Opportunities for the Next Executive Director of the Green Climate Fund

By Pete Ogden and Gwynne Taraska October 3, 2016

The Green Climate Fund, or GCF, developed amid tremendous uncertainty. A single phrase from the 2009 Copenhagen Accord—"We decide that the Copenhagen Green Climate Fund shall be established"—sparked the existence of the fund, which world leaders broadly envisioned as a channel of multilateral finance to support low-carbon, climate-resilient growth in developing countries.[1]

Over the past few years, the GCF's board and secretariat have worked to build the fund into an operation that has the necessary capacity to responsibly manage and disburse many billions of dollars of public finance. Yet they had no firm assurance of substantial funding until 2014, when the first major donors, including Germany and France, made concrete pledges.[2]

Moreover, the negotiations to create a global agreement to succeed the Copenhagen Accord—what is now known as the Paris Agreement—were hurtling toward their December 2015 deadline just as the GCF was becoming operational. As a result, fundamental questions about the place of the fund in the new landscape of international climate cooperation were unanswered.[3]

The first executive director of the GCF, Héla Cheikhrouhou, led the organization through this formative stage, helping it develop its guiding principles and build its institutional capacity.[4] Now that her three-year term has ended, a new director will have the opportunity to lead the GCF through a markedly different stage. There is now greater clarity about both the scale of available resources and the fund's role in the Paris era, as well as greater expectations for the fund to achieve its potential.

To date, more than 40 countries have committed approximately $10 billion for the first funding cycle of the GCF.[8] Industrialized countries—including the United States, Japan, Sweden, Germany, France, and the United Kingdom—are the largest donors.

Projects of the Green Climate Fund

In advance of the Paris summit, the GCF board approved $168 million for its first eight projects.[5] These include adaptation initiatives on freshwater supply, climate-resilient infrastructure, and ecosystem restoration, as well as mitigation initiatives on energy efficiency green bonds and solar generation.[6] In July 2016, the board approved $257 million for an additional nine projects, including a number of adaptation initiatives in vulnerable developing countries such as Gambia, Mali, and, Tuvalu.[7]

The United States pledged $3 billion in 2014 and delivered its first $500 million in 2016.[9] Emerging economies, including Mexico, Panama, and Chile, also financially support the fund.[10]

The adoption of the Paris Agreement in December 2015 solidified the role and importance of the GCF in the post-Copenhagen era of climate cooperation. The agreement names the GCF—in addition to the Global Environment Facility, a well-established channel for environmental finance founded in 1992—as a financial entity that "shall serve the Agreement."[11] Further, the Paris Agreement emphasizes the importance of elevating adaptation and directing climate finance to the most vulnerable countries, two of the GCF's principal priorities.[12]

As a result of this clarity on the fund's resources and its position in the Paris era, the GCF is now better positioned to identify its unique advantages and determine how to deploy resources to achieve its mission: a paradigm shift in development that would ensure that economic growth is low in emissions and resilient to the effects of climate change.

To bolster the influence and impact of the fund, the next executive director should look for near-term opportunities to mobilize investments in climate resilience—including by engaging the private sector—and to forge innovative partnerships that disrupt the business-as-usual model of climate finance. This brief discusses some of these opportunities.

Mobilizing adaptation finance at scale

Despite the success of drawing $10 billion of publicly pledged support for its initial funding period, the GCF is not resourced to produce change through a massive stimulus investment or to take on a vast portfolio of projects. Rather, as long as countries make good on their commitments, it will have the resources to make strategic investments in areas of particular need where it can have the largest direct impact while also creating models of effective intervention that can be duplicated and expanded elsewhere.

One such area of need is the shortfall in adaptation finance, which could benefit from additional institutional support, much as clean energy finance has benefited from partnerships with multilateral funds, such as the Clean Technology Fund, and national development-finance institutions, such as the U.S. Overseas Private Investment Cooperation.[13]

Among the advantages of the GCF is its emphasis on enhancing the resilience of developing countries that are particularly vulnerable to the damaging effects of climate change. The fund aims to reach a balance between support for adaptation and support for the

The adaptation funding gap

Financial support for climate change adaptation represents only 17 percent of international public climate finance, according to an estimate from the Climate Policy Initiative.[14] Furthermore, it covers only a fraction of the actual costs, which are increasing.[15] Assessments of the cost of adapting to a temperature increase of 2 degrees Celsius reach into the hundreds of billions of dollars per year by 2050. For comparison, $25 billion in international public finance went to adaptation in 2014.[16]

mitigation of greenhouse gas pollution.[17] It also aims to channel at least 50 percent of its adaptation funding to particularly vulnerable countries, including small-island developing states, the least developed countries, and African states.[18]

Private-sector opportunities to promote resilience

Another advantage of the GCF is its focus on increasing private investment in both low-carbon and climate-resilient projects—specifically, through its Private Sector Facility, or PSF.[19] The private sector already accounts for the majority of finance for renewable energy projects—contributing more than $240 billion in 2014—but a step change in climate finance from both public and private sources is required over the coming years to limit global warming and meet the goals of the Paris Agreement.[20]

With its PSF and its goal of allocating resources equally between adaptation and mitigation, the GCF is well-positioned to help address the global imbalance between the level of adaptation finance and the level of finance for clean energy and energy-efficiency deployment. This imbalance is in part a success story: Falling clean energy costs combined with successful deployment incentives and policies have helped fuel clean energy growth and have increasingly drawn in private-sector participation.

But the imbalance also indicates that the climate adaptation effort needs more successful models—and more public support—to drive funding to the point where it is able to effectively attract new private-sector investment. The broader climate finance environment is now ripe for such interventions, as indicated by a recent uptick in private-sector engagement in international adaptation.[21]

In just the past few years, for instance, countries and international financial institutions have started to make significant use of green bonds. These bonds are concessional loans offered to private companies for clean and environmentally sustainable projects. They can be used to support large adaptation infrastructure projects, as well as traditional mitigation projects, such as utility-scale wind or solar power. The rapid rise of green bonds is notable: The green bond market tripled to $36 billion in 2014.[22]

There are other innovative opportunities for the GCF to drive private-sector adaptation work as well, including through the support of increased access to climate-related risk insurance. Although insurance initiatives have begun to proliferate—now covering more than 10 percent of losses in developing countries—there is still a clear gap in access.[23] Fortunately, there are indications that countries have the political will to narrow this gap: In June 2015, the G-7 pledged to extend access to climate-related risk insurance by up to 400 million people by 2020, and in December 2015, the United States committed $30 million for climate-related risk insurance.[24] To date, however, there is not a coordinated, dedicated channel for public funds to help close the insurance gap.

Still other opportunities for private-sector engagement can be found in the agricultural and water sectors.[25] For example, the Pilot Program for Climate Resilience—an initiative of the Climate Investment Funds—has provided agribusiness-supported training for farmers.[26] The Private Sector Initiative of the U.N. Framework Convention on Climate Change catalogues other instances of corporate investment in agricultural training in its database of more than 100 case studies of private-sector adaptation finance.[27] In the water sector, businesses have invested in conservation to reduce the risk of water scarcity in the regions where they operate.[28]

Of course, private-sector investment will not be a panacea for the adaptation finance gap, as it is not equally well-suited to all sectors and regions. This is particularly the case in the least developed countries. But with its PSF and its focus on adaptation, the GCF is an ideal fund to begin mobilizing adaptation finance at scale, both by channeling increased flows of public finance and by attracting new private capital.

Spearheading new geopolitical partnerships

One of the unique and valuable features of the GCF—which of course also comes with its own set of challenges—is that it includes developed and developing countries as both donors and full voting members of the board, a body that makes decisions on a consensus basis.[29] The next GCF executive director should aim to use this diversity of backgrounds and expertise to foster further cooperation among countries in different stages of economic development. This can be done not only through working to expand the number of emerging economies that support the GCF but also through forging partnerships with countries that support climate-compatible development through non-GCF channels.

China should be the first country considered for such a partnership. Although China has resisted contributing directly to the GCF, it has launched its South-South Cooperation Fund on Climate Change, through which it has pledged approximately $3.2 billion to help developing countries address climate change.[30] On a March 2016 trip to Beijing led by the Center for American Progress, multiple Chinese officials, in conversation with one of the authors, expressed interest in pursuing coordinated projects with the GCF.

Such a partnership that transcends the traditional divide between developed and developing countries would help countries focus on the practical contributions that they can all make in order to meet the climate challenge. It would also continue the positive spirit of collaboration and progress embodied in the U.S.-China joint statements on climate change and the Paris Agreement.[31]

Constructively engaging with China would also help elevate climate considerations in China's overseas development-finance approach. A recent study by Boston University's Global Economic Governance Initiative found that China had roughly doubled its energy-related development finance to $117 billion from 2007 to 2014.

However, three-quarters of this amount supported fossil fuel projects, two-thirds of which were coal projects.[32] While, at this point, the South-South Cooperation Fund on Climate Change constitutes one small slice of China's broader development investment, the GCF could nevertheless begin to steer China away from fossil fuel investments through a constructive partnership that may lead to more opportunities in the future.

Conclusion: Developing global influence

The next executive director of the GCF will inherit the fund at a time when its advantages, resources, and role have come into focus. As the recommendations in this brief indicate, there is now an opportunity to hone the strengths of the fund and steer it toward becoming a successful channel of climate finance.

The GCF also has an opportunity to become a center of thought and action in climate finance more broadly. The fund is well situated to be globally influential due to its exclusive focus on climate; its blend of members and donors from both developed and developing countries; and its ties with a diverse set of offices via its board members, who are typically from ministries of finance, the environment, or foreign affairs.

To this end, the GCF should work to participate in and share its expertise with a range of forums, such as the Vulnerable 20, a group of finance ministers from countries disproportionately affected by climate change, and the G-20, a body of large economies focused on global economic governance.[33] The G-20—a forum with a history of ambivalence on the topic of climate change—could particularly benefit from an institution that has experience fostering climate-compatible development and appreciates that climate change is a threat to economic progress and stability.[34] In this way, the GCF could extend its goals and methods well beyond its own pipeline of projects.

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Endnotes

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