Briefing Note Three[1]
Update on the Green Climate Fund (July 2023)

1. Summary Profile

The **Green Climate Fund (GCF) Portfolio Dashboard**[2] highlights the GCF's overall performance to date (May 2023):

- The first approved projects were agreed in November 2015.
- Over these seven years, the GCF Board has approved 216 projects for total of US$12.0 billion in commitments up to March 2023, with US$9.7 billion in the project implementation stage, for which only US$3.3 billion (34% of the value of projects in the implementation stage) has been disbursed.
- The total projects' investment is US$45.1 billion, including counterpart financing beyond the GCF.

Canada has made three contributions to the GCF:[3]

- Cdn$300 million towards the **Initial Resource Mobilization** (2015-2016) or 3.8% of the US$7.2 billion in resources available for allocation by the GCF; and
- Cdn$300 million towards the **First Replenishment** (2020 to 2023), or 2.3% of the confirmed pledges of US$9.9 billion.
- Cdn$450 million towards the **Second Replenishment** (2024 to 2027), a 50% increase over the previous pledges. As of July 2023, no further details are available about the terms for this pledge.
- Canada's <u>first two contributions</u> to the GCF were 13% of its first five-year Cdn$2.65 billion climate pledge (2016/17 to 2020/21)
- Both Canadian commitments to the GCF were identical with a significant loan component:

Grant:	Cdn$168.0 million (56%)
Loan:	Cdn$110.0 million (37%)
Loan Cushion:	Cdn$ 22.0 million (7%)

- The Grant Equivalency of the Canadian loan for both the initial resource mobilization was only 20% of the loan value. For the First Replenishment, it declined to 17%. Grant equivalency is the estimated value of the grant element of loan taking into account the degree of concessionality in the terms.
- Of 48 contributors in the initial resource mobilization and 34 contributors in the First Replenishment, France is the only contributor besides Canada to made a contribution as loans: 37% of its initial total contribution, declining to 20% for the First Replenishment. France increased

[1] This Briefing Note was research and written by Brian Tomlinson, AidWatch Canada, in July 2022 and updated in May 2023 and July 2023. It has been prepared on behalf of the Canadian CSO Coalition on Climate Change and Development (C4D).

[2] See https://www.greenclimate.fund/projects/dashboard

[3] See https://www.greenclimate.fund/sites/default/files/document/1706-status-pledges-website-march-31-2023.pdf (March 2023). See Canada's Second Replenishment announcement in July 2023 at https://www.greenclimate.fund/news/canada-increase-its-support-green-climate-fund

its grant contribution by more than 170% for the First Replenishment to US$1,324 million. France's loans grant equivalency were 28% and 25% respectively.

- At US$6.09, Canada ranked 15th among 23 DAC donors in GCF generosity, measured as a per capita contribution, compared to Sweden at US$83.72, the UK at US$27.85, France at US$26.03, or Germany at US$20.37. The United States did not make a formal pledge to the First Replenishment.

2. Second Replenishment Round (2024 to 2027)

The GCF Board launched the Second Replenishment Round (2024 to 2027) in July, with a first pledging conference to be held in October 2023.[4] The CSO observer network of civil society, Indigenous People and local communities are calling for an ambitious replenishment that more than doubles (US$20 billion) the resources committed under the First Replenishment.[5] A robust replenishment will be a strong signal in setting a New Collective Quantifiable Goal on Climate Finance by the UNFCCC for post-2025 climate finance, one that is needs-based, responds to the International Panel on Climate Change's (IPCC) call for urgent climate action, and far exceeds the current $100 billion annual target.

While the Second Replenishment has no public target, Climate Home News reported that GCF Board documents suggest US$12.5 billion as a "middling level of money" compared with a "status quo" scenario of $10 billion, and a "high" scenario of $15 billion.[6] To date (May 2023), Germany has pledged US$2.2 billion, which is a 30% increase on its US$1,689 million commitment in the first Round. Austria has also increased its pledge by just under a quarter. President Biden recently promised a US$1 billion contribution, subject to Congressional approval, but is seen as a partial fulfilment of President Obama's initial $3 billion pledge, for which only $1 billion was delivered.[7]

Canada's fair share (3.8%) of the high-end scenario (US$15 billion) would be approximately Cdn$760 million (using the exchange rate for the First Replenishment). The July $450 million pledge for the Second Replenishment falls far short of this fair share. Achieving our fair share of a doubling of GCF's resources to US$20 billion would have required a Canadian pledge of Cdn$1 billion, up from $300 million.

As noted above Canada is unique in its previous contributions along with France in providing more than a third in the form of loans. As of July 2023, there is no information about the terms of Canada's $450 million pledge. Canada should be aligned its Second Replenishment with the vast majority of donors in providing its contribution fully in grant form, giving maximum flexibility for tis allocation to the GCF, the UNFCCC pre-eminent climate financing mechanism.

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[4] See https://www.greenclimate.fund/news/green-climate-fund-board-approves-new-climate-funding-bringing-assets-under-management-usd-40.

[5] See GCF Watch: https://www.gcfwatch.org/gcfnews/statement-on-the-second-replenishment-of-the-green-climate-fund.

[6] Climate Home News, "Germany promises 2 billion euros to Green Climate Fund," May 3, 2023, accessed at https://www.climatechangenews.com/2023/05/03/germany-promises-e2bn-to-global-green-climate-fund/.

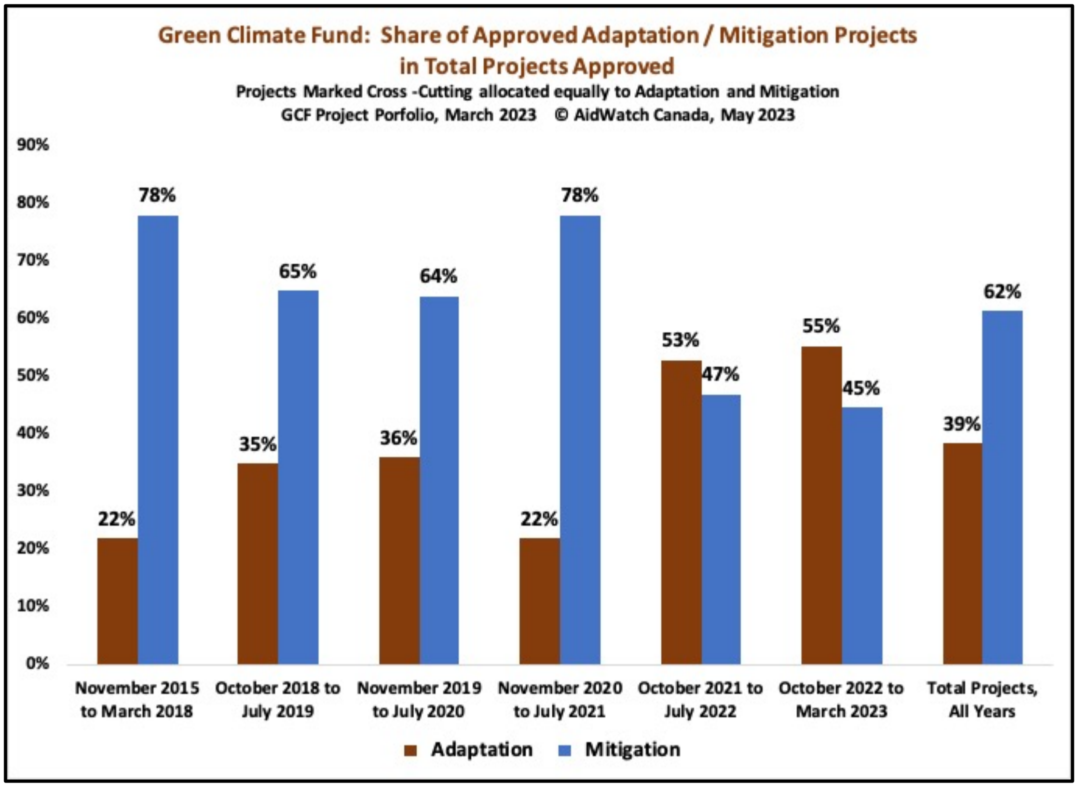
[7] Ibid.

3. An Overview of the Green Climate Fund Performance[8]

a) Allocation to Adaptation and Mitigation

Despite a pledge to an equitable share of finance to adaptation, over the seven years, the GCF portfolio has allocated only 39% of its project resources to adaptation (up to March 2023). This performance however may be improving. In project approvals since October 2021, the allocation to adaptation has been growing and is well above 50%. See **Chart One**.

Chart One



b) Grants and Loans

Less than half (44%) of the total project commitments from the GCF were delivered as grants. Loans were the preferred modality for 43% of these commitments, and equity for 13%. (See **Chart Two**)

Adaptation has a much higher level of grants at 64% of adaptation commitments, while only 30% of mitigation finance was made through grants. Correspondingly, loans were 21% of adaptation finance and 59% of mitigation finance. (See **Chart Two**)

[8] The calculations in this Briefing Note are the authors, based on a project-by-project review of approved projects by the GCF. Projects relating to both mitigation and adaptation are divided equally between these purposes. Loans are included at face value and not grant equivalency, which is not available on the GCF web site.

Loans were mainly concentrated among Global / Regional projects (60% of allocations to this global/regional group) and projects with Upper Middle-Income Countries (51%). Together these two country/regional groups account for 63% of all GCF projects financed through loans. For Least Developed Countries, while grants make up 53% of GCF allocations to this income group, 35% of allocations are still through loans, and 17% through equity investments and guarantees. All GCF allocations to SIDS have been through grants. (See **Table One**)

Chart Two

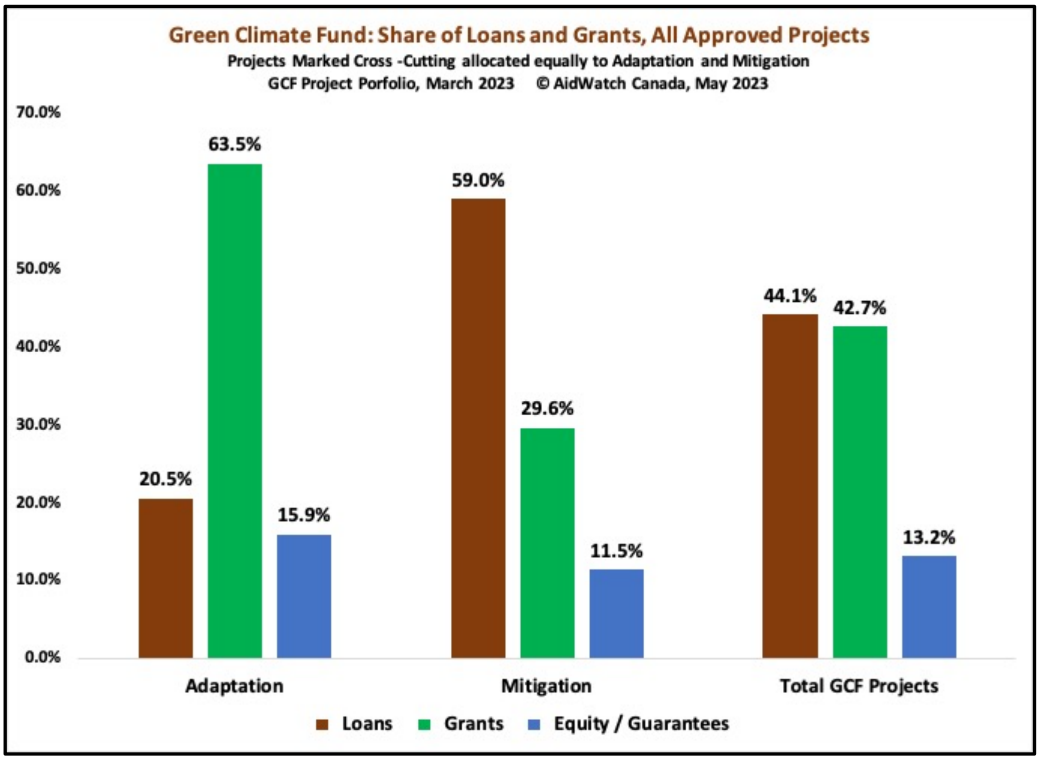


Table One: Grants and Loans by Income Group

	Grants	Loans	Equity
Global / Regional	24%	60%	16%
LDCs	53%	35%	12%
LMICs	51%	31%	17%
UMICs	42%	51%	7%
SIDS	100%		

c) Accredited and Implementing Entities

Only accredited entities can apply to implement a GCF project. These entities can be governments, private sector, non governmental, local, national, regional and multilateral organizations. The process for accreditation can be time consuming, often taking more than a year. Applying organizations must demonstrate that they have capacities for managing climate projects, meet financial standards, environmental and social safeguards, and comply with GCF's Gender Policy. Accreditation does not guarantee project approval. Direct access to GCF resources is a unique feature of this UNFCCC funding mechanism.

But implementing an effective direct access mechanism has been identified as a significant issue in a recent (2023) evaluation by the GCF's Independent Evaluation Unit. It concludes that "given the importance of country [ownership], a comprehensive approach to direct access to meet country climate priorities is missing [in the GCF]." A study by the World Resources Institute indicated that of 62 developing country accredited institutions, 42 have never received project funding.[9] The Report makes a number of recommendations to improve country access.[10]

The GCF's Open Data lists 114 accredited Entities, of which only 53 are implementing projects (May 2023). Allocations are concentrated with the top 20 Implementing Entities implementing 87% of the project portfolio. Among these top 20, almost half of these entities (50%) are Multilateral Development Banks. United Nations entities are 22% of the top 20 entities. National agencies are 12% and private and other entities are 16%.

The UNDP is implementing US$1.2 billion; the European Development Bank, $1.1 billion, the World Bank, US$1.1 billion; the Asian Development Bank, US$947 million; and the Inter-American Development Bank, US$762 million.

The largest private sector implementing entity is Pegasus Capital Advisors, implementing US$375 million in project commitments.

Accessing GCF resources has been very challenging for civil society organizations (CSOs). A study by CIDSE documented that by the end of 2020 only 6 CSOs had been accredited and accounted for a mere 4% of approved projects. According to this study, "barriers to access are systemic, massive and evident in praxis:"[11]

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[9] Molly Caldwell and Gaia Larsen, Improving Access to the Green Climate Fund: How the Fund can better support developing country institutions, World Resources Institute, Working Paper, February 2021, accessed September 2022 at https://files.wri.org/d8/s3fs-public/2021-08/improving-access-green-climate-fund.pdf?VersionId=1v0GXCttqShGMAsJxgq3xXJugg8ZkPGV

[10] Independent Evaluation Unit, "Independent Synthesis of Direct Access in the Green Climate Fund. Evaluation report," No. 15, Green Climate Fund, February 2023 accessed at https://ieu.greenclimate.fund/sites/default/files/document/230331-da-final-report-top-web-isbn.pdf

[11] Thomas Hirsch, *Improving Civil Society's Limited Access to the Green Climate Fund, A report based on an analysis of GCF policies and lessons learned from five case studies*, Climate & Development Advice, A study commissioned by CIDSE, April 2021, accessed September 2022 at https://www.cidse.org/wp-content/uploads/2021/06/EN-CIDSE-Climate-finance-study.pdf. Accredited CSOs at the end of 2020 included Conservation International (USA), Fundación Avina (Panama), IUCN (Switzerland), National Trust for Nature Conservation (Nepal), Save the Children Australia, and WWF (Switzerland). Other CSOs are involved in GCF projects if contracted by Implementing Entities.

> "Barriers to CSO accreditation, limited direct access, complicated project approval processes, lack of local rootedness, weak national consultation processes and lack of all-of-society country ownership are major concerns, leading to a wide gap between what the Fund declares it aims to become and what it currently is."

These challenges in access for civil society affects the performance of the GCF in delivering finance at the local level, which is particularly important in ensuring that climate adaptation measures are beneficial and appropriate for affected populations in local communities.[12]

d) The Private Sector in GCF Climate Financing

A 2021 review by the Heinrich-Böll-Stiftung found that the private sector implemented one third (US$3 billion) of approved Green Climate Fund (GCF) funding, with most of this funding (83%) channeled through intermediaries at the international and regional level (mainly MDBs). Almost 70% of this finance was in the form of loans, with a further 18% equity and less than 10% grants. While these private sector initiatives claim a leverage ratio of $3 for every $1 of GCF funding, 74% of this co-financing is coming from publicly owned or funded institutions and development banks.[13] The study concludes that GCF's exemption for commercially sensitive information are applied too broadly making it difficult for civil society to assess the potential value and impact of funding proposals, especially in the case of multi-country programs and financing facilities.

e) Allocations to Country Income Groups

Over the seven years of project commitment, allocation among income groups has been relatively equal (see **Chart Three**). Highly vulnerable Small Island Development States (SIDS) make up only 7% of total project commitments, while SIDS and Least Developed Countries combined are 28% of these total project commitments. Among SIDS, 75% of project commitments are focused on adaptation, and 25% on mitigation.

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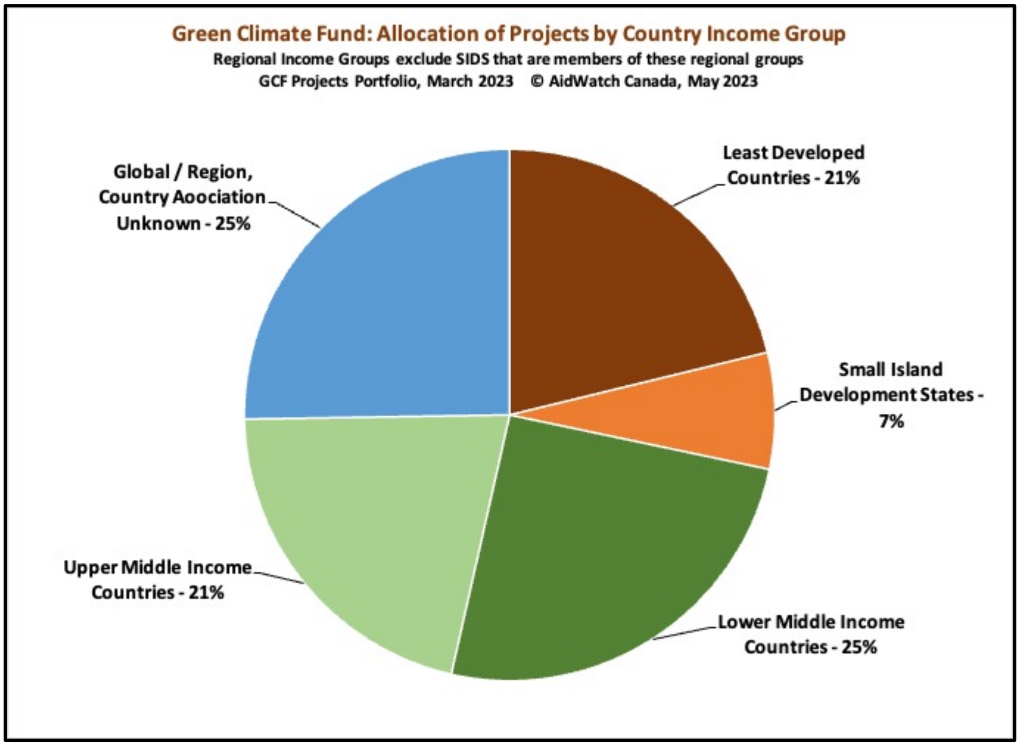
[12] See Jessica Omukuti, et al, "The Green Climate Fund and its Shortcomings in Local Delivery of Adaptation Finance," *Climate Policy,* July 2022, accessed at https://www.tandfonline.com/doi/full/10.1080/14693062.2022.2093152.

[13] Oscar Reyes and Liane Schalatek, "Green Climate Fund Private Sector Finance in Focus: Briefing 1: A Critical Review of Key Trends, Heinrich-Böll-Stiftung, Washington, DC, October 2021 accessed at https://us.boell.org/sites/default/files/2021-10/GCF%20Private%20Sector%20in%20Fokus_hbs%20DC%20Briefing%201_Critical%20Review%20of%20Key%20Trends.pdf. For the full set of four Briefings see https://us.boell.org/en/green-climate-fund-private-sector-finance-focus.

Chart Three

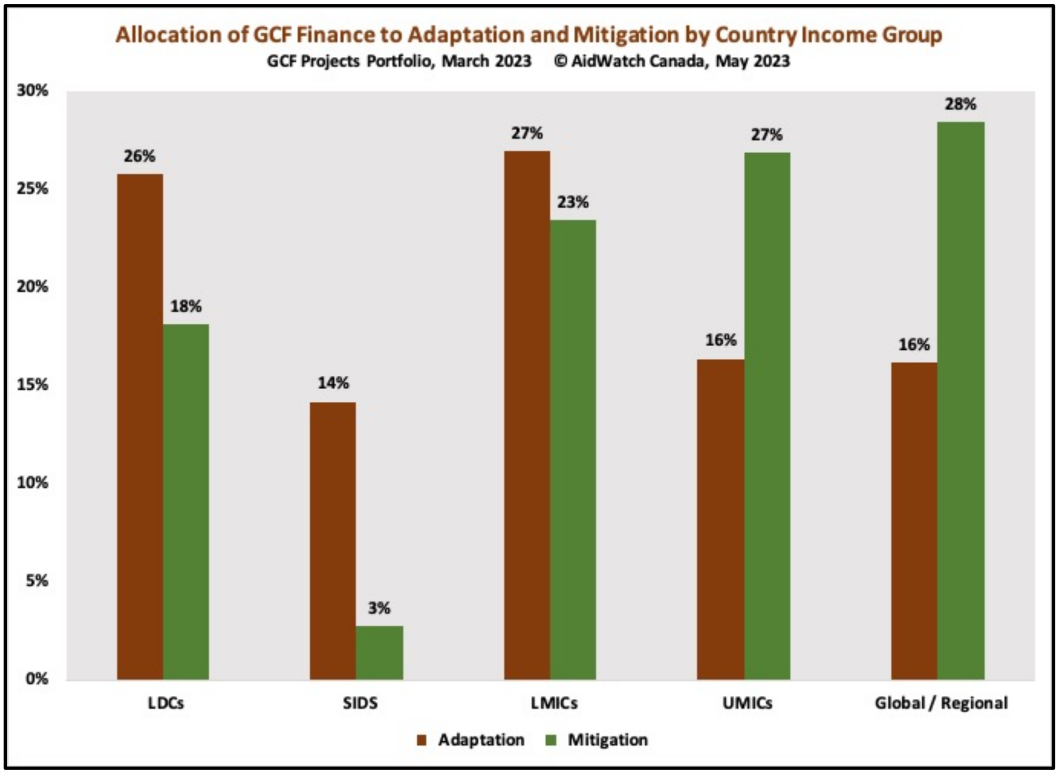


About two-thirds (67%) of adaptation finance is allocated to Least Developed Countries (26%), SIDS (14%) and Lower Middle-Income Countries (27%). On the other hand, 55% of mitigation finance went to Upper Middle-Income Countries (27%) or Global / Regional Projects (28%).[14] **(Chart Four**)

Within GCF's financing for SIDS and LDCs, GCF allocations for adaptation were 74% and 54% respectively of the total received by these countries. For LMICs this share was 45% and UMICs 29%. Of the financing channeled through global or regional entities, 30% was directed to adaptation. The limited overall focus on LDCS and SIDS in GCF projects, is a factor in the failure to date to reach the GCF's 50% goal adaptation.

[14] For a more detailed analysis of GCF projects with LDCs up to 2021, see Komna Djabare et. al, "Five Years of the Green Climate Fund: How much has flowed to Least Developed Countries," Climate Analytics, October 2021, accessed at https://climateanalytics.org/media/five_years_of_the_green_climate_fund.pdf.

Chart Four

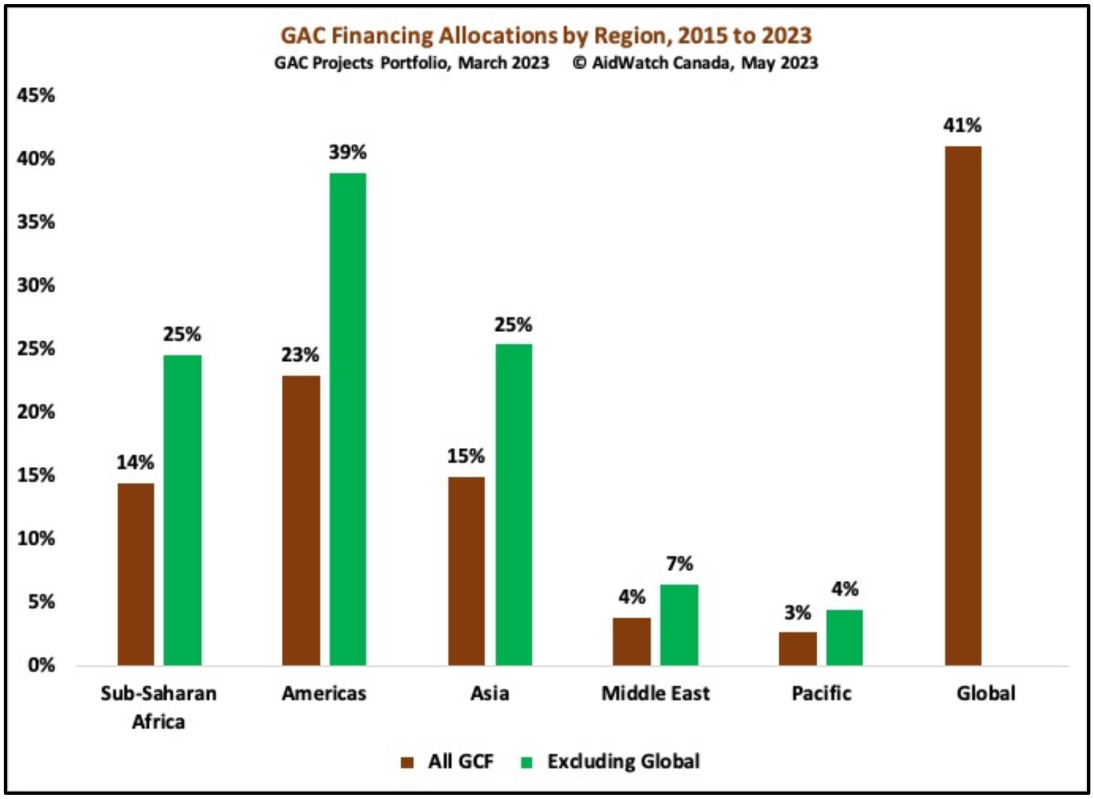


f) Regional Allocations of GCF Financing

A large proportion of GCF financing (41%) has been allocated to global and/or regional programming where there are often multiple countries across geographic regions. The Americas is the largest regional share at 23% of total GCF financing, and 39% excluding global/regional programming. Sub-Saharan African, a region highly vulnerable to climate change impacts, receives 14% of total financing (25% excluding global/regional programming). Asia receives 15% of total financing, or 25% excluding global/regional programming. Both the Middle East and the Pacific region receive less than 5% of total GCF financing. (**Chart Five**)

Excluding global/regional programming, to date (March 2023), Sub-Saharan Africa received 32% of total adaption financing, with the Americas at 33% and Asia at 17% of adaptation finance. The Pacific region has received a mere 5%. Americas receives the largest share of mitigation finance at 43%, with Asia at 31% and Sub-Saharan Africa at 19%.

Chart Five



g) Country Allocations

The GCF's Open Data provides country level GCF finance commitments. The top twenty (20) countries account for just under half (49%) of total commitments. Of these top 20 country recipients, only 5 are Least Developed Countries, while 7 of the 20 are Upper Middle-Income Countries and 8 are Lower-Middle Income Countries.

The top five countries are India (US$529 million), Mongolia (US$461 million), Indonesia ($460 million) Brazil (US$395 million), Costa Rica (US$386 million). Bangladesh as an LDC comes in sixth place (US$374 million).

h) Allocation of GCF Commitments to Sectors

Not surprisingly, energy and energy efficiency, compose 40% of GCF's project portfolio, most of which is concentrated in support for mitigation. Agriculture and forestry are also key sectors in GCF finance (17% and 10% respectively). (See **Chart Six**)

With respect to adaptation finance, agriculture and rural development make up 41%; water management, 21%; energy efficiency, 7%; and forestry, 6%.

With respect to mitigation finance, energy makes up 43% of the project portfolio, energy efficiency, 20%; forestry, 12%, and agriculture, 6%.

Chart Six