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Revitalising the Green Climate Fund

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KEY FINDINGS

- The Green Climate Fund (GCF) is a lynchpin for global climate solidarity and plays an important role in supporting climate action in developing countries. The Fund should, however, increase its focus on serving the most climate vulnerable countries, including in the Pacific Islands region, particularly through grant-based adaptation financing.

- Reforms are required to ensure that GCF support is targeted to where it is needed most and to boost countries' direct access to funding. This includes adoption of country allocations following a prescribed formula to guarantee that support is well targeted and depoliticised.

- Major donors should continue to invest resources and diplomatic effort in the GCF through its upcoming replenishment, while scaling up their financial support over time in line with these reforms.

- Australia should rejoin the Fund to further its own strategic climate objectives. Canberra has a crucial role to play in making the GCF work for Pacific Island countries and in unlocking greater global climate funding for the region.

Notes

- *All currency quoted in this paper is US dollars unless otherwise stated*

- *Glossary of acronyms on p.23*

EXECUTIVE SUMMARY

What is the problem?

The Green Climate Fund was designed as a lynchpin for global climate solidarity between rich and developing countries. Despite its laudable ambitions, the Fund faces important challenges[1] and criticism. It has struggled to define its role in an increasingly crowded climate finance landscape and is seen as slow and difficult to work with, especially for the most vulnerable countries. The GCF is also not effectively targeting its funds towards countries with the greatest needs.

The GCF is due for replenishment and is calling on donors to provide ambitious pledges to enable a scale-up in its financing. Donors must decide how to prioritise the GCF within an evolving global climate finance architecture. This question is especially pertinent for Australia, which stopped supporting the GCF in 2019 and remains one of the few major donors outside the Fund.

What should be done?

Australia should rejoin the GCF to rebuild its global climate credentials in its bid to host COP31 and to further its strategic climate objectives in the Pacific Islands region. The GCF remains central to realising global climate solidarity and worth major donors investing their time and resources to boost its allocations and improve its operations.

Several key reforms will be necessary, however, if the GCF is to deliver on its full potential. The Fund should focus more squarely on meeting the needs and priorities of the most climate vulnerable countries relative to other climate finance providers that target mitigation efforts in higher-emitting developing countries. To deliver on this, the GCF must develop clearer mechanisms for ensuring its support goes to where the adaptation needs are greatest. It should also greatly enhance the ability of vulnerable countries to directly access its financing, especially through more ambitious efforts to cut red tape and shift towards sustained programs of support rather than one-off projects.

Donors should continue their support for the GCF while scaling up their financing in line with ongoing reforms and improved performance in this direction. Shifting the focus and operations of the GCF to largely, or perhaps entirely, service the most vulnerable countries, especially when it comes to their adaptation requirements, would provide the Fund with a clear value-add within the global climate financing architecture.

INTRODUCTION

The world has entered a critical decade when substantial action is urgently needed to respond to the escalating climate crisis. The Intergovernmental Panel on Climate Change (IPCC) forecasts that the world will be unable to keep the global average temperature increase to 1.5 degrees Celsius by the end of this century if current efforts to reduce emissions are not ramped up.[2] The impacts are, and will increasingly become, most acute in vulnerable developing countries despite having contributed the least to historical greenhouse gas emissions. Impacts associated with climate change are estimated to have cost on average 20% of GDP in the most vulnerable countries over the last two decades.[3] The current decade will therefore be critical to both rapidly decarbonising the world economy to limit the dangers of climate change as well as for countries to adapt to escalating impacts.

The purpose of the GCF is to channel new and additional finance for climate change action in developing countries.

The Green Climate Fund (GCF, or the Fund) was created as a lynchpin for global climate solidarity between rich and developing countries. The purpose of the GCF is to channel new and additional finance for climate change action in developing countries.[4] The Fund, which was operationalised in 2015, is relatively young compared to other established funds. Nonetheless, the GCF is now the world's largest climate-dedicated multilateral fund, with a portfolio of more than $12 billion[5] in approved projects. The GCF is currently in its second replenishment cycle and calling on donors to provide ambitious pledges that will enable the Fund to scale up its financing in coming years.

There is little doubt that vastly greater sums of climate finance are required for both mitigation and adaptation in developing countries. The best estimates[6] suggest that the total scale of climate finance in developing countries needs to triple, to about $2.4 trillion a year by 2030, of which around $200–250 billion is for adaptation and resilience, $200–400 billion for loss and damage, and most of the remainder for financing the clean energy transition in large emerging economies such as India, Indonesia, and Brazil. Around $1 trillion in additional financing annually will need to come from international sources — i.e., rich country governments, multilateral financial institutions, and private investors.

The global climate financing architecture is, however, becoming increasingly crowded, with numerous initiatives competing for a limited pool of donor climate money. Despite the demands of developing countries for international climate finance to be “new and additional”, the reality is that extracting climate funding from donors has proven to be a zero-sum game, with any increase to specific initiatives ultimately coming at the expense of other existing commitments, including for pressing development priorities such as poverty reduction, health, and education.[7]

There are many competing climate finance initiatives and approaches to be considered. Most notably, major donor governments are looking to the World Bank and other multilateral development banks (MDBs) to greatly increase their focus on responding to the climate crisis, especially decarbonisation in large emerging economies.[8] For the MDB reform agenda to avoid coming at the expense of their core mandate in promoting development, additional donor funds to expand their capital base and concessional resources will be essential.[9] In addition, donors have begun signing multi-billion-dollar Just Energy Transition Partnership (JETP) deals with an expanding set of developing countries.[10] Also important is the establishment of a “loss and damage” fund at the 27th Conference of the Parties (COP27) held in Egypt in 2022 to address the unavoidable impacts of climate change — beyond what can be adapted to — in the most vulnerable countries.[11] Finally, many donor governments retain a preference for providing their climate support directly through bilateral aid and other development finance. Australia is among those adhering to this approach.

Several key reforms will be necessary if the GCF is to deliver on its full potential and justify a scale-up in its activities.

This begs the question: what priority should the GCF receive within a crowded and evolving global climate finance architecture? The question is especially pertinent for Australia, which stopped supporting the GCF in 2018 and remains one of few major donors whose position is still unclear towards the Fund. Despite its laudable ambitions, the GCF has faced important challenges and criticism in its short history, including a lack of clarity over its role and value-add vis-à-vis other climate finance providers as well as slow and burdensome processes that particularly impact the most vulnerable countries.

This policy brief argues that the GCF has a unique role to play in the global climate finance landscape. Several key reforms will, however, be necessary if the GCF is to deliver on its full potential and justify a scale-up in its activities.

First, the GCF should double down on its role in supporting global climate solidarity between developed and developing nations. The GCF's unique structure — its anchorage in the Paris Agreement, governance structure empowering developing countries, and grant-based replenishment model — means that the Fund's key comparative advantage should be built around serving the needs and priorities of the most climate vulnerable countries. The GCF cannot compete with the financial firepower of the MDBs or bilateral climate finance in supporting faster decarbonisation in large emerging economies. The Fund does, however, have the capacity to play a pivotal global role in providing essential adaptation support to the most vulnerable countries.

The GCF should double down on its role in supporting global climate solidarity between developed and developing nations.

To deliver on this mandate, the GCF needs to adopt much clearer mechanisms to ensure that its funding is well targeted to where it is needed most. As this analysis demonstrates, the GCF is not effectively targeting its funds towards the most climate vulnerable. Consideration should, for instance, be given to the adoption of country allocations following a prescribed formula, similar to other multilateral institutions such as the Global Environment Facility.[12] This should be focused on targeting country vulnerability. In addition, to properly deliver on its role in supporting global climate solidarity, the GCF must also take decisive steps to greatly enhance the ability of countries, especially the most vulnerable, to directly access its funding. Doing so will require more ambitious reforms to further reduce red tape, provide enhanced technical support, introduce greater flexibilities, reduce risk aversion, and shift more ambitiously towards sustained financing programs rather than relying on one-off standalone projects with high transaction costs.

Donors should continue their support for the GCF while being prepared to scale this up in line with the Fund's ability to deliver ongoing reform geared towards servicing the needs of the most vulnerable countries. Australia, which stopped supporting the GCF in 2018, should rejoin the Fund in line with its own strategic climate objectives. This includes rebuilding Australia's global climate credentials and supporting its bid to co-host COP31 in 2026 alongside Pacific Island countries. Most important, rejoining would allow Australia to work from inside the tent to ensure that a key part of the international climate finance architecture is working well and mobilises more global funding for its neighbours in the Pacific, which are among the most climate vulnerable countries in the world.

STATE OF PLAY: HISTORY, PERFORMANCE, CHALLENGES

Born from the agreements made at the Conference of the Parties (COP) in Copenhagen (2009) and Cancún (2010), the GCF was operationalised in 2015 under the United Nations Framework Convention on Climate Change (UNFCCC) and is embedded in the 2015 Paris Agreement. The GCF was designed to provide developing countries with greater authority over their own climate action pathways. Half of all 24 seats in the Fund's governing board are allocated to developing countries. The GCF was also intended to be highly ambitious, promoting a "paradigm shift" in climate action by funding "high impact" and "transformational" projects.[13]

The GCF was designed to provide developing countries with greater authority over their own climate action pathways.

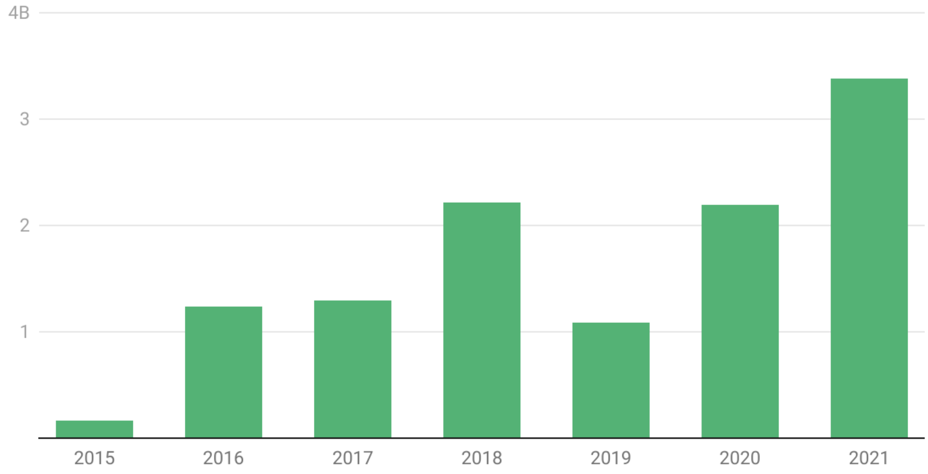
With a secretariat headquartered in South Korea (Songdo, Incheon City), the GCF by design operates at arm's-length from the projects it supports. Currently, there are 118 board-approved accredited entities that partner with the GCF to design, implement, and monitor its projects. The GCF provides its financing to these entities in the form of grants as well as concessional loans, equity, and guarantees. It also engages in some more innovative financing approaches such as results-based financing and blended finance. Accredited entities can be from the public or private sector as well as of international, regional, or national status. "Direct access" for regional and national entities from developing countries is intended to be a critical feature. Allocation of GCF funding is determined through a competitive application system with project-by-project approvals taken by the GCF Board. The GCF allocates an even 50:50 split of its financing between climate mitigation and adaptation purposes. It also has a floor stipulation that at least 50% of adaptation funding go to defined vulnerable country groups, including Small Island Developing States (SIDS), Least Developed Countries (LDCs), and African States.

The GCF experienced a slow start, reflecting its institutional nascency, but also slow decision-making at the board level. Governance reforms — especially shifting from consensus to majority-based board decisions — have since enabled a major acceleration in project approvals, with almost $3.5 billion worth of projects approved in 2021 (see Figure 1). With this, the GCF has become the world's single largest global climate fund. The GCF's portfolio has now surpassed $12 billion, supporting more than 228 projects, of which 79% are now under implementation.

Disbursal of funds and project implementation have been slower but are nonetheless also accelerating, with the GCF reporting that average project approval-to-disbursement time had fallen from 19 months in 2019 to 11 months in 2022.

Figure 1: Increasing GCF financing

GCF project approvals 2015-21, constant 2021 US$



Source: Authors' calculations, OECD DAC Climate-related development finance • Created with Datawrapper

The GCF relies on periodic replenishments every four years to sustain its operations.[14] The Initial Resource Mobilisation (IRM) for 2015–19 raised $10.3 billion from 49 donors, including developed and developing nations. The first replenishment (GCF-1 2020–23) secured a further $10 billion, albeit with only 34 donor pledges. The United States and Australia were notable donors choosing not to extend their support, leaving a gap that was filled by European governments. Notwithstanding the absence of key donors, the replenishment was considered a success[15] that kept momentum for the Fund going.

The Fund is now seeking replenishment and preparing for its next programming period (GCF-2), which will span from 2024 to 2027. Initial signs have been encouraging. Europe is again taking the lead, with Germany notably pledging €2 billion, a one-third increase on its previous contribution. If fulfilled, this would be the single largest contribution to the GCF to date. While no decision has been formally announced as to the next replenishment round, the signs from the Biden administration are positive, with Washington honouring a $1 billion outstanding commitment from the IRM (leaving a remaining $1 billion still unpaid). Australia is the only significant player that has not yet indicated active backing for the GCF despite growing international pressure to do so.[16]

Despite this positive momentum, the GCF continues to face important challenges and criticisms that warrant attention. To inform the next replenishment, the GCF Independent Evaluation Unit (IEU) commissioned a review of the Fund's performance during its last programming period. The IEU review identifies several important issues.

The lack of a more defined common vision for the Fund has resulted in a fragmented "do it all" approach.

Most notably, there is a lack of strategic clarity regarding the position and value-add of the GCF. The lack of a more defined common vision for the Fund has resulted in a fragmented "do it all" approach. While GCF governance has improved, deliberations at board level reportedly remain tense and difficult. Although developing countries are allocated half of GCF board seats, negotiations are unequal and approvals of individual projects subject to considerable politicisation. This is true for negotiations between developing and developed countries but also within developing country regional groups.[17] The IEU review, therefore, questions how well the GCF targets its support to those that need it most. Finally, though the number of accredited direct access entities (DAEs) has greatly expanded, major challenges persist, especially for vulnerable and capacity-constrained SIDS for which the cost and time taken for accreditation have proven overly burdensome and impractical.

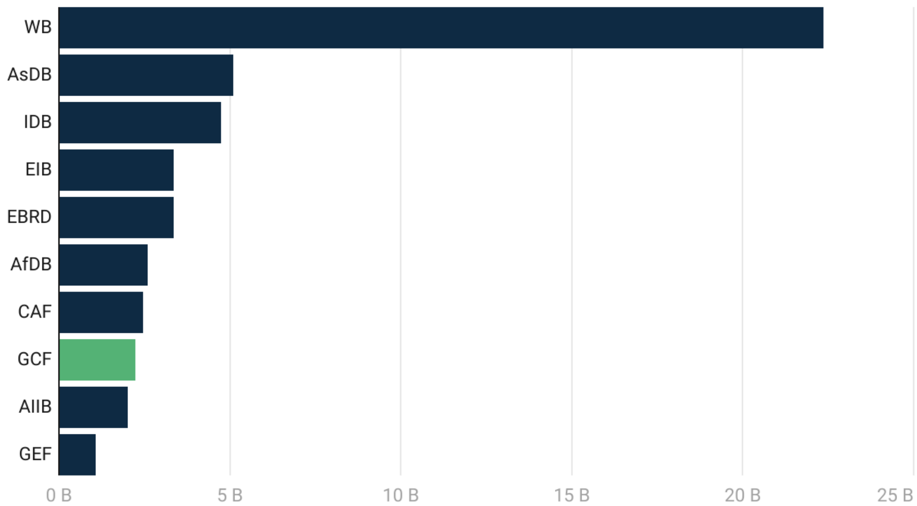
In July 2023, the GCF adopted an Updated Strategic Plan to guide its next programming period from 2024–27. The Plan emphasises strengthening "readiness" support, increasing support for cross-cutting projects, prioritising the adaptation needs of the most vulnerable countries, and promoting innovative financing through its Private Sector Facility. However, the Plan leaves the most significant issues posed by the IEU review largely unresolved.

The GCF's unique potential in a crowded landscape

It is imperative that the GCF be given a clearer and more targeted mandate premised on the Fund's comparative advantages within the global climate finance architecture. At present, the Fund operates with a "full spectrum" model that makes its role difficult to clearly differentiate from other finance providers in the system.[18] Moreover, a funding model reliant on periodic replenishments from donors implies that the GCF will likely always occupy a niche role within the global climate finance landscape, for instance compared to the MDBs. Overall, the GCF provides less than 0.2% of overall public and private climate finance flows.[19] As Figure 2 shows, the Fund is dwarfed as a global climate finance provider by the World Bank as well as numerous regional MDBs. Nor can the GCF easily compete with the growing climate aid and development finance activities of bilateral donors, such as the recent multi-billion-dollar JETP deals.

Figure 2: Top multilateral providers of climate finance

Average 2019-21, constant 2021 US$



WB = World Bank; AsDB = Asian Development Bank; IDB = Inter-American Development Bank; EIB = European Investment Bank; EBRD = European Bank for Reconstruction and Development; AfDB = African Development Bank; CAF = Development Bank for Latin America and the Caribbean; GCF = Green Climate Fund; AIIB = Asian Infrastructure Investment Bank; GEF = Global Environment Facility

Source: Authors' calculations, OECD DAC Climate-related development finance • Created with Datawrapper

Nonetheless, the particular history, position, and structure of the GCF provide the institution with the potential to play an important role in supporting the most climate vulnerable countries, especially in terms of adaptation. The GCF was specifically created as a mechanism for global climate solidarity between rich and developing countries and is the only truly global fund dedicated to responding to climate change.

Its governance structure, providing a 50:50 split between developed and developing nations, is unique and stands in contrast to the governance of entities such as the MDBs.

These characteristics make the GCF well suited for meeting the needs of the most climate vulnerable countries and their demands for greater adaptation finance and direct access financing in particular. Indeed, the 2023 IEU review notes that the Fund is 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".[20]

It is imperative that the GCF be given a clearer and more targeted mandate premised on the Fund's comparative advantages within the global climate finance architecture.

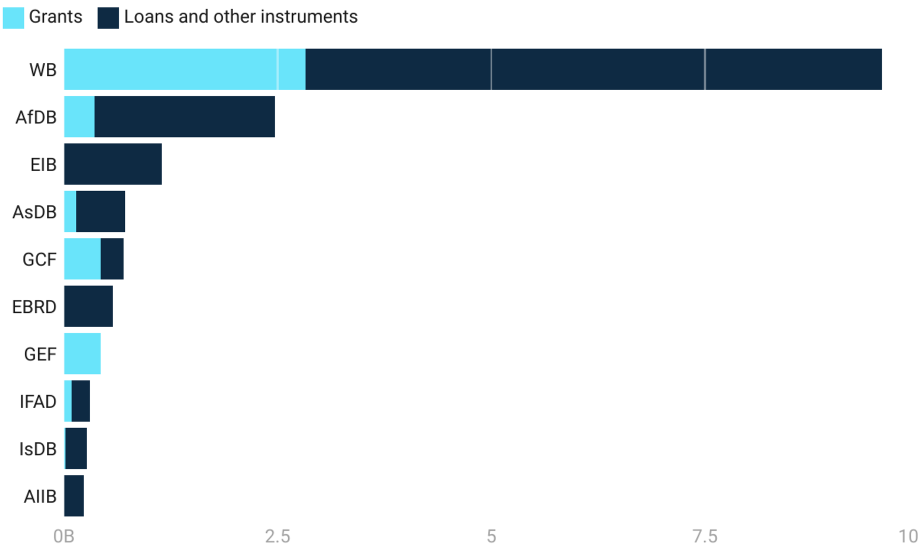
Compared to the GCF, the MDBs are far more able to deliver the large-scale financing required to support the needs of big emerging economies such as India, Indonesia, and Brazil. The MDB financial model is able to leverage small amounts of paid-in donor capital into vast sums of total financing.[21] This is well suited to financing decarbonisation in large-emitting developing countries that remain central to the global transition to net zero emissions. The MDBs and multilateral and bilateral development finance institutions (DFIs) are also better placed to engage in blended finance to mobilise additional private investment — which is again more useful as an instrument in larger and more dynamic emerging economies as well as for mitigation rather than adaptation. Finally, the non-concessional nature of most MDB and DFI financing is better suited to emerging economies with a higher capacity to repay debt and for mitigation projects that often earn a financial return.

Conversely, the GCF's funding model, which relies on periodic replenishments of donor grants, makes it particularly well suited to support the most climate vulnerable countries. Low debt-carrying capacity, weak or non-existent financial returns, and high project risks make highly concessional financing terms critical and substantial private capital mobilisation unrealistic in the most vulnerable countries, especially when it comes to financing adaptation projects. Notably, given their smaller populations and economies, the GCF funding model is quite capable of playing a leading role in supporting the most vulnerable countries. Indeed, it already is. Between 2019 and 2021, the GCF was the fifth-largest provider of climate finance to vulnerable countries. Focusing on grants, however, the GCF is joint second behind only the World Bank and alone represents around 10% of all climate finance grants to this group (see Figure 3).

If the GCF focused more of its resources on grants to vulnerable countries, it could close in on the scale of grant financing provided by the World Bank — giving the Fund a truly pivotal global role in this space.

Figure 3: Top multilateral providers of climate finance to the most vulnerable countries

Average 2019-21, constant 2021 US$



WB = World Bank; AfDB = African Development Bank; EIB = European Investment Bank; AsDB = Asian Development Bank; GCF = Green Climate Fund; EBRD = European Bank for Reconstruction and Development; GEF = Global Environment Facility; IFAD = International Fund for Agricultural Development; IsDB = Islamic Development Bank; AIIB = Asian Infrastructure Investment Bank

Source: Authors' calculations, OECD DAC Climate-related development finance • Created with Datawrapper

The need for greater adaptation finance is high and developing countries have repeatedly called for this to be prioritised within the climate finance they receive.[22] The UN Environment Programme's Adaptation Gap Report as well as the UNFCCC Standing Committee on Finance state that adaptation is woefully underfunded, with existing amounts estimated to be 5–10 times below needs.[23] However, mitigation finance is also relevant for climate vulnerable countries.[24] For instance, some projects, such as mangrove planting, can serve both mitigation (absorbing carbon) and adaptation (flood barrier) purposes. Climate vulnerable countries also still require funding to meet mitigation objectives under their own Nationally Determined Contributions (NDCs). Finally, in many cases, the major benefit of mitigation finance in vulnerable countries is that it improves energy security, which further enhances resilience.

Overall, shifting the focus and operations of the GCF to largely, or perhaps entirely, service the most vulnerable countries, especially when it comes to their adaptation requirements, would provide the Fund with a clear value-add within the global climate financing architecture. This would be in line with the Paris Agreement, which explicitly supports the targeting of grants to climate vulnerable countries and adaptation in particular.[25] As a 2020 IEU report itself states, the GCF is “a minor actor in the overall climate finance space but has an opportunity to be more relevant in adaptation”.[26]

Is GCF support effectively targeted?

At present, the GCF targets 50% of its climate adaptation finance to vulnerable countries but otherwise relies on the project-by-project approval decisions of the GCF Board to achieve an appropriate distribution of funding across countries. By contrast, other multilateral climate finance providers, such as the Global Environment Facility and the MDBs, utilise formula-based approaches to ensure the allocation of their support is well-targeted and depoliticised.

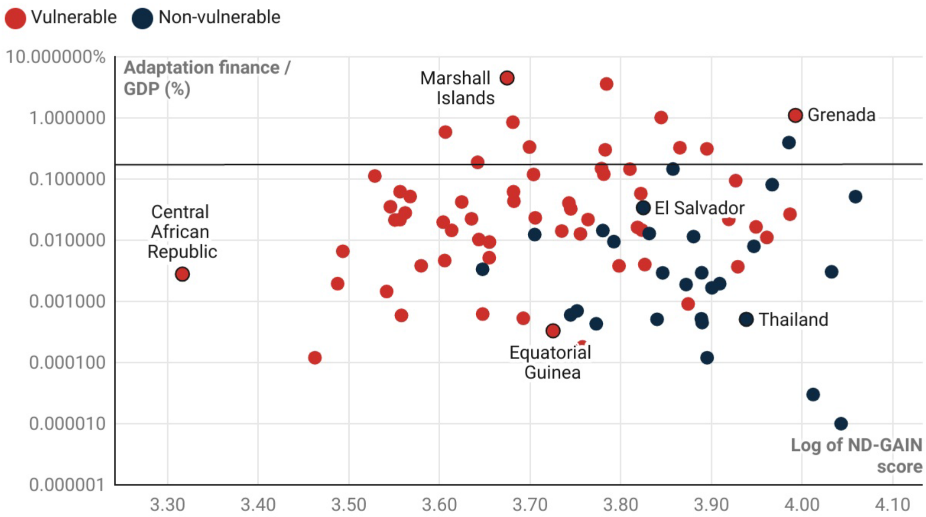
How well is the current approach of the GCF performing? Figure 4 plots the relationship between GCF adaptation funding to individual countries (measured as a share of GDP to control for country size) against each country’s average score in the University of Notre Dame Global Adaptation Index (ND-GAIN).[27] A high ND-GAIN score indicates that a country is better prepared for and less vulnerable to climate change. Hence, if GCF support is well targeted, one would expect to see a strong negative relationship between GCF adaptation funding and the ND-GAIN score.

As Figure 4 shows, however, the correlation between GCF adaptation funding and climate vulnerability is basically zero.[28] This is true for all GCF recipient countries as a group, as well as for vulnerable and non-vulnerable countries specifically. While some SIDS such as Nauru, Marshall Islands, and Grenada have received disproportionately large GCF support, there are many other vulnerable countries, notably in Africa, that have received very little support despite often displaying higher degrees of climate vulnerability.

Given the significant variation in the scale of GCF support relative to GDP across countries, Figure 4 displays GCF adaptation finance on a logarithmic scale for presentational purposes. Importantly, though not shown, within each vulnerable country sub-group (SIDS, LDCs, and African States) there is a similar lack of correlation between GCF support and climate vulnerability. These results hold if one uses funding per capita instead of funding as a share of GDP to measure the degree of GCF support. The conclusion is that the current approach, which hinges on the GCF Board's capacity to adopt a balanced project approval process, does not effectively target the most vulnerable countries.

Figure 4: Is adaptation finance targeting the most vulnerable?

GCF adaptation finance as a % of GDP correlated with ND-GAIN Index, average 2015-21



Note: Vulnerable countries include SIDS, LDCs and African States. The trend line shown applies to both vulnerable and non-vulnerable countries.

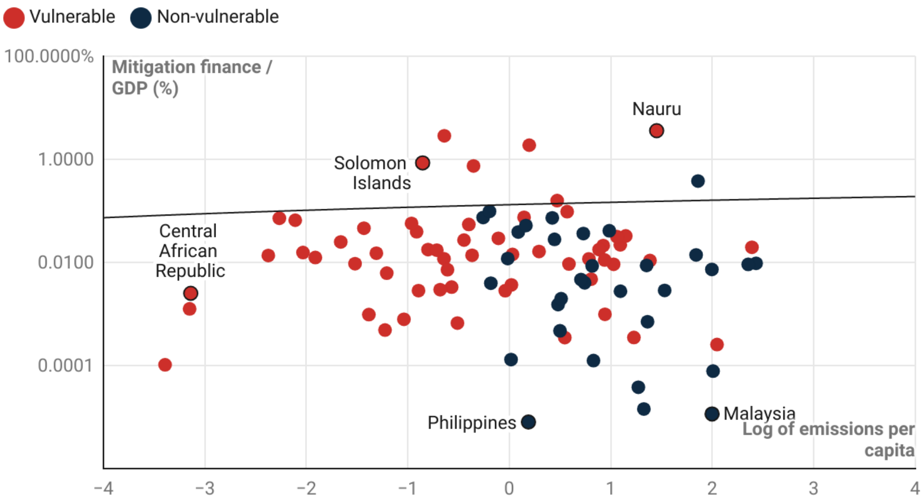
Source: Authors' calculations, OECD DAC Climate-related development finance, World Bank Open Data GDP (US$ Current), Notre Dame Global Adaptation Initiative ND-GAIN Data • Created with Datawrapper

What about GCF targeting of efficient mitigation? Although the GCF should focus more on adaptation in the most climate vulnerable countries, mitigation will likely remain relevant in these countries and elsewhere. Figure 5 repeats the exercise, this time relating GCF mitigation funding (again expressed as a share of GDP) to each country's per capita emissions as a measure of the need for mitigation support. If GCF mitigation funding is well targeted one would expect to see a strong positive correlation. The story, however, is the same as that for adaptation and vulnerability, with the correlation between GCF mitigation funding and country per capita emissions minimal and statistically indistinguishable from zero. Again, this holds true across vulnerable and non-vulnerable countries.

The results also hold if one expresses GCF mitigation funding on a per capita basis instead of as a share of GDP. The conclusion is that GCF mitigation funding is not well targeted to where the needs are greatest.

Figure 5: Is mitigation finance targeting the highest emitters?

GCF mitigation finance as a % of GDP correlated with emissions per capita, average 2015-21



Note: Vulnerable countries include SIDS, LDCs and African States. The trend line shown applies to both vulnerable and non-vulnerable countries.

Source: Authors' calculations, OECD DAC Climate-related development finance, World Bank Open Data GDP (US$ Current) and CO2 emissions per capita (metric tons) • Created with Datawrapper

It is possible that GCF funding deviates from targeting both vulnerability and carbon emissions for valid reasons such as recipient country readiness, absorptive capacity, and the prospective for projects that reflect the "paradigm shift" impacts that the GCF formally prioritises. However, even considering these issues, if GCF support were well targeted, one should still expect to see a considerable degree of correlation with vulnerability and emissions. For example, GCF support for "paradigm shift" projects should still be targeted to countries that are either more vulnerable or have higher emissions. Moreover, while attention must be paid to country institutional capacity, it is nonetheless clearly problematic if this implies country vulnerability or emissions effectively have no bearing on how much GCF support is provided, which is presently the case.

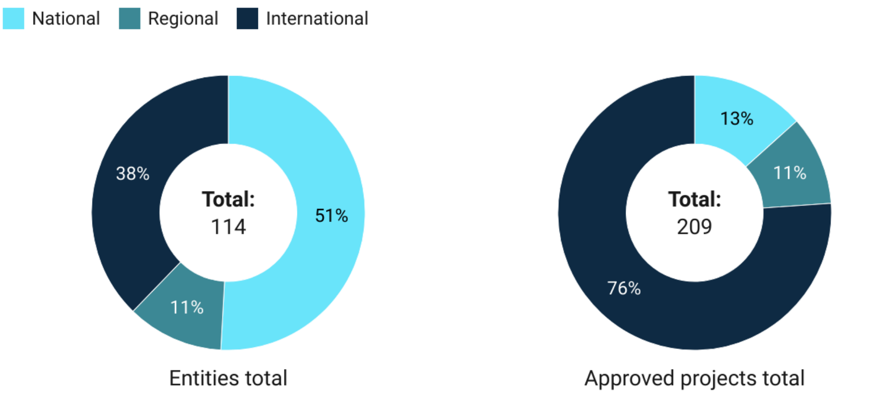
Enhancing country ownership through direct access

For the GCF to deliver on its potential role in supporting global climate solidarity, it must ensure vulnerable countries are able to access its financing directly, not only or predominantly through international intermediary institutions.

Direct access has grown over time and the GCF now has a diverse network of DAEs. This has been achieved via improvements in GCF "readiness" and "fast-tracked accreditation" programs. DAEs now outnumber[29] indirect access entities (IAEs) by almost 2:1, including 41 international intermediaries, 59 national, and 13 regional entities. In terms of regional distribution, the Asia-Pacific region has the highest number of DAEs (29), followed by Africa (22), Latin America and the Caribbean (19), and Eastern Europe (2).

Figure 6: International access entities receive disproportionate project approvals

Number of GCF access entities compared to approved projects



Source: Authors' calculations, Independent Evaluation Unit Datalab as of 20 October 2022 • Created with Datawrapper

Nonetheless, GCF funding is still predominantly delivered via IAEs (see Figure 6), constituting 76% of total project approvals[30] despite accounting for only 38% of all accredited entities. In contrast, national entities accounted for just 13% of project approvals, despite representing 51% of all accredited entities.

Another issue is that only a handful of entities receive most of the financing through the DAE channel, with five national DAEs receiving 68% of all national DAE finance and five regional DAEs receiving 94% of all regional DAE finance. The benefiting institutions generally have already robust fiduciary standards and a pipeline of viable projects in place that precede their GCF accreditation. Many of the most vulnerable countries are still without DAE accreditation and those that have obtained accreditation encounter further difficulties during the project approval and implementation stages. The IEU review identifies a protracted and inefficient accreditation process as well as recipient country capacity constraints as the key factors limiting accreditation of and fund distribution to DAEs.

One worrying result is that organisations in vulnerable countries with already limited capacity are undergoing the intensive GCF accreditation process with little progress or results to show for it so far. In the Pacific Islands region, several countries have pursued DAE accreditation as a key priority, but only the Cook Islands and Fiji have had success to date. Fiji had a project approved through the Fiji Development Bank in 2019, though fund disbursement is still pending. Moreover, the substantial fees associated with accreditation and the requirement to undergo re-accreditation every five years have raised concerns that entities in the region might face the expiration of their accreditation before they can develop a project.[31]

Delivering on the GCF's potential as a key vehicle for global climate solidarity will require the Fund to take decisive steps towards providing much greater direct access to funding, especially for vulnerable countries.

The GCF has taken steps aimed at enhancing direct access including: readiness and preparatory support, project preparation funding, a simplified approval process, expedited approvals for small and low-risk projects, using more programmatic approaches, fast-tracking accreditation, and project-specific accreditation.[32] However, as the IEU review notes, these initiatives have yielded limited success thus far.

Delivering on the GCF's potential as a key vehicle for global climate solidarity will require the Fund to take decisive steps towards providing much greater direct access to funding, especially for vulnerable countries. Numerous analyses point to the need to further streamline access procedures,[33] introduce targeted accreditation programs for different entities,[34] and align processes with country needs including longer timelines before re-accreditation is required.[35] The GCF also needs to enhance capacity support as this is still too limited and itself difficult to access.[36] Various other solutions put forward include moving more forcefully towards modalities other than the traditional standalone project-based approach, especially adopting more programmatic approaches on a regional and country basis and a country coordination approach similar to that utilised by The Global Fund to Fight AIDS, Tuberculosis and Malaria.

GCF, AUSTRALIA, AND THE PACIFIC ISLANDS REGION

Australia and the United States are presently the only major donors whose willingness to contribute to the next replenishment of the GCF is in question. Washington has, however, recently followed through on a $1 billion outstanding commitment to the Fund, which would appear to signal that a policy reconsideration towards re-engaging in the GCF is under way. Whether Canberra will rejoin the GCF remains far less certain. Australia was a founding member and served as co-chair of the GCF Board during its first programming period (2015–19). However, Australia withdrew in 2018, citing the Fund's governance challenges and Australia's intention to provide its climate finance directly through its bilateral aid program instead.

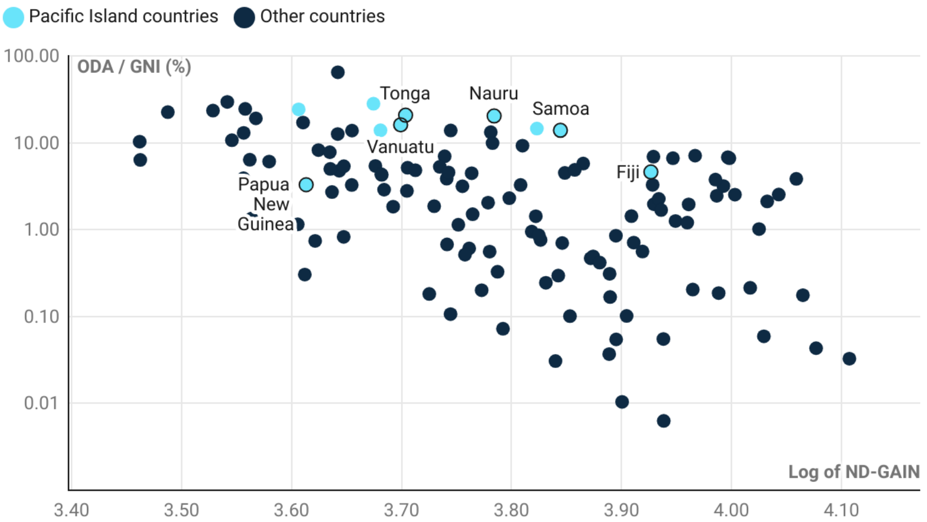
Australia and the United States are presently the only major donors whose willingness to contribute to the next replenishment of the GCF is in question.

A new Labor government under Prime Minister Anthony Albanese has since been elected and made climate change and rebuilding Australia's global climate credentials key priorities. Domestically, it has enacted a new Climate Change Act,[37] legislating national greenhouse gas emission reduction targets. Internationally, Australia is bidding to co-host the COP31 conference in 2026 together with Pacific Island nations. It has also joined the so-called "climate club", founded by Germany to foster more ambitious global climate action, and sits on the transitional committee for establishing a new loss and damage fund under COP. Nonetheless, the current Australian government still appears undecided towards the GCF. The central issue under consideration seems to be how well the Fund is able to meet the needs of Australia's climate vulnerable Pacific Island neighbours.[38]

Pacific Island countries are certainly worthy of special attention. They are among the most climate vulnerable countries in the world, heavily exposed to rising sea levels as well as severe disasters including tropical cyclones, floods, and drought. Figure 7, again, using a logarithmic scale, shows that Pacific Island countries are also among the most heavily aid dependent countries in the world. For the average Pacific Island country, aid makes up 19% of its Gross National Income (GNI), whereas it comprises just 4% for other SIDS and 6% for all other climate vulnerable countries. Hence, even compared to other SIDS, the Pacific Islands arguably face the greatest need for external climate-related assistance.

Figure 7: Pacific Island countries are more aid dependent than other climate vulnerable countries

ODA as a % of GNI versus ND-GAIN score, average 2015-21



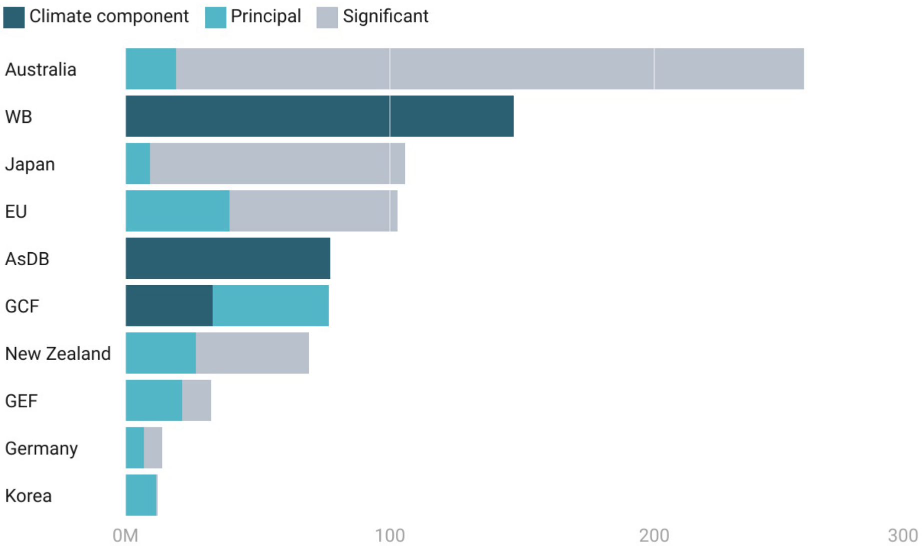
Source: Authors' calculations, World Bank Open Data Net ODA received (% of GNI); Notre Dame Global Adaptation Initiative ND-GAIN Data • Created with Datawrapper

Pacific Island governments have been critical of the GCF in terms of difficulty accessing sufficient financing, especially on a direct access basis, and have repeatedly called for simplified approval processes.[39] Nonetheless, the GCF has started to deliver important support in the Pacific Islands region and there is a good case to be made that the Fund is worth the effort from both the Pacific Islands and Australia. Indeed, Pacific Island leaders have specifically called for the Fund to be properly replenished.[40]

Since its establishment in 2015, the GCF has become a vital source of climate finance in the region, albeit largely to date operating via international intermediaries such as the MDBs. For instance, several Pacific Island countries — including Tuvalu, Nauru, and Marshall Islands — are the beneficiaries of the highest approved GCF project financing relative to their GDP. More generally, as Figure 8 shows, the GCF was the joint fifth-largest source of climate finance to the Pacific Islands during 2015–21 in terms of approved projects, alongside the Asian Development Bank. On average, the Pacific Islands region has seen almost $80 million a year in approved GCF projects. After an initial lag, disbursements have begun to rise, also averaging $80 million per annum in recent years.[41]

Figure 8: Top climate finance providers to Pacific Island countries

Average 2015-21, constant 2021 US$



Note: WB = World Bank; EU = European Union; AsDB = Asian Development Bank; GCF = Green Climate Fund; GEF = Global Environment Facility.

Source: Authors' calculations, OECD DAC Climate-related development finance • Created with Datawrapper

This comparison, however, includes large amounts of financing, notably from bilateral donors, for which climate change is only a "significant" objective within projects primarily focused on other development goals (e.g., economic growth). Focusing only on projects where climate change is the "principal" objective or where only the "climate component" of financing is reported, the GCF emerges as a far more important player. Indeed, the GCF is the second-largest source of "pure" climate finance in the Pacific Islands region.

Would the Pacific Islands receive more and better climate support if Australia rejoined the GCF? There is a strong case that it would. First, bilateral Australian climate finance has primarily come in the form of projects where climate change is only a "significant" rather than "principal" focus, highlighting that relying on bilateral support is not necessarily a superior way to ensure that the climate priorities of Pacific Island countries are better met. More importantly, as the region's main donor advocate, Australia has an important role to play in making the GCF work for the Pacific Island states in terms of both encouraging reforms to enhance direct access to climate finance and unlocking greater global funding for the region.

Indeed, the evidence suggests Australia's previous GCF involvement successfully unlocked large amounts of additional global climate finance for the region beyond Australia's own contribution. GCF project approvals averaged about $100 million a year during 2015–18 when Australia was a member and co-chair but fell with Australia's 2018 exit to about $46 million a year thereafter.

Each dollar Australia contributed to the GCF may have helped to unlock an additional $1.60 in global climate financing for the Pacific Islands beyond Australia's own contribution.

The Board plays a critical role in determining which projects are supported. Global GCF project approvals also diverged significantly with the trend in the Pacific Islands, rising dramatically from 2018 onwards compared to the decline seen in the Pacific. This suggests that the difference between the GCF funding during the two periods can reasonably be linked to Australia's presence on the GCF Board.[42]

Given Australia's contribution of about $50 million a year during 2015–18 and assuming 40% of this is intended to directly benefit the Pacific Islands (i.e., the same share of Australia's overall aid that goes to the Pacific Islands region), the authors calculate that each dollar Australia contributed to the GCF may have helped to unlock an additional $1.60 in global climate financing for the Pacific Islands beyond Australia's own contribution.

RECOMMENDATIONS

The GCF has a critical role to play but to date has struggled to define its function and comparative advantage within a fractured climate financing landscape. With numerous competing calls on limited donor funds, effective prioritisation of financial resources and international political capital is essential.

To fulfil its potential, the GCF should double down on its role as a lynchpin for global climate solidarity between developed and developing nations. The GCF funding model does not have the financial firepower of the MDBs to provide large-scale support to fast-growing emerging economies. Instead, the Fund's comparative advantage — by virtue of its position under the UNFCCC, unique governance structure, and grant-based model — lies in supporting the most climate vulnerable countries, with a clear emphasis on financing their adaptation requirements.

The Fund's comparative advantage lies in supporting the most climate vulnerable countries, with a clear emphasis on financing their adaptation requirements.

To do this effectively, the GCF needs to ensure that its funding support is targeted to the most vulnerable countries. The Fund's current approach, which hinges on the board's capacity to adopt a balanced project approval process, does not do this effectively. One potential solution is to adopt a formula-based system, similar to the approach of other multilateral institutions such as the Global Environment Facility and the MDBs.

To truly deliver on its role in supporting global climate solidarity, the GCF will also need to take much more decisive steps to greatly enhance direct access to its funding, especially for vulnerable countries. Though the GCF has numerous initiatives aimed at doing so, these are yet to deliver the significant improvements needed. Far more ambitious reforms are required to further reduce red tape, provide enhanced technical support, introduce greater flexibilities, reduce risk aversion, and shift more resolutely towards innovative programmatic approaches rather than relying on one-off standalone projects with high transaction costs. Ultimately, this will require adopting a more truly country-driven approach that puts greater emphasis on local needs and approaches, and GCF donors empowering developing countries in practice at the board level.

Donors should continue their support for the GCF, including through its upcoming replenishment, while being prepared to scale this up in line with the Fund's ability to deliver ongoing reform and tailoring it to the most climate vulnerable countries, especially in terms of adaptation.[43] In turn, major donors should look to the World Bank and MDBs more generally to lead the way in meeting the climate financing needs of larger emerging economies through non-concessional sovereign lending and private capital mobilisation while prioritising donor grants for the most vulnerable countries, including via the GCF. Though it has not been the reality to date, it is also imperative that donors deliver on international climate finance that is truly "new and additional" and not simply reprioritised or relabelled aid and other development finance support.

Australia, for its part, should rejoin the GCF to fulfil its contribution to global climate solidarity and support its own strategic climate objectives.

Australia, for its part, should rejoin the GCF to fulfil its contribution to global climate solidarity and support its own strategic climate objectives. Australia has made supporting its own region a key objective for its involvement in global multilateral mechanisms. But Canberra cannot rebuild its global climate credentials without contributing to the world's most important climate fund and global climate action. The credibility of Australia's place on the transitional committee to establish a loss and damage fund, for instance, is questionable if Canberra is not willing to follow through on supporting the GCF, which it also helped establish.[44] In addition, Australia could assist Pacific Island countries via its bilateral aid program to access GCF funding by providing technical advisory and capacity building support.

Rejoining the GCF would, in any case, be fully in line with Australia's interests in supporting the Pacific Islands region in their quest to unlock greater global climate funding. The GCF is now the second-largest source of climate-dedicated finance in the Pacific Islands region and experience suggests that Australia's involvement in the Fund can help to leverage large amounts of additional global climate finance for the region beyond Australia's own contribution. More generally, Australia's role in the Pacific Islands region gives it the requisite interest, relationships, and experience to advocate forcefully as a donor for reforms to the GCF that can help ensure a key part of the global climate finance architecture works well for the world's most vulnerable countries.

GLOSSARY OF ACRONYMS

COP: Conference of the Parties

DAE: Direct Access Entity

DFI: Development Finance Institution

GCF: Green Climate Fund

GDP: Gross Domestic Product

GNI: Gross National Income

IAE: Indirect Access Entity

IEU: Independent Evaluation Unit (of the Green Climate Fund)

IPCC: Intergovernmental Panel on Climate Change

IRM: Initial Resource Mobilisation (of the Green Climate Fund)

JETP: Just Energy Transition Partnership

LAC: Latin America and Caribbean

LDC: Least Developed Country

MDB: Multilateral Development Bank

NDC: Nationally Determined Contributions

SIDS: Small Island Developing States

UNFCCC: United Nations Framework Convention on Climate Change

NOTES

Cover image: Rice paddies, Ubud, Indonesia (Joel Vodell/Unsplash)

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