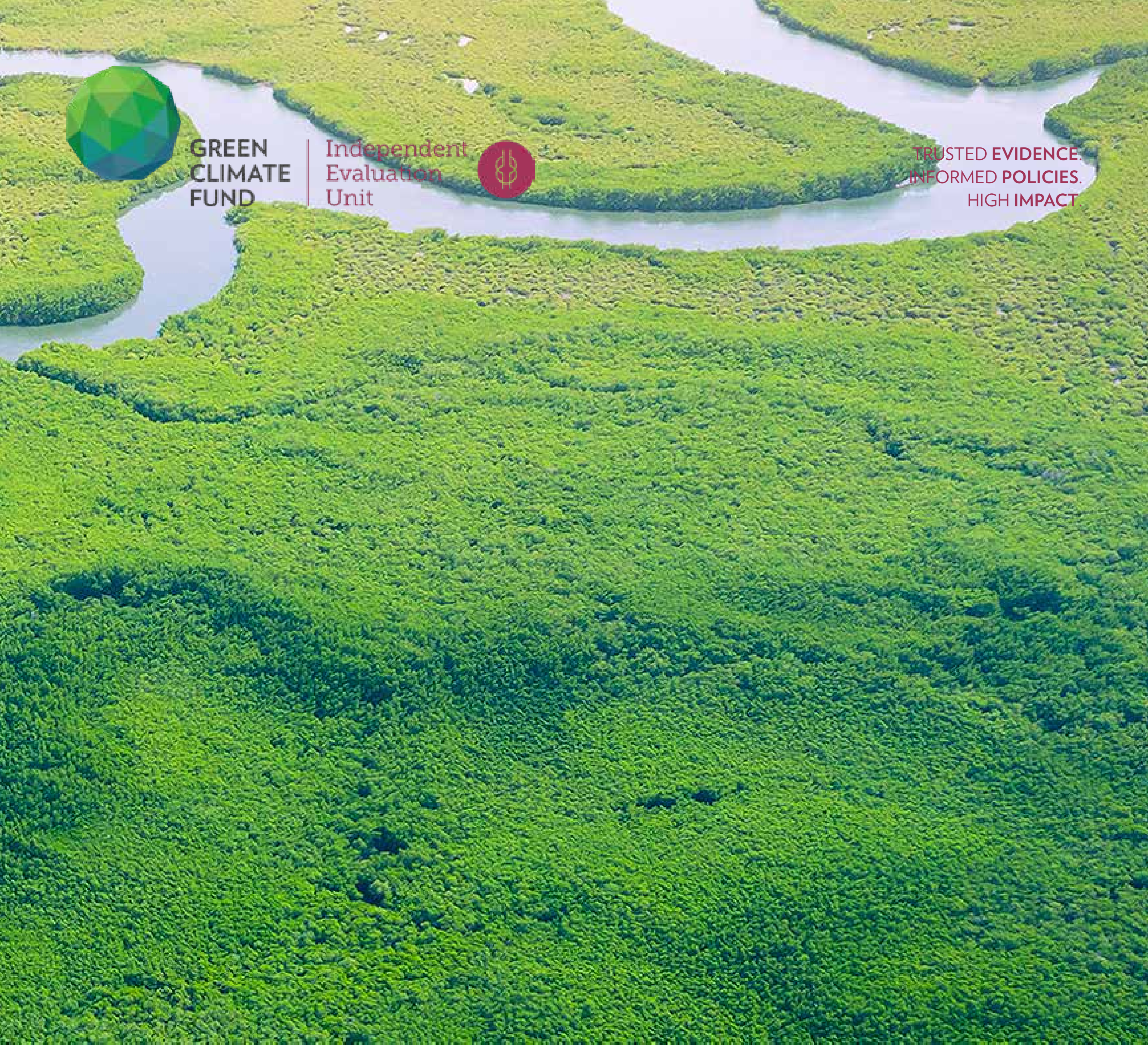

INDEPENDENT EVALUATION OF THE ADAPTATION PORTFOLIO AND APPROACH OF THE GREEN CLIMATE FUND

Executive summary

February 2021

GREEN CLIMATE FUND
INDEPENDENT EVALUATION UNIT

Independent evaluation of the adaptation portfolio and approach of the Green Climate Fund

EXECUTIVE SUMMARY

02/2021

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CONTENTS

ABBREVIATIONS

AEs	Accredited entities
B.24	Twenty-fourth meeting of the Board
CN	Concept notes
CSO	Civil society organization
DAE	Direct access entity
DMA	Division of Mitigation and Adaptation
GCF	Green Climate Fund
IAE	International accredited entity
IEU	Independent Evaluation Unit
NDA	National designated authority
PSF	Private Sector Facility
RPSP	Readiness and Preparatory Support Programme
USD	United States Dollar
UNFCCC	United Nations Framework Convention on Climate Change

EXECUTIVE SUMMARY

A. MANDATE & OBJECTIVE

At the twenty-fourth meeting of the Board (B.24) of the Green Climate Fund (GCF), the Board approved this independent evaluation of the GCF adaptation approach and portfolio as a vital part of the Independent Evaluation Unit (IEU) 2020 work plan. The need for this evaluation stemmed from a key finding of the 2019 Forward-looking Performance Review (FPR), that the GCF should re-emphasize its role in adaptation investments. Against this background, the IEU was tasked to undertake this evaluation for delivery at the twenty-eighth meeting of the Board (B.28).

B. ADAPTATION CONTEXT

Since the early 2000s, climate adaptation has joined mitigation at the forefront of tackling climate change. The GCF has a mandate to play a significant and growing role in adaptation in developing countries, through its commitment to country ownership and balanced funding for adaptation and mitigation. Adaptation interventions differ substantially from mitigation projects: they cover a wider range of activities, often beyond sector and scale classifications, which makes it challenging to employ a static set of metrics for the monitoring and steering of results and impacts. Moreover, context is vital. As an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), the GCF follows guidance from the Conference of Parties (COP) where member countries – developed and developing – meet to discuss and forge a path towards tackling climate change and its effects. Much of the discussion about adaptation at the UNFCCC is centred around finance. The Adaptation Gap Report 2020 estimates adaptation costs will rise to USD 140 billion to USD 300 billion per annum by 2030 in developing countries alone, and will continue to increase from that point on. At present, it is challenging to precisely quantify finance for adaptation, but existing estimates suggest adaptation finance is only a fraction of what is needed. There is also insufficient evidence that greater finance over time is closing the adaptation finance gap. As such, there is an urgent need for more to be done on adaptation in developing countries. Under the current paradigm, rising costs, insufficient finance and insufficient action all contribute to an alarming outlook. How can the Green Climate Fund – a young, large and ambitious multilateral climate fund – contribute to a paradigm shift in adaptation? This is the question this evaluation responds to.

C. SCOPE AND METHODOLOGY

The evaluation team has adopted a mixed-methods approach involving both quantitative and qualitative data collection and analysis, to inform the report's evidence-based findings. This approach has been adapted to the conditions generated by the COVID-19 pandemic. The team sought to triangulate information and evidence from different sources and has considered different perspectives. These methods include an extensive document and literature review, a portfolio analysis of data collected by the IEU DataLab, key informant interviews, online surveys, virtual country missions and project deep dives. Analysis of external and internal GCF data and an extensive range of stakeholder views has been a key element for the evaluation. Through key informant interviews, this evaluation has engaged a wide range of stakeholders. Two targeted short online surveys have been used to reach out to specific constituencies of the Fund, in particular national designated authorities (NDAs) and accredited entities (AEs). The report is complemented by country case studies and project deep dives, based on country engagements in the Republic of The Gambia, the Republic of Uganda, Republic of Tajikistan, Republic of Guatemala, the Kingdom of Morocco and the Republic of Namibia. Country reports have been completed for the first four countries. Country deep dives have been completed for specific projects in the Republic of Kenya, Morocco, and Uganda.

D. Report structure

The evaluation follows a funnel structure, where a focus on the global adaptation landscape and the GCF role within it precedes detailed analysis of seven key questions. This process was guided by a range of evaluation questions set out in the evaluation matrix. A full list of the evaluation questions is available in the approach paper for this evaluation.[1]

The structure of the report is as follows:

Chapter II – Landscape: What is climate change adaptation and how does it relate to development?

Chapter III – Role: What is the role of the GCF in the adaptation finance space?

Chapter IV – Adaptation planning: Has the GCF adequately supported countries' capacities in adaptation planning?

Chapter V – Adaptation portfolio: Is the GCF meeting its mandate in supporting adaptation programming through projects and programmes?

Chapter VI – Private sector engagement: Is the GCF engaging the private sector in adaptation?

Chapter VII – Business model: Is the GCF business model fit for purpose for adaptation?

Chapter VIII – Results and impact: Is the GCF achieving the intended results in adaptation?

Chapter IX – Innovation and risk: Is the GCF sufficiently innovative and risk-taking in adaptation?

Throughout the report, graphs, illustrations and information boxes are used to provide additional detail and to highlight evidence for the reader. References are available in the footnotes as well as just before the annexes. This Executive Summary presents six key findings and recommendations for the consideration of the GCF Board and GCF Secretariat, to address gaps and improve the operations of the Fund in adaptation finance. These six key findings areas combine the evidence from chapters 2 and 3 in Finding 1 and Recommendation 1, and the evidence from chapters 5 and 7 in Finding 4 and in Recommendation 4.

E. Key findings

The evaluation team has identified several key findings that are critical for the adaptation approach and portfolio of the GCF. The factors are the positioning of GCF vis-à-vis other climate funds and multilateral organizations; the capacity for adaptation planning; the opportunity for scaling up with the private sector; the importance and urgency of adaptation action and finance; the measurability of results; and lastly the need for innovation.

[1] Asfaw, S., M. De Bruijn, R. Kim, B. Lee, M. Markrich, P. Mwandri, M. Prowse, J. Puri and G. Uvarova (2020). Approach Paper for the Independent Evaluation of the Adaptation Portfolio of the Green Climate Fund. Independent Evaluation Unit, Green Climate Fund, Songdo, South Korea. Available at *https://ieu.greenclimate.fund/sites/default/files/evaluation/adaptation-approach-paper.pdf*

KEY FINDINGS 1: POSITIONING IN ADAPTATION FINANCE

Finding 1(a): Unlike other climate funds, the GCF avoids defining adaptation, allowing flexibility for developing countries to define what adaptation means in their unique context. However, this reduces the precision of policies and strategies for stakeholders. Conceptually, adaptation is inextricably linked to, and is at the centre of sustainable development. It is a subset of development in areas with high climate risks. The same also applies to adaptation finance.

Finding 1(b): The GCF is a minor actor in the overall climate finance space but has an opportunity to be more relevant in adaptation. Considering its mandate and resources, the GCF is uniquely positioned to finance projects at scale with a high risk appetite**,** if appropriate and consistent with country needs. However, the GCF has not clearly defined a specific approach for adaptation programming.

Finding 1(c): Project-level interactions between GCF proposals and the projects of other climate funds, multilateral partners and the private sector, are not yet systematically identified nor actively pursued. There have been some attempts in the past few years to foster greater coordination at multiple levels.

Finding 1(d): The GCF also has the opportunity to clarify its role beyond adaptation finance. It can do this through its: (i) resources dedicated to adaptation planning; (ii) convening power at regional, national and subnational levels; and (iii) knowledge management and sharing potential, to ensure coherence and complementarity in the delivery of adaptation planning and implementation.

KEY FINDINGS 2: CAPACITY FOR ADAPTATION PLANNING

Finding 2(a): The Board responded to COP guidance to support adaptation planning with the establishment of the Readiness and Preparatory Support Programme (RPSP). The GCF has provided USD 139 million of RPSP funding for adaptation planning to a total of 57 countries with 58 grants. However, it covers only 37 per cent of eligible countries, 33 per cent of vulnerable countries and 18 per cent of the small island developing States (SIDS).

Finding 2(b): In total, 55 per cent of GCF-eligible countries have so far engaged with the GCF for adaptation planning. The requirements for proposals, capacity concerns and matchmaking with adequate delivery partners are perceived as hurdles in accessing RPSP funding for adaptation planning.

Finding 2(c): The approval process for RPSP adaptation planning varies, with times ranging from 14 days to more than 3 years. There are attempts to reduce delays, such as through the use of national and remote consultants.

Finding 2(d): Due to the young nature of adaptation-planning support, fully attributing the RPSP to concrete outcomes is challenging, as is assessing quality as no outcome or impact measurement framework is operational yet.

KEY FINDINGS 3: SCALE AND THE PRIVATE SECTOR IN ADAPTATION

Finding 3(a): Among the climate funds, the GCF has the strongest private sector focus and the best ability to scale projects through its large fund size, risk appetite and flexible suite of financial instruments. The portfolio suggests the GCF has not fully utilized this opportunity to date. At the moment, only one in five AEs has a private sector focus, with most of these having been accredited recently. Most Private Sector Facility (PSF) projects are managed by public entities with a private sector focus, such as multilateral development banks (MDBs).

Finding 3(b): The ability of the GCF to source and support PSF projects has stalled: since the twenty-first meeting of the Board (B.21), only USD 10.8 million (0.4 per cent of total adaptation finance) has been committed. There are only two PSF pure adaptation projects in the portfolio, representing only 1.6 per cent of total adaptation finance and 0.6 per cent of all GCF finance. When including the estimated adaptation part of cross-cutting projects, adaptation finance through the private sector amounts to USD 230 million, representing 8.7 per cent of adaptation finance or 3.2 per cent of total GCF finance.

Finding 3(c): Despite the GCF's unique high-risk appetite and flexible suite of instruments, on average only an estimated 18 cents per 1 GCF-invested dollar is generated as co-finance from the private sector. Most stakeholders refer to external and internal factors as reasons for low engagement. External market-related factors, including fewer investable opportunities and predictable return flows, constrain private sector engagement. In addition, internal factors include the reactive business model, lack of predictability and the upfront costs.

Finding 3(d): Cooperation between the Division of Mitigation and Adaptation (DMA) and PSF in jointly assessing projects and identifying opportunities is mainly informal and ad hoc. Opportunities exist to create an incentive structure for greater cooperation, particularly with regard to blended finance.

Key findings 4: Access and business model

Finding 4(a): The adaptation portfolio has a large number of small-size projects. Only 4 out of 67 funded GCF adaptation proposals are programmes. There is only one large-scale adaptation project.

Finding 4(b): Adaptation projects on average take over two years from proposal submission to concluding the legal agreement. It takes adaptation projects longer than mitigation projects to move to the next stage, for both approved projects and for projects in the pipeline. It is particularly challenging for direct access entities (DAEs). It takes, on average, 475 days for national DAEs to conclude legal negotiations for adaptation projects, compared to 208 days for mitigation.

Finding 4(c): The availability of data, lack of guidance on the concept of climate rationale at AE and Secretariat level, and the complexity of adaptation projects are key reasons for delays. Adaptation projects require more specific and local high-resolution data to analyze climate risks, have less standardized business models and have complex execution structures. Some 40 per cent of all registered concept notes (CNs) for adaptation projects are withdrawn during the review process. Survey respondents identified climate rationale as the single most difficult hurdle for project development in both adaptation and cross-cutting projects.

Finding 4(d): The GCF has established targets to support vulnerable countries in adaptation, but many vulnerable countries are yet to be reached and finance per capita figures remain low. Some 67 per cent of adaptation finance is currently directed to those most vulnerable to climate risks and least ready to adapt. But the GCF still has challenges in reaching the most vulnerable and least-ready countries, with 59 countries receiving no GCF adaptation finance.

Finding 4(e): International accredited entities (IAEs) are overrepresented in the adaptation portfolio: 87 per cent of adaptation finance is committed through IAEs, with more than half of adaptation finance going through six IAEs. Regional DAEs are the most underrepresented in the GCF adaptation portfolio, due partly to capacity, experience and network limitations in originating and implementing adaptation projects.

Finding 4(f): Some 96 per cent of committed adaptation financing on pure adaptation projects comes through grants. Regional DAEs use a more diverse set of instruments than national DAEs or

IAEs. There is an opportunity to channel more adaptation financing through regional DAEs and to use other instruments such as equity and (first-loss) guarantees. High upfront costs of doing business with the GCF are a concern. Programmatic approaches, especially for longer-term and larger-scale interventions, can limit such burdens.

Finding 4(g): National designated authorities are key in successful adaptation project development. Countries with strong NDAs that can engage many stakeholders and bring projects through the long design and proposal stage, have more adaptation projects approved by the GCF. Understanding the characteristics of successful NDAs is critical. Because adaptation requires multi-stakeholder engagement, the inclusion of civil society organizations (CSOs) via NDAs can benefit the adaptation portfolio. The GCF can encourage NDAs to make the project process more inclusive.

KEY FINDINGS 5: RESULTS AND IMPACT MEASUREMENT

Finding 5(a): In adaptation programming, there are numerous widely recognized challenges to measuring the impact of adaptation interventions. A key practical challenge in steering impact and measurement focuses on the Fund-level indicator of numbers of beneficiaries, which is the only core adaptation indicator currently operationalized. The double counting of beneficiaries is unavoidable and presents a primary challenge for results management at the GCF. At times, GCF reporting exceeds the total population of countries.

Finding 5(b): The GCF does not have a specific approach regarding adaptation or achieving impact in its adaptation portfolio. It uses several frameworks to guide the review and approval process within the GCF Secretariat, and builds its portfolio through a country-driven approach. The four adaptation result areas, defined by the results management framework (RMF), are the only measures available for identifying the GCF's adaptation components and projects. With 91 per cent coverage, the "Most Vulnerable People and Communities" results area acts as a chapeau and is too broad to aid learning. No GCF project focuses solely on the impact of climate change on health.

Finding 5(c): The depth of impact made by adaptation interventions cannot be monitored with the current set of indicators. The GCF currently has no systematic approach for assessing the depth of adaptation impacts. The draft integrated results management framework (IRMF) proposes introducing four new qualitative indicators to assess and track project and programme contributions to systemic change to achieve a paradigm shift. There is an opportunity for the GCF to utilize results-based finance more in this area.

Finding 5(d): Learning-oriented Real-Time Impact Assessment (LORTA) baseline household data show how GCF projects target households which are, on average, poor and vulnerable.

KEY FINDINGS 6: INNOVATION AND RISK

Finding 6(a): The Secretariat's Updated Strategic Plan (USP) outlines a clear strategic vision for 2020 to 2023, linking innovation to promoting a paradigm shift towards climate-resilient development pathways in the context of sustainable development. However, innovation is no longer included as an activity-specific sub-criterion for paradigm shift potential. The level or types of innovation have not been systematically defined in the GCF project and programme review process.

Finding 6(b): Based on country needs, adaptation innovation in "software" (i.e. organizational, behavioural and procedural) is needed the most. Forms of social and institutional innovation, including traditional knowledge, which create new delivery models are often more important than technological innovation. A review of funding proposals shows the tendency for adaptation projects to have greater potential for transformation.

Finding 6(c): Innovation comes with the risk of failure and is loosely addressed in the risk assessment approach of the GCF, as defined in the risk management framework. The GCF's stated risk appetite is conducive to innovation in adaptation projects, but its revealed risk appetite is considerably less than what is stated.

Finding 6(d): Replication of innovation is not pursed at the GCF level. Programmatic approaches present a great opportunity to leverage lessons from one project to another.

F. Key recommendations

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

Key recommendation 1: Positioning in adaptation finance

The GCF should clarify its role in and vision for climate adaptation, implement methods to enhance complementarity with other climate funds and funding agencies, and promote coherence in programming.

Recommendation 1(a): The GCF should consolidate its unique position in adaptation finance, including the mandate to finance projects at scale with a high risk appetite.

Recommendation 1(b): The GCF should promote efficiency by pursuing greater coordination of adaptation efforts with NDAs, AEs and local stakeholders at the national and regional levels.

Recommendation 1(c): The GCF should use its convening and catalytic power to develop a set of best practices from stakeholders (including climate funds, NDAs and AEs) to share across the GCF ecosystem.

Key recommendation 2: Capacity and adaptation planning

The GCF should clarify the RPSP for adaptation planning, address technical challenges, support matchmaking efforts and build monitoring of the results of RPSP support.

Recommendation 2(a): The GCF should raise awareness about RPSP grants, and improve the grants' reach and use for adaptation planning in vulnerable countries.

Recommendation 2(b): The GCF should address technical capacity challenges in NDAs, including through training clusters of government officials to build sustained knowledge.

Recommendation 2(c): The GCF should facilitate matchmaking between countries and locally and regionally embedded RPSP delivery partners. This will relieve a constraint for some countries when accessing RPSP support.

Recommendation 2(d): The GCF should monitor the quality of RPSP adaptation planning through building and fast-tracking an outcome/impact measurement framework.

Key recommendation 3: Scale and the private sector in adaptation

The GCF should define its approach to engaging with and catalyzing finance from the private sector in GCF support and programming windows.

Recommendation 3(a): The GCF urgently needs a strategy for the private sector, in particular in adaptation finance. The strategy should include guidance on: (i) which private sector actors the GCF wants to engage with and how; (ii) what is considered minimizing market distortions and moral hazard; (iii) which sectors hold opportunities for adaptation; and (iv) how the instruments at its disposal should be used.

Recommendation 3(b): The GCF should consider a private sector approach that addresses capacity support to small and medium-sized firms. The GCF should clarify what the RPSP can do for small and medium-sized private sector companies.

Recommendation 3(c): In piloting the project-specific assessment approach, the GCF Board should consider the needs of the adaptation portfolio, including engagement of the private sector.

Recommendation 3(d): The GCF should strengthen incentives to support cooperation between the DMA and PSF in jointly assessing projects and identifying opportunities, particularly for blended finance.

Key recommendation 4: Access and business model

The GCF should respond to the urgency in adaptation by addressing policy gaps and the use of financial instruments and modalities.

Recommendation 4(a): The GCF should explore options to address the adaptation needs of the most vulnerable within its targeted geography.

Recommendation 4(b): The GCF should find ways to remove barriers related to the availability of and requirements for data needed to verify climate vulnerability, and should consider alternative systems of (traditional) knowledge. The GCF should urgently clarify the role and use of climate rationale in the funding proposal review and appraisal process, to reduce the burden of project preparation and development for AEs.

Recommendation 4(c): The GCF Board should finalize the policy on programmatic approaches, with due consideration of the perspectives of AEs. In particular, such approaches should include single- and multi-country programmes and provisions to streamline the processes for sub-project approval and changes, while ensuring appropriate due diligence. The GCF should recognize the regional aspects of adaptation challenges and solutions, and re-emphasize the potential of regional DAEs while providing adequate staffing capacity at the Secretariat.

Recommendation 4(d): The GCF should diversify the financial instruments it uses in adaptation projects, particularly those that increase scale through higher co-finance ratios. In particular, the GCF can increase the use of equity investments, guarantees, and devolved and blended finance. The use of such instruments is not a substitute for grant instruments, but rather a complement to them.

Recommendation 4(e): The GCF should consider developing a stakeholder engagement policy. Inclusive stakeholder engagement that delivers meaningful and active participation in project design and implementation should be strengthened, and it should not only include NDAs and focal points, but also CSOs, indigenous communities and the private sector. This can reduce material risks from project implementation, including maladaptation.

Key recommendation 5: Results and impact measurement

The GCF should address adaptation-related measurement challenges to enhance active monitoring, project and Fund-level aggregation, and to facilitate learning and steering.

Recommendation 5(a): The GCF Secretariat should further engage with other climate funds and communities of practice to refine indicators, measurement and the clarity of aggregation, and also improve the Fund-level indicator of direct and indirect beneficiaries.

Recommendation 5(b): Recognizing the limitations of the current set of indicators, the GCF should address the challenges in adaptation-related measurement of project and Fund-level indicators.

Recommendation 5(c): As adaptation result areas are broad, the GCF should also trace results at the sectoral level for portfolio management. This will allow aggregation at the portfolio level to facilitate greater knowledge of results and comparability with other climate funds.

Recommendation 5(d): The GCF should consider whether an adaptation investment is meeting a national priority by linking results areas to an indicator for a country's adaptation needs.

Recommendation 5(e): The GCF should utilize results-based financing to a greater extent within its adaptation portfolio. This would create an incentive structure for implementing agents to deliver on-time and to the appropriate budget, and for results to be verified by independent third parties.

Key recommendation 6: Innovation and risk

The GCF should address the ongoing lack of clarity and guidance in its approach on innovation.

Recommendation 6(a): As innovation is part of the strategic priorities for 2020 to 2023, the GCF should clearly identify and incentivize innovation.

Recommendation 6(b): The GCF should define the delivery of successful structures, systems and organizations as actual project impacts. One such example would be defining support for innovative structures, such as blended finance vehicles for adaptation, which are successfully used in mitigation (e.g. in FP099: Climate Investor One) but not yet in adaptation.

Recommendation 6(c): The GCF should strengthen programmatic approaches in adaptation finance, as they are important for leveraging lessons from one project to another and for fostering innovative replication. The focus here is on transferring knowledge between projects in the same sector or results area. This should involve different AEs that execute different projects, but closely interact to exchange knowledge, capabilities and approaches.

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