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INDEPENDENT EVALUATION OF THE RELEVANCE AND EFFECTIVENESS OF THE GREEN CLIMATE FUND'S INVESTMENTS IN SMALL ISLAND DEVELOPING STATES

Executive Summary

October 2020

GREEN CLIMATE FUND
INDEPENDENT EVALUATION UNIT

Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in Small Island Developing States

EXECUTIVE SUMMARY

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ABBREVIATIONS

COP	Conference of Parties
DAE	Direct Access Entities
DCP	Division of Country Programming
DMA	Division of Mitigation and Adaptation
EDA	Enhanced Direct Access
GCF	Green Climate Fund
GI	Governing Instrument
(IAE)	(International) Accredited Entity
IEU	Independent Evaluation Unit
IPCC	Intergovernmental Panel on Climate Change
LDC	Least Developed Countries
MSME	Micro-, Small-, and Medium-Sized Enterprise
NAP	National Adaptation Plans
NDA	National Designated Authority
NDC	Nationally Determined Contributions
PPF	Project Preparation Facility
PSF	Private Sector Facility
RfP	Requests for Proposal
RPSP	Readiness and Preparatory Support Programme
SAP	Simplified Approval Process
SIDS	Small Island Developing States

EXECUTIVE SUMMARY

A. INTRODUCTION

1. MANDATE

This evaluation was approved by the Board of the Green Climate Fund (GCF) at its twenty-fourth meeting, through decision B.24/06 and as part of the Independent Evaluation Unit's (IEU) 2020 Work Plan. The evaluation focuses on small island developing States (SIDS), some of which are least developed countries (LDCs), African States or both. This evaluation is part of a concerted effort by the IEU to examine the relevance and effectiveness of the GCF's strategy and investments in countries most vulnerable to the effects of climate change.

2. CONTEXT: SIDS AND THE GCF

SIDS are exceptionally diverse. Yet, **SIDS are highly vulnerable to the effects of climate change**¹ due to geophysical constraints and their small size, geographic dispersion, susceptibility to natural disasters, heavy reliance on imported fossil fuels, limited private sector opportunities, weak institutions and fragile ecosystems.² Consequently, SIDS face numerous climate impacts, including rising temperatures, changing precipitation patterns, flooding, drought, reduced availability of freshwater resources, sea level rise and coral reef decline. Most SIDS expect to face food and water insecurity as water becomes scarcer, ocean and land food resources continue to degrade, populations continue to grow, and energy and food prices increase.³ These vulnerabilities are being exacerbated by the current COVID-19 crisis, as SIDS' economies are especially sensitive to global economic shocks.

In the context of climate finance, SIDS have repeatedly called for prioritized international support for adaptation and mitigation activities and have echoed the importance of climate aid as key to their overall development.

3. SCOPE AND METHODS

Scope: This evaluation serves both learning and accountability functions. It was structured around four key themes related to (1) the relevance of the GCF business model to the needs and urgency of climate action in SIDS; (2) the relevance of the GCF portfolio to the needs and urgency of climate action in SIDS; (3) the effectiveness of the GCF in delivering results through the implementation of GCF-funded projects and programmes; and (4) the complementarity and coherence of GCF activities with other climate finance delivery channels. The themes of private sector engagement and innovation in SIDS received special attention as cross-cutting themes in this evaluation.

Methodology: The evaluation team used a mixed methods approach, employing both qualitative and quantitative data and methods to inform the report's evidence-based findings, conclusions and recommendations. Specific data sources and methods included an extensive document and literature review, portfolio analysis of data collected by the IEU DataLab,⁴ key informant interviews, an online survey administered to key stakeholder groups, a tool for AEs to self-assess innovations in their GCF-funded projects, a benchmarking and meta-analysis exercise, six purposively selected country case studies, and synthesis of the eight SIDS case studies from the IEU's recent evaluations.

¹ Nurse et al, 2014; Oppenheimer et al., 2019.

² UNFCCC, 2005; Nurse et al, 2014.

³ IPCC, 2018a.

⁴ The IEU DataLab consists of a team of IEU personnel dedicated to collecting and processing quantitative and qualitative information about the GCF.

Limitations: This evaluation was launched at the end of February 2020, when the COVID-19 pandemic was reaching its peak in South Korea and starting to take hold in many other countries around the world. As a result, the country case studies and nearly all interviews for this evaluation were undertaken remotely. The evaluation was also limited by the early maturity of GCF-funded projects in SIDS and general limitations of mixed methods related to generalizability.

It is important to clarify that this is a sub-portfolio evaluation. The findings and recommendations are relevant to SIDS, but they do not prejudice other vulnerable countries, including the LDCs and African States. Indeed, many findings may be considered generally valid for other sub-portfolios of the GCF and will be explored in subsequent evaluations approved by the GCF Board.

B. KEY FINDINGS

1. FACTORS FOR EFFECTIVE CLIMATE FINANCE IN SIDS

The evaluation team identified **five factors that are critical to considering climate finance for SIDS** and that provided an important framing for the evaluation. These factors emerged from the literature review of about 30 papers from the peer-reviewed and grey literature on climate interventions in SIDS, a meta-analysis of other international and regional organizations' approaches in SIDS, and extensive interviews with experts, practitioners and stakeholders conducted for this evaluation. These factors are urgency of climate action, the importance of adaptation, capacity constraints, high transaction/operational costs and the need for flexibility.

2. RELEVANCE OF GCF GUIDANCE, FRAMEWORKS, AND POLICIES FOR SIDS

Flexibility of policies. The evaluation team found that discussions on GCF policies and frameworks make specific mention of the consideration of SIDS and refer to capacity needs. Flexibility is less frequently mentioned and is required in the interpretation and application of GCF policies to account for the specific circumstances of SIDS. However, the absence of guidance on what flexibility means in practice translates into a risk of misinterpretation or misapplication.

Relevance of policies. Lack of Board-approved policies on critical issues is also reported to have inhibited project development in SIDS. Half of the policies that are of most concern and interest to SIDS – including incremental costs, concessionality, co-financing and programmatic approach – are yet to be approved by the Board. In particular, lack of clear policy guidance on the programmatic approach is holding back AEs from developing such programmes for SIDS.

Responsiveness to Conference of the Parties (COP) guidance. The GCF has responded to SIDS-specific COP guidance – which relates in particular to private sector engagement, simplified and efficient access, and readiness and accreditation – but the outcomes of those actions have only been partially effective. Further engagement is also needed around the topic of the GCF's role in financing activities related to loss and damage, which is of keen interest to SIDS.

3. ACCREDITATION AND ACCESS FOR SIDS

National access. Access to national direct access entities (DAEs) is extremely limited in SIDS. Just 4 of 40 SIDS have a national DAE. Less than half of SIDS – and only a third of LDC SIDS – have nominated a national DAE. National entities nominated in SIDS have struggled to prepare and submit accreditation applications due to insufficient human resource capacity.

Regional access. Regional DAEs cover most SIDS and are often the preferred AEs for SIDS. However, many regional DAEs are overwhelmed with requests for both Readiness and Preparatory Support Programme (RPSP) and pipeline development relative to their staff capacity. Some regional DAEs work with up to 14 GCF-eligible SIDS yet have fewer than five staff members. In addition, SIDS face the limitations of regional DAEs' accreditation statuses. For example, no regional DAE in the Pacific is accredited for on-lending.

International access. International accredited entities (IAEs) are seen by some as an option to support immediate access to GCF finance while SIDS develop capacity for direct access. But staff from many IAEs report being disincentivized by what they perceive as high transaction costs when working with the GCF to pursue the small-sized projects often associated with SIDS. Some respondents from NDAs mentioned difficulties in finding an IAE willing to carry forward a national priority project.

Capacity as a barrier to access. While the accreditation process is perceived as too long, it is not the chief challenge SIDS face in accessing the GCF; instead, it is a lack of capacity to prepare GCF funding proposals.

The RPSP is not currently systematically and efficiently bridging the gap between the capacities strengthened through accreditation and the capacities needed to prepare and implement a GCF-funded project. DAEs in SIDS are experiencing long gaps between Board accreditation and the approval of post-accreditation RPSP support. Regional DAEs in the Pacific also report challenges in accessing RPSP support to build their capacity.

4. THE GCF'S PORTFOLIO IN SIDS

The Governing Instrument (GI) of the GCF recognizes the urgency and seriousness of climate change and provides that the Fund will consider the needs of particularly vulnerable countries.

SIDS approved portfolio. Since the launch of the GCF, the Board has approved 29 projects that include SIDS, for a total of USD 818 million. This represents a reasonable proportion of total approved finance, in consideration of per capita representation. However, substantially less co-finance has been catalysed for SIDS compared to non-SIDS. Ten SIDS do not yet have projects with the GCF.

Adaptation finance. More than half of GCF resources approved for SIDS are for adaptation projects, consistent with the guidance in the GI. SIDS have received considerably more of their GCF and co-financing via grants compared to non-SIDS, which is suitable considering the current adaptation focus as well as SIDS' vulnerability and debt sustainability issues. However, innovative and flexible approaches in financing, including guarantees and other non-debt financial instruments, are key but not yet employed by SIDS. This is considered a missed opportunity.

Processes and modalities. The GCF's project approval processes (PAP), including the simplified approval process (SAP), are widely perceived as too long to be considered responsive to the urgency of climate change in SIDS. The SAP is highly relevant for SIDS but not yet sufficiently simplified to accelerate climate action. The request for proposal (RfP) programmes have been ineffective in generating funding proposal pipelines in SIDS, although the RfP on enhanced direct access is seen as having good potential to support the kind of local adaptation that is relevant and effective in SIDS.

RPSP support for country and entity work programmes was found to have limited effect on the development of a robust GCF pipeline in SIDS. The Project Preparation Facility (PPF) was seen as an important tool to advance SIDS' project concepts through the funding proposal stage, but

feedback has been mixed on its efficiency and accessibility. Overall, SIDS have been underrepresented throughout the stages of pipeline development, with only 12 per cent of the funding proposal pipeline.

Key challenges to meet SIDS' needs urgently. Lack of capacity to develop concept notes and funding proposals to the GCF standard is the greatest challenge SIDS face in receiving GCF finance. SIDS appreciate and access GCF support for concept note development under RPSP 2.0. However, the Secretariat's short-term technical assistance for this is not regarded as sufficiently hands-on for SIDS. Further, the typical RPSP delivery partner model of training workshops does not build sustainable or sufficient capacity for developing concept notes. SIDS require not only technical assistance but also support to address human capacity constraints.

An additional major concern for SIDS regarding GCF project development is the separation of climate change from development activities. Many SIDS lack the historical local or national climatological data necessary to substantiate claims that GCF investments are required for adaptation.

5. EFFECTIVENESS OF THE GCF'S INTERVENTIONS IN SIDS

Addressing climate needs. The GCF's investments in SIDS support key climate-related needs for water management, energy, infrastructure and climate information services, and are well aligned with national priorities. The current GCF SIDS portfolio, however, does not contribute significantly to other nationally determined contributions (NDCs) priorities, such as food security, fisheries, ecosystems protection and transportation, although these are prioritized needs in NDCs.

Challenges in implementation. Among projects under implementation, challenges to achieving results largely relate to procurement (e.g. recruiting issues, transportation, high costs). This also reflects the early stage of the SIDS portfolio, with most projects only in their first year of implementation.

Multi-country projects. SIDS' stakeholders have expressed concerns about GCF multi-country projects, particularly regarding the breadth and depth of results for local communities and the country drivenness. Programmatic approaches are seen to have the potential to overcome these issues by bringing larger volumes of funding to individual countries in a multi-country programme. However, given the potential for high transaction/operational costs at country and entity level, AEs and SIDS are not confident in pursuing them with the GCF until such risks are accounted for in projects.

Innovation. SIDS' project designs do not sufficiently pursue inventive solutions for dealing with politically challenging policy environments and require more clarity on different innovative approaches pertinent to SIDS (e.g. business models and financial instruments). Project designers in SIDS are unclear about how the GCF interprets and guides innovation. Traditional knowledge is identified as a potential source of innovation. However, social capital, including traditional knowledge and social networks, is not sufficiently integrated as non-monetary activity in climate action.

Complementarity and coherence. Because the GCF has larger funding allocations than other climate funds, stakeholders perceive the GCF as best positioned to upscale successful smaller climate action that has been financed by other delivery channels. Opportunities have been identified for this in SIDS, but few have been developed and approved. The lack of "fast-track" processes to capitalize on such opportunities is seen as a constraint that SAP has not overcome.

The absence of coordination between climate funds, as well as other multilateral partners, has negatively impacted SIDS with small government administrations and many donor partners struggling to adopt and comply with the many and varied standards and procedures each climate finance delivery channel requires. Among other burdens, having to manage multiple donors increases costs by having to employ dedicated staff – often international staff – to manage each donor’s compliance regime, among which, the GCF’s is often cited as the most complex.

6. THE GCF AND THE PRIVATE SECTOR IN SIDS

Relevance to the private sector in SIDS. Many interviewees noted that the Private Sector Facility’s (PSF) conception of the private sector bears no resemblance to the micro-scale, low-capital base and low capacity for risk most common among national businesses in SIDS. And while the PSF aligns with the objective to leverage private finance to realize the scale of climate ambitions, interviewees emphasized the importance of supporting the climate resilience aspects of the private sector in SIDS. The GCF lacks a common understanding of and context-sensitive strategy for the private sector.

Stage and extent of engagement. GCF support for private sector engagement in SIDS is in its early stages. There is a significant maturity gap between the type of RPSP support currently being provided for the private sector in SIDS and the development of actual projects, with the majority of RPSP support limited to being directed at private sector consultations, awareness building and general scoping.

Support for the private sector in SIDS through the PSF has been extremely limited and is provided through loans and grants exclusively. Limiting factors include the lack of institutional incentives and strategy, challenges finding interested AEs, and general barriers to private sector development in SIDS that may be beyond the GCF’s remit.

GCF-funded projects in SIDS have raised significantly less private sector co-finance than in non-SIDS – just USD 18 million in SIDS, compared to over USD 3 billion among non-SIDS.

Supporting private sector resilience in SIDS through the Division of Mitigation and Adaptation (DMA). Despite the PSF’s limited portfolio, the evaluation team identified sizeable engagement by the private sector in SIDS through the DMA portfolio, with the potential to help improve the resilience of local private sector actors in these countries. There is currently little coordination between the programming activities of the GCF Secretariat, PSF, DMA and Division of Country Programming (DCP).

C. KEY CONCLUSIONS

The findings led to the following conclusions.

CONCLUSION 1: SIDS need support to address the impacts of climate change urgently. The GCF’s modalities and processes are not yet sufficiently effective to address the specific challenges of climate change in SIDS and the urgency for climate action. The SAP and the RfP for enhanced direct access are two modalities that, along with programmatic approach, have considerable potential to deliver climate results at scale in a country-driven approach and to accelerate investment in SIDS.

CONCLUSION 2: The current GCF model for accreditation and access is disadvantaging those SIDS with low capacity, experience or confidence in directly accessing the GCF.

CONCLUSION 3: The most significant barrier that SIDS face in accessing the GCF is a lack of capacity to develop concept notes and funding proposals to the GCF standard. The RPSP and PPF are helping to address this, but approaches are not sufficiently tailored to the human resource limitations in SIDS.

CONCLUSION 4: GCF finance in SIDS has appropriately focused on grant-funded adaptation, although it is premature to assess the extent to which the GCF SIDS portfolio is achieving intended results. There is space for funding more innovation related to financial structures and instruments.

CONCLUSION 5: The GCF's approach to the private sector in SIDS is not sufficiently articulated or coordinated. Despite a very limited PSF portfolio, however, there has been sizeable engagement to improve the resilience of local private sector actors in SIDS through the DMA portfolio.

CONCLUSION 6: The GCF policy landscape has flexibility to accommodate the circumstances of SIDS, but certain policy and governance issues that are important to SIDS require further Board discussion and decisions.

D. KEY RECOMMENDATIONS

The evaluation makes four major evidence-based recommendations to the GCF Board and Secretariat.

RECOMMENDATION 1. Make improvements to RPSP support to improve direct access and address the capacity difficulties that SIDS are facing. GCF-funded capacity-building in SIDS should take more of an accompaniment approach, providing human resources to work side-by-side with government and DAE staff to build capacity over longer periods (months to years).

Recommendation 1(a). The GCF Secretariat should bridge the gap between pre-accreditation and post-accreditation RPSP support by incorporating resources specifically for concept note development into pre-accreditation RPSP grants, with the release contingent on Board accreditation. This could be a small amount, approximately USD 20,000–30,000, based on the cost to develop a concept note as reported by DAE interviewees.

Recommendation 1(b). The GCF Secretariat should make entity- and project development-related support more accessible to regional DAEs and consider a separate window of funds that does not count against the per-country allocation of USD 1 million.

Recommendation 1(c). The GCF Secretariat should promote the availability of multi-year support for embedding advisers in NDAs and/or make that support more easily accessible (e.g. through a roster approach).

Recommendation 1(d). The GCF Secretariat should adjust its offer of technical assistance through the RPSP to reflect the need for more hands-on support for writing concept notes in SIDS.

Recommendation 1(e). The GCF Secretariat should expand the roster and contribute to building the capacity of RPSP delivery partners in SIDS. This would facilitate shifting the business model for regional DAEs from readiness to investment and help relieve the bottleneck caused by regional DAEs being the partner of choice for both the RPSP and preparing funding proposals. Sharing lessons learned with NDAs and RPSP delivery partners could also help improve the effectiveness of capacity-building support offered to SIDS. For example, delivery partners could write terms of reference for consultants that focus less on one-off training or workshops and more on approaches that reflect the need for more accompaniment and mentoring.

RECOMMENDATION 2. Accelerate and simplify the project cycle, especially for the SAP.

Recommendation 2(a). The IEU's recent review of the SAP recommended that the Board develop a strategy for the SAP while focusing on processes that accelerate and simplify the project cycle, including consideration of delegation of authority to the Secretariat. Simplifying and accelerating the SAP is especially important for SIDS, because the growth in their pipelines is shifting towards this modality. The Board and the Secretariat should operationalize and implement the IEU's recommendations on the SAP.

Recommendation 2(b). In piloting the project-specific accreditation approach, the Board of the GCF should focus on making access faster and streamlined, to provide access through entities in SIDS that may otherwise not implement GCF projects.

Recommendation 2(c). The GCF Board and Secretariat should consider simplifying the funding proposal template to allow SIDS to cross-reference GCF country programmes, NDCs, NAPs, IPCC reports or other equivalent analyses in demonstrating overall national vulnerability to the impacts of climate change.

RECOMMENDATION 3. Approve a policy on a programmatic approach with urgency and with consideration to the issues raised by this evaluation.

Recommendation 3(a). The GCF Board should finalize the policy on the programmatic approach, with due consideration of the perspectives of SIDS and AEs in that policy. In particular, programmatic approaches should include both single- and multi-country programmes and include provisions to streamline the processes for subproject approval and changes, while ensuring appropriate due diligence.

Recommendation 3(b). Once a policy is adopted, the GCF Secretariat should provide AEs with guidance on the policy to build their confidence to prepare such programmes. The GCF Secretariat could also provide more "matchmaking" support for the development of these programmes, to encourage AEs and countries to pursue innovative elements within these programmes and subprojects, including those requested by SIDS' constituencies.

Recommendation 3(c). In appraising programmatic approaches, the GCF Board and Secretariat should ensure that they are closely linked with participating countries' NDCs, NAPs and long-term strategies, as well as other national efforts for complementarity and coherence. Programmatic approaches should be ambitious and could be innovative. For example, the GCF could consider financing an individual SIDS' adaptation pathway with funding tranches associated with trigger points or thresholds; such an approach would provide ample opportunities for managed flexibility, robust measures and bounded innovation in project development and implementation. Such approaches could help SIDS meet long-term visions and objectives with robust and predictable finance, while maintaining the flexibility SIDS need to adapt to climate change.

RECOMMENDATION 4. Ensure the GCF's approach to private sector engagement reflects the complexion of the local private sector in SIDS and a coordinated approach across the Secretariat and its divisions and facilities.

Recommendation 4(a). The Board should adopt a private sector strategy that includes the following:

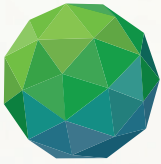
- A clear common understanding of the private sector, including a reflection of the characteristics of local private sector actors in SIDS
- Objectives of private sector engagement, which should include leveraging private sector investment to realize the scale of climate ambitions, as well as improving the resilience of the local private sector and de-risking their climate-related investments

- A coordinated strategy among the GCF Secretariat's DCP, DMA and PSF teams for private sector engagement, including in SIDS, ranging from early stage consultation and awareness building to later-stage project development

Recommendation 4(b). The Secretariat should develop approaches for innovative financing structures and instruments, as requested by SIDS. It should also develop approaches for engagement with micro-, small- and medium-sized enterprises operating in constrained environments such as SIDS. Such approaches could include intermediary models that combine lines of credit with technical assistance for subproject preparation, or suites of options to support the private sector to build resilience in specific sectors common to SIDS, such as tourism, fisheries, local traders/merchants and local private transport providers.

Recommendation 4(c). The Secretariat should develop performance indicators that encourage development of private sector projects in a larger number of SIDS.

Recommendation 4(d). Following a critical review of the GCF's experience with the current RfPs, the GCF Secretariat should consider an RfP for private sector investments in SIDS. To ensure the success of the RfP, it should be sequenced after any structural or incentive issues with the RfPs are addressed and access issues are improved for SIDS.



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