



AFD and the Green Climate Fund: feedback

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In 2015, the French Development Agency (AFD) was accredited to the Green Climate Fund (GCF), a central institution of multilateral climate finance. This memorandum presents the GCF, explains AFD's interest in being accredited and building a partnership with the GCF, and examines the changes and results that accreditation has brought about.

GCF, A GAME CHANGER IN HOW INTERNATIONAL CLIMATE FINANCING IS STRUCTURED.

The Green Climate Fund (GCF) was set up by the United Nations Framework Convention on Climate Change (UNFCCC). It is a UNFCCC financial mechanism instrument and plays a key role in how international climate financing is structured. Created in 2010 and initially accredited with \$10 billion pledges, its mandate is to "transfer funds from the most advanced countries to the most vulnerable countries to finance projects that combat the effects of climate change".

The GCF provides financial support to developing countries that are members of the climate convention to limit their greenhouse gas emissions and adapt to the impacts of climate change. It made its first investment decisions in November 2015, just before COP21, and has already committed over \$5.2 billion (July 2019). It is governed by a 24-members Board comprising 12 representatives from developed countries and 12 from developing countries.

To date, more than 85 entities are accredited to the Green Climate Fund, including AFD and PROPARCO, AFD's subsidiary dedicated to the private sector.

This is a new development in the way international climate finance is structured, with the Green Climate Fund diversifying the accredited entities, and in particular offering direct access to local entities from the South with differentiated levels of accreditation, according to a fit-for-purpose approach.

GREEN CLIMATE FUND ACCREDITATION HAS RESULTED IN A CHANGE IN AFD INTERNAL PROCEDURES AND CONSIDERATIONS.

As AFD's climate strategy (AFD, 2017 a) is in line with the objectives of the Green Climate Fund, AFD wanted to become one of the GCF financing implementing entities through an accreditation process. Different levels of accreditation exist. AFD obtained "maximum" accreditation: no limit on the amount requested, access to diversified instruments such as loans, subsidies and guarantees and for projects giving rise to high environmental and social risks.

This accreditation implied transforming some of AFD's internal procedures.

1/ The establishment of a management system for environmental and social claims is a GCF requirement. Coming from the multilateral development banks and now effective at AFD, this extra-judicial recourse mechanism allows any person or group of persons affected by the environmental or social risks of a project financed by AFD to file a claim with the Agency (AFD, 2017 b).

2/ The GCF's high standards of environmental and social (E&S) due diligence for appraised projects have contributed towards AFD improving the transparency of E&S studies, in accordance with the standards of the International Finance Corporation/World Bank. For projects co-financed by the GCF, AFD is now required to publish the results of the environmental and social studies, which, for the general public and civil society, improves the transparency of the financing impacts.

3/ Gender equality issues are central to the projects financed by the GCF. As the GCF requires both an assessment and a gender and social inclusion action plan at the operational level, gender due diligence has been strengthened in AFD financing. Systematic consideration for gender in the projects financed by the GCF enables AFD to systematically integrate gender equality issues into its operations and develop internal reflections on the subject.

4/ Since its creation, the GCF has sought to improve the accounting of projects with a climate impact, relying in particular on the concept of "traditional" development project incremental costs and additional expenses (GCF 2018), namely a project that does not allow either mitigation measures (i.e. reducing greenhouse gas emissions) or adaptation to the impacts.

However, AFD, together with other institutions, and in particular members of the International Development Finance Club (IDFC) and multilateral development banks, is involved in broader discussions covering climate finance accounting methodologies. In this way, the work with the GCF is used as a basis for AFD's work in this area.

BEING ACCREDITED TO THE GCF MOBILIZES INTERNATIONAL CLIMATE FINANCE AND REDIRECTS FINANCIAL FLOWS IN FAVOR OF THE CLIMATE.

Green Climate Fund accreditation is an important tool for mobilizing additional climate resources and supporting our partners as they define

their low-carbon and climate change resilient development pathways.

The signing of the Accreditation Master Agreement (AMA) with the Green Climate Fund is the final stage in the accreditation process. This Agreement defines the rules for collaboration between the Green Climate Fund and the accredited entity, and determines the roles and responsibilities of each party. The AMA between AFD and the Green Climate Fund was signed in November 2017.

Towards the middle of 2018, AFD developed a work program with the GCF (AFD, 2018), as well as a *vade mecum* to support operational teams in the preparation of projects/programs to be submitted to the Green Climate Fund. A project selection grid, notably for the six GCF investment criteria, ensures quality control and only those projects meeting GCF investment criteria and requirements are prepared for presentation to the GCF.

Two AFD projects and one program were approved by the Green Climate Fund board between 2016 and 2018. A total of €275 million has been delegated by the Green Climate Fund in 17 countries.

1/ The first project, targeting integrated urban flood management in Senegal (€50 million of AFD financing, €6 million from the Senegalese government and a €15 million grant from the GCF), was approved in October 2016.

2/ A second project—"irrigation development and adaptation of agriculture to climate change"—in south-east Morocco was approved in April 2017 (€41 million of AFD financing, €18 million from the Moroccan government and €20 million from the GCF).

3/ The third, a financial intermediation program called Transforming Financial System for Climate (TFSC), was approved in October 2018 for a total amount of over €650 million, with €240 million from the Green Climate Fund. As indicated in the Funding Proposal submitted to the Board, the program covers 17 countries and aims to give local financial institutions access to resources and technical assistance adapted to the needs of their beneficiaries. This financial and technical support will be addressed in particular to local public and private microfinance banks and institutions. It will enable them to finance companies, agricultural cooperatives or households' projects with substantial climate change benefits. 40% of the funding will be earmarked for climate change adaptation projects.

This financial intermediation program is building upon the experience gained by AFD through the SUNREF program. It allows AFD to mobilize more climate financing, but also to support the transformation of our partners' practices and more specifically of the financial institutions in the South. As the leading financiers of their local economy, these institutions have a vital role to play in aligning financial flows with the Paris Agreement. The partnership with the GCF enables AFD to be more ambitious with the credit lines set up for adaptation, thanks to the concessionality provided by the GCF in particular.

2 projects and 1 program presented by AFD were approved by the Green Climate Fund between 2016 and 2018, covering 17 countries and amounting to a total of €275 million in delegated funds.

OBTAINING GREEN CLIMATE FUND FINANCING: A CENTRAL CHALLENGE TO RESOLVE THE ISSUES OF OUR IDFC PARTNERS AND BEYOND.

The International Development Finance Club (IDFC), currently chaired by AFD, brings together 24 large national and regional development banks from around the world, most of which are active on developing and emerging markets. With annual commitments of over \$850 billion, including \$200 billion of climate financing, the Club is a leading global provider.

Access to the Green Climate Fund by IDFC members and, more generally, mobilizing international financing and promoting the role of national and regional development banks in the global structure of development funders is a common challenge within the Club. The members have formed a "climate" working group and a "climate facility" to exchange, collaborate and build their capacities on these matters. The Club offers support to its members who wish to conduct GCF accreditation procedures or prepare projects. There is also a space for discussions and exchanges between members regarding their respective experiences with the GCF. A partnership was signed in June 2019 between the GCF and the IDFC. It seeks to establish a formal collaborative framework to promote knowledge exchange and sharing, as well as innovations in blended finance.

For the Green Climate Fund, this is also an opportunity to gradually re-balance its portfolio in favor of direct access national entities, supported by a network of banks anchored in their local economies.

Mid-way through 2019, the 11 IDFC members with GCF accreditation (AFD, BNDES, BOAD, CABI, CAF, CDG Capital, DBSA, KfW, JICA, SIDBI) account for almost 15% of the GCF accredited entities (PT SMI, another GCF accredited entity is due to join the club in October 2019). 6 members obtained co-financing from the GCF, amounting to \$830 million spread across 12 projects/programs.

CONCLUSION

The partnership with the GCF will continue to be consolidated to meet the unique mandate of both our institutions to redirect financing flows towards climate change adaptation and mitigation projects.

Having been established recently, not all the policies and procedures of the Green Climate Fund are fully operational so far. The development banks have a key role to play in bringing their knowledge of the reality and complexity of low-carbon and resilient development operations.

For this reason, the partnership between the Green Climate Fund and AFD will facilitate:

- Interventions where needs are the most substantial. The Green Climate Fund plans to allocate 50% of its resources to adaptation projects (half of which will concern African States, small island developing States and least developed countries). This enables the mobilization of concessional financial facilities and allows for greater intervention where populations are most vulnerable.
- Technological and financial innovations: the Green Climate Fund has been designed to take risks in its investments. It can allow AFD to focus on sectors and in conditions of higher risk by developing, for example, new financial mechanisms.
- Improving the quality of operations: because the Green Climate Fund requires its accredited entities to operate in accordance with environmental and social standards, and with utmost compliance, transparency and governance.

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