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Unit



SECOND PERFORMANCE REVIEW OF THE GREEN CLIMATE FUND

Executive summary



February 2023

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GREEN CLIMATE FUND
INDEPENDENT EVALUATION UNIT

Second Performance Review of the Green Climate Fund

EXECUTIVE SUMMARY

02/2023

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First Edition

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ABBREVIATIONS

AEs	Accredited entities
B.31	Thirty first meeting of the Board
DAE	Direct access entity
DP	Delivery partner
FP	Funding proposal
GCF	Green Climate Fund
GI	Governing Instrument
IEU	Independent Evaluation Unit
IRMF	Integrated results management framework
P&I	Privileges and immunities
RPSP	Readiness and Preparatory Support Programme
RRMF	Readiness results management framework
SPR	Second Performance Review
UNFCCC	United Nations Framework Convention on Climate Change
USP	Updated Strategic Plan

EXECUTIVE SUMMARY

OVERVIEW

The Governing Instrument (GI) of the Green Climate Fund (GCF or the Fund) provides for periodic independent evaluations of the performance of the Fund in order to provide an objective assessment of the results of the Fund, including its funded activities and its effectiveness and efficiency. The Independent Evaluation Unit (IEU) of the GCF undertakes evaluations according to Board-approved workplans and is responsible for the overall performance review of the Fund every programming/replenishment period. The GCF Board launched the Second Performance Review (SPR) through decision B.BM-2021/17.

The SPR covers the GCF-1 period and seeks to inform, among other things, the next update to the strategic plan (USP-2), currently being discussed for the GCF-2 period (2024–2027). The scope of the SPR includes (1) evaluating the GCF's progress in delivering on its mandate as set out in the GI and its strategic and operational priorities and actions as outlined in the USP, and (2) the performance of the GCF in promoting a paradigm shift towards low-emission and climate-resilient development pathways, including the effectiveness and efficiency of the funded activities. The review's approach paper¹ further clarified key areas for the SPR, including the institutional architecture and performance, translating mandate into policies and priorities, country needs and ownership, access to GCF funds, programming and results.

The SPR uses a mixed-methods approach for data collection and analysis. The findings are based on an extensive document and literature review; semi-structured interviews with more than 700 stakeholders; 12 country case studies and cross-case analysis; a survey administered to stakeholders with key perspectives on GCF governance and management issues; benchmarking with comparator organizations; and systematic portfolio data and document analysis led by the IEU DataLab. The SPR is also deeply informed by (a) a *Report of the Synthesis Study* (delivered for the thirty-first meeting of the Board [B.31]) that synthesized nearly 200 documents reviewed in detail, including eight evaluations and studies conducted by the IEU over the GCF-1 period, and (b) a *Rapid Assessment of the Progress of the Green Climate Fund's Updated Strategic Plan*, delivered in mid-2022 for B.32. At the request of the Board, the IEU also presented a summary report of the SPR at B.33, which represented an interim view on the findings and recommendations areas.

The primary limitations faced by the SPR were related to evaluative evidence, including weak monitoring and reporting data, the evolution of reporting requirements and formats over time, lags in the availability and review of data,² and the fact that much of the GCF portfolio is still in the early stages of implementation. These limitations were particularly challenging for evaluating results and were mitigated by constructing and developing new data sets to provide additional evidence, such as from interim evaluations and annual progress reports (APRs), as well as by an increased focus in the country case studies on results assessment. An additional limitation was related to the rapidly and incrementally evolving nature of the GCF, with Secretariat processes and efforts changing regularly throughout the evaluation period, along with the policy landscape and investment portfolio. The evaluation team made concerted efforts to update data to reflect the latest available Secretariat

¹ To access these documents, see <https://ieu.greenclimate.fund/evaluation/second-performance-review-spr-green-climate-fund#key-docs>.

² For example, only a small number of annual progress reports (APRs) for 2021 had been reviewed and cleared by the Secretariat at the time of writing, and thus the SPR had to rely on unreviewed APRs for 2021.

reporting and to conduct late-stage interviews with some key actors to capture the latest activities. Data collection concluded for the SPR in November 2022.

Quality assurance for the SPR main report has been supported by a review process with the Secretariat for comment on factual and analytical errors. In addition, the 12 country case study reports that inform the overall SPR have undergone a similar review process facilitated through national designated authorities (NDAs).

KEY FINDINGS AND CONCLUSIONS

The GCF has steadily evolved and matured as an organization over the first three years of GCF-1, as it works to deliver on its GI mandate and USP objectives. Critical work has been done to institutionalize policies and processes, building on the initial resource mobilization period, and some benefits are starting to be realized, including through higher-quality funding and readiness proposals, increased programming volumes and modest improvements in process efficiency. The size of the portfolio doubled in the first two years of GCF-1 and now exceeds United States Dollar 11 billion as of B.34, with four fifths of approved projects under implementation. Readiness support has been delivered to 141 developing countries, and 128 countries have had projects approved and are working with 51 accredited entities (AEs). Yet there has been a tendency to focus on incremental improvements rather than clarifying the larger questions around objectives and priorities.

Operational processes continue to be protracted, to the point of harming the GCF's reputation.

As the GCF considers updates to its strategic plan for GCF-2, it finds itself at a crossroads in its strategic development. The Board has an opportunity to set clearer strategic direction and provide a focus through the next USP that can clarify operational priorities and the operating model. If unaddressed, many of the current strategic and operational tensions and challenges may threaten the reputation and impact of the GCF, but they also present pivotal opportunities for the Fund to define its path forward in GCF-2. The GCF can learn from rather than repeat the experiences of other climate and development institutions, and it can forge its own way in delivering on its mandate to enable country-owned pathways towards a low-emission and climate-resilient future.

INSTITUTIONAL ARCHITECTURE AND PERFORMANCE

Governance and management

GCF governance has had many successes in GCF-1, despite the challenges associated with operating during the COVID-19 pandemic. The SPR does not identify any insurmountable challenges of governance, structural or otherwise. The Board is effective in its key functions of approving funding proposals (FPs) and approving entities for accreditation and is actively pursuing options to clarify and improve Board operations. Transparency and integrity are relatively strong in the GCF, which supports accountability, although the role of the Conference of the Parties is perceived as a weaker one in terms of an accountability function for the GCF. The GCF compares well to other international organizations in terms of non-state representation, with civil society organizations and private sector organizations institutionalized in the GCF governance structure from the start. However, some weaknesses in the observer function continue to constrain observers' ability to meaningfully influence GCF Board decision-making.

The GCF's novel governance design of parity between developed and developing countries brings legitimacy but compromises efficiency, especially given the Fund's proximity to the politics of the United Nations Framework Convention on Climate Change (UNFCCC). While

policy decision-making has historically been slow and a few key policy gaps remain, it has accelerated in the second half of GCF-1, with several key policies approved, suggesting that the Board may be starting to resolve some of its growing pains. The bifurcated governance design has also posed a challenge for the Board in setting a strategic vision for the Fund. Stakeholders do not yet share a common vision for the Fund, leading to an overly broad “do it all” approach. In light of finite resources, the time has come to clarify the GCF’s vision in certain areas, such as the balance between the urgency of the climate challenge and the long-term need to build climate finance capacity in countries and entities, the extent to which the GCF works through its partners or takes a more direct and strategic role (e.g., to influence climate finance flows or convene partners around nationally determined contribution investment planning processes), and the extent to which countries’ demand directs GCF programming compared to the GCF’s orchestrating of larger strategic global or regional paradigm shifts.

While the formal rules of the Board are laid out and clear, the understanding of informal governance norms may differ across the Board and can set differing expectations (especially in the context of virtual meetings that reduce informal interactions), including for the roles of Co-Chairs and Advisers. Remaining policy gaps and blurred lines between governance and management functions and authorities are also now impeding progress.

The GCF and the broader partnership

The GCF has a privileged position within the climate finance landscape, by virtue of its size and status under the UNFCCC, and it sits at the hub of a global partnership network. However, the Fund has not yet developed a strategic approach to partnership that (a) more broadly considers national designated authorities, AEs, delivery partners (DPs), civil society and the private sector and (b) mobilizes its network towards achieving strategic and coordinated programming opportunities. The GCF has not yet fully articulated the role that it wishes to play at the country level, nor the respective contributions expected of the Secretariat, national designated authorities, AEs, DPs and other partners. The model generally implies a need for high-capacity NDAs and AEs – which many countries lack - to ensure that GCF projects underpin the delivery of national climate priorities, since the Secretariat lacks the capacity and resources for direct engagement. Furthermore, GCF readiness support and the DP function are not well designed to facilitate the type of long-term institutional relationship necessary to anchor the GCF as a core national partner, and limited incentives exist for AE and DP partners to engage on the GCF’s behalf beyond project boundaries. While there is some evidence of coherence and complementarity, GCF efforts to mainstream greater policy alignment and institutional collaboration do not yet appear to have resulted in significantly more structured or strategic engagement at the national level.

At the same time, the needs of countries are evolving from core policy and target formulation towards the more complex process of sector-level investment planning and project delivery. In this context, the GCF is considering how to evolve its partnership role and exploring its potential role in supporting more strategic transformation, including just transitions, sectoral pathways and associated climate finance planning. The role that the GCF and its partners might play (e.g., convenor, capacity builder, strategic planner, financier) may differ depending on the level and type of need. However, all would require significant structural and resource changes for the Fund to play a more direct and central role in countries should the GCF have ambitions to facilitate transformational investment planning and programming. As a result, opportunities for strategic-level synergistic effects and transformational impact are being lost, not only within the GCF portfolio but also more widely.

ACCESS TO THE GCF

Through accreditation, the GCF has established a network of diverse AE partners – including many national and regional direct access entities (DAEs). This network needs strengthening to deliver on GCF and country priorities. In total, 115 AEs have been accredited to date. There are, however, continued programming gaps at the GCF and country levels due, in part, to too few private sector DAEs and weak policies, low staffing levels and lack of experience with climate finance among DAE candidates. The AE network needs to be strengthened to ensure that it comprises capable and diverse entities that are well positioned to deliver on future GCF and country priorities, high-quality project implementation and the GCF’s fundamental goal of direct access.

Direct access is growing in the approved GCF project portfolio but does not yet reflect the Fund’s ambitions. The approved project portfolio remains skewed towards international accredited entities (IAEs), and a relatively small number of DAEs have been successful in obtaining project funding via the GCF. Remaining challenges include that countries struggle to identify entities and that entities struggle with accreditation. The accreditation process remains protracted, inefficient and insufficiently transparent and is not linked to programming. Accreditation requirements and outcomes are also insufficiently differentiated by entity characteristics. DAE capacity also remains a major constraint for increasing the proportion of resources channelled through direct access. GCF capacity support through the Readiness and Preparatory Support Programme (RPSP) and Project Preparation Facility are yet to show major results at scale for DAE programming. A shift towards more focused support for DAE pipeline development is partly under way, but it is too early to observe the results. The expectation that IAEs will build the capacities of DAEs – without associated resources or incentives – has also proven false; related requirements would benefit from being modified.

Access and accreditation remain overburdened with multiple goals, some of which could be more effectively and efficiently met through other channels. This includes other forms of GCF partnerships, country capacity-building and access mechanisms. Alternative mechanisms for Fund access have either not been sufficiently effective or are underexplored and deserve more attention in the new strategy. This includes access as DP or executing entity, through subgrants or subloans, and in enhanced direct access and the project-specific assessment approach. Alternative models of direct access exist from other trust funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria; Gavi, the Vaccine Alliance; and the Global Partnership for Education. These models involve a country coordination mechanism, composed of relevant government and non-government actors, that determines programmatic priorities, identifies the implementing partners and oversees implementation. Such a model appears feasible within the provisions of the GI but has not been fully explored in the context of the GCF.

The GCF lacks a vision and strategy for a manageable AE network of capable and diverse entities that are well positioned for emerging GCF and country priorities. Without a clearer purpose for accreditation, the network of AEs continues to grow with limited consideration of the associated benefits, costs and risks – as well as the Secretariat’s capacity to manage it. An ever-growing network may reduce the AE-to-project ratio, and thus the attractiveness of accreditation to potential AE partners, especially if the accreditation process continues to be protracted.

The pending finalization of the USP and strategic matters related to the accreditation strategy offer an opportunity to “reset” the GCF’s approach to access, refine the Fund’s vision and strategy for a manageable and priority- and needs-aligned AE network, and explore alternative access mechanisms. At the centre of future accreditation and access must be better ways to build DAE capacities for project development and implementation.

PROGRAMMING FOR RESULTS IN RESPONSE TO COUNTRY NEEDS

Robust upstream programming is critical, including readiness support and helping countries to prioritize activities and develop actionable investment plans, but the best pathways are still being established. Historically, country programmes, entity work programmes and RPSP grants have been insufficiently focused to efficiently utilize limited resources in ways that facilitate achieving the full potential of country programming.

Proposal review processes have improved significantly over time, and the quality at entry of projects presented to the Board is increasing. The GCF is processing an increasing and substantial volume of concept notes and FPs, even during the challenges of the pandemic. Internal processes have become more systematized, and requirements continue to be clarified both internally and externally, although these improvements are not yet producing meaningful changes in processing times and experiences from partner perspectives. Specific processes and requirements are also constantly evolving, which can make it challenging for partners to keep pace.

Despite the ever-increasing volumes, process improvements and increasing quality, partners continue to perceive the project appraisal and approval cycle as bureaucratic, lengthy, inconsistent and non-transparent. The forward-looking performance review of the GCF in 2018 found a clear need for the GCF to pursue streamlining and efficiency gains – a need that persists into GCF-1 with urgency now to further consider efficiency in terms of expectations of partners and to improve partners' experience when interacting with the GCF. The case studies reveal poignant on-the-ground stories of countries losing momentum as well as significant opportunities lost, such as by countries being too discouraged to further engage with the GCF for vital upstream support, AEs no longer willing to sponsor FPs, or where a project concept is no longer relevant because so much time has passed. Many stakeholders have argued for more clearly differentiated pathways for different entities and/or project types. Stakeholders also struggle with the lack of adaptive agility when changes are needed during implementation or for more tailored approaches for different contexts. The Secretariat continues to identify and address issues within its control, but also needs further clarity from the Board on a variety of matters (e.g., multi-country projects and programmatic approaches) to achieve deeper improvements.

GCF approaches for entity and project risk management remain underdeveloped and underresourced. Although first-, second- and third-level due diligence responsibilities have been named, which risks need to be managed by the GCF and which risks can be delegated to partners to manage is not fully clear. Moreover, the GCF has not fully reconciled its approach to its second-level due diligence responsibilities with the scale of its portfolio nor the diversity of its AEs and DPs. The accreditation and partnership approach, with its reliance on AEs and DPs, is a core pillar of the GCF's model, yet requires careful planning, ongoing support, and checks and balances at every stage to ensure sufficient access and quality throughout the programming and implementation cycles.

The current system of portfolio oversight does not appear to be readily scalable for a rapidly growing portfolio of funded activities. Many Secretariat divisions and independent units have responsibility for different aspects of risk management, but the interactions and ultimate accountabilities are not all well understood, often leaving risk ownership unclear and risk culture limited.

The GCF is in the early stages of its knowledge management practices, a stage that is broadly consistent with its organizational maturity but not yet sufficient to facilitate thought leadership. The GCF has a knowledge management strategy and action plan that is not yet fully

implemented and institutionalized, but efforts are under way. Projects may have a wealth of information that is not yet being effectively or efficiently processed to support internal feedback loops or facilitate learning in support of developing further guidance to partners.

RESULTS AND IMPACT OF GCF INVESTMENTS

Progress towards delivery of the USP strategic objectives is mixed, due in part to the way that targets and benchmarks were set. According to IEU projections, the GCF is tracking towards targets and benchmarks as follows:

- Likely to exceed the revised initial resource mobilization benchmark for mitigation but unlikely to meet its adaptation benchmarks in terms of portfolio-level results
- Expected to meet 0.6 per cent of the conditional mitigation needs and 3.2 per cent of the conditional adaptation needs stated in countries' new or updated NDCs
- Likely to meet targets for funding channelled through DAEs
- Unlikely to meet the adaptation allocation, although the adaptation pipeline is strong, and unlikely to meet the Private Sector Facility targets, although nominal Private Sector Facility funding has increased
- Making slight improvements in the speed and predictability of processes, with some variability

Climate impacts are modest to date, but there are indications that results are forthcoming.

Given the long-term nature of climate impact, and the relatively young age of GCF projects under implementation, few projects already report significant actual achievements of greenhouse gas emissions reductions or adaptation impact for beneficiaries and asset resilience. All projects report of their ambition or potential towards paradigm shift, but pathways and actual results are often not clear. Country case studies offered some examples of projects showing early signals of contributing towards paradigm shifts.

Still, many projects are making good implementation progress, and three quarters of projects were rated as having an overall satisfactory performance at midterm. Mitigation projects are generally performing better than adaptation projects. Interim evaluations are optimistic that close to 90 per cent of evaluated projects will reach their ultimate development and climate objectives. Expected co-financing in approved FPs increased slightly in GCF-1, although interim evaluations suggest that realized co-financing is not consistent with expectations at midterm, due in part to COVID-19-related challenges.

Results management has been underdeveloped to serve the GCF's need to demonstrate results as its portfolio matures. The quality of results measurement and reporting has been poor to date; however, the approvals of the integrated results management framework (IRMF) and readiness results management framework (RRMF) are important steps in the right direction, and other retroactive improvements are also under way. Remaining conceptual gaps in measuring leveraged and mobilized private financing mean that the GCF is not able to fully demonstrate its contribution to shifting financing flows towards low-emission and climate-resilient development.

The GCF has been steadily and systematically positioning itself throughout GCF-1 to better address gender equality and social inclusion, including of indigenous peoples. Gaps still exist in terms of the quality of gender action plans and in implementation, which limit meaningful action on the ground.

RECOMMENDATIONS

The SPR makes seven recommendations aimed at informing the strategic direction of the GCF and improving its overall performance.

Recommendation 1. The GCF's strategic plan should clarify the Fund's strategic positioning, articulate programming and operational priorities, and address long-term and short-term trade-offs. The ambition and strategic direction should align with available resources.

- 1) **The update to the USP should clarify the vision for GCF-2, making critical choices**, including those related to the intended ambition and role of the GCF globally; programming priorities such as with respect to sectors, geographies and resourcing; how trade-offs between long-term and short-term priorities will be handled (e.g., between urgency and capacity needs, between catalysing and financing roles, and among possible in-country roles); and the extent to which the GCF will work through its partners or take a more direct and strategic role.
- 2) **Resource appropriately and in a timely manner**, matching the short-term strategic vision, choices and ambition in the USP with a realistic assessment of resources. Further, the Board should consider midterm resourcing reviews, recognizing that resourcing will continue to evolve even within a replenishment cycle.
- 3) **Develop a results framework for delivery of GCF-2 with targets and indicators**, covering outcomes and impacts expected from GCF-2, and coherent with the IRMF, as well as leading indicators and/or targets such as for investments, allocations and/or other key metrics at earlier stages that directly flow into anticipated outcomes.
- 4) **Ensure that the strategic vision is widely communicated throughout the broader GCF partnership**, including to countries and partners in a clear and transparent manner.

Recommendation 2. At the country level, the GCF should clarify its intended approach and possible roles, aligning with the available resources.

- 1) **Articulate the extent of the GCF's ambition to engage strategically in country and the role(s) it wishes to play, based on a clear assessment of opportunities, challenges and strategy.** The GCF could play various roles in countries – for instance, capacity builder, convener around investment planning, strategic adviser or simple funding partner. From among these and other roles, the GCF should consider differentiated engagement models depending on prevailing levels of capacity and access to other financial and technical support.
- 2) **Widen the GCF partnership definition and undertake a systematic mapping of partners' capacity and interest to engage strategically at country level, culminating in a strategic approach for GCF country partnership.** To identify the role in 2(a) the GCF should do the following:
 - a) Expand the concept of partnership beyond simply AEs or institutional partners, to reflect all institutions that might play a role in climate action in the countries. Beyond the NDAs, DPs, civil society organizations and private sector organizations, these may include donors, philanthropies and development finance institutions.
 - b) Undertake a structured and systematic mapping of its partner institutions to understand their capabilities, resources and alignment with GCF strategic objectives and country needs. The scope of GCF partnership may expand with changes in its own intended role.
 - c) Exercise realism around the willingness and resources of partners to act as agents to deliver beyond project-funded objectives (e.g., representing the GCF in national dialogue, partnering with DAEs and private sector institutions to build capacity,

engaging in planning processes around NDCs, national adaptation plans and sectoral strategy). If partners are to serve expanded mandates beyond project-funded objectives, adequate resourcing should be put in place.

- d) On the basis of the above clarity, develop a country partnership approach aligned with recommendations 1(a) and 2(a), resulting in country programming that specifically responds to context and needs. In this way, whether as a finance provider or a convenor and whether directed at wholesale economies or sub sectoral change, GCF support should be driven by intention and suited to support a paradigm shift.
- 3) **Clarify any future role for country programmes and entity work programmes**, retaining the core elements – alignment and prioritization – but aligning these tools with the strategic approach to country partnership that the GCF determines (as per recommendation 2(a)).
- 4) **Clarify the role of readiness support, particularly in the context of strategic engagement**. The SPR recommends that readiness support should link to GCF goals – for example, nationally determined contribution investment planning, GCF programming, private sector engagement and post-accreditation support. The vision and purpose of readiness should take into account the Secretariat’s experience on needs in diverse contexts, practical intervention approaches, other actors that are better positioned to support readiness, and bottlenecks and inconsistencies within the Secretariat’s operations.

Recommendation 3. Review accreditation priorities. Support and explore other access mechanisms beyond accreditation. Build capacities for better access and country-owned FP development and enhance accreditation process efficiency and transparency.

- 1) **Identify the Fund’s accreditation objectives and communicate them clearly, both internally and externally.**
 - a) Overcome gaps in the accreditation strategy by defining primary accreditation objectives, in line with recommendations 1(a) and 2(b). In light of GCF limitations with managing, incentivizing and measuring multiple purposes, it is recommended that the principal purpose of accreditation should be lean, that is to say, focused on the quality development and implementation of FPs. Entity capacity development is a means to ensure accreditation for FP delivery.
 - b) Fully communicate the accreditation role internally and to GCF partners and candidate AEs.
 - c) Further tailor accreditation (processes and conditions) to entity types and capacities, especially for private sector, civil society organizations and subnational entities.
- 2) **Identify and proactively support alternative and graduated pathways for developing country entities to access the Fund; explore long-term alternatives to the current AE model.**
 - a) Identify and publicize ways to access the GCF, including engaging in programme subprojects, subgrants and subloans, including through the enhanced direct access process, or serving as executing entities for GCF funded activities or as DPs for RSPs. The project-specific assessment approach is another emerging option.
 - b) In the long-term, the GCF should fully explore alternatives to the current accreditation and access model, such as those practised by other international agencies, especially for country entity access.

- 3) **Manage accreditation and access to fit with GCF and country programming priorities and needs. Align them well with Fund project resources and Secretariat management capacities.**
 - a) Consider the size of the AE network in terms of Fund project resources, Secretariat management capacities and other resources needed at global and national levels for accreditation and reaccreditation processes and building DAE capacities.
 - b) When prioritizing entities for accreditation along GCF priorities, take into account advanced AE applicants that are prioritized by countries or already supported by the GCF.
- 4) **Target DAE capacity-building for country-owned project development and implementation.** The GCF should direct readiness and other capacity support more towards supporting accredited and nominated DAEs to develop country-owned and GCF-aligned concept note / FP pipelines, integrated with accreditation support where appropriate. IAEs could be incentivized to support DAE capacities and alternative access mechanisms (such as with accredited and nominated DAEs serving as executing entities or as co-AEs) – for example, through a favourable international accredited entity fee structure, additional RPSP funds or prioritized access to the Project Preparation Facility.
- 5) **Enhance the efficiency and transparency of accreditation and reaccreditation processes and clarify benchmarks for reaccreditation.** The GCF should increase the transparency of the accreditation process with nominated DAEs through designated GCF relationship managers and communication management. AEs and NDAs should be systematically informed about changes to GCF policies, guidelines and programming priorities. On reaccreditation, AE benchmarks to qualify for reaccreditation should be clarified (based on the overall purpose of accreditation), such as on shifts of overall AE portfolios towards low-emission and climate-resilient pathways and international accredited entity capacity support to DAEs.

Recommendation 4. Continually improve the efficiency, predictability and relevance of operational systems, ensuring they reflect policy priorities, strategic objectives and climate urgency, especially targeting the delays within the GCF's control.

- 1) **Continually streamline and refine operational modalities** to deliver the strategic priorities identified in recommendation 1(a). Refinements should seek to improve partners' experience – such as by increasing speed, clarity, predictability and overall relevance to context. The Secretariat should develop more robust mechanisms and conduct regular reviews to ensure systems and processes are, and continue to be, fit for purpose and appropriately resourced and that they survive staff turnover or other organizational challenges.
- 2) **Realign staffing, organizational structures and monitoring strategies to better facilitate reaching the same collective goals.** The Secretariat should further improve staffing strategies, to ensure sufficient staff with the appropriate skill sets, including appropriate staffing to proactively steer operations to minimize bottlenecks. This includes maintaining sufficient regional/local expertise as well as appropriately balanced technical skill sets to fully operationalize the vision set by the new USP and as processing volumes evolve at each stage. In another example, the Secretariat should review inter-division and inter-unit coordination to ensure alignment among those involved in partner engagement and upstream pipeline development. The Secretariat also should conduct regular reviews to ensure that individual staff, group and unit-level key performance indicators – as well as more qualitative incentives, communication structures and feedback loops – are mutually supportive and synergistic in operationalizing the USP priorities as the context evolves.

- 3) **Ensure modalities and operational structures are sufficiently nuanced to address the range of partner needs and experiences.** The Secretariat should build in sufficient flexibility so that modalities are sufficiently differentiated to reach and serve the totality of the targeted audience – such as entities and countries in Africa, the least developed countries and small island developing States – regularly soliciting feedback from partners as needs evolve. Any requirements placed on partners should be sufficiently practical, relevant and realistic for the context while efficiently and sufficiently meeting GCF needs. This also includes providing critical support or alternative approaches when a default pathway is unworkable.
- 4) **Continue to upgrade direct communication, as well as guidance documents developed to articulate GCF expectations, and share emerging lessons with partners.** The Secretariat should ramp up efforts to clearly communicate, beyond the GCF's general priorities, the specific ways partners can most efficiently engage with the GCF, including what it is and is not looking for, what support it does and does not provide, and the specific mechanisms for engagement. As partner needs and GCF priorities evolve, the best modes of communication, including level of detail and most-helpful examples, would be expected to evolve as well.

Recommendation 5. Pivot from an approval orientation towards one that emphasizes results and learning, with a coherent results architecture for GCF-2.

- 1) **Urgently operationalize the IRMF and RRMF.**³ The Secretariat should expedite the operationalization of the IRMF and RRMF, to ensure high-quality monitoring and reporting of readiness and climate results. Methods for measuring catalysed, leveraged and mobilized private finance must be finalized and implemented to assess contributions to the Paris Agreement.
- 2) **Improve implementation management processes, with full examination of the received feedback that the GCF needs flexibility to adapt to the realities of implementation.** The Secretariat should make improvements in clarity, predictability, responsiveness and flexibility in project implementation management approaches to fit the diversity of the portfolio and reduce delays caused by GCF administrative issues. It will also be important to significantly improve the annual performance report template and related tools to support results and risk management.
- 3) **Strengthen learning and feedback loops.** As the GCF solidifies its fundamental results and risk management systems, it should also start shifting towards a structure and resourcing that can encourage learning and feedback loops across projects, countries and agencies more systematically. The GCF should operationalize knowledge management practices to gather, synthesize and exchange knowledge that is generated through its RPSP grants and funded activities, in order to facilitate more effective and transformational programming and implementation. This includes systems to support internal exchange, within the GCF Secretariat, as well as external exchange with the broader GCF partnership and beyond.
- 4) **Enable efficient GCF oversight and learning during implementation, with resources aligned for this objective.** Efforts are under way to develop capacity for implementation oversight and knowledge management functions, but ultimately Secretariat resourcing needs to be commensurate as funds under management and project complexity increase.

³ Some lessons for improvement and future modifications to the IRMF are beginning to emerge. The SPR assumes that these lessons will be used at the earliest available opportunity for revisions to the IRMF.

Recommendation 6. Urgently clarify the GCF's approach to managing entity and project risks, for funded activities and RPSP grants.

- 1) **Review the approach to due diligence of entities and projects.** The GCF should consider a differentiated approach to second-level due diligence for portfolio risks, in light of the diversity of the portfolio and AEs. This could include, for example, a portfolio-based approach to risk monitoring for some types of AEs and projects, as well as engaging third-party monitors for closer oversight for other types. A review of the GCF's approach to due diligence also needs to consider the extent of GCF oversight over subprojects in GCF programmes and the risks entailed.
- 2) **Match the evident risk appetite to stated risk appetite.** The Board should ensure that the current review of the GCF's risk appetite results in an updated risk appetite that is robust enough to encompass the diversity and character of GCF investments. The Secretariat should then update its operational processes, including internal review and monitoring approaches and feedback loops to fully operationalize the updated risk appetite statement. The GCF should ensure that the risk appetite is reviewed regularly to ensure appropriateness and relevance as both programming priorities and the context in which the GCF operates evolve.
- 3) **Clarify project risk ownership, including expectations and accountability mechanisms for partner entities and project implementation.** The Board should urgently and fully clarify the policy coherence relating to risk appetite, assessment and ongoing management, including what applies across all contexts and what may be context specific. For example, the GCF should clarify whether AE or GCF policies apply in the event of a contradiction between the two. Any policy or operational updates as well as any change in expectations of partners should be clearly and proactively communicated to partners with active proposals and projects. The ownership of risks between the GCF and its partners as well as within the GCF should be consistently clear, with the ultimate objective of enabling projects to take risks corresponding to the risk appetite.
- 4) **Increase the robustness, coherence, continuity and consistency of risk management practices throughout the programme cycle and entity oversight processes.** The Secretariat should increase efforts to improve internal risk management practices already identified, incorporating any changes needed from the updated USP or other policy updates. This includes ensuring comprehensive coverage, clarity of roles, internal ownership, stronger coordination and feedback loops across all units. This likely also includes increased staffing for key roles – for example, in compliance, auditing and field monitoring – as well as ensuring these staff members have the appropriate skill sets and resources.
- 5) **Secure privileges and immunities (P&I) agreements.** With less than 20 per cent of the needed P&I agreements yet in place, the Secretariat should expedite P&I agreements with the remaining countries.

Recommendation 7. Strengthen governance processes to provide more effective and efficient leadership for the Fund.

- 1) **Improve governance efficiency.** The GCF Board and Secretariat should take steps to improve the efficiency of governance, such as through more effective use of Board committees to facilitate efficient consensus and decision-making, establishing stronger and commonly understood informal governance norms (such as through facilitation, informal exchanges, retreats, learning from best practices of the UNFCCC and of other multilaterals), developing more extensive and inclusive consultation processes to ensure that policy items are politically ready when they are brought to the Board floor, and other processes to build leadership and

cultivate common understanding. The GCF should consider the provision of human resource support (for instance, dedicated resources to support adviser), particularly to Board members from developing countries, to enable meaningful participation in Board affairs. Ultimately, the Board should be able to demonstrate collective leadership, while making strategic choices, even difficult ones, which will ultimately determine the effectiveness of the institution.

- 2) **Support trust-building and self-reflection among Board members.** Consideration should also be given to supporting mutual understanding and learning among Board members through establishing a regular process of self-assessment. This confidential process should facilitate honest and constructive reflection on the strengths and weaknesses of the Board as a whole, rather than individual members, seats or constituencies, and focus on integrating lessons from the experience into more effective leadership of the Fund. The GCF should emphasize cross-constituency informal meetings, onboarding and integration of new Board members, and informal exchanges with the Secretariat.
- 3) **Build the capacity of the Secretariat to support Board decisions.** In recognition of the Secretariat's important role in supporting decision-making, efforts should be made to build the capacity of the Secretariat staff members who support the Board with policy decisions. This could include, for example, training on facilitation, bias and communications.
- 4) **Continue working to update the policy suite.** Many existing action items relating to policy need further attention, such as identifying and closing strategically and operationally essential policy gaps, retiring outdated mandates, establishing a more coherent policy landscape, and further codifying policy implementation and review processes. The policymaking process would also be enhanced by clarifying the Fund's policy framework and classifications – along with the associated responsibilities.
- 5) **Clarify blurred lines between governance and management.** A stronger delineation of roles and responsibilities among governance and management bodies, including the Board and its committees, Secretariat and independent units – especially clarifying responsibilities to minimize overlaps, gaps and conflicts – would also reduce uncertainty and inconsistency and support more streamlined policymaking and decision-making. As the GCF continues to mature, the Board should seek to reduce its involvement in day-to-day operational functions and shift towards more oversight over strategy and policy implementation.
- 6) **Revisit the observer function to address weaknesses.** Revisions to the observer guidelines should be finalized, as has been planned for five years. Actions could include (a) clarifying processes for observer consultation to ensure that input is systematically sought at an appropriate time during deliberations and is consistently sought for policy and strategy documents, and (b) financially supporting civil society organization's active observer in developing country to travel to Board meetings.



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