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Independent evaluation of the Green Climate Fund's approach to the private sector

Approach Paper

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GREEN CLIMATE FUND
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Independent evaluation of the Green Climate Fund's approach to the private sector

APPROACH PAPER

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ABBREVIATIONS

ADB	Asian Development Bank
AE	Accredited entity
AF	Adaptation Fund
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AMA	Accreditation master agreement
B.28	Twenty-eighth meeting of the Board
CIF	Climate Investment Funds
COA	Country ownership approach
COP	Conference of the Parties
CPI	Climate Policy Initiative
CSO	Civil society organization
DAE	Direct access entity
DMA	Division of Mitigation and Adaptation
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESS	Environmental and social safeguards
FAA	Funded activity agreement
FP	Funding proposal
FPR	Forward-looking Performance Review
GCF	Green Climate Fund
GEF	Global Environment Facility
GI	Governing Instrument
IAE	International accredited entity
IEU	Independent Evaluation Unit
iTAP	Independent Technical Advisory Panel
LDC	Least developed country
MDB	Multilateral development bank
NAP	National adaptation plan
NDA	National designated authority
OECD	Organisation for Economic Cooperation and Development
PSF	Private Sector Facility
PSO	Private sector organization
RfP	Request for proposals
RMF	Results management framework

RPSP	Readiness and Preparatory Support Programme
SAP	Simplified approval process
SIDS	Small island developing States
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollar
USP	Updated Strategic Plan

A. Introduction

1. Background

The Green Climate Fund (GCF) was established in 2010 to support developing countries' efforts to respond to the challenges of climate change. The Governing Instrument (GI) of the GCF states that the GCF will contribute to achieving the objectives of the United Nations Framework Convention on Climate Change (UNFCCC). The GCF is to promote a paradigm shift towards low-emission and climate-resilient development pathways in developing countries. As an operating entity of the Financial Mechanism of the UNFCCC, the GCF provides support for climate change mitigation and adaptation projects and programmes in developing countries.

The GCF's Independent Evaluation Unit (IEU) has the mandate to discharge an accountability function and to support a learning function.[1] Both are central to the GCF as a learning organization and are laid out in its GI.

At its twenty-seventh meeting, in October 2020, the Board of the GCF approved the IEU's annual workplan for 2021.[2] This workplan includes an independent evaluation of the GCF's approach to the private sector. This paper lays out the approach for this evaluation and identifies the key questions, methods and timelines.

2. Climate change and the private sector

In recent years, global climate finance flows have increased but remain far below the level of need. According to the Climate Policy Initiative (CPI), in 2017/2018 global mitigation investments were, on average, USD 537 billion annually, or 93 per cent of the tracked climate finance, whereas adaptation investments accounted for 5 per cent. This is considerably less than the USD 1.5–3.8 trillion per annum in investments required to maintain global temperature increases to 1.5 degrees. In 2016, the costs of climate change adaptation in developing countries were estimated to range from USD 140–300 billion per year by 2030 and up to USD 280–500 billion per year by 2050. But available global public finance for adaptation is less than 6 per cent of this cost, an estimated USD 30 billion in 2017–2018, which represents a 35 per cent increase over 2015–2016. To bridge this gap, much of the additional investment needs to come from the private sector, which manages more than USD 200 trillion in assets but directs less than 5 per cent of investments into climate opportunities.

The GI of the GCF mandates that the GCF "will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the international and national levels.[3]"

3. Existing research and evidence

As stated above, although there has been a substantial increase in global climate finance flows in recent years, the overall volume still falls short of the USD 1.5–3.8 trillion per annum in investments required to restrain global temperature increases to 1.5 degrees. As in development, the private sector – which manages more than USD 200 trillion in assets but directs less than 5 per cent of investments into climate opportunities – is crucial for tackling the climate challenge. Most literature points out that private investment is biased towards mitigation efforts. Patel (2010) states that

[1] Decision GCF B.16/07
[2] Decision GCF B.27/08
[3] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para.3.

"Private sector climate-related activities encompass a wide variety of sector and project types; most (if not all) are concentrated on mitigation". The CPI in 2017–2018 found that the bulk of the funding targets efficiency in countries where there is a reasonable level of readiness to absorb finance, and it is provided primarily through market-rated debt instruments. The CPI report also found that certain climate investment markets, such as renewables and energy efficiency, have "matured", with investment opportunities remaining in many country contexts through energy distribution, storage and battery investments.

It is known that investment challenges are greater in adaptation and resilience activities. Here, investment solutions are less well understood, and innovation is required. In 2016, the costs of climate change adaptation in developing countries were estimated to range from USD 140–300 billion per year by 2030, up to USD 280–500 billion per year by 2050. But available global public finance for adaptation is less than 6 per cent of this: an estimated USD 30 billion in 2017–2018, which represents a 35 per cent increase over 2015–2016. While public finance is pivotal in the creation of climate resilience, the private sector is also needed to complement the public efforts in combating the climate change risks in developing countries.

Engaging the private sector in the green economy comes with its challenges. The heterogeneity of the private sector adds complexity in addressing barriers to mobilizing climate finance. The diversity of climate change activities/projects, the melange of the types of private finance required, and the barriers to mobilizing this finance need to be carefully considered in international climate finance negotiations. Experts have found that most financial markets in developing countries are at a nascent stage and lack the depth to provide finance at a large scale. Other barriers cited in the literature include the lack of government environmental policies and incentives that are critical to offsetting the impact of market failures and existing policy distortions that hamper the emergence of green markets. Discussions around how to mobilize and catalyse private finance have been mainly focusing on the use of financial mechanisms to directly mobilize and leverage through, for example, blended finance. However, there is a growing body of evidence on non-financial initiatives that help indirectly mobilize private finance by improving knowledge transfer, project pipeline and capacity-building. According to Bowman (2018), to create an enabling environment for private climate finance, "legal readiness" is required. This concept draws attention to the importance of regulatory governance. Any endeavours taken by the private sector in assisting developing countries to channel funds into climate activities will be determined by the prevalent laws, and policies framework.

There is limited evidence in the peer-reviewed literature related to the GCF. According to Bowman, and Minas (2019), "Initially, in 2010, strong emphasis was placed on engaging local (domestic) private sector actors in-country. However, this approach was widened to encourage investment engagement in developing countries by multinational corporations and other private sector actors based in developed countries (GCF Board, 2013).operationalization of the Private Sector Facility (PSF) through the accreditation of entities with relevant experience of working with the private sector (UNFCCC, 2014, par 9). In response, a number of organizations were granted status as accredited entities (AEs) (institutions that manage GCF-funded projects and programmes) in 2015. The Board also established pilot programmes on funding micro-, small- and medium-sized enterprise activities that are climate-sensitive, with an allocation of USD 200 million, and on mobilizing funding at scale, with an allocation of up to USD 500 million. In short, the objective of the PSF is to "fund and mobilize institutional investors and leverage GCF's funds to encourage corporates to co-invest" (GCF, n.d.). To this end, the GCF seeks heightened engagement with pension funds, insurance companies, corporations, local and regional financial intermediaries, and the capital markets in its activities. The PSF can be seen as the GCF's major point of difference with pre-existing climate finance institutions and has been identified as probably the "highest added-value" of the GCF in the perception of donors (Sépibus, 2016). Some developing country parties have also encouraged the GCF to develop private sector modalities (e.g. AOSIS, 2017).

B. Private sector and the GCF

1. Mandate of the GCF

As implied above, the GCF mandate refers to a transformational role in financing both mitigation and adaptation activities by addressing the barriers faced by private sector investors. The GI provides that:

> The Fund will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyse climate finance, both public and private, and at the international and national levels. The Fund will pursue a country-driven approach and promote and strengthen engagement at the country level through effective involvement of relevant institutions and stakeholders.[4]

Paragraphs 41–43 of the GI state the following on the Fund's approach on the private sector:

> Paragraph 41. The Fund will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.[5]
>
> Paragraph 42. The operation of the facility will be consistent with a country-driven approach.[6]
>
> Paragraph 43. The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs.[7]

The GI mandated the Board to "develop the necessary arrangements, including access modalities, to operationalize the facility."[8] In addition, it provided that two private sector representatives, one each from developing and developed countries, act as active observers and invite private sector actors as stakeholders to participate and provide input. Moreover, it allowed the Fund to receive "financial inputs from a variety of other sources, public and private, including alternative sources."[9]

The GI further outlined that the Fund would provide finance to cover the "identifiable additional costs of the investment necessary to make the project viable" in the form of "grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board."[10]

2. Guidance available to the GCF

As the GCF is an operating entity under the financial mechanism of the UNFCCC, the COP provides annual guidance to the GCF on its policies, programmes, priorities and eligibility criteria

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[4] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 3
[5] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 41
[6] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 42
[7] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 43
[8] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 44
[9] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 30
[10] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 54

with the operation of the Financial Mechanism of the Convention.[11] The GCF takes action on the guidance received from the COP and submits annual reports to the COP for its consideration and to receive future guidance.[12]

The COP provided specific guidance to the GCF on the private sector for the first time at COP20 in December 2014, when in paragraph 9 of decision 7/CP.20 it requested the GCF Board to **accelerate the operationalization of the PSF.**[13] The COP has continued to give guidance on the private sector in subsequent decisions.

Table A - 1. COP guidance to the GCF on the private sector (emphasis ours)

COP	COP Decision	COP guidance on the private sector
COP 20 December 2014	FCCC/CP/2014/10/Add.2 Decision 7/CP.20	Also requests the Board of the GCF to **accelerate the operationalization of the private sector facility by aiming to ensure** that private sector entities and public entities with relevant experience in working with the private sector are accredited in 2015, expediting action to engage local private sector actors in developing country Parties, including small- and medium-sized enterprises in the least developed countries, small island developing States and African States, emphasizing a country-driven approach, expediting action to mobilize resources at scale, and developing a strategic approach to engaging with the private sector (Paragraph 9).
COP 21 December 2015	FCCC/CP/2015/10/Add.2, Decision 7/CP.21	Reiterates the invitation for **financial inputs from a variety of sources, public and private, including alternative sources**, throughout the initial resource mobilization process (Paragraph 9).
		Encourages the Board of the GCF to **consider the mobilization of private sector finance** to progress the GCF's forestry-related result areas (Paragraph 24).
COP 22 December 2016	FCCC/CP/2016/10/Add.1 Decision 10/CP.22	Urges the Board to finalize, in a timely manner, its work related to the guidance of the COP on financing for forests as mandated by decision 7/CP.21, paragraphs 23–25 (Paragraph. 4a). Encourages the Board to implement its decision B.04/08 **to develop modalities to support activities enabling private sector involvement in the least developed countries and small island developing States**, and to seek opportunities to engage with the private sector, including local actors, on adaptation action at the national, regional and international levels (Paragraph 11).
COP 23 December 2017	FCCC/CP/2017/11/Add.1 Decision 9/CP.23	Notes with concern **the challenges in accessing financial resources for climate action in developing country Parties, especially in relation to funding for adaptation** (Paragraph 6).
COP 24 December 2018	FCCC/CP/2018/10/Add.1 Decision 5/CP.24	Urges the Board to address remaining policy gaps, including on, as specified in the Fund's GI and its rules of procedure. a) Policies relating to: i) The approval of funding proposals, including project and programme eligibility and selection criteria, incremental costs, co-financing, concessionality,

[11] United Nations Framework Convention on Climate Change, May 9, 1992, S. Treaty Doc No. 102–38 (1992), 1771 U.N.T.S. 107 [hereinafter UNFCCC], art. 11 (1)
[12] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 6
[13] FCCC/CP/2014/10/Add.2

COP	COP Decision	COP guidance on the private sector
		programmatic approach, restructuring and cancellation ii) Prohibited practices as well as the implementation of the anti-money laundering and countering the financing of terrorism policy b) Review of the accreditation framework c) Pursuing privileges and immunities for the Green Climate Fund d) Consideration of alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests e) The requests for proposals to support climate technology incubators and accelerators, in accordance with Board decision B.18/03; (Paragraph 3)

3. Decisions of the GCF Board

At its March 2013 meeting in Berlin, Germany, the Board requested the Interim Secretariat to undertake work on a number of documents for the Fund's business model framework.[14] One document prepared for consideration at the June 2013 Board meeting was to address the PSF of the Fund, including providing the following:

> *(i) An assessment and implications of various institutional models for the PSF;*
>
> *(ii) Objectives, results and performance indicators for the Fund's private sector engagement; and*
>
> *(iii) An assessment and implications of models for the delivery of the PSF resources, including direct, indirect or a combination, and the financial instruments that could be utilized.* [15]

Decision B.04/08 on the business model outlined the framework for the PSF, including that it would *"operate efficiently and effectively under the guidance and authority of the Board as an integral component of the Fund"*.

Through decisions B.06/04, B.07/08 and B.09/09, the Board further developed the necessary arrangements for the PSF, including the access modalities to operationalize the PSF. These are still in operation.

The need for a private sector strategy is articulated in some Board documents. For example, a Board document at B.23 (GCF/B.23/12/Add.01) reviewed the initial modalities of the PSF and stated:

> The private sector strategy is instrumental to GCF to consistently and coherently pursue its efforts to engage private sector actors in climate actions in developing countries. By implementing the strategy, PSF will support the removal of current barriers hampering the most impactful investments of significant private capital into climate actions in developing countries. Specifically, the strategy will address: barriers to private sector investment in adaptation and mitigation activities; support for formulation of key policy reforms that will support the flow of finance; affordability of technologies and solutions using flexible financial instruments; a lack of awareness, insufficient capacity and market failures to

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[14] Decision B.01-13/06
[15] Decision GCF/B.04/07

mobilize private capital and expertise at scale in accordance with national plans and priorities.

While the PSF has been operating under the initial modalities, additional windows have been created as key access instruments for private sector engagement with the Fund. These include the request for proposal modality of the GCF. This modality is the subject of a separate review by the IEU in 2021, which will inform the current evaluation.

Table A - 2. GCF Board decisions related to the private sector

Board meeting	Board decision
B.04 June 2013	Decision B.04/08 Private Sector Facility / Private Sector Advisory Group / Risk Management Framework / Investment Committee
B.05 October 2013	Decision B.05/13 (h) to (m) Establishment and Terms of Reference
B.06 February 2014	Decision B.06/04: Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility
B.07 May 2014	Decision B.07/08: Initial modalities of the operations of the Fund's Mitigation and Adaptation Windows and development of the outreach plan
B.09 March 2015	Decision B.09/09: Operationalization of the Private Sector Facility
B.10 July 2015	Decision B.10/11: Recommendations from the Private Sector Advisory Group to the Board of the Green Climate Fund
B.11 November 2015	Decision B.11/14 (d) Appointment of Members to the Private Sector Advisory Group
B.BM-2016	Decision B.BM-2016/04 (b): Appointment of members to the Private Sector Advisory Group
B.12 March 2016	Decision B.12/03: Appointment to the Private Sector Advisory Group
B.12 March 2016	Decision B.12/36 (c) and (d): Term of Board Membership in the Private Sector Advisory Group
B.13 June 2016	Decision B.13/05: Appointment of representatives to the Private Sector Advisory Group
B.13 June 2016	Decision B.13/22: Pilot programme to support micro-, small- and medium-sized enterprises
B.16 April 2017	Decision B.16/03: Private Sector Facility: Potential approaches to mobilizing funds at scale
B.17 July 2017	Decision B.17/06: Analysis of barriers to crowding in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations
B.BM-2017	Decision B.BM-2017/11: Appointment to the Private Sector Advisory Group
B.19 February–March 2018	Decision B.19/17: Recommendations on the development of a private sector outreach plan

The Updated Strategic Plan

At B.27, the Board adopted the Updated Strategic Plan (USP) for the Fund, which sets the broad direction for both climate and organizational results. The strategic vision of the GCF is twofold and includes provision of support to implement the Paris Agreement and UNFCCC. Under this part of the strategic vision, the GCF is committed to the following:

1) Holding the increase in the global average temperature to well below 2°C above pre-industrial level and pursuing efforts to limit temperature increase to 1.5°C above pre-industrial level, recognizing that this would significantly reduce the risks and impacts of climate change.
2) Increasing the ability of developing countries to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production.
3) Making finance flows consistent with a pathway towards low emissions and climate-resilient development pathways.

In implementing its long-term strategic vision over the 2020–2023 programming period, the USP highlights that the GCF will seek to meet or exceed its Initial Resource Mobilisation (IRM) outcomes and, building on its comparative advantages and risk appetite, strive toward the overall strategic objectives (among others) of delivering "significantly increased portfolio level mobilization achieved through the GCF contributions to private sector projects under the PSF, relative to the IRM."[16]

The USP set the following strategic priorities for 2020-2023:

1) Strengthen country ownership of programming
2) Foster a paradigm-shifting portfolio
3) Catalyse the private sector at scale
4) Improve access to Fund resources

The third strategic objective of the USP, catalysing private sector finance at scale, is based on the premise that making financial flows managed by the private sector consistent with pathways towards low greenhouse gas emissions and climate-resilient development is key to realizing the scale of resources needed to implement developing countries' priorities and other climate strategies. The USP then articulates the aim to more systematically and fully realize the potential of the GCF to mobilize resources at scale, and to support activities to increase the impact of investments, while encouraging a wider alignment of financial flows with countries' climate plans and strategies.

The USP identifies certain focus areas for the GCF private sector strategy, including strengthening capacities, enabling climate transformation in key sectors, de-risking and addressing barriers, and being consistent with guidelines for country ownership and country drivenness.

For the 2020–2023 programming period, key actions in this area of the GCF business model will include the following:

1) Identifying and increasing private sector engagement potential across results areas
2) Strengthening engagement capacity, investment environments and climate-oriented financial systems
3) Structuring to mobilize private sector resources at scale
4) Supporting private sector engagement in all developing countries, including Least Developed Countries (LDCs) and Small Islands Developing States (SIDS)

[16] The USP highlights that the initial resource mobilization's private sector co-financing ratio was 1:3.

5) Enhancing the role of the private sector in adaptation
6) Executing a private sector outreach plan
7) Staged development of the PSF modalities.

In parallel with the above, a working paper written by the GCF Secretariat provides an emphasis on innovating and scaling up climate finance (Bayat-Renoux et al., 2020).This emphasis includes a focus in the following areas:

- To develop new evaluation mechanisms to accelerate asset re-pricing.
- To develop dedicated low carbon climate-resilient financial products.
- To deepen blended finance for climate change.
- To realize the full potential of domestic financial institutions to finance the green transition.
- Innovative Financing Instruments based on Global Solidarity.

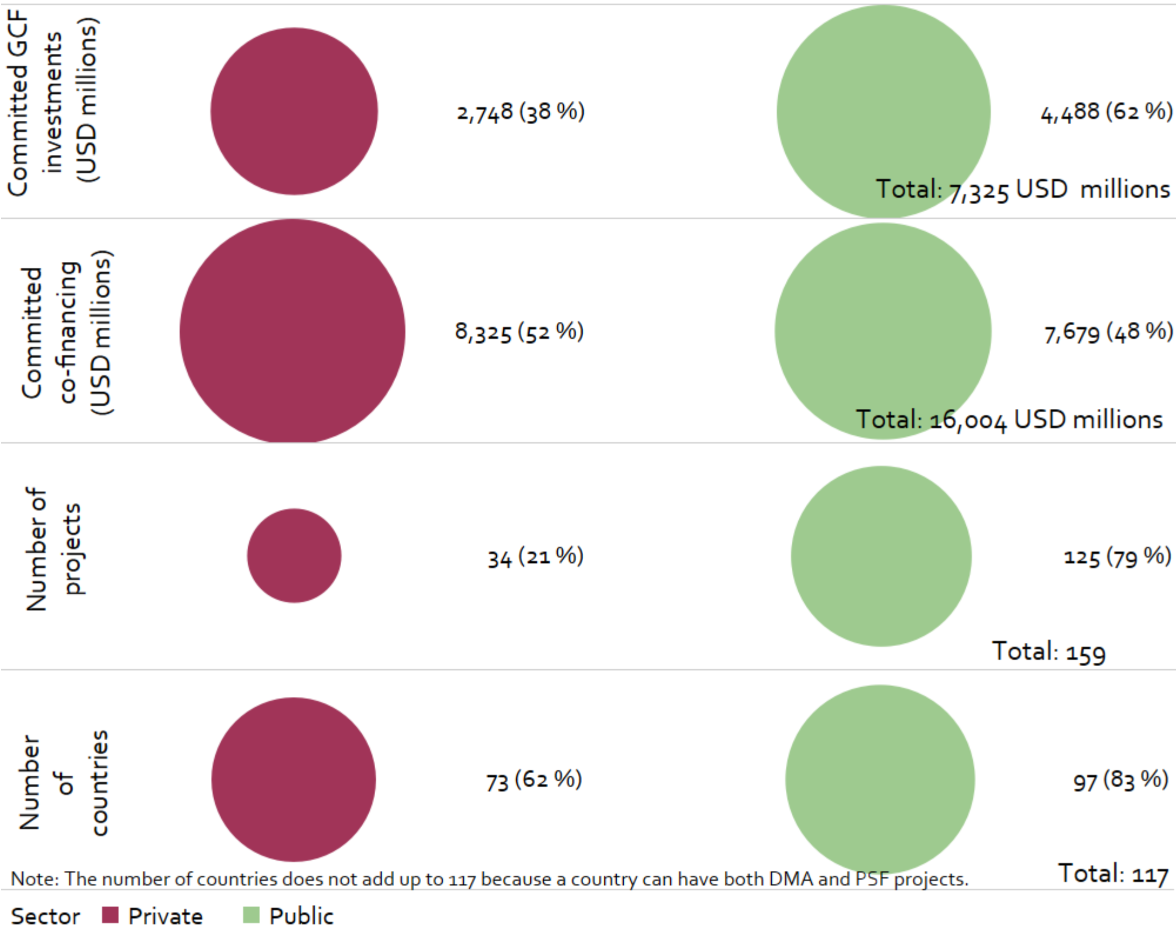
4. Private sector portfolio of the GCF

In this section, the evaluation team aims to analyse the private sector portfolio of the GCF as it was until the twenty-eighth meeting of the Board (B.28), held in November 2020. In the current understanding of this team, the GCF private sector portfolio is based around five distinct variables:

1) Portfolio directed through the PSF
2) Portfolio undertaken by private sector AEs
3) Engagement of private sector through RPSP grants
4) Use of non-grant instruments
5) Co-finance mobilized by GCF projects

Portfolio directed through the PSF: Out of USD 7.3 billion approved by the GCF through 159 projects, 34 (21 per cent) are directed through the PSF and have received USD 2.7 billion in committed GCF finance. PSF-originated projects represent 38 per cent of overall committed finance in the GCF portfolio and at the same time leverage 52 per cent of overall co-finance volume. The Division of Mitigation and Adaptation (DMA) also engages the private sector via integrating activities within project components to build the resilience of communities, which include the local private sector. Overall, a smaller number of projects originated in the PSF, but they are larger and leverage more co-finance. The majority of PSF funding proposals are approved for programmes, whereas for the DMA most of the approved funding proposals are for projects.

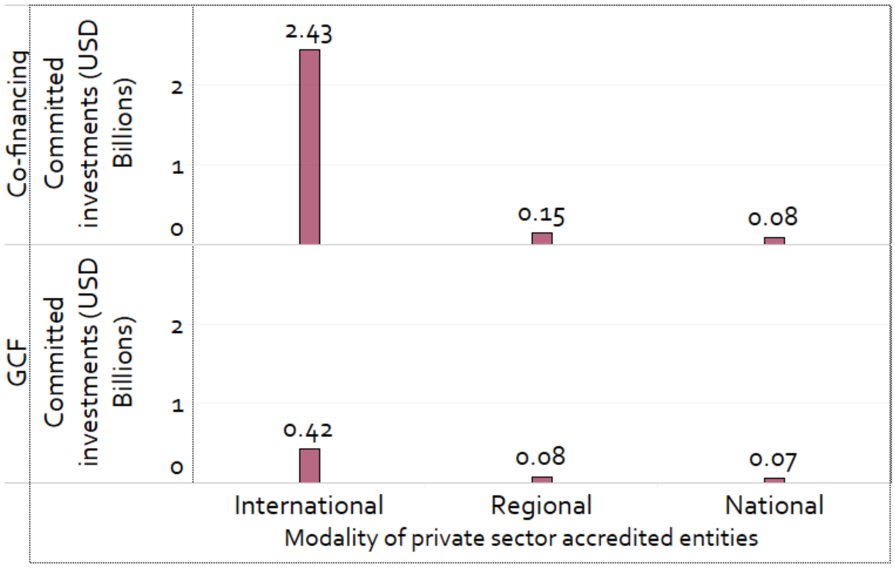
Figure A - 1. PSF portfolio in terms of finance, project count and country coverage



Source: GCF Tableau server finance data, as of November 2020

Portfolio of private sector AEs: Another facet of the private sector's involvement in the GCF is the existing pool of 103 AEs, of which 24 (23 per cent) self-identify as private sector entities. While AEs that identified as private sector in their accreditation applications have 13 approved projects (8 per cent) that account for 7 per cent of project finance, these projects have a remarkably high co-finance ratio of 7.0. Figure A - 2 shows that most of the financing committed through private sector AEs goes through international AEs.

Figure A - 2. ***Committed project finance and co-finance distribution across access modalities for private sector AEs***

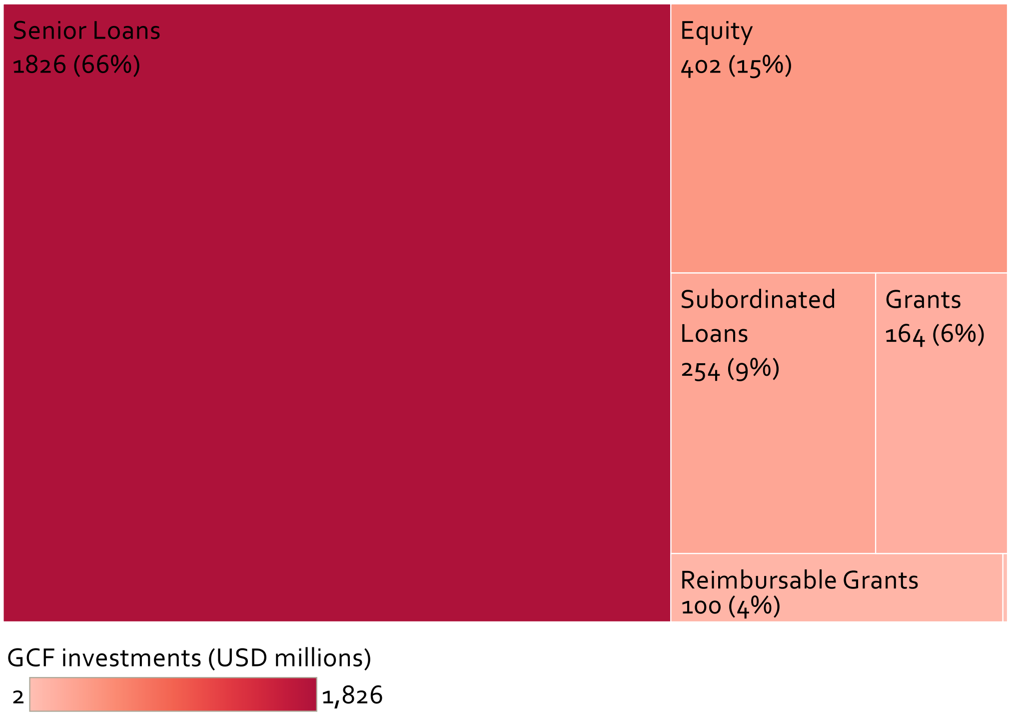


Source: GCF Tableau server finance data, accreditation data, as of November 2020

Engagement and mobilization of the private sector through the Readiness and Preparatory Support Programme (RPSP): The RPSP links to the private sector through indicated grant outcomes. Only 20 per cent of RPSP grants indicate private sector mobilization as one of the grant outcomes. The more frequently mentioned RPSP outcomes are a strategic framework for engagement with the Fund (50 per cent of grants), country and institutional capacity (46 per cent of grants), access to finance (38 per cent of grants) and direct access realized (27 per cent of grants).

Use of non-grant instruments: The GCF makes use of four types of financial instruments: grants, concessional loans, guarantees and equity investments. Figure A - 3 shows the breakdown of GCF investment in PSF projects by financial instruments, with 66 per cent of GCF investments being committed through senior loans (similar for co-finance). In contrast, 66 per cent of GCF investments in the DMA portfolio are channelled via grants (35 per cent for co-financing).

Figure A - 3.   Financial instruments in PSF projects (GCF investments)



Source: GCF Tableau server finance data, as of November 2020

Co-finance: Co-financing of PSF projects adds up to USD 8.3 billion, compared to USD 7.7 billion of total co-finance to DMA projects. The average PSF project has USD 81 million of approved GCF finance with a 3.0 co-finance ratio, compared to an average USD 36 million and 1.7 co-finance ratio for DMA projects. The co-finance ratio for the overall GCF portfolio is 2.2, resulting in an average project support of USD 46 million by the GCF and USD 101 million in co-finance.

5. SYNTHESIS OF IEU EVALUATIONS

The IEU has considered the private sector in several previous evaluations. The evaluation team undertook a preliminary synthesis of the existing evidence related to the private sector available in past evaluations conducted by the IEU. The synthesis looked at the key findings from past reviews, assessments, syntheses and evaluations, including those for the RPSP, results management framework (RMF), Forward-looking Performance Review (FPR), country ownership approach (COA), environment and social safeguards (ESS), simplified approval process (SAP), accreditation, SIDS and adaptation. Table A - 3 below shows the key findings categorized by the GCF's accreditation process and project cycle (please refer Appendix 6 for details). This evaluation will further explore the evidence from past evaluations to provide added depth and nuance to the understanding of what works and does not work for private sector engagement with the GCF.

The evaluation reports collectively identify several key barriers to engagement for the private sector, which this synthesis classified into three categories: the reactive business model of the GCF, readiness and preparatory support, and lengthy processes at the GCF.

Table A - 3. What we know about the private sector from past IEU evaluations

Private sector findings	RPSP	RMF	FPR	COA	ESS	SAP	Accreditation	SIDS	Adaptation	Occurrences
Accreditation process										
Lengthy accreditation process is a significant bottleneck for private sector entities			✓		✓				✓	3
Accreditation of private sector entities does not automatically result in the mobilization of the private sector							✓			1
Modest private sector engagement due to the GCF's reactive business model	✓	✓	✓	✓			✓	✓	✓	7
Stringent assessments on fiduciary standards/ESS and other policy requirements for accreditation hinder private sector institutions					✓					1
Private sector support is not yet sufficiently integrated into the GCF to optimally serve country-owned and country-driven project development		✓		✓			✓			3
Readiness support and Project Preparation Facility										
Limited involvement of private sector in the consultative process at the country level	✓	✓		✓						3
RPSP efforts are not sufficient to fully engage the private sector and assist with the necessary details on GCF access pathways and project development for interested private sector actors	✓			✓						2
Incentive environment for crowding-in private sector investment	✓			✓		✓	✓	✓		5

Private sector findings	RPSP	RMF	FPR	COA	ESS	SAP	Accreditation	SIDS	Adaptation	Occurrences
Project preparation and review process										
PSF projects are insufficiently matched to the Fund's level of ambition and risks	✓		✓				✓		✓	4
Despite its high risk appetite and having flexible financial instruments, the GCF has not fully utilized this opportunity to date			✓						✓	2
Lengthy review time and assessment of proposals hinder private sector			✓	✓			✓	✓	✓	5
Project preparation cost / upfront cost and high transaction cost are barriers to the private sector				✓					✓	2
Limited resources allocated to the private sector	✓			✓		P		✓		4
Constraining policy, planning and regulatory environments								✓		1
External market-related factors, including fewer investable opportunities and predictable return flows, constrain private sector engagement			✓						✓	2
Lack of private sector engagement in adaptation			✓					✓	✓	3
Legal arrangement for accreditation master agreements (AMAs) and funded activity agreements (FAAs)										
Lengthy time for legal effectiveness and post-approval requirements are a hindrance for the private sector			✓						✓	2

PRIVATE SECTOR FINDINGS	RPSP	RMF	FPR	COA	ESS	SAP	ACCREDITATION	SIDS	ADAPTATION	OCCURRENCES
Language: Entities that do not normally operate in English especially struggle with legal negotiations (not only private sector)	✓		✓							2
Implementation and management of results										
Insufficient definitions and standards within the RMF create tensions with potential private sector entities (lack of clarity)		✓				P				2
The RMF ignores the overall strength and potential contributions of the private sector		✓								1

C. EVALUATION QUESTIONS AND SCOPE

Following the overall mandate provided to this evaluation and its context, the evaluation will assess the relevance and effectiveness of the GCF approach to the private sector and will assess the performance of the GCF on the USP.

In particular, this evaluation will also inform the second performance review of the GCF, which will be undertaken in parallel but conclude later than this evaluation to inform the replenishment and strategy of the GCF. Further, the evaluation is expected to inform the GCF strategy towards the private sector. Therefore, the evaluation will provide extensive analyses on the results so far, as well as considerations for future strategies of the GCF. In this way, the evaluation will be both summative and formative.

The evaluation will consider several key questions. These questions may undergo modification during the course of the evaluation. The following key questions are under consideration:

1) **Business model**:
   a) Does the GCF architecture allow for delivery of its mandate vis-à-vis the private sector?
   b) What is the GCF's comparative advantage compared to other multilateral funds, in the context of the private sector?
2) **Strategy and policy framework of the GCF and the private sector mandate**:
   a) What are the strategic priorities of the GCF for the private sector? Are these sufficient? How do the strategic priorities correspond to the overall mandate and needs of beneficiaries?
   b) How does the GCF's approach to the private sector reconcile with other GCF imperatives such as country ownership, direct access, paradigm shift, predictability and balance between mitigation and adaptation?
   c) What is the relationship of the private sector portfolio to country ownership?
   d) What are the strategic priorities of the GCF for the private sector? Are these sufficient? How do the strategic priorities correspond to the overall mandate and needs of beneficiaries?
   e) What is the performance of the GCF on the strategic priorities? Is the policy framework of the GCF enabling the private sector's mandate?
   f) Overall, how effective is the GCF in delivering on its mandate related to the private sector?
   g) To what extent are private sector projects responding to the concept of additionality?
3) **Operations and project cycle**:
   a) What is the GCF's approach to project origination and is this relevant to the needs of the private sector? How does the GCF address long-term needs through short-term finance?
   b) What are the internal processes regarding the private sector portfolio of the GCF? How are GCF support programmes used to respond to the private sector mandate of the GCF?
   c) What are the contents of the strategic vision and priorities on the private sector? Are these necessary and sufficient?
4) **Results and impacts**:
   a) What have been the results of the private sector projects? Are they discernible from other GCF projects?

   b) To what extent do GCF private sector related projects respond to the gender-sensitive approach of the GCF?
   c) To what extent has the GCF been able to foster innovation and deploy diverse financial instruments?

5) **Risk and innovation**:
   a) How effective is the GCF in de-risking investments in developing countries?
   b) To what extend is the GCF able to anticipate, manage and share risks related to the project implementation?

6) **Other lessons**:
   a) What has been the impact of COVID-19 on the private sector? Do GCF modalities and strategies take this into account?

These questions are further elaborated in the evaluation matrix in Appendix 2.

The independent evaluation will use the evaluation criteria established for the IEU by the GCF Board:[17]

- Relevance, effectiveness, efficiency, impact and sustainability of projects and programmes
- Coherence in climate finance delivery with other multilateral entities
- Gender equity
- Country ownership of projects and programmes
- Innovativeness in result areas (extent to which interventions may lead to paradigm shift towards low-emission and climate-resilient development pathways)
- Replication and scalability (extent to which the activities can be scaled up in other locations within the country or replicated in other countries)
- Unexpected results, both positive and negative

The evaluation will analyse these criteria customized to this particular evaluation.

Ultimately, the evaluation will contribute to accountability by reviewing evidence on the performance and the impact and/or likelihood of impact of the GCF's private sector approach. The overall assessment will examine what is working, how and for whom, while identifying lessons learned to inform the overall performance of the GCF.

This strategic evaluation covers a range of aspects of the GCF's approach to the private sector as outlined in the key evaluation questions. It is important to clarify that this evaluation is not expected to cover the following areas:

- Resource mobilization of the GCF
- Remittances and their role in resilience
- The relevance of the mandate provided to the GCF by the UNFCCC and the GI

Therefore, this evaluation will not make the case for mobilizing and catalysing the private sector and will instead work under the assumption that the mandate of the GCF on the private sector continues to be relevant. It will clarify the normative values, which will support the transparency of the findings.

[17] See Decision B.06/09.

D. Key methods

This section presents the methods for this evaluation. The evaluation will use a mixed-methods approach, using qualitative and quantitative data and methods to inform its evidence-based findings, conclusions and recommendations. Specific methods include document review, secondary data review, quantitative and qualitative data analysis, landscape analysis and benchmarking, stakeholder consultation (focus group discussions, key informant interviews and surveys), and country case studies. The evaluation may consider building a theory of change for the private sector. Importantly, the evaluation team will conduct a synthesis across methods and data sources to identify common themes and important differences as well as to address discrepancies. This process will also enable the team to identify areas where the evidence is sufficient to support rigorous and valid findings and conclusions.

1. Document review

a. General document review

The evaluation team will conduct a comprehensive document review to inform our understanding and assessment of the relevance and effectiveness of the GCF approach to the private sector, drawing on the following documents:

1) GCF policies, Board decisions, Board meeting reports and strategic plans
2) UNFCCC decisions and guidance to the GCF (including those from the Standing Committee on Finance), and Board responses to such guidance
3) GCF Secretariat administrative/operational documents, guidelines, procedures, reviews and reports
4) Submissions of private sector organizations and relevant bodies to the Board and UNFCCC
5) Readiness documents, including proposals, country programmes, national adaptation plans (NAPs) and progress reports
6) Accreditation documents, including nominations, AMAs and entity work programmes
7) Project cycle documents, including concept notes, Project Preparation Facility proposals, funding proposals (FPs), Secretariat and independent Technical Advisory Panel (iTAP) reviews, civil society organization (CSO) comments, FAAs and annual performance reports
8) Country-level documentation for the case studies (such as nationally determined contributions, NAPs, climate change policies and strategies, relevant documents for climate projects funded by other multilateral and bilateral agencies, academic and grey literature on climate solutions and challenges in the country, and so on)

In particular, the evaluation will examine the recommendations of Private Sector Advisory Group and the considerations of the Transitional Committee of the GCF. This will allow for an assessment of how the private sector was envisioned and its subsequent operationalization. In addition, the evaluation will closely examine the USP, including the strategic priorities and outcomes.

b. Policy and operational framework analysis

The evaluation team will conduct a systematic analysis of GCF policies and operational frameworks to assess the extent to which they consider and are sufficient to meet the GCF mandate related to the private sector. These policies and operational frameworks are expected to include the following:

1) Readiness and Preparatory Support Programme (B.05/14; B.22/11)
2) Initial Guiding Framework for the Fund's Accreditation Process (B.07/02, Annex I)

3) Policy on Fees for Accreditation (B.08/04); Policy on Fees for AEs and DPs (B.11/10, Annex II, and updated through decision B.19/09)
4) Results Management Framework and Performance Measurement Frameworks (B.08/07; B.07/04; B/05/03)
5) Investment Framework (B.09/05; B.22/15)
6) Gender Policy (B.09/11; B.24/15)
7) Monitoring and Accountability Framework for AEs (B.11/10, Annex I)
8) Operational framework for complementarity and coherence (B.17/04)
9) Risk Management Framework (B.17/11 and B.19/04); Revised Risk Register and Risk Appetite Statement (B.17/11); Compliance Risk Policy (B.23/14)
10) Guidelines for enhanced country ownership and country drivenness (B.17/21)
11) Environmental and Social Policy (B.19/10)
12) GCF Indigenous Peoples Policy (B.19/11)
13) Anti-Money Laundering and Countering the Financing of Terrorism Policy (B.23/15)
14) Policy on Co-financing (B.24/14)
15) Proposed Policy on Programmatic Approaches (B.25/08)
16) Updated Accreditation framework (B.28/12)

The team will also draw on IEU assessments of these policies conducted by previous evaluations and in parallel to this evaluation, including of the Gender Policy, Environmental and Social Policy, and accreditation, SAP, concessionality and programmatic approaches, among others.

c. Literature review

As noted in section b above, the evaluation team will conduct a review of the relevant peer-reviewed and grey literature on the private sector in climate finance. The methods and early results are described earlier in the report, and the literature review will continue to be refined and expanded over the course of the evaluation. Additional resources to consider would include the following:

Asian Infrastructure Finance 2020. (n.d.). *Investing Better, Investing More*. Retrieved from *https://aiib-live-sgp.mcon-group.com/en/news-events/asian-infrastructure-finance/2020/_common/pdf/AIIB_AIF2020_16April2020.pdf#page=90*

Bayat-Renoux, F., Connick de, H., Glemarec, Y., Hourcade, J.C., Kilaparti, R., Aromar, R. (2020). *Maintaining climate ambition in the era of COVID-19, Green Climate Fund Working Paper No.3. https://www.greenclimate.fund/sites/default/files/document/gcf-working-paper-tipping-or-turning-point-scaling-climate-finance-era-covid-19.pdf*

Climate Policy Initiative (2019*). Global Landscape of Climate Finance 2019*. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2019/

Crishna Morgado, N., & Lasfargues, B. (2017). *"Engaging the private sector for green growth and climate action: An overview of development co-operation efforts", Working Papers, No. 34.* Paris: OECD Publishing.

Department for International Development DFID. (n.d.). *Evaluations of the UK's International Climate Finance (ICF) funds.*

Glemarec, Y. (2011). *Catalyzing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development.* New York: United Nations Development Programme.

MDB Task Force on Mobilization. (2019). *Mobilization-of-Private-Finance-MDB-Joint-Report-2019-Final.*

Overseas Development Institute and Heinrich Böll Stiftung Washington DC. (n.d.). *The Climate Finance Fundamentals 2019*. Retrieved from https://us.boell.org/en/climate-finance-fundamentals

The GCF Monitor: Editions 1 and 3. (2020). *FS-UNEP Centre for Climate & Sustainable Energy Finance of the Frankfurt School of Finance & Management*. Retrieved from https://www.fs-unep-centre.org/gcf-monitor/

Venugopal, S. S. (2012). *Public Financing Instruments to Leverage Private Capital for Climate-Relevant Investment: Focus on Multilateral Agencies.* Washington DC: WRI.

Viguri, S. L.-T.-O. (2020). *Analysis of external climate finance access and implementation: A review of GCF, GEF, CIF, and FCPF projects and programs by the Inter-American Development Bank.*

World Bank. (2020). *The World Bank Group's Approach to the Mobilization of Private Capital for Development, An Independent Evaluation.* Washington, DC: Independent Evaluation Group, World Bank. doi:10.1596/IEG155864

2. Quantitative data analysis

An initial list of data analyses organized by evaluation question is included in the evaluation matrix provided in Appendix 2. The GCF data sets to be used will be valid through 30 June 2021 or after B.29, whichever is earliest.

a. Assessing private sector climate finance flows

While challenges in consistent and comprehensive climate finance tracking persist, the evaluation will consider data obtained through the two most common approaches: the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee and the Joint Multilateral Development Bank (MDB) approach. While both data sets share the limitation of tracking volume of committed climate-related finance, these data provide a comprehensive global overview of the climate finance landscape in qualitative and quantitative terms. Other key sources for informing the analysis will be the UNFCCC's Biennial Assessment and Overview of Climate Finance Flows, as well as CPI data. A gap remains in consistency of national-level tracking of climate finance in GCF-eligible countries; this question will be explored through key informant interviews in country missions and stakeholder consultations.

b. Private sector needs

Understanding existing gaps and needs of private sector actors beyond the above-mentioned tracked climate-related finance flows is key. To assess the climate finance needs of private sector actors, main sources for public policy overview in this area will be the NDC Partnership's Knowledge Portal and UNFCCC NAPs submitted by countries, while the Task Force on Climate-Related Financial Disclosures and customer data platform data will provide insight into the private sector landscape.

c. GCF structure and performance

There are several ways in which the private sector manifests in the GCF, depending on the part of business model and project cycle stage. Within the evaluation, a series of analyses will be undertaken to gain a comprehensive understanding of performance in various facets of the private sector in the GCF's ecosystem. Interaction with the private sector within the RPSP will be examined to assess countries' readiness to engage with private sector actors. The GCF's portfolio will be examined from multiple vantage points, including private sector AEs across modalities, private sector projects (or projects approved through the PSF), incentives in private sector projects, financial instruments used across the portfolio, and co-finance ratios. These data sources will be used to answer questions related to the GCF's mandate of catalysing private climate finance as outlined in the GI.

3. Landscape and benchmarking

An assessment of the landscape and a benchmarking exercise will be conducted to learn from the approaches of other agencies with similar mandates and/or similar approaches. In particular, this evaluation will seek to be informed by private sector related evaluations in similar organizations.

This analysis will offer insights into the challenges and opportunities identified by other comparable climate funds and the development sector that may be useful for the evaluation. Additionally, the benchmarking exercise will be used to inform and potentially build a normative theory of change/action for the private sector approach of the GCF.

a. Agencies for landscape study and benchmarking

Relevant agencies for potential landscape and benchmarking were identified, including global climate finance organizations, as well as multilateral agencies that work on development and climate finance.

Multilateral providers of climate finance are dominated by the World Bank, Global Environment Facility (GEF), Asian Development Bank (ADB) and Climate Investment Funds (CIF), representing more than four fifths of multilateral climate finance prior to the launch of the GCF. Other relevant multilateral climate funds include the Adaptation Fund (AF). The evaluation will explore relevant experience within organizations such as the OECD and the European Union.

Multilateral development banks will also be considered, in addition to those already mentioned. These will include African Development Bank (AfDB), Asian Infrastructure Investment Bank (AIIB) and European Bank for Reconstruction and Development (EBRD).

Other multilateral organizations such as the United Nations Environment Programme (UNEP), United Nations Development Programme (UNDP) and others may provide information on their experience in engagement with the private sector.

Foundations and philanthropic organizations will also be explored through the course of this evaluation for relevant experience and insights.

b. Approach

Table A - 4 summarizes the approach to the landscape analysis and benchmarking. A benchmarking tool will be developed to enable systematic extraction and comparative analysis of information from policy and operational documents, as well as through interviews. Evaluative information will also be reviewed, to the extent that it exists and can inform a better understanding of what works and does not work.

For many agencies, especially bilateral and regional agencies, it is anticipated that much of the relevant information will not be available in the public sphere or may not even be documented. Thus, for these agencies, interviews will be the main evidence source for benchmarking.

Table A - 4. Landscape assessment and benchmarking approach

ORGANIZATION	ISSUES TO BE BENCHMARKED	POSSIBLE DOCUMENT SOURCES
Global programmes: • GEF • CIF • Adaptation Fund	Approaches for and lessons learned on: • Mobilizing private sector finance • Catalysing private sector finance • Engaging private sector actors	FMT Note: "Assessing the potential of increasing private sector engagement", Forest Carbon Partnership Facility, June 2017, https://forestcarbonpartnership.org/system/files/documents/FMT%20NotePSEngagmentFinal.pdf Viguri, Sofía, López-Tovar, Sandra, Juárez-Olvera, Mariel and Visconti, Gloria (2020). Analysis of external climate finance access and implementation: A review of GCF, GEF, CIF, and FCPF projects and programs by the Inter-American Development Bank. Evaluation of GEF Engagement with the Private Sector by the Independent Evaluation Office, October 2017, http://www.gefieo.org/evaluations/evaluation-gef-engagement-privatesector-2017 Independent Evaluation of the Climate Investment Funds, Office of Evaluation and Oversight, November 2014, https://publications.iadb.org/publications/english/document/Independent-Evaluation-of-the-Climate-Investment-Funds-Summary.pdf
Multilateral agencies: • World Bank • ADB • EBRD • Inter-American Development Bank • EIB	Approaches for and lessons learned on: • Mobilizing private sector finance • Catalysing private sector finance • Engaging private sector actors	Multilateral Development Banks report on mobilizing the private sector World Bank Evaluation on Mobilizing Private Sector Private Sector Development: Recent Lessons from Independent Evaluation of the World Bank, 2016, https://ieg.worldbankgroup.org/sites/default/files/Data/reports/fpdsummaries_2.pdf Evaluation of IFAD's Private Sector Development and Partnership Strategy, IFAD Independent Office of Evaluation, June 2011, https://www.ifad.org/en/web/ioe/evaluation/asset/39830671 International Financial Institutions and Development Through the Private Sector, International Finance Committee report, 2011, https://www.eib.org/attachments/ifi_report-9-13-11.pdf Joint Multilateral Development Bank Report on Climate Finance, 2019, https://www.isdb.org/pub/reports/2019/2019-joint-mdb-report-on-climate-finance Corporate Evaluation of ADB' s Private Sector Equity Investments, January 2019, https://www.adb.org/sites/default/files/evaluation-document/521571/files/pseiredacted.pdf Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other cost-sharing Mechanisms, a DECD report, April 2014, https://www.enterprise-development.org/wpcontent/uploads/DCED_Demonstrating-Additionality_final.pdf
UNEP and International Energy Agency	Landscape analysis and needs assessment	Adaptation Gap Map Report World Energy Investment Report for 2020, International Energy Agency, 2020, https://www.iea.org/reports/world-energy-investment-2020

ORGANIZATION	ISSUES TO BE BENCHMARKED	POSSIBLE DOCUMENT SOURCES
		Enabling Environment for Private Sector Adaptation: An Index Assessment Framework, IFC Report, 2013, *https://www.ifc.org/wps/wcm/connect/fd1b3aed-ee29-4d28-93d4-be7ece0c5623/Enabling+Environment+for+Private+Sector+Adaptation+-+Stenek%2C+Amado%2C+Greenall.pdf?MOD=AJPERES&CVID=n49mie9* UNEP, The Climate Risk Landscape: Mapping Climate-related Financial Risk Assessment Methodologies
Bilateral partners	Lessons on private sector approaches and priorities	Evaluation of DFID's Private Sector Development Work, Independent Commission for Aid Impact, May 2014, *https://icai.independent.gov.uk/wp-content/uploads/ICAI-PSD-report-FINAL.pdf* Evaluation of the Norwegian Investment Fund for Developing Countries, Chapter 3.5: Leveraging of Capital for Development, January 2015, *https://www.norfund.no/app/uploads/2020/02/Evaluation-of-the-Norwegian-Investment-Fund-for-Developing-Countries-1.pdf* Study: "The use of development funds for de-risking private investment: how effective is it in delivering development results?", European Parliament's Committee on Development, May 2020, *https://www.europarl.europa.eu/RegData/etudes/STUD/2020/603486/EXPO_STU(2020)603486_EN.pdf*
Policy papers by various organizations		Briefing paper: "Private Finance Blending for Development: Risks and opportunities", Oxfam International, February 2017, *https://www-cdn.oxfam.org/s3fs-public/bp-private-financeblending-for-development-130217-en.pdf* The Center for International Environment and Resource Policy, Climate Finance Policy in Practice: A Review of the Evidence Independent Expert Group on Climate Finance, December 2020, Delivering on the $100 Billion Climate Finance Commitment and Transforming Climate Finance

4. Stakeholder consultation

A wide range of stakeholders will be consulted via interviews and a perception survey. Interview responses will be compared with survey data to identify commonalities and divergences, as well as to help explain survey trends.

a. Key informant interviews

To guide the interviews, semi-structured interview protocols will be developed, tailored by stakeholder type, and iteratively tested and improved. Interviewers will take detailed, typed interview notes, which will be held confidentially and coded in a user-friendly software platform, Dedoose, to facilitate qualitative analysis. Table A - 5 shows the types of stakeholders that will be consulted and the sampling approach.

Table A - 5. Stakeholders to be interviewed

Type of stakeholder	Sampling approach (expected number)
GCF Staff, across key offices, divisions and units; iTAP and Accreditation Panel members; Private Sector Advisory Group members	Key actors, plus snowballing approach (approximately 20)
GCF Board member and alternate member	Representatives of diverse constituencies (approximately 5)
GCF CSO and private sector organization (PSO) Active Observers	All (4)
National designated authorities (NDAs) / focal points	Two per country case study (12) Additional reached through consultation at GCF events and online survey
Direct access entities (DAEs)	At least 7 of 14 private sector DAEs (7)
International accredited entities (IAEs)	At least 5 of 10 private sector IAEs (5)
Additional international actors	UNFCCC Secretariat, others (4)
Additional country-level stakeholders	Public and private implementing partners, accreditation stakeholders, RPSP delivery partners, PSOs (such as national chambers of commerce, industry associations, MSMEs), CSOs (including representatives of women's groups and those representing indigenous peoples), beneficiaries and potential beneficiaries, consultants, plus snowballing approach (minimum of 10 per country case study)
Additional external actors for benchmarking/ landscaping	GEF, CIF, AF, Global Climate Change Alliance, bilateral agencies, World Bank, AIIB (approximately 8)
Experts from academia and NGOs	To be identified through a snowball approach (5)
Industry actors, capital providers, financial intermediaries	To be identified through a snowball approach (5)

b. Perception survey

The evaluation team may make use of a survey in collaboration with other ongoing IEU evaluations. The purpose of this survey will be to systematically collect perception data at the country level or stakeholder level that can feed into analyses for both this evaluation and other evaluations currently in progress and planned by the IEU.

The survey will be administered to a purposively selected sample of respondents via two possible approaches, depending on whether the country is identified for a country case study (see next section) or not. For case study countries, the survey will be administered during key informant interviews conducted as part of the country case study visits. For all other GCF-eligible countries, the survey will be administered through an online or phone-based platform. These two administration approaches are summarized in Table A - 6.

Table A - 6. Perception survey approaches

GROUP	RESPONDENT SAMPLING
Country case study	All individuals consulted as part of the country case study, including NDA, AEs, delivery partners, CSOs, PSOs, and so on (see country case study protocol in **Error! Reference source not found.**)
All other GCF-eligible countries	All NDAs; private sector AEs; regional or national CSOs and PSOs as identified by the GCF Active Observers; delivery partners as identified in approved RPSP proposals, GCF Secretariat

5. Country case studies

This evaluation aims to engage with selected countries, following the development of country mission reports. The country case studies will be used to take a more intensive look at the results of the GCF strategic approaches within countries and are not intended to be representative of the overall GCF portfolio. Instead, the country studies will be important to inform a more in-depth and grounded understanding of how relevant the GCF strategies are, how they are operationalized and what impacts they may have. Overall, they will be key in **assessing the causality of results attributable to the GCF**. In light of restrictions related to COVID-19, the evaluation team is prepared to carry out country missions virtually or with the support of national consultants.

a. Country case study selection

The evaluation team conducted a review of the GCF portfolio to select countries for further engagement. The countries selected are those that will most likely provide insights into the evaluation questions as indicated in evaluation matrix. To shortlist the countries, the evaluation team used a series of **GCF-oriented selection criteria** that were applied to ensure a diversity of experiences:

1) Geography: select countries while ensuring that there will be at least one country in each region with an approved project
2) Diversity of financial instruments: preference for countries with on-lending/equity/guarantee in the projects
3) Diversity of AEs: inclusion of private sector AEs, as well as various AE modalities with an approved project in a country
4) Project sector: inclusion of private sector projects
5) Project focus: keeping overall balance in project focus across projects represented within country case studies (mitigation, adaptation, cross-cutting)
6) Ensure diversity of multi-country and single-country projects
7) Project maturity: preference to countries where projects have submitted annual performance reviews and/or where RPSP grant is effective

Based on these criteria, the team assessed GCF-eligible countries and made a list for country case studies. The list was further refined by taking into consideration countries that currently do not have approved projects with the PSF but that demonstrate interest in building such capacity though RPSP engagements that indicate private sector mobilization as a project outcome. Such countries might provide insight into evaluation questions around building country-level capacity for private sector engagement. On a separate note, some DMA projects (such as FP010 and FP086) possess a component focusing on creating an enabling environment for private climate investments, and countries with such projects have the potential to bring insights on various aspects of private sector engagement with the GCF.

Table A - 7 below shows the attributes of the countries selected against these key criteria. It should be noted that country case studies are not aimed at evaluating project performance. Instead, they serve as an opportunity to provide valuable insights from the field into the evaluation questions, gather additional data and obtain regional perspectives to provide evidence for this evaluation.

Table A - 7. Selected country cases and key attributes

Country	GCF region	LDCs	SIDS	# of approved projects (PSF)	PSF project focus	GCF investment (USD million)	Co-financing (USD million)	Financial instruments
Ghana	Africa	No	No	4 (3)	Adaptation, cross-cutting, mitigation	60	63	Grant and non-grant
Burkina Faso	Africa	Yes	No	7 (4)	Cross-cutting, mitigation	78	84	Grant and non-grant
Mongolia	Asia-Pacific	No	No	9 (6)	Cross-cutting, mitigation	262	657	Grant and non-grant
Solomon Islands	Asia-Pacific	Yes	Yes	1 (0)	NA	86	156	Grant and non-grant
Armenia	Eastern Europe	No	No	5 (2)	Cross-cutting, mitigation	118	344	Grant and non-grant
Chile	Latin America and the Caribbean	No	No	6 (5)	Cross-cutting, mitigation	194	1,204	Grant and non-grant

b. Country protocol for planning, implementing, reporting and validation of country visits

A protocol for the country case studies will be prepared to ensure that evaluators plan, implement, report and validate country visits in a consistent manner. The protocol will also be based on prior experience within the IEU and the external team. This protocol is provided in **Error! Reference source not found.**.

The IEU will make an effort to keep the NDAs / focal points actively involved in the conduct of the country case studies, to support ownership, learning and validation. NDAs / focal points will be engaged in the planning process and will have the opportunity to review the case study reports, to ensure factual accuracy and opportunity for improvement. The evaluation team will further make every effort to minimize the burden on the NDAs / focal points.

E. Workplan

1. Process followed to date

The IEU prepared the terms of reference for this evaluation in November 2019. It launched the preparatory and background work for this evaluation in January 2021. The evaluation team immediately began initial data analysis and document review, including relevant GCF Board decisions and documents as well as external academic and grey literature. A structured bibliography (list of documents consulted for the preparation of this approach paper), as well as an annotated bibliography for the literature review are provided at the end of this report.

A series of scoping interviews were also held with Board members, the Secretariat, and external experts to inform the design of the evaluation matrix and to identify key issues and tensions.

2. General workplan

The evaluation process has been divided into three general phases:

1) **Inception and planning phase** (February–March 2021) – This phase involves the process followed to date and culminates in the final approach paper.
2) **Data collection and analysis phase** (April–July 2021) – This phase involves the planning and implementation of the data collection and analysis methods described in the above section, including the country case studies.
3) **Reporting phase** (July–September 2021) – During this phase, the evaluation report will be drafted, shared and socialized; feedback will be received and responded to, and the report will be finalized and widely communicated.

The key deliverables for the evaluation are described below.

3. Timeline and key deliverables

The evaluation team will produce three key deliverables: the approach paper, the draft report and the final report. In addition to these key deliverables, other work products will include data sets produced or analysed in collaboration with the IEU DataLab, presentations and learning products. All outputs produced by the evaluation team will go through a thorough quality assurance process prior to delivery to the IEU.

The following timeline and deliverables are expected:

1) 10 January 2021: Internal launch of evaluation; start of preparatory work
2) 20 April 2021: finalization of approach paper
3) 20 April –30 June 2021: data collection and analysis
4) 15 July 2021: data analysis concludes, including country missions
5) 30 July 2021: factual draft report (including finding statements) prepared for information and feedback
6) 20 August 2021: final report submitted to the IEU (including findings and recommendations) by the external team
7) 30 August 2021: country mission reports submitted after review of the NDA / focal point; IEU concludes review and writing of final report

8) September 2021: sharing of final evaluation report with the Board; production of communications products such as a 4-page policy brief (GEval Brief) and a 2-page memo (GEval Note) and final evidence tree
9) October 2021: Engagement in the thirtieth meeting of the GCF Board, as appropriate
10) September to December 2021: Socialization of the evaluation

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APPENDICES

Appendix 1. List of interviewees

No.	Name	Position	Affiliation
1.	Eliette Riera	Alternate Board Member	GCF Board
2.	Grant Kirkman	Head Relations Management - Climate Finance	UNFCCC
3.	Jan Wahlberg	GCF Board Member	GCF Board
4.	Jasmine Hyman	Principal Consultant	Eco.
5.	Jiwoo Choi	Deputy Director of PSF a.i.	GCF
6.	Josceline Wheatley	GCF Board Member	GCF Board
7.	Liane Schalatek	Associate Director	Heinrich Böll Foundation
8.	Margaret-Ann Splawn	Active Observer	PSO
9.	Motsomi Malejtane	Programme Officer in the Adaptation Programme	UNFCCC
10.	Paul Desanker	Manager National Adaptation Plans and Policy Adaptation Programme	UNFCCC
11.	Selina Wrighter	Head of Policy and Strategy	GCF
12.	Tony Clamp	Director of PSF a.i.	GCF
13.	Yolando Velasco	Manager, Climate Finance, Finance, Technology and Capacity-building	UNFCCC

Appendix 2. EVALUATION MATRIX

NO.	KEY AREA/ CRITERIA	SUB-QUESTIONS	DATA SOURCE
	Exploratory and background questions	• What is the status of knowledge regarding the private sector in climate finance? • What is the status of knowledge regarding the involvement and mobilization of the private sector in development projects? What is the know-how from the development sector? How is this applicable to climate finance? • What is the landscape of private sector needs, and where can the GCF strategically input? • Is there evidence of growing awareness among institutional investors for climate-positive investments? Can this be used to the advantage of multilateral finance? • What are the limits of private sector involvement and mobilization for climate finance? • What is the GCF's approach to defining the private sector? How does this compare to other organizations? What is the private sector portfolio of the GCF? • Should the GCF have targets for the private sector?	• General data sources: • Request for proposals (RfP) evaluation • Synthesis of previous evaluations • GCF policy review (including Board decisions, discussions, policies and other elements of the institutional architecture) • DataLab (internal and external data) • Interviews • Case studies • Literature review • Landscape analysis • Benchmarking
1.	**Business model** Coherence in climate finance delivery with other multilateral entities	• Does the GCF architecture allow for delivery of its mandate vis-à-vis the private sector? • What is the GCF's comparative advantage compared to other multilateral funds, in the context of the private sector?	• Synthesis of previous evaluations • GCF policy review • Perception survey • Key informant interviews • Literature review • Benchmarking
		• How does the suite of AEs relate to the GCF's priorities on the private sector?	
2.	**Strategy and policy framework of the GCF and the private**	• What is the mandate of the GCF on the private sector? What is the guidance provided by the UNFCCC and the Board? How does this compare to the status of knowledge? • Is the policy framework of the GCF sufficient to deliver the mandate?	• Synthesis of previous evaluations • GCF policy review

No.	Key area/ Criteria	Sub-questions	Data source
	sector mandate Relevance, effectiveness, efficiency, impact and sustainability of projects and programmes; gender equity; country ownership of projects and programmes	• How does the GCF's approach to the private sector reconcile with other GCF imperatives such as country ownership, direct access, paradigm shift, predictability, and balance between mitigation and adaptation. • What is the relationship of the private sector portfolio to country ownership? • What are the strategic priorities of the GCF for the private sector? Are these sufficient? • How do the strategic priorities correspond to the overall mandate and needs of beneficiaries? • What is the performance of the GCF on the strategic priorities? • To what extent are private sector projects responding to the concept of additionality? • What are the costs and benefits of using diverse financial instruments? How effective is the GCF in de-risking investments in developing countries?	• Perception survey • Key informant interviews • Literature review • Benchmarking • Case studies
3.	**Operations and project cycle** Relevance, effectiveness, efficiency, impact and sustainability of projects and programmes	• What is the GCF's approach to project origination and is this relevant to the needs of the private sector? How does the GCF address long-term needs through short-term finance? • How are GCF support programmes used to respond to the private sector mandate of the GCF? • What are the internal procedures with respect to the private sector? Are these efficient?	• Synthesis of previous evaluations • GCF policy review • RfP evaluation • DataLab (internal and external data) • Perception survey • Key informant interviews • Case studies
4.	**Results and impacts** Country ownership of projects and programmes; gender equity; replication and scalability; unexpected results, both positive and negative	• How is the private sector portfolio distributed across entities, regions, vulnerable countries and other variables? Is the portfolio oriented towards certain entities / types of projects? • What have been the results of the private sector projects? Are they discernible from other GCF projects? What are the expected and realized impacts of the GCF private sector portfolio? • What are the results of GCF programmes and modalities, as they relate to the private sector? • Overall, how effective is the GCF in delivering on its mandate related to the private sector? Is the portfolio allowing the GCF to deliver its mandate?	• Synthesis of previous evaluations • RfP evaluation • DataLab (internal and external data) • Perception survey • Key informant interviews

NO.	KEY AREA/ CRITERIA	SUB-QUESTIONS	DATA SOURCE
		• To what extent do GCF private sector related projects respond to the gender-sensitive approach of the GCF?	
5.	**Risk and innovation** Innovativeness in result areas; unexpected results, both positive and negative	• To what extent is the GCF able to anticipate, manage and share risks related to project implementation? • What has been the impact of COVID-19 on the private sector? Do GCF modalities and strategy take this into account? • To what extent has the GCF been able to foster innovation and deploy diverse financial instruments?	• Synthesis of previous evaluations • RfP evaluation • DataLab (internal and external data) • Perception survey • Key informant interviews • Literature review • Case studies
6.	**Learning** Unexpected results, both positive and negative	• What are the challenges and opportunities to deliver on the GCF mandate with regard to the private sector? • What are the overall lessons learned? How are lessons learned incorporated into the GCF operations? • Are there strategic areas or considerations for the GCF with respect to the private sector?	

Note: The order and structure of questions may undergo revisions as the evaluation proceeds.

Appendix 3. DRAFT OUTLINE FOR THE EVALUATION REPORT

<u>Volume I</u>

Executive summary

1. Introduction and background

2. Mandate of the GCF on the private sector

3. Lessons learned from others: literature review, landscape analysis

4. Approach of the GCF: operationalization, strategy

5. Institutional structure: business model, processes, instruments

6. Portfolio: GCF as a catalyst and engager

7. Results and impacts of the private sector portfolio of the GCF

8. Conclusions and recommendations

References

Appendices

Appendix 1. List of stakeholders interviewed

<u>Volume II</u>

Appendix 2. Mandate of the GCF

Appendix 3. Lessons learned

Appendix 4. Approach

Appendix 5. Institution

Appendix 6. Engagement

Appendix 7. Results and impacts

Appendix 8. Methodology

Appendix 9. Approach paper

Appendix 10. Results of survey

Appendix 11. Country case studies

Appendix 4. SUPPORTING DATA

Accredited private sector entities

AE	ACCESS MODALITY	ESS RISK CATEGORY	AE SIZE	ACCREDITED FOR PROJECT MANAGEMENT	ACCREDITED FOR GRANT ALLOWANCE	ACCREDITED FOR OL/B: LOANS	ACCREDITED FOR OL/B: EQUITY	ACCREDITED FOR OL/B: GUARANTEES	APPROVED FPS
Acumen	Regional	C	Micro	Yes	Yes	Yes	Yes	No	3
AFC	International	A	Large	Yes	No	Yes	Yes	Yes	1
AWB	Regional	B	Large	No	No	Yes	Yes	Yes	No
BNP Paribas	International	A	Large	No	No	Yes	No	Yes	No
Camco	International	B	Medium	Yes	No	Yes	Yes	No	No
CDG Capital	National	B	Medium	No	No	Yes	Yes	Yes	No
CRDB	National	A	Medium	Yes	No	Yes	Yes	Yes	No
Crédit Agricole CIB	International	A	Large	Yes	No	Yes	Yes	Yes	No
Deutsche Bank AG	International	A	Large	Yes	Yes	Yes	Yes	Yes	1
EGH	National	B	Medium	No	No	Yes	No	Yes	No
FYNSA	National	B	Medium	Yes	Yes	Yes	Yes	Yes	No
HSBC	International	A	Large	Yes	No	Yes	Yes	Yes	No
IDFC	National	B	Medium	No	No	Yes	No	No	No
IEISL	National	B	Small	Yes	No	No	No	No	No
JS Bank	National	B	Medium	No	No	Yes	Yes	Yes	No

AE	Access modality	ESS risk category	AE size	Accredited for project management	Accredited for grant allowance	Accredited for OL/B: Loans	Accredited for OL/B: Equity	Accredited for OL/B: Guarantees	Approved FPs
KCB	National	B	Medium	Yes	No	Yes	No	Yes	No
LBA (formerly CNCAS)	National	B	Small	No	No	Yes	No	No	No
MAAML	International	A	Large	Yes	No	Yes	Yes	Yes	No
MUFG (formerly BTMU)	International	A	Large	No	No	Yes	Yes	Yes	2
NEFCO	International	B	Small	Yes	Yes	Yes	Yes	No	1
PCA	International	B	Medium	Yes	No	Yes	Yes	Yes	1
TDB Mongolia	National	B	Medium	No	No	Yes	No	Yes	No
XacBank	National	B	Small	Yes	No	Yes	Yes	Yes	4
Yes Bank	National	A	Medium	Yes	Yes	Yes	Yes	Yes	No

Accredited entities – portfolio

AE overview by sector		
Sector	Per cent	Count
Private	23.30%	24
Public	76.70%	79
Total	**100.00%**	**103**
Private Sector AEs by access modality		
Entity modality	Per cent	Count
International	42%	10
National	50%	12
Regional	8%	2
Total	**100%**	**24**

Accreditation pipeline

AE overview by sector		
Sector	Per cent	Count
Private	25.06%	108
Public	74.94%	323
Total	**100.00%**	**431**
PS AEs by access modality		
Entity modality	Per cent	Count
International	44.44%	48
National	50.00%	54
Regional	5.56%	6
Total	**100.00%**	**108**

Finance

Finance by division – USD million				
Division	GCF finance	Co-financing	Co-finance ratio	Total
DMA	4,488	7,679	1.7	12,167
PSF	2,748	8,325	3.0	11,072
Total	**7,235**	**16,004**	**2.2**	**23,239**

Finance by AE sector – USD million				
Sector	Sum of GCF financing (USD million)	Sum of co-financing (USD million)	Co-finance ratio	Count of approved projects
Private	571	2,662	4.7	13
Public	6,697	13,405	2.0	146
Total	**7,268**	**16,067**	**2.2**	**159**

Finance by division – share		
Division	GCF finance	Co-financing
DMA	62.03%	48.08%
PSF	37.97%	51.92%
Total	**100.00%**	**100.00%**

Finance by AE sector – share			
Sector	GCF financing	Co-financing	Project number
Private	7.86%	16.57%	8.18%
Public	92.14%	83.43%	91.82%
Total	**100.00%**	**100.00%**	**100.00%**

Project portfolio

Projects by division – count		
Division	Count	Per cent
DMA	125	78.62%
PSF	34	21.38%
Total	**159**	**100.00%**

AE fees by division – USD and %		
Division	Average of AE fee (%)	Average of AE fees (USD million)
Private	3.0%	1,984,115
Public	6.9%	2,070,757
Total	**6.1%**	**2,052,230**

Appendix 5. COMMUNICATIONS PLAN IN BRIEF

DATE	COMMUNICATION PRODUCT/TOOL
March 2020	Approach Paper and IEU Brief
March/April 2020	Webinars on Approach Paper
June/July 2021	Webinars on emerging findings
September 2021	Webinars on emerging findings and recommendations
September 2021	Final evaluation report
September 2021	GEvalNote GevalBrief
September/October 2021	B.30 side event
October 2021	Video on the findings and recommendations from the evaluation

Appendix 6. Relevant findings on the private sector from previous IEU evaluation reports

In preparation for private sector evaluation, the team examined the relevant findings on the private sector from previous IEU assessments and evaluation reports. This section presents a synthesis of the overall private sector findings.

RPSP findings

1) RPSP activities are not yet contributing much to the development of domestic policies and institutions that improve the incentive environment for crowding-in private sector investment. So far, the programme is contributing little in terms of structurally transforming the global system to encourage climate-sensitive private sector investment.
2) The effectiveness of the RPSP in helping to strengthen NDA / focal points, in supporting GCF pipeline development and in engaging with the private sector has been uneven across countries.
3) Full country ownership requires appropriate participation in climate action by the private sector, by CSOs and by vulnerable, marginalized and indigenous peoples and local communities. So far, this participation is rudimentary in most countries.
4) The RPSP is making an effort to engage with the private sector. In a few cases, RPSP funds have been distributed through accredited financial intermediaries, which has proven an important way of working with the private sector. Furthermore, the involvement of the private sector in consultative processes is growing, and the programme has supported the accreditation of private sector actors. However, the success of this endeavour has until now been limited.
5) The RPSP has been ineffective at creating a suitable policy environment for crowding-in private sector investment.
6) Overall, these data point to the fact that RPSP support moderately encourages, enables and/or facilitates private sector engagement in NDA/FP-led activities, but has significantly less impact on the policy environment in which this takes place.

RMF findings

1) Critically, the RMF ignores the overall strength and potential contributions of the private sector. As technology and business models are not factors considered in the results framework, it is likely that private sector investors and institutional funds do not see a role for them in adaptation-related shifts aimed at by the GCF.
2) Partners reported tensions and inefficiencies when interacting with one another. For example, earlier in this report, there is mention of a case in which an AE, promoting a regional private sector project expressed concern over cumbersome processes to obtain the no-objection letter, a requirement that is meant to ensure country ownership.
3) The logical models of the Fund are built differently from each other and have flaws. The logic model for adaptation emphasizes enabling conditions for a paradigm shift and neglects to mention technology, financial and business models and the potential contributions of the private sector.
4) The Board decision taken at B.17 on enhanced country ownership, stating that a *"consultative process should aim to be an ongoing process through the design, implementation, monitoring and evaluation and exit stages of a project or programme, rather than a discrete activity occurring only once."* Findings from the field visits have mirrored this general understanding in the countries of the importance of consultative processes in the country with all relevant stakeholders, including staff from line ministries and civil society as well as representatives from private sector organizations.

FPR findings

1) By mandate, the GCF has the strongest private sector focus of the multilateral climate finance funds and the best ability to scale projects through its flexible suite of financial instruments.
2) In reality, the GCF's private sector engagement is constrained by factors including (a) a reactive business model; (b) the lack of engagement with DAEs; (c) the length of project approval and legal assessment timelines; and (d) the perceived lack of predictability by private sector actors.
3) The GCF's AEs predominantly consist of publicly owned and/or funded (international) development banks. So far, the PSF has an effective project from only one commercial private AE.
4) Despite its high risk appetite, it has been challenging for the PSF to get private sector adaptation projects through the Fund's AEs. This has resulted in only 2 per cent of PSF funding for adaptation, despite a large need for investments.
5) Several current PSF projects insufficiently match the Fund's expected level of additionality. This is underlined by the fact that the PSF has so far funded a considerable number of projects from development finance institutions.

COA findings

1) Private sector support is not yet sufficiently integrated into the GCF to optimally serve country-owned and country-driven project development. GCF portfolio data do not make it possible to easily determine the exact projects and GCF funds going to private sector support.
2) Country ownership has been weaker for multi-country PSF projects than for single-country ones.
3) Many countries use the GCF readiness programmes to support private sector engagement, but readiness efforts are not sufficient to fully engage the private sector and assist with the necessary details on GCF access pathways and project development for interested private sector actors. There is much potential for the GCF and others to learn from ongoing capacity-building for private sector engagement in its active FPs.
4) NDA / focal point knowledge and capacities for private sector engagement are often considered weak. This impedes NDAs / focal points' abilities to effectively take no-objection decisions and take strong leadership for innovative private sector approaches. As private sector projects move into implementation, NDAs are insufficiently aware of their status or the performance of active projects.
5) Country programmes have not been successful in building private sector pipelines. Most country programmes have included very few private sector projects, a result that is partially attributed to a government-led process. But most NDAs are also unclear on how to advance from general frameworks / sector priorities to a concrete private sector pipeline, due in part to the lack of a GCF private sector strategy.
6) Relatively few accredited AEs in the GCF are private sector entities (18 per cent), but their share among pending applications is growing (32 per cent). A relatively large number of DAEs – including public and private sector banks, financial institutions and project developers – could support private sector engagement.
7) High GCF transaction costs and long processes are a major hindrance for stronger engagement of private sector DAEs.

ESS findings

1) The current portfolio of entities is imbalanced and particularly unrepresentative of direct access and private sector entities, and it has a suboptimal geographical distribution.

2) The majority of stakeholders consider the accreditation and funding proposal processes to take much longer than they should.

SAP findings

1) There is no evidence that the ESS requirement or the threshold of GCF contribution are the main reasons for the limited presence of the private sector in the SAP portfolio. The limited engagement of the private sector is more likely due to the factors identified in the FPR that constrain GCF engagement with the private sector, namely: A reactive business model; The lack of engagement with DAEs; The length of project approval and legal assessment timelines; and the perceived lack of predictability and transparency in the project cycle.
2) The private sector has not seen the value added and benefits of using the SAP process. There are no more private sector AEs in the pipeline than in the regular GCF pipeline. This does not appear to be related to size or to the ESS category. The lack of interest appears to be linked to a lack of information and knowledge about the SAP among private sector actors, and to the slow and unpredictable process.
3) Eleven projects focus on adaptation and public sector grants, and only three use a private sector entity or scheme. All projects fall within the "micro" or "small" size categories.

Accreditation synthesis findings

1) Overall, we find that the accreditation function has become overburdened with a large number of goals and, unfortunately, has been criticized for many things, including long processing times, low private sector engagement and uneven access across countries. However, it may not be entirely fair to hold accreditation responsible for all these shortcomings.
2) Previous evidence finds that the relationship between DAEs and country ownership is not one-on-one. Likewise, accreditation of private sector entities does not automatically result in the mobilization of the private sector.
3) The current portfolio of entities is imbalanced and particularly unrepresentative of direct access and private sector entities, and it has a suboptimal geographical distribution.
4) Assumption "Private sector DAEs are better able to reach out to the private sector": Not enough evidence has been provided so far for this claim; moreover, as entities self-identify as being either "public" or "private" during the accreditation application, the difference to public or semi-public entities is sometimes not obvious.

SIDS findings

1) The GCF's approach to the private sector in SIDS is not sufficiently articulated or coordinated. However, despite a very limited PSF portfolio, there has been sizeable engagement to improve the resilience of local private sector actors in SIDS through the DMA portfolio.
2) Project financing through the PSF has been extremely limited and provided through loans and grants exclusively. Contributing factors include the lack of institutional incentives and strategy, challenges in finding interested AEs, high transaction costs and other general barriers to private sector development in SIDS that may be beyond the GCF's remit.
3) Considering only the PSF portfolio, the Fund shows an overall lack of private sector adaptation, with only 31 per cent of financing going to adaptation in SIDS.
4) The evaluation team found that the GCF lacks a common understanding of and context-sensitive strategy for the private sector. Many interviewees said that the PSF's conception of the private sector bears no resemblance to the private sector in SIDS, which is dominated by micro- and small-sized enterprises, often reliant on short-term capital and with a low tolerance for risk and ability to absorb debt.

5) Overall, GCF support for private sector engagement in SIDS is in its early stages. There is a significant maturity gap between the type of readiness support currently being provided for the private sector and the development of actual projects.
6) Despite the limited PSF portfolio, the evaluation team identified sizeable engagement of the private sector in SIDS through the DMA portfolio that could contribute to improving the resilience of local private sector actors in these countries. The benchmarking analysis illustrated the importance of a coordinated approach to local private sector development across the public and private spheres.

Adaptation findings

1) The GI, Board decisions and the USP emphasize it is important to explore all financing options, including leveraging private sector funding for adaptation.
2) Among the climate funds, the GCF has the strongest private sector focus and the best ability to scale projects through its large fund size, risk appetite and flexible suite of financial instruments. The portfolio suggests that the GCF has not fully utilized this opportunity to date.
3) At the moment, only one in five AEs has a private sector focus with most of these being accredited recently. Most PSF projects are managed by public entities with a private sector focus, such as MDBs.
4) There are only two PSF pure adaptation projects in the portfolio (USD 42 million or 1.6 per cent of total adaptation finance and 0.6 per cent of all GCF finance). When including the estimated adaptation part of cross-cutting projects, adaptation finance through the private sector amounts to USD 230 million (8.7 per cent of adaptation finance or 3.2 per cent of total GCF finance).
5) The GCF's ability to source and support PSF projects has stalled: since B.21 (October 2018), only USD 10.8 million (0.4 per cent of total adaptation finance) has been committed.
6) Despite the GCF's unique, high risk appetite and flexible suite of instruments, on average only an estimated 18 cents per 1 GCF-invested dollar is generated as co-finance from the private sector.
7) External market-related factors, including fewer investable opportunities and predictable return flows, constraint private sector engagement. In addition, internal factors, including the reactive business model, lack of predictability and the upfront costs.
8) Cooperation between the DMA and PSF in jointly assessing projects and identifying opportunities is mainly informal and ad hoc. Opportunities exist to create an incentive structure for greater cooperation, particularly in regard to blended finance.

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