GEvalBrief No. 10

GREEN CLIMATE FUND | Independent Evaluation Unit

SEPTEMBER 2021 ieu.greenclimate.fund TRUSTED **EVIDENCE**. INFORMED **POLICIES**. HIGH **IMPACT**.

INDEPENDENT EVALUATION OF THE GREEN CLIMATE FUND'S APPROACH TO THE PRIVATE SECTOR

The GCF's private sector approach

The Board of the Green Climate Fund (GCF), at its twenty-seventh meeting, requested the Independent Evaluation Unit (IEU) to undertake an independent evaluation of the GCF's approach to the private sector[1]. The GCF mandate on the private sector includes the following five core provisions:

1. Channel private finance, including catalysing finance
2. Country-driven approach
3. Geographical and thematic balance between adaptation and mitigation
4. Efficiency and effectiveness to promote participation of private sector actors
5. Support to enable private sector involvement in small island developing states (SIDS) and least developed countries (LDCs)

The evaluation focused on these provisions in the mandate and sought to assess how and whether the GCF has operationalized the mandate to channel and catalyse climate finance from private actors.

Key findings

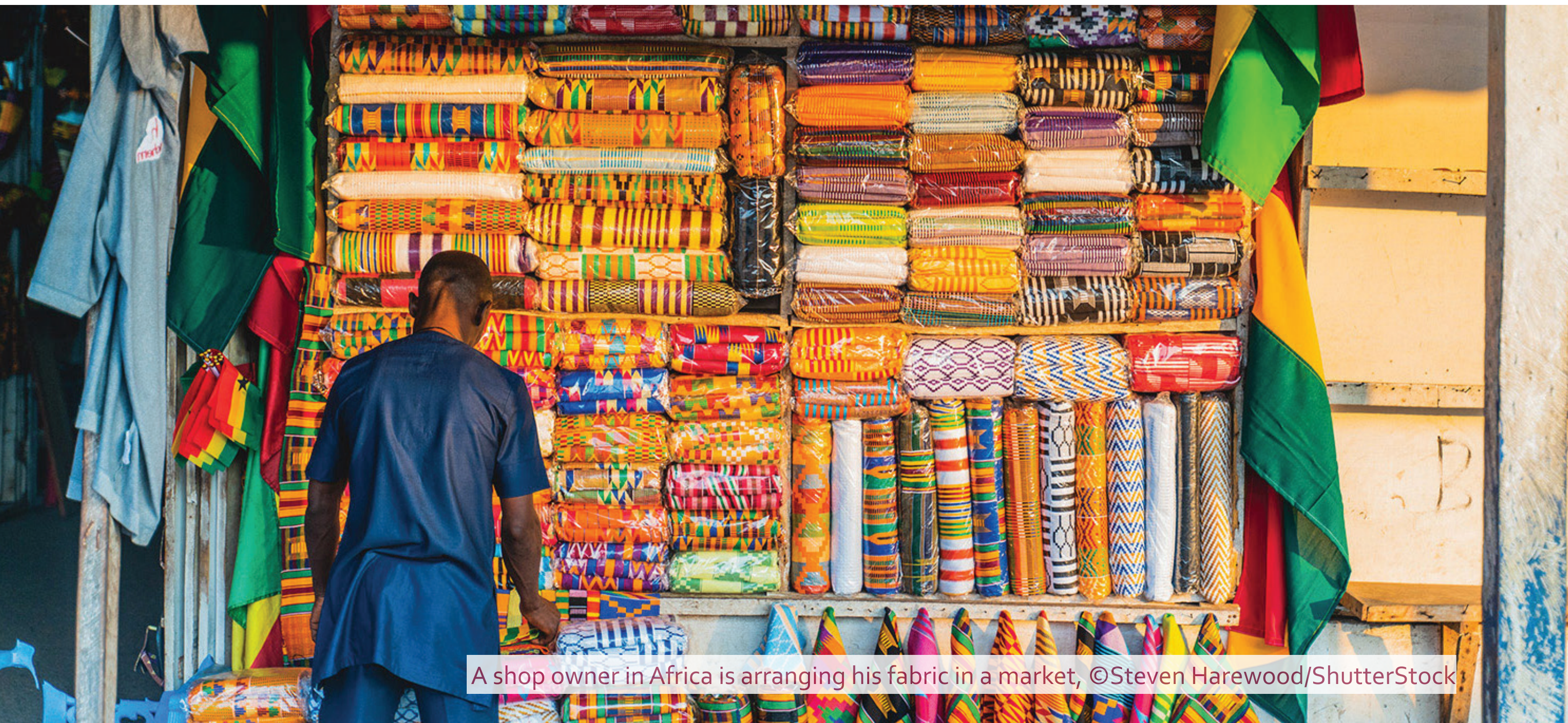
1. Mandate of the GCF

Guidance from the Board on the GCF's private sector approach has thus far been limited. The Private Sector Advisory Group, initially developed to provide recommendations to the Board regarding the Fund's private sector approach, is no longer operational.

The GCF does not clearly define its private sector portfolio. Both the Private Sector Facility (PSF) and the Division of Mitigation and Adaptation (DMA) can target similar outcomes and the distinction between divisions is unclear to AE and countries, as well as to Secretariat staff.

The Updated Strategic Plan (USP), while providing a list of priorities related to the private

1 *Independent Evaluation Unit (2021). Independent evaluation of the Green Climate Fund's approach to the private sector. Evaluation Report No. 10, (September). Songdo, South Korea: Independent Evaluation Unit, Green Climate Fund.*


A shop owner in Africa is arranging his fabric in a market, ©Steven Harewood/ShutterStock

sector, does not specify whether the GCF, in implementing its long-term strategic vision over GCF-1, intends primarily to be:

i. a high-leverage fund that maximizes co-investment; and/or
ii. a high-risk fund that mobilizes and catalyses investments in high-risk and new and emerging markets, particularly in SIDS and LDCs.

Also, while COP decisions and the GI (Governing Instrument) emphasize the importance of engaging local private actors in developing countries, the GCF does not place a strong focus on promoting the participation of micro-, small- and medium-sized enterprises (MSMEs) in LDCs, SIDS or African States.

2. Lessons learned from other institutions

Evidence from climate funds, international financial institutions and developing banks underlines that:

(i) Fostering systemic change requires catalytic action that focuses on creating enabling environments for investment, supporting interventions that help build institutional strength and capacity, and putting in place the right incentives for the private sector.

i. The use of a diverse range of financial instruments demonstrates the importance of flexible financing structures, high risk appetite, and innovative blended finance.
ii. The GCF private sector portfolio is targeting the same themes and regions without differentiating by need, suggesting limited use of complementarity and coherence with other funds in the climate finance space.
iii. The capacity for MSMEs to engage in climate action is restricted by weak enabling environments, limited knowledge and awareness of investment opportunities including in the GCF, and inadequate financial products for traditional MSME capacities.

3. Business model

The GCF's accreditation function has faced challenges of strategic clarity, which limits the identification and selection of AEs for country-driven private sector projects. The portfolio of AEs is varied, but not aligned with the mandate of the GCF on private sector.

The GCF's accreditation process is perceived as too lengthy and cumbersome to secure the accreditation of private sector entities, especially for direct access entities (DAEs). The pool of private sector AEs remains limited and the project-specific assessment approach is not expected to address these challenges.

Finally, the RPSP has limited structural linkages with the private sector or PSF, which has in turn led to a limited use private sector engagement. Of the 3,100 expected outcomes from RPSP grants, only six percent seek to support the private sector.

4. GCF's PSF portfolio

The GCF's PSF project development is not effectively country-driven, and hence not in line with the priorities of the USP. This is in part due to the fact that many country programmes are yet to be deployed to identify private sector priority projects.

The process and duration of project approval are also unattractive for the private sector and considered unpredictable, which presents a significant barrier. On average it takes 228 days from funding proposal submission to Board approval.

In addition, the PSF portfolio is strongly focused on mitigation and its use of financial instruments indicates that it is not targeting high-risk private sector investments, such as adaptation projects. This is despite the USP mandate for a 50/50 ratio of investment for mitigation and adaptation projects.

The Project Preparation Facility (PPF) is also underutilized to support the development of private sector projects, while Requests for Proposals (RFPs) are neither effective nor efficient in serving the GCF's private sector mandate.

5. Results and impacts of the GCF's PSF portfolio

The GCF will be unable to credibly measure and report results of its private sector mandate due to two key challenges:

i. the integrated Results Management Framework (IRMF) does not provide a robust framework from which to measure the success - or not - of the GCF's private sector approach, and
ii. the IRMF does not differentiate between public and private projects, rather it assesses projects by result area, which poses a significant challenge to any type of assessment of the GCF's engagement with the private sector.

The quality of annual performance reports also varies due to limited GCF guidance, leaving the GCF with limited oversight of AEs' activities; this scenario is heightened in multi-country projects where NDAs also have limited involvement in the day-to-day operations.

Key conclusions and recommendations

Channelling financial resources and catalysing public and private climate finance. The process of securing funding from the GCF is slow and unpredictable, which is particularly challenging for local private actors. Moreover, the PSF's catalytic effects are limited, because it has largely focused on maximizing leverage in single projects rather than catalysing private finance.

R.1: The Board and the Secretariat could clarify that the GCF is a high-risk fund that aims to catalyze investments in transformative actions, rather than only a high-leverage fund that aims to maximize the quantity of co-investment.

R.2: The Secretariat should enhance the speed and transparency of GCF operations to align with private sector needs for efficiency and predictability. It should consider streamlining of the accreditation and project approval process as well as clarifying the objective of the project specific assessment approach.

Pursue a country-driven approach. The GI provides for a country-driven approach, including for the PSF. Despite this clear mandate, the PSF has had limited engagement with national governments to align spending on private sector projects with national climate strategies and plans.

R.3: The GCF should ensure that private sector projects are country owned. It should promote strong alignment between national climate strategies and PSF projects, and provide the means to include the private sector in multisectoral planning on financing the implementation of NDCs, NAPs and other national climate plans.

Directly and indirectly finance private sector mitigation and adaptation. The PSF has directed most of its finance towards mitigation activities and very little towards adaptation. It has also invested very little to indirectly finance private sector projects – for example, by supporting enabling environments that indirectly result in private finance flowing to adaptation and mitigation activities.

R.4: The Secretariat should create the right institutional structures and incentives. These may include: clarify whether DMA or PSF is primarily responsible to support enabling environments; revise the GCF Readiness Strategy to ensure that there are structural linkages between the RPSP and the GCF's private sector priorities; and ensure that RPSP includes appropriate objectives and outcomes for supporting an enabling environment for private sector mitigation and adaptation.

Promote the participation of local private sector actors in developing countries. MSMEs are central to implementing mitigation and adaptation actions in line with national plans and priorities. While several direct access entities have been accredited, almost no funds are flowing through them. As a result, this part of the PSF mandate is not yet delivered.

R.5: The GCF should prioritize and channel finance to MSMEs. It should consider mechanisms and modalities for accredited local and national intermediaries to build their capacity to channel finance to MSMEs through appropriate instruments for implementing decentralized adaptation and mitigation actions.

Support activities to enable private sector involvement in adaptation, particularly in SIDS and LDCs. Overall the GCF has had limited results with regards to investments in enabling environment activities for private sector adaptation projects, channeling finance through DAEs or exhibiting sufficient risk appetite to achieve its mandate to enable private sector involvement in adaptation in LDCs and SIDS.

R.6: The GCF Board and Secretariat should expand the focus of financial instruments and GCF support, specifically to enable private sector investment in adaptation, particularly in SIDS and LDCs. Consideration of financial innovations tailored to needs and context is crucial.

Methods

The evaluation team employed a mixed methods approach, combining both qualitative and quantitative data collection and analysis of the overall GCF portfolio, including the private sector portfolio considered in different ways. The team also conducted a benchmarking exercise, stakeholder interviews, online survey, synthesis of previous IEU evaluations and six country case studies covering Burkina Faso, Armenia, Bangladesh, Chile, Ghana and the Pacific regional case - Solomon Islands and PNG.

Due to COVID-19, all country case studies, and other stakeholder interviews were conducted virtually.

Contact the IEU

Independent Evaluation Unit
Green Climate Fund
175, Art center-daero, Yeonsu-gu
Incheon 22004
Republic of Korea

(+82) 032-458-6450
ieu@gcfund.org
ieu.greenclimate.fund