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The Green Climate Fund's contribution to the US$ 100 billion target

The Green Climate Fund was originally established to channel a 'significant portion' of the US$ 100 billion of climate finance that developed countries committed to mobilise annually by 2020 to support developing countries with mitigation and adaptation. At the UN climate negotiations in Glasgow it became clear that developed countries have not met this US$ 100 billion goal in 2020 and that adaptation finance in particular should increase.

A few weeks earlier at the 30th GCF Board meeting, the vibe had been much more positive. The Board approved US$ 1.2 billion in project proposals, the largest package so far. These projects address multiple of the Fund's strategic objectives: improving the portfolio balance across mitigation and adaptation; increased funding channelled through Direct Access Entities; and increased mobilisation of private finance, especially towards large-scale adaptation projects. Board Members from developed and developing countries alike welcomed the set of proposals and adopted all of them.

This GCF Monitor therefore takes stock of how the GCF performs in terms of its contribution to the US$ 100 billion target and related qualifiers and provides some ideas for improvement.

Key messages

- Over time, the GCF is increasing its contribution to the overall climate finance target of mobilising US$ 100 billion annually. Due to the steep increase in funding in 2021, its US$ 14.4 billion contribution (including co-finance) represents 1/7 of the target in 2021.
- When looking at qualifiers for climate finance, the GCF is performing relatively well in terms of allocation to LDCs, SIDS and African countries. In general, a relatively large share of GCF funding targets adaptation because of the large number of cross-cutting projects with adaptation components. In terms of financial instruments, the GCF has a lower grant share than climate finance overall and a fast increasing equity share (currently at 20%).
- The above can largely be explained by the GCF's co-finance, which is typically mobilised for mitigation projects and through loans and equity. Going forward, the GCF should be careful that its increasing co-financing ratio is not reducing the share of grant financing and that it does not tip the balance towards mitigation.

About the 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 emissions in developing countries and to help vulnerable societies adapt to unavoidable climate change impacts.

The GCF's initial resource mobilisation in 2014 received pledges worth US$ 10.3 billion. As part of the ongoing replenishment of the GCF, 32 countries and two regions pledged to provide an additional US$ 9.6 billion for the next four years (status: September 2021).

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: http://www.greenclimate.fund

GCF Monitor

The GCF monitor reviews the progress of the GCF'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

Developed countries first committed to mobilise US$ 100 billion of climate finance per year by 2020 at the UN climate negotiations in Copenhagen in 2009, a goal that was reiterated and extended to 2025 at COP21 in Paris. A number of qualifiers were added to this target. For example, it was committed in the context of meaningful mitigation actions and transparency on implementation; adaptation finance needs to prioritise LDCs and SIDS; private finance should be mobilised; and the provision of finance should aim to achieve a balance between adaptation and mitigation (UNFCCC, 2015; 2009). The GCF was originally established to channel a 'significant portion' of the US$ 100 billion (UNFCCC, 2009) and approved its first projects in late 2015.

Since Copenhagen, developed countries have steadily increased the climate finance they provide. However, it is considered unlikely that the US$ 100 billion target was reached in 2020 (COP26 presidency, 2021). According to the OECD, climate finance for developing countries in 2019 was US$ 79.6 billion (OECD, 2021). In addition, only 25% of the total climate finance (at face value) was adaptation finance in 2019 (OECD, 2021) and the UNFCCC urged developed country Parties to at least double their provision of adaptation finance in the context of achieving a balance between mitigation and adaptation (UNFCCC, 2021).

The GCF could help to address these issues. As established in its Governing Instrument (2011), the overall purpose of the Fund is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change, mandated to play a crucial role in channelling financial resources to developing countries and catalyse public and private climate finance. The Updated Strategic Plan (2020) indicated that the GCF strives to balance funding across mitigation and adaptation over time (in grant equivalent), and to prioritise LDCs, SIDS and African States with adaptation finance.

At the recent Board Meeting (B.30), the Board approved largest package of funding proposals at any Board meeting so far. While some Board members hailed the package for its size and large share, its large adaptation finance share (59%) and its large private sector share, another Board Member raised the concern that a large share of the funding comes in loans (40%).

This edition of the GCF Monitor therefore identifies how the GCF contributes to the overall aims of climate finance under the UNFCCC. It first compares the overall contribution of the GCF to the 100 billion and how this has developed since 2015. Second, it identifies whether the GCF is a 'best practice example' on relevant climate finance qualifiers by looking at how the GCF scores on balancing adaptation and mitigation finance, prioritising the most vulnerable countries and its use of financing instruments.

1. GCF contribution to meeting the US$ 100 billion target

The GCF's allocation of funding shows an increasing trend. In 2019, the Board approved US$ 1 billion worth of projects, growing to US$ 2 billion in 2020, and to more than US$ 3 billion in 2021. The mobilised co-finance increased even faster from US$ 3.2 billion USD in 2019 to US$ 11.5 billion in 2021 (see Figure 2). In total, the GCF mobilised US$ 14.4 billion in 2021. This is 1/7 of the annual US$ 100 billion goal, assuming that all mobilised co-finance can be accounted towards this goal. Not all co-finance is additional, without the GCF some co-financiers would have invested their finance on other climate projects.

However, the GCF is currently heading towards a potential shortage of financial resources. Ahead of the 29th Board Meeting, the Secretariat reported that the Fund's 'commitment authority' for new projects in 2022 might be reduced to an average of US$ 385 million per Board meeting, only to rise again to approximately US$ 1.27 billion per Board meeting in 2023.

This can partly be explained by the schedule of payments of confirmed pledges. However, another important issue is that the United States still needs to deliver the US$ 2 billion that it pledged to provide the GCF in 2014.

In addition, the United States, along with countries such as Australia, Mexico, the Czech Republic and Estonia, have not yet made a formal pledge to the replenishment of the GCF. In contrast, countries such as France, Germany, Sweden and the United Kingdom doubled their 2014 pledge in 2019.

2. Balancing mitigation and adaptation finance

The differentiation between adaptation and mitigation is not always straightforward, and the 'balance' between adaptation finance and mitigation finance has not been further defined. However, adaptation finance has been 'relatively neglected, remains inadequate and is far from reaching the aim of balanced allocation' (Bhattacharya et al., 2020; 30). Although it has increased steadily since 2016, only 25% of the self-reported climate finance (at face value) went to adaptation in 2019 (excluding cross-cutting projects) (OECD, 2021).

The GCF portfolio comprises in total 190 approved funding proposals, of which 82 are adaptation projects and 48 cross-cutting projects. According to the GCF, 48% of its funding terms went to adaptation in grant equivalent (38% at face value). The GCF finances a relatively large share of adaptation through cross-cutting projects (see Figure 1). When looking at pure adaptation projects only, the GCF allocated 24.1% (US$ 2.41 billion) to its adaptation projects; and 11.4% of its co-finance (US$ 3.08 billion)[1], which is mostly public finance (see Grüning et al., 2020). This demonstrates that the GCF's adaptation portfolio relies to a large extent on cross-cutting projects—which makes it even more important that adaptation components in such projects are sincere and that adaptation results are monitored and reported on with the same priority as mitigation results.

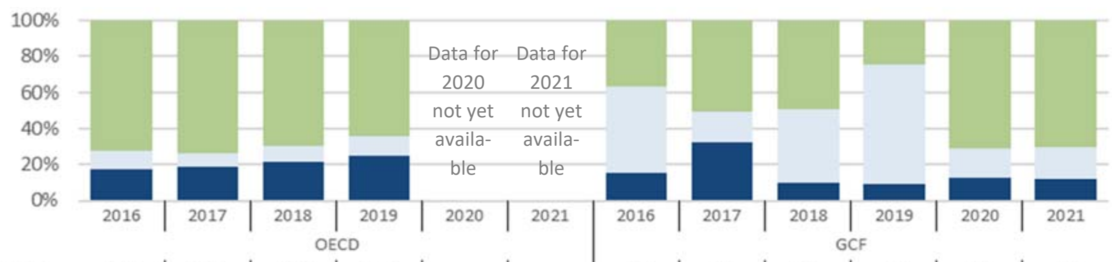
3. Prioritising the most vulnerable countries

The Copenhagen Accord prioritises Africa, LDCs and SIDS as 'most vulnerable countries' for adaptation finance for the fast-start finance (2010-2012). The Paris Agreement only refers to LDCs and SIDS and to climate finance in general. According to the OECD, Africa received US$ 18.5 billion (or 26%) of the average mobilised climate finance for the period 2016-2019. In the same period the GCF (incl. co-finance) mobilised US$ 1.5 billion (or 34%) per year for the region. Notably, in the 2020-21 average the GCF doubled its amount allocated to African countries.

The OECD reports that LDCs saw a strong increase in mobilised climate finance for mitigation and adaptation from US$ 6 billion in 2016 to US$ 15.4 billion in 2019. The GCF's annual allocation (incl. co-finance) between 2016-2019 to LDCs varies between US$ 0.5 billion and US$ 1.9 billion, but recorded a abrupt rise to more than US$ 6 billion in 2021 (or more than 40% of the total US$ 14.4 billion). In the period 2016-2019, the GCF allocated 21% to LDCs, compared to 15% of total tracked climate finance.

Overall mobilised climate finance for SIDS increased from US$ 1 billion in 2016 to US$ 1.5 billion in 2019, with a peak in 2018 (US$ 2.1 billion) (OECD, 2021). The GCF's (incl. co-finance) allocation of funding in the same period in SIDS ranged between US$ 0.1 billion and US$ 0.5 billion (peak in 2015). In the period 2016-2019, the GCF allocated around 7% of its resources to SIDS, compared to around 2% of the overall climate finance.

Figure 1: GCF and climate tracked ODA by theme



	OECD 2016	OECD 2017	OECD 2018	OECD 2019	OECD 2020	OECD 2021	GCF 2016	GCF 2017	GCF 2018	GCF 2019	GCF 2020	GCF 2021
Mitigation	42.2	52.3	54.5	50.8			1.2	1.7	3.1	1.0	3.4	10.1
Cross-Cutting	6.2	5.5	7.1	8.7			1.5	0.6	2.6	2.8	0.8	2.6
Adaptation	10.1	13.3	16.7	20.1			0.5	1.1	0.6	0.4	0.6	1.7

Note: Bar shows total GCF financing (own resources and co-finance).

[1] *Reported shares in Section 2, 3, and 4 might slightly vary due to some allocation issues for project covering multiple countries across more than one GCF region.*

mobilised by developed countries in the same period. When looking at adaptation projects only, the GCF channelled 49% (at face value) of its adaptation finance (incl. co-finance) towards LDCs and SIDS between 2016-2019, or 9% more than the share of the overall climate finance over that period (OECD, 2021). Adding African countries to represent the full group of priority regions, the GCF channelled 69% of its adaptation funding to LDCs, SIDS or African countries. The OECD (2021) does not provide information on adaptation finance in Africa specifically.

The GCF maintains a minimum allocation floor of 50% of adaptation funding for developing countries that are particularly vulnerable to climate change effects, including SIDS, LDCs and African States. It also 'seek[s] to meet or exceed' the 69% (in grant equivalent terms) that was achieved between 2015 and 2019. The 50% target has been demonstrative achieved in four out of the six years (2015-2021) with a peak of more than 80% in 2019. However, in 2020 and 2021 the adaptation share for priority regions slipped below the 50%.

4. Financial instruments

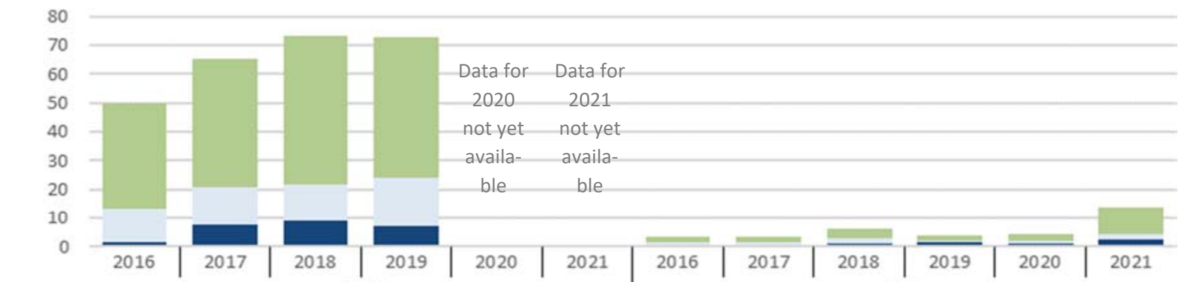
An important function of climate finance under the UNFCCC is to transfer resources from developed countries with high (historical) emissions to developing countries that suffer most from the climate crisis and that need an economic transition. This is one of the reasons why developing countries often prefer grants over loans. However, the impact of loans and other non-grant instruments can be higher than the impact of grants, as they typically mobilise more co-finance (Bhattacharya et al., 2020) and because repaid loans could be re-invested in new projects. The Paris Agreement 'considers' the need for public- and grant-based resources for adaptation without prescribing any targets.

In practice, loans are by far the most used financial instrument for the provision of public climate finance. According to the OECD (2021), 56% of the climate finance (at face value) was provided through concessional and non-concessional loans in 2019, a share that is relatively stable. For the GCF, the share of loans (senior and sub-ordinated, incl. co-finance) increased over time from 34% in 2015 (US$ 0.2 billion) to 65% in 2021 (US$ 9.7 billion). This increase is heavily driven by co-finance: as 77% (86%) of all committed loans in 2019 (2021) are from co-finance sources.

Public grant financing reached US$ 16.7 billion in 2019, or 21% of the total mobilised climate finance (with an average of 19% for 2016-2019) (OECD, 2021). The share of grants financing of the GCF ranged between 10% (US$ 1.5 billion) in 2021 and 34% (US$ 1.2 billion) in 2017, with a yearly average of 19% (US$ 1.0 billion USD) between 2015-21.

Another development at the GCF is that equity investments are gaining importance. It represented around 1/5 of the GCF's finance (including co-finance) for the period 2016-2019 (see Figure 2). This is in stark contrast to the overall climate finance, where equity only represented 3% of the average public climate finance in the period 2016-2019. Currently, in the complete GCF project portfolio equity represents 20% of the allocated finance (incl. co-finance).

Figure 2: Instruments over time



	OECD 2016	OECD 2017	OECD 2018	OECD 2019	OECD 2020	OECD 2021	GCF 2016	GCF 2017	GCF 2018	GCF 2019	GCF 2020	GCF 2021
Loans	36.3	44.5	51.3	48.6			1.8	1.6	3.3	1.8	2.3	9.7
Grants	12.0	12.8	12.8	16.7			1.0	1.2	1.8	0.6	1.1	1.6
Equity	1.3	7.8	8.9	7.3			0.4	0.4	1.2	1.5	1.0	2.6

Note: Only debt, equity and grant instruments are displayed in Figure 2. Small variations possible.

Recommendations

The GCF is steadily increasing its contribution to the target to mobilise US$ 100 billion of climate finance per year. This makes it more important to understand the Fund's role in the wider climate finance landscape, in particular where the GCF performs better or worse than other funds and finance providers. This is also relevant in the context of the post -2025 climate finance target under the UNFCCC that is being negotiated.

For example, the GCF is doing relatively well in terms in prioritising its allocation of adaptation finance to LDCs, SIDS and African countries. This GCF Monitor did not analyse the underlying causes, which could include the GCF's strategic objectives as defined in the Governing Instrument and its Updated Strategic Plan, its focus on country ownership and direct access, and its Board composition.

The GCF has a lower share of pure adaptation project funding than the overall mobilised climate finance that contributes to the US$ 100 billion goal. The Fund however has a much larger share of cross-cutting projects. It is important to ensure that adaptation components in such projects are sincere and that results are monitored and reported with the same priority as the results on mitigation components of cross-cutting projects. Also, the GCF should be careful that its increasing co-financing ratio is not reducing the share of grant financing and tipping the balance towards mitigation.

Going forward, the GCF should also start to think about the strategic objectives that should be set when updating the strategic plan for 2024 onwards. It is important to identify potential trade-offs up front. For example, a focus on mobilising co-finance might tip the adaptation-mitigation balance more towards the latter and might reduce the share of grant financing. Identifying and potentially addressing such trade-offs should be done within the context of the wider climate finance landscape: one option would be that the GCF would focus on e.g. mobilising co-finance, whereas another fund (e.g. the Adaptation Fund) focuses on grants and adaptation.

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