

GCF insight: “Paradigm shift” in GCF project development

GCF insight seeks to understand what’s working - and what’s not working - in Green Climate Fund (GCF) project development. The surveys and reports spotlight the most topical GCF issues. This third edition explores if and how the transformational or paradigm shift potential of GCF projects factors in the decision-making of National Designated Authorities and accredited entities and what can be done to enhance it.

Spotlight on the GCF’s transformation potential

On the eve of the 14th meeting of the GCF Board in Songdo, one of the issues that dominates discussions around project development concerns one of the key aims of the Fund. Some have argued that the projects approved for funding so far fail to contribute sufficiently to the Fund’s mission to induce a transformational shift in global development pathways. Board members, observers, and recently also the former Executive Director¹ have expressed their concern that the Fund may be unable to live up to its ambition if it continues on this path.

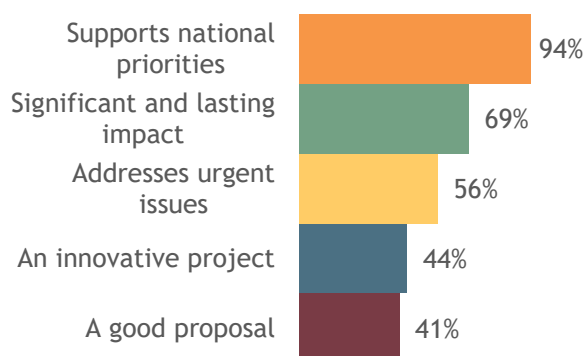
Bringing empirical evidence to this vital debate, this edition of *GCF insight* explores to what extent the transformational potential of projects factors into the decision-making of Accredited Entities and National Designated Authorities (NDAs). To this end, online surveys were conducted two weeks prior to the Board meeting. This report presents the key insights from these surveys. Moreover, it offers some recommendations to address the issues identified.

Key findings:

- NDAs primarily ensure that projects are in line with national priorities (94% of NDAs selected this response) and have a lasting impact (69%). Many NDAs do not appear to prioritise the quality of proposals (41% do). NDAs appear open to projects that are more transformational as long as national priorities are met.
- Accredited entity responses on priorities are more mixed. Some see the GCF as a source of funding for new transformative projects (44%), but many others currently see it as a way of expanding on existing activities (56%).
- Most respondents (62%) do not perceive a lack of transformational potential in their own projects. Others are unclear what the term transformational potential means (28%). This is an indicator that clearer guidance from the GCF is needed.
- Clearer guidance from the GCF on what constitutes ‘paradigm shift’ potential is strongly desired by many NDAs and accredited entities alike.

¹ “Green fund investing in the wrong projects, says former chief”, *Financial Times*, 4 September 2016

Why develop or approve GCF projects?



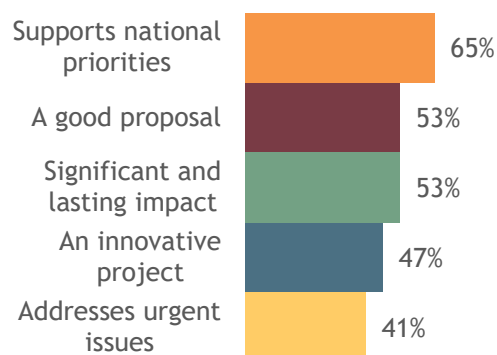
Top 5 factors for NDAs

The vast majority of **NDAs** (93%) stated, unsurprisingly, that a project's fit with national priorities ranks among the most important factors for them to provide a letter-of-no-objection to GCF projects. After all, the NDA's role is to ensure consistency with national development plans.

Accordingly, in 50% of cases where NDAs have refused a project, this was due to a lack of consistency with national priorities. The remaining cases were either because projects were expected to be short-lived, or the NDA simply gave priority to other projects.

Other key factors contributing to NDAs' decisions include the expected long-term impact of projects (69%) and the urgency of the issues a project addresses (56%). These two factors, combined with the fact that quite a few NDAs (44%) are looking for innovative projects, indicate that NDAs are favourable towards transformational potential, as long as it supports their national priorities. When asked directly about this, 69% of responding NDAs stated that they do indeed see the GCF mainly as an opportunity to do new, innovative kinds of project in their country.

On the other hand, NDAs seem to understand their role primarily as gatekeepers. Only about a third of respondents (34%) stated they consider it a major factor whether the GCF is the right source of funding. Moreover, the quality of the proposal plays a major role for less than half of them (41%).

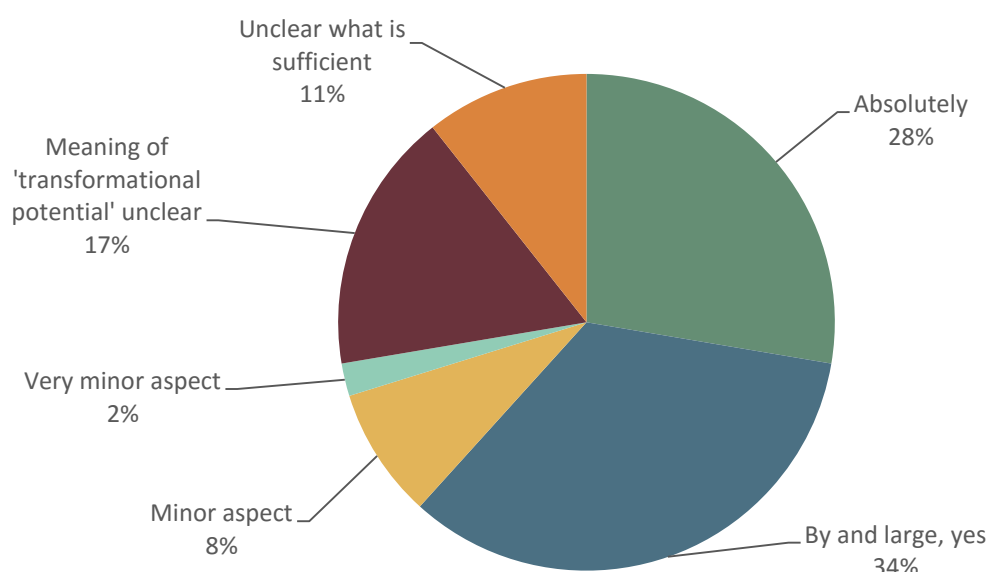


Top 5 factors for accredited entities

Accredited entities are more diverse in terms of what they deem to be key factors for choosing projects to develop for submission to the GCF, although the same five factors are the highest-rated. About half of all respondents value a good proposal (53%), a high and lasting expected impact (53%), and an innovative approach (47%). In general, entities seem to be split with regard to their openness toward transformational potential. 56% of them stated the GCF mainly allows them to expand on existing projects or "do projects at scale", rather than develop new and innovative kinds of projects (44%). So while some entities do see the GCF as a source of funding for new, potentially transformative projects, many others do not see that as the Fund's primary merit.

Strikingly, the most common response to this question was that for accredited entities, too, consistency with national priorities is key (65%). This up-front emphasis on national development plans ensures smooth coordination with the NDAs, many of whom (41%) stress that trust in the accredited entity is a key factor for them to provide a project 'no-objection' letter. Generally, entities and NDAs seem to be working well together. Importantly, when accredited entities had to abandon projects during development, it was mostly not due to the NDA's objection (14%), but rather due to the GCF process being too slow (43%) or the entity refocussing its efforts on other projects (29%).

Self-assessing the transformational potential of projects



Responses to the question: "Would you say your projects put sufficient emphasis on transformational potential?"

Considering the debate around the perceived lack of transformational potential in GCF projects, it is worth exploring how NDAs and accredited entities themselves assess the situation. We asked respondents about 'transformation' not 'paradigm shift' since the latter term is fairly uniquely used by the GCF and, it was felt, would introduce a bias.

Interestingly, 62% of respondents said the projects they develop (or projects that are being developed in their country) put 'by and large' or 'absolutely' sufficient emphasis on transformational potential. Merely 11% (all of whom are NDAs) responded that it is only a 'minor' or very minor aspect in their decision-making. To the remainder (28%), it is 'unclear what the

GCF would deem sufficient' or what exactly would be considered transformational potential at all.

Thus, the majority of NDAs and entities either think their projects are sufficiently transformational or they are admittedly unclear about what transformational potential practically implies for their projects. Before their approval by the GCF, projects must be developed by accredited entities and approved by NDAs. Hence, if the GCF were to aim to approve projects with a larger (or different) paradigm shift potential, the first order of business should be clearer guidance from the GCF to NDAs and accredited entities about what they are aiming to achieve.

Need for clearer guidance and support

The conclusion drawn above coincides with the need for clearer guidance and support from the GCF that many respondents expressed in their responses to other questions in the survey. More than half of the NDAs (52%) said that in order for them to emphasise more the transformational potential of projects, they would require clearer guidance from the GCF with regard to what the Fund is seeking.

In addition, 48% would appreciate more technical and/or financial support from the GCF for this. *"Improved communication between the Secretariat and the NDA in a timely manner is vital,"* one respondent stressed. Another suggested that *"more awareness and training should be organized on guiding principles to demonstrate the potential impacts"*.

The results for accredited entities are similar. Owing to the fact that it is the entities that actually develop GCF projects, the focus in their responses is shifted towards more technical and financial support from the GCF (47%), as opposed to clearer general guidance (41%). A lack of clear guidance also exacerbates uncertainty regarding timeframes and expectations in the GCF project approval process, as one accredited entity pointed out.

Respondents noted that additional guidance may be provided through *“more support for project preparation”*, *“more weight [on transformational potential] at the time of project analysis by the GCF”*, but importantly also through the GCF’s own practices. As one respondent said, the *“GCF appears to prefer to work with traditional developmental organisations like UN entities and DFIs [development finance institutions]. This is neither transformational nor innovative, hence GCF requests something it is not really pursuing itself”*. Another added that GCF should be willing to take more and other kinds of risks than existing market participants in order to demonstrate its added value. 29% of NDAs said they would put more emphasis on

transformational projects if the Board changes the kind of projects it routinely approves.

Several NDA respondents expressed concerns that the limited institutional capacity of developing countries is still not sufficiently taken into account. *“Proposals from LDCs should be treated with understanding about their limited capacity for project implementation.”* Another stressed the need for further *“ease on procedural steps [...] for least developed countries”*. Referring to another longstanding issue with the Fund, one NDA offered an explanation for the lack of adequate support. According to this respondent the Secretariat is often not up-to-date with priorities of least-developed countries due to limited expert staffing.

Survey overview

- 50 respondents
 - 32 NDAs and Focal Points
 - 18 accredited entities
- 63% of respondents have medium to high levels of experience working with GCF projects
- Conducted from 26 September to 4 October, in advance of the 14th GCF Board Meeting

About this survey and report

This survey 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 and prepared 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 GCF.

About E Co.

We are a UK-based consulting company with a long-track record in low-carbon, climate-resilient project formulation. We believe that the GCF can make a substantial and lasting change in the world, and we’re doing all we can to help it do that. As a consulting company we are leading the way, and we are happy to share the lessons with the GCF community to make all GCF projects better. We would love to hear your thoughts on this edition of GCF insight. Please get in touch by email or phone.

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HEADQUARTERS

55 Chislehurst Road
Chislehurst, BR7 5NP
United Kingdom

PHONE

+44 20 30 120 130

FAX

+44 20 30 120 140

WEB

www.ecoltdgroup.com

EMAIL

GCFinsight@ecoltdgroup.com

