions, which if implemented may result in fewer adaptation projects being approved, particularly for developing countries unable to finance to other components. In the real world, where "climate change significantly exacerbates existing vulnerabilities and development challenges," the ability to make a distinction between adaptation and development needs on the ground is highly unrealistic. Because the results will be arbitrary in most cases, the Board will have no basis to allocate finance in a fair manner between different project proposals thus increasing, not decreasing Board discretion. A transformative approach to adaptation is not only a specific response to the climate crisis, but also must address the underlying vulnerabilities of people, which for poor countries are significant development challenges.[14]

---

[13] Green Climate Fund, "Review of the initial investment framework Matters related to incremental and full cost calculation methodology and policies on co-financing and concessionality," GCF/B23/19, June 28, 2019, accessed August 2019 at https://www.greenclimate.fund/documents/20182/1674504/GCF_B.23_19_-_Review_of_the_initial_investment_framework__Matters_related_to_incremental_and_full_cost_calculation_methodology_and_policies_on_co-financing_and_concessionality.pdf/30db3f98-4022-c306-8b06-2cec8f85e5e7 and "Matters relating to GEF support to adaptation," GCF/B23/18, June 28, 2019, accessed August 2019 at https://www.greenclimate.fund/documents/20182/1674504/GCF_B.23_18_-_Matters_related_to_GCF_support_to_adaptation.pdf/9f13fb53-f2f9-03c2-f433-c536dbb95687. See L. Sidner and N. Amerasinghe, The Green Climate Fund's Proposed Approach to Costs: Not fit for adaptation," World Resources Institute, July 10, 2019, accessed August 2019 at https://www.wri.org/blog/2019/07/insider-green-climate-fund-s-proposed-approach-costs-not-fit-adaptation.

[14] For the quote and a critique see Sidner, World Resources Institute, *op. cit.*