Annex L: The Green Climate Fund

Contents

1. Overview of the GCF and time-line of Danish support

The Green Climate Fund (GCF) was launched at the 2011 UNFCCC COP 17 meeting in Durban, South Africa, with the aim of making "a significant and ambitious contribution to the goals set by the international community to combat climate change" (GCF, 2011). It is a multilateral fund, embedded within the highly political context of the UNFCCC negotiations, where it acts as an operating entity of the Financial Mechanism of the Convention. It is growing quickly into its role as the major global climate fund, although it has limited implementation experience to date.

The GCF is governed and supervised by a Board that has full responsibility for funding decisions. Denmark has a shared seat on the Board, held jointly with the Netherlands and Luxembourg, and has demonstrated its commitment to the GCF by attending all Board meetings from its second meeting in October 2012 onwards. The Board member is drawn from the MFA, whilst the adviser to the Board member is from MCEU. This is an important mechanism that brings together the two ministries.

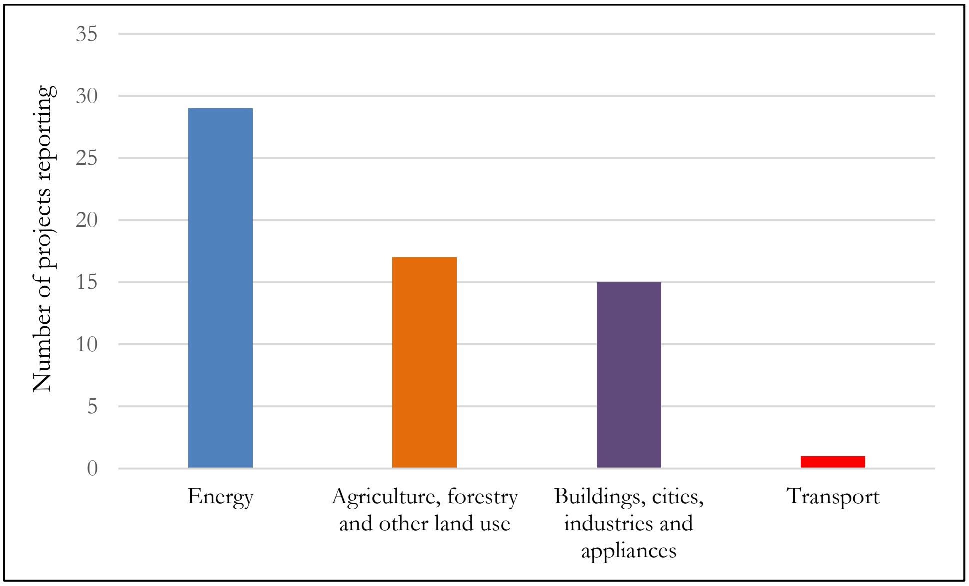
In 2014, GCF began its initial resource mobilization and gathered pledges worth USD 10.3 billion, including DKK 400 million from Denmark. The Fund then became fully operational in 2015, making its first project approvals. During the first replenishment process of the GCF in 2019, Denmark doubled its initial contribution by making a DKK 800 million pledge. This increased commitment signals Denmark's continuing strong support for the fund.

2. Capacities and priorities of the GCF

Based in Incheon, Korea, the GCF secretariat has grown over seven years from 30 to over 220 staff, and the current scale of its operations is shown on its website (www.greenclimate.fund/). As of December 2020, the GCF supported 159 projects, with USD 7.3 billion of funding committed by the GCF Board. 52 of these projects are labelled as mitigation interventions, which seek "to reduce the release of greenhouse gas emissions, or to increase the capacity of carbon sinks". There are an additional 40 'cross-cutting' projects that have both adaptation and mitigation objectives.

All GCF mitigation projects aim to have an impact within four 'results areas': (i) energy; (ii) agriculture, forestry and other land use; (iii) buildings, cities, industries and appliances; and (iv) transport (Figure 1). Seven mitigation projects aim to have an impact across two or more of these results areas, the remaining projects report only one. Since the outset, most projects have supported low-emission energy access and power generation. However, since the 2019 Board approval for REDD+ results-based payments achieved by Brazil in the Amazon biome, there has been a rapid increase in forest conservation projects supported (eight of which have been national REDD+ results-based payments made for tonnes of avoided emissions).

Figure 1: Number of GCF mitigation projects reporting against results areas



The GCF has been under considerable scrutiny since its inception, reflecting its high political profile (e.g. Schalatek and Watson, 2019). An independent evaluation unit was created in March 2017 to inform decision-making by the Board and identify and disseminate lessons learned (IEU, 2018). It was subsequently tasked with completing the first review of the GCF's performance during its initial resource mobilisation period. The forward-looking performance review was completed in June 2019 (IEU, 2019a) and reported the following:

- that the GCF is the largest global climate fund, with USD 5.0 billion of Board approved funding (63% in support of mitigation and 37% adaptation) made to over 100 projects;
- that its design and essential elements of the business model are valid and reflect its mandate;
- that it has policies, procedures and guidelines on environmental and social sustainability, gender, and indigenous peoples that are emerging best practices in climate finance;
- that it has not leveraged sufficiently for scale, and specifically that it has not generated the significant scale needed for meeting developing country needs;

- that disbursement has been slow and "does not reflect the sense of urgency that climate change requires" (p. xxxiii);
- that it has had difficulties responding at the same time to multiple principles and priorities from partner countries and the participation of the private sector (whilst recognising that the GCF has the strongest private sector focus of the multilateral climate funds);
- that it has made investments consistent with mitigation priorities in the NDCs, but is not fully able to report on its effectiveness in reducing GHG emissions; and
- that its business model is characterised by a compliance-driven culture with little room for risk-taking.

These findings led to several recommendations, including "that the GCF should embrace the opportunity to accelerate its progress by learning from the experiences of other climate, development and finance organisations – especially in strategy development, ensuring stakeholder participation, risk-taking and risk management, building country ownership, developing transparent priorities and credibly reporting the impact of its investments." (p. 22). In addition, that it should aim to become "a global thought leader and a policy influencer [in a] niche commensurate with innovation and impact." (p. 191).

Of particular relevance to the present evaluation, was the performance review conclusion that "the GCF's mitigation related investments could employ more concessional finance instruments and debt. GCF has the potential to be a lead influencer in the mitigation space" (IEU, 2019b). This conclusion opens up an important debate on the need to move beyond grant finance for climate mitigation. It is a recognition that bringing in private sector investment to secure the scale of action that is urgently needed should be part of the GCF's mitigation strategy. This is a narrative that first reached prominence in the UN Secretary General's High-Level Advisory Group on Climate Change Financing (UN, 2010).

In the GCF, all climate mitigation investment projects, which account for the vast majority of expenditure, have to estimate GHG emission reductions ex-ante and ex-post. There is, in addition, a small Readiness and Preparatory Support Programme (RPSP) that is designed to build country capacity to access and programme GCF finance effectively. Support provided under the RPSP does not include the measurement of GHG baselines, recognising that support for measuring GHG emissions is delivered through the Paris Agreement's Capacity-Building Initiative for Transparency (CBIT).

3. Effectiveness of the GCF's mitigation efforts

In terms of what Denmark has wanted the GCF to achieve, there was an initial operational focus for the fund to prove itself. This is reflected in the discussions held at the meeting of the Danish Development Policy Council in November 2014, where the following priority results areas for Denmark were highlighted: (i) a successful first resource mobilization of the GCF, (ii) completion of GCF's operational guidelines, (iii) maintaining cost-effective administrative policies, and (iv) establishing quantifiable indicators. These operational priorities were subsequently reflected in Denmark's first organizational strategy for the GCF, published in December 2014 (MFA, 2014) and updated in 2016 (MFA, 2016).

The implementation of the GCF Indigenous Peoples' policy so that vulnerable groups have a voice in the design of GCF mitigation (and adaptation) projects was also an early policy priority for Denmark.

During the development of the policy, Denmark was very proactive in involving civil society and building a broad consensus of support. This preparatory work led to the Indigenous Peoples' policy being adopted by the GCF Board at the GCF 19 Board Meeting in March 2018, (Decision B.19/11).

Denmark has also been a strong supporter of the GCF's Private Sector Facility and the Private Sector Advisory Group (PSAG). This included the hosting of the PSAG in Copenhagen in December 2017, where efforts were made to advance thinking on private sector outreach, as well as engaging with relevant actors in the forest sector.

4. Conclusion on effectiveness of Danish support

Denmark made an early decision to support the creation of the GCF and has been a constant supporter as this new multilateral fund has grown to become an integral component of the global climate finance landscape. The GCF occupies a very important place in advancing climate action as it is accountable to and functions under the guidance of the UNFCCC. The fund's rapid development has not been without internal challenges, yet the portfolio of projects now under implementation is at a scale exceeding the scope of any one bilateral agency.

Considerable opportunity for influence comes through Denmark's shared seat on the GCF Board. This allows Denmark to be part of all GCF governance processes, such as constituency meetings on the margins of Board meetings as well as inter-board consultations. Denmark has maintained a longstanding and productive relationship with the Netherlands and Luxembourg, with a good division of labour between the three countries. Denmark has also looked to share common positions first with the Nordic group and then with the Developed Countries constituency. In addition to attending Board meetings, Denmark is able to exert influence on Board decisions through commenting on draft policies and technical documents in between Board meetings.

A challenge for continuing Danish involvement in the GCF is maintaining the MFA institutional memory as changes in personnel take place. It is a knowledge demanding process. Influence on the Board is also diminished when Denmark does not have the necessary resources to engage on technical issues. There is a strategic case to consider giving equal priority to technical involvement in the global climate funds such as the GCF, as to attending the annual UNFCCC COP negotiations. The former provides a greater opportunity to influence global finance spending.

Annex a: Information sources for the review

Information on Denmark's role on the GCF was obtained through interviews with **Tobias von Platen-Hallermund** (Danish GCF Board Member), **Merete Pedersen** (Previous Danish GCF Board Member) and **Marjolein Geusebroek** (Netherlands GCF Board Member), in May/June 2020. A view from civil society was provided by **Katherin Wessendorf** (Director of the International Working Group for Indigenous Affairs) through an interview on 9th November 2020. These sources were supplemented by study of the GCF web-site (https://www.greenclimate.fund/), the GCF IEU website (https://ieu.greenclimate.fund/), and documents downloaded from both sources, and review of other documents listed in the bibliography.

Abbreviations and acronyms (GCF)

GCF	Green Climate Fund
IEU	Independent Evaluation Unit (of the GCF)
MCEU	Ministry of Climate, Environment and Utilities
MFA	Ministry of Foreign Affairs of Denmark
UNFCCC	United Nations Framework Convention on Climate Change

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