INDEPENDENT EVALUATION OF THE GREEN CLIMATE FUND'S APPROACH TO PRIVATE SECTOR[1]

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BACKGROUND

As an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), the Green Climate Fund (GCF) pursues, amongst others, two main mandates with respect to private sector: catalyzing private sector finance and mobilizing local private sector actors. In this, the GCF "will be scalable and flexible and will be a continuously learning institution guided by processes for monitoring and evaluation."[2] The Board "establish[es] a framework for the monitoring and evaluation of performance and the financial accountability of activities supported by the Fund", carried out by the Secretariat.[3]

PRIVATE SECTOR ENABLING ENVIRONMENT FOR CLIMATE ACTION

Previous LabReports in this series have made reference to the guidance provided by the Conference of Parties (COP) and the Paris Agreement. In addition to these, the Intergovernmental Panel on Climate Change (IPCC) has made reference to the private sector. IPCC Special Report on the impacts of global warming of 1.5°C highlights the importance of enabling environments for climate action, in particular private sector engagement, access to finance, and country systems.[4] The panel has high confidence that strengthening of capacities for climate action in private sector can support the ambitious climate goals. International cooperation is critical. The report also underlines challenges: the limited progress in adaptation and in policy at private sector level. But also, in mitigation, uncertainties and knowledge gaps in industry systems and private sector acceptance of new radically different technologies prevail. Direct finance toward green investments should include the mobilization of institutional investors, asset managers and development or investment banks. Effective governance, including collaborative multi-stakeholder partnerships, strengthened global-to-local financial architecture to enable access to finance, is central for consistent climate action. Some illustrative quotes from the report include:

> Directing finance towards investment in infrastructure for mitigation and adaptation could provide additional resources. This could involve the mobilization of private funds by institutional investors, asset managers and development or investment banks, as well as the provision of public funds. Government policies that lower the risk of low-emission and adaptation investments can facilitate the mobilization of private funds and enhance the effectiveness of other public policies. Studies indicate a number of challenges, including access to finance and mobilization of funds. (high confidence) {2.5.1, 2.5.2, 4.4.5}

> International cooperation is a critical enabler for developing countries and vulnerable regions to strengthen their action for the implementation of 1.5°C-consistent climate responses, including through enhancing access to finance and technology and enhancing domestic capacities, taking into account national and local circumstances and needs (high confidence). {2.3.1, 2.5.1, 4.4.1, 4.4.2, 4.4.4, 4.4.5, 5.4.1 5.5.3, 5.6.1, Box 4.1, Box 4.2, Box 4.7}.

> Governance consistent with limiting warming to 1.5°C and the political economy of

[1] This series is designed to socialize early 'pre-findings' from the independent evaluation of the GCF's approach to the private sector. The contents of this series are a preliminary reflection and will inform the final report, but do not constitute findings and recommendations.
[2] FCCC/CP/2011/9/Add.1, Decision 3/CP.17. The Governing Instrument for the Green Climate Fund. See http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf
[3] FCCC/CP/2011/9/Add.1, Decision 3/CP.17. The Governing Instrument for the Green Climate Fund; and B.BM-2021/07.
[4] IPCC (2018). Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. In Press.

adaptation and mitigation can enable and accelerate systems transitions, behavioural change, innovation and technology deployment (medium evidence, medium agreement). For 1.5°C-consistent actions, an effective governance framework would include: accountable multilevel governance that includes nonstate actors, such as industry, civil society and scientific institutions; coordinated sectoral and cross-sectoral policies that enable collaborative multi-stakeholder partnerships; strengthened global-to-local financial architecture that enables greater access to finance and technology; addressing climate-related trade barriers; improved climate education and greater public awareness; arrangements to enable accelerated behaviour change; strengthened climate monitoring and evaluation systems; and reciprocal international agreements that are sensitive to equity and the Sustainable Development Goals (SDGs). System transitions can be enabled by enhancing the capacities of public, private and financial institutions to accelerate climate change policy planning and implementation, along with accelerated technological innovation, deployment and upkeep. {4.4.1, 4.4.2, 4.4.3, 4.4.4}

LOGIC MODELS AND RESULTS MANAGEMENT

The team reviewed the GCF's logic models for mitigation and adaptation in results management[5]; both logic models omit reference to key enabling conditions for a paradigm shift. There is no mention of access to financing, development of appropriate business models, technology, information asymmetry or use of innovative financial instruments. These are particularly relevant for the adaptation logic model as enabling conditions such as financial resources technology or organization capacities are important for increasing resilience.[6]

Overall, the logic models ignore the potential of the private sector. As an example, microfinance loans or insurance would allow for access to finance for marginalized societies, in order to improve and diversify income-generating activities, thus reduce potential risks, and ultimately reduce their vulnerability to climate shocks.[7] Such considerations and causal pathways are largely disregarded from the GCF consideration.

From the perspective of Fund level indicators for the results management at the GCF, the adaptation theme has no indicator related to private sector finance or even financial indicators in general. The mitigation performance measurement framework identifies one indicator. At Fund impact level, the intermediaries can report on the "Volume of finance leveraged by Fund, funding IEs/ intermediaries".[8] The Secretariat notes that the term "leveraged" is considered synonymous with the term "mobilized", as informed and used by Climate Investment Funds (CIF), International Finance Corporation (IFC), and others. Calculations are to be disaggregated by public and private sources and prorated by amount of co-financing.[9] This indicator would however become relevant only to projects with a mitigation focus. Adaptation project do not report on mobilizing nor catalyzing of private sector finance.

The independent review of the RMF in 2018 found, amongst others, that the framework ignores the strength and potential contributions of private sector, misses clear and consistent causal logic and guidance on measuring these result indicators and how they may be used or informed is absent.[10]

The integrated Results Management Framework (iRMF), approved at B.29 in 2021, recognizes three results measurement levels, GCF impact level – paradigm shift potential, GCF outcome level including impact potential and enabling environment and lastly project level results. The framework newly includes four areas for qualitative and quantitative indicators of enabling environments; a) institutional, b) technology and innovation, c) market transformation, and d) knowledge and learning. The GCF however notes as well that there will be "no additional requirements in the funding proposal template related to enabling environment".[11] The iRMF no longer includes logic models for the mitigation and adaptation to describe and "demonstrates how inputs and activities are converted to changes in the

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[5] Decision B.07/04, Annex II-III, and decision B.22/12.

[6] Denton, F., T.J. Wilbanks, A.C. Abeysinghe, I. Burton, Q. Gao, M.C. Lemos, T. Masui, K.L. O'Brien, and K. Warner, 2014: Climate-resilient pathways: adaptation, mitigation, and sustainable development. In: Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Field, C.B., V.R. Barros, D.J. Dokken, K.J. Mach, M.D. Mastrandrea, T.E. Bilir, M. Chatterjee, K.L. Ebi, Y.O. Estrada, R.C. Genova, B. Girma, E.S. Kissel, A.N. Levy, S. MacCracken, P.R. Mastrandrea, and L.L.White (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA, pp. 1101-1131; and Berkes, F. - Ross, H. (2013) Community Resilience: Toward an Integrated Approach, Society & Natural Resources, 26:1, 5-20, DOI: 10.1080/08941920.2012.736605.

[7] Servon, Lisa J. (1998) Credit and social capital: The community development potential of U.S. microenterprise programs, Housing Policy Debate, 9:1, 115-149.

[8] Decision B.08/07 Annex VIII and IX.

[9] Decision B.08/07 Annex VIII and IX.

[10] Decision B.22/12.

[11] Decision B.29/01, Annex I.

form of results achieved at the project/programme, country, strategic impact and paradigm shift levels".[12] It should be noted here that generally the attribution of Fund activities to results achieved becomes increasingly difficult as one moves from inputs to results at the paradigm shift level.[13] Without logic models, it will be increasingly difficult for accredited entities/intermediary entities to adequately assign indicators that could be aggregated at the Fund level.

While enabling environment has been recognized in the iRMF, direct investment of private sector finance, access to finance, global-to-local financial architecture and enhancing capacities of private and financial institutions to accelerate climate change are not identified. None of the areas of enabling environments in the overall structure would be able to describe results pertaining to the mandates of private sector mobilization and catalyzation. The potential use of national monitoring systems has not been addressed.

From the perspective of a private sector approach, the newly adopted results management framework does not address lack of coherence and clarity around logic models, lack of guidance on credible measuring and robust reporting through the GCF indicators, and opportunity for coordination for results management at country level.

GCF PERFORMANCE AND RESULTS MANAGEMENT

While the implementation of the iRMF has implications for the Readiness and Preparatory Support Programme (RPSP), in terms of additional Direct Access Entity (DAE) capacity building support, the iRMF's application remains limited only to the project cycle.[14] While GCF's vision for the RPSP is that "*by 2025 all GCF recipient countries have developed the necessary enabling environment, including increased institutional capacity and robust country strategies, to implement transformational projects*"[15], the fourth programmatic RPSP outcome "enabling environment created for relevant government and non-government stakeholders to address climate change" is not informed by any monitoring or management of results. Several RPSP objectives, such as Outcome 1.3 and Outcome 2.2,[16] have clearly identified relevance of the enabling environments of private sector. However, none of the RPSP objectives and outcomes are considered by the iRMF.

At the institutional level, the iRMF aims to aggregate the results at portfolio and GCF-level to provide an in-depth understanding of the GCF paradigm shift potential. This would allow the GCF, with help of the iRMF, to assess to what extent the GCF has promoted the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. The iRMF indicates "*Core indicators come with a set of supplementary indicators, which will be aggregated to portfolio-level results respectively from core indicators to give understanding of the results achieved at the portfolio level.*"[17] However, as indicated in the Independent Evaluation Unit's RMF review in 2018[18], aggregation is currently hindered at several levels:

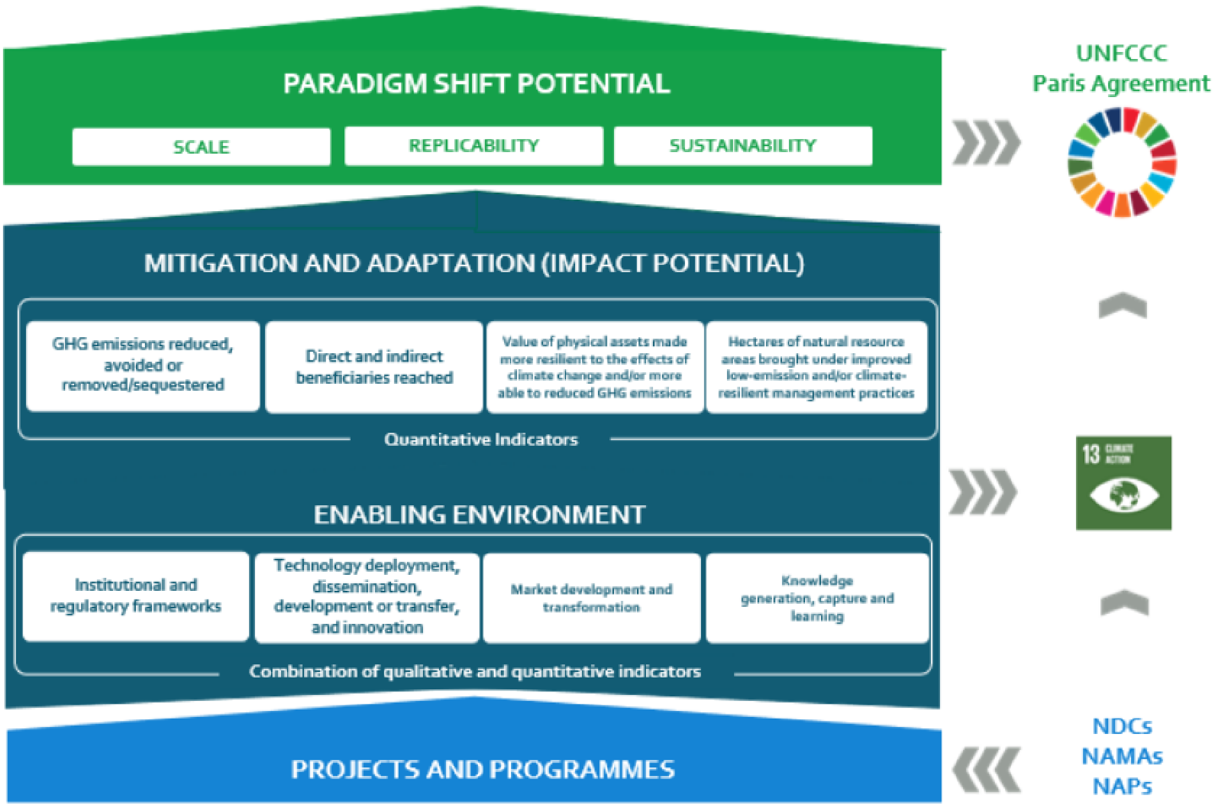
- At project level: lack of a system in the GCF Secretariat that would allow the consolidation and aggregation of reported information across entities, which can help prevent double counting of results.
- At Fund level: impact indicators for paradigm shift objectives are non-specific and lack adequate characteristics for quantification, tracing or subsequently aggregation.
- Cross-cutting elements: gender requires indicators that would provide a better sense for how project-specific outcome and impact indicators will be aggregated to provide meaningful measures of the Fund's gender-related achievements.

To that end, the performance of the GCF Secretariat to the Fund-level outcomes and impacts would generally be expressed by the key performance indicators (KPIs) of the Secretariat's division and offices. These KPIs are however provided separately to the results management of the portfolio. The KPIs are thus not considered by the iRMF, and vice versa.

Therefore, the iRMF will not assist the GCF to steer, monitor, or measure results with regard to the private sector in a way that is appropriate with the guidance provided by the COP, Paris Agreement, or as laid out in the Updated Strategic Plan (USP).

[12] Decision B.07/04.
[13] Decision B.07/04.
[14] Decision B.29/01, Annex I.
[15] GCF/B.22/08 "Readiness and Preparatory Support Programme: Strategy for 2019-2021".
[16] RPSP Outcome 1.3 Outcome 1.3: Relevant country stakeholders (which may include executing entities, civil society organizations and private sector) have established adequate capacity, systems and networks to support the planning, programming and implementation of GCF-funded activities. RPSP Outcome 2.2: GCF recipient countries have developed or enhanced strategic frameworks to address policy gaps, improve sectoral expertise, and enhance enabling environments for GCF programming.
[17] Decision B.29/01, Annex I.
[18] Decision B.22/12.

Figure 1. Overall structure of the integrated results management[19]



[19] Decision B.29/01, Annex I.