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# "SHOW ME THE MONEY": RESOURCE ALLOCATION, FUNDING WINDOWS AND COUNTRY NEEDS

Peter Mwandri, Elangtlhoko Mokgano, Byungsuk Lee, David Huang, Cornelius Krüger, Solomon Asfaw, Jyotsna Puri

IEU Working Paper No. 4, 2020

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## About this Working Paper

This paper explores the various dimensions of the GCF's financing up to July 2019. It looks into the primary funding windows of the GCF, namely RPSP, PPF, and the full funding projects, to assess how effective the GCF grant financing is flowing to domestic and local actors in developing countries.

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# ABSTRACT

As the initial resource mobilization period of the Green Climate Fund (GCF) draws to an end with over USD 10 billion received in commitments, this paper examines the GCF's financial flows over this time. The paper begins by exploring the GCF's three main funding activities: the project portfolio, the Readiness and Preparatory Support Programme and the Project Preparation Facility. Following by examining the extent to which this funding trickles down to ground-level beneficiaries. Finally, it concludes by assessing the alignment between the GCF's project funding allocation and the vulnerability levels of recipient and non-recipient countries.

# ABBREVIATIONS

| | |
|---|---|
| **AE** | accredited entity |
| **APR** | Annual performance report |
| **FAA** | Funded activity agreement |
| **GCF** | Green Climate Fund |
| **GE** | Grant equivalence |
| **IEU** | Independent Evaluation Unit |
| **IRM** | Initial resource mobilization |
| **LDCs** | Least developed countries |
| **NAP** | National adaptation plan |
| **NDA** | National designated authority |
| **NDC** | Nationally determined contribution |
| **ND-GAIN** | Notre Dame–Global Adaptation Initiative |
| **PPF** | Project Preparation Facility |
| **RPSP** | Readiness and Preparatory Support Programme |
| **SIDS** | Small island developing States |

## A. INTRODUCTION

The Green Climate Fund (GCF) is a multilateral fund created in 2010 to support developing countries to respond to the challenges of climate change. The GCF contributes to achieving the objectives of the United Nations Framework Convention on Climate Change and the Paris Agreement. The GCF provides funding for climate mitigation and adaptation projects and programmes in developing countries while accounting for their needs and supporting those most vulnerable to the adverse effects of climate change (paragraph 52 of the Governing Instrument for the GCF).

Alongside the established entities such as the Global Environment Facility, the GCF was conceptualized as an organization that would help developing countries tackle the causes and effects of climate change (Amerasinghe and others, 2017). To achieve this goal, the GCF was mandated by its Governing Instrument to help channel public finance to eligible countries and catalyse private sector finance.

The Governing Instrument outlines how the GCF is mandated to provide new, additional, adequate and predictable support through thematic and integrated funding windows using a results-based approach. With regard to adaptation, the Board was mandated to set minimum allocation floors to take into account urgent and immediate needs of developing countries, especially African States, least developed countries (LDCs) and small island developing States (SIDS). The Board was also mandated to achieve an appropriate geographical balance in the allocation of resources alongside similar funding levels for adaptation and mitigation.

The GCF's initial resource mobilization (IRM) period lasted from 2015 to 2019, with over USD 10 billion in pledged commitments. This led the GCF to rival the Climate Investment Funds as the largest multilateral climate fund (Amerasinghe and others, 2017). During the IRM, the GCF received contributions from 45 countries and subnational donors. As of October 2019, over USD 7.24 billion of the committed amount had been received and no funding had been received from private sector, philanthropic or other sources. As the IRM period came to an end and the next strategic cycle – GCF 1.0 – starts, it is therefore an appropriate time to provide responses to the following questions:

- How has the GCF allocated resources to different funding windows during the IRM period?
- What modalities has the GCF put in place to support developing countries in accessing funding during the IRM period?
- To what extent does the GCF project portfolio correspond to countries' vulnerability status of the most vulnerable developing countries?
- What proportion of grant expenditures has been allocated and disbursed to domestic actors?

All analyses in this paper are based on data sets created and maintained by the DataLab of the GCF's Independent Evaluation Unit (IEU). The creation of the IEU data sets follows a standard procedure. First, a data dictionary is created that contains definitions, sources for each variable, an explanation of how each variable is constructed and, if appropriate, any inclusion or exclusion criteria. In essence, the data dictionary holds all the metadata for the data set. Second, data are extracted and verified for validity. Internal peer review at all stages ensures data quality. The analysis in this paper mainly refers to the status of the data as of 8 July 2019 (unless otherwise stipulated). This date reflects decisions taken by the Board at its twenty-third meeting.

The structure of the working paper is as follows. Section B offers a very brief overview of climate finance estimates, the sources of funding for the IRM period and how this was used to create three main funding windows. Sections C and D each focuses on one of those funding windows – the

Readiness and Preparatory Support Programme (RPSP) and the Project Preparation Facility (PPF), respectively – created to support developing countries in accessing GCF finance. The section E offers some estimates of the proportion of grant expenditure, allocated and disbursed to eligible countries, that has been received by domestic beneficiaries. It does so by selecting key budget lines from financial information within annual performance reports (APRs) that can reasonably be attributed to domestic actors. Section F describes the extent to which the GCF project portfolio (including multi-country projects and country-specific projects) corresponds with countries' vulnerability status and with the most vulnerable countries, namely the African States, LDCs and SIDS. Section G summarizes the key findings and provides short conclusions and implications.

## B. CLIMATE FINANCE, NEEDS AND WINDOWS

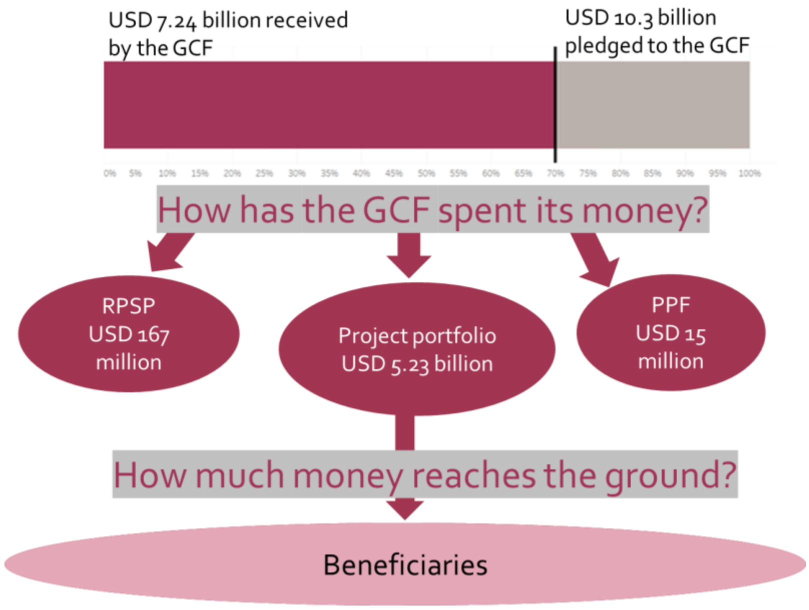
Climate finance covers investments that tackle the causes of climate change (mitigation) and the effects of climate change (adaptation). It is estimated that public and private investments in mitigation both increased from 2016 to 2018, from USD 436 billion to USD 537 billion per annum (CPI, 2019). While this signifies some progress, the increase is considerably less than the USD 1.5 billion to USD 3.5 trillion per annum investments required to maintain global temperature increases to 1.5 degrees (IPCC, 2018).

Adaptation funding needs are also considerable. A commonly cited report, The Adaptation Finance Gap Report by the United Nations Environment Programme (UNEP, 2016), suggests that by 2030 between USD 140 billion and USD 300 billion will be required per annum to meet adaptation costs. Using the midpoint of this range, it is estimated that less than 10 per cent of these adaptation needs (USD 22 billion) were met in 2017 (OECD, 2019). By 2050, the range of adaptation costs is estimated to increase to between USD 280 billion and USD 500 billion per annum (UNEP, 2016).

When we look at the nationally determined contributions (NDCs) of the Paris Agreement, the overall investment needs (for both mitigation and adaptation) by countries eligible for GCF funding have been estimated to be USD 2,303 billion in total by 2030. This figure can be understood as a lower bound, as cost estimates of other areas of climate action were identified but were not included in NDC submissions. Overall, we see a similar pattern within NDC investments (Table 1), with mitigation needs stated as being almost three times higher than adaptation needs.

The GCF has allocated the USD 7.24 billion received as part of the IRM to three main funding windows. Aside from administration and accredited entity (AE) fees, the GCF's main areas of funding have been its project portfolio, the RPSP and the PPF. A summary of these funding areas is provided in Figure 1.

*Figure 1. Flows of GCF funds and frame of analysis*




Source: Tableau Server integrated Portfolio Management System data and Fluxx data, as of 8 July 2019, analysed by the IEU DataLab.

The project portfolio naturally receives the largest share of GCF financing, with USD 5.31 billion committed as of 8 July 2019 after the conclusion of the twenty-third meeting of the Board (B.23). As Table 1 illustrates, while this sounds a considerable amount of finance, it represents less than 1 per cent of the needs stated in NDCs. Most climate finance flows are within non-OECD countries. This is around 280-290 billion per year, with OECD sources only providing 60 - 70 billion per year. Of that OECD amount, bilateral and multilateral are the source of most finance, with climate funds providing minuscule – around 9% within adaptation also the GCF is more additional in adaptation (around 2% market share) than in mitigation (0.3% market share), as identified in the Adaptation evaluation (IEU, 2021).

*Table 1. GCF investments and climate investment needs of 154 GCF-eligible countries*

| Financial support | All 154 eligible countries | | |
|---|---|---|---|
| | Quantified NDC financial needs by 2030 (USD bi.) | GCF-funded projects (USD bi.) | Funding needs met by the GCF (USD bi.) |
| **Total**[1] | **2,303** | **5.31** | **0.23** |
| Adaptation | 570 | 1.95 | 0.34 |
| Mitigation | 1,515 | 3.36 | 0.22 |

Source: NDC Explorer data by German Development Institute and Tableau Server integrated Portfolio Management System data, as of 8 July 2019, analysed by the IEU DataLab

An overall breakdown of the GCF's 111 approved funding proposals as of 8 July 2019 can be seen in Table 2. The current GCF portfolio leans towards adaptation-based projects. There is a far greater share of public sector projects than private sector projects in the portfolio, and B/I-2 is the most prevalent environmental and social safeguards risk category among projects. Figure 2 illustrate the

[1] Not all investment needs could be classified as either mitigation or adaptation and thus the two categories do not necessarily add up to the total NDC sum.

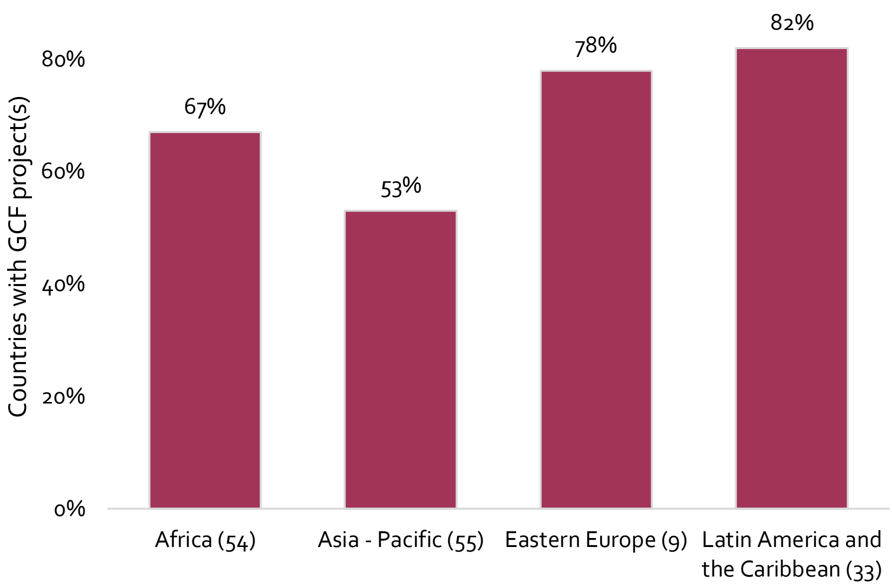
regional coverage of the GCF approved projects, Latin America and the Caribbean countries have reached mainly GCF projects.

*Table 2. Overview of the GCF project portfolio*

| THEME | Adaptation 50 | | Cross-cutting 29 | | Mitigation 32 | |
|---|---|---|---|---|---|---|
| SECTOR | Public (DMA) 86 | | | Private (PSF) 25 | | |
| ESS CATEGORY | A/I-1 14 | | B/I-2 73 | | C/I-3 24 | |
| PROJECT SIZE | Large 18 | Medium 45 | | Small 34 | Micro 14 | |

Source: Tableau Server integrated Portfolio Management System data as of 8 July 2019, analysed by the IEU DataLab
Note: Number in each cell presents the number of projects funded by the GCF.

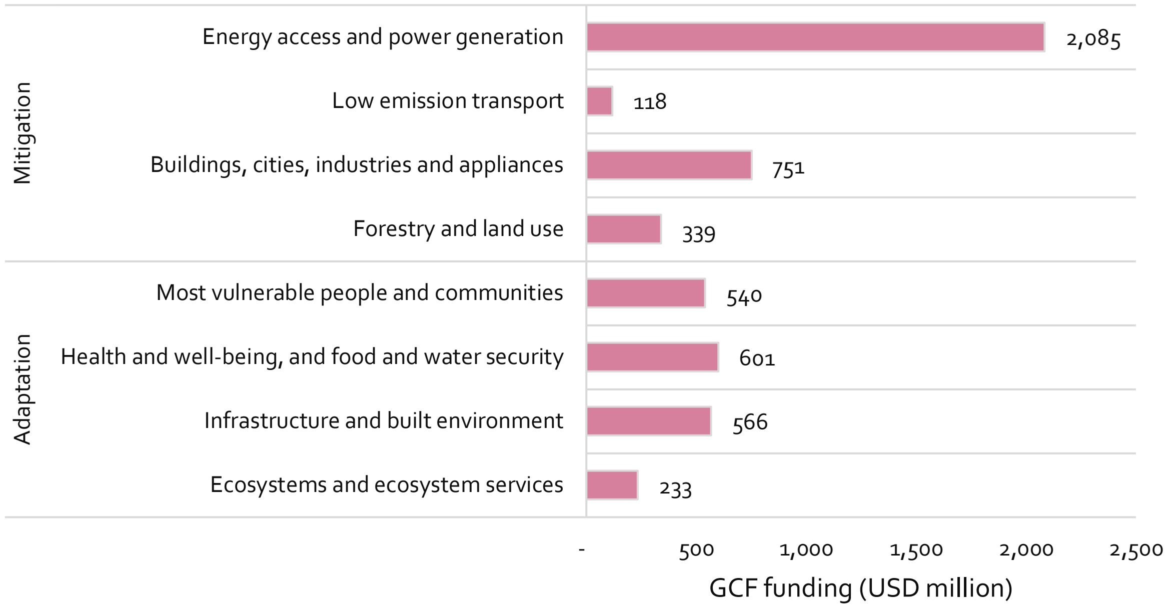
*Figure 2. GCF's approved projects by region (in percentage)*




Source: Tableau Server integrated Portfolio Management System data as of 8 July 2019, analysed by the IEU DataLab
Note: The number of GCF-eligible countries within each region is shown in parentheses.

GCF projects must target at least one of eight official result areas. The amount of GCF funding allocated in each result area can be seen in Figure 3. The energy access and power generation result area has by far the most funding, followed by the area of buildings, cities, industries and appliances, both of which are mitigation result areas. There is far greater funding variance among the four mitigation result areas than among the adaptation result areas.

*Figure 3. GCF funding allocation in each result area*




Source: Tableau Server integrated Portfolio Management System data, as of 8 July 2019, analysed by the IEU DataLab

As of July 2019, around 71 per cent of the committed GCF finance for its project portfolio (which totalled USD 5.23 billion across all financial instruments) was yet to be disbursed. These delays were the consequences of hold-ups in funded activity agreement (FAA) negotiation due to ongoing due diligence issues, slow AE responses or lack of AE internal approval. This, again, raises and alarm to the GCF how to enable its money flows effectively.

To summarize, both mitigation and adaptation funding is falling short of funding needs. Within the IRM period, the GCF received USD 10 billion and, as of July 2019, committed USD 5.31 billion, which represents less than one per cent of the overall investment needs stated within NDCs for GCF-eligible countries. Most GCF finance has been channelled towards the project portfolio. Much less finance has been directed towards RPSP and PPF. This difference can be partly attributed to the nature of these two funding windows.

## C. Readiness and Preparatory Support Programme

Launched in 2014, the RPSP is designed to help developing countries exercise ownership of climate funding and integrate it within their national climate action plans (such as national adaptation plans (NAPs), nationally appropriate mitigation actions and NDCs). The programme provides resources for strengthening the institutional capacities of implementation actors – NDAs, focal points and direct access entities – to engage productively with the GCF. The GCF places a strong emphasis on country ownership by following a country-driven approach, with NDAs and the focal points for each country acting as key points of reference. Delivery Partners (DP) are expected to work in close consultation with the NDAs or focal points to develop CN/FP to ensure the needs of GCF-eligible countries are adequately met.

As the institutional architecture of the GCF appears complex, the project approval process can be broken down into seven stages (stage 1: country programming and EWP, stage 2: Developing FP/CN, stage 3: submission of CN, stage 4: funding proposal stage, stage 5: iTAP review, stage 6: Board approval stage 7: legal arrangement then implementation). The first three stages are where a country can take advantage of RPSP finance to develop high-quality project concept notes and/or funding proposals.

The GCF initially set a range of target outcomes for institution-building in recipient countries. Each NDA (which is the main domestic actor to provide checks and balances in each country) was asked to identify, in any application for an RPSP grant, priority areas where in which the money should be used during the application of RPSP grant. As a result of an independent evaluation of the GCF's RPSP,[2] the Board adopted new objectives and outcomes for a revised RPSP.[3] The following are the updated objectives and outcomes (GCF, 2020).[4]

- Capacity building: GCF recipient countries and relevant stakeholders set up adequate systems – human, technical and institutional – to enable them to fulfil their roles and responsibilities towards the GCF and enhance their ability to achieve their objectives.
- Strategic frameworks: GCF recipient countries develop robust strategic frameworks to guide GCF investment in complementarity with other climate financiers.
- NAPs and adaptation planning processes: GCF recipient countries establish integrated adaptation planning and monitoring systems to enable climate resilience across sectors, as well as to strengthen impacts and catalyse the scale of public and private adaptation finance, based on strong climate rationale and active stakeholder engagement.
- Pipeline development: Based on strategic frameworks and entity work programmes, GCF recipient countries establish a transformational pipeline from quality concept notes and funding proposals.
- Knowledge-sharing and learning: GCF recipient countries benefit from increased levels of awareness, knowledge-sharing and learning that contribute to transformational projects in low-carbon and climate-resilient development pathways.

The delivery partners for RPSP activities are chosen by the NDA. For example, national entities must be nominated by their national NDA to be eligible for accreditation and readiness support. As of 8 July 2019, the Board had allocated a cumulative total of USD 312.5 million to the RPSP (with the first funding being approved at the sixth meeting of the Board), of which USD 167.3 million had been committed and USD 62.2 million disbursed.[5]

### How much does RPSP money reach developing countries?

All eligible countries can access RPSP. Readiness grants are limited to USD 1 million per country per year. From B.13 in June 2016, a country can also apply for a grant of up to USD 3 million for the formulation and preparation of NAPs. Figure 4 illustrates RPSP spending by output area. Most funding has been directed towards the formulation and preparation of NAPs, with USD 77.3 million committed yet only USD 14.3 million disbursed, accounting for 18.5%. For all other output areas, around half of the committed amount has been disbursed: USD 24.9 million has been disbursed to support NDAs in articulating country programming, USD 11 million has been disbursed to support strategic frameworks to engage productively with the GCF, USD 6.4 million has been disbursed to support direct access entities in preparing for pre- and post-accreditation processes, and USD 5.5 million has been disbursed to support the organization of workshops, structured dialogues and conferences across all GCF regions (Africa, Asia-Pacific, Eastern Europe, and Latin America and the Caribbean).

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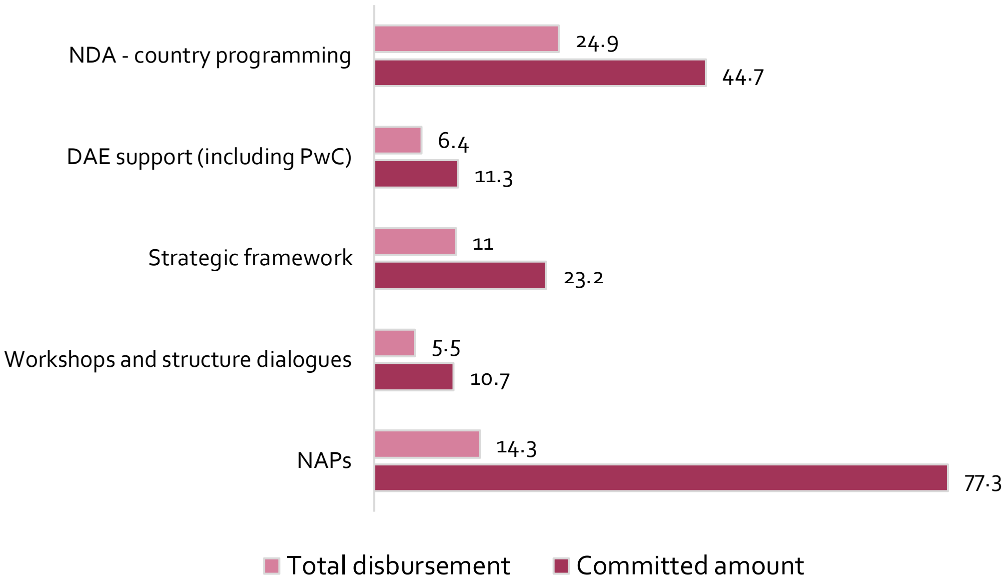
[2] Document GCF/B.22/03 titled "Independent Evaluation of the Green Climate Fund's Readiness and Preparatory Support Programme (RPSP) – Final Report".
[3] Decision B.22/11
[4] Readiness and Preparatory Support Programme Guidebook, March 2020
[5] Data gathered from GCF Board decisions, policies and framework as of 8 July 2019, analysed by the IEU DataLab

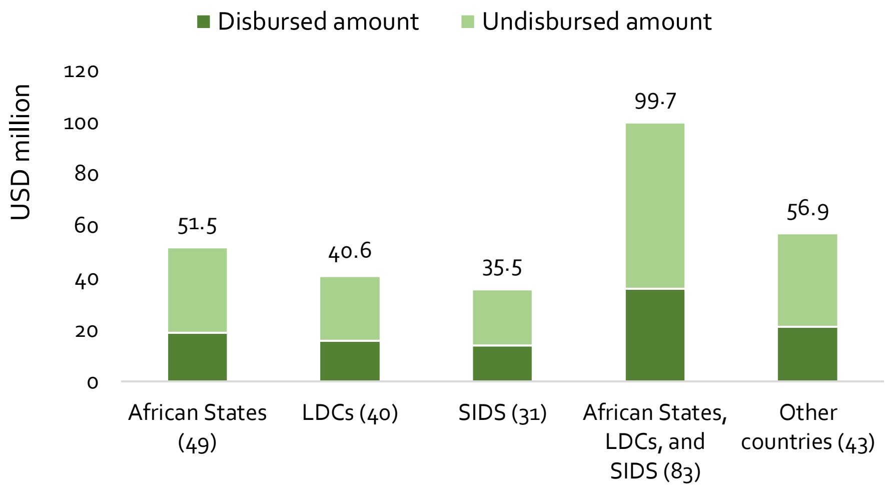
*Figure 4. RPSP disbursement by readiness outcomes (USD million)*




Source: GCF Fluxx data, as of 8 July 2019, analysed by the IEU DataLab

Figure 5 illustrates how much has been disbursed to GCF vulnerable countries. Overall, USD 51.5 million has been approved for the African States and USD 35.5 million for SIDS. Most of the committed RPSP funding (63.7%) goes to African States, LDCs and SIDS, achieving the target established at the eighth meeting of the Board (B.08) in October 2014 of having at least 50 per cent of readiness support allocated to particularly vulnerable countries.

*Figure 5. Overview of RPSP disbursement by country classification*




Source: GCF Fluxx data, as of 8 July 2019, analysed by the IEU DataLab[6]

Overall, as of July 2019, only one fifth of the allocated funding for the RPSP had been disbursed. Figure 4 indicates that a similar proportion of finance committed to support countries with their NAPs had been disbursed. However, the GCF has been diligent in allocating readiness resources to

[6] The country groups of LDCs, SIDS and African States are not mutually exclusive.

the most vulnerable countries: Figure 5 shows that most of the committed RPSP funding is being directed towards the most vulnerable countries.

## D. Project Preparation Facility

Created during the eleventh meeting of the Board (B.11), PPF is another programme that the GCF established to support access to GCF finance. The main purpose of PPF is to enhance quality of the GCF project pipeline with a special focus on direct access entities. These are domestic actors in developing countries who register and become accredited directly with the GCF (i.e do not work through an intermediary to access GCF finance). Another purpose of PPF is to improve the balance and the diversity of the GCF's project portfolio by supporting AEs. PPF support covers the following activities:

- Pre-feasibility studies, feasibility studies and project design
- Environmental, social and gender studies
- Risk assessments
- Identification of programme- and project-level indicators and methods for monitoring (if not already included in the feasibility study)
- Pre-contract services, including the revision of tender documents
- Advisory and other services to financially structure a proposed project or programme
- Other project preparation activities, where necessary and with sufficient justification

The approval process for PPF proposals differs from that of the funding proposals, that is, PPF proposals are within the remit of the Secretariat, approved by the Deputy Executive Director. Each proposal can request up to USD 1.5 million.

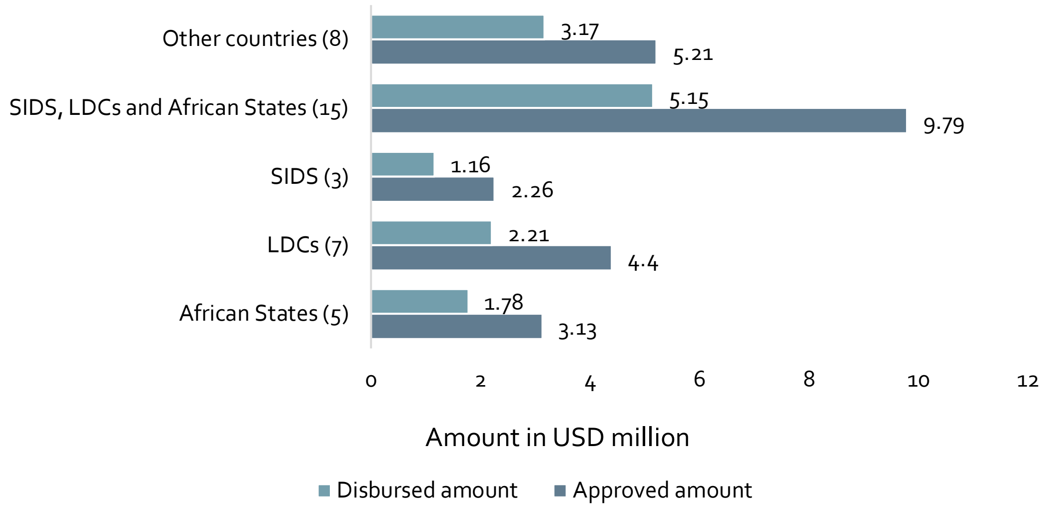
The following analysis is based on information from PPF proposals that was collected from the GCF's integrated Portfolio Management System or Fluxx. Project-specific data, including budget information, were collected from each approved PPF proposal.

### How much is spent on the Project Preparation Facility?

The PPF programme is the smallest window for GCF funding, with an allocated overall budget of USD 40 million. As of 8 July 2019, USD 15 million had been approved by the GCF Secretariat to support the preparation of 23 projects, of which USD 8 million had been disbursed. Figure 6 shows the amount approved versus the amount disbursed, grouped by vulnerable country classification. The figure shows that across all the classification categories, 55 per cent of the approved amount had been disbursed. Comparing other countries[7] to vulnerable countries, the figure shows that the latter receive more funding but that the disbursement rate is broadly similar.

[7] "Other countries" include all GCF-eligible countries that are not African States, LDCs or SIDS.

*Figure 6. PPF funding by most vulnerable countries*




Source: Tableau Server integrated Portfolio Management System data, as of 8 July 2019, analysed by the IEU DataLab

Note: Shows 23 approved PPF proposals; the number of proposals is shown in parentheses on the y-axis.

Table 3 shows the financial breakdown found in the proposals, that is, the amounts requested for each activity. Table 3 shows that most AEs that apply for funding through the PPF require assistance with pre-feasibility studies and project design. This implies that the entities lack resources for conducting feasibility studies and project design, among others, to fulfil GCF's requirements. Hence the GCF's PPF support is essential for supporting AEs, especially DAEs. However, not all the approved PPF proposals included a detailed budget; thus, the amounts in Table 3 are not based on all 23 of the approved PPF proposals.

*Table 3. Activities funded by the Project Preparation Facility*

| Financial details and breakdown for each activity | Budget (USD million) |
|---|---|
| Pre-feasibility studies, feasibility studies and project design | 6.72 |
| Environmental, social and gender studies | 3.26 |
| Risk assessments | 4.69 |
| Identification of programme- and project-level indicators | 1.73 |
| Other activities | 1.13 |

Source: Tableau Server integrated Portfolio Management System data, as of 8 July 2019, analysed by the IEU DataLab

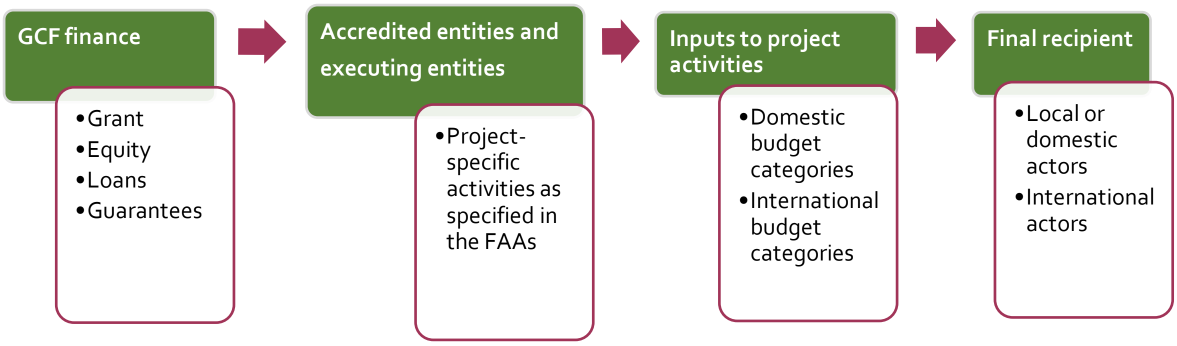
Overall, similar to the case of RPSP, African States, LDCs and SIDS have received the majority of the committed and disbursed finance from the PPF. And the most widely cited reason for applying for these funds has been pre-feasibility, feasibility and project design activities.

## E. Grant expenditure and domestic actors

To understand how the GCF is supporting developing countries, especially poor communities in these countries, to build resilience and tackle the causes of climate change, it is important to assess the financial flows reaching domestic actors. In responding to the challenges posed by climate change, the GCF is working with a spectrum of stakeholders, including international, regional and national entities, in project design and implementation. At the country level, the GCF engages with the NDA and a wide range of actors, including the private sector, project-affected people and communities and other institutions such as local government, civil society organizations and non-governmental organizations.[8]

This section aims to shed some light on the following question: How much GCF finance is flowing to domestic actors? This is not an easy question to answer for several reasons. First, we need a robust definition of domestic actors. For this working paper, domestic actors are defined as direct local participants in project activities, including individuals, households, local communities, local firms, local governments and other organizations that are located within the country where the GCF project is implemented. The second assumption is about the type of financial flow to be analysed and which budget lines to classify as domestic. Figure 7 shows a typical financial flow from the GCF to final recipients.

***Figure 7. Stylized flow of GCF finance to domestic actors***




## 1. Assumptions for including and excluding budget categories

The information used to quantify GCF finance flowing to domestic actors was extracted from APRs that provides a description of the financial information for the implementation period. The provision of this information is required in the FAA[9] for each project. The authors of this paper focus on one financial instrument – grants – as grants were the only financial instrument in the APRs for which the AEs reported expenditure in detail, typically under APR section 3.2 ("Financial progress – Grant"). Within this subsection, the researchers assess the approved budget as outlined in the FAA and the expenditure used for the reporting period. To summarize:

- Financial instrument: Only the grant part of the GCF finance was considered.
- Duration: The approved budget was assessed for the entire project period, as per each FAA.
- Expenditure: Cumulative expenditures within the APR reporting period were assessed.

To address the question of how much GCF finance is reaching domestic actors, we applied the following inclusion and exclusion criteria to ascertain which budget lines were categorized as accruing to domestic actors:

- Expenditures that flow to local companies, individual beneficiaries and local government are included as being received by domestic actors. Such recipients included all types of local consultants.
- Wages and salaries paid to workers and labourers at the sites of project execution were included as being paid to domestic actors.

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[8] Decision B.11/10.

[9] The FAA is a legal arrangement between the GCF and AEs prior to project implementation to allow access to funds.

Table 4 shows a summary of the categories included in the analysis as being received by domestic actors and those excluded.

*Table 4. Budget categories included or excluded in the study*

| BUDGET CATEGORIES | DECISION | BUDGET CATEGORIES | DECISION |
|---|---|---|---|
| Local consultants | ☑ | International consultants | ☒ |
| Contractual services – individual | ☑ | Travel | ☒ |
| Equipment and furniture | ☑ | Contractual services – companies | ☒ |
| Communication and audio-visual equipment | ☑ | Professional services | ☒ |
| Supplies | ☑ | Staff costs | ☒ |
| Information technology equipment | ☑ | | |
| Rental maintenance – premises | ☑ | | |
| Audio visual & print production | ☑ | | |
| Miscellaneous expenses | ☑ | | |
| Training, workshops and conferences | ☑ | | |

It is important to be open and transparent about the limitations of these data First, the analysis lacks detailed budgets from AEs. The APRs do not contain precise information about who the recipients are within each budget category. For example, AEs do not provide detailed information on how they classify local or international consultants. Similarly, travel expenses raise many questions about whether national or international travel agencies and service providers are used. Second, even if projects are locally orientated, there is no assurance that local actors are involved in the project design or execution or are even direct beneficiaries of the approved finance (Soanes and others, 2017). The analysis and information presented in this section are from 34 funded projects currently under implementation that have already submitted their APR with financial information attached. Although there were 56 GCF projects under implementation by July 2019, 39 per cent of these projects were yet to submit an APR or did so without financial details. This submission status presents a challenge for the independent assessment of funding and the tracking of GCF expenditures.

Before moving on to the main findings of this section, it is important to understand that the authors can neither verify nor question the accuracy or legitimacy of the financial information presented in the APRs. The reader is, therefore, responsible for verifying the reported information with the relevant entities.

## 2. RESULTS

Table 5 shows that the 34 funded projects with APRs represented in total USD 1.64 billion of Board-approved grant finance. From this aggregate amount, the analysis found that USD 134.1 million of the approved budget is earmarked to accrue to domestic actors through the entire project period, as per the FAA, representing 8.15 per cent of the Board-approved grant finance. The next step was to assess the proportion of this earmarked finance that had already been paid out to domestic actors. Table 5 shows that the cumulative expenditures paid to domestic actors up to the end of the July 2019 represented USD 8.76 million, or 6.5 per cent of the approved budget earmarked for domestic actors.

***Table 5. Comparison between GCF grant finance, approved budgets and expenditure for domestic actors***

| | Amount (USD million) |
|---|---:|
| *Board-approved total finance for project portfolios* | *5,230.00* |
| Board-approved grant finance | 1,644.99 |
| Approved budget for the entire project period, per the FAA, that accrues to domestic actors | 134.07 |
| Cumulative expenditures through to the end of this reporting period paid out to domestic actors | 8.76 |

Source: Annual performance reports and FAAs, as of 8 July 2019, analysed by the IEU DataLab
Note: Shows sample of 34 funded proposals with APRs

Table 6 highlights that in the approved grant budget for the entire project period, the three categories with the highest amount of committed finance are (1) contractual services – individual; (2) training, workshops and conferences; and (3) local consultants. It also highlights that in terms of cumulative expenditure for the APR reporting period, the most disbursed finance has been for (1) contractual services – individual; (2) equipment and furniture; and (3) training, workshops and conferences.

***Table 6. Approved budget and cumulative expenditure to the local beneficiaries***

| Budget categories | Approved (USD million) | Cumulative expenditure (USD million) |
|---|---:|---:|
| Local consultants | 21.46 | 0.76 |
| Contract services – individual | 41.67 | 2.61 |
| Equipment and furniture | 20.63 | 2.05 |
| Supplies | 1.81 | 0.20 |
| Training, workshops and conference | 30.89 | 1.68 |
| Communication & audiovisual equipment | 1.48 | 0.56 |
| Information technology equipment | 2.57 | 0.13 |
| Rental and maintenance of other equipment | 2.32 | 0.08 |
| Rental and maintenance – premises | 1.60 | 0.16 |
| Audiovisual and print production costs | 5.14 | 0.12 |
| Miscellaneous expenses | 3.03 | 0.31 |
| Services to projects – country staff | 1.47 | 0.09 |
| **Total** | **134.07** | **8.76** |

Source: Annual performance reports and funded activity agreements, as of 8 July 2019, analysed by the IEU DataLab
Note: Shows sample of 34 funded proposals with APRs

This section has presented some estimates of the proportion of GCF finance that accrues to domestic actors. It does so based on applying inclusion and exclusion criteria to budget lines encapsulated in APRs. Based on these assumptions, it finds that 8.15 per cent of the Board-approved grant finance accrues to domestic actors. It also finds that 6.5 per cent of this approved budget earmarked for domestic actors had been paid out by 8 July 2019, representing 0.5 per cent of the total amount of Board-approved grant finance.

## F. Project portfolio

### 1. Project funding in light of the GCF's aims

This section investigates whether the GCF's aims in project funding allocation as outlined in the Governing Instrument have been upheld with the current project funding (111 active projects, up to B.23) and further examines the funding in the context of the recipient countries' characteristics. Clause 50 of the Governing Instrument states that the Board will "balance the allocation of resources between adaptation and mitigation activities under the Fund". Furthermore, Clause 52 states that within adaptation, the Board "will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors as appropriate". In fact, Board decision B.06/06 states that the GCF will *"aim for a 50:50 balance between mitigation and adaptation over time"* and *"aim for a floor of fifty per cent of the adaptation allocation for particularly vulnerable countries, including least developed countries (LDCs), small island developing States (SIDS) and African States"*, all in grant equivalence.

Table 7 shows the approved amount of GCF project funding in grant equivalence. The ratio of adaptation to mitigation project funding, in total, is 1.14, fairly close to its target. Among the particularly vulnerable countries (African States, LDCs and SIDS), the ratio is particularly high for LDCs, with a value of 2.46. Also, the ratio is particularly low for "Others" (not particularly vulnerable countries), with a value of 0.69. The ratio of adaptation funding in particularly vulnerable countries to adaptation funding in countries in the Others category is 2.32 (i.e. much greater value than 1).

***Table 7. Approved amount of the GCF's project funding by country vulnerability category***

| Country category | Adaptation funding GE (USD million) | Mitigation funding GE (USD million) | Total project funding GE (USD million) | Ratio of adaptation to mitigation |
|---|---|---|---|---|
| LDCs | 701.35 | 285.3 | 986.65 | 2.46 |
| SIDS | 414.45 | 245.51 | 659.96 | 1.69 |
| African States | 700.68 | 509.04 | 1,209.72 | 1.38 |
| Particularly vulnerable | 1,202.23 | 748.68 | 1,950.91 | 1.61 |
| Others | 519.05 | 755.08 | 1,274.13 | 0.69 |
| Total | 1,721.29 | 1,503.75 | 3,225.04 | 1.14 |
| *Ratio of particularly vulnerable to others* | *2.32* | *0.99* | *1.53* | |

Source: Tableau Server integrated Portfolio Management System data as of 8 July 2019, analysed by the IEU DataLab

To facilitate a fairer comparison of the adaptation funding between different country groups that consist of different numbers of countries and populations, we examined the funding at per country and per capita levels. The values are shown in Table 8 and Figure 8.

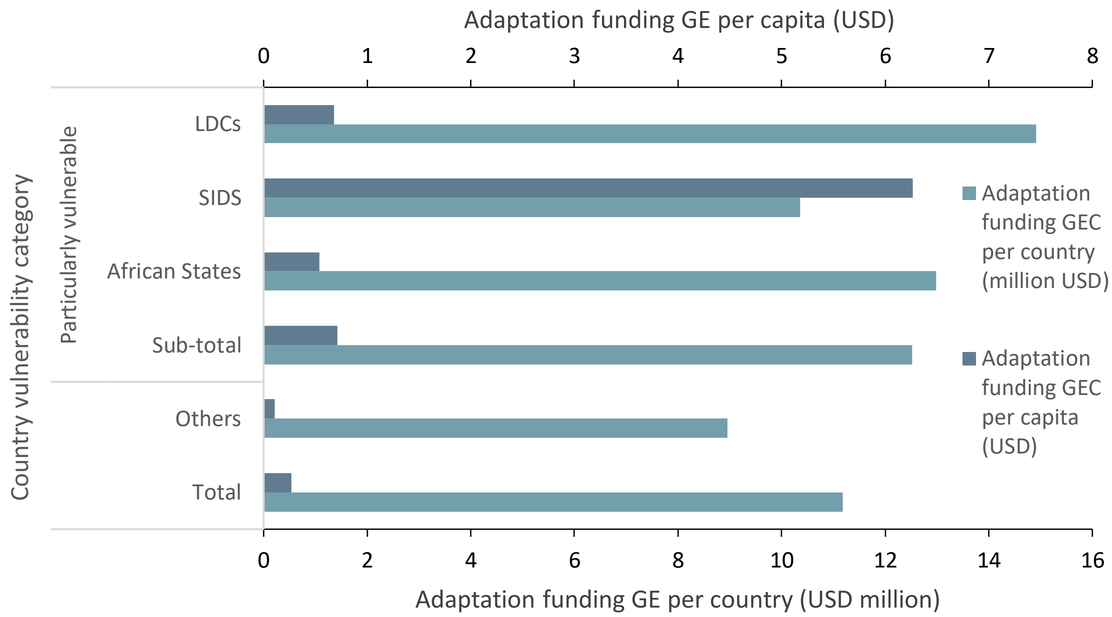
*Table 8. Approved amount of the GCF's adaptation funding and comparative values per country and per capita, by country vulnerability category*

| Country category | | Adaptation funding GE (USD million) | Number of countries | Population (million) | Adaptation funding GE per country (USD million) | Adaptation funding GE per capita (USD) |
|---|---|---|---|---|---|---|
| Particularly vulnerable | LDCs | 701.35 | 47 | 1,033.11 | 14.92 | 0.68 |
| | SIDS | 414.45 | 40 | 66.09 | 10.36 | 6.27 |
| | African States | 700.68 | 54 | 1,306.03 | 12.98 | 0.54 |
| | ***Sub-total*** | ***1,202.23*** | ***96*** | ***1,704.55*** | ***12.52*** | ***0.71*** |
| Others | | 519.05 | 58 | 4,597.37 | 8.95 | 0.11 |
| **Total** | | **1,721.29** | **154** | **6,301.92** | **11.18** | **0.27** |
| *Ratio of particularly vulnerable to others* | | *2.32* | *1.66* | *0.37* | *1.4* | *6.45* |

Source: Tableau Server integrated Portfolio Management System data, as of 8 July 2019, analysed by the IEU DataLab

It is observed that the SIDS have much higher per capita adaptation funding than any other country groups. The per capita adaptation funding is much higher for particularly vulnerable countries than for countries in the Others category, with a ratio of 6.45. The per country funding also shows a similar trend, albeit less severe, with a ratio of 1.4.

*Figure 8. Per country and per capita adaptation funding, by country vulnerability category*




Source: Tableau Server integrated Portfolio Management System data, as of 8 July 2019, analysed by the IEU DataLab

Overall, the GCF appears to uphold the aims set out by the Governing Instrument. Both targets of the 50:50 balance between mitigation and adaptation in grant equivalence and the 50% minimum allocation to particularly vulnerable countries in adaptation are met.

## 2. ADAPTATION PROJECT FUNDING AND COUNTRY VULNERABILITY

The following assesses the extent to which GCF funding aligns with different measures of vulnerability among eligible countries. The initial investment framework of the GCF considers the "vulnerability of the country" as one sub-criterion under the needs of the recipient.[10] The importance of a country's vulnerability is also illustrated with the use of minimum allocation floors to take into account the urgent and immediate needs of African States, LDCs and SIDS (see section F1). The GCF internal portfolio database contains information on how much project funding is going to each result area per country. As GCF projects can fall into one or more of eight result areas, of which four are for adaptation and four for mitigation, total adaptation funding per country was calculated from the four adaptation areas.

Data on vulnerability to climate change were taken from the Notre Dame–Global Adaptation Initiative index (ND-GAIN index). The index measures three aspects of vulnerability in corresponding subindices:[11]

- Exposure, which captures the degree to which human systems are affected by the physical aspects of climate change
- Climate sensitivity, which captures the dependency of a society on sectors that are affected by climate change
- Adaptive capacity, which captures the ability of a society to adjust its sectors to changing climate conditions

Quartile rankings were applied to each subindex to create vulnerability quartiles and allow a simple comparison of adaptation funding across quartiles. The first quartile contains the countries with the least vulnerability according to the respective index. In addition, funding to countries without a ranking was designated into a "missing values" category. These figures refer to direct GCF funding only and exclude co-financing by other organizations.

As the first GCF projects were approved in 2015, ND-GAIN values were taken for the year 2014. Data on all three subindices (exposure, climate sensitivity and adaptive capacity) were available for 131 out of the 154 countries eligible for GCF funding.

## 3. RESULTS OF COUNTRY RANKINGS AND VULNERABILITY ASSESSMENT

As of July 2019, the GCF had committed USD 1.94 billion for climate adaptation, supporting a total of 79 projects in 77 countries. Eleven per cent of this funding was allocated to countries without data for the ND-GAIN index, which are mainly SIDS (USD 179 million) plus Bhutan (USD 42 million).[12,13] These countries are not ranked.

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[10] Document GCF/B.09/07 titled "Further Development of the Initial Investment Framework: Sub-Criteria and Methodology", p. 13.

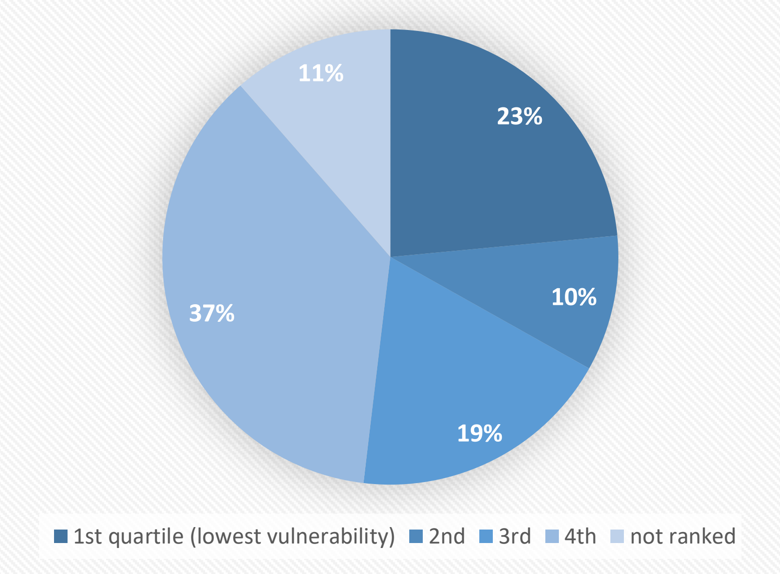
[11] The ND-GAIN index measures the vulnerability of 192 countries to predicted changes in climate and their readiness to mobilize investments for adaptive actions. The indices were constructed using 74 variables from six sectors that are most directly affected by climate change. All indices are standardised to values between 0 (low vulnerability or readiness) and 1 (high vulnerability or readiness) for comparability (Chen, et al., 2015).

[12] The following countries receive funding from the GCF for climate adaptation yet are not included in the ND-GAIN index: Bhutan, the Cook Islands, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Samoa, Solomon Islands, Tonga and Tuvalu.

[13] The SIDS of Antigua and Barbuda, Barbados, the Comoros, Dominica, the Dominican Republic, Fiji, Grenada, Maldives, Mauritius, and Vanuatu are included in the ND-GAIN index and receive adaptation funding from the GCF.

Figure 9, Figure 10 and Figure 11 show how these investments are distributed by country ranking according to the three ND-GAIN subindices. The interpretation compares the quartiles with the highest and lowest vulnerability values. Adjacent quartiles are difficult to compare, as being above or below a cut-off value does not say much about the absolute difference between two countries. In addition, the rankings compare values on a country level; the results do not say anything about how well GCF projects target the most vulnerable people and communities within those countries.

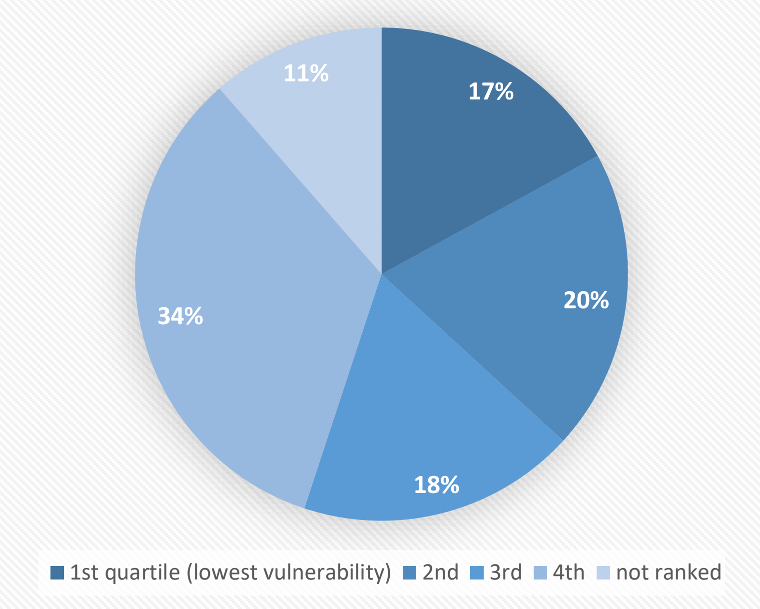
***Figure 9. GCF adaptation funding by exposure to climate damage ranking***




Source: ND-GAIN index and GCF portfolio data, as of 8 July 2019, analysed by the IEU DataLab

As seen in Figure 9, more than one third of all funding goes to countries with the greatest exposure to climate damage. This is an overproportionate share and suggests that funding decisions may, intentionally or inadvertently, be taking exposure to climate damage into account. However, 23 per cent goes to the least vulnerable quartile (which makes it the second biggest category). Thus, low exposure to climate damage at the country level does not appear to be an exclusion criterion for projects. Similarly, the proportions of GCF funding by climate sensitivity in Figure 10 show that GCF projects also focus on countries with particular sensitivity to climate change. Furthermore, slightly less funding is provided to countries in the least vulnerable quartile, compared with the percentage in Figure 9.

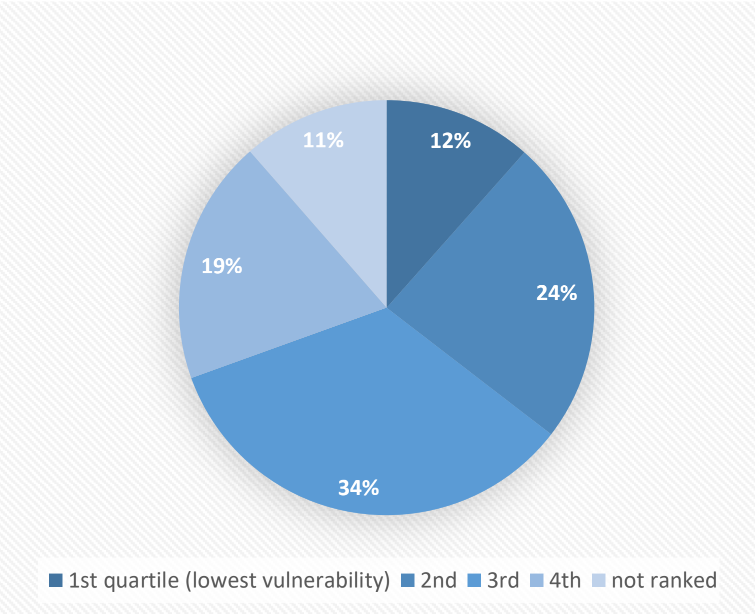
*Figure 10.* ***GCF adaptation funding by climate sensitivity ranking***




Source: ND-GAIN index and GCF portfolio data, as of 8 July 2019, analysed by the IEU DataLab

The allocation of GCF funding by adaptive capacity ranking shows a bit different pattern (see Figure 11). Here, the least vulnerable adaptive capacity quartile has just 12 per cent and the second least vulnerable quartile almost exactly one quarter of total funding (including funding to countries without ranking). Yet only one fifth (of total funding) is going to the most vulnerable countries, with one third going to the third quartile. These findings suggest that the flows of GCF funds are moderately aligned with this aspect of vulnerability.

*Figure 11.* ***GCF adaptation funding by adaptive capacity ranking***




Source: Data gathered from GCF Board decisions, policies and framework, 8 July 2019, analysed by the IEU DataLab

Overall, the results suggest that countries with the highest levels of environmental and economic vulnerability receive an appropriate share of climate adaptation funding but that these flows are not supported by an equal share of funding for countries with the lowest levels of adaptative capacity.

While the definition of minimum allocation floors in Board documents does not dictate a specific operationalization, the above analysis suggests that the target set by decision B.06/06 (a) for minimum allocation of 50% to particularly vulnerable countries is fulfilled. This conclusion is supported by the finding (not shown above) that slightly more than half of all adaptation funding goes to countries with median vulnerability or higher. However, this definition of minimum allocation floor refers only to the group of vulnerable countries as a whole. What variance is there within the group of most vulnerable countries?

To break this down, Table 9 summarizes GCF spending on adaptation as of 8 July 2019, or the 10 most vulnerable countries according to the ND-GAIN index. This vulnerability index combines the subindices for exposure, climate sensitivity and adaptive capacity. Countries with the greatest vulnerability score are mostly African LDCs. Only three out of these 10 countries receive adaptation project funding. Moreover, the total funding of USD 40 million accounts for only 2 per cent of the GCF spending on adaptation. Many of the listed countries are poor, conflict-affected or fragile states. In such context, adaptive capacity is – by definition – limited. This poses a conundrum for the GCF, as such countries hold many of the most vulnerable people, but there are limited channels through which to provide support to increase the countries' resilience. Discussion is needed on what an "appropriate" allocation floor means to ensure that the GCF fulfils its responsibility to the most vulnerable countries as set out in the Governing Instrument (clause 52).

***Table 9. Adaptation funding to the 10 most vulnerable countries***

| Country | Funding (USD million) | Vulnerability (ND-GAIN value) | SIDS | LDC | African State |
|---|---|---|---|---|---|
| Somalia | 0 | 0.679 | No | Yes | Yes |
| Niger | 5.62 | 0.678 | No | Yes | Yes |
| Chad | 5.24 | 0.650 | No | Yes | Yes |
| Sudan | 0 | 0.624 | No | Yes | Yes |
| Guinea-Bissau | 0 | 0.623 | Yes | Yes | Yes |
| Liberia | 0 | 0.613 | No | Yes | Yes |
| Mali | 29.35 | 0.611 | No | Yes | Yes |
| Eritrea | 0 | 0.600 | No | Yes | Yes |
| Afghanistan | 0 | 0.596 | No | Yes | No |
| Congo, Democratic Republic | 0 | 0.592 | No | Yes | Yes |
| **Total** | **40.24** | | | | |

Source: Tableau Server integrated Portfolio Management System data, and ND-GAIN Index data, as of 8 July 2019, analysed by the IEU DataLab

## G. Conclusions and implications

Globally, both mitigation and adaptation funding are falling far short of funding needs. As the IRM period of the GCF ended in 2019, this paper assessed how the GCF allocated resources in that period. Within the IRM period, contributing parties pledged USD 10.3 billion, of which the GCF received USD 7.24 billion. As of July 2019, the GCF had committed USD 5.31 billion to its project portfolio, which represents less than one per cent of the overall investment needs stated in NDCs in GCF eligible countries. Most GCF finance has been channelled towards the project portfolio notably energy access and power generation result areas. Much less finance has been directed towards the

RPSP and the PPF, which were designed to support developing countries in building their institutional capacity for accessing climate finance during the IRM period.

Within the RPSP and the PPF, most of the committed funding has been directed towards the most vulnerable countries. However, as of July 2019, only one fifth of the approved grants for RPSP had been disbursed and only one fifth of the committed finance for supporting countries with their NAPs had been disbursed. Most of the disbursed finance for the PPF has been directed towards vulnerable countries. The low disbursement rates for the RPSP mirror the low disbursement rates for the project portfolio, as identified in the Forward-Looking Performance Review of the GCF (IEU, 2019). Given that there are no data available for estimating how much finance is required for a country's readiness nor data for assessing a country's needs, this study cannot ascertain whether readiness support is sufficient to meet readiness needs for developing countries. This raises a critical question for the GCF and other climate finance organizations: Are the funds provided adequate to meet the urgent needs of vulnerable communities?

Based on a set of assumptions, this paper found that 8.15 per cent of the Board-approved grant finance accrues to domestic actors. It also found that 6.5 per cent of the approved budget earmarked for domestic actors had been paid out by 8 July 2019. This amount represents 0.5 per cent of the total amount of Board-approved grant finance. These results have to be interpreted with caution. Nevertheless, other estimates by Soanes and others (2017) suggest that little climate finance is reaching the local level. Soanes and others (2017) analysed climate finance flows between 2003 and 2016 from public funds tracked by the Climate Funds Update database and found that projects operating at the subdistrict level received less than 10 per cent of the overall funding volume. The best way to track climate finance flows to the local level is through independent evaluations or through data collection by civil society organizations (see Terpstra, Carvalho and Wilkinson, 2015).

When looking into the GCF's project funding considering the Fund's aims as set forth by the Governing Instrument, the aims appear to have been well upheld. However, when examined in the context of per capita funding, the adaptation funding appears to be heavily skewed towards SIDS. The paper also examined the extent to which the GCF project portfolio corresponds to countries' adaptation vulnerability status. The results show that countries with the highest levels of environmental and economic vulnerability receive an appropriate share of climate adaptation funding but that these flows are not supported by an equal share of funding for countries with the lowest levels of adaptative capacity. The paper also found that only three of the 10 most vulnerable countries receive adaptation project funding from the GCF, suggesting that the GCF could explore how to provide more adaptation finance for poor, conflict-affected and fragile States.

At the GCF, there is a metaphoric phrase often used to describe their experience during IRM "We had to build the plane while flying it". Meanwhile, political expectations for the GCF have been enormous. The analysis in this paper suggests that the GCF has clearly taken into account its responsibility towards the most vulnerable countries, defined in terms both of vulnerability measures and of groups of especially vulnerable countries (African States, LDCs and SIDS). The GCF has committed USD 5.31 billion to its project portfolio its resources from the IRM, and 36 projects are under implementation. For the money to have a beneficial impact, the responsibility lies now more and more with AEs and executing entities for project implementation It is crucial that the project benefits reach the most vulnerable within the country when only a small fraction of the financial flows may directly reach the final beneficiaries. On the one hand, the urgency of the climate crisis demands quick approval and disbursement of financial support. On the other hand, the small contribution of the GCF to the overall needs for climate finance necessitates careful consideration of where GCF money can make the most significant difference.

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