GCF insight #24

Five common challenges in GCF project building

E CO.
DEEPER THINKING

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Contents

About *GCF insight*

Our initial survey and report is an initiative of E Co., emerging from work we are doing to develop low-carbon, climate-resilient projects. E Co's team of consultants designed and administered the survey which was used to inform and prepare this report.

E Co. has conducted this research independently and is not affiliated with the GCF, the GCF Secretariat or donors. The views expressed in this report are those of the authors and do not represent those of the Green Climate Fund. Nothing in the interviews or any information or material relating thereto shall be construed as implying any official endorsement of or responsibility on the part of the Green Climate Fund.

About E Co.

For over 23 years, we've been supporting and guiding our clients to achieve low-carbon climate-resilient development. We do this through catalysing systemic transformation, helping establish strong foundations for impact. We add value by speaking the language of many (through our technical, financial, cultural and local understanding), working with agility to align with our clients, and at the interplay of finance and the wider context. We assess these contexts and baselines, design strategies and frameworks, and develop policies, programmes and projects for public and private sector clients, seeking to deliver low-carbon climate-resilient and sustainable growth.

Abbreviations

Accredited Entity	AE
Country programming	CP
Civil society organisation	CSO
Direct Access Entity	DAE
Funding proposal	FP
Global Environment Facility	GEF
Green Climate Fund	GCF
Green Climate Fund Private Investment for Climate Conference	GPIC
Inter-governmental organisation	IGO
Implementing Entity	IE
International Financial Institution	IFI
International Monetary Fund	IMF
Just Energy Transition Partnership	JETP
Multinational Development Bank	MDB
National Adaptation Plan	NAP
Non-governmental organisation	NGO
National Designated Authority	NDA
No-objection letter	NOL
Least Developed Country	LDC
Low Carbon Development Strategy	LCDS
Private Sector Facility	PSF
Project Preparation Facility	PPF
Project-specific Assessment Approach	PSAA
Rocky Mountain Institute	RMI
Simplified Approval Process	SAP
Small Island Developing States	SIDS
Small to medium-sized enterprise	SME
Sub-Saharan Africa	SSA
United Nations Development Programme	UNDP
United Nations Framework Convention on Climate Change	UNFCCC

Addressing five key challenges for project developers

Developing climate adaptation or mitigation projects from inception through to delivery within Green Climate Fund (GCF) mechanisms is a complex, vital task. It is a process that requires great capacity, an experienced project development team, in-depth knowledge of the working processes and requirements of the funding body, engaged stakeholders, and maybe just a little bit of good fortune.

A project development team may lack any one of these requirements at the point of applying for funding or project implementation, or simply be met by unforeseen circumstances that derail the progress of a project. For example, it is an established common problem that an organisation may be submitting its very first project for the GCF and have little to no experience with GCF requirements, or the format in which the GCF want to receive funding proposals (FP). The vital ingredient is ultimately collaboration with an experienced external consultant, internal capacity, and support from the GCF itself.

But not all challenges were created equal. The more challenging the scenario, the less chance of having clear-cut solutions, especially if the affected parties have little or no experience working with the GCF.

In early conversations regarding *GCF insight #24*, our team sat down to mull over five key areas that clients and frequent collaborators had often brought up as points of contention. These five areas are:

1. ATTRACTING THE PRIVATE SECTOR FOR CO-FINANCING OPPORTUNITIES
2. FRICTION WITHIN CO-FINANCING
3. THE SHORTCOMINGS PRESENT WITHIN GCF COUNTRY PROGRAMMING
4. A LACK OF NDA ENGAGEMENT WITH GCF PROCESSES
5. CAPACITY ISSUES WITHIN PROJECT WORK

So why these five issues in particular? Well, because multilateral organisations always suffer from multilateral challenges, challenges that require multilateral action. "It takes a village", as they say. This inspires us to dedicate this edition of *GCF insight* to analysing and addressing them.

As a team of climate finance project designers, we encounter a variety of challenges across GCF project development daily, within the widest of social and geographical contexts. It is these five challenges that our experienced consultancy team collectively agreed would be worthwhile to dive a little deeper into.

The ultimate goal of this twenty-fourth edition is to learn about, communicate, and propose solutions to some of the key challenges faced by GCF project developers. We believe the GCF is an incredibly impactful financial mechanism for introducing real and equitable change for climate-vulnerable communities, and so we view this report as one part of the conversation aimed at contributing to the optimisation of the overall GCF process.

The context of this report

The GCF is the largest multilateral finance mechanism created by the UNFCCC. It is often viewed as setting the pace of climate finance, and many look to its processes and movements as industry-leading. However, it is not infallible. The *Second Performance Review of the Green Climate Fund*, published in February 2023 by the GCF's Independent Evaluation Unit, discovered several key issues within the structure of the GCF, such as:

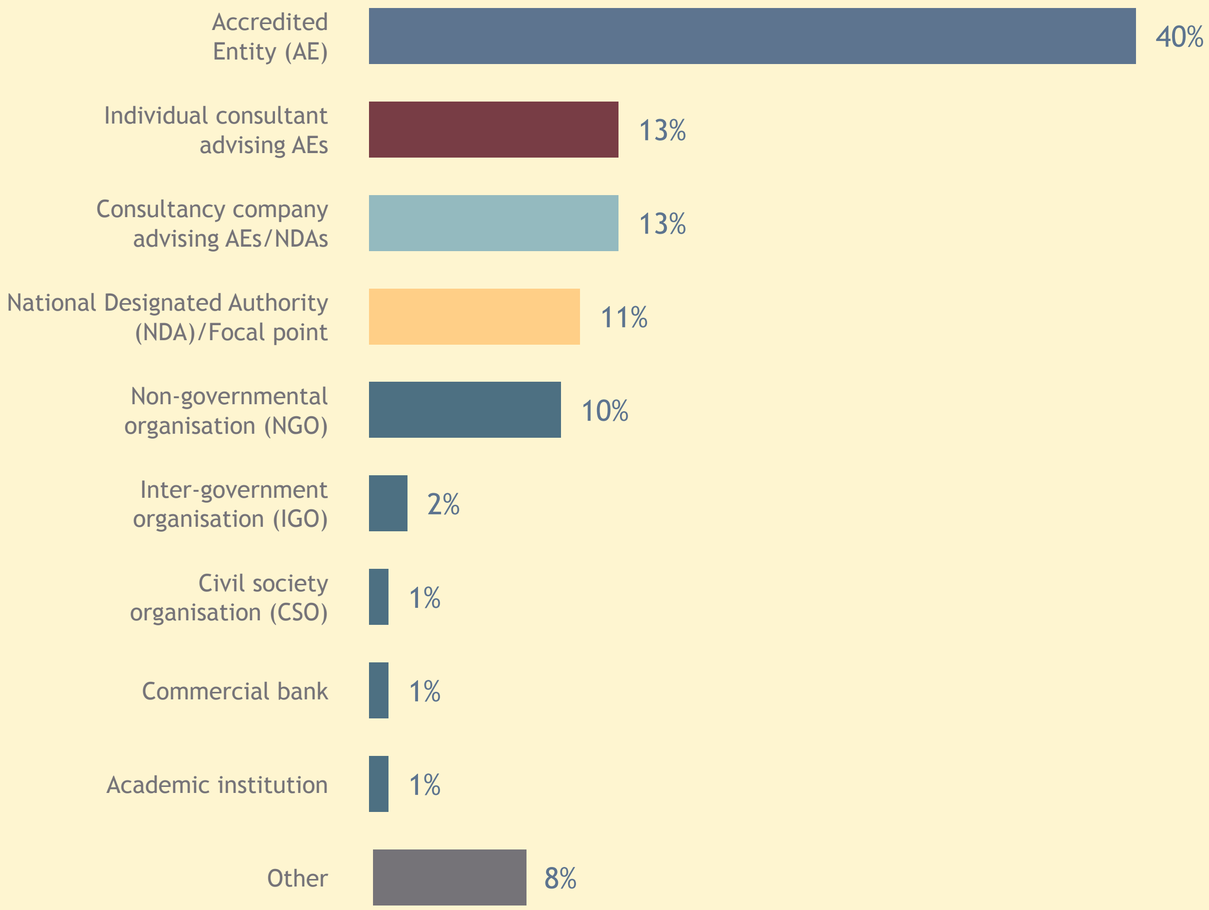
- Programming gaps in accreditation, due to the inclusion of too few private sector DAEs and 'a lack of experience of climate finance within DAE candidates.'[1]
- Both access and accreditation processes are cumbersome and include too many goals.
- The project appraisal and approval cycle is still seen as 'bureaucratic, lengthy, inconsistent and non-transparent.'[2]
- A risk appetite that does not encompass the diversity of GCF investments.

These issues provide a glimpse into the existing complexities of GCF processes - Something the GCF is continually striving to simplify.

When considering the action needed, as we discuss later on, stakeholder engagement is of paramount importance. If the objectives of the Paris Agreement and the growing list of national climate policies are to be met, it is critical to ensure that the voices of GCF stakeholders are meaningfully incorporated.

Methodology

This 24th *GCF insight* survey was conducted in September 2023 and consists of a mixed-method approach for data collection and analysis. Our findings come from a survey questionnaire, semi-structured interviews, and extensive literature reviews. The survey received 69 responses from various stakeholders who hold direct experience within the GCF project development community. The respondents can be divided as follows:



This survey was conducted to discover which issues are facing which groups and what solutions are being proposed. Our aim with this report is to lay bare the causes of these challenges and propose remedial solutions.

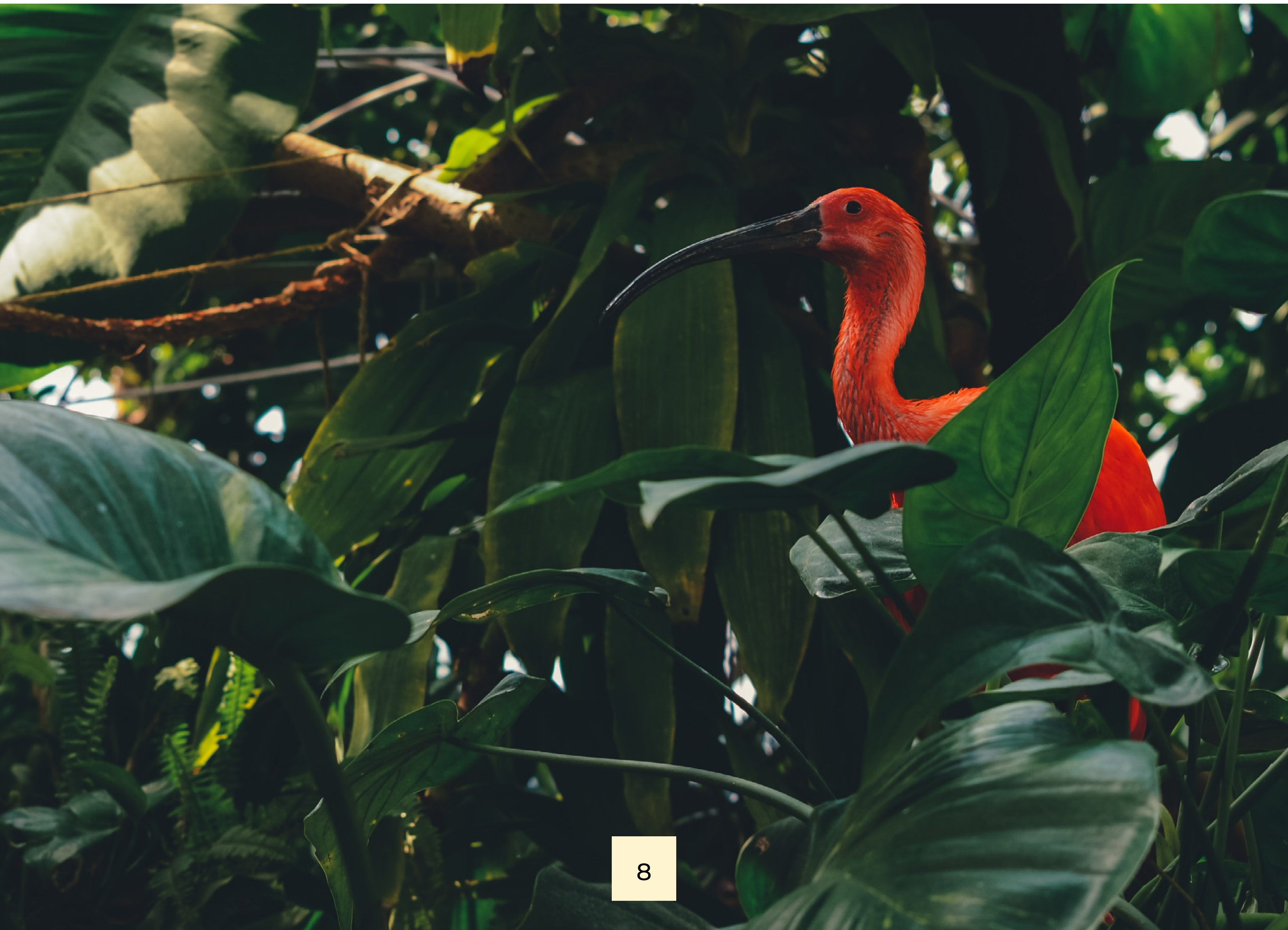
Our primary limitations are related to the sample sizing in our survey, variations in response depth, and also some contextual issues - such as the rapid incremental evolution of the GCF itself and often differing policy landscape when considering the country context. Efforts have been made to source any external data collated and presented in this report from the most up-to-date sources.

Our respondents

Stakeholder engagement plays an important part across the GCF project lifecycle. In order to craft effective, inclusive and sustainable initiatives and policies, it is essential to engage with a diversity of perspectives, experiences and expertise. The community we reside in - one made up of project developers, sustainability experts, policymakers, finance professionals, researchers and countless others - is crucial to the success of adaptation, mitigation, or cross-cutting projects. Together, our community is striving to build a shared understanding of the problems we are facing and empower more contextually relevant solutions, all whilst promoting a deeper level of accountability and transparency.

Communicating with and involving stakeholders, whether it is within project and programme development or a report such as this one, builds collective ownership over the final product. This is not simply an E Co. report, but a report owned and influenced by all contributors. We are deeply grateful for the valuable insights, personal perspectives, local experiences, and expertise which has led to the informed analysis you will find in this latest edition.

We would like to thank each of you who found a precious moment of time in your day to respond to this report. Your ideas and experiences are directly contributing to our shared understanding of the GCF, as it continues to evolve. We would also like to extend our grateful thanks to each of you for contributing to our work at E Co. - where our team of passionate expert consultants work with so many of you each day, striving together, in fierce pursuit, of a world sustainably transformed.



Challenge one: Private sector finance

As of 2023, the private sector accounted for 35% of GCF funding, representing 50 projects and equating to 1.5 billion tonnes of CO2eq avoided. Arguably, the GCF has taken the lead with private sector inclusion within the climate fund landscape, positioning it as an institutional and systemic goal to be improved upon consistently. 56% of our survey respondents stated that they had experience working with private finance within a project aimed at or having gained approval.

The GCF has worked to promote the private sector as not merely an executor of projects, but a group of entities that should be included within both project design and implementation. Yet, as we move into the GCF's second replenishment (GCF-2), a period which will run from 2024 to 2027, many more stakeholders are questioning how private sector finance can be increasingly attracted and better utilised.

The twenty-first edition of *GCF insight* investigated this topic, analysing how the private sector's long-demonstrated low appetite for risk, the difficulty of aggregating data in certain locations, and the cumbersome application process results in a financial space that is not attractive to private sector entities. There are also internal challenges for the GCF. It has been found in various studies that:

- The GCF does not 'place a strong focus on promoting participation of micro-, small- and medium-sized enterprises (MSMEs) in its activities.'[3]
- The private sector requires an enabling environment to participate, one which does not currently exist.
- A Private sector facility (PSF) project takes, on average, 228 days from FP submission to approval, which is a time frame far too long for the private sector.
- Climate adaptation projects are continually 'shunned by the private sector because they inherently lack a profitable business model.'[4]

Again, this list is not exhaustive. Our main focus in this section of the report is how to better attract sources of private sector finance. While private sector finance does represent a significant portion of project funding, further study reveals that it is often the case that private sector projects are actually being funded by public sources, such as the European Bank for Reconstruction and Development (EBRD)[5]. These projects can be classified as 'private sector' because the goal is to 'scale up private finance'.

To gauge what survey respondents thought about co-financing opportunities, we asked:

How can the GCF better attract the private sector for co-financing opportunities?

Responses were varied, but recommendations of capacity-building, de-risking, and a less cumbersome approval process were mentioned by several stakeholders. Issues with cumbersome processes were brought up several times, with one respondent stating *“Private investors will not invest in proposals/funds that are too complex, with multiple layers, multiple governance and hundreds of pages of requirements.”*

This is common parlance for those with a vested interest in increasing private sector co-financing within GCF projects and programmes. Both the project development and funding access processes require significant internal time requirements and in-depth knowledge of GCF processes, which private sector entities rarely have. These limitations are even more pronounced for small to medium-sized enterprises (SMEs), and even more so for organisations based in developing nations, as these organisations face high costs for compliance. To this end, the International Monetary Fund (IMF) has two recommendations for climate funds in general:

- ‘Requirements could be prioritised based on areas where improved capacity will significantly strengthen financial safeguards.’[6]
- ‘Internal targets focused on increasing funding-flows to climate-vulnerable emerging and developing economies could be created.’[7]

Fortunately, the GCF is taking steps in this direction. For example, the Enhancing Direct Access programme streamlines funding approval and assigns project oversight to local organisations, in an effort to stimulate country ownership.

We can also relate complexity to transparency - a complex document is not transparent or accessible. This was a topic brought up by attendees of the GCF’s Private Investment for Climate Conference (GPIC) 2023, where improving transparency was touted as a way of reducing uncertainty about impact, making it easier for private investors to assess the risks and rewards of investing.

Furthermore, other survey respondents noted that the GCF needs to better de-risk investment opportunities. One survey respondent recommended that the GCF step in as the point of risk absorption - mainly as a first-loss guarantor. The use of public funding has previously been effective in providing first-loss guarantees, particularly in clean energy projects.

In an interview with S. M. Mahbub Alam, Joint Secretary of the Government of Bangladesh’s Economic Relations Division on private sector finance, emphasis on the importance of de-risking was raised for borrowers, not only investors; *“The GCF should conduct country-specific research to devise useful tools. A substantial portion of grants contributed by the GCF should be used to soften the cost of borrowing to a tolerable concessional limit.”*

Public-private partnerships are becoming increasingly popular and can play a powerful role in communicating the benefits of private sector investment in climate projects, helping to catalyse further climate finance. In these situations, de-risking is achieved through the public sector underwriting the risks with financial instruments such as guarantees or even equity tranches.

The GCF could potentially provide country support and recommendations for strengthening financial sector frameworks, which help lower the costs of climate-related debt instruments[8]. These can help facilitate private sector participation within co-financing. There is also room for an increased emphasis on blended finance opportunities, which is an effective method of de-risking climate projects, helping to mobilise private sector finance - especially in less mature markets[9].

One idea revolved around communication and understanding. First of all, survey respondents stated that in order to better attract the private sector for co-financing, the GCF needs to put more effort into understanding the needs of the private sector and their required criteria when looking to invest. Secondly, several respondents reported that the GCF should put increased effort into facilitating a dialogue with the private sector, stating that there is often a lack of awareness of the GCF, with one respondent stating emphasis should be placed on “communicating better what the GCF does, how they [the private sector] can participate in the projects, and what would be the benefits.” Another respondent stated, “It is important to indicate the bankability of investments.”

> “There’s one important recommendation little mentioned - it helps if the NDA is aware of the main private sector organisations who are engaged in climate change issues and provides a forum for their ideas to come together and be discussed.”

Senior consultant,
Clare Wingfield

The GCF has also recently launched the Project-specific Assessment Approach (PSAA) Pilot. This is a mechanism that allows potential one-off “project implementers” the accreditation needed to access and deploy GCF funds, allowing private sector entities to better analyse which accreditation method works for them, and potentially accelerates access to GCF resources. It will be running from 2023 to 2026, and has the capacity to review up to ten projects per year.

In insights gleaned by our Managing director, Rowan Putman, at GPIC2023, it is clear that the private sector has an important leading role to play in the delivery of climate finance. With an evolving market, the GCF is in the position to deliver innovative solutions to the risks perceived by private sector entities, such as lower perceived returns and uncertainties about a project’s impacts.

Ultimately, better engagement of the private sector in climate change issues can be captured through a variety of methods. For example, through cross-sectoral coordination, collaboration with any official climate change committees or government-led advisory panels, and involvement in hubs that conduct research and engage stakeholders.

If you’re interested in further insight on private sector challenges within GCF funding access, download *GCF insight #21*: Enhancing private sector investment in tackling climate change through the Green Climate Fund, which delves deeper into the issues of risk, access, and communication for private sector finance, especially SMEs.

Challenge two: Co-financing

Leading on from the previous challenge of attracting the private sector for co-financing, a separate challenge raised by our team was that of co-financing, and the difficulties borne out of the GCF co-financing process and the concept of co-financing itself. Co-financing is common parlance within GCF projects and programmes, and is defined by the GCF as the 'financial resources required, whether Public Finance or Private Finance, in addition to the GCF Proceeds, to implement the Funded Activity for which a Funding Proposal has been submitted;'[10]. When it comes to the use of co-financing, the GCF follows several key principles:

- There are no specific sources of co-finance that must be complied with, and no minimum amount. However, one respondent argued that within their experiences, the desired "minimum co-financing from the GCF was not realistic, and shows a lack of awareness of the local environment";
- Whenever possible, appropriate levels of co-financing should be sought out, but with the knowledge that it 'may not always be achievable or realistic'[11];
- The GCF avoids using 'co-financing metrics as stand-alone targets' for funding;
- When the incremental costs of a funded activity are being covered in whole or in part by the GCF, co-financing should cover other costs.

Now, we've previously found that there are diverging views between stakeholders and the GCF regarding co-financing. This stems from many sources, with survey respondents initially remarking that there is "confusion on what can be counted as co-financing", and that often stakeholders find they do not know what levels of co-financing are expected by the GCF. These issues arose in a previous edition of *GCF insight*, with our team discovering that stakeholders have different considerations regarding co-financing depending on who they are:

- NDAs prefer public finance from planned programmes and are uncertain about expected levels of co-financing;
- IFIs prefer finance sourced from 'new and additional money', and struggle to ensure additionality;
- Other entities prefer public finance from ongoing programmes, and find difficulty in securing letters of commitment up-front.

However, in contrast to a large focus on the level of co-financing expected by the GCF (namely the confusion on what levels the GCF were targeting), there was no comment on the aforemention bullet points in this report survey.

Respondents brought up a wide variety of challenges they claimed to have faced in relation to co-financing within the GCF process. For example, several respondents mentioned there was not enough in-kind co-financing offered, and took issue with the "description of co-financing as in-kind support." One respondent even claimed that "In-kind co-finance is possible in the case of other climate finance [organisations] but not in the context of GCF." We can counterbalance this with the fact that many GCF projects included in-kind co-financing options.

More than anything, our respondents argued that the process is too complex, too demanding, and lacks an awareness of AE considerations (mainly to do with capacity and country context). On this complexity, Ben Bartle, Director of Climate Finance at RMI, stated that:

> While the complexity is challenging in emerging markets, it is essential to fulfill the obligations of the Fund. The GCF is tasked with ensuring that AEs pursue co-finance appropriately. However, the GCF could offer more detailed guidance and support on its co-finance requirements and the methods to secure it.
>
> Director of Climate Finance at RMI,
> **Ben Bartle**

Additionally, it was argued that the GCF needs to ensure that co-financing is being sought from new sources over time. This could mean co-financing from Implementing Entities (IEs), the private sector, and government donors (amongst others) - but the GCF needs to address the risks of investment, especially in emerging markets. “Reputational risk and fiduciary responsibility are significant factors that often deter or diminish investments from developed country financial institutions into emerging markets,” stated Ben Bartle, who went on to say:

> One area where GCF projects could place greater emphasis is on leveraging domestic financial resources in emerging markets, especially in more liquid markets. Early engagement with investors, banks, and public financial institutions is essential to involve these institutions, enhance their appetite for climate investments, and pinpoint and tackle barriers to investment. For instance, the GCF-accredited entity, the EBRD, employs a successful model in which it offers credit lines to local financial intermediaries. These intermediaries then provide loans for project development. Such projects prove highly effective in leveraging private capital.

Director of Climate Finance at RMI,
Ben Bartle

However, there needs to be full recognition and preparation for any potential issues when it comes to finance distribution. In an interview with independent consultant, Hugo Oosterkamp, he stated:

> On finances: If there is clarity on how funds, including funds of GCF, are distributed, and included in the overall budget and clarity on the reporting process then it becomes much easier to inject external funds. If there is no legal clarity, if the institutional framework is not very solid, and let’s say the legislation can be interpreted in multiple ways, then there will be challenges. If there’s clarity on how the money is absorbed, it will go well.

Independent consultant,
Hugo Oosterkamp

Respondents also recommended that the GCF increase the efforts to ensure commitments from both the private sector and governments, which are currently difficult to gain and maintain. Financing plans for these entities need to be developed in relation to the specific context of the project, private sector organisation, and/or government organisation involved, in order to avoid disincentivising - especially within Please add Least Developed Countries (LDCs).

E Co’s training arm, E Co. institute, undertakes training sessions related to several concepts and processes within GCF project development, such as this session delivered to Indonesia’s National Designated Authority on GCF financing structures and co-financing. Please head to our E Co. institute page for more information on training we can deliver.

Challenge three: Country programming

A country programme (CP) is, in the plainest terms, an up-to-date document that presents a specific country's climate change priorities. It forms the basis for prioritising the development of funding proposals for climate finance projects and programmes. It assists NDAs, and the countries, in identifying their needs and priority areas for engagement with the GCF. It is intended to support a country-driven aproach, aligned with National Priorities and including all sectors and various stakeholders.

In both our preliminary research and first-hand experience, we have seen a wide variety of stakeholders taking issue with the GCF country programming process. Of our survey respondents, 73% had experience with GCF country programming, each with dedicated ideas on the shortcomings associated with the process. When prompted about the shortcomings experienced, one-third of respondents (33%) stated they believed the lack of consideration of funding sources other than the GCF was a main shortcoming. This is an issue for the NDA itself to confront, however, in many cases, the NDA have capacity issues and experience difficulties engaging with other governmental sectoral ministries and stakeholders that could resolve this issue.

A slightly smaller proportion (30%) viewed country programmes as having little impact on the projects actually selected for funding. This could potentially be rectified through better alignment of country programmes and GCF priorities, brought about by awareness-building through the GCF itself. This kind of support would be especially useful for Direct Access Entities (DAEs) who often have little experience in GCF processes.

Twenty percent of respondents saw the lack of integration with AEs and their decision-making processes as being a limiting factor in a country programming activity. This is a useful consideration, as without full buy-in from stakeholder organisations, a country programme is not going to be an adequate or well-rounded document, lacking the ideas and representations that only a full list of contributing stakeholders could provide. The GCF must "ensure the process is fully participatory with AEs, NGOs, and CSOs", according to one respondent, with another adding that "AEs must be better integrated for decision-making."

To further increase participation, successful examples of country programming must be championed by the GCF for the use of other countries. "For many, it's a big unknown - how it works, what the consequences are, the pitfalls. We [consultants] can provide technical assistance and tell countries how to do this, but it's a huge commitment, and you're relying on that technical advice," stated Hugo Oosterkamp.

"Let's say there's a successful GCF project or programme in a similar country. If you get four [local] experts involved in that, fly them out to the desired [host] country and have them sit down with their counterparts who can guide them, telling them the pitfalls and the issues, then it's not just "The consultant told us to do it this way,", and CP developers feel more energised. This makes a huge difference."

> Most critically, it is a lack of capacity of the NDA and also stakeholders that's a negative factor when developing a country programme. One of the most needed areas of support is capacity-building and training to raise awareness of the GCF and GCF processes for all stakeholders, particularly of government ministries but also the private sector. To address these challenges, the GCF is implementing a pilot programme to support the NDAs in completing sound CP documents and processes. The CP support is currently being implemented in 12 countries, and E Co. is supporting this pilot programme together with Baastel and the IIED.

Principal consultant,
Ignacia Holmes

Seventeen percent of respondents claimed that short planning horizons associated with country programming were obstacles to effective CP development. To combat this shortcoming, the GCF could recommend that NDAs utilise a 'living document' format, keeping the country programme updated as mandatory, while offering more training for NDAs on GCF procedures, "Clear guidelines on what a programme is supposed to be," and providing support to beneficiary countries in their understanding of co-financing and knowledge of the climate finance landscape.

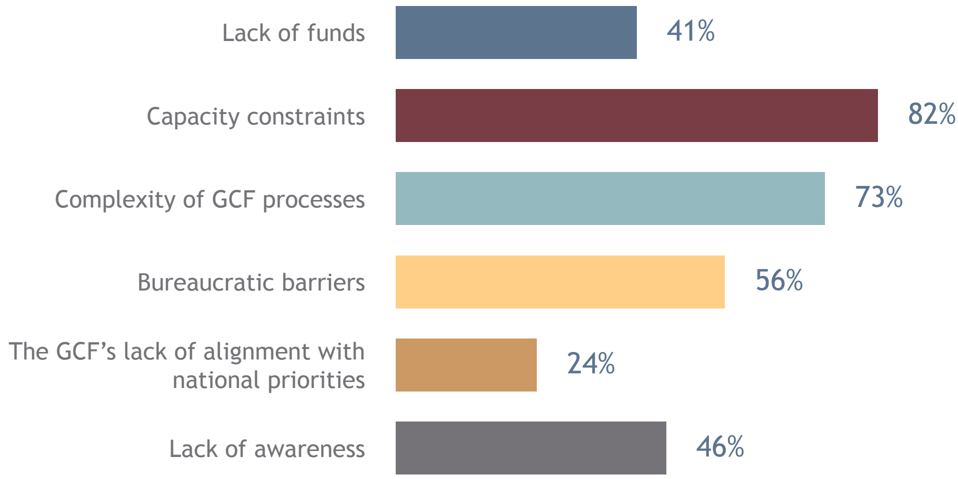
Finally, our consultants also brought up the importance of including sub-national interests within country programming. It is often the case that in any country-led process, more dominant voices are more likely to be represented within the sphere of deliberation and final product. How can the GCF ensure that sub-national interests are represented? Unfortunately, not all stakeholders are able to get a 'seat at the table' easily, and so it is the responsibility of the GCF to ensure these less-dominant voices are heard. An NDA is also in a powerful position here - being the representative of country needs and context, they are uniquely positioned to bring these voices to the fore of project development.

Challenge four: NDA engagement

Through our many years of experience supporting clients through the design and approval of GCF projects, we have seen many cases where the engagement of NDAs could be improved. An NDA is an interface for all in-country GCF processes, maintaining a strong working relationship with a wide-range of stakeholders and offering a bridge between the GCF and the NDA's country. Time and time again they are beset by issues of lacking capacity, staff limitations, and small operational budgets. In our survey, we asked:

In your opinion, what are the main barriers that might prevent NDAs from successfully engaging with the GCF?

We asked respondents to choose as many barriers as they wished and the following graph reflects their collective responses:



We also included an 'Other' answer, where respondents could enter their own barriers, and received three suggestions; a) "A lack of support to DAEs", b) "A lack of knowledge and awareness among the different ministry departments", and c) the "GCF does not run appraisal missions which facilitate more engagement."

The largest share of respondents (82%) stated 'capacity constraints' was a main barrier. We expected this barrier to receive the highest proportion of agreement, as it is often the case that NDAs will be working on NDC roadmaps, National Adaptation Plans (NAP), LCDS roadmap, and even GEF projects (the list can go on) - all at the same time.

One respondent recommended that NDAs be engaged "alongside DAEs, so that DAEs can communicate the benefits of GCF collaboration." Our consultants recommend that this can be done at the same time as providing education and training for potential DAEs in order for them to receive accreditation. This speaks to a wider issue raised by the E Co. team and confirmed by the survey findings - that the general understanding of climate change in financial institutions is very low, and so more government support is needed to improve this.

The complexity of GCF processes (73%) has also been seen as a main barrier to engagement. GCF processes are still very new, and so a lack of knowledge or capacity in NDAs is either to be expected or not come as a surprise. Further research shows that gaps in clarity - particularly within multi-country projects and programmes - have led to NDAs being unclear about their roles in monitoring approved projects, which "aggravates the lack of country ownership, as project management is left entirely to international entities."[12]

Many respondents and interviewees noted that GCF complexity is simply the way it operates and cannot be changed - and this should not be seen as a challenge so long as there is effective communication. Joint Secretary of Bangladesh's Economic Relations Division, S. M. Mahbub Alam, stated:

> I strongly recommend to run pre-appraisal and appraisal missions in collaboration with NDAs, while deciding on a project. Justifying climate projects based on paper-based submissions cannot be simple. If the communication with GCF and NDAs becomes visible, NDA confidence will be enhanced. Moreover, the GCF should continue with the ongoing capacity-building training of NDA and entities together.
>
> Joint Secretary of Bangladesh's Economic Relations Division,
> **S. M. Mahbub Alam**

One issue that underpins all of these is essentially a lack of awareness (46%), and by 'lack of awareness' we mean a limited awareness and understanding of GCF processes. Many CSOs expect an NDA to be formed from a government ministry, with the authority to make budgetary decisions and hold accountability for climate projects. However, it is not often that climate change takes the front seat for political mandates, often due to those government entities residing in countries where a lack of capacity prevents this. Consequently, a ministry (of Finance, for example), has little understanding of the subject and landscape of climate change, leading to this lack of awareness experienced within NDA engagement and project development.

According to a report by the Global Center on Adaptation, NDAs 'often lack the necessary support to play their envisaged roles - in many countries, far from having the backdrop of wider agencies, individuals act as NDA focal points- often with other full-time jobs - with little institutional support'[13]. Can such a focal point truly act with authority and assuredness in this type of scenario? The answer is most likely a resounding no, which could lead to issues with NDA ownership over projects, which is a major barrier to successful implementation. Survey respondents recommended several potential solutions, namely "Dedicated regional contact points and regular interaction," and "More stringency on the capacity requirements of NDAs" which could result in increased ownership due to GCF-led clarity-building on what is expected.

The smallest proportion of respondents (24%) included a lack of alignment with national priorities as a main barrier. Despite this small proportion, it is still a significant challenge. To remove this as a barrier, the GCF needs to better consider the uniqueness of countries and their individual contexts, while "empowering in-country institutions" (as stated by one survey respondent) in order to ease and catalyse said alignment.

So what can be done to build the capacity of NDAs?

1

Needs assessment:

Conduct an initial needs assessment to identify the specific knowledge gaps and capacity constraints of the NDA.

2

Training workshops and seminars:

Organise training workshops and seminars on GCF processes, policies, and guidelines. These can cover topics such as project proposal development, climate finance management, accreditation processes, and fiduciary standards.

3

Technical assistance:

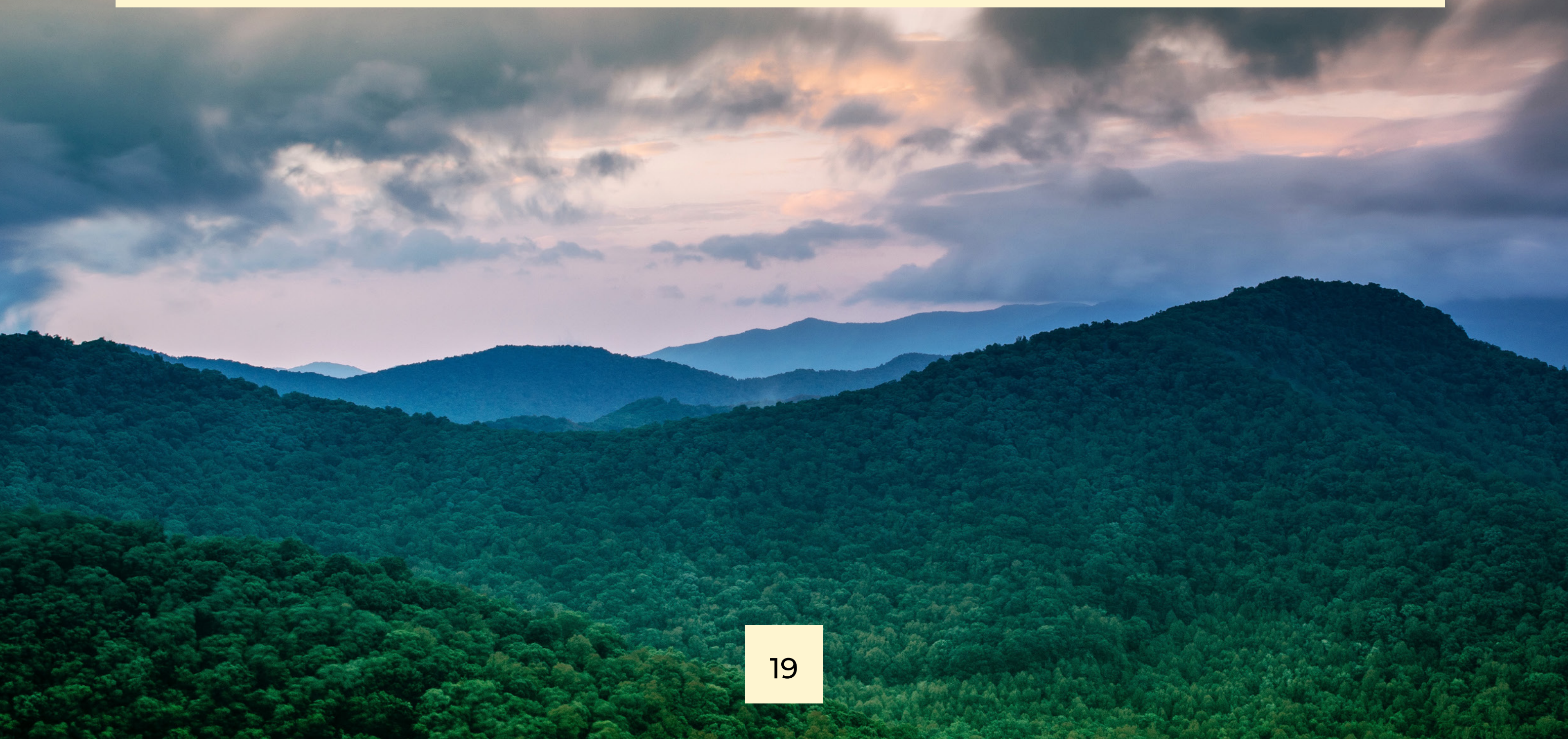
Provide technical assistance to support the NDA in addressing specific capacity gaps. This can include expert consultations and mentoring.

4

Exchange programs:

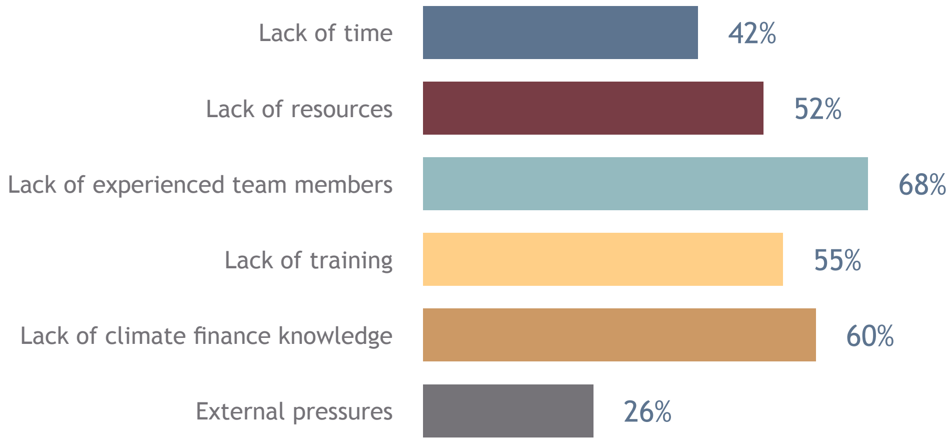
> "Facilitate exchange programs or study visits to GCF-funded projects, GCF Secretariat offices, or other institutions experienced in climate finance. Practical exposure can deepen understanding."

Senior consultant,
Irina Hauler



Challenge five: Capacity issues

Challenges that result from a simple lack of capacity are commonplace. 86% of our survey respondents said they had personally witnessed or had to contend with a lack of capacity during the preparation or implementation of a GCF project. We asked what led to the lack of capacity experienced, with respondents providing these statistics:



These are not capacity issues that affect one type of stakeholder. Unfortunately, all of our respondents, all hailing from various professional backgrounds, experience these issues within GCF project design and funding access activities. Interestingly, the response that received the greatest consensus from respondents was the 'lack of experienced team members'. It is clear how this would lead to a lack of capacity, but what the figure reveals is that the majority of our respondents have worked on projects where team members have little experience with GCF processes. It is important to note that almost half of this survey's respondents were AEs. We asked respondents:

How can the GCF address capacity constraints within the project lifecycle?

The responses represent a promising number of recommendations:

1. The GCF should provide capacity-building and FP development training;
2. "Get around the No-objection Letter (NOL) needed for PPF funding - it is almost as challenging as developing an FP itself";
3. The GCF can entertain a "More proactive and responsive approach at the design and formulation stage of a project";
4. Build a "Proposal process that's less cumbersome and more aligned with international standards."`

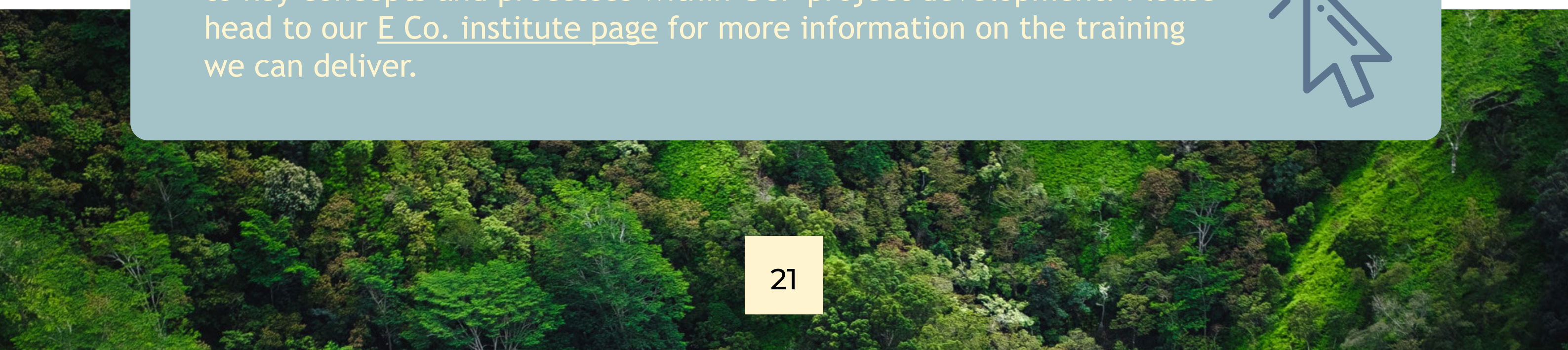
Historically, GCF capacity-building support has focused on proposal development. Of course, this is still vitally important, but if the GCF is to truly implement bigger and better climate finance projects, capacity-building support needs to be expanded. We recommend that the GCF considers capacity constraints within a more holistic framework, rather than focusing solely on proposal development or ad-hoc scenarios.

A report from the Pacific Island Forum, in collaboration with the UNDP, states that while GCF Readiness support is steadily becoming more available, 'there is a role for additional technical assistance to enable NDAs and national AEs to access and manage GCF finance more effectively' and that there is 'a need to strengthen institutional capacity on overall governance of climate change, particularly in meeting required financial management standards'[14]. This is mirrored by one respondent who recommends the GCF provides "Sufficient technical and financial support to the capability enhancement programs of NDAs and DAEs". We can look at the Readiness Programme as a current example of this, but as one respondent states, "this process remains challenging to navigate - simplifying the process could increase access to the support available."

Capacity-building issues are, more often than not, to be found in smaller organisations that reside or represent more climate-vulnerable areas, such as Small Island Developing States (SIDS) and LDCS. The implication here is that capacity issues are not felt at the same level universally, which is an important problem the GCF must address if we are to guarantee climate justice as these are the areas disproportionately vulnerable to climate change impacts. A report by Climate Analytics found that GCF policies 'are stringent and difficult to meet for many SIDS that face capacity constraints'[15] and that 'the Readiness Programme and the Simplified Approval Process (SAP) have not been working adequately'[16]. Similarly, one of our interviewees noted that:

> In many SIDS and LDCs, governments and project developers contend with limited, overburdened staff and often lack dedicated project development units... The staff responsible for GCF project development in SIDS and LDCs likely have numerous competing priorities and lack the time and technical knowledge needed to develop a robust proposal.
>
> Training for national and regional project developers is essential. There is an acute need for highly practical, hands-on training that covers key sections of the proposal, such as the theory of change, climate rationale and investment criteria sections (among others). Additionally, continuing to simplify and streamline the project cycle itself would be beneficial and reduce the burden on staff in the most vulnerable countries.

E Co's training arm, E Co. institute, undertakes training sessions related to key concepts and processes within GCF project development. Please head to our E Co. institute page for more information on the training we can deliver.



You may think that the GCF's Project Preparation Facility (PPF) would be the natural solution to these issues - a GCF mechanism that 'recognises developing countries may face capacity constraints in developing climate finance proposals'[17] and then provides technical support to afflicted organisations. However, survey respondents contradicted this. In an aforementioned recommendation, one respondent stated the NOL is "as challenging as developing an FP itself", with another stating that the GCF should "Make PPF funding more easily available." What is needed then, is for the PPF (or a similar line of funding) to be made more flexible in disbursement. It should be based on the needs of the recipient, and perhaps not as focused on finalising a project. This flexibility should be part and parcel of all projects, allowing for capacity-building to be built into the projects being developed.

Finally, capacity issues can be helped through the development of GCF-led best practices or guidance documents, which cover what has been funded in the past and what the GCF is looking for. Simultaneously, further sub-sector guidance could be developed, as it can be the case that sectoral guidance is too broad in its recommendations.

> Perhaps one of the elements to consider that can aid with the capacity issues AEs (most often DAEs) face, is the development of climate rationales of projects and programmes. If guidance and/or standardisation can be developed at sectoral (for example, water security) or even sub-sectoral (climate-resilient WASH) levels that are built into the country programming priorities, then AEs, RAEs, and DAEs could use these to fast-track these aspects of project/ programme design.

Consultant,
Debasmita Boral Rolland

Looking ahead

What we are presented with is a landscape of challenges and solutions, and if there is a central theme to all of these challenges, it is access. Each challenge faced by AEs, NDAs, IFIs, NGOs, and other organisations that interact or collaborate with the GCF is a challenge that creates friction for finance and support access. These challenges ultimately need to be met with meaningful reforms, so that targeted GCF support can be achieved in a more effective and efficient manner. Here are several recommendations, that are not solely aimed at the GCF, but also at the wider community who operate within climate finance projects and programmes:

- The GCF should increase marketing and engagement with private sector and government donors.
- More clarity and less complexity needs to be internalised within the funding access process.
- The GCF must develop a dedicated capacity-building programme that is accessible for all and accounts for differentiating needs.
- Concessional financing is critical for climate-vulnerable nations with low debt-carrying capacity. This is eclipsed only by the usefulness of grant financing, which the GCF could increase upon finalising the Second Replenishment.
- There should be the acceptance that the co-financing process should not be seen as a 'one-size-fits-all' process.

The GCF has unique potential, and a real competitive advantage in a landscape that's becoming increasingly crowded by other finance providers, such as MDBs and bilateral donors. It has a governance structure unlike other finance providers, with a mandated 50:50 split between representatives from developed and developing nations. Through this, it has arguably the best understanding of climate vulnerability and the needs of those who are the most vulnerable. The GCF's IEU writes:

The GCF is clearly distinguished by its scale (particularly in grant funding), political legitimacy, ambition towards country ownership, diversity of financial instruments, tolerance for risk and its unique partnership model. It also has a privileged position in the global climate finance architecture as an operating entity of the financial mechanism of the UNFCCC and in serving the Paris Agreement, creating a level of political credibility and buy-in among recipient and donor countries alike.[18]

Going forward, the GCF needs to be innovative. For example, it could focus on the mobilisation of domestic sources of finance in emerging markets, and spend more time on the ground in those markets to create readiness activities, enhance the fiduciary capacity of AEs, and build relationships with the banking sector, insurers, and institutional investors.

Ultimately, each challenge must first be solved for the most climate-vulnerable countries. Whatever problem faced by them is exacerbated by the circumstances present within these nations. With the priviliged position the GCF is in, it has the capability of enacting real change with these countries.

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About E Co.

We specialise in designing low-carbon, climate-resilient projects and programmes. For over 23 years, we've been providing technical expertise to help our clients solve climate adaptation and mitigation challenges and access project funding. We assess markets, develop strategies and formulate projects to provide long-lasting solutions for vulnerable populations worldwide.

Climate finance expertise

Our 99% success rate in unlocking climate finance has led to the mobilisation of over USD $4 billion of climate finance from global climate funds, including: GCF, GEF, Adaptation Fund and NAMA Facility. We are proud members of the GCF Communities of Practice network.

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