



## ANALYSIS OF IMPLEMENTATION CHALLENGES AND RISK ASSESSMENTS FOR THE GCF FUNDED ACTIVITIES IN LATIN AMERICA AND THE CARIBBEAN REGION

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### INTRODUCTION

This IEU LabReport is part of an Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in the Latin American and Caribbean States (LAC) carried out in 2024. The evaluation collected and analyzed data using a range of methodologies, including data from the GCF portfolio. This Lab Report intends to analyze data from the funding proposals (FPs) and annual performance reports (APRs) to better understand risks foreseen in funding proposals and challenges that materialize at the implementation stage in the projects in LAC.

### METHODOLOGY

This analysis was undertaken by examining 32 single and multi-country projects in the LAC region.<sup>1</sup> As a first step, all APRs available for projects for the reporting period of 2018-2022 were used for this analysis. All the projects whose APRs have been analyzed have also been

considered for analysis of the respective FPs, to facilitate direct comparison between risks identified in the FPs and challenges that manifested in the APRs.

As a second step, the IEU classified the risks identified in FPs and the implementation challenges identified in the APRs under numerous categories, to the extent that they can be deduced from the narrative in the FPs and APRs. The IEU created the categorization based on an iterative process of review of FPs and APRs and thus, the classification is different from the default classification of risk categories that are stated in section F of the FPs and of implementation challenges that are stated in section 2.6 of the APRs.

The analysis in this report also captures the degree of impact that the challenge has on the implementation of the project as noted in the APRs and whether the challenge was resolved in a given year or carried over to the following year.

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<sup>1</sup> For this exercise, 26 Single and 6 multi-country projects operational only in countries in the LAC region were considered.

*Table 1. Metadata of variables on risks/challenges reclassification by the IEU*

Risk/Challenge Origin <sup>2</sup>	Risk/Challenge Type	Interpretation Examples, Explanation:
External factors	1.(macro) Financial	Economic downturns impacting funding. Increase in input costs (inflation, market fluctuations).
	2.Political	Security issues (military hostilities, regional conflicts). Leadership turnover and changes in institutional focus. Institutional reforms and structural changes. Geopolitical disruptions (war, international sanctions).
	3.Policy and Regulatory Barriers	Sudden policy changes or regulatory shifts. Cumbersome legal and licensing procedures. Government bureaucracy and red tape. Changes in environmental laws and compliance standards.
	4.External Environmental factors	Impact of climate events (droughts, floods, hurricanes). Ecological sensitivity (biodiversity loss, deforestation). Environmental degradation (soil erosion, pollution).
	5.COVID	Covid causing implementation delay, Covid causing co-financing reallocation, or financial challenge; Covid causing changes to implementation arrangements; Covid leading to market changes; Covid related supply-chain issues delaying procurement
Project related	6.Safeguard & gender	Gender issues and inclusive participation challenges. Sociocultural Resistance to project implementation. Resistance to change or adoption of new practices. Land ownership disputes and local community opposition. Misalignment of stakeholder expectations with project goals. Ineffective stakeholder engagement and communication.
	7.Operational	Procurement delays and contracting challenges. Supply chain disruptions (local and global). Reliance on international suppliers leading to delays. Operational inefficiencies and poorly defined processes. Internal staff changes and recruitment difficulties.
	8.Technical	Lack of specialized technical skills or training for project-specific tasks
	9.(project level) Financial	financial feasibility of the project, etc.
Partner related	10.Capacity (of AE, EE, or implementing partners in country)	Project Management and risk management skills Monitoring and Evaluation skills. Financial Management skills. Inadequate planning and underestimation of project costs. Lack of adaptation to local conditions and needs.
	11.(partner level) Financial	Delayed or Insufficient disbursements from funding bodies. Perception that the project is financially risky
GCF related	12.GCF	GCF response causing delay FAA rigidity in the way of adaptive management
Others	13.others	other challenge that does not fit other categories

<sup>2</sup> Among 13 types of risks and challenges that the IEU reclassified, 11 types are categorized under three risk origins (External factors, Project related, & Partner related). Regardless of risk origins, the ‘GCF’ and ‘Others’ categories exist, yet they are not applicable to other classifications.

## IMPLEMENTATION CHALLENGES

Table 2 presents challenges that occurred during the implementation stage for the GCF projects in the LAC region from 2018 to 2022.

*Table 2. Challenges reported in APRs of projects of LAC over the period of 2018-22<sup>3</sup>*

Challenges	Number	%
Operational	75	25%
Covid-19	68	22%
Policy and Regulatory Barriers	41	13%
Capacity (of AE, EE, or implementing partners in country)	35	11%
Safeguard & gender	31	10%
Political	22	7%
Financial (project level)	12	4%
Technical	8	3%
(macro) Financial	8	3%
External Environmental Factors	3	1%
GCF	3	1%
<b>Total</b>	<b>306</b>	<b>100%</b>

**Operational challenges** were the most frequently reported. These refer to the day-to-day challenges that projects face in the normal course of project implementation, such as procurement delays and contracting challenges, supply chain disruptions (local and global), operational inefficiencies and poorly defined processes, internal staff changes and recruitment difficulties.

**COVID-19 related challenges** were the second most frequently encountered. These challenges manifest in different forms, such as supply chain disruptions, inflation, and logistical hindrances.

**Policy and regulatory barriers** rank as the third most prevalent implementation challenge in the portfolio. Such challenges involve policies and procedures at the national and subnational levels (including in relevant ministries) that hinder project implementation.

**Capacity (of AE, EE, or implementing partners in the country)** ranks as only the fourth most common in the portfolio under implementation in the region.

**Other challenges.** The prevalence of the environmental and social safeguards' (ESS) challenges ranks fifth. The emphasis on ESS consideration at accreditation and project implementation may ensure that the institutions have built the capacity to comply with GCF's ESS requirements and robustly implement safeguards. Challenges emerging from political changes and civil unrest also tend to affect project implementation. Small technical challenges are also reported, such as planned/typical technology found to be insufficient through feasibility studies.

Table 3 presents the number of challenges by level of impact on the project and challenge categories.

<sup>3</sup> Seven cases reporting N/A were excluded.

*Table 3. Challenges encountered by the level of impact*

Challenge Encountered	Impact On Project				
	High	Moderate	Minor	N/A	Total
Operational	25%	47%	28%	0%	100%
COVID	29%	47%	22%	1%	100%
Policy and Regulatory Barriers	54%	27%	17%	2%	100%
Capacity (of AE, EE, or implementing partners in country)	49%	23%	26%	3%	100%
Safeguard & gender	32%	23%	45%	0%	100%
Political	27%	45%	27%	0%	100%
Financial (project level)	42%	42%	17%	0%	100%
Technical	63%	25%	13%	0%	100%
(macro) Financial	38%	63%	0%	0%	100%
External Environmental Factors	0%	67%	33%	0%	100%
GCF	0%	100%	0%	0%	100%

Around half of the challenges reported under policy and regulatory barriers and capacity had a high impact on implementation.

Around 30% of the challenges pertaining to ESS and political instability had a high impact on project implementation. APRs also report whether challenges have been resolved during the reporting year. Nearly three-fourths of policy and regulatory barriers and over three-fourths of institutional capacity challenges remain unresolved within the year, reflecting the structural and complex nature.

The above analysis suggests that frequent challenges do not always correspond to more severe impacts. Operational or COVID-related issues may occur more often but are less likely to critically affect project implementation, possibly because solutions are easier to find, or their effects are more manageable.

In contrast, challenges such as policy barriers and capacity limitations, though less

frequent, tend to have a more significant impact when they arise, indicating that these issues are more complex and harder to resolve.

### **RISKS IDENTIFIED AT THE DESIGN STAGE AND COMPARISON WITH ACTUAL CHALLENGES**

Table 4 presents the risks identified in the FPs by level of probability of being materialized in the implementation stage as assessed at project design stage. The IEU deployed the same classification system as APRs to classify risks identified at the FP stage.

**Table 4. Risks by Probability and Risk Categories**

FP Risk Category	Number of risks	Probability of Risk				
		High	Medium	Low	N/A	Total
Safeguard & gender	49	0.0%	28.6%	63.3%	8.2%	100.0%
Operational	40	5.0%	40.0%	47.5%	7.5%	100.0%
Capacity (of AE, EE, or implementing partners in country)	39	5.1%	35.9%	53.8%	5.1%	100.0%
External Environmental Factors	17	11.8%	52.9%	17.6%	17.6%	100.0%
political	15	6.7%	46.7%	33.3%	13.3%	100.0%
Policy and Regulatory Barriers	12	8.3%	33.3%	33.3%	25.0%	100.0%
Financial (macro)	8	50.0%	12.5%	25.0%	12.5%	100.0%
Technical	7	0.0%	14.3%	57.1%	28.6%	100.0%
Financial (project level)	6	0.0%	66.7%	33.3%	0.0%	100.0%
COVID	5	40.0%	40.0%	20.0%	0.0%	100.0%
Financial (partner level)	5	0.0%	20.0%	40.0%	40.0%	100.0%
Others	3	0.0%	66.7%	33.3%	0.0%	100.0%
<b>Grand Total</b>	<b>206</b>	<b>6.80%</b>	<b>36.41%</b>	<b>46.12%</b>	<b>10.68%</b>	<b>100.00%</b>

The GCF identifies safeguards and gender risks most frequently, accounting for 23.8% of all risks in the approved projects portfolio in LAC. Operational risks (day-to-day project management challenges) are highlighted as the second most significant risk, accounting for 19.4% of all risks in the approved project portfolio. Capacity of AEs, EEs and implementing entities is highlighted as the third most prevalent category of identified risks, constituting 19% of all risks in the approved project portfolio. External environmental challenges (climate shocks etc.) and political risks are the next most widely identified risks at the FP stage.

The risks identified at the design stage tend to be different from those that materialize at the implementation stage; risks tend to be overestimated or underestimated at FP design stage.

APR allows for annual updates on project risks (Section 2.1.4), enabling the risk assessment to be modified based on the realities on the ground.

Table 5 highlights the top categories of risk and challenge in FPs and APRs, respectively.

**Table 5. Top risk and challenge categories in FPs and APRs**

Risk/Challenge Category	FP	APR	FP (%)	APR (%)	FP/APR (in %)
Safeguard & gender	49	31	23.8%	9.9%	2.40
Operational	40	75	19.4%	24.0%	0.81
Capacity (of AE, EE, or implementing partners in country)	39	35	18.9%	11.2%	1.69
External Environmental Factors	17	3	8.3%	1.0%	8.61
Political	15	22	7.3%	7.0%	1.04
Policy and Regulatory Barriers	12	41	5.8%	13.1%	0.44
Financial (macro)	8	8	3.9%	2.6%	1.52
Technical	7	8	3.4%	2.6%	1.33
Financial	6	12	2.9%	3.8%	0.76

(project level)					
COVID	5	68	2.4%	21.7%	0.11
Financial (partner level)	5	0	2.4%	0.0%	-
GCF	0	3	0.0%	1.0%	0.00
Others	3	0	1.5%	0.0%	-
N/A	0	7	0.0%	2.2%	0.00
<b>Total</b>	<b>206</b>	<b>313</b>			

This analysis points towards certain gaps in the Secretariat’s understanding of risks in the region. Safeguard issues are emphasized much more at design as compared to their occurrence at the implementation stage. It is possible that the emphasis on ESS at accreditation and project implementation may ensure that the institutions have built the capacity to comply with GCF’s ESS requirements and robustly implement safeguards. GCF and its partners also tend to emphasize partner capacities as a challenge at design, while its occurrence at implementation is not as widespread as expected at the FP stage. This also points to the finding of the generally good capacity of institutions in the LAC region. Interestingly, FPs seem to underestimate the prevalence of operational challenges on projects in LAC. Another challenge that is often not foreseen as much but prevails much more frequently than anticipated at the design stage is that of policy and regulatory barriers.

**KEY FINDINGS**

The analysis of implementation challenges and risk assessment of the GCF projects in LAC reveals some key findings. The analysis emphasizes the varied and dynamic character of the challenges encountered during the implementation stage and the risks identified during that project design stage, such as operational, COVID-19-related, policy and regulatory barriers, and capacity issues.

The most frequently reported challenges were operational, followed by COVID-19 impacting project execution until 2022. Policy and regulatory barriers rank as the third common challenges. Capacity issues of AEs, EEs and implementing partners in the country, which ranks as fourth most common challenges in the portfolio, were less materialized than anticipated. This finding imply that the LAC region has a relatively strong institutional capacity with a history of implementing climate programming. It is noteworthy that half of the challenges reported as policy and regulatory barriers and capacity are expected to have a high impact on project implementation, and three-fourths of them remain unresolved in the year they are reported.

Interestingly, the analysis reveals a mismatch between the risks identified at the project design stage and the challenges encountered during implementation. For instance, safeguard and gender risks were over-represented in the design stage but were less realized in implementation, whereas operational and policy-related challenges were more prevalent than expected. This finding indicates that there are gaps in integrating evidence emerging from project implementation back into project design.

Finally, this analysis provides useful lessons for future GCF projects, underlining the importance of a more adaptive, context-sensitive approach to managing regional risks and implementation challenges. By improving the alignment of risk identification with actual project conditions, the GCF can generate more effective project results and increase resilience to LAC projects' challenges.