GCF Monitor

Frankfurt School
FS-UNEP Collaborating Centre
for Climate & Sustainable Energy Finance

Edition 1, January 2020

Mobilising public and private co-finance

After a historic first-ever vote at the GCF Board meeting, the board adopted a funding proposal by the Asian Development Bank (ADB) at the last Board Meeting (B.24). The project aims to leverage up-front private, institutional and commercial finance for climate resilient subprojects. Using US$ 100 million of GCF funding, it plans to mobilise an additional US$ 1.310 million in co-finance from public and private sources (a ratio of 1:13). This is the largest ever sum of mobilised co-finance in one GCF proposal, which helps to foster the transformation towards a low-carbon climate-resilient economy.

Does this vast amount of co-finance make the project a role model for the future of the GCF? In order to better understand what co-financing levels might be adequate for the GCF, this GCF Monitor assesses the newly adopted (B.24) policy on co-financing and analyses the current co-financing levels at the GCF project portfolio.

Key messages

- For the GCF to have a larger impact, its overall co-finance ratio needs to increase. The overall increase should not come at the expense of projects that are less likely to mobilise co-finance.
- Project characteristics and specific political economy of individual countries influence co-finance ratios. Larger projects, mitigation projects and projects in emerging economies have shown larger co-finance ratios than smaller projects, adaptation projects and projects in GCF priority countries.
- To prevent an immediate bias against the latter types of projects, we think it was a wise decision of the GCF Board not to adopt co-financing targets in the recent Policy on Co-Financing.
- Over time, the growing GCF portfolio can become a useful source of information to develop clearer guidance on 'adequate' levels of co-finance for different types of projects. However, this would require a transparent and comprehensive tracking system with information on projects' co-financing levels at pre- and post- implementation phases. Such a system is currently not in place (see also IEU, 2019).

ABOUT GCF

The Green Climate Fund (GCF) is the largest dedicated multilateral climate fund. It was set up in 2013 by the 194 countries who are parties to the United Nations Framework Convention on Climate Change (UNFCCC). It aims to deliver equal amounts of funding to limit or reduce greenhouse gas (GHG) emissions in developing countries and to help vulnerable societies adapt to the unavoidable impacts of climate change.

GCF launched is initial resource mobilization in 2014, and received pledges worth US$ 10.3 billion. As part of the ongoing replenishment of the GCF, 27 countries so far pledged to provide an additional US$ 9.8 billion for the next four years. These funds come mainly from developed countries, but also from some developing countries, regions, and one city (Paris)

The GCF Secretariat is based in Songdo, South Korea. The fund is governed by a board of 24 members with equal representation from developing countries and developed countries. For more information, see: https://www.greenclimate.fund/home

GCF Monitor

The GCF monitor reviews the progress of the Green Climate Fund's efforts to respond to the challenge of climate change. Each edition analyses and briefly describes a unique topic selected because of its high importance at the recent Board meeting or other relevant event. The GCF Monitor is produced by the FS-UNEP Collaboration Centre of the Frankfurt School of Finance and Management.

Introduction

The Policy on Co-financing that was adopted at B.24 defined co-financing as the public or private financial resources required, in addition to the GCF proceeds, to implement a project for which a Funding Proposal has been submitted (GCF, 2019). The general idea behind mobilising co-finance is simple: to enlarge the investment volume in GCF projects, while maximising the opportunity for strategic partnerships and thereby increase the impact of GCF interventions. The importance of public and/or private co-finance is 'firmly embedded' in the Governing Instrument and the Strategic Plan of the GCF (IEU, 2019; 137).

In practice, however, mobilising co-finance appears challenging. In 2017, E Co held a survey among 152 GCF stakeholders in order to examine the different ways in which organisations perceive co-financing and how they deal with associated challenges. E Co demonstrated that virtually all respondents either do not know what levels of co-financing are expected by the GCF or think that expectations are too high. A majority of the entities also noted that they seek to secure additional funding from institutions that are capable of committing co-financing upfront rather than from organisations that are new in the field of climate change. E Co (2017, 3) notes that relying too much on such 'established players' could 'jeopardise the GCF's ambition to fund climate action beyond business as usual'.

The stakeholders that took part in E Co's survey indicated that more explicit and easily accessible information on what counts as co-financing and what levels are expected under what conditions would resolve many of their problems. Does the new policy on co-financing provide more clarity and guidance?

The new policy brought clearer and more detailed definitions for co-financing, contributing for its objective use by project proponents and implementers, at the same time of ensuring improved consistency and transparency in the generation of data. For example, the expected amounts of co-financing indicated in project proposals adopted by the GCF Board can be different from the negotiated amount in the funded activity agreement (FAA). These values of agreed and methodologically calculated – mobilized – co-finance can further change during project implementation, for instance with the success or failure to engage private investors. Finally, co-financing realized during implementation might also continue to attract additional investments beyond completion, indicating ex post evidence for a project's paradigm shift in the form of leveraged finance. Publicly available information on the GCF website would benefit from the inclusion and clarification against these new definitions, as means of ensuring transparency and avoiding tracking inconsistencies.[1]

In terms of co-financing levels, the policy explicitly avoided to set co-financing targets and to prescribe specific co-financing sources for a project or programme. 'Maximizing co-financing is desirable', but it will be 'determined on a case-by-case basis' and 'cognizant' of the desirability to demonstrate alignment of interests between the GCF and accredited entities and country ownership by developing countries. It also recognises that co-financing 'may not always be achievable or realistic'.

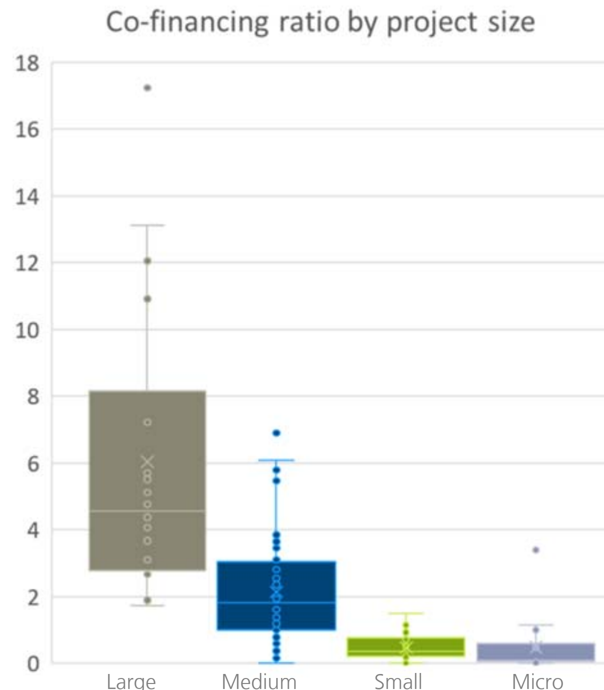

Figure 1. Co-finance ratio per project size.

Elsewhere, the policy states that GCF projects should 'attain adequate levels' of co-finance. This can be considered as a compromise between strengthening the ownership of developing countries by not prescribing co-finance targets and achieving the highest possible impact and ambition expected from the GCF through both public sector and private sector contributions to the projects and programmes.

The next section analyses the current GCF project portfolio on co-financing levels so far, in order to better understand what 'adequate levels' of co-financing could be while moving forward. This analysis is based on publicly available information from the GCF website.

[1] The current GCF website is not yet up to date with the new definitions and does not indicate which point in the GCF project cycle the co-financing values relate to. This poses a limitation to the analysis in this GCF Monitor.

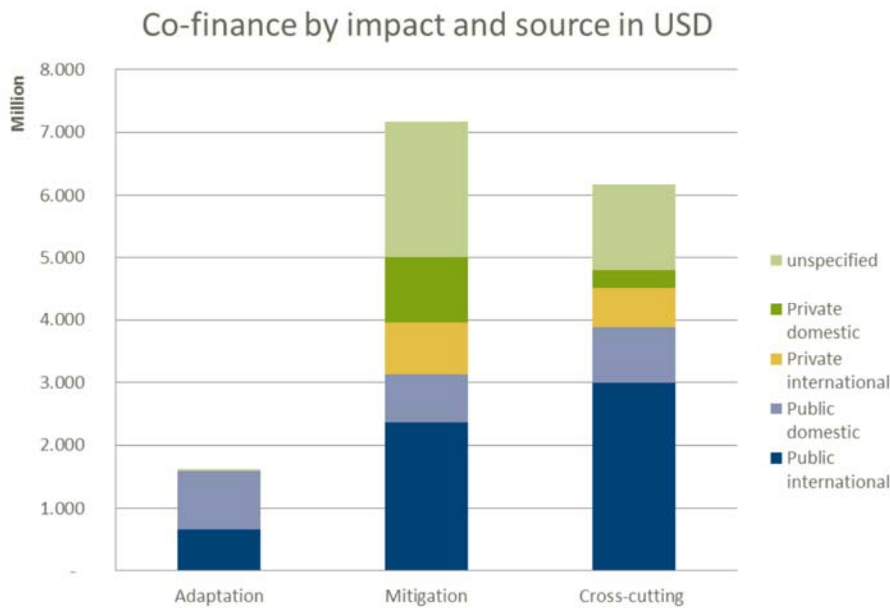

Figure 2. Co-finance by source in US$ and divided over adaptation-, mitigation- and cross-cutting projects. "Unspecified" summarizes all co-financing sources where it remains unclear whether it is national/international and public/private and corresponds to 24% of all co-finance

The GCF expects to mobilize around 15 billion of direct co-finance by providing 5,6 billion of GCF resources to 124 projects. This means that the current project portfolio expects US$ 2.7 of co-finance for every dollar it invests. This allows the GCF to exert a much larger impact than it would have with its own funding alone. To put things in perspective: this ratio is much lower than the co-finance ratio (7.69) of the Global Environment Facility (GEF) in its latest phase (GEF-6), but higher than the GEF's ratio (2.37) in its first replenishment phase (Cui et al., 2019).

Analysis of co-finance so far

The perception of GCF stakeholders that expectations are too high (E Co, 2017) cannot be substantiated by our data: there are 43 projects (out of 124) with a co-finance ratio of less than 0.5 (meaning GCF funding is at least twice the amount of co-finance), among these 11 micro - (less than US$ 10 million), 25 small - (US$ 10 to 50 million) and 7 medium-sized projects (US$ 50 to 250 million). Overall, large-sized projects (> US$ 250 million) have by far the highest co-financing ratio (6.03), followed by medium- (2.13), small- (0.48) and micro-sized projects (0.47). Overall, there is a very large variety of co-finance ratios across projects (from 1:0 to 1:17.2, see Figure 1).

For a deeper analysis of the co-financing structure, all co-financiers across projects and programmes have been classified by their source. We distinguish between 1) public and private and 2) international and domestic financing sources. Public finance is all financial resources other than the GCF resources that flow into projects/programs from the public sector or entities that are more than 50 per cent owned and/or controlled by the public sector. Private finance is all financial resources that flow into projects/programs from entities that are more than 50 per cent owned and/or controlled by private shareholders (GCF/B.24/17). Domestic and international finance are a classified based on the location of the entities' activities. Our first results demonstrates that 58% of the co-finance comes from the public sector (see Figure 2). On a project level, such public resources are important to de-risk investments to reach a larger scale and encourage broader stakeholder involvement. Most public co-finance comes from international sources and complements developed countries' pledges to the GCF. However, it does not necessarily constitute additional climate finance in the sense that international organisations' might have already allocated the co-finance to contribute to the annual US$ 100 billion of climate finance that developed countries pledged to mobilise in the context of the UN climate negotiations from this year onward.

Due to a lack of clarity in publicly available GCF documents we could not specify the co-financing source of 20% of national/international and 8% of public/private expected co-financing. In some cases, for example, co-financing sources are only indicated as 'investors' or 'stakeholders', which restricts further analyses.

When breaking down expected co-finance levels for mitigation, adaptation and cross-cutting projects, it becomes clear that adaptation lags behind, with 11%

co-finance mobilised, as compared to 48% in mitigation projects and 41% in cross-cutting projects. This needs to be seen in the light of the different revenue and financing structure of mitigation and adaptation projects, as the underlying financing instruments correlates with the co-financing ratio.

	No. of FPs/SAPs*	Sum Co-finance (million US$)	Average Co-finance Ratio
GCF priority countries	71	58%	1,5
Other countries	50	34%	2,5

Table 1: Co-finance ratios for GCF priority countries and other recipient countries. *Three projects take pülace in both priority and non-priority countries and are excluded in this table

Of the domestic public co-finance, 36% flows to adaptation, 34% to cross-cutting projects, and 30% to mitigation (see Figure 2). Private co-finance, however, hardly addresses adaptation. Only 11% of the international public co-finance addresses adaptation, and less than 1% of the domestic private co-finance addresses adaptation.
Finally, when looking at the countries in which the current GCF project portfolio will be implemented, the expected co-financing ratio in GCF priority countries (least developed countries (LDCs), Small Island Developing States (SIDS) and/or African countries) is 1.5 as compared to 2.5 of other recipient countries (see Table 1). The latter is, however, heavily influenced by a few projects with exceptionally high co-financing. When excluding the abovementioned ADB project in China, for example, the average co-financing ratio in non-priority countries reduces to 2.2.

Recommendations

- All relevant actors, including the GCF Secretariat, National Designated Authorities (NDAs), Accredited- and Executing Entities and Board Members should continue to work on increasing the co-financing ratio of GCF projects. The ratio is not a mathematical abstraction, but rather reflects the clear potential to maximise the GCF reach both in terms of financial volumes for climate-related goals and of a longer-term shift by mainstreaming to a wider basis of engaged stakeholders.
- Experience with the GEF demonstrates that it is possible to increase co-financing ratios over time. However, fixed co-financing ratios could create detrimental biases to necessary investments in adaptation, priority countries and/or smaller projects. The relevance of other factors such as country context, sectors and types of instruments should also be better understood in their relation to the potential to mobilise co-financing. Therefore, the GCF Secretariat and the GCF Board should avoid setting any fixed co-financing ratios, at least until better evidence can be derived from the ongoing development of the GCF portfolio over the next replenishment period.
- Understanding the abovementioned factors and their influence on determining what 'adequate' co-financing ratios are requires consistent data. The GCF Secretariat should update both its tracking and its reporting of co-financing to the newly approved definitions. It is also important that this reflects the necessary transparency, in order for publicly available data to be complete, consistent to established definitions and brought up to date after each Board Meeting.

References

Cui, L., Sun, Y., Song, M. & Zhu, L. (2019): Co-financing in the green climate fund: lessons from the global environment facility, Climate Policy, DOI: 10.1080/14693062.2019.1690968

E Co (2017). GCF Insight: co-financing. https://www.ecoltdgroup.com/wp-content/uploads/2017/03/GCF-insight-March-2017.pdf

GCF (2019). Policy on co-financing. Decision B.24/14

Independent Evaluation Unit (IEU). (2019). Forward-Looking Performance Review of The Green Climate Fund (FPR) Evaluation Report No. 3, Green Climate Fund, Songdo, South Korea

Authors

This GCF monitor is written by:

Dr. Christine Grüning

Dr. W. Pieter Pauw

Luis H. Zamarioli

The GCF Monitor provides an independent analysis by the FS-UNEP Centre for Climate & Sustainable Energy Finance of the Frankfurt School of Finance & Management. It is published with financial support of the German Federal Ministry of Economic Cooperation and Development (BMZ).