TRUSTED **EVIDENCE**.
INFORMED **POLICIES**.
HIGH **IMPACT**.

INDEPENDENT EVALUATION OF THE GREEN CLIMATE FUND'S APPROACH TO THE PRIVATE SECTOR

Annexes to Final Report - Volume II

September 2021

GREEN CLIMATE FUND
INDEPENDENT EVALUATION UNIT

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

ANNEXES TO FINAL REPORT – VOLUME II

09/2021

© 2021 Green Climate Fund Independent Evaluation Unit
175, Art center-daero
Yeonsu-gu, Incheon 22004
Republic of Korea
Tel. (+82) 032-458-6450
Email: ieu@gcfund.org
https://ieu.greenclimate.fund

All rights reserved.

First Edition

This evaluation is a product of the Independent Evaluation Unit at the Green Climate Fund (GCF/IEU). It is part of a larger effort to provide open access to its research and work and to make a contribution to climate change discussions around the world.

While the IEU has undertaken every effort to ensure the data in this Report is accurate, it is the reader's responsibility to determine if any and all information provided by the IEU is correct and verified. Neither the author(s) of this document nor anyone connected with the IEU or the GCF can be held responsible for how the information herein is used.

Rights and Permissions
The material in this work is copyrighted. Copying or transmitting portions all or part of this Report without permission may be a violation of applicable law. The IEU encourages dissemination of its work and will normally grant permission promptly.

The IEU reserves the right to edit text for brevity and clarity in subsequent reprints.

Citation
The suggested citation for this evaluation is:
Independent Evaluation Unit (2021). *Independent evaluation of the Green Climate Fund's approach to the private sector*. Evaluation Report No. 10 (September). Songdo, South Korea: Independent Evaluation Unit, Green Climate Fund.

Credits
Head of the GCF Independent Evaluation Unit a.i.: Mr. Andreas Reumann
Task manager: Dr. Archi Rastogi, Evaluation Advisor a.i., Independent Evaluation Unit
Editing: Beverley Mitchell
Layout and design: Giang Pham
Cover photo: A shop owner in Africa is arranging his fabric in a market, ©Steven Harewood/ShutterStock

A FREE PUBLICATION

Printed on eco-friendly paper

CONTENTS

TABLES

FIGURES

BOXES

ABBREVIATIONS

AC	Adaptation Committee
ADB	Asian Development Bank
AE	accredited entity
AF	Adaptation Fund
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AMA	Accreditation Master Agreement
APR	annual performance report
B.28	Twenty eighth meeting of the Board
CARICOM	Caribbean Community Climate Change Centre
CBD	United Nations Convention on Biological Diversity
CDP	customer data platform
CIC	Climate Investment Committee
CIF	Climate Investment Funds
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
CNs	concept notes
COA	Country Ownership Approach
COP	Conference of the Parties
CP	country programming
CPI	Climate Policy Initiative
CSO	Civil society organization
CTF	Clean Technology Fund
DAC	Development Assistant Committee
DAE	Direct Access Entity
DAs	designated authorities
DCED	Donor Committee for Enterprise Development
DFC	U.S. International Development Finance Corporation
DFI	Development Finance Institution
DFID	Department for International Development
DMA	Division of Mitigation and Adaptation
DSCR	debt service coverage ratio
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESS	Environmental and Social Safeguards
EWP	entity work programme

FAA	Funded Activity Agreement
FIP	forestry investment programme
FMO	Netherlands Development Finance Company
FP	funding proposal
FPR	Forward-Looking Performance Review
GCF	Green Climate Fund
GEF	Global Environment Facility
GI	Governing Instrument
GICS	Global Industry Classification Standard
GPIC	GCF Private Investment for Climate Conference
iAEs	international accredited entities
IDB	Inter-American Development Bank
IEU	Independent Evaluation Unit
IFAD	International Fund for Agricultural Development
IFFIM	International Finance Facility for Immunisation
IRM	initial resource mobilisation
IRR	internal rate of return
iTAP	independent Technical Advisory Panel
KCP	Katowice Climate Package
KPIs	key performance indicators
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
LEG	Least Developed Countries Expert Group
LPs	limited partners
MDB	multilateral development bank
MSMES	micro-, small- and medium-sized enterprises
NAP	National Adaptation Plan
NAPAs	national adaptation programmes of action
NBF	needs-based finance
NDA	National Designated Authority
NDC	Nationally Determined Contribution
NEFCO	Nordic Environment Finance Corporation
OECD	Organization for Economic Cooperation and Development
OFP	Operational Focal Point
PE	private equity
POPs	Financial Mechanism for the Stockholm Convention on Persistent Organic Pollutants
PPCR	Pilot Programme for Climate Resilience

PPF	Project Preparation Facility
PPMS	portfolio performance management system
PPP	public–private partnerships
PSAG	Private Sector Advisory Group
PSES	private sector engagement strategy
PSF	Private Sector Facility
PSO	private sector organization
REDD+	reducing emissions from deforestation and forest degradation
RfPs	requests for proposals
RMF	Results Management Framework
RPSP	Readiness and Preparatory Support Programme
SAP	Simplified Approval Process
SCCF	Special Climate Change Fund
SCF	Standing Committee on Finance
SIDS	Small Island Developing States
SREP	Scaling Up Renewable Energy Programme
TCFD	The task force on climate-related financial disclosures
UNCCD	United Nations Convention to Combat Desertification
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
VC	venture capital

ANNEXES

Annex 1. METHODOLOGY

The evaluation used a mixed-methods approach. The specific methodological steps included the following:

- A comprehensive document review, covering relevant Green Climate Fund (GCF) policies and operational frameworks, relevant peer-reviewed and grey literature on the private sector in climate finance, United Nations Framework Convention on Climate Change (UNFCCC) decisions and guidance, accreditation documents, project cycle documents and readiness documents, among others. In total, 117 documents were reviewed.
- A comprehensive portfolio analysis, to gain a thorough understanding of performance in various facets of the private sector in the GCF's ecosystem. The portfolio analysis covered private sector accredited entities (AEs) across modalities, private sector projects (or projects approved through the Private Sector Facility (PSF)), incentives in private sector projects, financial instruments used across the portfolio, and co-finance ratios, among others.
- Semi-structured interviews with 184 stakeholders, which included GCF Secretariat staff, Board members, national designated authorities (NDAs), direct access entities (DAEs), international accredited entities (iAEs) and civil society organizations (CSOs), among others (see Volume I for the list of interviewees).
- A perception survey on GCF's approach to the private sector that received 54 responses from eight relevant stakeholder groups.
- A landscape analysis, which examined the strategic priorities set out by the UNFCCC and Paris Agreement for the GCF's private sector approach and identified lessons from the approaches of other climate and development funds with similar mandates and/or similar approaches.
- In-depth analyses through virtual missions to selected countries to conduct country case studies; more information on these studies is presented below.

All data included in this report, unless otherwise noted, are valid up to 1 July 2021. For additional details please see the Approach Paper (Annex 8).

LIMITATIONS

A list of salient limitations is provided in Chapter 1 of Volume I of this report. In addition, by following a primarily mixed-methods mode of inquiry, this evaluation is subject to the limitations and challenges of validity. For instance, the qualitative methods may not be completely replicable, statistically representative, or generalizable to the portfolio across the GCF. Further, the evaluation was undertaken in a short timeline, which created challenges to robustness. Also, as in all evaluations, there is a risk of bias – in particular, of confirmation bias – that means the evaluator might seek to confirm pre-conceived hypotheses.

The limitations of the country case studies are worth noting. The country case studies are not intended to be representative of the overall GCF portfolio or experience, nor are they sufficient to make GCF-level conclusions on the application of the GCF's private sector approach. Instead, the country studies provide a grounded understanding of if, and how effectively, the GCF's private sector approach has been applied in the design and delivery of finance to countries. Due to COVID-19 travel restrictions, the evaluation team undertook country missions virtually and with the support of national consultants. Seven countries (Ghana, Burkina Faso, Bangladesh, Solomon Islands, Papua New Guinea, Armenia and Chile) were selected. Table A - 1 shows the attributes of the countries selected against the selection 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 national or regional perspectives to provide evidence for this evaluation of the GCF's approach to the private sector.

The evaluation countered these limitations through the following measures:

- Data were collected through several steps, with each step informing the results of the others.
- The evaluation included consultations with experts and other stakeholders, including to validate the emerging findings and discover unseen data.
- The task lead was trained in social sciences methods and ensures that the evaluation follows best practices in design and delivery.
- The evaluation was prepared under the direct ownership of the Independent Evaluation Unit (IEU), to inform the process as well as the substantive elements of the study.
- The quality, completeness and reliability of the data sources were assessed for each of the areas analysed, and these assessments were documented.
- All quantitative data underwent standard quality assurance processes followed by the IEU DataLab.

By using these steps, concerns of validity were satisfactorily addressed to suit the purposes and scope of the study.

Table A - 1. Selected country cases and key attributes

Country	GCF region	LDCs[a]	SIDS[b]	# 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	82.4	165	Grant and non-grant
Burkina Faso	Africa	Yes	No	7 (4)	Cross-cutting, mitigation	89.7	93	Grant and non-grant
Bangladesh	Asia-Pacific	Yes	No	5 (1)	Mitigation	351	156.7	Grant and non-grant
Solomon Islands and Papua New Guinea	Asia-Pacific (Pacific Island)	Yes	Yes	2 (0)	N/A	88.2	157.6	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

Notes: [a] Least Developed Countries; [b] Small Island Developing States

Annex 2. Operationalizing the mandate and priorities for the GCF's private sector approach

Context: Mandate of the GCF

The overall mandate of the GCF is to

> contribute to the achievement of the ultimate objective of the Convention. In the context of sustainable development, the Fund will promote the paradigm shift towards low emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.[1]

The Governing Instrument (GI) further states,

> The Fund will be guided by the principles and provisions of the Convention. The Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness. 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. The Fund will be scalable and flexible and will be a continuously learning institution guided by processes for monitoring and evaluation. The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach.[2]

The GI provides that the "Fund will be guided by the principles and provisions of the Convention". Articles 9.4 and 9.9 of the Paris Agreement set out the key principles and objectives for the operation of the Fund, which are also reflected in the GI and are therefore applicable to the GCF's private sector approach. These are briefly examined below.

Article 9.4 of the Paris Agreement

> The provision of scaled up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.

Article 9.4 sets out several principles and objectives:

Balance between mitigation and adaptation. The concept of "balance between adaptation and mitigation" is not quantified by the Conference of the Parties (COP), and as a result it is rather difficult to measure its achievement and compliance. Balance might mean different things to different Parties and might be achieved in each developing country Party differently, depending on their needs. This concept was one of several language alternatives proposed by developing country Parties in the lead-up to the Paris Agreement. For example, in the Geneva negotiating text,[3] wording

[1] FCCC/CP/2011/9/Add. 1/, Decision 3/CP.17/, Annex I, paragraph 2.
[2] FCCC/CP/2011/9/Add. 1/, Decision 3/CP.17/, Annex I, paragraph 3.
[3] FCCC/ADP/2015/1.

such as "50:50 allocation" or "equal allocation" between adaptation and mitigation was considered. Notably, Article 9.4 recognizes that with limited public finance available, funding needs to be allocated to those countries and thematic areas where needs are greatest and are not being met through other means. In the context of mitigation, this will include countries with significant mitigation potential but limited ability to tap into other types of international or domestic resources. In the context of adaptation, it means having a focus on those most vulnerable to climate change impacts.[4] Article 9.4 applies to all developing country Parties, in line with the spirit of Article 4.8 of the Convention.

Country-driven prioritization of the needs of developing countries. The Paris Agreement explicitly recognizes the need for finance to support the thematic areas of mitigation and adaptation, forest-related climate actions, technology and capacity-building (Articles 9, 4.5, 7.6, 5.2, 10.6, and 11.3). Article 9.4 recognizes that funding allocation to support these thematic areas must be done in a way that responds directly to country-driven needs and priorities.[5]

Resources for adaptation require considering public and grant-based instruments. Article 9.4 recognizes that because mitigation activities tend to offer a more compelling case for private investment, public climate funds may need to focus more on adaptation.[6,7]

Article 9.9 of the Paris Agreement

> The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans.

Article 9.9 sets out two key principles and objectives:

Efficient and ease of access to funding. Article 9.9 mandates the institutions serving the Paris Agreement, including the operating entities of the Financial Mechanism, to tailor their procedures, including through simplified application and approval, and coordination mechanisms to ease developing countries' access to funding.[8]

Readiness support. Article 9.9 points to one bottleneck that can hinder the effectiveness of climate finance: the lack of enhanced and tailored readiness support.[9]

---

[4] UNFCCC, *Biennial Assessment* (Standing Committee on Finance, 2018), paragraph 39.
[5] Niranjali Manel Amerasignhe and others, "The Future of the Funds", (Washington D.C., World Resources Institute, 2017).
[6] UNFCCC, *Biennial Assessment* (Standing Committee on Finance, 2018), paragraph 39.
[7] Amerasinghe and others, "The Future of Funds".
[8] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018).
[9]UNFCCC (2018), 2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report. Bonn, Standing Committee on Finance.

Table A - 2. COP guidance linked to the GCF's overall mandate and of relevance to the GCF's private sector approach and priorities

Theme	Relevant COP decisions	Key takeaways
Channelling finance (FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 3 GCF Governing Instrument)	Decision 9/CP.23 (Paragraph 6 and 7) Decision 7/CP.21 (Paragraph 23) FCCC/CP/2011/9/Add.1Annex (2) (Paragraph 41) FCCC/CP/2015/10/Add.2, Decision 7/CP.21 (Paragraph 9 and 24) Decision 7/CP.20 (Paragraph 12) FCCC/CP/2016/10/Add.1 Decision 7/CP.22 (Paragraph 7 and 8) FCCC/CP/2019/13/Add.2 Decision 12/CP.25 (Paragraph 6) FCCC/CP/2017/11/Add.1 Decision 9/CP.23 (Paragraph 6 and 11) FCCC/CP/2014/10/Add.2 Decision 7/CP.20 (Paragraph 9)	The GI of the Fund stipulates that the GCF will "channel new, additional, adequate, and predictable financial resources to developing countries" from a variety of public and private sources. The theme of channelling finance is reflected in various COP decisions, including mentions of "the initial resource mobilization process", "mobilizing resources at scale", and "mobilizing private sector finance". COP decisions highlight the challenges for developing countries in accessing financial resources, particularly in relation to adaptation funding. The GCF Board is accordingly requested to ensure "all developing country Parties have access to all the financial instruments available through the Green Climate Fund" (Decision 9/CP.23). Moreover, the GCF will have a PSF that allows it to finance private sector mitigation and adaptation activities directly and indirectly at the national, regional and international levels.
Country-driven approach (FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 3 GCF Governing Instrument)	Decision 4/CP.24 - Annex FCCC/CP/2017/11/Add.1 Decision 6/CP.23 (Paragraph 10) FCCC/CP/2013/10/Add.1 Decision 4/CP.19 (Paragraph 9 and 16) Decision 7/CP.22 (Paragraph 7) Decision 1/CP.21 (Paragraph 64) FCCC/CP/2011/9/Add.1Annex (2) (Paragraph 42) FCCC/CP/2016/10/Add.1 Decision 7/CP.22 (Paragraph 7)	Under various COP decisions, developed countries and climate finance providers, including the GCF, are encouraged to enhance country ownership. Country ownership refers to the measures through which countries, through effective local, national or community-level stakeholder engagement, can demonstrate ownership of efforts to mitigate and adapt to climate change. The Secretariat, with the support of operating entities of the Financial Mechanism, UN agencies, and other multilateral channels, is requested to "explore ways and means to assist developing countries as they assess their technological and capacity-building needs and priorities in a country-driven manner." A transparent no-objection procedure is requested to ensure consistency with national climate strategies and a country-driven approach. Under current GCF policies, this takes the form of a no-objection letter.

THEME	RELEVANT COP DECISIONS	KEY TAKEAWAYS
Balance between mitigation and adaptation (FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 3 GCF Governing Instrument)	Decision 4/CP.24 - Annex Decision 6/CMA.2 (Paragraph 6 and 7) FCCC/CP/2013/10/Add.1 Decision 4/CP.19 (Paragraph 9) Decision 7/CP.22 (Paragraph 7) Decision 9/CP.23 (Paragraph 6) FCCC/CP/2012/8/Add.1 Decision 6/CP.18 FCCC/CP/2016/10/Add.1 Decision 7/CP.22 (Paragraph 7) FCCC/CP/2019/13/Add.2 Decision 12/CP.25 (Paragraph 19 and 20)	Balancing the allocation of resources between adaptation and mitigation activities remains a key priority for the GCF. Several COP decisions stress the need to significantly scale up adaptation finance, while highlighting the need to strive for a greater balance between adaptation and mitigation activities. In particular, the decisions draw attention to the role of the private sector in enhancing adaptation finance. COP decisions recognize that accessing adaptation finance remains a particular challenge for developing countries, including small island developing States (SIDS) and least developed countries (LDCs), that are vulnerable to the adverse impacts of climate change.
Efficient and effective access (FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 3 GCF Governing Instrument)	Decision 6/CMA.2 (Paragraph 7) Decision 12/CP.25 (Paragraph 20) Decision 1/CP.21 (Paragraph 64) Decision 9/CP.23 (Paragraph 5) Decision 9/CP.23 (Paragraph 7) Decision 7/CP.20 (Paragraph 13) Decision 7/CP.21 (Paragraph 13) Decision 7/CP.21 (Paragraph 14) Decision 7/CP.21 (Paragraph 16) Decision 7/CP.21 (Paragraph 22) Decision 7/CP.21 (Paragraph 26) Decision 9/CP.23 [Paragraph 11] FCCC/CP/2011/9/Add.1Annex (2) (Paragraph 44) FCCC/CP/2014/10/Add.2 Decision 7/CP.20 FCCC/CP/2012/8/Add.1 Decision 6/CP.18 FCCC/CP/2014/10/Add.21 FCCC/CP/2016/10/Add.1 Decision 14/CP.22	The GI states the Fund will "operate in a transparent and accountable manner guided by *efficiency* and *effective access*." Examples of ensuring efficient and effective access include enhancing coordination, streamlining accreditation modalities, adopting a simplified process for approval of certain small-scale activity proposals, and accelerating the implementation of its readiness work programme. The GCF will also support activities that enable private sector involvement. The GCF is requested to pay "adequate attention to the priorities and needs of developing country Parties," including LDC Parties, SIDS and African States. Moreover, as part of its broader mandate, the GCF collaborates with the Climate Technology Centre and Network and the Technology Executive Committee to strengthen cooperative action on **technology development and transfer.**

THEME	RELEVANT COP DECISIONS	KEY TAKEAWAYS
	FCCC/CP/2016/10/Add.1 Decision 7/CP.22 (Paragraph 7) FCCC/CP/2019/13/Add.2 Decision 12/CP.25 (Paragraph 20) FCCC/CP/2017/11/Add.1 Decision 9/CP.23 (Paragraph 10) FCCC/CP/2016/10/Add.1 Decision 10/CP.22 (Paragraph 11)	

Table A - 3. Illustration of potential effects from mobilization and catalytic actions

Categories	Factor category	Example	Effect on project-level private finance
Leverage/Mobilization			
Direct mobilization	Public climate co-finance to individual projects or businesses	Grants, loans, direct equity investments, guarantees	Improve the risk–return profile of specific projects and contribute to persuading private financers to invest
Intermediated-direct mobilization*	Public climate finance intermediated through upstream instruments	Credit lines, fund level investments	Increase upstream funding availability to then contribute to finance and de-risk specific projects
Financial incentivization	Public financial support (financial incentive) as a result of climate policies or programmes	Subsidy schemes, tax breaks	Improve the risk–return profile of specific projects and contribute to persuading private financers to invest
Catalytic			
Capacity-building/technical assistance	Capacity-building for climate project demonstration or policy development	Capacity-building grants, technical assistance	Improve the overall readiness of private actors to invest in climate-related sector or technology
Catalysing climate policies	Environmental taxes or regulations	Carbon pricing, mandatory targets, environmental regulations (building codes, vehicle emissions standards, etc.), labelling schemes	Improve the risk–return profile of climate-related projects and businesses and contribute to persuading private financers to invest
Broader enabling environment	Enabling conditions for private sector actors	Improvements to policy and legal environment, investment conditions	Improve the overall readiness of private financiers to invest in a given country, sector or technology

Source: Adapted from Organisation for Economic Cooperation and Development (OECD) 2016
Notes: * Where public finance is provided upstream of project level investments (typically at the level of a fund, fund of funds or credit line), private finance can be mobilized sequentially at both the upstream and project level. See Jessica Brown and others (2015) for further details on the concept of intermediated-direct mobilization, and Julia Benn and others (2016) for methodologies developed by the OECD DAC to measure private finance mobilized at the level of funds and credit lines.

Table A - 4. Risk seeking and catalytic Updated Strategic Plan actions for unlocking private finance at scale

USP's objectives and actions	Description in the USP
Take on risks that other funds/institutions are not able or willing to take (Section 4.2. para. 19, letter "c")	The Updated Strategic Plan (USP) states that the GCF will show how its risk appetite differs from other climate multilateral funds by increasing instances in which it takes educated risks – to support technology development and transfer, first loss positions or participation in higher risk tranches – to demonstrate the viability of innovative approaches and deliver scale.
Increase engagement with private sector actors, especially local private sector (Section 4.3., para. 23 letter "b")	The GCF will deploy readiness activities and promote knowledge exchange to support country-led efforts to: increase engagement with private sector actors, especially local private sector, in supporting planning, programming and investment design; formulate supportive policy/regulatory settings; and support development of the climate investment capabilities of national financial institutions; and consider ways to further align financial flows with countries' low greenhouse gas emissions and climate-resilient development, building on the expectations included in the GCF's accreditation process, and exploring partnerships with long-term institutional investors.
Supporting adequate enabling environments for adaptation (Section 4.3., para. 23 letter "e")	The GCF will consider Private Sector Advisory Group (PSAG) recommendations on engaging the private sector in adaptation action, by supporting adequate enabling environments, deploying blended finance to test innovative business models for climate-resilient products and services and promoting use of climate data to inform private sector decision-making.
Supporting private sector engagement in all developing countries, including LDCs and SIDS (Section 4.3. para. 23, letter "d")	The GCF will also consider recommendations made by the PSAG to help build markets for climate action in LDCs and SIDS, focusing on market activation, enabling environments and facilitation of the aggregation of demand for mitigation and adaptation services.
Collaborating on innovation and technology (Section 4.2. para. 20, letter "d")	The GCF will strengthen collaboration with the Technology Mechanism of the UNFCCC, including the Climate Technology Centre and Network and other stakeholders, to promote technology development and transfer, innovation, incubation and acceleration. This includes identifying where GCF support can unblock bottlenecks in value chains for technology innovation, diffusion and transfer at different stages of the technology cycle, including via deploying readiness to support national innovation systems and supporting local technology production.

Box A - 1. *The Global Environment Facility's (GEF) private sector engagement strategy (PSES) approach for measuring effectiveness in catalysing private sector engagement*

In terms of metrics and reporting, the PSES of the GEF notes that the overriding reason for engaging the private sector is to ultimately leverage a powerful way to achieve global environmental benefits in a sustainable and cost-effective manner at the systems level. The indicators for success at the systems level will be the same as for engaging the public sector – namely, global environmental benefits in the focal areas.

However, the indicators for success at the outcome and output levels will be different in the case of private sector activities. To the extent that the private sector is engaged instrumentally to achieve global environmental benefits in the focal areas, there will need to be metrics, corresponding indicators and evaluation developed over time for the following:

1) Bringing about policies and frameworks conducive to private sector approaches to the provision of global environmental benefits
2) Creating sustainable markets for global environmental goods by identifying, demonstrating, replicating and mainstreaming innovative private sector approaches
3) A better regulatory and business enabling environment
4) Internal changes to company policies and operating standards
5) Mobilizing private capital that will share the financial risk with the GEF of providing global environmental benefits
6) Accessing and transferring innovative technology

The metrics used for the purpose of annual reporting to the GEF Council to assess the effectiveness of private sector engagement will include the following:

1) The number of companies formally engaged in GEF activities (in the process of design, planning meetings, information shared, implementation, technical assistance, etc., according to the modality)
2) A classification of companies based on the Global Industry Classification Standard (GICS)[10] industry code at the level of sector and industry
3) An assessment of the geographies where the private sector engagement has been most effective and least successful
4) The number of multi-stakeholder platforms engaged, their geographic coverage and their share of the global market

Where information is available, annual reports will include considerations of additionality to ensure that the resources provided to the private sector bring about investments and activities that would not otherwise have happened. While there is no agreed set of standard criteria for additionality assessments, an adapted version of the Donor Committee for Enterprise Development (DCED) good practice criteria for assessing additionality[11] will be used to assess the net positive difference that results from GEF private sector engagement – namely, the global environmental benefits (and associated outcomes) that:

1) are larger in scale
2) take place quicker
3) extend across wider geographies than those funded through the GEF
4) increase the durability of projects over time, and which occur as a result of private sector engagement in GEF programmes and that would otherwise not have occurred in the absence of the private sector.

---

[10] The GICS structure consists of 11 sectors, 24 industry groups, 69 industries and 158 sub-industries. Annual reporting on private sector engagement will use this taxonomy to show which sectors are represented through the GEF partnership and their relative weighting, and to identify sectors which may need greater engagement focus.

[11] Heinrich, M. (2014). *Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms.* The Donor Committee for Enterprise Development.

To undertake this analysis, the evaluation team first reviewed the USP for strategic objectives and priorities related to the private sector.[12] We then reviewed the Secretariat's private sector facility key performance indicators (KPIs)[13] for 2021 (the latest available since the adoption of the USP), including the targets and performance.

[12] In relation to the third strategic priority, catalysing private sector finance at scale.
[13] Assessment of the USP present a detailed analysis of 2021 PSF KPIs against the USP targets without differentiating KPIs where PSF supports rather than leads.

Table A - 5. An assessment of whether the USP priorities in relation to the private sector and the KPIs of the PSF are aligned

USP		SECRETARIAT WORKPLAN	
USP strategic objectives	**USP strategic priorities**	**Secretariat – PSF KPIs**	**Target**
Deliver portfolio level mitigation and adaptation results that exceed portfolio initial resource mobilization (IRM) results and support developing countries in translating their nationally determined contributions, adaptation communications, national adaptation plans (NAPs) and long-term national strategies into transformational investment strategies and project pipelines informed by the goals in the Paris Agreement	**4.3: Catalysing private sector finance at scale** (a) Identifying and increasing private sector engagement potential across results areas (b) Strengthening engagement capacity, investment environments and climate-oriented financial systems (c) Structuring to mobilize private sector resources at scale (d) Supporting private sector engagement in all developing countries, including LDCs and SIDS* (e) Enhancing the role of the private sector in adaptation* (f) Executing a private sector outreach plan (g) Staged development of the PSF modalities	1.2 PPF [Project Preparation Facility] support delivered to enhance advanced pipeline development	12 PPF proposals, including eight from DAEs
		1.3 CPs [Country Programmes] submitted with GCF- facing investment plans and pipelines	30 CPs
		1.4 EWP [Entity Work Programme] submitted with improved country priorities	10 EWPs
		1.6 High-quality, country driven CNs [concept notes] & FPs [funding proposals] developed through RPSP [Readiness and Preparatory Support Programme] and PPF	A system for tracking CNs and FPs developed with readiness support instituted. 5 CNs/ FPs supported by PPF TA 100%
		2.1.2 PSF-led number (#)/ volume (USD) of FPs submitted for Board approval	Total FP #: 12 Total USD: 750 M Regular #: 9 Regular USD: 720 M Simplified approval process (SAP) #: 3 SAP USD: 30 M
Balanced funding across mitigation and adaptation over time, taking into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate		2.1.3 Reports to Climate Investment Comittee (CIC) on the status of GCF pipeline against USP	3
		2.1.4 Develop flagship projects with 2–3 multilateral development banks (MDBs) that have significant private sector crowd-in	2
		2.2.3 PSF-led number (#)/ volume (USD) of DAE FPs submitted	Total #: 4 Total USD: 180 M

USP		SECRETARIAT WORKPLAN	
change, including LDCs, SIDS and African States		2.2.4 Review DAE FPs in the pipeline and support development of programming strategy for DAEs	1
		2.3 Sectoral guidance elaborated and implemented to inform high-quality funding proposal [FP] development	At least 10
		2.4.2 PSF-led number of CNs/FPs endorsed by CIC-2 for interdivisional review	18
		2.5.2 PSF-led number of FPs cleared by CIC-3 for iTAP [independent Technical Advisory Panel] review	15
		2.7 Develop and implement at least one proposal for new private modalities, to support local currency lending, guarantees or early stage incubation	1 (B.30)
		3.1.2 Number of private sector FAAs [Funded activity agreement] signed	8
Significantly increased portfolio level mobilization achieved through the GCF contributions to private sector projects under the PSF, relative to the IRM		3.2 Portfolio under implementation	75%
		3.3.2 Volume (USD) of private sector projected aggregated disbursements	650 M
		4.1 Secretariat-led policy documents delivered to the Co-Chairs, in line with the updated Board Workplan, for Board consultations or publication for a Board meeting	100%
Significantly **increased funding through DAEs** relative to the IRM		4.1.1 Development of a private sector strategy	1, scheduled for B.30
		4.1.2 Undertake the review of PSF modalities and further evaluate options for additional PSF modalities	To be included in the private sector strategy (B.30)
		4.1.3 Support updating accreditation framework and PSAA	100%
		4.1.4 Review of RFPs [requests for proposals] and funding allocations	100%

USP		SECRETARIAT WORKPLAN	
		4.1.5 Lead the management response to private sector performance reports/evaluations from IEU	100%
		4.1.6 Develop a comprehensive financial plan to manage commitment authority for the entire GCF-1 programming period.	By B.29
		4.2 Secretariat-led policy drafts developed in line with the Secretariat policy manual, including impact assessment, implementation plans and resourcing requirements	100%
		4.3 Consolidation of arrangements for policy implementation and monitoring	100%
		4.5 COP guidance addressed including through collaboration with the UNFCCC	10th GCF report to the COP submitted on time
		4.5.1 Propose next steps for new funding vehicles to enhance private sector capital, including consistent with the technology mechanism of the UNFCCC.	Submission of a CN or similar for CIC review
		5.1 Requests reviewed within target service standards	- Readiness non- NAP: 70% within 35 days - Readiness Adaptation planning: 75% within 45days - PPF: 80% within 21 days - CN review: 75% within 30 days - FP review: 75% within 75 days - SAP CN: 70%–75% within 21 days - SAP FP: 70%–75% within 30 days
Scaled up funding for ambitious projects informed by countries' adaptation needs and mitigation potential, in line with their		5.2 Project review completed in line with the Operations Manual	80%
		5.2.2 Percentage of Interdivisional Project Teams that hold a kick-off meeting prior to beginning stage V (5) technical review	80%

USP		Secretariat workplan	
climate plans and strategies, recognizing the urgency to achieve the goals of the Paris Agreement		5.3 Digital agenda – 2021 workplan delivered (digital workplace, business process automation, data-driven GCF, enhancing digital collaboration)	100%
		5.4.2 PSF-led number of private sector FPs submitted to the board with pre-negotiated FAAs	
		6.8.1 Formalize new partnerships with financial institutions that set climate targets, and promote the green bank model	1 partnership
Balanced GCF risk appetite across all results areas		6.8.2 Strengthen relationship with institutional investors, including pension funds, sovereign wealth funds, insurance companies, endowments, philanthropic investors and foundations.	1
		6.8.3 GPIC (GCF Private Investment for Climate Conference)	100%
Improved speed, predictability, simplified access, efficiency, effectiveness and transparency			

Source: USP: GCF/B.27/22: Annex VI: Updated Strategic Plan for the Green Climate Fund: 2020–2023. Secretariat workplan: 2021 GCF workplan.
Notes: * There is no KPI with direct correspondence.

Annex 3. Lessons and opportunities for coherence and complimentarity

Table A - 6. Financial instruments available to different funds

Fund	Grants	Loans	Risk mitigation instruments	Equity
GEF	X	X	X	X
Least Developed Countries Fund (LDCF)	X			
Special Climate Change Fund (SCCF)	X			
GCF	X	X	X	X
Adaptation Fund	X			
Clean Technology Fund (CTF)	X	X	X	X
Forestry Investment Programme (FIP)	X	X	X	X
Pilot Programme for Climate Resilience (PPCR)	X	X	X	X
Scaling Up Renewable Energy Programme (SREP)	X	X	X	X

Source: Niranjali Manel Amerasignhe and others, “The Future of the Funds”, (Washington D.C., World Resources Institute, 2017).

Table A - 7. Innovative blended financial instruments

Instrument	Description	Risk/barriers mitigated	Example providers
Guarantee	Guarantees are a form of credit enhancement, strengthening the creditworthiness of the investment because of the promise from the guarantor to complete performance in the event of default. As a result, guarantees are one of the most catalytic forms of blending. There are many types of guarantees, including first loss, partial risk or credit guarantees, and trade finance guarantees.	Access to capital; credit/counterparty risk; off-take risk; construction/completion/technical risk; demand risk	– GuarantCo – U.S. International Development Finance Corporation (DFC)
Insurance	Provides protection by promising to compensate for a specified loss or damage in return for payment of a specified premium. There are many types of insurance; one of the most common is political risk insurance to protect against adverse government actions or war, civil strife and terrorism. Insurance provides a more stable environment for investments into developing countries. Along with guarantees, they are one of the most catalytic forms of blending.	Political risk; construction risk; operation and output risks; upstream resource related risks; access to capital	- U.S. International Development Finance Corporation (DFC) – MIGA
Hedging	Reduces the risk of adverse currency price movements in an asset and its associated earning stream. Currency hedging reduces or eliminates	Currency/commodity risk	– TCX Fund (Netherlands)

INSTRUMENT	DESCRIPTION	RISK/BARRIERS MITIGATED	EXAMPLE PROVIDERS
	exposure to the movement of foreign currencies – addressing one of the key risks for investing in emerging markets.		
Junior / subordinated capital	Protects senior investors by taking the first losses on the value of the security – i.e. if something goes wrong, the most junior/subordinated tranche will be paid out last. First loss capital takes a position that will suffer the first economic loss if the assets below it lose value or are foreclosed on (this can also be provided through a grant or guarantee).	Multiple risks including off-take, construction, and reputational risks; access to capital	– Netherlands Development Finance Company (FMO) (Netherlands) – Kreditanstalt für Wiederaufbau (Germany)
Securitization	Securitization refers to the process of transforming a pool of illiquid assets into tradable financial instruments (securities), such as bonds.	Liquidity / time-horizon; scale; counterparty/off-take and credit risk	European Investment Bank
Results-based incentives (i.e. pay-for-performance schemes)	Instruments that provide incentives and disincentives to achieve desired outcomes or results (tie at least a portion of payments to achievement), including social impact bonds and performance-based contracts. This type of financing is aimed at rewarding innovation and the successful implementation of a project with clear climate benefits.	Operation and output risks	– International Finance Facility for Immunisation (IFFIM) – Bill and Melinda Gates Foundation - World Bank - GEF
Contractual mechanisms (i.e. feed-in tariffs or off-take agreements)	There are various contractual and project finance arrangements to support the development of bankable infrastructure projects including public and private off taker agreements, subsidies such as feed-in tariffs, and tax credits. These mechanisms involve an agreement between producers and buyers of a resource to purchase or sell portions of future production. These agreements are to secure financing for a production facility or buy the equipment needed to extract a resource (e.g. power purchase agreements (PPAs) in the energy sector).	Demand risk; financing risk (demonstrate bankable revenue stream)	– Ofgem (UK) – Google (US)
Green Bonds	**Green bonds:** Green bonds can mobilize resources from domestic and international capital markets for climate change adaptation, renewables and other environmentally friendly projects. They operate in the same way as conventional bonds, but the proceeds can only be invested in projects that generate environmental benefits, which could include nature-based solutions (NbS). **Resilience Bonds:**[c] The ability of NbS to build resilience and offer co-benefits (e.g. carbon sequestration and biodiversity conservation) can make them eligible for cost-sharing, investment pooling, and innovative finance mechanisms such as resilience bonds. As a form of Catastrophe Bond, resilience bonds link insurance premiums to the resilience of projects and therefore provide a way to monetize avoided	Operation and output risks	- The Nature Conservancy and the Inter-American Development Bank Lab - Dutch government[a] - European Bank for Reconstruction and Development[b]

INSTRUMENT	DESCRIPTION	RISK/BARRIERS MITIGATED	EXAMPLE PROVIDERS
	losses through a rebate structure. The resulting dividends can be used for other resilience activities, such as training infrastructure operators on NbS maintenance or other capacity-building. **Climate impact bond:** Merges the idea of results-based finance with bonds, where an investor provides upfront capital to a service provider to deliver the targeted climate resilience outcome. Upon achievement of results, the outcome funder (typically a public sector agency or government) repays the investor at a premium.[d]		
Grants (especially for technical assistance)	Capital that is paid in without any expected repayment or compensation over a fixed period of time. It could include money for technical assistance or project preparation to bring a project to bankability. Grants can be critically important for pipeline development, especially in less mature sectors and riskier geographies, creating significant (if often hard to measure) crowding-in of private capital.	Access to capital; high transaction costs; operational risks; lack of bankable pipeline, lack of local intermediaries; lack of capacity	– Rockefeller Foundation – Hewlett Foundation

Source: Adapted from Blended Finance Task Force. (2018). Better finance better world: Consultation paper of the Blended Finance Task Force. Business and Sustainable Development Commissions. Carter, Lauren (2020). The Ecosystem of Private Investment in Climate Action. Invest4Climate Knowledge Series. United Nations Development Programme, New York, NY, USA.

Notes: The organizations represented in this table may offer instruments other than the one for which they are specifically profiled. OPIC, for example, offers a political risk insurance product, but also offers direct subordinate debt into investments.

[a] In 2019, the Dutch government issued almost USD 7 billion worth of bonds for low carbon development and sustainable water management, with plans to specifically incorporate NbS. See: https://www.ebrd.com/news/2019/worlds-first-dedicated-climate-resilience-bond-for-us-700m-is-issued-by-ebrd-.html

[b] The European Bank for Reconstruction and Development recently issued the first ever climate resilience bond, which raised USD 700 million. See: https://www.ebrd.com/news/2019/worlds-first-dedicated-climate-resilience-bond-for-us-700m-is-issued-by-ebrd-.html

[c] For more information on the use and structure of resilience bonds, see: https://journals.openedition.org/factsreports/4910.

[d] Jo Puri and Aemal Khan, "*Climate Impact Bonds and the GCF*", Independent Evaluation Unit Blog (Green Climate Fund, 2019).

Box A - 2. Examples of GEF's projects engaging private sector in NbS and others

Wildlife Conservation Bond (GEFID 10330). This project is focused on addressing major challenges for financing conservation and proposes an innovative financial product that combines private, public and philanthropic resources to unlock private finance for the conservation of the black rhino in South Africa. The project builds on existing conservation efforts in two priority sites, Addo Elephant National Park and Great Fish River Nature Reserve, and product development under the USD 4.5 million Rhino Impact Investment Project funded by the GEF, The Royal Foundation, UK Aid and the Zoological Society of London. The World Bank will issue a conservation bond, and the bondholders (which are private finance institutions) agree upfront to forgo all periodic coupons that the bond will pay. Instead, these payments will directly finance the conservation initiatives in the two identified parks. The bondholders hence become direct co-financiers of the conservation efforts in the two parks of South Africa, and in return, they can be compensated with a contingent success payment if the rhino population grows in the two parks. The source of that contingent success payment is GEF NGI funding. The project will potentially create a new asset class to mobilize institutional investors to finance conservation.

Livelihoods Carbon Fund 3 (LCF3) (GEFID 10497). This project will build an innovative investment model that invests in community-based solutions to restore natural ecosystems (via NbS) and establishes agroforestry and regenerative agriculture systems in developing countries, with a view to generating high-quality, cost-effective certified carbon offsets for climate responsible corporates. The Fund investment model enables financial investors to monetize returns through a carbon offset mechanism offered to participating corporate investors. Carbon offsets will be verified by Gold Standard and Verra, the leading assurance services providers in the market. The investment strategy places local communities at its centre, as the key actors of the management and conservation of local natural ecosystems. LCF3 aims to showcase NbS as a new investable asset class, and the GEF early stage equity share will play a decisive role in removing barriers for private financial investors and unlocking capital at scale.

Source: GEF website. *https://www.thegef.org/sites/default/files/web-documents/10330_BD_PIF_Review.pdf*, *https://www.thegef.org/project/livelihoods-carbon-fund-3-lcf3*

Box A - 3. Designated authorities for climate funds

All the funds have a designated authority or focal point that is responsible for managing a country's engagement with that fund.

GEF (including the LDCF and SCCF): Political and operational focal points are responsible for internal coordination and consultation, alignment with country priorities, and endorsement of projects.

Adaptation Fund: A designated authority is responsible for endorsing national implementing entities (NIEs) and funding proposals.

Climate Investment Funds: Dedicated country focal points coordinate fund programmes. However, because the funds operate through multilateral development banks, the role equivalent to NDAs, designated authorities (DAs) and focal points in other funds is played by treasuries or finance ministries.

GCF: An NDA or focal point is responsible for coordinating and overseeing all funding coming into the country from the fund, including endorsing NIEs and funding proposals.

Source: Niranjali Manel Amerasignhe and others, "The Future of the Funds", (Washington D.C., World Resources Institute, 2017).

Annex 4. Business model

Table A - 8. Provisions of the GI relevant to Private Sector Portfolio

Theme	GCF's Governing Instrument provisions
Country-driven approach	The GI of the Fund stipulates that 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."[a] Additionally, the GI stipulates that "The operation of the **private sector facility will be consistent with a country-driven approach**."[b]
Efficient and effective access to local private sector	The "Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness."[c] Additionally, the GI stipulates that "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**."[d] "The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels."[e]

Source: [a] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 2;
[b] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 42;
[c] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 2; GCF Governing Instrument para. 2;
[d] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 43; [e] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 54.

In deploying its resources, the GCF will work through a wide range of institutions to finance projects and programmes. To access funding, these institutions will go through a process of accreditation, designed to assess whether they are capable of strong financial management and of safeguarding funded projects and programmes – once approved, these AEs will be able to develop FPs to be considered by the Fund and oversee, supervise, manage and monitor their respective GCF approved projects and programmes.[14]

Thus, given the role of AEs in delivering the GCF mandate and channelling climate finance, the Board requested the GCF Accreditation Committee, with the support of the Secretariat, to prepare an accreditation strategy to ensure "efficiency, transparency and fairness", as well as country ownership, were at the heart of the GCF's accreditation approach. Efficient and effective accreditation is central to the GCF business model, so it is with this overarching prerogative that the critical nature of selecting/nominating the right partnership with AEs/DAEs comes into play.

When outlining the creation of the PSF, the GI stipulates that it

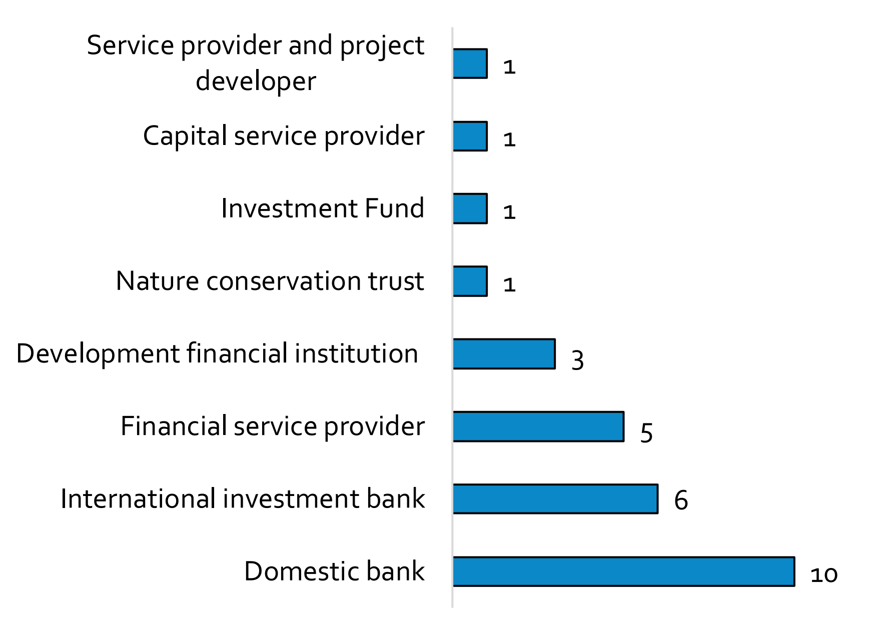
> will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs. The Board will develop the necessary arrangements, including access modalities, to operationalize the facility.[15]

With this, the GI underpins the two key elements that will benchmark the efficiency and effectiveness of the GCF's private sector approach: (i) participation of developing country actors, especially micro-, small- and medium-sized enterprises (MSMEs), and (ii) efforts made to support

[14] GCF, Entity accreditation (2021)
[15] GCF/B.23/12.

private sector involvement in SIDS and LDCs. Thus, the portfolio of partners accredited to engage with the GCF will play a critical role in determining whether the approach is effective and efficient.

Figure A - 1. Accreditation portfolio of private sector AEs



Source: Publicly available information from AE website, GCF accreditation team as of 1 July 2021. Analysis by IEU DataLab. Categories are based on the information available on the websites of entities.

Table A - 9. Accredited entities by access modality and entity size

Entity size	Private		Public		Total
	Direct	International	Direct	International	
Large and medium	10	13	20	19	62
Micro and small	4	1	37	9	51
Total	***14***	***14***	***57***	***28***	***113***

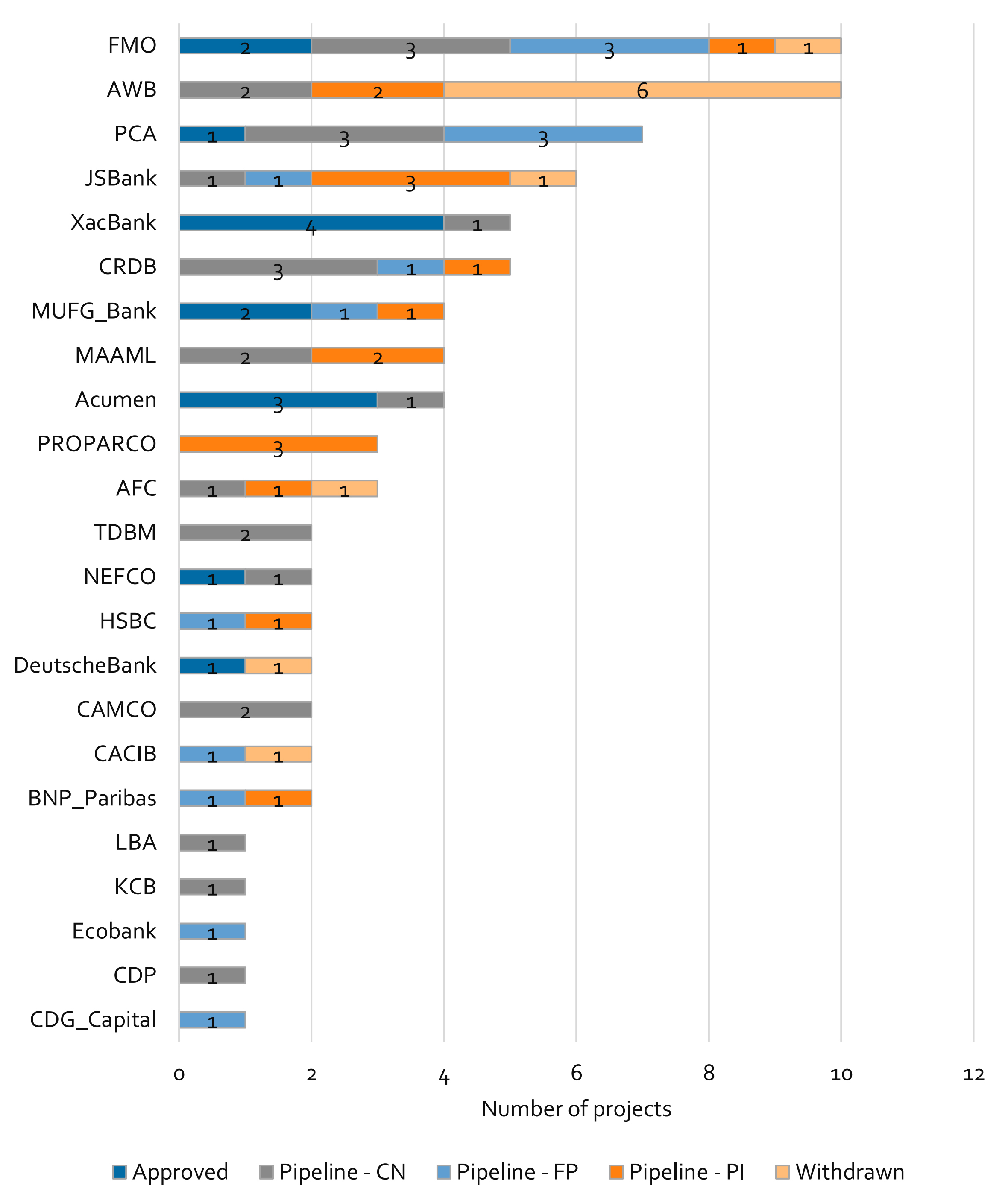
Source: GCF accreditation team as of 1 July 2021. Analysis by the IEU DataLab.

Table A - 10. Accredited entities by access modality and funding committed

AE sector	Access modality	Number of AEs	Number of approved FPs	Volume of GCF committed finance (USD million)	Volume of co-financing leveraged (USD million)
Private	International	14	7	562	3,595
	National	12	4	65	3
	Regional	2	3	81	145
Public	International	28	132	6,598	17,485
	National	45	18	646	422
	Regional	12	13	893	2,662
Total		***113***	***177***	***8,845***	***24,393***

Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 2. Private sector AEs with FPs/CNs at different project cycle stages



Source: GCF Tableau server as of 1 July 2021. Analysis by IEU DataLab.

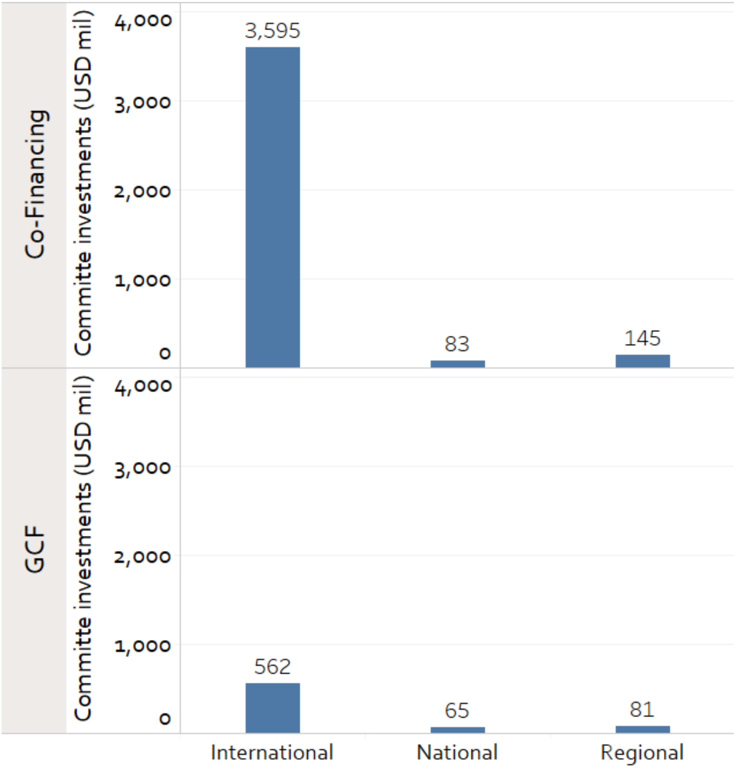
Box A - 4. BURKINA FASO: "Unless you are anglophone it is not possible to engage with the GCF"

Burkina Faso is officially a francophone country and – like the other non-anglophone countries that the GCF seeks to engage – faces significant challenges to meaningful interaction with the Fund. A study by the World Francophone Organization highlighted that only 0.2 per cent of the country's population are anglophone, which poses a significant barrier to Burkinabé's ability to communicate with the GCF.[16] Despite the United Nations having six official languages, the GCF has established its working language as English, with all materials, media and communications being published in English, and occasionally translated into other official United Nations languages. While cost and time efficient, the reality is that this simply shifts the burden onto those seeking to engage the GCF, often those the Fund itself seeks to engage most meaningfully. In the case of developing countries such as Burkina Faso, this cost is one to be considered. For local and regional DAEs, the project cycle is already excessively long, with an average 18-month wait between submission and approval, but language inflexibility simply means yet another hoop for them to have to jump through, with potentially drastic effects on the timeliness of the cycle.

This language barrier extends further than the need to just translate email exchanges and CNs with the Secretariat: it trickles down into a myriad of additional challenges, from forms to be filled in as part of the accreditation process, to comments and feedback in documents submitted, meetings, and even annual performance reports (APRs), fees and other essential materials to be submitted during the project cycle. For entities already struggling to comprehend the intricacies of the GCF modus operandi, the language barriers are yet another illustration of the GCF's rigidity of processes, even when it is seeking to engage with its desired audience. Those interviewed described scenarios such as the case of the CEO of one small financial entity who, as the sole member of his team able to speak English, had to translate for his staff all the comments in a Word document received as part of Secretariat feedback to their CN, or another case of a local bank accumulating thousands of dollars' worth of translator fees to help them navigate the accreditation process. For a Fund that seeks to reach the lowest echelons of the economic ladder, greater flexibility is needed in dealing with local contexts.

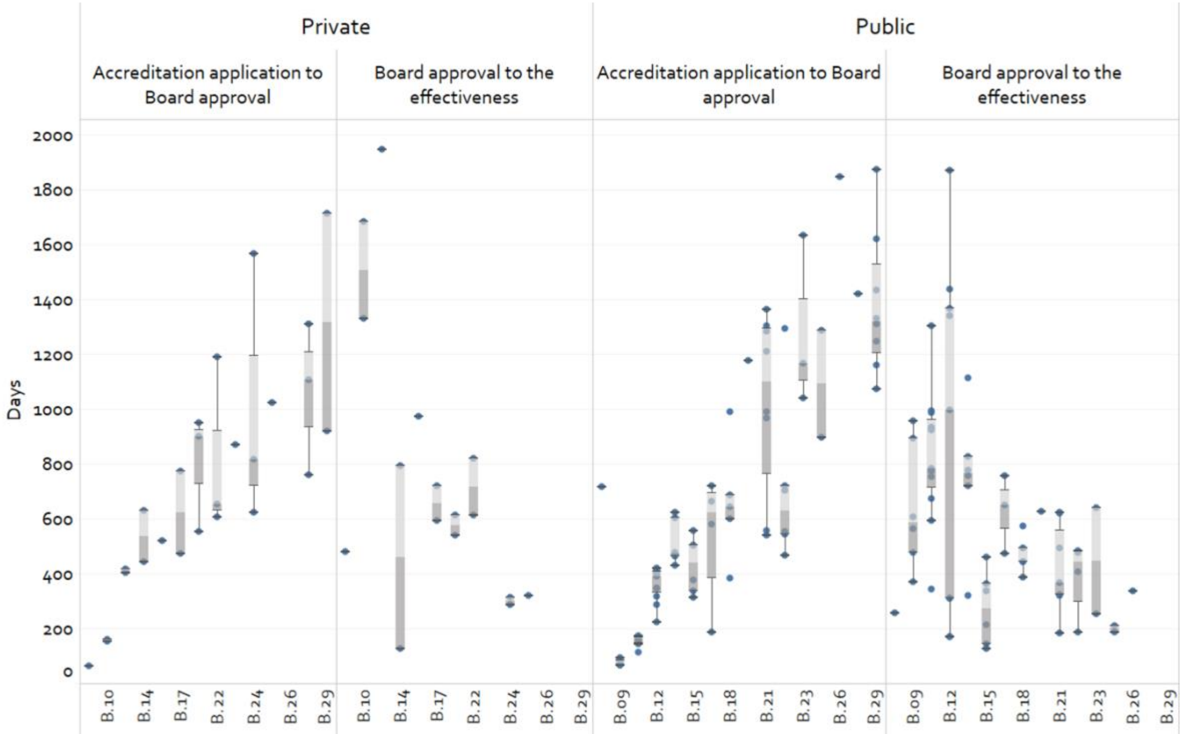
[16] Moussa Bougma, Moussa, *Dynamique des langues locales et de la langue française au Burkina Faso : un éclairage à travers les recensements généraux de la population (1985, 1996, et 2006)*, ODSEF Research Report (Québec, Canada, Observatoire démographique et statistique de l'espace francophone, Université Laval, 2010), p. 18.

Figure A - 3. Committed project finance and co-finance distribution across access modalities for private sector AEs



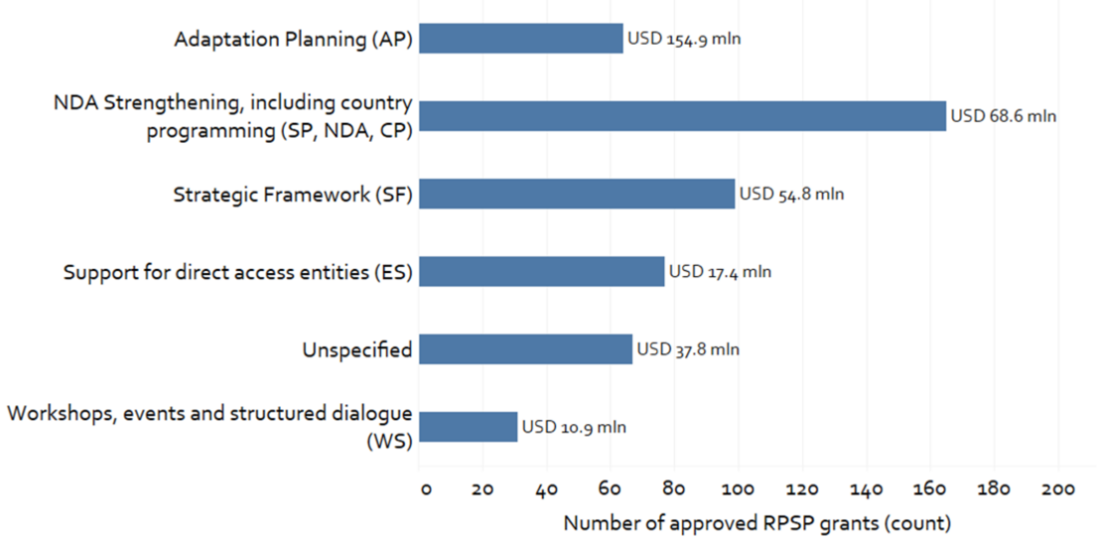
Source: Data from Tableau Server as of 1 July 2021. Analysis by the IEU DataLab

Figure A - 4. Accreditation duration by AE sector



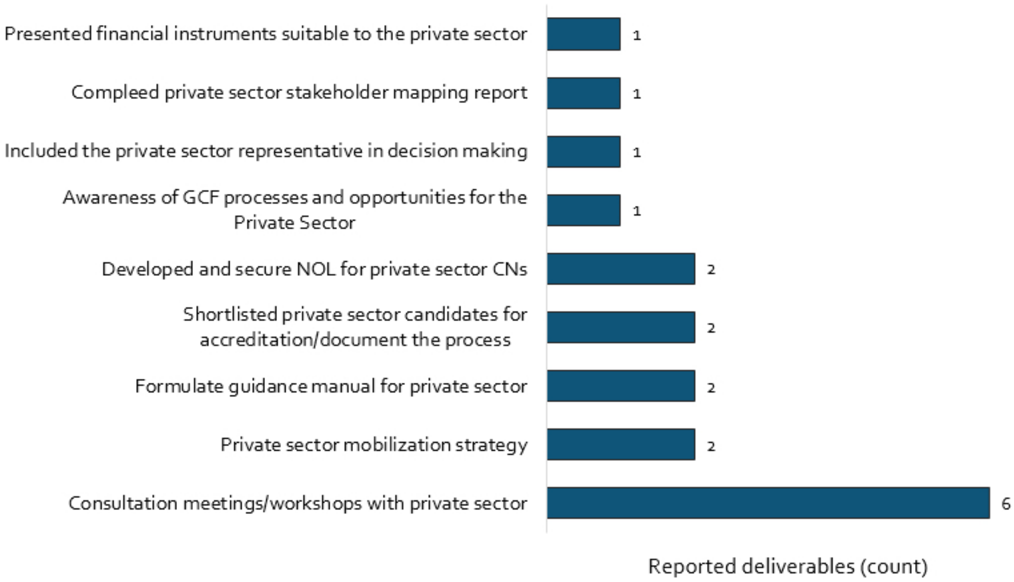
Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 5. Activity areas of Readiness support



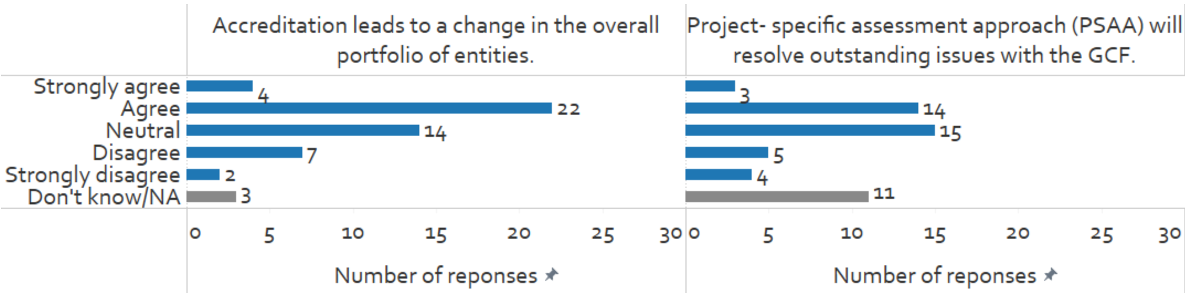
Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 6. Achievement or deliverables associated with the private sector submitted in Readiness and Preparatory Support Programme completion reports



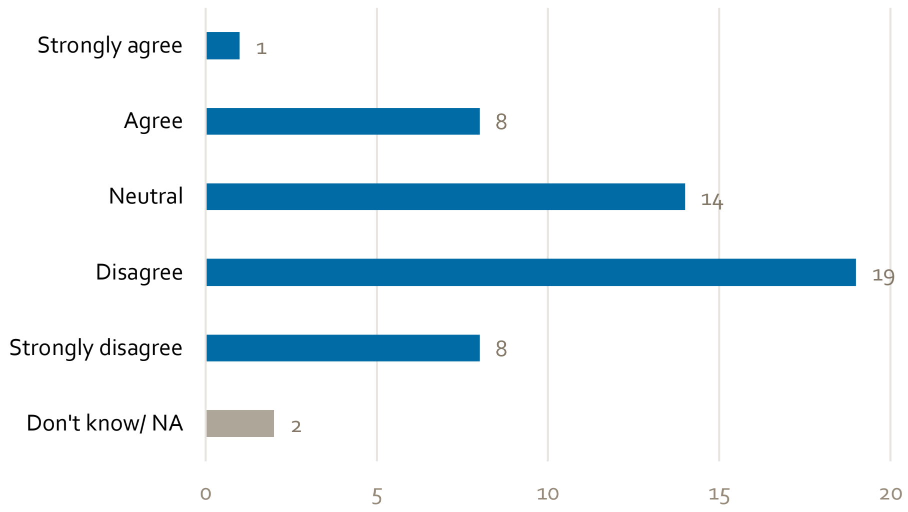
Source: Information extracted from 36 Readiness and Preparatory Support Programme completion reports, submitted to Secretariat as of December 2019. Analysis by IEU DataLab.

Figure A - 7. Survey response on questions related to accreditation



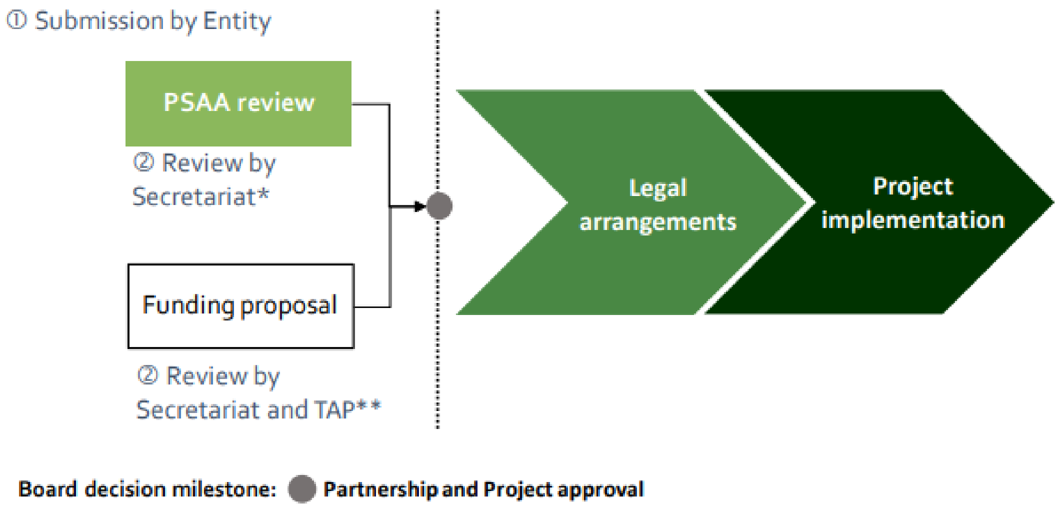
Note: Full results of the survey are presented in Annex 7.

Figure A - 8. Survey responses regarding the effectiveness of the GCF's engagement



Note: Full results of the survey are presented in Annex 7.

Figure A - 9. Process for the pilot framework for the project-specific assessment approach



Source: Document GCF/B.29/04, annex II: "Updated accreditation framework"

Annex 5. PROJECT PORTFOLIO

A. FIGURES AND TABLES

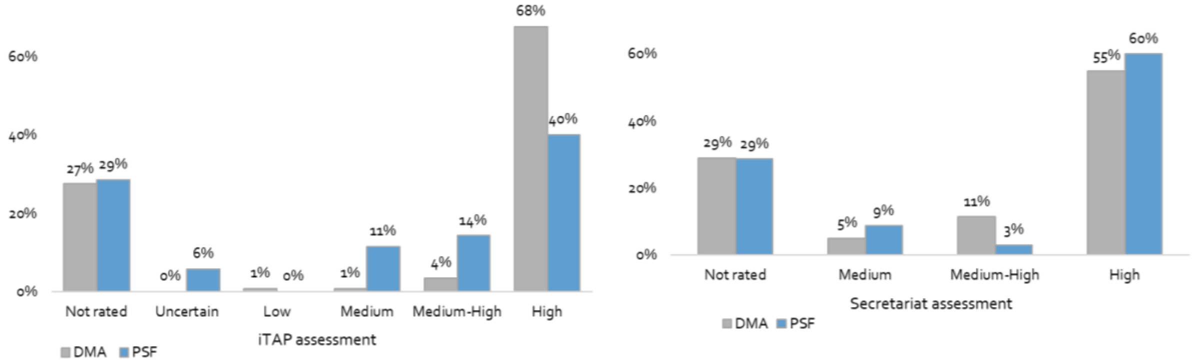
The table below illustrates the key aspects of the GI of the Fund that relate to the private sector.

Table A - 11. Provisions of the GI relevant to the Private Sector Portfolio

THEME	GCF'S GOVERNING INSTRUMENT PROVISIONS
Country-driven approach	The GI of the Fund stipulates that 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."[17] Additionally, the GI stipulates that "the operation of the **private sector facility will be consistent with a country-driven approach**".[18]
Geographical and thematic balance between adaptation and mitigation	The "**Fund will strive to maximize the impact of its funding for adaptation and mitigation**, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach."[19] Additionally, the GI stipulates that "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."[20]
Support private sector involvement in SIDS and LDCs	The GI stipulates that "the Fund will have a private sector facility that enables it to "**support activities to enable private sector involvement in SIDS and LDCs**".[21]
Efficient and effective access to local private sector	The "Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness."[22] Additionally, the GI stipulates that "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**."[23] "The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels."[24]

[17] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 2.
[18] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 42.
[19] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex I, paragraph 2.
[20] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 42.
[21] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 43.
[22] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 2; GCF Governing Instrument para. 2.
[23] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 43.
[24] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex V, C (2), paragraph 54.

Figure A - 10. Secretariat and independent Technical Advisory Panel assessment on country ownership investment criteria



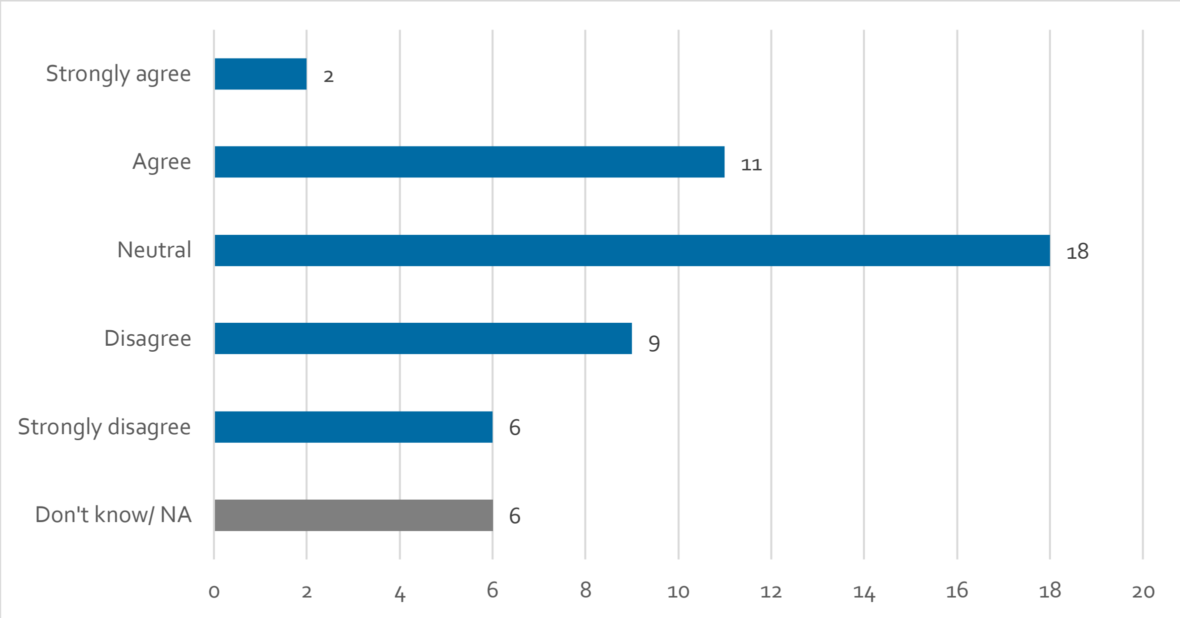
Source: Extraction from Secretariat and iTAP assessment of the funding proposals as of 1 July 2021. Analysis by the IEU DataLab.

Table A - 12. Country ownership ratings by multi-country and single-country projects

Division	Secretariat	iTAP	Multi-country	Single country
DMA[a]	High	High	6	66
		Medium-High	1	1
		N/A	1	2
	Medium	High	2	3
		Low	1	
		Medium		1
	Medium-High	High	2	12
		Medium-High		2
	N/A	High		5
		N/A	1	35
PSF	High	High	4	9
		Medium	2	
		Medium-High		2
		N/A	1	1
		Uncertain	2	
	Medium	Medium	2	
		Medium-High	1	
	Medium-High	High	1	
	N/A	Medium-High	1	1
		N/A	3	5
Portfolio			31	146

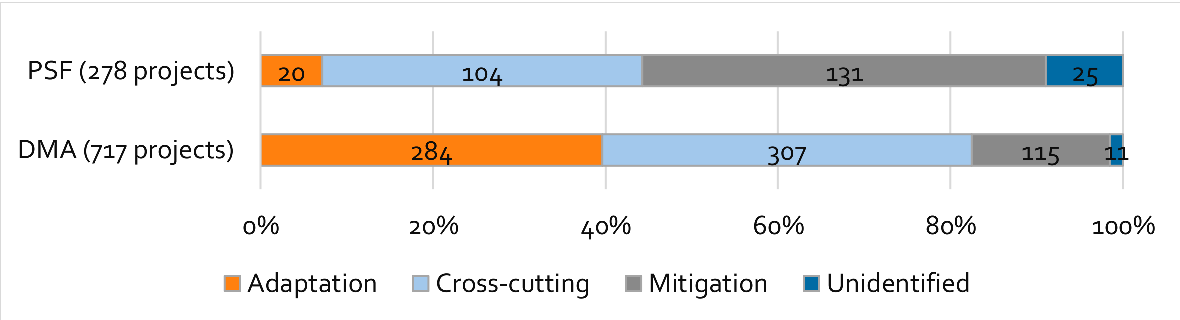
Source: Secretariat and iTAP assessment of the funding proposals as of 1 July 2021. Extraction and analysis by the IEU DataLab.
Note: [a]Division of Adaptation and Mitigation

Figure A - 11. Survey responses when asked to express agreement (on a 5-point scale) to the statement: "The GCF private sector portfolio is country-owned"



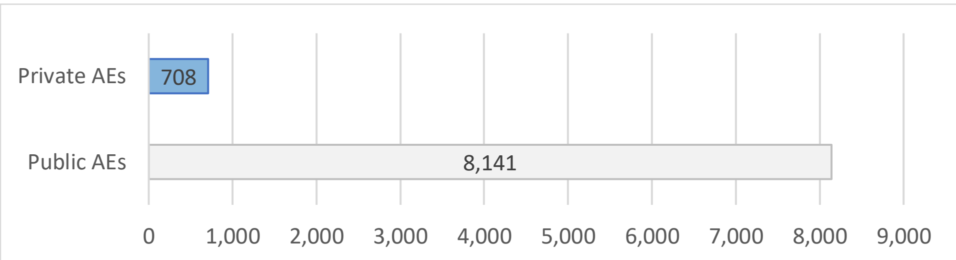
Source: Data from Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 12. Status of project pipeline by thematic focus



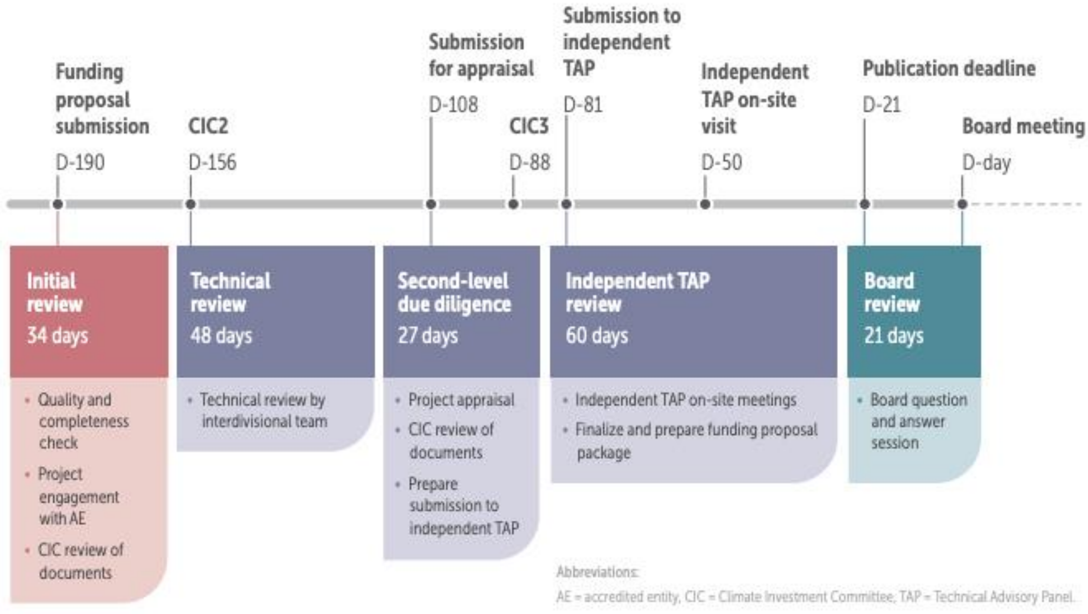
Source: Data from Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 13. Funding deployed via private versus public AEs



Source: Data from Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 14. Indicative timeline for the review of funding proposals



Source: GCF project/programme approval process and activity programming cycle.

Box A - 5. GCF role in supporting SIDs' and LDCs' Private Sector Project Portfolios

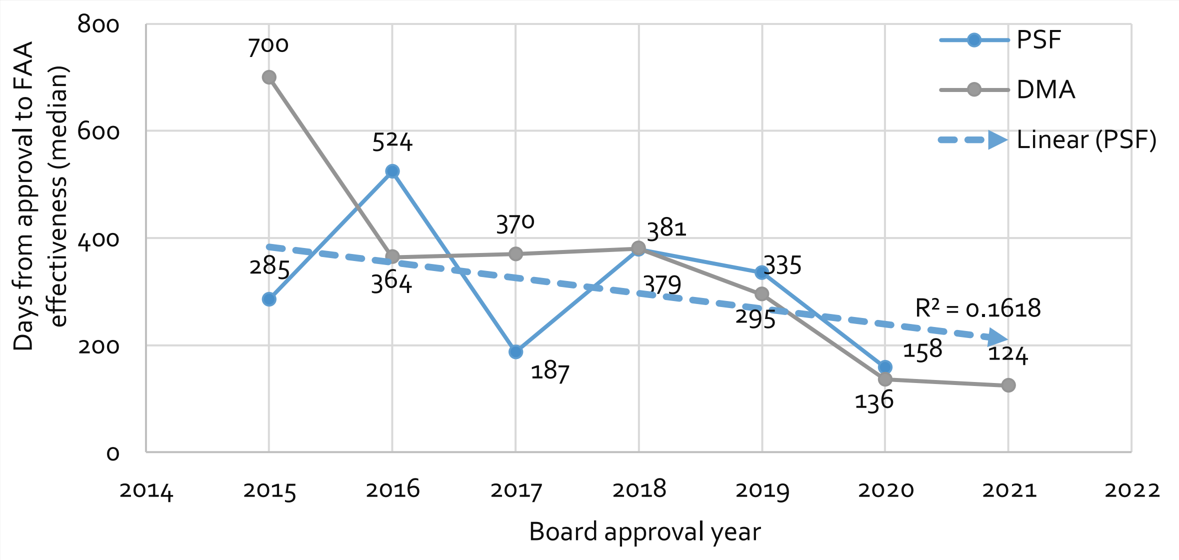
Ensuring the project pipeline aligns with countries' needs and priorities is key to country-driven sustainable development – this is heightened in the case of SIDS and LDCs, due to factors including their distance from existing external mature markets, the lack of cheap internal logistical distribution chains and the lack of political and consumer awareness of new climate change approaches.[25] The GCF's PSAG has advocated for the GCF to focus on catalysing green finance in these countries through the development of increased enabling environments and thus encourage private sector investment in innovative climate solutions to national needs. The challenge facing LDCs and SIDS stems from their increasing need to focus on adaptation solutions, with the private sector continuing to be anchored to mitigation projects that offer swifter return on investment and clearer investment road maps. This reduced incentive is worsened in the LDC and SIDS context due to their limited infrastructure and generally lower implementation capacity.

The space for climate adaptation investment in Bangladesh depicts this challenge clearly; as an LDC that is highly vulnerable to climate change, Bangladesh's updated nationally determined contributions (NDCs) clearly calls[26] for further action on adaptation projects, including innovative fiscal incentives, forest investment plans and the development of a Section Action Plan on Environment and Climate Change that embeds adaptation into all government funded development planning. However, in a country with over 5 per cent living on less than USD 1.90 per day,[27] enticing investment into adaptation projects can be a challenge. The GCF's role in setting the stage for private investment into otherwise unattractive projects has been crucial in supporting Bangladesh and other LDCs and SIDs to meet their adaptation goals. FP069 on Climate Resilient Sustainable Coastal Forestry is a case to consider; with a view to scaling up the efforts of the Bangladesh Forest Department to afforest the coastline with mangroves, the GCF will not only be contributing to the development of a coastal greenbelt with its myriad of sustainable benefits but will also create opportunities for the private sector in microfinance, value chain development and alternative income generation activities, among others. While not necessarily a clear pathway for private finance, GCF funding

[25] GCF/B.19/31.
[26] Government of Bangladesh, *Nationally Determined Contribution* (Bangladesh, Ministry of Environment, Forest and Climate Change, 2020).
[27] Asian Development Bank (ADB), *Poverty Data: Bangladesh*, April 2021.

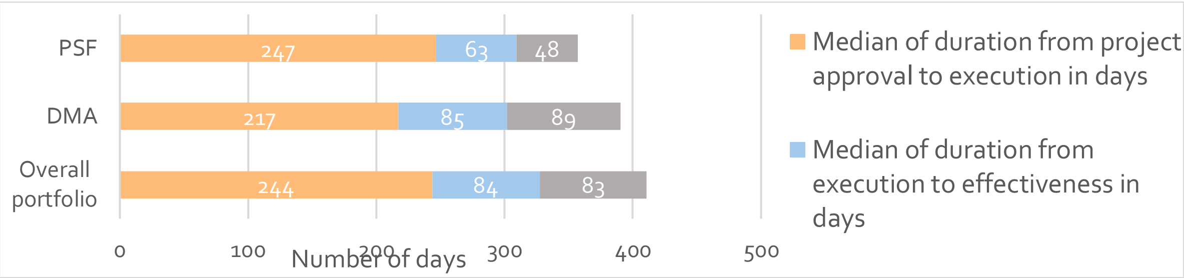
creates an enabling environment for the local private sector to engage in green financing, while also reaping rewards for local beneficiaries and increasing resilience for coastal towns.

Figure A - 15. Time taken from Board approval to funded activity agreement effectiveness by division



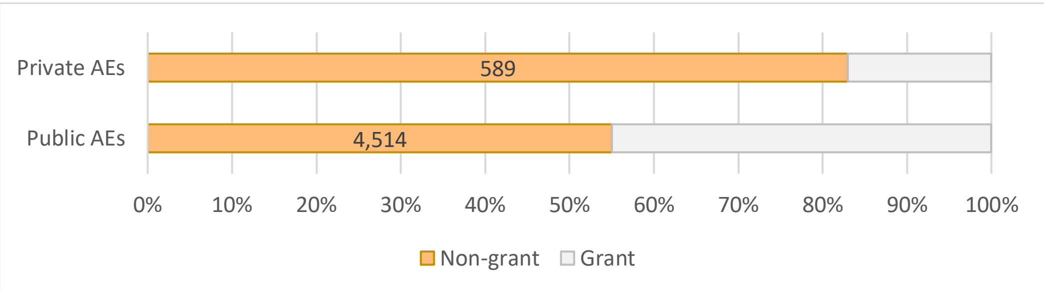
Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 16. Funded activity agreement execution timeline for each division, median values for each stage



Source: FAA data, as of 1 July 2021.

Figure A - 17. Financial instruments among AEs, USD million



Source: Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Table A - 13. Overview of the GCF requests for proposals relevant to the private sector

RfP	Focus	Budget allocated	Approved projects
Pilot programme to support MSMEs	Supporting MSMEs in addressing mitigation and adaptation challenges	USD 200 million (the amount was limited to USD 100 million)	3
Pilot programme for Mobilising Funding at Scale	Unlocking private sector finance in developing countries	USD 500 million	5

Source: GCF Board documents

Table A - 14. Regional distribution to private sector funding

GCF Region	GCF committed finance through PSF (mill USD)	PSF Co-financing amount (mill USD)	Co-financing ratio (PSF)	GCF committed finance through DMA (mill USD)	DMA Co-financing amount (mill USD)	Co-financing ratio (DMA)	GCF finance per region (mill USD)	Region share (%)	Co-financing ratio (Region)
Africa	1,515.1	4,910.6	3.2	1,773.8	2,765.3	1.6	3,288.9	37%	2.3
Asia-Pacific	878.4	2,251.5	2.6	2,440.3	8,992.4	3.7	3,319	38%	3.4
Eastern Europe	208.0	588.5	2.8	182.4	558.2	3.1	390.4	4%	2.9
Latin America and the Caribbean	359.5	1,812.1	5.0	1,490.7	2,505.5	1.7	1,850.1	21%	2.3
Total	*2,961.1*	*9,562.7*	*3.1*	*5,887.9*	*14,821.4*	*2.5*	*8,849*		*2.8*

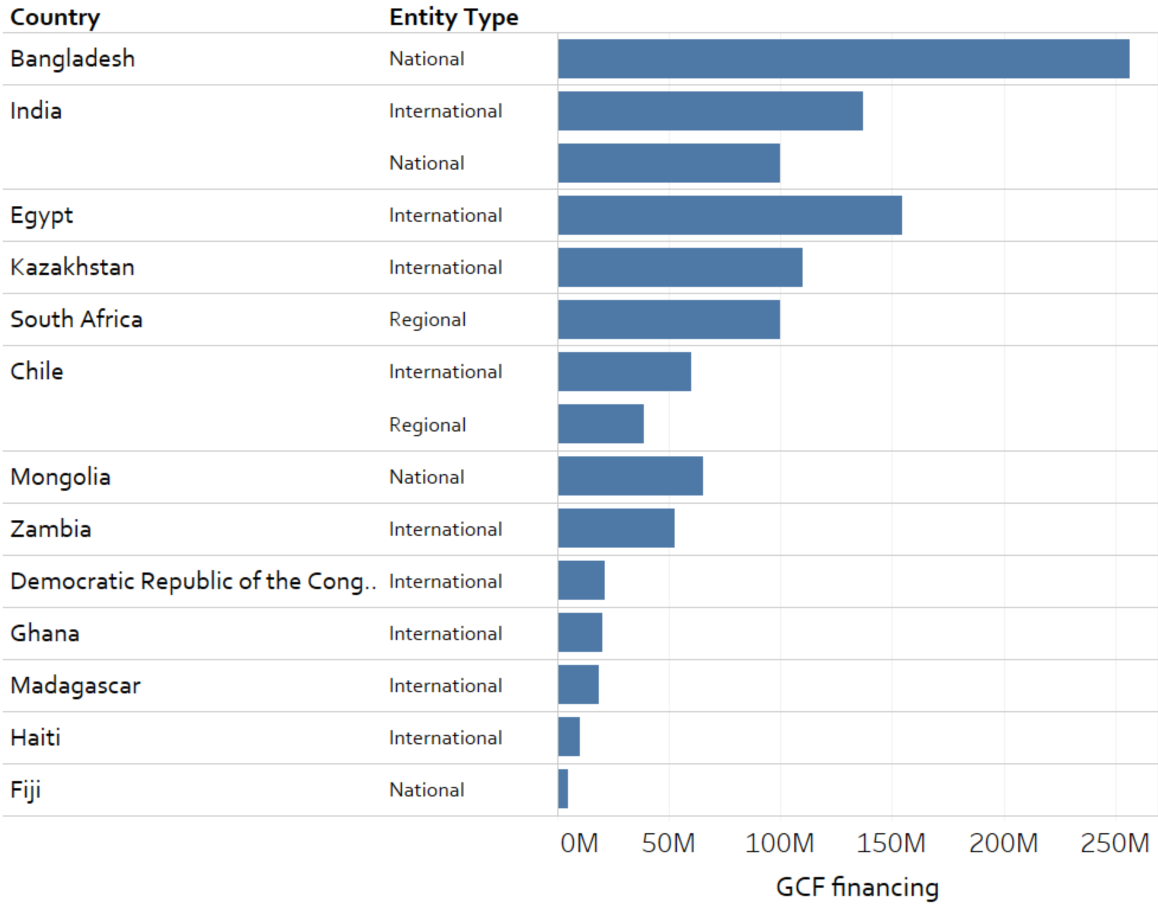
Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Table A - 15. PSF projects by single-country, multi-country and access modality

Multi- /Single-country projects	Access modality	Number of projects	GCF committed finance (USD million)
Single country	Direct	9	565.8
	International	9	583.6
Multi-country	Direct	7	324.9
	International	10	1,486.8
PSF portfolio		35	2,961.1

Source: Data from Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 18. Single-country PSF projects by type of entity



Source: Data from Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Box A - 6. Summary of PSAG key recommendations for LDCs and SIDS [28]

Creating strong enabling policy, planning, regulatory and financial environments. Within the context of country ownership and in line with country-specific demands, the PSAG recommends the GCF provide support for the development of policy, regulatory and financial institutions frameworks conducive to improving the ease of doing business and scaling up of private sector climate financing in LDCs/SIDS, including through such measures as awareness building vis-à-vis LDC/ SIDS governments and regulatory authorities.

The GCF should work with relevant partners to develop support mechanisms to both aggregate or bundle smaller-scale climate projects (such as minigrids), and aggregate purchasing of small-scale solutions at lower effective prices (such as small solar units, agricultural technologies, etc.). This might be at local, national or regional or other collective level (cross-border, industry-wide), and anchored on solid and existing demand requirements within these markets.

Market activation. Within the context of country ownership and in line with specific country demand, the GCF is encouraged to establish – including through its Readiness programme – Technical Assistance Facilities and other support tools and processes, to activate markets in LDCs and SIDS. Given the pre-commercial and often non-existent status of markets for many climate goods and services in LDCs and SIDS, there are often only a few businesses within the climate goods and services space. Given the complexity of market systems, individual interventions will be inadequate to create self-sustaining growth of climate businesses. Recalling the GCF's objective to create self-sustaining and inclusive markets for

[28] GCF/B.19/31.

climate goods and services, the PSAG recommends supporting best-practice LDC market activation processes in each country, comprising a suite of longer-term interventions focused on awareness, knowledge and trust building among key market actors.

Innovative financing structures and modalities. The GCF should engage with relevant partners (AEs, countries and other stakeholders) to develop and structure innovative projects with high impact potential for LDCs/SIDS. This could build on showcase projects, or build on existing GCF modalities for intervention, e.g. targeted on-lending through local financial institutions. Projects should be tailored to the distinctive issues and barriers facing LDCs/SIDS (individually and, where relevant, collectively) and involve significant paradigm shift potential.

Box A - 7. Summary of key recommendations from PSAG on opportunities to engage the private sector in adaptation[29]

The following recommendations were made to the Board by the PSAG in relation to opportunities to engage the private sector in adaptation action.

Consider focusing on risk transfer instruments, which includes insurance as a financing modality: risk transfer instruments may be rolled out and tested more broadly to enhance the engagement of the private sector in adaptation activities.

Facilitate blended finance and public–private partnerships (PPP): blended finance has been used with success in leveraging finance for climate change mitigation. GCF should facilitate an increase in blended finance and PPPs to support engagement with the private sector in adaptation action. By using public finance to alter the risk/return profile of adaptation projects and investments, current barriers to private sector adaptation finance could be removed.

Support a broader enabling framework: as emphasized in the recommendations of the PSAG on the development of modalities to support activities enabling private sector involvement in the least developed countries and small island developing States GCF/B.20/12 Page 4 (document GCF/B.19/31 titled "PSAG recommendations on the development of modalities to support activities enabling private sector involvement in LDCs and SIDs"), it is important to foster processes for the modernization of local, regulatory and financial institutions in order to support the enabling environment that will underpin further investments. GCF intervention should go beyond engaging the private sector in individual adaptation projects and look towards support for a wider set of components that contribute to an improved enabling environment that will ultimately create a competitive and efficient market for successful private sector adaptation projects. These activities can include capacity-building and knowledge transfer for stakeholders, policy dialogue, and regulatory framework assistance.

Involve the private sector in the development and implementation of national adaptation plans: GCF, at the request of countries, could support private sector involvement in readiness activities and country programming and support national level communication campaigns for the solutions that it decides to fund (e.g. insurance for smallholder farmers). This can be done through dedicated private sector participation in-country dialogues and in-country programming. Smooth cooperation between the public and private sectors should be promoted and strong alignment between relevant NAPs and GCF private sector adaptation projects needs to be ensured, with a view to understanding and then supporting end users' needs.

Focus efforts on developing FPs that target specific gaps in private sector adaptation investment: efforts could be focused wholly or partially on a particular area of adaptation, targeting developing countries that are particularly vulnerable to the adverse effects of climate change, as those countries face a number of common and diverse challenges in relation to climate change adaptation, such as water stress, sea level rise and exposure to extreme weather events (e.g. hurricanes, flooding).

[29] GCF/B.20/12

Box A - 8. Ensuring a balance between mitigation and adaptation in a country-driven portfolio: a deep dive in Chile, Armenia and Ghana

Chile has stated at the highest political level its commitment to ensure complementarity between mitigation and adaptation strategies, as well as integration towards achieving its sustainable development objectives. To this end, the government has established a specific goal in its NDC for the land use, land-use change and forestry sector, which broadly speaks to the relevance of the sector for the country. Such importance, as emphasized by interviewees, responds not only to the sector being a carbon sink with a key role in achieving carbon neutrality but also to the opportunities it provides to simultaneously achieve climate change adaptation objectives. However, as examined in previous boxes, the private sector-dominated portfolio in Chile, with the exception of FP120, is focused on de-risking investments in renewable energies and thus largely overlaps with thematic areas already covered by MDBs and other development partners in the country. Similarly, while multi-country projects that include Chile as a beneficiary aim to streamline climate change in financial institutions and leveraging climate funds at the subnational level towards catalysing private investments across GCF mitigation results areas, the extent to which GCF funding will in fact meet the needs of Chile through these projects is not clear at this stage.

In the case of **Armenia**, its recently updated NDC includes a new economy-wide mitigation target of a 40 per cent reduction below 1990 emissions levels by 2030. This target includes energy, industrial processes and product use, agriculture, waste, and forestry and other land use. Armenia is already facing negative impacts from climate change, and so climate change adaptation is also considered a top priority for the country. Adaptation involves achieving its sustainable social and economic development objectives, particularly through sustainable agriculture and food security and improved water management. The Resilient Forests Project (SAP014), while a public sector project under the GCF's DMA, brings a 360-degree approach to catalyse the role of the private sector in climate change mitigation and adaptation in the forestry and energy sectors nexus, as stressed by interviewees. Further, Armenia's private sector portfolio through international accredited entities has the potential to contribute to the country's NDC priorities. However, in terms of leveraging private sector investments for climate mitigation efforts, given that Armenia is a beneficiary country for projects FP025 and FP140 – among their 10 and 7 countries, respectively – it is unclear to what extent multi-country projects will in fact contribute to the paradigm shift envisioned by the country in the energy sector and align with its NDC and long-term Low Emission Development Strategy.

In the case of **Ghana**, both the NDC and interviewees underscore that both mitigation and adaptation are a top priority. In contrast to the cases of Chile and Armenia, Ghana's portfolio is broadly aligned with the country's priorities in the forest and land-use sector from an adaptation, a cross-cutting and a mitigation perspective, even though it is also dominated by private sector projects through IEAs (FP078 – Acumen Resilient Agriculture Fund; FP114 – Programme on Affirmative Finance Action for Women in Africa (AFAWA): Financing Climate Resilient Agricultural Practices in Ghana; and FP128 – Arbaro Fund – Sustainable Forestry Fund). Moreover, while being a cross-cutting public sector project under the GCF's DMA, as emphasized by interviewees, project FP137 (Ghana's Shea Landscape Emissions Reductions Project) is already attracting significant private sector investments in the shea value chain by de-risking private investments while continuing to leverage additional public and private sector finance. In addition to the GCF's USD 30.1 million grant implemented directly by Ghana's Forestry Commission under the umbrella of its reducing emissions from deforestation and forest degradation (REDD+) strategy, Ghana's Shea Landscape Emissions Reductions Project is mobilizing over USD 24 million of in-kind co-financing from local private sector entities under the umbrella of the Shea Alliance towards a paradigm shift in this commodity value chain.

Box A - 9. Enhancing the role of adaptation and country-driven portfolios: a deep dive in Chile, Armenia and Ghana

In order to implement its NDC, **Ghana** has estimated it requires around USD 22 billion in both public and private investments, 22 per cent of which is expected to be mobilized under the GCF. In terms of international financing, Ghana is looking for opportunities to attract at least USD 16 billion in private impact investments, as stressed by interviewees. Ghana's NDC outlines a series of adaptation policy actions under strategic sectoral priorities: enhanced resilience in climate-vulnerable agricultural landscapes as the main priority, followed by increased value of forest resources, managing climate-induced health risks, city-wide resilient infrastructure planning, early warning and disaster prevention, integrated water resources management, and enhanced resilience for women and vulnerable groups.

Project FP137 (Ghana's Shea Landscape Emissions Reductions Project), examined above, is a cross-cutting project led by Ghana's Forestry Commission. The project is directly contributing to the country's NDC in implementing the Emission Reductions Programme for the Shea Landscape of the Northern Savanna Woodland, as per the country's National REDD+ Strategy. It is also already mobilizing private investments through the Global Shea Alliance. In the case of project FP114, Program on Affirmative Finance Action for Women in Africa (AFAWA): Financing Climate Resilient Agricultural Practices in Ghana, the project is also pursuing mitigation and adaptation through the provision of USD 18.5 million in loans to MSMEs and farmer-based associations, with an emphasis on empowering women entrepreneurs to implement low emission and climate-resilient agricultural practices. The AFAWA project is a private sector project with an international accredited entity, the African Development Bank. However, implementation is envisioned through local financial institutions, and so conversations have started with Ecobank Ghana, as a potential implementation partner, as stressed by interviewees.

FP128 (Arbaro Fund – Sustainable Forestry Fund), another cross-cutting private sector project, aims to increase carbon stocks while delivering adaptation co-benefits through sustainable forestry plantations in degraded lands in Ghana and three other countries in Africa, and three more in Latin America and the Caribbean. **While USD 25 million in equity has been approved through the PSF, the extent to which and how much of this financing will contribute to meet Ghana's financing needs for sustainable forest management is rather unclear**. The same is true for project FP078, Acumen Resilient Agriculture Fund. This is one of two private sector projects focused on adaptation under the PSF and is mobilizing USD 23 million in equity and USD 3 million in grants to enhance resilience and productivity in small-scale farm-based agriculture through the provision of innovative financial services. But, again, this is a multi-country project, and so the level of financing to be deployed in Ghana is unclear at this early stage of implementation. This said, **while Ghana's public and private portfolio under the GCF is broadly aligned with the country's mitigation and adaptation priorities in the forest, land-use and agricultural sector, given the nature of the projects and the financial instruments being deployed, the level of financing from the GCF effectively flowing for country-driven adaptation and cross-cutting priorities is marginal compared to the USD 5 billion the country envisioned to be able to mobilize under the GCF for the 2020–2030 period**.

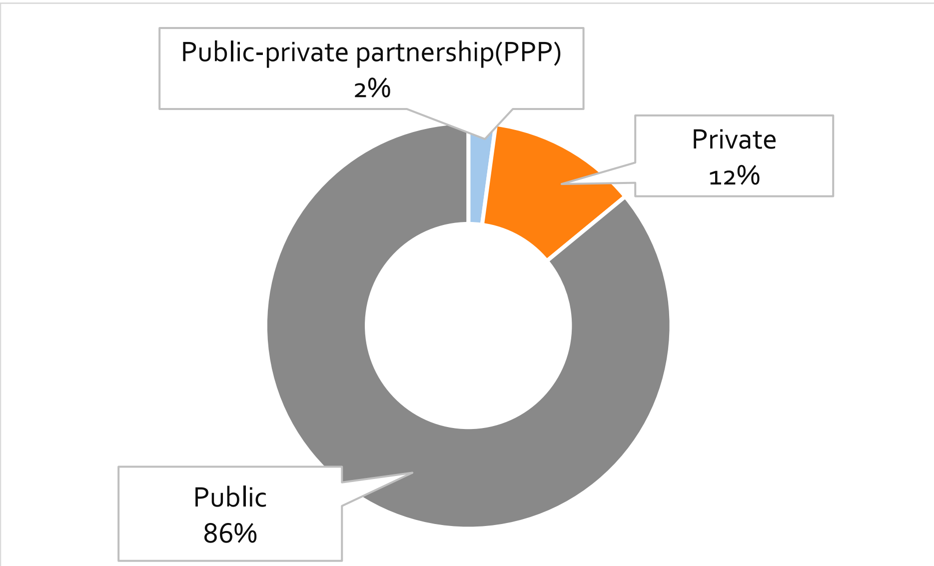
In the case of **Chile**, given the public-sector-led nature of climate change adaptation and the need to systematically and sustainably streamline adaptation in policies and programmes, including to engage the private sector, the country has defined a series of commitments in terms of enabling conditions for sectoral climate action as part of its NDC. Moreover, the political and socioeconomic challenges faced by the country during the NDC revision process, overlapping with the still ongoing COVID-19 pandemic, have exposed the vulnerability of Chile's social and economic systems, despite its economic development in terms of GDP. As a result, interviewees referred to this as the "trap that has hindered the opportunities for the country to access to much needed grants and financing for adaptation." As a result of the above and emphasizing the need to move towards a sustainable development and just transition in a pragmatic and holistic manner, **Chile has introduced the principle of "just transition and sustainable development" as a cross-cutting pillar to inform the design, implementation and monitoring of Chile's climate policies and measures to maximize synergies between climate mitigation, adaptation and sustainable**

development at the strategic level. Despite this, as examined above, the country's private sector portfolio is largely focused on mitigation and renewables.

In the case of **Armenia**, the country has broad experience in climate change adaptation across sectors and thus this experience provides a series of opportunities for catalysing the role of the private sector from both an investment perspective as well as in the implementation of adaptation policies and measures, as emphasized by interviewees. The key role that national public and private insurance systems play in adaptation by managing risks of investments in the country is already highlighted in Armenia's national communications. However, as stressed by in-country stakeholders, adaptation policies and measures are unique and country- and context-specific, and so the opportunities for catalysing the role of the private sector and investments in adaptation vary in terms of sectors, scales of implementation and entry points for engagement. In the agriculture and forest sectors, for instance, there are several opportunities for small and medium agricultural enterprises and farmers to engage in the implementation of GCF-funded projects or programmes, as in the case of the cross-cutting project SAP014. In-country stakeholders underscore the challenges faced in demonstrating successful adaptation due to the diverse and complex taxonomy of adaptation interventions, which in turn pose a barrier not only for leveraging private investments but moreover to track, measure and report on progress and impact towards climate-resilient development pathways.

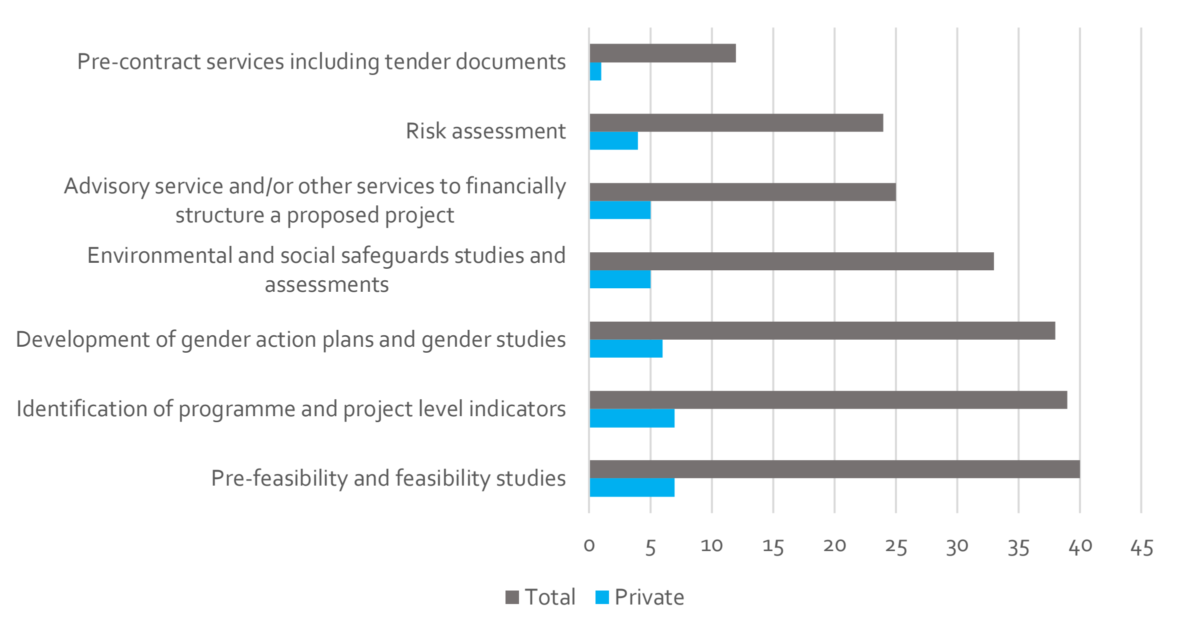
While still under development under the Ministry of Environment with support from the GCF's Readiness programme, Armenia's NAP 2021–2030 aims to "promote reduction and management of climate risks" by addressing climate change impacts in natural, human, production and infrastructure systems. To do so, Armenia is committed to pursuing ecosystem-based adaptation approaches through Sectoral Adaptation Plans, with a view to addressing vulnerability to climate change and enhancing climate resilience in natural ecosystems; human health; water resource management; agriculture, fishery and forestry; energy; human settlements and infrastructure; and tourism. However, interviewees expresses that while the NAP will include a financial strategy and a proposed portfolio, Armenia, through its DAE expects to pursue a country-driven portfolio for adaptation under the AF as there is a common perception across in-country stakeholders, not only in Armenia but across countries examined in this evaluation, that there is little appetite within the GCF to invest in adaptation.

Figure A - 19. Overview of the PPF portfolio by project sector



Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

Figure A - 20. Activities areas of the PPF support for private sector



Source: GCF Tableau Server as of 1 July 2021. Analysis by the IEU DataLab.

B. REVIEW OF THE GCF'S PROPOSED POLICY ON CONCESSIONALITY AND ITS APPLICATION TO A SAMPLE OF FUNDING PROPOSALS

1. OBJECTIVE

The evaluation team assessed the extent to which four approved GCF projects[30] adhered to the Guiding Principles (Section III) and Implementation and Other Requirements (Section IV) laid out in the proposed Policy on Concessionality.[31]

2. FRAMEWORK OF ANALYSIS

The Implementation and Other Requirements (Section IV) laid out in the proposed Policy on Concessionality[32] – in particular, the lists of criteria under points 7 and 8 for the determination of financial structure and terms and conditions – have been grouped into four categories in the table below (Table A - 16) to facilitate review of the project files.

Table A - 16. Framework for review of GCF Policy on Concessionality's financial structure by categories

	APPLICATION 4.1.7 (AES)	REVIEW 4.1.8 (SECRETARIAT AND ITAP)
Project economics	(a) Cost of the project (g) Viability of climate project	(i) Economic analysis of financial and non-financial benefits of the project
Market conditions	(b) Current market rates and conditions	(b) Existence and availability of other climate finance products

[30] FP005 – Acumen, FP046 – XacBank, FP128 – MUFG_Bank, SAP013 – NEFCO
[31] GCF/B.29/Inf.11. A proposed "Policy on concessionality" (B.29/Inf.11) was taken to B.29 but the item was not opened. It therefore remains a draft yet to be considered by the Board. The evaluation team used this document only as a tool to examine how concessionality is assessed.
[32] GCF/B.29/Inf.11.

	APPLICATION 4.1.7 (AES)	REVIEW 4.1.8 (SECRETARIAT AND ITAP)
	(c) Barriers & risks (d) Hedging and currency risks	(c) Additionality given country context (d) Evidence (market study, technical risk and financial assessment) (k) Market distortion
Choice of instrument vis-à-vis project proponent’s capital structure	(f) Cost and funding for GCF (h) Instrument (i) GCF instrument terms vis-à-vis capital structure/co-financing (j) Grant equivalency	(a) Beneficiaries of concessionality (Internal Rate of Return to investors w/ and w/o) e) Internal Rate of Return w/ and w/o GCF instrument (f) Sensitivity analysis (h) Credit analysis (debt servicing capacity) of borrower
Delivery mechanism	(e) Financial intermediation	(g) Development Department on AE (j) Intermediary analysis

3. LIMITATIONS OF THE ANALYSIS

- Annexes to FPs were not reviewed. Economic and financial analyses were reviewed only to the extent to which outputs were reported in the FP or Secretariat and independent Technical Advisory Panel (iTAP) assessment.
- Contracts were not part of the review. As a consequence, considerations regarding concessionality that were made as part of contracting (i.e. after Secretariat and iTAP assessment) are not part of this review.
- In the case of SAP013: Scaling Smart, Solar, Energy Access Microgrids in Haiti - Nordic Environment Finance Corporation (NEFCO), the FP follows the simplified application process and therefore contains a limited level of detail compared to other FPs in the sample. Also, the 2020 monitoring report was not provided for this project.
- The sample of this review is limited to four project applications of differing natures (project and instrument type) and submitted using different proposal templates, which hinders comparability.

4. FINDINGS

1) **The requirements set out in Section IV of the proposed Policy on Concessionality, were followed to a large extent on all four projects (although with varying degree of diligence), except for the application of grant equivalency for non-grant instruments**.
    - Sensitivity analysis, if not presented by AE as part of the FP, is conducted by the Secretariat as part of the assessment in all cases except FP128.
    - Assessments of cost efficiency and effectiveness in terms of USD per ton of CO2eq do not explicitly take into account difference in type of project (e.g. renewables versus reforestation)**.**
2) **Only two out of four FPs examined had concessional elements, and all followed the minimum concessionality principle.** Two project proposals (FP005 and FP128) entailed financing structures in which GCF investment was on the same terms and conditions as other private investors – that is, the GCF investment was not concessional, but catalytic in nature (by acting as anchor investor before other private investors’ commitment). In FP005, the USD 20

million equity component was paired with a USD 5 million grant for a Technical Assistance Facility. As the uses of funds for this facility were only outlined at a high level, further analysis on whether the Technical Assistance Facility had any de-risking effect on the equity component (therefore introducing concessionality) would have been warranted, especially considering the GCF ended up being the only grant provider (as opposed to the original FP where a Technical Assistance Facility co-financing 1:1 was envisaged). The other two project proposals (FP046 and SAP013) had concessional elements and followed the principle of minimum level of concessionality to avoid market distortion. In the NEFCO case (SAP013), the GCF loan was subordinated to other debt investors and sized to meet the solvency requirements of senior debt financiers and to improve the credit profile of senior debt while creating a track record for further replication. In the XAC Bank case (FP046), the GCF loan structure was mirrored by XAC Bank in its loan to the subproject (with only a reasonable profit margin for the AE). However, the effect of concessional terms on the subproject co-financier (i.e. the equity investor for the remaining 51 per cent of the project's capital structure) was not investigated in detail during the project approval.

5. Review of project sample

Acumen – KawiSafi: The proposed project consists of a Venture Capital (VC)-like fund in off-grid energy companies in East Africa serving the bottom-of-the-pyramid segment.

Review of FP 005: Acumen - KawiSafi	Implementation & Other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/ITAP review	Comments
Project economics	7. (a) Cost of the Project and Reasonableness of Costs	Medium – Overview of fund economics and fund-related expenses is provided as part of FP. Detailed cost structure and projections (with sensitivity analysis) are addressed in the financial model [which has not been part of this review]. The project proponent has also requested a Technical Assistance Facility; however, uses of funds are only outlined at a high level.	Fund operating costs are reasonable. Fee model is in line with industry standards (although management fees of 2.5 per cent of committed capital for initial 5 years is slightly higher than usual 1 to 2 per cent). Innovative way of linking 20 per cent performance fee to impact target (although calculation method, whereby Acumen claims 100 per cent of impact for <100 per cent ownership, warrants further analysis)
	7. (g) Overall viability of climate project	Medium – The viability of the project is subject to the uptake of off-grid products/services by bottom-of-the-pyramid customers (which is in turn driven by price levels and affordability). Project proponent provides previous track record as evidence of success and viability, but further analysis and substantiation of market demand/dynamics may be required.	Given the nature of VC/Private equity (PE) funds, the GCF commits to a blind pool of assets, and hence an in-depth assessment of subproject viability is challenging.

Review of FP 005: Acumen - KawiSafi	Implementation & Other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/ITAP review	Comments
	8. (i) Economic analysis of financial and non-financial benefits of the project	Satisfactory – Economic analysis of both financial and non-financial benefits conducted (including cost/benefit analysis). Key outputs/remarks: Base case net internal rate of return (IRR): 11 per cent 10–12 investees 15 million lives impacted 1,500,000 tCO2eq overall (cost tCO2eq = USD 66.67, GCF cost USD 13.33)	Reliance on project proponent's methodology (based on industry research and previous investments). Sensitivity analysis performed (as part of Secretariat/ITAP review) on both financial and non-financial metrics, including adjustment of impact methodology (benefits proportional to equity ownership). Overall effectiveness on CO2 reduction is low but significant in terms of access to energy for target countries rural population.
Market conditions	7 (b) Current market rates and conditions	Low – Fund level benchmark not provided and only basic data provided on East African countries in terms of access to finance for target segment	Due to innovative nature of the Fund, no comparable data available. Proponent benchmarks returns against its track record. Analysis of capital and banking markets in target countries limited to government bonds. Further analysis on financing gap for off-grid companies in East Africa would have helped in putting the GCF's additionality into context. Also, analysis of fund comparables or proxies could have been conducted (e.g. other VC funds with similar country/sector risk).
	7 (c) Barriers & risks to investments	Medium – Barriers to investments mentioned but not investigated in detail (i.e. only reference to unattractive risk/return parameters). Risk analysis performed and mitigation strategies outlined for execution, legal (only high level) and exit risks	The GCF is reliant on AE's risk analysis, risk management and structuring capacity (assessed as part of accreditation process) as FP put forth prior to establishment of the GCF's risk investment guidelines
	7. (d) Hedging and currency risks	Satisfactory – Due to prohibitive costs of hedging in target markets, the Proponent plans to provide only USD (or other hard currencies) funding	N/A
	8 (b) Existence and availability of other climate finance products	N/A	Not explored in FP

REVIEW OF FP 005: ACUMEN - KAWISAFI	IMPLEMENTATION & OTHER REQUIREMENTS IN CHOICE OF FINANCIAL INSTRUMENTS	LEVEL OF ANALYSIS IN FP AND SECRETARIAT/ITAP REVIEW	COMMENTS
	8 (c) Additionality given target country's circumstances	Medium – Given lack of financing in target segment, the GCF's additional role as anchor investor is justified.	Analysis of GCF's commitment signal for other limited partners not investigated.
	8 (d) Evidence (market study, technical risk and financial assessment) to inform size, type and catalytic effect of concessionality	N/A	The proposed financing structure foresees the GCF to invest following the same terms as other investors in the fund – that is, the GCF investment will not be concessional but catalyst. See comment above related to risk/returns comparison to other funds
	8.(k) Market distortion	Satisfactory – No market distortion as target segment is currently un(der)-served	N/A
Choice of instrument vis-à-vis project proponent's capital structure	7 (f) Cost and funding needs financed by GCF	Medium – Costs and funding needs are clearly articulated; however, no sensitivity analysis is performed to determine minimum size of GCF commitment.	Commitment is non-material portion of the GCF's USD 10.2 B expected portfolio.
	7 (h) GCF Instrument	Medium – Request for Equity: USD 20 M Grant: USD 5 M	No explicit concessionality as the GCF is subject to same terms and conditions as other LPs. It is not clear if other instruments (such as risk sharing / junior equity) have been explored. The extent to which grants de-risk equity investment is not clear.
	7 (i) GCF instrument terms vis-à-vis capital structure/co-financing from AE or other private sector investors	Medium – Co-financing ratio 4 X on USD 100 M fund. For first closing, CGF commitment of USD 15 M (co-financing at 1.67X with Acumen committing USD 5 M and verbal private sector commitment of USD 20 M	No sensitivity analysis conducted on co-financing ratio given that private sector commitment was only verbal (as 2021, GCF equity investment was only leveraged 2.3:1 and grants 1:1). To note that additional capital will be mobilized indirectly at project level as the Fund will not be sole investor at investee level
	7 (j) Grant equivalency (for non-grant transactions)	N/A	Methodology for grant equivalency not part of FP template
	8 (a) Evidence that concessionality is captured by beneficiaries rather than investors	N/A	Non-concessional terms to GCF (same terms as other LPs); however, overall fund net IRR of 11 per cent may appear low given the inherent risk of target segment. To that aspect, it

Review of FP 005: Acumen - KawiSafi	Implementation & Other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/ITAP review	Comments
			seems that a certain degree of concessionality is passed down to target companies (at least via debt instruments) where the expected debt IRR is 10 per cent versus interest rates of 15–16 per cent for similar instruments.
	8. (e) IRR w/ and w/o GCF instrument	N/A	Not applicable as terms & conditions are the same across LPs
	8. (f) Sensitivity Analysis	Medium – Conducted against AE's model only on portfolio's success rate not at deal economic level	GCF base case with IRR 6.1 per cent appears low when considering high risk nature of VC business, underlining a certain degree of concessionality.
	8 (h) Credit analysis (debt servicing capacity) of borrower	N/A	N/A
Delivery Mechanism	7 (e) Financial intermediation, counterparty risk and pricing mechanism	Low – May be applicable but not addressed (e.g. if funds invest in consumer finance company or investees offer some sort of pre-financing embedded into their offering)	N/A
	8 (g) DD on AE	Medium – Proponent accredited for non-grant instruments and in the process of receiving accreditation for grants	Considerations related to fiduciary (blind pool of assets and flexibility around target countries) and reputational risk (low-tax jurisdiction, no view on other LPs, KYC risk, conflict of interest as AE calculating its own performance fees based on impact methodology) should have been further investigated. AE fee: 2.5 per cent

XACBank – Sumber Solar Power Plant: The proposed project consists of a back-to-back loan facility for the project financing of a solar power plant development in Mongolia.

REVIEW OF FP 046: XACBANK – SUMBER SOLAR POWER PLANT	IMPLEMENTATION & OTHER REQUIREMENTS IN CHOICE OF FINANCIAL INSTRUMENTS	LEVEL OF ANALYSIS IN FP AND SECRETARIAT/ITAP REVIEW	COMMENTS
Project Economics	7. (a) Cost of the Project and Reasonableness of Costs	Satisfactory – Overview of project economics and cost structure provided as part of FP. Detailed cost structure (including uses of funds) and projections (w/ sensitivity analysis) are addressed in the financial model [which has not been part of this review]. Cost analysis has been performed by project developer and AE. The project proponent has also requested a grant (with uses of funds outlined and earmarked for AE's capacity-building). However this was not approved as costs could have been covered by AE's fee instead.	Cost structure and project economics benchmarked to other recent solar power plant in Mongolia of smaller size (10 MW versus 50 MW)
	7. (g) Overall viability of climate project	Satisfactory – The viability of the project is subject to (i) ability of project developer to carry out the assignment (given limited track record and sector infancy), (ii) ability of the government as only off taker to honour PPA and feed-in tariffs. Both issues are addressed as part of project approval process	Project developer has been chosen carefully and although with limited track record, its engineering team is the only one that has worked on another solar power plant locally. As to the uncertainties around government off-take, AE and NDA shall engage the Mongolian Government authorities to work towards enhancing the PPA terms (tenor and remedies in case of non-payment).
	8. (i) Economic analysis of financial and non-financial benefits of the project	Satisfactory – Economic analysis of both financial and non-financial benefits conducted. Emission reduction calculation based on Joint Crediting Mechanism methodology: Base case net IRR: 15.69% 20,000 household impacted 306,745 tCO2eq overall (cost tCO2eq = USD 57.24, GCF cost USD 28.19)	N/A

Review of FP 046: XACBank – Sumber Solar power plant	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
Market Conditions	7 (b) Current Market Rates and Conditions	Satisfactory – Overview of interest rates in Mongolian banking sector and assessment of (un)suitability of existing financing products (costs and terms) conducted in a reasonable level of detail.	N/A
	7 (c) Barriers & risks to investments	Medium – Overview of barriers to financing and risk analysis (with focus on credit risk) conducted.	Significant performance and operational risks
	7. (d) Hedging and currency risks	Satisfactory – Project financed and generating revenues in USD (feed-in-tariff). Considerable risk on Mongolian government's ability to pay USD given macroeconomic crisis.	AE and the NDA work with the Government to ensure that the Government provides cushion against effective increase in tariff due to any sudden currency depreciation by assuming the currency fluctuation risk.
	8 (b) Existence and availability of other climate finance products	Medium – EBRD risk sharing facility. No reference to any other climate finance product.	N/A
	8 (c) Additionality given target country's circumstances	Satisfactory – No other sources of financing available in-country for project finances of this scale.	Providing an appropriate level of concessionality for this project is of the utmost importance given that the renewable energy market in Mongolia is at a very early stage. It is crucial to set the right precedent for the healthy development of the local renewable energy market.
	8 (d) Evidence (market study, technical risk and financial assessment) to inform size, type and catalytic effect of concessionality	Medium – Review of loan pricing formula and analysis of Mongolian lending market conditions. Estimation of catalytic effect also in the proposal. Comparison of project level IRR with and without concessionality not in detail (see 8. (e) below)	N/A
	8. (k) Market distortion	Satisfactory – No other USD loan in the market	The GCF will provide a long-term loan to XacBank with an interest rate that is expected to allow the AE to cover its

Review of FP 046: XACBank – Sumber Solar power plant	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
			internal costs associated with on-lending to the project
Choice of Instrument vis-à-vis Project Proponent's Capital Structure	7 (f) Cost and funding needs financed by GCF	Satisfactory – Costs and funding needs are clearly articulated.	N/A
	7 (h) GCF instrument	Satisfactory – Request for USD 8.6 million loan (49 per cent of project capital structure) at 5.5 per cent interest. Structured as back-to-back loan between GCF and subproject to reduce cashflow mismatch. Grant portion not approved given that AE's fee is large enough to cover AE's servicing costs.	The principle of minimum concessionality and empowering a direct access entity is applied. An alternative way for the GCF to further minimize its concessionality and fully pass on GCF concessionality to end beneficiaries could be to provide direct financing to projects, under which approach there will not be additional costs to be incurred by using an intermediary. However, such an alternative approach would expose the GCF to credit risks of the projects which tend to be higher than the credit risks of banks. Loan refinanced in 2020 as a result of COVID-19 (underlining minimum concessionality at the time).
	7 (i) GCF instrument terms vis-à-vis capital structure/co-financing from AE or other private sector investors	Medium – Co-financing ratio 0.9:1. Sensitivity of co-financing partner (equity investor) on cost of debt not assessed	Project co-financing comes in the form of equity from international private investor.
	7 (j) Grant equivalency (for non-grant transactions)	N/A	Methodology for grant equivalency not part of FP template
	8 (a) Evidence that concessionality is captured by beneficiaries rather than investors	Medium – Analysis of equity returns not part of FP. Profit margin to AE (1 per cent) is reasonable	Magnitude of concessionality passed on to equity investor not part of the analysis
	8. (e) IRR w/ and w/o GCF instrument	Medium – IRR of 15.69 per cent for project implementer (AE argues that IRR would be negative without GCF concessionality but no evidence provided)	N/A
	8. (f) Sensitivity analysis	Satisfactory – Conducted for different energy production and revenue scenarios	Taking the P90 scenario with the inflation rate of 5 per cent (based on Moody's ratings consumer price index estimate for 2017 and 2018), the project

Review of FP 046: XACBank – Sumber Solar power plant	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
			IRRs and debt service coverage ratio (DSCR) results prove financial viability with a strong debt service capacity.
	8. (h) Credit Analysis (Debt Servicing Capacity) of Borrower	Medium – Conducted by XAC Bank's corporate banking department on subproject	Strong DSCR at subproject level and covered by EBRD Risk Sharing Facility (50 per cent). However, GCF's exposure is on XAC Bank (weak credit profile) and FP does not focus on the Bank's credit rating (see 8. (g) below).
Delivery Mechanism	7. (e) Financial Intermediation, Counterparty Risk and Pricing Mechanism	N/A	Subproject is end beneficiary and intermediation only happens with government entities.
	8. (g) DD on AE	Medium – Review of bank's credit rating, loan portfolio and loan loss provision only.	Bank's capacity and financial situation could have been investigated in more detail, especially given that credit risk is taken on the bank rather than subproject. AE fee: 5%

MUFG_AbaroFund: The proposed project consists of a PE-like fund in greenfield and brownfield forestry operations in Africa and Latin America.

Review of FP 128: MUFG_AbaroFund	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
Project economics	7. (a) Cost of the project and reasonableness of costs	Medium – Budget provided as part of financial model (not reviewed) but with reasonable level of detail both at fund level and investee level. Fund level economics (base + incentive fee) not clear.	Fund management fees totalling USD 26.7 million over fund of USD 200 million (equivalent to 1.4 per cent over 10 years) are below industry standards. Performance fees are not mentioned.
	7. (g) Overall viability of climate project	Medium – Despite high climate benefits and commercial feasibility in theory, viability of underlying subprojects is driven by idiosyncratic factors (site specific as well as country level).	Given the nature of VC/PE funds, GCF commits to a blind pool of assets and hence an in-depth assessment of subproject viability is challenging. Implied gross IRR of 15 per cent may be low when considering the

Review of FP 128: MUFG_AbaroFund	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
		Project proponent provides thorough (climate) eligibility methodology.	high risk nature of greenfield forestry operations.
	8. (i) Economic analysis of financial and non-financial benefits of the project	Medium – Only high level economic analysis of financial benefits. Non-financial benefits are explained with mitigation impact calculated. Base Case Net IRR: ~ 12 per cent 8 –12 investees 114,000 lives impacted 20,000,000 tCO2eq overall (cost tCO2eq = USD 10, GCF cost USD 1.25)	No sensitivity analysis (or at least no outputs presented) conducted on financial and non-financial benefits. Proposal refers to a 15 per cent IRR at project level (but assumptions o\n failure rates only implicit ~20 per cent) Project proponent recognizes over-estimation effect of proposed methodology in terms of carbon sequestration (2.7 M of 20 M – not reviewed)
Market conditions	7. (b) Current market rates and conditions	Medium – Sustainable forest plantation investments in emerging markets is unknown to most investors and particularly private investors (including development finance institutions). The fund specifically envisions providing equity investments and therefore no benchmark available.	Analysis of comparables or proxies could have been conducted (e.g. PE funds in forestry in developing markets). Little discussion on capital and banking markets in target countries.
	7. (c) Barriers & risks to investments	Satisfactory – Key barriers and risks (as well as related mitigation strategies) of the proposed investment theme are addressed in the proposal.	N/A
	7. (d) Hedging and currency risks	Low – Currency risk given instability of target markets not addressed in detail.	Due to long-term nature of the forestry business and price of timber linked to USD, currency considerations are less relevant.
	8. (b) Existence and availability of other climate finance products	N/A	Not explored in FP
	8. (c) Additionality given target country's circumstances	Satisfactory – Given lack of financing in the space, GCF's additional role as anchor investor is justified	Analysis of the GCF's demand signal for other LPs not investigated.

Review of FP 128: MUFG_AbaroFund	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
	8. (d) Evidence (market study, technical risk and financial assessment) to inform size, type and catalytic effect of concessionality	N/A	The proposed financing structure foresees the GCF to invest following the same terms as other investors in the fund – i.e. the GCF investment will not be concessional but catalyst.
	8.(k) Market distortion	Satisfactory – No market distortion as target segment is currently un(der)-served	N/A
Choice of instrument vis-à-vis project proponent's capital structure	7. (f) Cost and funding needs financed by GCF	Medium – Costs and funding needs are clearly articulated; however, no sensitivity analysis is performed to determine minimum size of GCF commitment	Commitment is non-material portion of the GCF's USD 10.2 B expected portfolio
	7. (h) GCF instrument	Satisfactory – Request for Equity: USD 25 M	No explicit concessionality as GCF is subject to same terms and conditions as other LPs. It is not clear if other instruments (such as risk sharing / junior equity) have been explored.
	7. (i) GCF instrument terms vis-à-vis capital structure/co-financing from AE or other private sector investors	Medium – Co-financing ratio 7X on USD 200 M fund. List of other LPs provided.	No sensitivity analysis conducted on co-financing ratio given that private sector commitment was only verbal (as of 2021, GCF equity investment was only leveraged 3.56:1) To note that additional capital will be mobilized indirectly at project level as the Fund will not be sole investor at investee level.
	7. (j) Grant equivalency (for non-grant transactions)	N/A	Methodology for grant equivalency not part of FP template.
	8. (a) Evidence that concessionality is captured by beneficiaries rather than investors	N/A	Non-concessional terms to GCF (same terms as other LPs); however, overall fund net IRR of 12.1 per cent may appear low given the inherent risk of target segment. On that aspect, no indication of

Review of FP 128: MUFG_AbaroFund	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
			the terms offered to investees.
	8. (e) IRR w/ and w/o GCF instrument	N/A	Not applicable as terms & conditions are the same across LPs
	8. (f) Sensitivity analysis	Low – Not performed	N/A
	8. (h) Credit analysis (debt servicing capacity) of borrower	N/A	N/A
Delivery Mechanism	7. (e) Financial intermediation, counterparty risk and pricing mechanism	N/A	The Fund does not envision investing in any financial intermediary. The intermediation between the AE (MUFG) and the implementing entity (The Abaro Fund) was already contractually described as part of the FP. Fiduciary and reputational concerns similar to FP 005 (Acumen) apply although responsibility is on AE. AE fee is 4.25 per cent, but sharing with Fund is not clear.
	8. (g) DD on AE	Medium – Performed on AE (with track record of implementing entity provided in the FP)	N/A

NEFCO_PPH1: The proposed project consists of a project debt facility for the development of microgrids in Haiti.

Review of SAP013 NEFCO-PPH1	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
Project economics	7. (a) Cost of the project and reasonableness of costs	Low – Budget only provided at high level as part of proposal. Review of Annex 10 – Financial Model and Annex 3 – Budget Plan out of scope. A grant component is requested to partially fund project launch and supporting activities (uses of funds described at high level	The budget allocation for all activities will be proportional to the grid size that will be installed (up to 22) and is integrated into the project budget. Reasonableness of costs (and how they scale with size) has not been assessed.

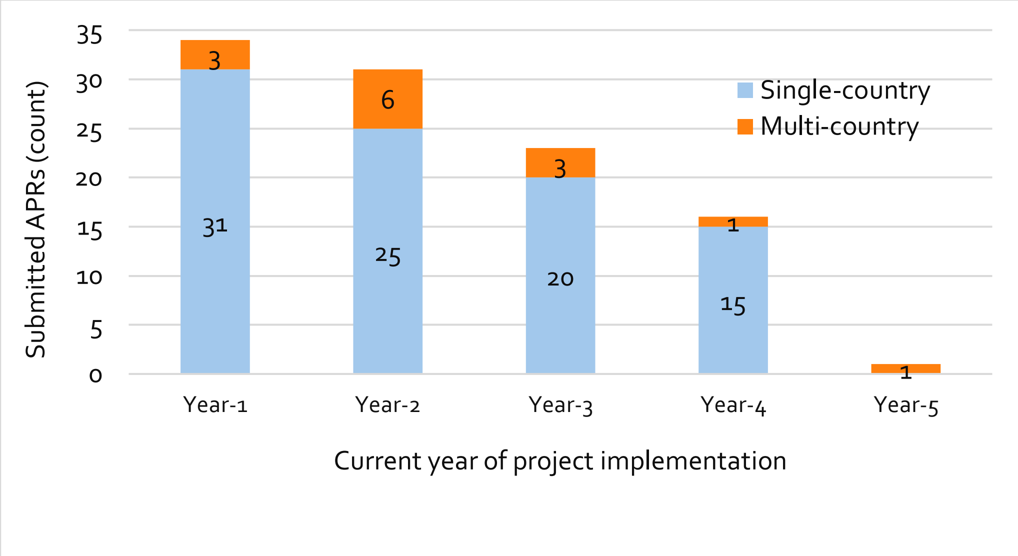
Review of SAP013 NEFCO-PPH1	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
		including a willingness to pay and affordability study following the first 10 grids).	
	7. (g) Overall viability of climate project	Medium – Project viability will depend on the stable cash flows coming from the end users paying for the energy generated by the subprojects with energy theft being a key risk in microgrid operations.	It is expected that the developers have to adhere to minimum technical requirements to ensure the technical viability of the microgrid projects. Partial comfort is derived from the affordability study to be done after completion of the first 10 microgrids.
	8. (i) Economic analysis of financial and non-financial benefits of the project	Low – No high level economic analysis of financial benefits at project level. Non-financial benefits are explained with mitigation impact calculated. No IRR presented at project level ~170,000 lives impacted 214,414 tCO2eq overall (cost tCO2eq = USD 134, GCF cost USD 27)	Sensitivity analysis only performed at DSCR level (see below). Methodology for greenhouse gas emission reduction part of Annex 16.a and 16.b – not reviewed.
Market conditions	7. (b) Current market rates and conditions	Medium – Overview of interest rates in local banking sector only anecdotal; however, given Haiti's macroeconomic conditions, assumptions can be made that local financing products do not exist and international venture capital will not consider investment in-country due to its weak governance system and uncertainty of energy markets.	The financing plan for individual projects does not envisage the potential participation of local banks.
	7. (c) Barriers & risks to investments	Satisfactory – Reference to annex 15 – pre-feasibility study for barriers [not reviewed]; risks and barriers are addressed in detail as part of Secretariat review.	N/A
	7. (d) Hedging and currency risks	Medium – The tariff will be linked to the United States dollar, limiting foreign exchange risk. Devaluation of the local currency could impact affordability.	Unlike XAC Bank proposal, analysis of likelihood of foreign exchange reserves depletion on government's ability to service USD payments not addressed. Breakeven tariff in USD

Review of SAP013 NEFCO-PPH1	Implementation & other requirements in choice of financial instruments	Level of analysis in FP and Secretariat/iTAP review	Comments
			calculated as part of DSCR sensitivity analysis (USD 0.64).
	8. (b) Existence and availability of other climate finance products	Satisfactory – GCF commitment as part of a consortium of climate financiers (World Bank as grant provider and DFC as senior lender)	N/A
	8. (c) Additionality given target country's circumstances	Satisfactory – No other sources of financing available in-country for project finances of this scale.	N/A
	8. (d) Evidence (market study, technical risk and financial assessment) to inform size, type and catalytic effect of concessionality	N/A – Reference to annex 15 – pre-feasibility study [not reviewed]	N/A
	8.(k) Market distortion	Satisfactory – No other financier operating in target segment	N/A
Choice of instrument vis-à-vis Project Proponent's capital structure	7. (f) Cost and funding needs financed by GCF	Satisfactory – Costs and funding needs are clearly articulated	N/A
	7. (h) GCF instrument	Satisfactory – Request for USD 8.4 million loan (~22 per cent of project capital structure) at 2 per cent. Structured as junior loan subordinated to senior facility from International Development Finance Corporation Grant facility of USD 1.5 million	The project attempts to apply a least concessional approach, whereby it seeks to provide the least concessional funding that makes the project viable. GCF funding as concessionary subdebt will play a catalytic role in crowding-in not just development finance debt but also attracting additional investors (both equity and debt).
	7. (i) GCF instrument terms vis-à-vis capital structure/co-financing from AE or other private sector investors	Medium – Co-financing ratio of 3.62:1. Sensitivity of co-financing partner (equity investor) on cost of debt not assessed	By bringing together GCF, the US International Development Finance Corporation (DFC – formerly OPIC), the World Bank, other grant-makers and social impact investors, the project is crowding-in different and complementary funders, none of whom would be able to participate alone to achieve a project of this scale.
	7. (j) Grant equivalency (for non-grant transactions)	N/A	Methodology for grant equivalency not part of FP template

REVIEW OF SAP013 NEFCO-PPH1	IMPLEMENTATION & OTHER REQUIREMENTS IN CHOICE OF FINANCIAL INSTRUMENTS	LEVEL OF ANALYSIS IN FP AND SECRETARIAT/iTAP REVIEW	COMMENTS
	8. (a) Evidence that concessionality is captured by beneficiaries rather than investors	Low – Little evidence of how concessionality is passed to end beneficiaries.	No pure commercial investor with profit motive and therefore reasonable assumption that concessionality is passed down to end consumers.
	8. (e) IRR w/ and w/o GCF instrument	Low – The financial model provided shows an internal rate of return of approximately 15 per cent for equity investors in the project but no analysis is conducted on project IRR sensitivity to GCF instrument.	N/A
	8. (f) Sensitivity analysis	Satisfactory – Done as part of Secretariat review on indicative financial model submitted by AE	Conducted on DSCR (see 8. (h) below)
	8. (h) Credit analysis (debt servicing capacity) of borrower	Satisfactory – Minimum DSCR of 1.05. Sensitivity analysis performed on CAPEX budget, construction timing, costs of funding and resource availability	N/A
Delivery mechanism	7. (e) Financial intermediation, counterparty risk and pricing mechanism	Low – Entity relationship and flow of finance and electricity credits provided as part of FP; however, considerations around financial intermediation, counterparty risk and pricing mechanism not addressed	N/A
	8. (g) DD on AE	Medium – At the time of proposal the accreditation process was not yet completed pending accreditation master agreement between GCF and AE	AE fees not discussed in proposal (Annex 18 and Annex 6: out of scope)

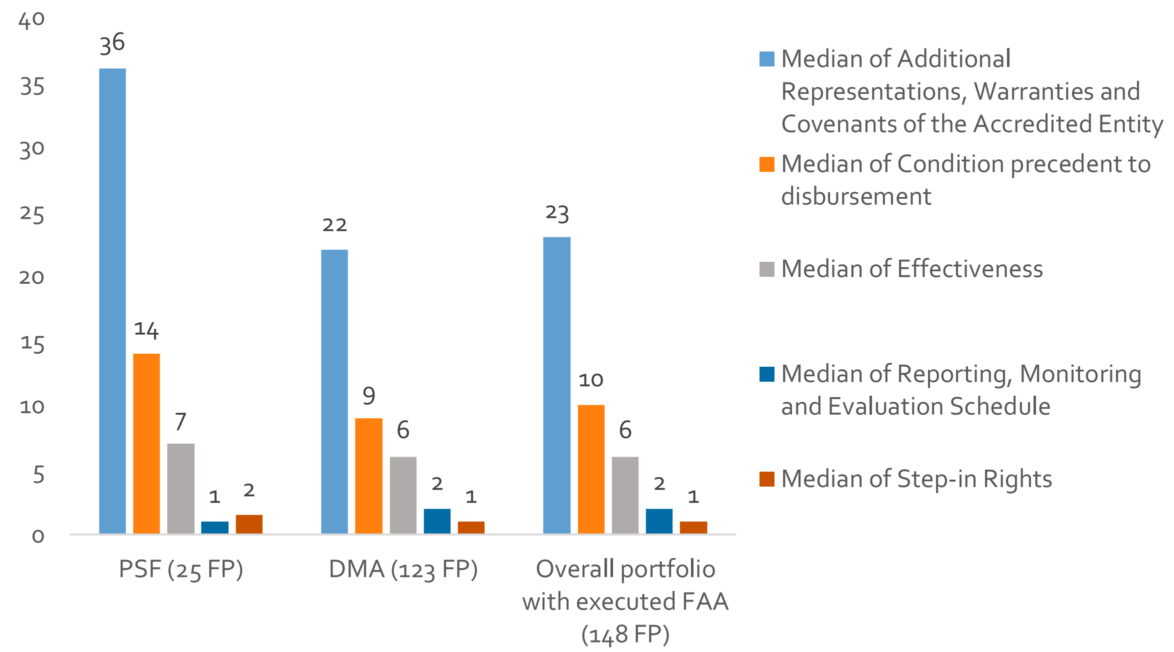
Annex 6. MEASURING AND REPORTING RESULTS AND IMPACTS

Figure A - 21. APRs for single-country and multi-country projects



Source: GCF portfolio performance management system (PPMS) as of July 2021. Extraction and analysis by IEU DataLab.

Figure A - 22. Median number of conditions per funded activity agreement



Source: FAA data, as of 1 July 2021. Extraction and analysis by the IEU DataLab.

Box A - 10. Measuring private sector success: Views from country case studies

The newly approved Integrated Results Management Framework includes a series of core indicators aimed at allowing more accurate and aggregable reporting from projects/programmes in terms of their potential for scalability, replicability and co-benefits and their ability to contribute towards achieving a paradigm shift. **Still, with the GCF, success in catalysing the role of the private sector is measured in terms of target practices promoted, financial instruments deployed, speed of engagement of private actors and financial institutions, and particularly the scale of co-financing leveraged.**

To illustrate this point, a review of the GCF portfolios in Armenia, Chile and Ghana shows that through a diversity of financial instruments, both the financing approved under the GCF and the scale of leverage ratio of private sector projects is significantly higher than those of public sector projects. The scale of financing under multi-country projects is significantly higher too.

Depending on the type of private sector target under which examined projects would fit, interviewees have contrasting views on the measure of success of the GCF’s private sector portfolio. From the project finance perspective of large scale international accredited entities in the case of multi-country projects, interviewees emphasize the opportunities that the GCF’s business model provides to engage international capital markets for large scale interventions. Interviewees noted “Piece-meal, single country interventions are inefficient when aiming to expand the market at scale”, unless it is a country the size of India or Brazil; “the real game-change in transforming the energy sector is not about innovative financial instruments but rather about scale, bringing costs down and ensuring uptake.” **Therefore, the scale of investments from both the GCF and co-financing would seem to suggest a proxy for success when it comes to market development at scale.**

In the view of regional and local financial institutions, however, **“mainstreaming green finance in financial markets and systems is the real paradigm shift”. Interviewees go on to emphasize that in order for the GCF to effectively catalyse the role of the private sector, more non-grant instruments are urgent to establish the enabling conditions that will ultimately harness the potential impact of green investments from local private sector institutions.** Moreover, interviewees stress the role of real country-driven programming under the GCF as a condition to engage and mobilize local private investments.

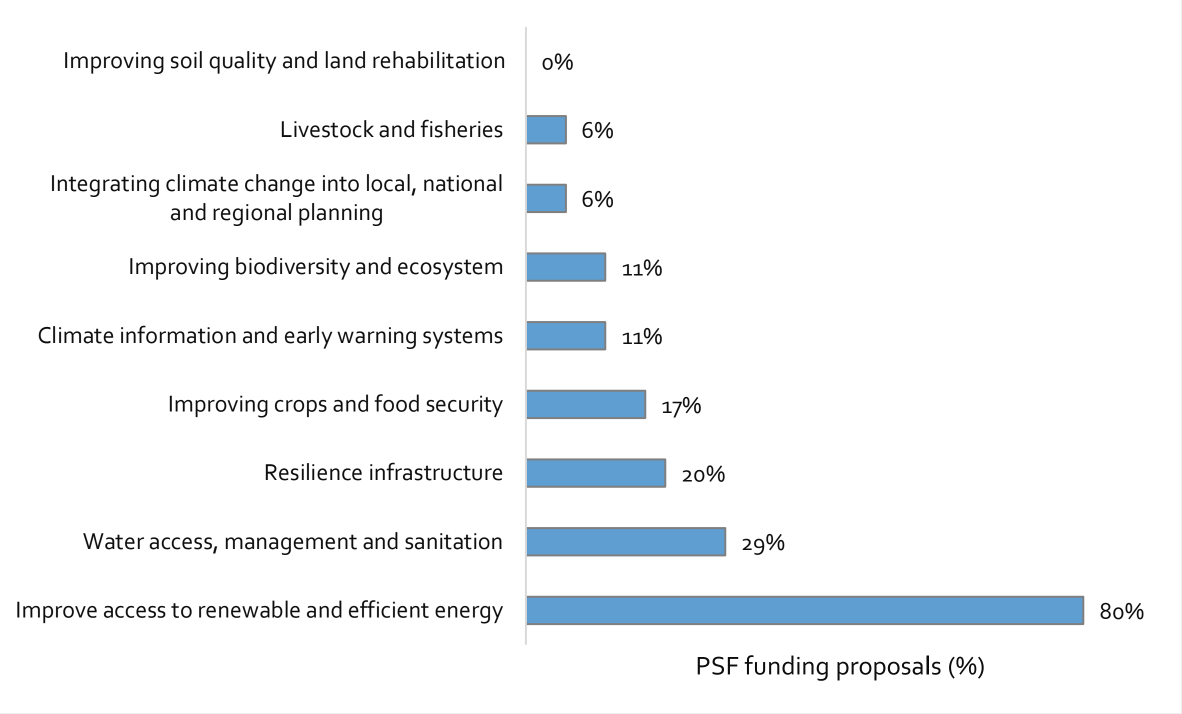
Further, **interviewees largely agree that the lack of alignment between the GCF’s business model and that of the private financial sector has become a significant barrier for the GCF to catalyse the role of local private sector investment towards achieving low emission and climate-resilient pathways consistent with the Paris Agreement.** Interviewees further emphasized that, from the financial systems perspective, the bottom line is that the GCF has not really internalized “who they are engaging with, how the financial system works and the commitments they have with their clients”.

In-country interviewees refer to climate finance leveraged under the GCF as critical to leveraging private sector involvement through supporting market analysis and feasibility studies. Putting this type of enabling conditions in place can be achieved through access to financial instruments that can allow, for instance, the provision of grants to MSMEs working on energy efficiency or in the agricultural sector. Similarly, access to grants under the GCF to strengthen national capacities and establish public–private partnerships with national banks can allow the establishment of revolving funds to provide loans to national private sector actors. While entailing a great potential for sustainably transforming financial systems and putting in place the enabling conditions to catalyse blended finance at the national level, such projects/programmes cannot secure the levels of co-financing that seem to be required for a private sector-relevant proposal to be successful under the GCF, as suggested by interviewees.

Moreover, in-country interviewees reflect on practitioners – such as farmer associations – as the typology of local private sector that is often engaged in climate change adaptation action. In this case, interviewees emphasized that GCF investments to catalyse the role of private sector adaptation are expected to be geared towards technical assistance and upfront funding to enable the transformation of energy production systems with an adaptation lens, as in the case of clean cookstoves in LDCs and SIDS.

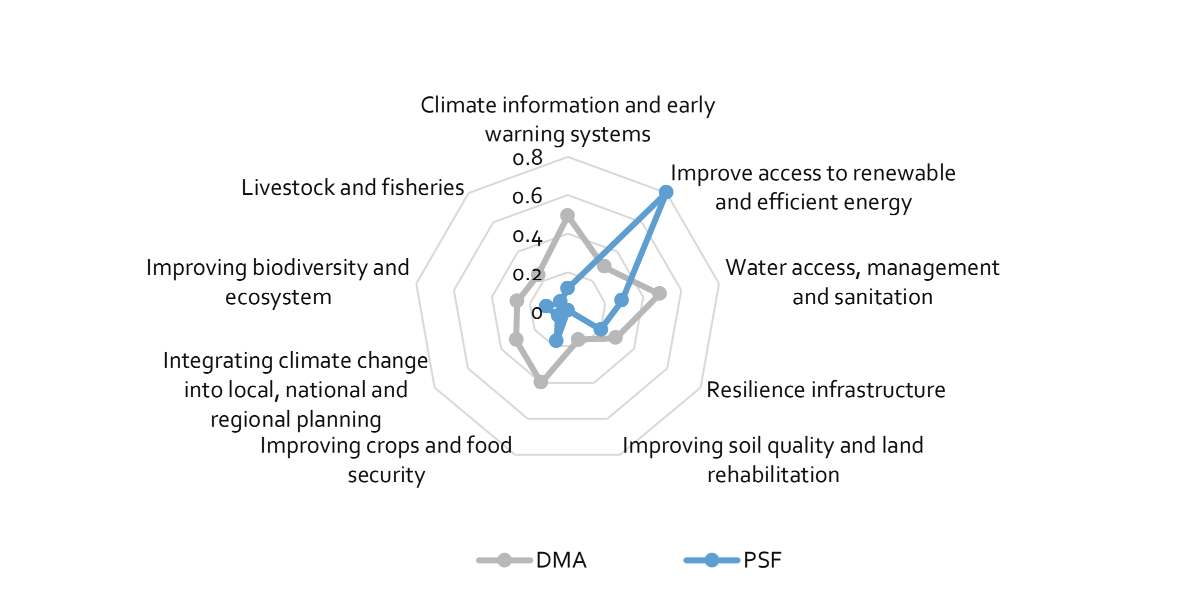
In the case of Ghana, for instance, the Environmental Protection Agency is currently working on a proposal for a Results-Based Financing Facility to contribute to the achievement of the country's NDC, with a view to engaging in carbon markets under Article 6 of the Paris Agreement. This proposal looks at a combination of technical assistance, policy and regulatory developments, and innovative financial instruments to engage the private sector in local carbon markets with a focus on the steel and food and beverage industries, as key industries from a mitigation standpoint. While a similar approach is currently being piloted for other industries under bilateral cooperation, **in-country interviewees stress the challenges they face to get buy-in from local private actors, as they know that time frames under the GCF's business model can take so long that they would rather not engage unless there is certainty there will be finance, as otherwise this represents a reputational risk for them.**

Figure A - 23. Impact potential areas of the PSF funded projects



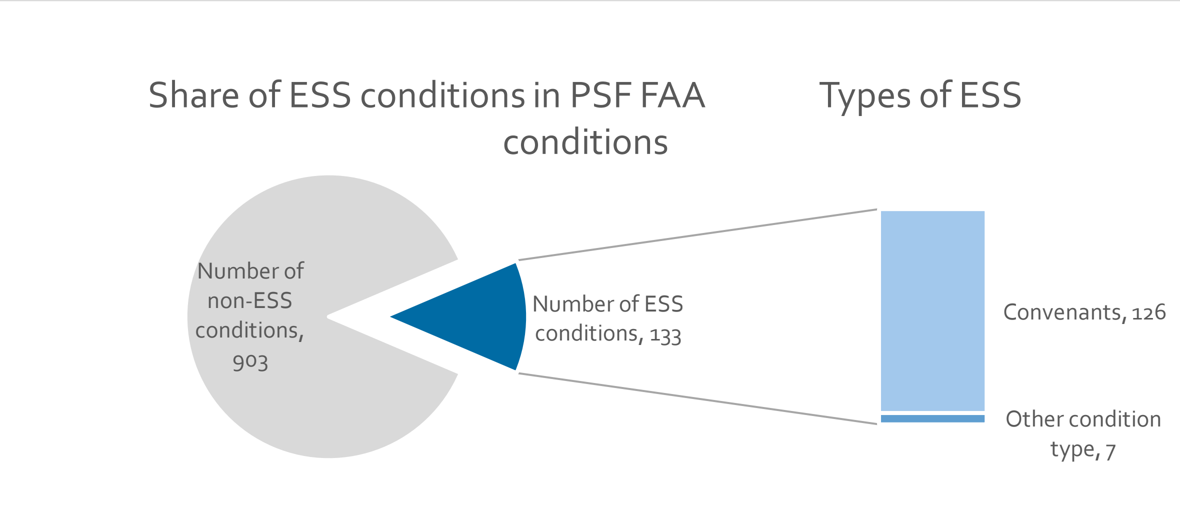
Source: Impact potential section of funding proposals as of 1 July 2021. Extraction and analysis by the IEU DataLab. Total number of funding proposals (N=177).

Figure A - 24. Comparison of PSF and DMA impact potential areas



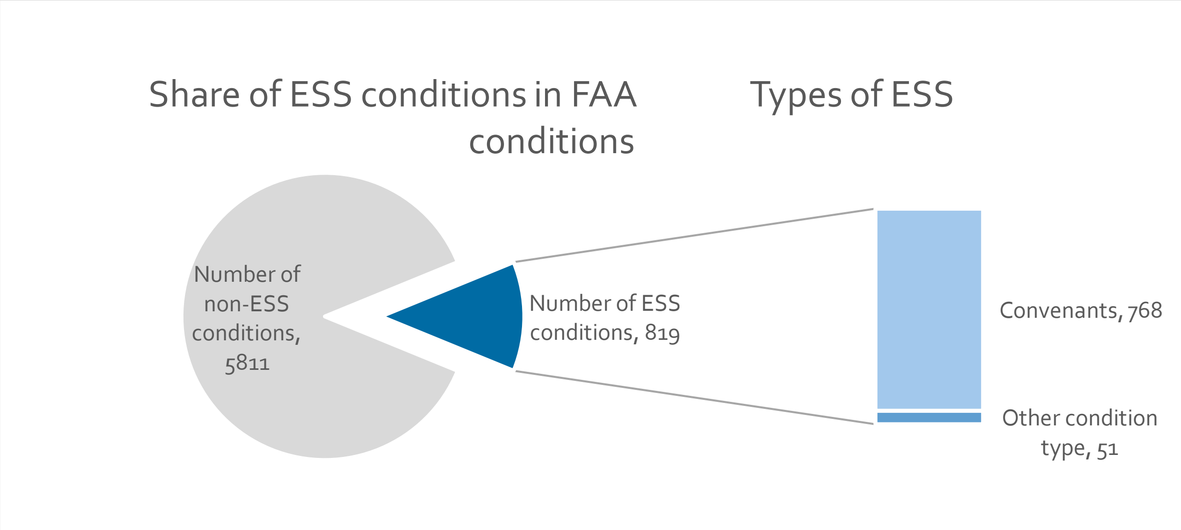
Source: Impact potential section of funding proposals as of 1 July 2021. Extraction and analysis by the IEU DataLab. Total number of funding proposals (N=177).

Figure A - 25. Proportion of covenants in environmental and social safeguards conditions for PSF projects



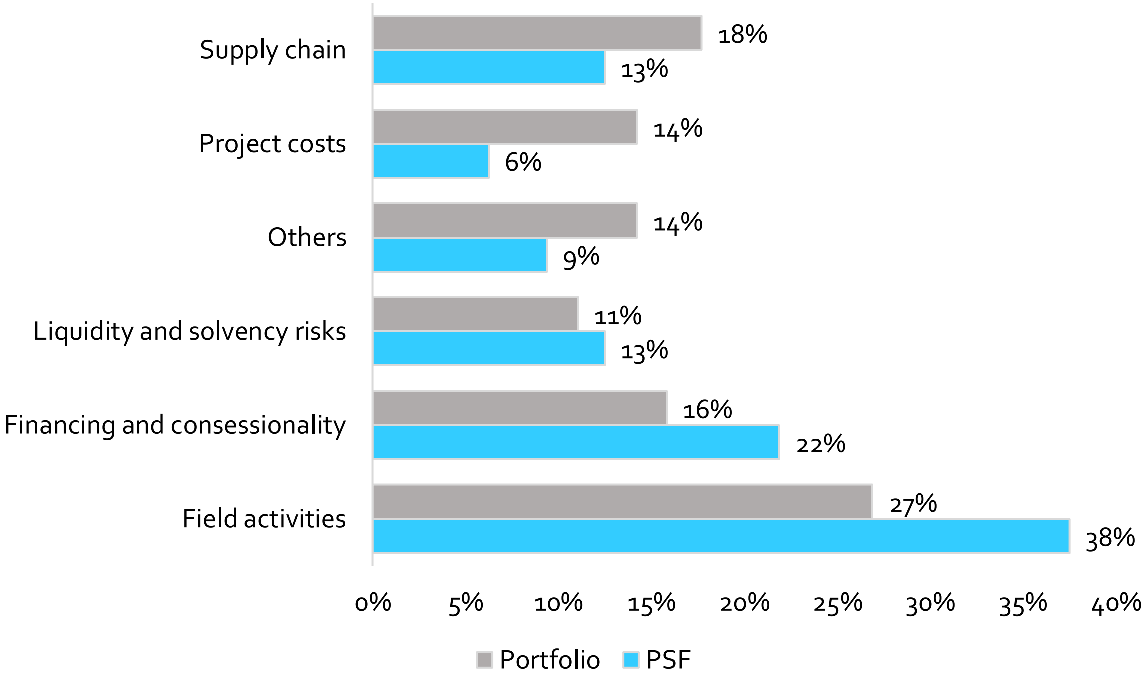
Source: FAA data, as of 1 July 2021. Extraction and analysis by the IEU DataLab.

Figure A - 26. Proportion of covenants in environmental and social safeguards conditions for the overall GCF portfolio



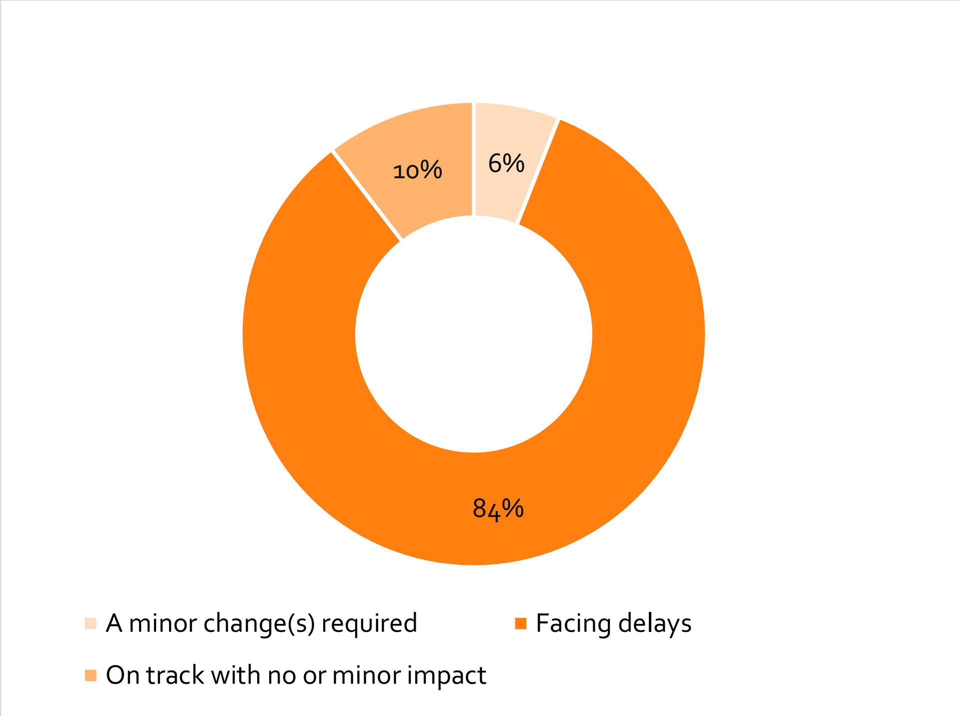
Source: FAA data, as of 1 July 2021. Extraction and analysis by the IEU DataLab.

Figure A - 27. Reported challenges from COVID-19 to the project's implementation



Source: GCF PPMS as of July 2021. Extraction and analysis by the IEU DataLab.

Figure A - 28. Severity level of the overall COVID-19 impact



Source: GCF PPMS as of July 2021.Extraction and analysis by the IEU DataLab.

Annex 7. SURVEY

As part of the evaluation, the IEU undertook an online survey covering eight relevant stakeholder groups. The survey received 54 complete responses, the majority of which were international accredited entities (12) and only one development partner. For details of the questions as well as a breakdown of their corresponding responses see from Figure A - 29 to Figure A - 33.

Figure A - 29. Q1: Which of the following best describes your association with the Green Climate Fund?

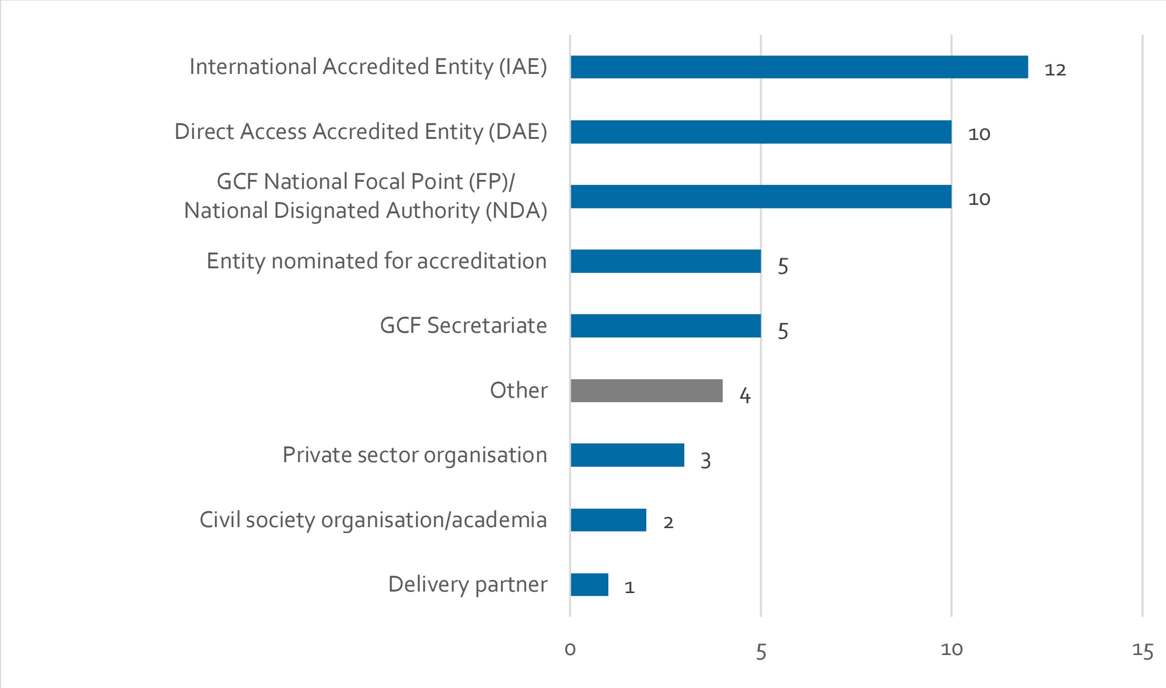


Figure A - 30. Q2: Which of the following best describes your regional affiliation with regard to the GCF?

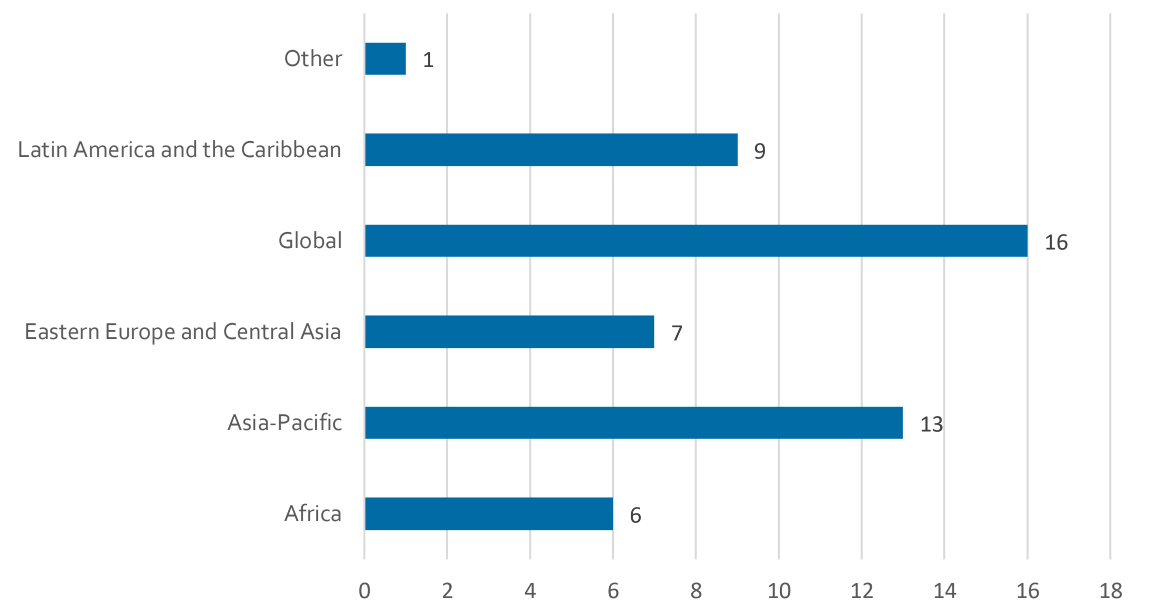


Figure A - 31. Q3: What is your level of familiarity with the GCF?

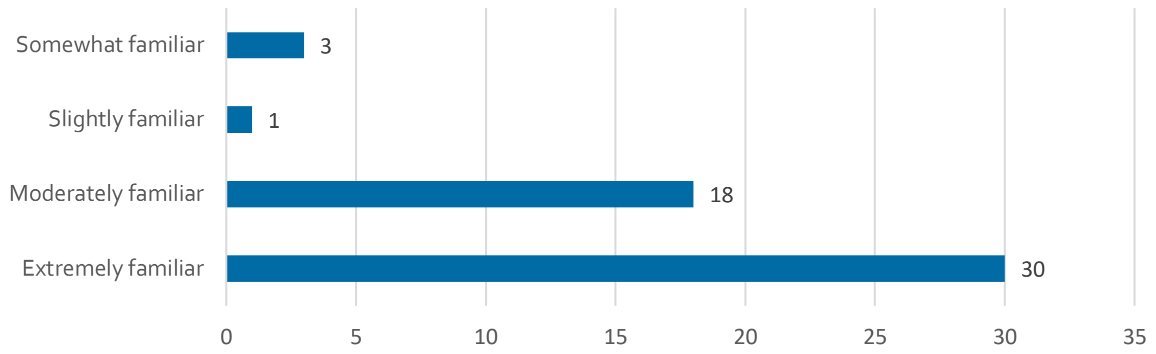


Figure A - 32. Q4: What is your level of familiarity with private sector climate finance?

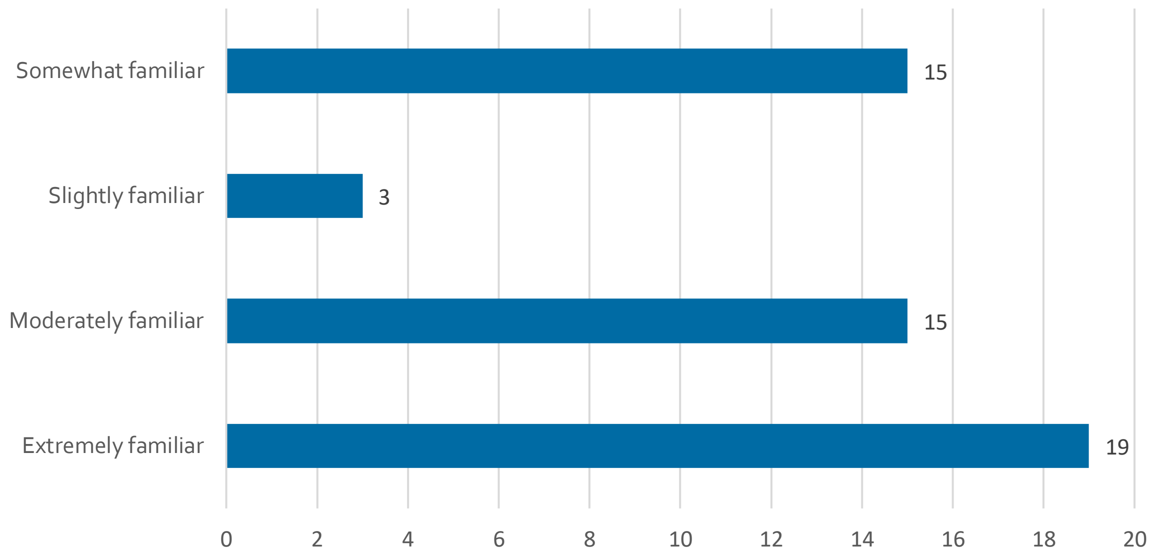
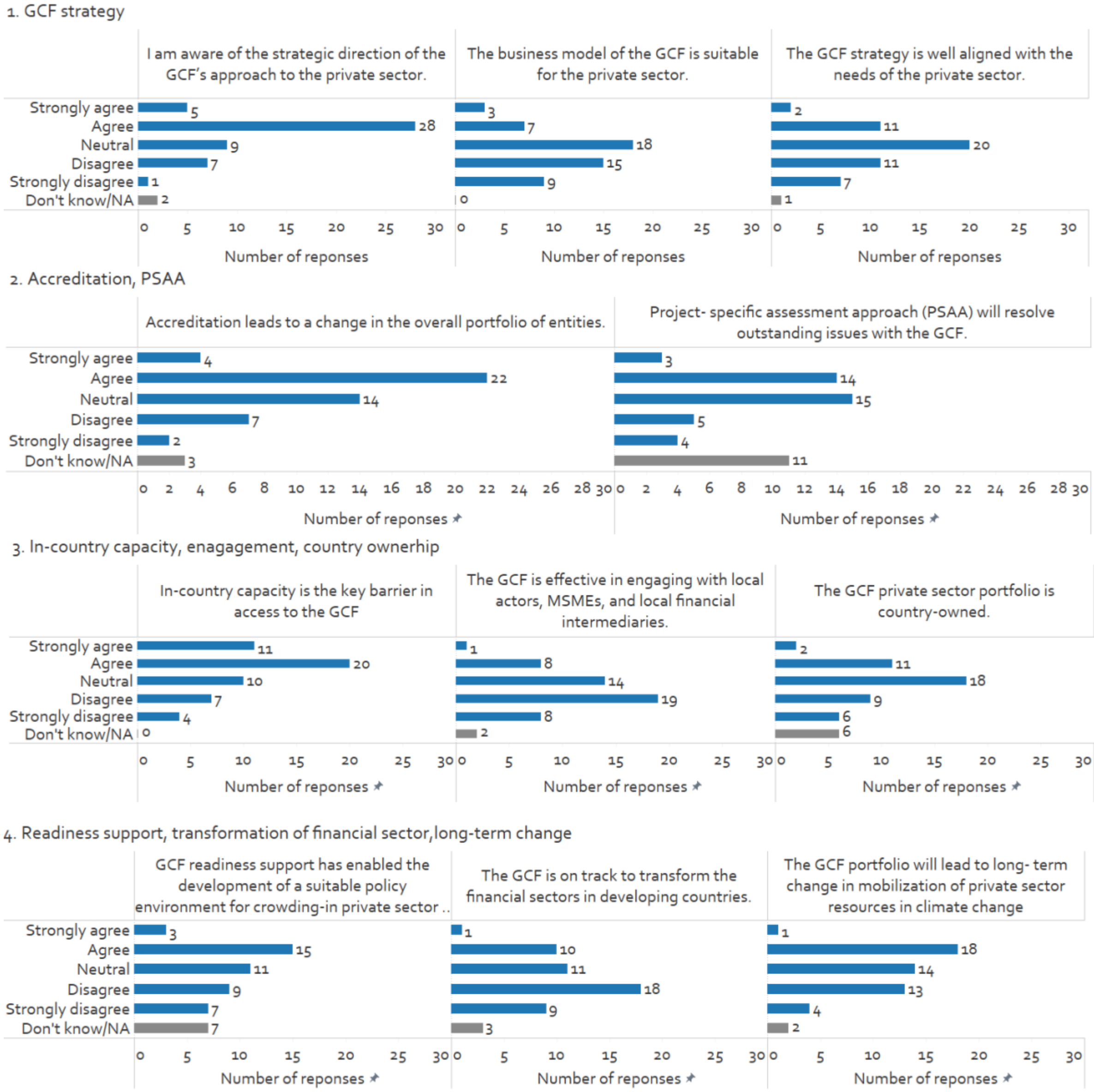


Figure A - 33. Q5: Please rate your agreement with the following statements.



Source: GCF-IEU online survey: Independent Evaluation of the GCF's Approach to the Private Sector conducted from 18th June to 3rd August 2021. Extraction and analysis by the IEU DataLab.
Note: This source applies to all the Figure A - 29 to Figure A - 33 in Annex 7 and any references to them.

Annex 8. Approach paper

C. 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.[33] 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.[34] 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.[35]"

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

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

points out that private investment is biased towards mitigation efforts. Patel (2010) states that “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).

D. 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.[36]

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.[37]
>
> Paragraph 42. The operation of the facility will be consistent with a country-driven approach.[38]
>
> 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.[39]

The GI mandated the Board to "develop the necessary arrangements, including access modalities, to operationalize the facility."[40] 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."[41]

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."[42]

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 with the operation of the Financial Mechanism of the Convention.[43] The GCF takes action on the

---

[36] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 3
[37] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 41
[38] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 42
[39] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 43
[40] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 44
[41] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 30
[42] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 54
[43] 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)

guidance received from the COP and submits annual reports to the COP for its consideration and to receive future guidance.[44]

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.**[45] The COP has continued to give guidance on the private sector in subsequent decisions.

Table A - 17. 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/A dd.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/A dd.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/A dd.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/A dd.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/A dd.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. Policies relating to: • The approval of funding proposals, including project and programme eligibility and selection criteria, incremental costs, co-financing, concessionality, programmatic approach, restructuring and cancellation • Prohibited practices as well as the implementation of the anti-money laundering and countering the financing of terrorism policy • Review of the accreditation framework • Pursuing privileges and immunities for the Green Climate Fund

[44] FCCC/CP/2011/9/Add/, Decision 3/CP.17/ Annex (2), 52, para. 6
[45] FCCC/CP/2014/10/Add.2

COP	COP DECISION	COP GUIDANCE ON THE PRIVATE SECTOR
		• Consideration of alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests • 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.[46] 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.* [47]

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 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.

[46] Decision B.01-13/06
[47] Decision GCF/B.04/07

Table A - 18. 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 towards 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."[48]

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)
5) Enhancing the role of the private sector in adaptation

---

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

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.

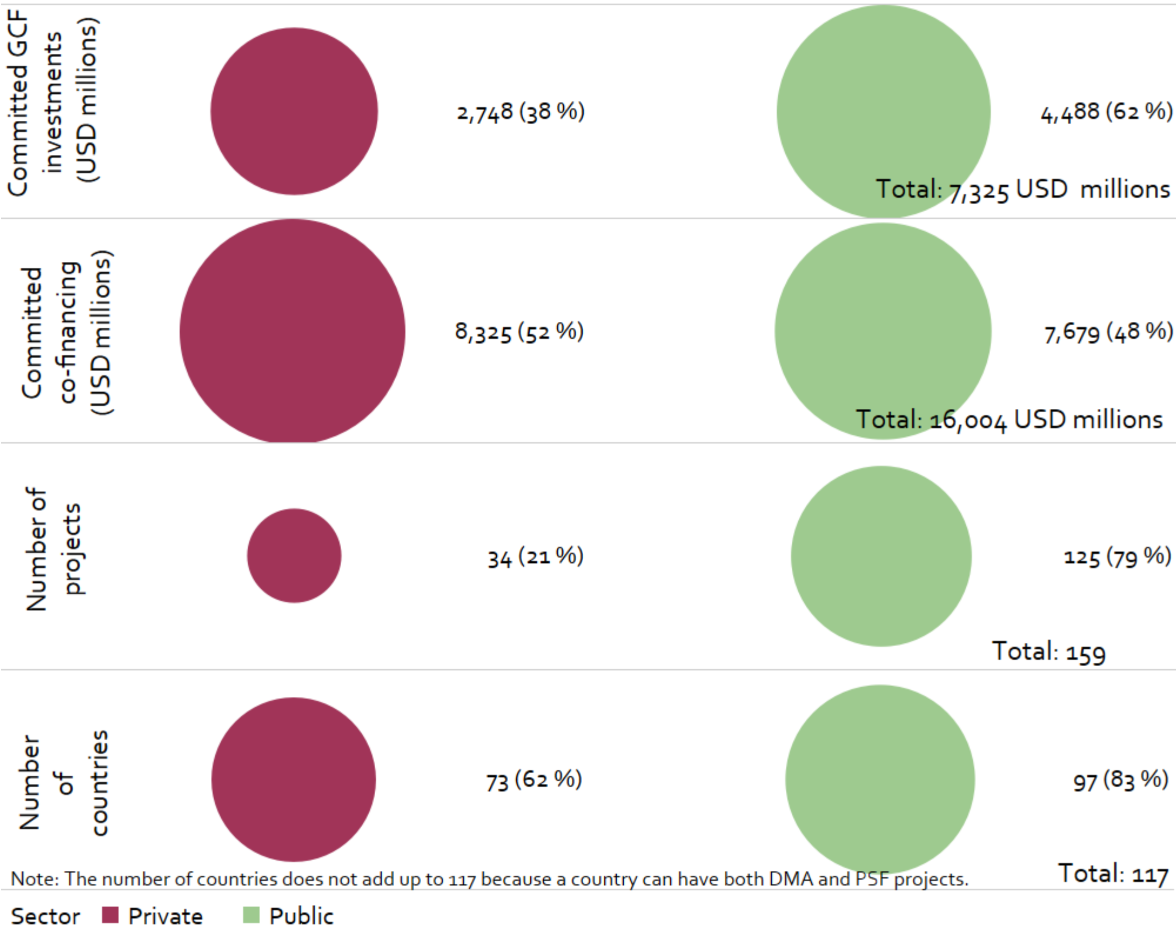
4. PRIVATE SECTOR PORTFOLIO OF THE GCF

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. 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.

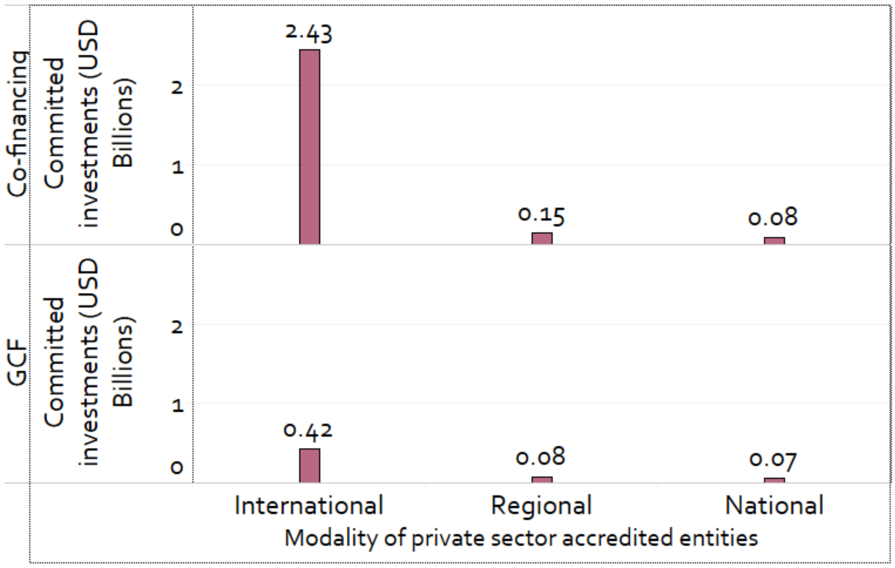
Figure A - 34. PSF portfolio in terms of finance, project count and country coverage



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 - 35 shows that most of the financing committed through private sector AEs goes through international AEs.

Figure A - 35. Committed project finance and co-finance distribution across access modalities for private sector AEs

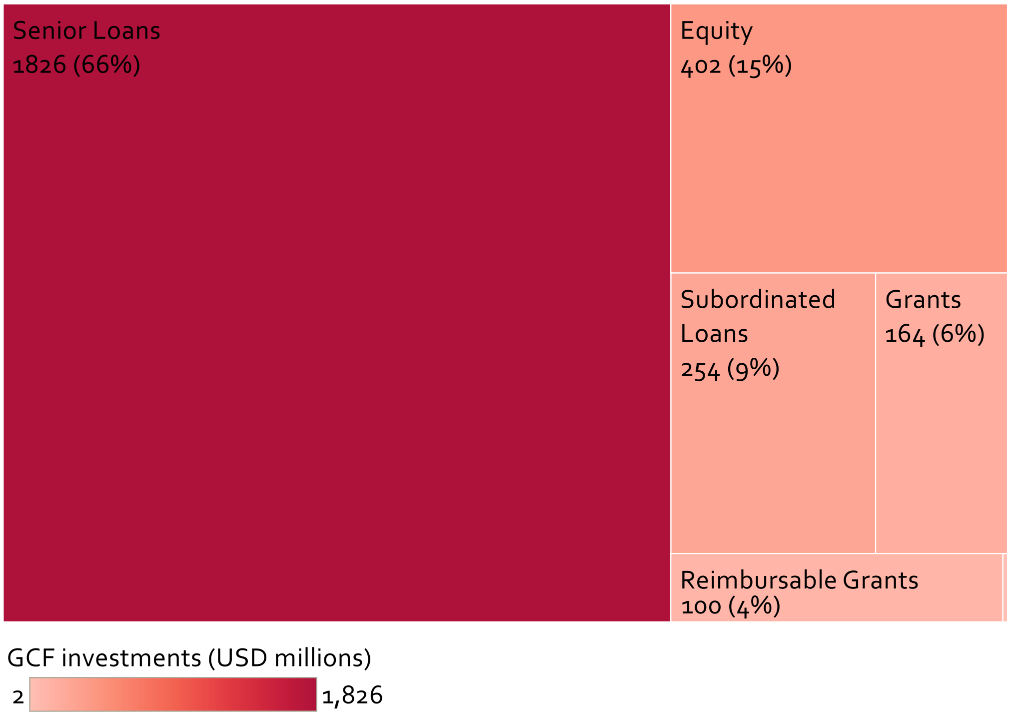


Source: GCF Tableau server finance data, accreditation data, as of November 2020

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 - 36 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 via grants (35 per cent for co-financing).

Figure A - 36. 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 - 19 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 - 19. 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
Language: Entities that do not normally operate in English especially struggle with legal negotiations (not only private sector)	✓		✓							2

PRIVATE SECTOR FINDINGS	RPSP	RMF	FPR	COA	ESS	SAP	ACCREDITATION	SIDS	ADAPTATION	OCCURRENCES
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

E. 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:[49]

- 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.

[49] See Decision B.06/09.

F. 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 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 cooperation 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 D.C. (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 D.C: 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, D.C: 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 OECD Development Assistance Committee and the Joint MDBs 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 - 20 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 - 20. 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* Enabling Environment for Private Sector Adaptation: An Index Assessment Framework, IFC Report, 2013, *https://www.ifc.org/wps/wcm/connect/fd1b3aed-ee29-4d28-93d4-*

ORGANIZATION	ISSUES TO BE BENCHMARKED	POSSIBLE DOCUMENT SOURCES
		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 - 21 shows the types of stakeholders that will be consulted and the sampling approach.

Table A - 21. 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
DAEs	At least 7 of 14 private sector DAEs (7)
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 - 22.

Table A - 22. 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
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 - 23 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 - 23. 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.

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.

G. 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

REFERENCES

Agbemabiese, L., Nyangon, P. D., Lee, J.-S., & Byrne, J. (2018). *Enhancing Climate Finance Readiness: A Review of Selected Investment Frameworks as Tools of Multilevel Governance* (SSRN Scholarly Paper ID 3082542). Social Science Research Network. https://doi.org/10.2139/ssrn.3082542

Agrawala, S., Carraro, M., Kingsmill, N., Lanzi, E., Mullan, M., & Prudent-Richard, G. (2011). *Private Sector Engagement in Adaptation to Climate Change: Approaches to Managing Climate Risks*. https://doi.org/10.1787/5kg221jkf1g7-en

Alliance of Small Island Developing States (2017). *Submission Views and recommendations on the elements to be taken into account in developing guidance to the Global Environment Facility (GEF) and the Green Climate Fund (GCF) by the Republic of the Maldives on behalf of the Alliance of Small Islands States*.

Alkhani, R. (2020). Understanding Private-Sector Engagement in Sustainable Urban Development and Delivering the Climate Agenda in Northwestern Europe—A Case Study of London and Copenhagen. *Sustainability*, *12*(20), 8431. https://doi.org/10.3390/su12208431

Michaelowa, A., Moslener, U., Mikolajczyk, S., Hoch, S., Pauw, P., Krey, M., Kempa, K., Espelage, A., Weldner, K., & Jung, C. (2019). *Opportunities for mobilizing private climate finance through Article 6*. https://doi.org/10.5167/UZH-175368

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

Bayat-Renoux, F., Coninck, H. C. de. Glemarec, Y. (2020). *Tipping or turning point: Scaling up climate finance in the era of COVID-19*. https://www.greenclimate.fund/sites/default/files/document/gcf-working-paper-tipping-or-turning-point-scaling-climate-finance-era-covid-19.pdf

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.

Berliner, J., Grüning, C., Kempa, K., Menzel, C., & Moslener, U. (2013). Addressing the barriers to climate investment. *Undefined*. /paper/Addressing-the-barriers-to-climate-investment-Berliner-Gr%C3%BCning/31849b7fbd26bbf5ed3b1bc7cdbe5a374f6d58bb

Biagini, B., & Miller, A. (2013). Engaging the private sector in adaptation to climate change in developing countries: Importance, status, and challenges. *Climate and Development*, *5*(3), 242–252. https://doi.org/10.1080/17565529.2013.821053

Bowman, M., & Minas, S. (2019). Resilience through interlinkage: The green climate fund and climate finance governance. *Climate Policy*, *19*(3), 342–353. https://doi.org/10.1080/14693062.2018.1513358

Bowman, M., & Steenmans, K. (2019). *Legal Readiness for Climate Finance: Private Sector Opportunities: Report and Findings of Roundtable held at King's College London, 25 January 2019*. https://pureportal.coventry.ac.uk/en/publications/legal-readiness-for-climate-finance-private-sector-opportunities-

Global Environment Facility Independent Evaluation Office (2017), *Evaluation of GEF Engagement with the Private Sector, Evaluation Report No. 111*. https://www.gefieo.org/evaluations/private-sector-2017

Green Climate Fund (GCF) (2014),*Decision GCF/B.06/06 Policies and Procedures for the Initial Allocation of Fund Resources*. https://www.greenclimate.fund/boardroom/meeting/b06#decisions

G-20 IFA Working Group (2017). *Principles of MDBs' Strategy for Crowding*-in *Private Sector Finance for Growth and sustainable Development*. https://www.gihub.org/resources/publications/principles-of-mdbs-strategy-for-crowding-in-private-sector-finance/

Glemarec, Y. (2011). Catalyzing Climate Finance—A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development | United Nations Development Programme. https://www.greengrowthknowledge.org/research/catalyzing-climate-finance-guidebook-policy-and-financing-options-support-green-low

Hood, R. (2007). *Measuring Performance in Private Sector Development | Asian Development Bank*. https://www.adb.org/publications/measuring-performance-private-sector-development

International Finance Corporation (2019), *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions.* https://www.ifc.org/wps/wcm/connect/Publications_EXT_Content/IFC_External_Publication_Site/Publications_Listing_Page/Mobilization+of+Private+Finance+by+Multilateral+Development+Banks+and+Development+Finance+Institutions+2019

International Finance Corporation (IFC). (2011). *Public Private Equity Partnerships: Accelerating the Growth of Climate*. https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Publications/Publications_Report_PublicPrivateEquity

Jachnik, R., Caruso, R., & Srivastava, A. (2015). Estimating Mobilised Private Climate Finance: Methodological Approaches, Options and Trade-offs. https://doi.org/10.1787/5js4x001rqf8-en

Laurel, M., Benito, M., Gomez-Echeverri, L. (2015). *Enhanced Direct Access: A Brief History (2009- 15) |European Capacity Building Initiative.* EDA-Brief-History-published_0.pdf (oxfordclimatepolicy.org)

Mathews, J., Kidney, S., Dr. Mallon, K., & Hughes, M. (2010). Mobilizing private finance to drive an energy industrial revolution. *Energy Policy*, *38*, 3263–3265 https://doi.org/10.1016/J.ENPOL.2010.02.030

Milan, B., Catlyne, H., & John, P. (2017). *Green Industrialisation and Entrepreneurship in Africa, Contributing paper for African Economic Outlook 2017: Entrepreneurship and Industrialisation| Organisation for Economic Co-operation and Development*. http://newclimateeconomy.report/misc/working-papers.

Patel, S. (2010). *Climate finance: Engaging the private sector*. https://doi.org/10.1596/27817.

Pauw, W. P. (2015). Not a panacea: private-sector engagement in adaptation and adaptation finance in developing countries. *Climate Policy*, *15*(5), 583-603. doi:10.1080/14693062.2014.953906

Polzin, F., Egli, F., Steffen, B., & Schmidt, T. S. (2019). How do policies mobilize private finance for renewable energy?—A systematic review with an investor perspective. *Applied Energy*, *236*, 1249–1268. https://doi.org/10.1016/j.apenergy.2018.11.098

Sépibus, J. de. (2016). Green Climate Fund: How Attractive Is It to Donor Countries? *Carbon & Climate Law Review*, *9*(4), 298–313. https://cclr.lexxion.eu/article/CCLR/2015/4/5

The Nature Conservancy (2012). *Climate Finance Readiness Lessons Learned from Developing Countries.* https://www.nature.org/media/climatechange/climate-finance-readiness.pdf

United Nations Environment Programme (UNEP). (2014). *Demystifying private climate finance – United Nations Environment – Finance Initiative*. https://www.unepfi.org/publications/climate-change-publications/technical-advice-for-policy-makers-publications/demystifying-private-climate-finance/.

United Nations Global Compact (2015). *Private Sector Investment and Sustainable Development | UN Global Compact*. https://www.unglobalcompact.org/library/1181

United Nations High Commissioner for Refugees (UNHCR). (2019). *Evaluation of UNHCR's Engagement with the Private Sector*. https://www.unhcr.org/research/evalreports/5dfa230f4/evaluation-unhcrs-engagement-private-sector.html

United Nations. (2003). *Monterrey Consensus of the International Conference on Financing for Development.* United Nations.

United Nations. (2009). *Doha Declaration on Financing for Development outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus.* United Nations.

United Nations. (2015). *Addis Ababa Action Agenda of the Third Conference on Financing for Development.* New York: United Nations.

Vandeweerd, V., Glemarec, Y., Billet, S. (2012). *Readiness for Climate Finance A framework for understanding what it means to be ready to use climate finance.* New York: United Nations Development Programme (UNDP).

World Bank Group (2020). *Transformative Climate Finance: A New Approach for Climate Finance to Achieve Low-Carbon Resilient Development in Developing Countries.* https://openknowledge.worldbank.org/handle/10986/33917

Key documents to be considered

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/

Document GCF/B.27/21. (n.d.). *Updated Strategic Plan for the Green Climate Fund: 2020 – 2023.*

Morgado, N. C., & Lasfargues, B. (2017). *Engaging the Private Sector for Green Growth and Climate Action: An Overview of Development Co-Operation Efforts, Working Papers, No. 34*. https://doi.org/10.1787/85b52daf-en

Glemarec, Y. (2011). Catalyzing Climate Finance—A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development | United Nations Development Programme. https://www.greengrowthknowledge.org/research/catalyzing-climate-finance-guidebook-policy-and-financing-options-support-green-low

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

Srivastava, A. (2012). *Public Financing Instruments to Leverage Private Capital for Climate-Relevant Investment*. https://www.wri.org/research/public-financing-instruments-leverage-private-capital-climate-relevant-investment

Viguri, S., Lopez-Tovar, S., Juarez-Olvera, M., Visconti, G., 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. http://dx.doi.org/10.18235/0003008

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?	• Synthesis of previous evaluations • RfP evaluation • DataLab (internal and external data) • Perception survey • Key informant interviews

NO.	KEY AREA/ CRITERIA	SUB-QUESTIONS	DATA SOURCE
		• 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?	
		• 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?	• Synthesis of previous evaluations • RfP evaluation • DataLab (internal and external data) • Perception survey • Key informant interviews • Literature review • Case studies
		• To what extent has the GCF been able to foster innovation and deploy diverse financial instruments?	
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.

Annex 9. LANDSCAPE ANALYSIS: LESSONS AND STRATEGIC OPPORTUNITIES FOR COHERENCE AND COMPLIMENTARITY

A. INTRODUCTION

1. BACKGROUND

a. The financial mechanism of the United Nations Convention on Climate Change and Paris Agreement

The United Nations Convention on Climate Change (UNFCCC or Convention hereafter), under its Article 11, states that the operation of the Financial Mechanism is entrusted to one or more existing international entities.

The Global Environment Facility (GEF) has served as an operating entity of the Financial Mechanism since the Convention's entry into force in 1994. At COP 16, in 2010, parties established the GCF and in 2011 designated it as an operating entity of the Financial Mechanism as well. The Financial Mechanism is accountable to the COP, which can provide guidance on its policies, programme priorities and eligibility criteria for funding. Decision 1/CP.21 provides additional clarity on which institutions in addition to the operating entities will serve the Paris Agreement. These institutions are the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF), which are two special funds managed by the GEF, and the Adaptation Fund (AF), which was established under the Kyoto Protocol in 2001. Through decisions *13/CMA.1*[50] and *1/CMP.14*[51], it was decided that the AF would also serve the Paris Agreement under the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) with respect to all Paris Agreement matters, effective 1 January 2019. In this report we refer to these institutions as "climate funds".[52]

As operating entities of the Financial Mechanism of the Convention, the GEF and GCF must report annually to the COP and receive guidance on their policies, programme priorities and eligibility criteria.[53] The LDCF and SCCF also operate under the guidance of the COP.[54] The AF operates under the guidance of the CMA.[55] As an operating entity of the Financial Mechanism of the Convention under Article 11, a role confirmed in the Paris Agreement, the GCF is "accountable to and function[s] under the guidance of the COP."

In addition to seeking complementarity between the operating entities, paragraph 2(a) of decision 11/CP.1 states that consistency should be sought and maintained between the policies, programme priorities and eligibility criteria for activities established by the COP, and the climate change activities beyond the framework of the Financial Mechanism.

The Standing Committee on Finance (SCF) was established in 2010 to assist the COP in exercising its functions in relation to the Financial Mechanism of the Convention. Among other things, its mandate involves improving coherence and coordination in the delivery of climate change financing, rationalization of the Financial Mechanism, mobilization of financial resources, and measurement, reporting and verification of support provided to developing country Parties. The SCF

---

[50] United Nations Framework on Climate Change (UNFCCC), FCCC/PA/CMA/2018/3/Add.2, Decision 13/CMA.1.
[51] United Nations Framework on Climate Change (UNFCCC), FCCC/KP/CMP/2018/8/Add.1, Decision 1/CMP.14.
[52] The term "climate funds" as used in this report refers to the international entities that operate according to standards and systems designed to ensure that they adhere to rules set for them by their respective boards and UNFCCC decisions.
[53] UN General Assembly, *United Nations Framework Convention on Climate Change: resolution / adopted by the General Assembly*, 20 January 1994, A/RES/48/189, Article 11.
[54] United Nations Framework on Climate Change (UNFCCC), FCCC/CP/2001/13/Add.1, Decision 7/CP.7.
[55] United Nations Framework on Climate Change (UNFCCC), FCCC/CP/2001/13/Add.1, Decision 10/CP.7.

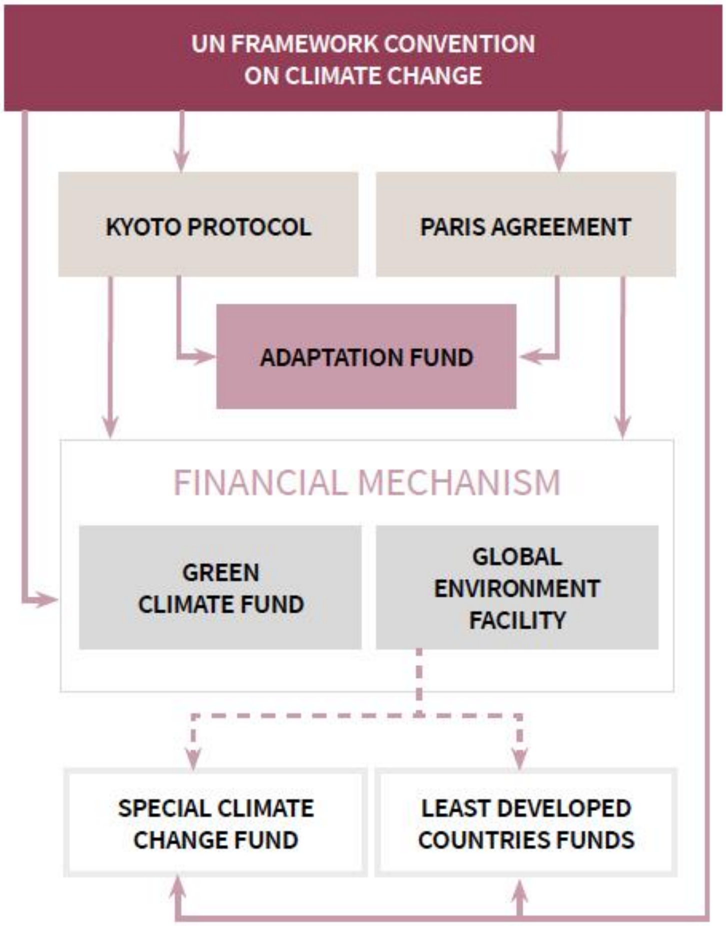
will assist the COP in exercising its functions with respect to the Financial Mechanism of the Convention through activities, such as the following:

- Organizing a forum for communication and continued exchange of information among bodies and entities dealing with climate change finance in order to promote linkages and coherence
- Maintaining linkages with the Subsidiary Body for Implementation and thematic bodies of the Convention
- Providing to the COP draft guidance for the operating entities of the Financial Mechanism of the Convention, with a view to improving the consistency and practicality of such guidance, taking into account the annual reports of the operating entities as well as submissions from Parties
- Making recommendations on how to improve the coherence, effectiveness and efficiency of the operating entities of the Financial Mechanism
- Providing expert input, including through independent reviews and assessments, into the preparation and conduct of the periodic reviews of the Financial Mechanism by the COP
- Preparing a biennial assessment overview of climate finance flows to include information on the geographical and thematic balance of such flows, drawing on available sources of information, including national communications and biennial reports of both developed and developing country Parties, information provided in the registry, information provided by Parties on assessments of their needs, reports prepared by the operating entities of the Financial Mechanism, and information available from other entities providing climate change finance

Additionally, the SCF will perform any other functions that may be assigned to it by the COP.

The relationship of the climate funds to the UNFCCC is illustrated in Figure A - 37. Following the figure, we examine the relevant articles and decisions that set the context for this landscape and benchmarking exercise.

Figure A - 37. Relationship of the climate funds to the UNFCCC



Source: Annandale, Darko, David Annandale, Daniela Rey Christen, María García Espinosa, John Horberry, Joseph Mavindu Mutunga, Peter Mwandri, Jyotsna (Jo) Puri, Giang Pham, and Andreas Reumann (2020). *Independent evaluation of the Green Climate Fund's Environmental and Social Safeguards and the Environmental and Social Management System.* Evaluation Report No. 5, February 2020. Independent Evaluation Unit, Green Climate Fund. Songdo, South Korea.

b. Relevant articles of the Paris Agreement

As a way to increase the level of ambition for the implementation of mitigation and adaptation actions in developing counties, climate finance constitutes a cornerstone for all parties under the Convention. Climate finance is a central piece of the international climate change architecture and was determinant in reaching a global agreement on climate change in Paris.

The relevant articles of the Paris Agreement considered are as follows:

Article 2.1.(c) of the Paris Agreement

> This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:
>
> …
>
> (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Article 2.1.(c) introduces a specific focus on the transformative potential of financial flows and the importance of their being "consistent" with a low emission, climate-resilient development pathway.

It represents an important departure from previous climate action frameworks; for the first time financial flows do not only appear in the negotiations as a "means of implementation". The mandate for country Parties to ensure the consistency of financial flows as a goal in and of itself recognizes the importance of reorienting finance and investments away from non-consistent activities and of scaling up finance and investments for consistent activities across the entire economy. Setting this as a goal also recognizes the large scale actions needed to achieve the reorientation of all investments and finance flows across national and global economies – and the importance of setting this as a clear objective to be worked towards. However, the Agreement neither sets a definition of what "consistent" means from a legal standpoint nor precisely defines what specific financial flows it refers to. The 2018 Biennial Assessment of the UNFCCC defines climate finance as "[t]he financial resources dedicated to adapting to and mitigating climate change globally, including in the context of financial flows to developing countries".

Moreover, Article 2.1.(c) implies that all financial flows should be addressed given their potential to directly or indirectly contribute to – or undermine – the transition to low-GHG, climate-resilient development. In its broadest interpretation, Article 2.1. (c) mandates to make consistent all financial flows and stocks of all public budgets and spending – as well as the financial system as a whole, including companies and individuals.[56] Article 9 of the Paris Agreement also plays a key role in the achievement of this objective and is assessed below.

Notably, the **Standing Committee on Finance** is charged with mapping information relevant to Article 2.1. (c) and providing a first interpretation of the scope to be considered for Article 2.1. (c) tracking in the 2018 Biennial Assessment. The Committee broadened this scope to include the activities of financial actors in terms of both finance flows and stocks and extended the consideration to existing portfolios in addition to new activities.[57]

Article 9.4 of the Paris Agreement

> The provision of scaled up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.

Article 9.4 sets out several key principles and objectives that will play a critical role in GCF operations:

Balance between mitigation and adaptation. The concept of "balance between adaptation and mitigation" is not quantified by the COP, and it is therefore rather difficult to measure its achievement and compliance. Balance might mean different things to different Parties and might be achieved in each developing country Party differently, depending on their needs. This concept was one of several language alternatives proposed by developing country Parties in the lead up to the Paris Agreement. For example, in the Geneva negotiating text,[58] wording such as "50:50 allocation" or "equal allocation" between adaptation and mitigation was considered.

Notably, Article 9.4 recognizes that with limited public finance available, funding needs to be allocated to those countries and thematic areas where needs are greatest and are not being met through other means. In the context of mitigation, this will include countries with significant

---

[56] Ian Cochran and Alice Pauthier (2019). A Framework for Alignment with the Paris Agreement: Why, What, and How for Financial Institutions. Discussion Paper (Institute for Climate Economics Report, 2019).
[57] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018).
[58] United Nations Framework Convention on Climate Change (UNFCCC), *Implementation of all the elements of decision 1/CP.17* (Ad Hoc Working Group on the Durban Platform for Enhanced Action, 2014).

mitigation potential but limited ability to tap into other types of international or domestic resources. In the context of adaptation, it means having a focus on those most vulnerable to climate change impacts.[59] Article 9.4 applies to all developing country Parties, in line with the spirit of Article 4.8 of the Convention.

Country-driven prioritization of the needs of developing countries. The Paris Agreement explicitly recognizes the need for finance to support the thematic areas of mitigation and adaptation, forest-related climate actions, technology and capacity-building (Articles 9, 4.5, 7.6, 5.2, 10.6, and 11.3). Article 9.4 suggests that funding allocation to support these thematic areas must be done in a way that responds directly to country-driven needs and priorities.[60]

Resources for adaptation require considering public and grant-based instruments. Article 9.4 recognizes that because mitigation activities tend to offer a more compelling case for private investment, public climate funds may need to focus more on adaptation.[61,62]

Article 9.9 of the Paris Agreement

> The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans.

Article 9.9 sets out two key principles and objectives:

Efficient and ease of access to funding. Article 9.9 mandates the institutions serving the Paris Agreement, including the operating entities of the Financial Mechanism, to tailor their procedures, including through simplified application and approval, and coordination mechanisms to ease developing countries' access to funding.[63]

Readiness support. The Article points to one bottleneck that can hinder the effectiveness of climate finance: the lack of enhanced and tailored readiness support.[64]

c. The COP's relevant decisions and guidance

To fulfil the obligations set out in these Articles, the COP has adopted several decisions that guide their effective implementation. We have categorized these decisions in the tables on the following pages (Table A - 24) in relation to the strategic priorities set out by the Paris Agreement's relevant Articles, and the GCF's Governing Instrument.

---

[59] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018), paragraph 39.
[60] Niranjali Manel Amerasinghe and others, *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance* (Washington D.C., World Resources Institute, 2017).
[61] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018), paragraph 39.
[62] Niranjali Manel Amerasinghe and others, *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance* (Washington D.C., World Resources Institute, 2017).
[63] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018), paragraph 39.
[64] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018), paragraph 39UNFCCC, *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report*.

Table A - 24. COP guidance on channelling and catalysing climate finance relevant to the GCF’s private sector approach

DECISION	TEXT
Decision 3/CP.17/ Annex I, paragraph 3	The GI of the Fund stipulates 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.”[65] “The Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources”.[66] Additionally, the GI stipulates that 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”.[67]
Decision 10/CP.22	Paragraph 11. 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.
Decision 7/CP.20	Paragraph 9. 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.
Decision 7/CP.20	Paragraph 12. Also requests the Board of the Green Climate Fund to accelerate the implementation of its work programme on readiness and preparatory support, ensuring that adequate resources are provided for its execution, including from the initial resource mobilization process, providing urgent support to developing countries, in particular the least developed countries, small island developing States and African States, led by their national designated authorities or focal points to build institutional capacities in accordance with GCF Board decision B.08/11.
Decision 9/CP.23	Paragraph 7. Requests the Board to ensure that all developing country Parties have access to all the financial instruments available through the GCF, in line with the eligibility criteria referred to in the governing instrument and relevant decisions of the Conference of the Parties and to ensure application of the agreed policies of the Fund.

[65] UNFCCC, Report of the Conference of the Parties on its seventeenth session, Part Two: Action taken by the Conference of the Parties at its seventeenth session, Decision 1/CP.17, Annex I, paragraph 3.
[66] Ibid., Annex I, paragraph 30.
[67] Ibid., Annex V, C(2), paragraph 41.

Table A - 25. COP guidance on country-drivenness relevant to the GCF's private sector approach

Decision	Text
Decision 3/CP.17/ Annex I, paragraph 2 Decision 3/CP.17/ Annex V, C (2), paragraph 42	The GI stipulates that 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." Additionally, the GI stipulates that "the operation of the private sector facility will be consistent with a country-driven approach".
Decision 6/CP.23	Paragraph 10. Requests the secretariat, in collaboration with the operating entities of the Financial Mechanism, United Nations agencies and bilateral, regional and other multilateral channels, to explore ways and means to assist developing country Parties in assessing their needs and priorities, in a country-driven manner.
Decision 14/CP.22	Paragraph 6. Invites GCF NDAs and focal points to use the support available to them under the Readiness and Preparatory Support Programme to, inter alia, conduct technology needs assessments and develop technology action plans. Paragraph 9. Invites the Technology Executive Committee, the Climate Technology Centre and Network and the operating entities of the Financial Mechanism to provide information on their actions in strengthening the linkages between the Technology Mechanism and the Financial Mechanism in their annual reports to the COP for guidance on further actions if needed.
Decision 13/CP.21 (FCCC/CP/2015/10/Add.2)	Paragraph 5. Recognizes the importance of and the need for defined, mutually beneficial and functional linkages between the Technology Mechanism and the Financial Mechanism through its operating entities, the GEF and the GCF. Paragraph 6. Also recognizes that the definition and elaboration of linkages between the Technology Mechanism and the Financial Mechanism has the aim of ensuring financial resources for, and scaling up action on, technology development and transfer. Paragraph 7. Underlines the need for the Technology Executive Committee, the Climate Technology Centre and Network and the operating entities of the Financial Mechanism to enhance cooperation and collaboration with a view to enhancing the fulfilment and implementation of their respective mandates effectively, in accordance with Article 12, paragraph 4, of the Convention.
Decision 4/CP.24 (FCCC/2018/10/Add.1)	Paragraph 13. Requests the SCF to prepare, every four years, a report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement, for consideration by the COP, starting at its twenty-sixth session (November 2020), and the COP serving as the meeting of the Parties to the Paris Agreement, starting at its third session (November 2020); Also requests the SCF, in preparing the report referred to in paragraph 13 above, to collaborate, as appropriate, with the operating entities of the Financial Mechanism, the subsidiary and constituted bodies, multilateral and bilateral channels, and observer organizations.
Decisions 11/CP.25, paragraph 9, and 5/CMA.2	Paragraph 9. Present, to the extent possible, disaggregated information in relation to, inter alia, mapping data availability and gaps by sector, assessing climate finance flows and presenting information on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement.

Table A - 26. COP guidance on thematic balance relevant to the GCF's private sector approach

DECISION	TEXT
Decision 3/CP.17/ Annex I, paragraph 2. Decision 3/CP.17/ Annex V, C (2), paragraph 42.	The "Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach." Additionally, the GI stipulates that "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."
Decision 6/CMA.2 Guidance to the Green Climate Fund	Paragraph 6. Encourages the GCF to continue to enhance its support for adaptation and requests the Fund to: (a) Swiftly conclude its work on guidance on the approach and scope for providing support to adaptation activities[68] (b) Continue to enhance its support for the implementation of national adaptation plans, in line with Board decisions on enhancing readiness programming[69]
Decision 12/CP.25	Paragraph 19. Encourages the GCF to continue to enhance its support for adaptation and requests the Fund to: (a) Swiftly conclude its work on guidance on the approach and scope for providing support to adaptation activities[70] (b) Continue to enhance its support for the implementation of national adaptation plans, in line with Board decisions on enhancing readiness programming[71]
Decision 4/CP.19	Paragraph 9. Requests the GCF: (a) To balance the allocation of resources between adaptation and mitigation change; (b) To pursue a country-driven approach; (c) In allocating resources for adaptation, the Fund will take into account the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change;
Decision 6/CMA.2 Guidance to the Green Climate Fund	Paragraph 7. Also encourages the GCF to continue to collaborate with the Climate Technology Centre and Network and the Technology Executive Committee with a view to both strengthening cooperative action on technology development and transfer at different stages of the technology cycle and achieving a balance between support for mitigation and support for adaptation;
Decision 12/CP.25	Paragraph 20. Also encourages the GCF to continue to collaborate with the Climate Technology Centre and Network and the Technology Executive Committee with a view to both strengthening cooperative action on technology development and transfer at different stages of the technology cycle and achieving a balance between support for mitigation and support for adaptation;
Decision 7/CP.22	Paragraph 7. Notes the … need to continue efforts to significantly scale up adaptation finance, while stressing the need to strive for a greater balance between adaptation and mitigation finance, and invites Parties and relevant institutions to consider that: (a) Country-driven processes for the assessment of adaptation needs in developing countries are fundamental for scaling up adaptation finance;

[68] GCF/B.17/10.
[69] GCF/B.22/10 and GCF/B.22/11.
[70] GCF/B.17/10.
[71] GCF/B.22/10 and GCF/B.22/11.

Decision	Text
	(b) The nationally determined contributions and adaptation communications could constitute a good opportunity for supporting the scaling up of adaptation finance; (c) The role of the private sector in adaptation finance needs to be further enhanced; (d) Access to adaptation finance remains a challenge, particularly for small island developing States and the least developed countries;

Table A - 27. COP guidance on efficient access to financial resources relevant to the GCF's private sector approach

Decision	Text
Decision 3/CP.17/ Annex V, C (2), paragraph 43	The GI stipulates that "the Fund will have a private sector facility that enables it to "support activities to enable private sector involvement in SIDS and LDCs".
Decision 3/CP.17/ Annex (2), 52, para. 2 Decision 3/CP.17/ Annex V, C (2), paragraph 43 Decision 3/CP.17/ Annex V, C (2), paragraph 54	The "Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness." Additionally, the GI stipulates that "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 Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. Financing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable. The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels."
Decision 10/CP.22	Paragraph 4a. 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 11. 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.
Decision 1/CP.21	Paragraph 64. Urges the institutions serving the Agreement to enhance the coordination and delivery of resources to support country-driven strategies through simplified and efficient application and approval procedures, and through continued readiness support to developing country Parties, including the least developed countries and small island developing States, as appropriate.
Decision 9/CP.23	Paragraph 5. Welcomes the GCF Board's decision to trigger the review of the accreditation framework and its fit for purpose approach,[72] and urges the Board to swiftly adopt and implement the revised framework with a view to simplifying and facilitating access to the Green Climate Fund, including for direct access entities and private sector actors;

[72] GCF/B.18/04.

DECISION	TEXT
	Paragraph 6. Notes with concern the challenges in accessing financial resources for climate action in developing country Parties, especially in relation to funding for adaptation;
Decision 7/CP.21	Paragraph 13. Requests the Board of the GCF to ensure that the revised funding proposal template and concept note template are designed to facilitate the application process; Paragraph 14. Also requests the Board of the GCF to adopt a simplified process for approval of proposals for certain activities, in particular for small-scale activities, as soon as possible in 2016, to reduce complexities and costs involved in project proposal development;
Decision 9/CP.23	Paragraph 10. Encourages the Board to continue improving the process to review and approve readiness and preparatory support requests, including requests for support to prepare national adaptation plans and voluntary adaptation planning processes, including the timely disbursement for approved programmes;

2. Objective, scope and structure of the report

The overall objective of this landscape analysis is to examine the strategic priorities set out by the UNFCCC and Paris Agreement for the GCF's private sector approach. This analysis will also identify lessons learned and experiences from other comparable climate funds and the development sector that may be useful for the GCF as it gets ready to formulate and adopt its own Private Sector Strategy.

The analysis does not examine opportunities and challenges for resource mobilization.

This landscape analysis focuses on the climate funds that serve as operating entities of the Financial Mechanism of the Convention. This is imperative given that, in contrast to MDBs and other international development finance institutions, the GCF serves the Paris Agreement as an operating entity of its Financial Mechanism, and therefore must be guided by the principles and provisions of the Convention that are not applicable to traditional development finance.

As noted in the background section, five funds are explicitly part of the institutional framework of the UNFCCC and the main focus of this landscape analysis: the GEF, the GCF, the LDCF, the SCCF and the AF. However, noting that these climate funds are not the only sources of finance for climate change mitigation and adaptation, and that lessons can also be drawn from traditional development finance, this report also examines and outlines the emerging lessons of MDBs, including the Climate Investment Funds (CIF), **that are relevant to the mandate and current business model of the GCF.** However, it is worth noting that the CIF operates outside of UNFCCC governance, is not accountable to the UNFCCC and therefore does not report to the COP or receive its guidance. Thus, it is only examined with regard to emerging lessons relevant to the GCF.

To achieve the above-stated objectives, the analysis is structured as follows:

Section B examines the climate and development funds' private sector approach and/or dedicated strategies.

Section CC examines the strategic priorities set out in Article 9.4 of the Paris Agreement and associated COP decisions in terms of identifying the following:

- The strategic guidance[73] and analysis provided by the COP workstreams and the SCF in relation to these priorities
- Challenges and opportunities in fulfilling these priorities, including by examining lessons and experiences from other climate and development funds

3. Methodology

Our research comprised an extensive literature review of annual reports of climate funds, performance reports, independent evaluations, and policy and operational documents, as well as UNFCCC assessments, and academic and civil society research. We supplemented this secondary research with telephone interviews with key stakeholders, conducted between June and July 2021.

B. Climate funds' private sector approaches

This section provides an overview of climate funds' private sector approaches, including their mandate, priorities and strategic approaches in relation to the private sector, and relevant initiatives

[73] COP 17 mandated the SCF to provide the COP with draft guidance for the operating entities of the Financial Mechanism with a view to improving the consistency and practicality of such guidance, taking into account the annual reports of the operating entities as well as submissions from Parties. Furthermore, COP 21 decided that the SCF shall serve the Paris Agreement in line with its functions and responsibilities established under the COP (Decision 1/CP.21, para. 63), which was confirmed in Decision 3/CMA.1, paragraph 6.

and/or programmes. The section also provides a succinct comparative analysis and illustrates the approaches of other international development funds and banks to channelling private investment.

1. THE GEF

The GEF was established in 1991 in response to the global environmental challenges of the previous decade. Following the Rio Earth Summit in 1992, the GEF was restructured to become a permanent independent organization and serve as an operating entity of the Financial Mechanisms for both the United Nations Convention on Biological Diversity and the UNFCCC established at Rio. It would later become an operating entity of the Financial Mechanism for the Stockholm Convention on Persistent Organic Pollutants (in 2001), the United Nations Convention to Combat Desertification (in 2003), and the Minamata Convention on Mercury (in 2013).

Organizational structure

The GEF's organizational structure includes an Assembly that meets every four years, a Council that meets twice a year, a Secretariat, and a Scientific and Technical Advisory Panel. The main decision-making body of the organization is the GEF Council, which is responsible for developing, adopting and evaluating its operational policies and programmes. It is composed of 32 appointed members, each representing a constituency. The GEF is a trust fund to finance the incremental costs of actions to protect the global environment, whether undertaken by public or private initiatives, in developing countries and countries with economies in transition.

Funding

The GEF is funded by donor countries, which commit funds every four years through a process called "GEF replenishment". Since its inception in 1991, the GEF Trust Fund has been replenished with USD 2.75 billion (GEF-1), USD 3 billion (GEF-2), USD 3.13 billion (GEF-3), USD 3.13 billion (GEF-4), USD 4.34 billion (GEF-5), USD 4.43 billion (GEF-6), and USD 4.1 billion (GEF-7). GEF-7 covers the operations and activities of the GEF for the period 2019 to 2022, with programming organized around five focal areas, each of which is aligned with the conventions for which the GEF acts as an operating entity of the Financial Mechanism: the Convention on Biological Diversity, the UNFCCC, the Stockholm Convention on Persistent Organic Pollutants, the United Nations Convention to Combat Desertification and the Minamata Convention on Mercury.

The GEF provides finance in conformity with the eligibility criteria of each convention, as decided by the COP. The allocation for the climate change focal area is USD 511 million, down from previous replenishments, mainly due to the resources directed to the GCF as the main financial instrument of the UNFCCC.

In addition to providing finance in accordance with COP mandates, the GEF Council is also able to make funding available outside these frameworks to countries that are eligible to receive World Bank's International Bank for Reconstruction and Development or International Development Association financing or United Nations Development Programme (UNDP) technical assistance. The GEF works through 18 agencies to develop and implement projects. In 2010, the GEF began using a Transparent Resource Allocation System, which determines the minimum amount of GEF resources that a given country can access during a replenishment period. The Transparent Resource Allocation System is a system for allocating resources to countries in a transparent and consistent manner, based on global environmental priorities and national capacities, policies and practices relevant to the successful implementation of GEF projects.

The GEF also administers two special funds focused on financing climate change adaptation and technology transfer activities: the SCCF and the LDCF. The operational policies, procedures and governance structure of the GEF apply to these funds, unless otherwise decided by the COP and the LDCF/Special Fund Council (the main governing body).

Activities

The GEF climate change mitigation focal area supports projects in technology transfer; renewable energy; energy efficiency; low emission urban systems; REDD+; land use, land-use change and forestry and agriculture; enabling activities; and meeting UNFCCC obligations (including preparation of national communications, biennial update reports, technology needs assessments and nationally determined contributions). The GEF's Special Programme on Adaptation was the first fund to finance specific adaptation projects as they are currently understood. It operated from 2004 to 2010 with a USD 50 million allocation.

From GEF-5 onward the GEF Council decided to channel all adaptation programming to the LDCF and SCCF, although some funding in other focal areas support adaptation. The GEF Small Grants Programme was launched in 1992 and provides grants up to USD 50,000 for communities and civil society organizations to implement community-based initiatives and actions that contribute to global environmental benefits. These two programmes are expected to continue and be strengthened through GEF-7.

The LDCF focuses specifically on the adaptation needs of LDCs under the UNFCCC, with the priority of supporting the preparation and implementation of national adaptation programmes of action (NAPAs). The fund provides grants to cover the agreed full cost of preparing NAPAs[74] and full cost funding to meet the "additional cost"[75] of implementing adaptation activities prioritized in NAPAs.[76] The LDCF also supports the development and implementation of NAPs.

The SCCF was established in 2001 alongside the LDCF. It was designed to finance climate change related activities that complement those funded under the climate change focal areas of the GEF.[77] The SCCF is expected to have four different funding windows:

- Adaptation
- Technology Transfer
- Energy, Transport, Industry, Agriculture and Waste Management
- Economic Diversification for Fossil Fuel Dependent Countries

However, to date, the SCCF has financed adaptation and technology transfer projects and programmes that (i) are country-driven, cost-effective and integrated into national sustainable development and poverty reduction strategies; and (ii) take into account national communications or NAPAs and other relevant studies and information provided by the Party. COP guidance and GEF programming strategies have focused on the first two windows.[78]

Drawing on its experience in utilizing debt, equity and risk mitigation products in the past, the GEF has launched a USD 136 million Non-Grant Instrument Programme in GEF-7 to demonstrate the application of innovative finance models to combat global environmental degradation.[79] Proposals are especially encouraged if they (i) demonstrate innovative application of financial mechanisms, business models, partnerships and approaches that may be broadly adopted and can be scaled up; or (ii) entail high levels of co-financing and focus on areas other than climate change. GEF Partner Agencies can submit project proposals on behalf of private and public sector recipients to the GEF.

---

[74] UNFCCC, Report of the Conference of the Parties on its Seventh Session, Part Two: Action taken by the Conference of the Parties, Addendum, Volume IV, Decision 27.

[75] Global Environmental Facility (GEF), Clarification on the Concept of Additional Costs of Adaptation to Climate Change, (June 2012).

[76] UNFCCC, Report of the Conference of the Parties on its Ninth Session, Part Two: Action taken by the Conference of the Parties, Addendum, Decision 3.

[77] Ibid., Addendum, Volume IV, Decision 7.

[78] FCCC/CP/2003/6/Add.2, Decision 5.

[79] Global Environmental Facility, *Call for proposals: GEF 7 Non-Grant Instrument Program*. Accessible at: https://www.thegef.org/documents/fourth-call-proposals-gef-7-non-grant-instrument-program

In this current cycle, the GEF encourages deal origination in frontier sectors such as circular economy, conservation of endangered species, shipping industry pollution, sustainable agriculture, and nature-based solutions to increase resilience. This Call for Proposals spells out several steps to further strengthen transparency in implementation of the programme, including more explicit selection criteria used in the selection of projects under a competitive process. Specifically, newly added criteria aim to ensure that implementation of the programme avoids subsidizing private sector entities and only provides the minimum amount of concessional funding needed to enable investors and enterprises to invest in projects that generate global environmental benefits that would otherwise not have happened.

Private sector approach

Guided by the environmental conventions that it serves, the GEF has a long history of working with a wide range of private sector partners. The GEF avoids a narrow definition of the private sector, instead defining private sector engagement as "broad partnerships rather than specific capital investments".[80] Prior to the adoption of the private sector engagement strategy (see below), the GEF engagement with the private sector occurred in an ad hoc manner. GEF private sector engagement can thus be mapped in a cross-cutting manner according to a range of operational approaches and programmes, which were implemented under GEF-6.

In contrast to the previous replenishments, the GEF-6 period took a holistic and comprehensive approach to engaging the private sector. The three specific priorities of such engagement were[81] Mainstreaming, Integrated Approach Pilot Programs, and the Non-Grant pilot, see Box A - 11.

Box A - 11. GEF-6 engagement priorities with private sector

Mainstreaming

GEF-6 takes a three-pronged approach to mainstreaming private sector engagement in its programming, project design, and monitoring and reporting strategies: (i) fostering private sector mainstreaming within GEF-6 programming across all seven focal areas; (ii) fostering enhanced awareness on private sector engagement and private sector-friendly project design; and (iii) better tracking and monitoring of private sector engagement.

Non-grant pilot

Building on the non-grant instruments launched under GEF-5, GEF-6 has set aside USD 110 million for a non-grant pilot programme that aims to enhance private sector engagement and expand the use of non-grant instruments such as credit guarantees and concessional loans to deliver global environmental benefits.

Integrated Approach Pilot Programmes

These are pilot programmes that address major drivers of environmental degradation in a holistic, industry-wide manner. They are being designed and implemented through a platform that involves key stakeholders, such as the private sector, upfront. The three main pilot programmes focus on food security, sustainable cities and taking deforestation out of commodity supply chains.

Source: Global Environment Facility Independent Evaluation Office, *Evaluation of GEF Engagement with the Private Sector* (2017).

Five intervention models (Table A - 28 below) have been used by the GEF to work with a range of private sector actors, from capital providers to entrepreneurs, to address barriers to private sector

[80] Global Environmental Facility (GEF), *Revised Strategy for Enhancing Engagement with the Private Sector* (Washington, D.C., November 2011).
[81] Global Environmental Facility (GEF), *Actions Taken to Enhance Private Sector Engagement* (Washington, D.C., October 2014).

engagement.[82] Among the intervention models, the most commonly applied ones are those that facilitate institutional strengthening (72 per cent) and those that transform policy and regulatory environments (68 per cent). These were seen as critical elements to help build capacity and put in place the right incentives and signals that enable the private sector to redirect its investment in an environmentally sustainable manner.

Table A - 28. Five intervention models for GEF private sector engagement

Intervention model	Description	Examples
Transforming policy and regulatory instruments	Incentivizing the private sector and consumers to make optimal decisions through consistent policy and regulatory environments	New policy and regulatory frameworks Feed-in tariffs for renewable energy
Strengthening institutional capacity and decision-making	Strengthening institutions and enhancing accountability in public and private decision-making processes	Capacity-building for public agencies Advisory services (e.g. for SMEs)
Convening multi-stakeholder approaches	Collaborative goal setting by a partnership of a variety of stakeholders to overcome complexity and coordination failures	Certification (e.g. Rainforest Alliance) Transformational targets (e.g. 80 per cent of cocoa sustainable by 2021)
Demonstrating innovative approaches	Supporting a technology, policy or approach that can be adopted by a variety of stakeholders and subsequently scaled up	Payment for ecosystem services Cleantech innovation programmes
Deploying effective financial instruments	Providing instruments that help cover risks or investment gaps, thereby providing incentive and leveraging private sector investments	Loans, guarantees

Source: Global Environment Facility Independent Evaluation Office, *Evaluation of GEF Engagement with the Private Sector* (2017).

The GEF has recently adopted PSES,[83] which aims to address identified constraints and weaknesses of working with the GEF, including the following:

- Administrative processes that are not in in sync with those driving the private sector
- Little knowledge within the private sector of "where to start" when working with the GEF, especially through operational focal points
- A lack of a private sector mindset within the GEF Secretariat,[84] which does not match the private sector's reality and expectations in project development
- Little or previously low levels of private sector participation, which mean relationships between parties need to be built from first steps

[82] Global Environment Facility Independent Evaluation Office, *Evaluation of GEF Engagement with the Private Sector, Evaluation Report No. 111* (Washington, D.C., 2017).
[83] Global Environmental Facility (GEF), *GEF'S Private Sector Strategy for Investment* (Washington D.C., June 2020).
[84] Global Environmental Facility (GEF), Tackling the Drivers of Global Environmental Degradation through the IAP Programs (Washington D.C., May 2017), p.61.

The core elements of the PSES include the following:

- **Working with multi-stakeholder platforms to drive systemic transformation.** Multi-stakeholder platforms for sustainability provide the GEF with the opportunity to scale private sector partnerships both vertically through value chains and horizontally through landscapes, cities, countries and regions. This horizontal and vertical interconnectivity offered through platforms can extend the reach and influence of GEF funding well beyond specific geographies and bring a wider range of resources and solutions from all levels of the private sector. The GEF will adopt various roles: as an initiator,[85] as a catalyser[86] and/or as a facilitator.[87] Drawing on PSAG[88] advice and with stakeholder inputs, the GEF Secretariat will continue to identify platforms for key GEF sectors and focal areas in land-use, commodities production, biodiversity, conservation, cities, renewable and circular economy. Platforms will be mapped for their targets and goals, geographies and time frames to determine best-fit partnerships and alliances for GEF investments.
- **Multiple private sector entry points across the GEF partnership.** The main actions taken to identify and enable entry point are as follows:
  - Upstream country consultations, which provide strategic guidance on GEF programming for recipient countries and GEF partner agencies to gain a better and more in-depth understanding of the Focal Area strategies and Impact Programs and their entry points for the private sector
  - Country support programme, where a suite of activities and services promote learning and dialogue among different GEF stakeholder groups, such as the GEF focal points, convention focal points, civil society and GEF agencies with the private sector
  - Tailored private sector workshops aligned to the delivery of focal area strategies and impact programmes, in partnership with GEF agencies and linked to key forums such as COPs
  - Targeted strategic dialogues with broad regional relevance that can be delivered as part of the extended constituency workshops, either within the agenda or as a side event
  - High level meetings and co-hosted events with senior private sector leadership and between the private sector and the GEF agency senior leadership at forums such as the World Economic Forum, World Business Council for Sustainable Development, Consumer Goods Forum and the non-state actor events at each Rio Convention COP
- **Systematically crowding-in the private sector.** The GEF Secretariat will work to support the GEF partnership to create a more collaborative working space with higher degrees of network connectivity in which the private sector is more deeply engaged beyond a transactional level and can benefit from the suite of benefits that the GEF Partnership provides. Private and public sector engagement workshops will be strategically developed to support private sector engagement at the regional and country level. Regional and country private sector engagement will be supported through the National Dialogues and Upstream Country Consultations, which are ideally placed to serve this requirement and foster greater collaboration at the public sector

[85] Creating new projects and initiatives that have real commercial potential for upscaling and for transformation at a global scale. The GEF interventions could involve technical assistance, granting or blended finance.
[86] Fostering existing projects and initiatives (platforms) that have demonstrated potential to scale up, out and deep. As a catalyst, the GEF could assist in providing additional resources and crowding-in additional private sector partners and to support larger-scale project development.
[87] The GEF acts to support the conditions that can foster the creation of a forum, to bring together key parties, to reach into the public sector domain, build institutional capacity and leverage the GEF networks. Policy and regulatory support, provision of seed capital and capacity-building would be examples of facilitator roles.
[88] The GEF's PSAG is a separate body to the PSAG that previously provided advice to the GCF Board.

institutional levels. To foster such dialogue and create operational environments in which business can clearly see their role, and the benefits that can accrue to the private sector in achieving their non-economic goals, the GEF Partnership, with the help of PSAG members and supporting private sector organizations will undertake the following:

  – Work together to identify companies and platforms that demonstrate alignment with GEF goals
  – Direct private sector engagement through the coordination of efforts with the GEF partnership
  – Present country and regional planning seminars aligned with the National Dialogues and Expanded Constituency Workshops of the Country Support Programme

- Participate in the major business forums, showcasing examples of GEF work, including at the World Economic Forum, World Business Council for Sustainable Development, Consumer Goods Forum and the non-state actor events at each Rio Convention COP

The GEF PSES is deliberately broad in order to capture all modalities for engaging the private sector, from informal collaborations to more formalized partnerships, as documented in Table A - 29, below. The PSES uses a typology organized around broad modalities and mechanisms for private sector engagement adapted to the GEF context from the Donor Committee for Enterprise Development.[89] It is centred on six modalities for private sector engagement: knowledge and information-sharing, policy development, technical assistance, capacity development, finance and industry leadership. Each modality has corresponding objectives and mechanisms typically present within the GEF Partnership.

Table A - 29. A summary table of GEF private sector engagement modalities, related objectives and mechanisms to achieve them

Modality	Objectives	Mechanism
Knowledge and information-sharing	Develop and scale solutions by sharing new tools, methods, technologies and innovation to achieve global environmental benefits	- Multi-stakeholder platforms - GEF and Agency workshops - Scientific and Technical Advisory Panel of GEF, Agency and other scientific reports - Country dialogues - Research and development initiatives
Technical assistance	-Improve the GEF partnership operations and effectiveness - Project design and planning - Impact assessments and valuations	- Risk management - Data and information provision - Business case development - Implementation planning, modelling and reporting and verification
Finance	- Leverage finance for transformation shifts - Monetize global environmental benefits - New markets, structures and terms for sustainably produced commodities - Business to business partnerships and scaling effective models beyond GEF investment	- Private sector instruments including sustainability performance rated debt facilities, equity positions, collective investment vehicles and guarantees - New contracting, pricing, purchasing and procurement approaches - Payments for ecosystem services and the use of environmental market financial instruments

[89] Donor Committee for Enterprise Development (DCED), *Private Sector Engagement Synthesis Note* (2019).

Modality	Objectives	Mechanism
	- Apply financial expertise to address environmental challenges - Tackle market failures through market-based solutions and scalable models that can reduce the concessionality of blended finance	- Adoption of valuations of impacts and dependencies based on Natural Capital accounting - Co-finance GEF projects and programmes - Scaling blended financial mechanisms to full commercialization, including approaches developed by the GEF under modality 1
Capacity development	- Improve the capacity of value chain actors, especially SMEs and smallholders, to support global environmental benefits - Internal changes withing business operations to improve environmental outcomes	- Training, skills sharing, knowledge partnerships - Regional knowledge partnerships, south to south and Business to business exchanges
Policy development	- Develop policy dialogues and frameworks at the global, national and regional levels - Develop standards and protocols in corporate and business practices[90]	- Multi-stakeholder platforms and dialogues - Commodity and sector roundtables - Standards, certifications and protocols
Industry leadership	- Foster ambitious goal and target setting for GEF focal areas[91] - Support all actors in an industry or value chain to raise the bar of environmental performance - Develop safe pre-competitive space for industry collaboration - Align corporate performance with environmental performance	- Multi-stakeholder platforms - Corporate sustainability commitments - Sectoral initiatives - Third-party audits, rating schemes and index ratings - Integrated reporting, disclosure and transparency initiatives

Source: Global Environment Facility Independent Evaluation Office, *Evaluation of GEF Engagement with the Private Sector* (2017).

In terms of metrics and reporting, the PSES notes that the overriding reason for engaging the private sector is ultimately to leverage a powerful way to achieve global environmental benefits in a sustainable and cost-effective manner at the systems level. The indicators for success at the systems level will be the same as for engaging the public sector – namely, global environmental benefits in the focal areas.

However, the indicators for success at the outcome and output levels will be different in the case of private sector activities. To the extent that the private sector is engaged instrumentally to achieve global environmental benefits in the focal areas, there will need to be metrics, corresponding indicators and evaluation developed over time for the following:

- Bringing about policies and frameworks conducive to private sector approaches to the provision of global environmental benefits
- Creating sustainable markets for global environmental goods by identifying, demonstrating, replicating and mainstreaming innovative private sector approaches
- A better regulatory and business enabling environment

[90] For example, the application of the Natural Capital Protocol at sectoral levels.
[91] Examples include platforms such as the Science-based Targets (SBT) Initiative for climate goals and Business for Nature (B4N) in setting biodiversity targets.

- Internal changes to company policies and operating standards
- Mobilizing private capital that will share the financial risk with GEF of providing global environmental benefits
- Accessing and transferring innovative technology

The metrics used for the purpose of annual reporting to the GEF Council to assess the effectiveness of private sector engagement include the following:

- The number of companies formally engaged in GEF activities (in the process of design, planning meetings, information shared, implementation, technical assistance etc., according to the modality)
- A classification of companies based on the Global Industry Classification Standard (GICS)[92] industry code at the level of sector and industry
- An assessment of the geographies where the private sector engagement has been most effective and least successful
- The number of multi-stakeholder platforms engaged, their geographic coverage and share of the global market

Where information is available, the reports will include considerations of additionality to assess the contribution that is made by the private sector in attaining the global environmental benefits across the focal areas. While there is no agreed set of standard criteria for additionality assessments, an adapted version of the Donor Committee for Enterprise Development good practice criteria for assessing additionality[93] will be used to assess the net positive difference that results from GEF private sector engagement. These adapted criteria are global environmental benefits (and associated outcomes) that are larger in scale, take place quicker, extend across wider geographies than those funded through the GEF or increase the durability of projects over time, and that occur as a result of private sector engagement in GEF programmes and that would otherwise not have occurred in the absence of the private sector.

2. THE ADAPTATION FUND

The AF was established in 2001 by virtue of the Kyoto Protocol, under the UNFCCC.[94] The main objective of the Fund is to “provide international funding to help developing countries undertake concrete adaptation projects / programmes in accordance with their development needs, objectives and strategies.”[95] Like the GCF and the GEF, the AF serves as a Financial Mechanism for the UNFCCC and also serves the Paris Agreement.

Organizational structure

The fund is governed by a 16-member board, made up of representatives of Parties to the Kyoto Protocol: two from each of the five United Nations regional groups, one SIDS representative, one LDC representative, two Annex I (developed country) representatives, and two non-Annex I (developing country) representatives. Functionally, this means a majority of board members are from developing countries. The board meets three times a year, and decisions are made by consensus if possible, or by a two thirds majority vote of members present if no consensus can be reached.

[92] The GICS structure consists of 11 sectors, 24 industry groups, 69 industries and 158 sub-industries. Annual reporting on private sector engagement will use this taxonomy to show which sectors are represented through the GEF partnership, their relative weighting and to identify sectors which may need greater engagement focus.
[93] Donor Committee for Enterprise Development (DCED), *Demonstrating Additionality in Private Sector Development Initiatives. A practical exploration of good practice* (2014).
[94] FCCC/CP/2001/13/Add.2, Volume I, Decision 10.
[95] FCCC/KP/CMP/2008/L.1/Add/Decision 1/CMP.4.

Access

The resources of the AF are accessible through implementing entities, which must be accredited. The AF has introduced one of the most important innovations in the climate finance landscape: direct access. Countries can therefore access resources through a national or regional entity (direct access) but also through multilateral entities (international access). Entities applying for accreditation with the AF must be nominated by the Designated Authorities (DA) of this Fund.

Activities

The AF finances concrete adaptation projects and programmes that are based on the needs, views and priorities of recipient countries. The guidance of the CMA set out the following activities that can be supported:

- Areas of water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems, including mountainous ecosystems, and integrated coastal zone management
- Improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early warning systems, and in this context improving disease control and prevention
- Supporting capacity-building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change, including contingency planning, in particular, for droughts and floods in areas prone to extreme weather events
- Strengthening existing and, where needed, establishing national and regional centres and information networks for rapid response to extreme weather events, using information technology as much as possible

Currently, the fund supports adaptation projects in seven sectors: agriculture, coastal zone management, disaster risk reduction, food security, rural development, water management and multisector.

Private sector approach

The AF does not have a private sector engagement as a primary emphasis. However, it works to engage the private sector in relevant projects (See Box A - 12 for examples).

Box A - 12. Adaptation Fund experience with involvement of the private sector in project implementation: select examples

The AF coastal adaptation project in Mauritius[96] is built on a strategic approach that involves the private sector, particularly hotel and tourism operators, and includes in-kind support from them in the design and implementation of works, supervision and maintenance of works, and the sharing of information, know-how and good practice. This approach will serve to build up the coastal adaptation “toolbox” that can be applied to all sites in the future, with the Government of Mauritius and private sector financing working together and leveraging stronger private input after the project.

In the same vein, the programmes funded in Senegal and Jamaica (both direct access programmes) include a component aiming at protecting and rehabilitating the coastline of tourist areas. It is expected that the hotel operators will be involved during and after the programme’s lifetime, to ensure that the infrastructures built through these programmes are maintained, hence preserving their assets (hotel infrastructures, attractions and beaches).

[96] Adaptation Fund (AF), *Inception Report: Climate Change Adaptation Programme in the Coastal Zone of Mauritius* (Washington, D.C., 2014).

A project in Papua New Guinea focuses on climate disaster risk reduction in the coastal zone and river valleys, and builds upon an existing public–private partnership between the Office of Climate Change and Development and Digicel, a private telecommunications provider, to establish and expand an Early Warning System. The Early Warning System will help protect communities from storm surges and flash floods. Additional financing for expansion of coverage is sought by the project from corporate social responsibility sources. This model is planned to be used in other countries, too.

A project in Cambodia, recognizing the potentially more challenging institutional environment, surveys locally available microfinance and weather index-based insurance products, conducts in-depth market assessments on their commercial viability and, if results are conducive, helps develop business plans in these areas.

Source: AF submission to the SCF[97]

3. The CIF

The CIF was founded in 2008 to deliver concessional funding through the MDBs to support climate objectives. The CIF comprises two trust funds: the Clean Technology Fund (CTF) and the Strategic Climate Fund. The Strategic Climate Fund has three targeted programmes: the Forest Investment Programme (FIP), Scaling Up Renewable Energy Programme (SREP) and the Pilot Programme for Climate Resilience (PPCR).

Organizational structure

The CTF and Strategic Climate Fund are each governed by 16-member trust fund committees, and the Strategic Climate Fund has 12-member subcommittees for each of its three programmes. Joint meetings of the CTF and Strategic Climate Fund trust fund committees make decisions for both funds. Developed and developing countries have equal representation within all committees. The committees meet twice a year and make decisions by consensus. The committees invite observers from civil society organizations (CSOs), the private sector, and indigenous people’s groups to attend meetings, along with representatives from UNDP, UNEP, UNFCCC, GEF and the GCF. Some Secretariat functions are performed by a 23-person administrative unit, housed at the World Bank headquarters in Washington, D.C., but other Secretariat functions are delegated to MDBs. The International Bank for Reconstruction and Development of the World Bank Group serves as the trustee for the CIF.

Funding

To receive CIF funding, countries must be eligible for official development assistance and have an active country programme with one of the five MDBs. Funds are exclusively through the five MDBs, which work with national governments to prepare national investment plans including individual projects, and associated financing packages to achieve the national development agendas of the participating countries. MDBs rely on their own policies and procedures in developing and supervising activities financed by the CIF. The share of CIF funding managed by each MDB is based on country requests and the comparative advantage of each MDB, and their experience in a region or country.

[97] United Nations Framework Convention on Climate Change, Annex 7 to the Adaptation Fund submission to the Standing Committee on Finance: Adaptation Fund experience with involvement of the private sector in project implementation: select examples.

Private sector engagement

Across the CIF since 2009, USD 2.3 billion (or close to 30 per cent of the USD 8.3 billion total CIF funding) has been designated for projects and programmes that aim to stimulate private sector participation.[98] Private sector engagement can take place in three ways:

- Direct or intermediated finance through MDBs' private sector windows
- Through public–private partnerships
- Through private financing of public investment projects

The CIF employs two financing vehicles for engaging the private sector in programme operations: USD 1.7 billion allocated for private sector projects specified in CIF investment plans and approximately USD 640 million allocated to specific private sector facilities to achieve scale and speed in response to market demand, including USD 465 million allocated through the CTF's dedicated private sector programmes. CIF funding can be deployed across a range of instruments, based on the implementing MDB practice. CIF funding can be subordinated to the MDBs, providing greater structuring flexibility, and can be used for local currency lending (with the foreign exchange risk borne by the CIF).[99]

While leveraging private capital is embedded in the CIF mission, after several years of operation it became apparent that the CIF, including the CTF, was skewing towards public sector investment, in part because governments preferred to implement their own projects, in part because it was faster and easier for MDBs and governments to partner in historically proven ways, and in part because in some sectors and regions private sector funding was scarce and more difficult to properly price.[100]

Consequently, in 2012 the CIF established private sector carve-outs of donor funds for private sector projects. In the FIP, SREP and PPCR, private sector carve-outs constitute 10–20 per cent of those respective fund portfolios. The CTF established the dedicated private sector programmes to "finance operations that can deliver scale (in terms of development results and impact, private sector leverage and investment from CTF financing) and speed (faster deployment of CTF resources, more efficient processing procedures), while at the same time, maintaining a strong link to country priorities and CTF programme objectives."[101] Roughly 25 per cent of the CTF resources, or USD 460 million of USD 1.5 billion, were earmarked for and disbursed through the dedicated private sector programmes.

a. The Clean Technology Fund

The CTF focuses on transformation in middle-income and developing countries by providing resources to scale up the demonstration, deployment and transfer of low carbon technologies with a significant potential for long-term greenhouse gas emissions savings. CTF countries develop investment plans aligned with national development goals, which serve as a coordinating framework from which individual projects are then approved by the CTF Committee. The CTF supports low carbon technologies in transport (bus rapid transit, public transportation, efficient vehicles and modal shifts), renewable energy (wind, solar photovoltaic and concentrating solar power, and geothermal) and energy efficiency (industry, building, district heating, municipal and household).[102] To address barriers that hinder private sector participation in climate action, dedicated private sector

[98] Climate Investment Funds, *Private Sector,* Accessible at: https://www.climateinvestmentfunds.org/private-sector
[99] Climate Investment Funds, *Private Sector,* Accessible at: https://www.climateinvestmentfunds.org/private-sector
[100] ICF International, *Independent Evaluation of the Climate Investment Funds*, (Washington, D.C., 2014)
[101] Climate Investment Funds, *Dedicated Private Sector Programs*, Available at: https://www.climateinvestmentfunds.org/dedicated-private-sector-programs
[102] Climate Investment Funds, *Clean Technology Fund* (Washington, D.C., 2015); Global Environment Facility Independent Evaluation Office, *Evaluation of GEF Engagement with the Private Sector, Evaluation Report No. 111* (Washington, D.C., 2017).

programmes were created to finance large scale private sector projects with greater speed and efficiency in response to market demand, while maintaining country priorities.

b. Strategic Climate Fund

The Strategic Climate Fund works through three subprogrammes: the FIP, the PPCR and the SREP.

The FIP was approved in July 2009 to support developing countries' efforts to reduce emissions from deforestation and forest degradation by providing scaled up bridge financing for readiness reforms and public and private investments.[103] The FIP provides direct investments in forestry to support countries' development and REDD+ objectives. It provides grants and low-interest loans to address the drivers of deforestation and forest degradation, both inside and outside of the forest sector. Half of FIP funds focus on capacity-building and developing enabling environments, while the other half pilot site specific solutions to deforestation and degradation. FIP projects include activities in capacity-building, sustainable forest management, landscape approaches, smart agriculture, green value chains and forest monitoring, as well as activities with indigenous peoples. As with the other Strategic Climate Fund funds, the FIP has a private sector set aside. The FIP also has a USD 80 million dedicated grant mechanism for indigenous peoples and local communities. It is designed and led by representatives of indigenous peoples' groups and local communities in FIP countries to enhance their communities' capacity to engage in and contribute to the national REDD+ dialogue and actions.

The PPCR was created in November 2008 to pilot and demonstrate ways in which climate risk and resilience may be integrated into core development planning and implementation.[104] Activities supported by the PPCR include agriculture and landscape management, climate information systems and disaster risk management, coastal zone management, enabling environments, infrastructure, urban development and water resources management. The PPCR uses a two-phase, programmatic approach. First, it assists national governments in integrating climate resilience into development planning across sectors and stakeholder groups. Second, it provides additional funding to put the plan into action and pilot innovative public and private sector solutions to pressing climate-related risks. The PPCR gives priority to highly vulnerable countries and LDCs, including SIDS. To stimulate more private sector participation, concessional financing has been set aside to be awarded on a competitive basis for innovative private sector projects advancing the goals of the PPCR.

The SREP in Low-Income Countries Program was approved in May 2009 to demonstrate the economic, social and environmental viability of low carbon development pathways in the energy sector by creating new economic opportunities and increasing energy access through the use of renewable energy.[105] Like the other CIF funds, the SREP employs a programmatic approach that builds on national policies and existing energy initiatives. The SREP financing supports scaled up deployment of renewable energy solutions to increase energy access and economic opportunities. Technologies supported by the SREP include wind, waste-to-energy, solar, mixed renewable energy, hydropower, geothermal and cook stoves. Like the PPCR, the SREP has a private sector set aside awarded on a competitive basis.

---

[103] Climate Investment Funds, *Design Document for the Forest Investment Program, a Targeted Program under the SCF Trust Fund* (Washington, D.C., 2009).
[104] Climate Investment Funds, *The Pilot Program for Climate Resilience Fund under the Strategic Climate Fund* (Washington, D.C., 2011).
[105] Climate Investment Funds, *Design Document for the Program on Scaling-Up Renewable Energy in Low-Income Developing Countries (SREP), a Targeted Program under the Strategic Climate Fund* (Washington, D.C., 2009).

4. A BRIEF COMPARATIVE ANALYSIS WITH OTHER CLIMATE FUNDS

Explicit mandate to catalyse private sector investments

The GEF and GCF explicitly share a mandate and have made catalysation of private sector engagement an essential aim in their governing instruments. To this end, the GEF has a dedicated private sector strategy.

The AF, LDCF and SCCF, however, do not have private sector engagement as a primary emphasis and are able to offer only grant-based funding. Nonetheless, they have sought to catalyse private investment through relevant projects. The instruments available to different climate funds will have a bearing on their ability to successfully address investment barriers. Table A - 30 shows the financial instruments available to each fund, as per their mandates.

Table A - 30. Financial instruments available to different funds

FUND	GRANTS	LOANS	RISK MITIGATION INSTRUMENTS	EQUITY
GEF	X	X	X	X
LDCF	X			
SCCF	X			
GCF	X	X	X	X
AF	X			
CTF	X	X	X	X
FIP	X	X	X	X
PPCR	X	X	X	X
SREP	X	X	X	X

Source: Niranjali Manel Amerasinghe and others, *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance* (Washington D.C., World Resources Institute, 2017).

Portfolio of implementing entities

The CIF differs from the GEF and the GCF in that it has only six implementing institutions, all of which are MDBs. Consequently, there is a high degree of coordination between the CTF (one of the CIFs) and its partner MDBs to blend finance in project deals and to negotiate precise terms. Furthermore, playing to the strengths and operating modalities of MDBs, CIF investments – particularly in the CTF – focus on non-grant financial products that approximate market transactions in their structure. Non-CTF CIF projects (PPCR, FIP and SREP) include greater proportions of grants for technical assistance, policy support, and the like, pushing them further across the spectrum away from market transactions towards traditional development assistance.

Consequently, the CIF appears to be best situated to neatly tailor its programmes to the strong suits of the MDBs: large scale lending and anchoring investments in collaboration with the private sector. Meanwhile, the GCF appears to be de-emphasizing existing multilateral and international financial institutions, instead focusing on local initiatives in developing countries, as well as on initiatives (regardless of the implementer) that focus on MSMEs. Unlike the GEF, the GCF has no limits on the number of institutions it can accredit, which may represent a challenge in being able manage relationships with a growing number of partners and ensure that all AEs can get projects funded in a timely manner.

Measuring success in leveraging private capital

There is a general lack of evidence or indicators to measure the extent to which private sector engagement efforts have resulted in wide-ranging environmental outcomes, beyond the mobilization of private investment.[106] The CIF, GCF and GEF report the ratio of every private dollar invested, or lent, alongside their own climate change grants, lending, equity investments and technical assistance. Although this “leverage” ratio can be helpful to track the flow of private capital to specific projects, it is inadequate – and sometimes even misleading – for measuring the success of public climate finance in leveraging private capital.[107] For example, a high leverage ratio may simply indicate that the public sector is taking a high level of investment risk, rather than showing that public funds are being used most efficiently to achieve climate change objectives. Additionally, traditional leverage ratios do not capture important public sector activities like policy development and technical support, which are critical to fostering attractive investment conditions but not easily measured. Beyond these theoretical shortcomings, funds use different methodologies to calculate leverage ratios, making it hard to identify best practices in mobilizing the private sector.

The GEF’s newly adopted PSES takes the above into consideration and aims at developing more accurate calculation methods and consistent reporting.

Institutional strengthening

The GEF supports capacity-building efforts as part of its core mandate, including strengthening institutional capacities, and also provides project preparation grants to help move concepts towards bankable proposals. In contrast, the LDCF supports the development and implementation of NAPAs (short-term adaptation plans) and NAPs (long-term plans to build resilience).

The GEF appears to have particular strength and experience in the domains of institutional capacity-building, policy and regulatory development to improve the investment climate, alliance building and innovative approaches – that is, all of the intervention models aside from innovative financing approaches.[108] The GEF’s historic emphasis on capacity-building was further strengthened by the mandate it received from COP 21 to implement the Capacity Building Initiative for Transparency. Consequently, the GEF is considered to play an important role in demonstrating private sector viability in nascent markets (notably in climate change mitigation).[109]

5. A BRIEF COMPARATIVE ANALYSIS WITH DEVELOPMENT ORGANIZATIONS AND OTHER FUNDS / FINANCIAL INSTITUTIONS

In the above section, we compared the GCF with other climate funds. It can also be useful to examine the approach of other types of organizations that operate in the development finance space rather than climate finance. In particular, in this section we present different development finance organizations’ approaches to engaging the private sector.

Important lessons for the GCF can also be drawn from the experiences of MDBs and other funds / financial institutions operating in developing countries. In making these comparisons, however, it is important not to conflate development finance with climate finance. Whereas development finance is provided to developing countries in order to promote economic and social development, and is sometimes focused on sustainability, climate finance is the product of a political agreement between

[106] Organisation for Economic Co-operation and Development (OECD) , *Private Sector Engagement to Address Climate Change and Promote Green Growth, Policy Brief*. Available at: https://www.oecd.org/dac/peer-reviews/Policy-Brief-4-Private-Sector-Engagement-to-Address-Climate-Change-and-Promote-Green-Growth.pdf
[107] Shally Venugopal and Aman Srivastava (2012). *Moving the Fulcrum: A Primer on Public Climate Financing Instruments Used to Leverage Private Capital.* (Washington, D.C., United States: World Resources Institute, 2012).
[108] Amerasignhe, Niranjali Manel, and others (2017). *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance*. Washington D.C., United States: World Resources Institute.
[109] GEF/ME/C.52/Inf.04/B.

developed and developing countries and aims to facilitate a global climate agreement in the context of countries' common but differentiated responsibilities. It supports economic development, but not just any kind of development. Climate finance aims to support transitions to climate-resilient and low carbon economies, which requires paradigm shifts to new forms of economic development.

As with climate finance, discussions about country ownership have occurred in development finance communities. Lessons can be learned from the discussions that led to the adoption of the Paris Declaration on Aid Effectiveness, which was endorsed in order to base development efforts on first-hand experience of what works and does not work with aid. It is formulated around five central pillars: Ownership, Alignment, Harmonisation, Managing for Results and Mutual Accountability.

However, the context for discussions around country ownership of development finance is entirely different to that of climate finance. When it comes to climate finance, it is not about whether country ownership will lead to a more effective approach, it is that it is a fundamental component of the political bargain that is the Paris Agreement; without country ownership of climate finance, there is no Paris Agreement. The GCF was designed partly to overcome criticisms directed at older international organizations such as the World Bank. Indeed, as Kalinowski argues, "the GCF embodies a compromise between recipient countries that want more country ownership, the profit-seeking private sector seeking business opportunities and the civil society sector pressing for a multi-stakeholder approach."[110]

With the above caveats in place, the following section explores the mandates and approaches of a subset of MDBs and local banks and institutions to draw lessons for the GCF. In general, a distinction can be drawn between MDBs and smaller, local finance institutions. Indeed, the former, perhaps because of the size of their operations, tend to focus on leveraging co-finance from the private sector as a key indicator of performance, while also placing emphasis on creating an enabling environment. Smaller local institutions, instead, appear to give more importance to creating an enabling environment, going beyond mobilization of finance.

Multilateral development banks

Inter-American Development Bank

The Inter-American Development Bank employs different approaches to target the private sector at different scales. For medium to large investments in projects with high development impact, the Structured and Corporate Finance Department[111] helps mobilize resources by partnering with institutional investors, commercial banks, co-guarantors and co-lenders. For SMEs, the Inter-American Investment Corporation[112] finances private businesses in Latin America and the Caribbean regions, focusing on SMEs through direct financing and technical assistance.

In its Second Update to the Institutional Strategy,[113] one of the key operational areas of emphasis is increasing overall resource mobilization, boosting private financing and domestic resource mobilization through partnership building and instrument development. Additionally, the Strategy mentions the need to design tools that will enable the Bank to achieve the greatest possible leverage of its existing capital.

In addition to the strong emphasis on enhancing resource mobilization, the Bank indicates promoting domestic resource mobilization as a key step in achieving increased mobilization. This

[110] ThomasKalinowski, Institutional Innovations and Their Challenges in the Green Climate Fund: Country Ownership, Civil Society Participation and Private Sector Engagement (2020), p.6.
[111]Inter-American Development Bank, *Structured and Corporate Finance Department*, Available at https://www.iadb.org/en/resources-businesses/resources-businesses
[112] Inter-Aamerican Investment Corporation, *About us*, Available at: https://idbinvest.org/en/about-us
[113] Inter American Development Bank, *Second Update to the Institutional Strategy*, Available at: https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1350314980-470

step entails working with countries to provide technical assistance, policy advice and capacity-building, contributing to the creation of an enabling environment.

Asian Development Bank

The aim of private sector operations in the Asian Development Bank (ADB) is to promote private investment for development purposes. The PSO Operational Plan[114] indicates mobilization of third-party finance as a key priority, which is to be achieved at scale by relying on the financing products of the ADB. In prioritizing projects, the ADB will proactively maximize the crowding-in of private finance.

Additionally, the document emphasizes that PSO will aim to strengthen the institutional capacity and governance of private sector actors through debt and equity finance.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development's (EBRD) Strategic and Capital Framework[115] sets out the Bank's aspirations for 2025. The Framework presents two key priorities related to the private sector: increasing mobilization of private capital and ensuring that more than 75 per cent of the Bank's investments in the Framework period are made in the private sector.

In April 2020, the EBRD conducted an evaluation of its approach to mobilizing private finance.[116] The evaluation found that the EBRD lacks a clear strategy for the mobilization of private finance, which makes it difficult to identify the right ways to support countries of operations and create enabling environments for mobilization. The evaluation also found that seeking private sector mobilization has discouraged innovation and growth of the Bank's products and services, thus reducing the ability of the EBRD to respond to opportunities that are not in line with its traditional businesses.

Local banks and institutions

West African Development Bank

In its 2021–2025 Strategic Plan,[117] the Bank identifies one of the key areas to tackle in the contribution to creating value and productive jobs in member countries and the private sector. The Plan places strong emphasis on the support that the Bank will provide for micro-, small- and medium-sized enterprises, which it plans to support through financial intermediation loans and technical assistance.

The Plan also states that the Bank will support decentralized financial systems by providing technical assistance, financial advisory and refinancing facilities. Additionally, in choosing projects to be financed, the Bank prioritizes the missing links in the value chains and focuses on projects with high potential for job creation and impact on the fight against poverty. These actions indicate a clear focus on creating an enabling environment for private sector investment, even after the Bank's intervention has finalized.

Caribbean Community Climate Change Centre (CARICOM)

Within the CARICOM Implementation Plan for the Regional Framework for Achieving Development Resilient to Climate Change,[118] one of the main institutional and governance building

---

[114] Inter American Development Bank, *Operational Plan for Private Sector Operations 2019–2024* (Washington DC, December 2019)

[115] European Bank of Reconstruction and Development, *The EBRD's Strategic and Capital Framework*, Available at: https://www.ebrd.com/what-we-do/strategy-capital-framework

[116] European Bank of Reconstruction and Development, *Special Study: EBRD Mobilisation of Private Finance* (London, April 2020)

[117] West African Development Bank, *Djoliba Strategic Plan 2021-2025*, Available at: https://www.boad.org/wp-content/uploads/2021/06/RA-Djoliba-anglais-11-mai.pdf

[118] Caribbean Community Climate Change Centre, Delivering Transformational Change 2011-2021: Implementing the CARICOM 'Regional Framework for *Implementing* the CARICOM 'Regional Framework for Achieving Development Resilient to Climate Change (March 2012).

blocks is the role of the private sector in providing and financing solutions. While co-finance is not mentioned in the document, there is a strong emphasis on creating an enabling environment, particularly focusing on adaptation as a key priority for Caribbean countries. Indeed, the private sector was identified as a key contributor to the Caribbean Community Climate Change Centre's adaptation and mitigation funding target.

Central Africa Forests Commission

The Central Africa Forests Commission's convergence plan[119] is the reference framework for all interventions in the field of conservation and sustainable management of forest ecosystems in Central Africa. Among the priority axes for interventions identified in the plan is sustainable funding, with the subgoal of developing innovative financing mechanisms. One of the expected results from this action is to develop a partnership with the private sector to finance conservation. Therefore, while leveraging co-finance from the private sector is not mentioned, promoting the creation of an enabling environment is clearly an objective.

C. Analysis of strategic priorities set out in Article 9.4 of the Paris Agreement and associated COP decisions

This section is structured in relation to each strategic Paris Agreement and COP priority and provides the following:

- An overview of the strategic guidance[120] and analysis developed by the SCF in relation to these priorities
- Strategic challenges and opportunities in fulfilling these priorities, including examining lessons and experiences from other climate and development funds

1. Assessing the needs and priorities of developing country parties in a country-driven manner

a. Overview of the strategic guidance and analysis developed by the SCF in relation to this priority

The strategic guidance and analysis provided by the SCF in relation to this priority are categorized in relation to the work undertaken through the preparation of the Biennial Assessment and of SCF's work streams, as per requests from the COP.

Biennial assessments and guidance

Ownership remains a critical factor in the delivery of effective climate finance.

> In the context of climate finance, ownership refers to: the alignment of such finance with national priorities; the use of, or close links with, national systems for spending and tracking the finance; and the engagement of stakeholders from ministries and other governmental bodies, as well as from the private sector and civil society The government's ownership of climate finance manifests itself in the articulation of a national development

[119]Commission des Forets d'Afrique Centrale*, Plan de Convergence pour la conservation et la gestion durable des écosystèmes forestiers d'Afrique Centrale* (2015).
[120] COP 17 mandated the SCF to provide the COP with draft guidance for the operating entities of the Financial Mechanism with a view to improving the consistency and practicality of such guidance, taking into account the annual reports of the operating entities as well as submissions from Parties. Furthermore, COP 21 decided that the SCF shall serve the Paris Agreement in line with its functions and responsibilities established under the COP (Decision 1/CP.21, para. 63), which was confirmed at Decision 3/CMA.1, para. 6.

> agenda and climate change policies and strategies, whilst ownership by the private sector and civil society has to do with their role in developing such strategies.[121]

There have been a number of efforts to build capacity to access and make strategic choices about how to use finance and oversee implementation. NDCs for which further financial resources need to be found are emerging as a platform that governments can use to stimulate engagement and strengthen national ownership of climate finance. The SCF 2018 Biennial Assessment specifically noted:

> Ongoing improvement methodologies and a standardized presentation of financial needs in NDCs can aid forward movement by ensuring that needs are matched by existing and potential financing support and technical and policy support. […]
>
> As NDCs continue to be systematically elaborated and implemented, progress on defining financing needs will continue to be made. Common guidelines could facilitate the speed at which progress is achieved, but also allow a greater integration between the various bottom-up financing needs assessments with emerging investment opportunities analyses. The needs assessments include NAPs, REDD-plus investment strategies and emerging 'green finance strategies'. They could also support alignment with broader sustainable development finance flows and strategies, not least in the context of emerging integrated national financing frameworks and development finance assessments in the context of helping countries to achieve the SDGs.

The relevant recommendation from the SCF 2018 was to:

> Encourage developed countries and climate finance providers to continue to enhance country ownership and consider policies to balance funding for adaptation and mitigation, taking into account beneficiary country strategies, and, in line with the mandates, building on experiences, policies and practices of the operating entities of the Financial Mechanism, particularly the GCF;[122]

The SCF has initiated the preparation of the 2020 Biennial Assessment and Overview of Climate Finance Flows, and the submissions to the SCF for its preparation have highlighted several issues in relation to this priority (see Box A - 13).

Box A - 13. Overview of key issues raised in submissions for the preparation of the 2020 Biennial Assessment in relation to this priority

The Economic Community of West African States[123] highlights it would be appropriate to analyse the relevance of the projects, the extent to which they meet national needs and priorities and are aligned with country programmes and intended NDCs or actual NDCs. The use of these resources also deserves to be better monitored, in particular through the implementation of more formal and more inclusive accountability frameworks.

The Women's Environment and Development Organization[124] emphasizes that the GCF could focus on and highlight projects that are more likely to reach and support women more directly. Examples are small grants approaches and other forms of devolved financing or targeted private sector support that focuses on

[121] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018). paragraph 313.
[122] *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report*. Bonn, Standing Committee on Finance , page 14.
[123] Standing Committee on Finance, Submissions received on the call for evidence: information and data for the preparation of the fourth biennial assessment and overview of climate finance flows. Available at *https://unfccc.int/sites/default/files/resource/Report%20mapping%20climate%20finance%20flows_ECOWAS_GCCA%2B%20WA.pdf*
[124] Heinrich Boll Stiftung supported by the Women's Environment and Development Organization , *Call for evidence: information and data for the preparation of the 2020 Biennial Assessment and Overview of Climate Finance Flows* (Washington D.C., October 2020).

increasing the access of micro-, small- and medium-sized enterprises (MSMEs) to concessional climate finance disbursed via local financial institutions. In most developing countries, women-led businesses are overrepresented in the micro- and small-sized category. In addition, in terms of improving the gender impact equality measurement, it might be useful to go beyond sex-disaggregated indicators and use a number of suitable additional proxy indicators – for example, with respect to sectors or financial instruments used that focus on or finance some of the climate activities that disproportionally benefit women because of their specific capabilities and experiences with addressing or building resilience to the impacts of climate change.

The International Development Finance Club[125] highlighted that consistency with Article 2.1. (c) requires countries to put into place the regulatory frameworks, economic policies and incentives to create an investment environment that will incentivize an increase of private investment and finance in "consistent areas" and a decrease or reduction and redirection of "non-consistent flows". Moreover, the submission noted that assessments of how climate action is currently funded in countries – and estimates of future investment and finance needs – can be useful to contextualize a private sector's contribution to this goal. Assessing activities for their relative level of "coherence" or "alignment" and contribution to the goals of the Paris Agreement could be seen to have two parts: first, assessing activities against the near-term policy and economic scenarios (such as NDCs and NAPs) to determine whether actions are aligned with current national priorities – and ensuring that in turn these priorities are aligned with long-term objectives. Second, actions and activities should be assessed with their coherence and potential to contribute to the different long-term pathways and economic scenarios for a country to achieve its long-term objectives (such as Long-Term Decarbonization Pathways). Assessments should ideally be based on the efforts needed sector by sector, country by country to reach the shared long-term goals of the Agreement.

Work streams under COP mandate

The enhanced transparency framework for climate action under Article 13 of the Paris Agreement requires developed country Parties to report on technology transfer and capacity-building support – in addition to financing – provided to developing country Parties. The framework further requires developing country Parties to similarly report on support needed and received, through biennial transparency reports.

In relation to the enhanced transparency framework, COP 24 requested the SCF to prepare, every four years, a report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement for consideration starting at COP 26 and CMA 3.[126] It also requested the SCF, in preparing the report, to collaborate, as appropriate, with the operating entities of the Financial Mechanism, the subsidiary and constituted bodies, multilateral and bilateral channels, and observer organizations.[127] COP 25 and CMA 2 encouraged the SCF to present, to the extent possible, disaggregated information in relation to, inter alia, mapping data availability and gaps by sector, assessing climate finance flows and presenting information on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement.

In its twentieth meeting, the SCF agreed that work on the report should be organized and implemented following the biennial assessment approach – that is, comprising technical work and work at the Committee level. The technical work combines literature review with technical meetings, expert meetings, webinars and outreach activities, involving data providers and other contributors that have experience in assessing developing countries' needs at the national, regional

[125]. Ian Cochran and Alice Pauthier, *A Framework for Alignment with the Paris Agreement: Why, What, and How for Financial Institutions,* Discussion Paper (Institute for Climate Economics Report, 2019).
[126]FCCC/CP/2018/10/Add.1/ Decision 4/CP.24, Annex,, paragraph 13.
[127] FCCC/CP/2018/10/Add.1/ Decision 4/CP.24, Annex, paragraph 14.

and global level, and involves data- and information-gathering from a range of sources and databases. This approach enables the SCF to gather the necessary information and methodologies for preparing the first report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement while also building a network of collaborators for the subsequent reports.

The report is expected to be published in the third quarter of 2021 and is expected to be delayed at the time of writing. A call for evidence was issued by the SCF on 22 November 2019 to collect the information and data necessary to prepare it. The submissions received in response to the call are available online.[128] Additionally, an experts meeting was convened, the meeting report of which is also available online.[129] The outcomes of the meeting, which explored ways and means to assist developing countries in assessing their climate finance needs and priorities based on available quantitative and qualitative information, among others, informed the work of the SCF in preparing the 2020 report on the determination of the needs.

Some highlights of these discussions are outlined in Box A - 14.

Box A - 14. Highlights of Expert Meeting for determining needs of Developing Country Parties

On 10 and 11 July 2019, the Committee held an expert meeting on assessing and determining the needs of developing countries in Manila, Philippines, which brought together about 70 experts and other relevant stakeholders involved in that exercise at the national, regional and global levels. The highlights these discussions were as follows:

- Developing countries assess and determine their needs through established channels under the UNFCCC such as through the NAPs, NAPAs, NDCs, the Technology Needs Assessments, Biennial Update Reports, as well as other national reports.
- Capacity-building and technical support is an important enabler to assess and determine the needs of developing countries and translating these into action.
- On the purposes and uses of needs assessments, participants underscored the importance of not only assessing a country's needs but also determining if the support received matches the needs and priorities identified. This would facilitate identifying remaining gaps. In this regard, some participants emphasized that, among others, NDCs provide a suitable framework whereby countries can communicate their priorities and needs and assess any remaining gaps on the basis of the support received at the national level, and through the global stocktake at the multilateral level.
- On challenges, participants recognized that while they are already assessing and determining needs through existing channels, a challenge remains on costing the identified needs and actions. Due to the cross-cutting nature of climate change, needs must be addressed by various ministries and departments. The role of the ministry of finance was highlighted as being particularly important in interministerial coordination, particularly in terms of mobilizing finance from national and international sources to address a country's needs, including by integrating climate expenditures into national budgets and fiscal policies and acting as focal points to multilateral funds.
- Participants underscored the importance of climate policies and institutional frameworks as enabling factors for undertaking thematic needs assessments and translating these into action.
- Translating climate finance needs into action may involve, as available, mapping and identifying key financial actors (e.g. national, regional and international), ensuring coherence and coordination, identifying key areas and sectors of support and investment, or identifying barriers and challenges in

[128] See *https://unfccc.int/topics/climate-finance/workstreams/needs-report/repository-of-informationon-the-needs-of-developing-country-parties#eq-3*
[129] See *https://unfccc.int/sites/default/files/resource/ExpertsMeeting_Summary.pdf*

mobilizing and unlocking private climate finance. It may also involve the development of needs-based climate finance strategies.[130]

- A centralized and strategic approach at the national level is required for addressing needs across sectors, geographies and communities and over a longer time frame and mitigates the risk of taking siloed approaches. The focal points to the UNFCCC, as was highlighted, play a key role as gatekeeper to ensure coherence and coordination on the assessments of needs at the national and subnational levels. The NDA, in coordination with the UNFCCC focal point, could take the lead in programming climate activities. This facilitates building sustainable capacities and contributes to attaining ownership and political support.

Additionally, and in order to fulfil the above mandate on the determination of developing country needs related to implementing the Convention and the Paris Agreement, the UNFCCC Secretariat has developed the Needs-based Finance (NBF) project.[131] The project is being implemented as regional projects and national projects in over 100 countries. It is aimed at facilitating the mobilization of climate finance to support developing countries' identified needs related to implementing priority mitigation and adaptation actions, as per the goals outlined in their NDCs, NAPs and other relevant policies or strategies. With an initial focus on promoting and utilizing synergies and collaborations with other mandates and processes under the Convention and the Paris Agreement to avoid duplicating efforts, the project builds on and complements existing climate-finance-related work of other actors in partner countries across Latin America and the Caribbean, Africa, Asia and the Pacific. In these pilot partner countries, the Secretariat aims to use its expertise and convening power to assist them in the project through a country-driven process, as promoted by the national and regional NBF projects. Some first outcomes of the project include technical workshops on needs-based climate finance and strategy events that have been held across the regions, as well as several outreach activities. Additionally, a Capacity-building Hub has been established under the project to foster dialogue, coordination, collaboration and coherence among all relevant stakeholders, within and outside of the Convention, with a view to promoting and exploring synergies to boost action on climate change.

A further work stream relates to the enhanced transparency framework, which was established under Article 13 of the Paris Agreement. Subsequently, in the Katowice Climate Package (KCP) adopted in 2018, the CMA determined[132] the modalities, procedures and guidelines on what to report in compliance with the enhanced transparency framework for action and support under Articles 9, 10 and 11 of the Paris Agreement. These modalities, procedures and guidelines include a provision on reporting of information on the financial, technology development and transfer, and capacity-building support needed and received by developing countries. They should, therefore, provide information on national circumstances and institutional arrangements relevant to reporting on support needed and received. This reporting would include descriptions of the systems and processes used to identify, track and report support needed and received, as well as descriptions of

---

[130] The four Melanesian island States of Fiji, Papua New Guinea, Solomon Islands and Vanuatu developed a sub-regional Climate Finance Strategy through NBF project, assisted by the UNFCCC Secretariat. The Strategy was owned by the Melanesian Spearhead Group (MSG), an intergovernmental organization promoting economic growth in Melanesia. Melanesian leaders presented the Strategy at the UN Secretary General's Climate Summit and at COP 25 in Santiago, Chile. More information available at *https://unfccc.int/topics/climate-finance/workstreams/needs-based-finance-nbf-project/nbf-regional-projects/needs-based-climate-finance-nbf-project-in-melanesia#:~:text=The%20four%20Melanesian%20island%20States%20of%20Fiji%2C%20Papua,finance%20%28NBF%29%20project%2C%20assisted%20by%20the%20UNFCCC%20Secretariat*.

[131] United Nations Framework Convention on Climate Change (UNFCCC), *Needs Based Finance Project*, Available at *https://unfccc.int/NBF_Project*

[132] FCCC/PA/CMA/2018/3/Add.2/ Decision 18/CMA.1.

the challenges and limitations of, and information on, country priorities and strategies and any aspects of the country's NDC under Article 4 of the Paris Agreement that need support. Currently, and until COP 26, Parties are mandated to develop common tabular formats[133] through which they shall report as part of the biennial transparency framework, taking into account the existing common tabular formats and common reporting formats. The expected format should provide reporting on the financial support needed by developing countries, as well as on technology transfer and capacity-building, among other things. Parties should submit their first biennial transparency report no later than December 2024. While neither the Paris Agreement or the KCP have established an immediate link between the reporting on support needs and the needs determination, there is potential for developing countries' reporting to inform the second and subsequent reports on the determination of their needs.

Additionally, to further address the adaptation funding needs of developing countries, the Convention's Adaptation Committee (AC) collaborates with the SCF. In addressing the existing capacity gaps of developing countries to access adaptation funding, and as requested by COP 24, the AC is regularly developing and updating an inventory of methodologies for assessing adaptation needs, in collaboration with the LDCs Expert Group and other relevant stakeholders. These needs include those related to action, finance, capacity-building and technological support in the context of national adaptation planning and implementation. The AC is also providing this information on the adaptation knowledge portal. In order to provide guidance with a view to enhancing capacity-building for adaptation action, the Committee recently invited Parties and non-Party stakeholders to submit their views on the issue and on their successes and challenges in building in-country capacity.[134] The AC aims to prepare an information document that will reflect, inter alia, what capacity-building needs, including new and emerging ones, developing countries experience in accessing adaptation finance. The document will also reflect how those capacity gaps can best be addressed and what the remaining challenges are. In this respect, the Convention, the Paris Agreement as well as the KCP recognize that developing countries have specific needs for adaptation and should be supported by other Parties to implement the objectives stated under the Convention and the Paris Agreement.

b. Challenges and opportunities for country-driven approaches for the private sector

As outlined above, the necessity for assessing and identifying the needs of developing countries in a country-driven manner is contained in the Convention, Paris Agreement and its related decisions. Under the Convention, several formal processes and instruments are being utilized to determine the needs of developing countries.

There is a clear opportunity to utilize and capitalize on existing formal processes – such as that of the NBF project – that offer a standardized approach for supporting needs determination and will likely be able to guarantee a comprehensive coverage of needs determination in countries (financial support needs, technology development and transfer needs, and capacity-building needs). See

---

[133] Climate Finance Advisory Services, *Transparency of Support – Development of the Common Tabular Format,* (November 2019).

[134] United Nations Framework Convention on Climate Change (UNFCC), *Adaptation Committee - Call for submissions: Methodologies for assessing adaptation needs,* Available at: https://unfccc.int/process-and-meetings/bodies/constituted-bodies/adaptation-committee-ac/adaptation-committee-call-for-submissions-methodologies-for-assessing-adaptation-needs

Box A - 15, which outlines the NBF approach.

Box A - 15. NBF approach

Each NBF project aims to deliver the following outputs for the country or region under consideration:

1) **A technical assessment** of climate finance comprising the following:
    - An overview and assessment of climate finance flows from domestic, regional and international sources of climate finance
    - An overview and assessment of finance and investment policies and enabling factors across priority sectors and policies and strategic level opportunities
    - An overview and assessment of climate finance needs across priority sectors with a view to developing aggregate figures
2) Based on the technical assessment, a **Climate Finance Mobilization and Access Strategy** with actions, recommendations and an implementation road map, based on existing climate-related strategies
3) A **pipeline of priority climate projects**/investments/transactions/facilities/initiatives

A clear opportunity exists for the GCF to further articulate and build on the complementarity with the entities of the Financial Mechanism of the Convention and those serving the Paris Agreement. See Box A - 16 for some examples. Notably, the GEF and GCF recently adopted a Long-Term Vision on Complementarity, Coherence, and Collaboration.[135] Under this collaboration, there is a clear opportunity for the GCF and GEF to strategize and synergize the programming of resources in accordance with the country's needs and as per associated programming and pipeline development. Additionally, under this collaboration, readiness and capacity-building support may be used to support development CNs and FPs under both funds. Similar arrangements could be explored with the AF.

Box A - 16. Achieving country ownership through country-led processes

Country ownership of projects and programmes financed through the GEF, LDCF and SCCF is ensured in multiple ways. First, the GEF operates through a network of political and operational focal points. The Operational Focal Point (OFP) coordinates all GEF-related activities within a country. The OFP reviews project ideas, checks against eligibility criteria and ensures that new project ideas will not duplicate an existing project. The OFP also ensures that project proposals are consistent with national priorities. Projects cannot be submitted to the GEF without the clearance and endorsement of the OFP. Second, the project review process requires a demonstration of how funding requests are "consistent with the recipient country's national strategies and plans or reports and assessments under relevant conventions."[136]

Further efforts are being made at the national level to facilitate the identification of programming opportunities in a country-owned, coordinated and participatory manner. Country Support Programmes, managed by the Secretariat, provide support for the organization of national dialogues, Expanded Constituency Workshop and constituency meetings. These, combined with the effects of the STAR on the predictability of resource availability for programming, support increased ownership.

[135] GEF/C.60/08.
[136] GEF/C.50/08/Rev.01.

2. Balance between mitigation and adaptation

This section takes into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change.

a. Overview of the strategic guidance and analysis developed by the SCF in relation to this priority

The strategic guidance[137] and analysis provided by the SCF regarding this priority is categorized in relation to the work undertaken through the preparation of the Biennial Assessment as well as through the SCF's work streams, as per requests from the COP.

Biennial assessments and guidance

The term "balance" is not defined in the agreement. The decisions taken by the COP in Copenhagen (2009), Cancun (2010) and Durban (2011) have sought to achieve a balance between adaptation and mitigation finance, as has the Governing Instrument of the GCF. This is also reflected in Article 9.4 of the Paris Agreement, as previously outlined.

The emphasis on balance has partly to do with the fact that climate finance flows have traditionally been skewed towards mitigation action rather than adaptation action. It is worth recalling, though, that adaptation and mitigation finance are measured using different approaches. Mitigation finance is reported on an activity basis (total cost), whereas adaptation activities are reported on an incremental cost basis (i.e. the proportion of the project or investment that covers climate change adaptation activities). When making comparisons, it is therefore necessary to keep this fundamental difference in mind.

When considering financial flows in aggregate, according to the SCF the analysis support for mitigation remains greater than support for adaptation across all sources (noting, however, the measurement differences described above). According to the SCF 2018 Biennial Assessment, grants continue to be a key instrument for the provision of adaptation finance. Mitigation finance remains less concessional in nature, with 25 per cent of bilateral flows and 31 per cent of climate fund approvals. These figures, however, may not fully capture the added value brought by combining different types of financial instruments, or technical assistance with capital flows, which can often lead to greater innovation or more sustainable implementation.

In terms of geographical distribution, the SCF 2018 Biennial Assessment identifies the extent to which this balance is being achieved (see Box A - 17

[137] COP 17 mandated the SCF to provide the COP with draft guidance for the operating entities of the Financial Mechanism with a view to improving the consistency and practicality of such guidance, taking into account the annual reports of the operating entities as well as submissions from Parties. Furthermore, COP 21 decided that the SCF shall serve the Paris Agreement in line with its functions and responsibilities established under the COP (Decision 1/CP.21, para. 63), which was confirmed at Decision 3/CMA.1, para. 6.

Box A - 17).

Box A - 17. Overview of balance between mitigation and adaptation and the geographical distribution

The Asia-Pacific region remains the dominant beneficiary region of climate finance. In 2015–2016, of the finance flows from the climate funds, 31 per cent was used to support projects in Asia and the Pacific. As much as 47 per cent was made available as concessional loans, with grant finance accounting for the rest. There are already a significant number of large projects in Asia supported by the CTF, and in 2015 and 2016 various relatively large scale adaptation projects were approved for funding by the GCF. In the Pacific, climate finance from the climate funds remains focused on adaptation and more specifically on disaster risk reduction in the context of climate-related hazards.

Africa has many climate-vulnerable nation States, and in 2015–2016, 23 per cent of the finance flows from the climate funds supported projects in sub-Saharan Africa. As much as 67 per cent of the funding provided to sub-Saharan Africa took the form of grants, 16 per cent was provided as concessional loans, and 18 per cent as equity. In contrast, in 2011–2012 and 2013–2014 adaptation projects were supported by, respectively, 78 per cent and 59 per cent of the finance flows from the multilateral climate funds to sub-Saharan Africa. In 2015–2016, the share of funding earmarked for adaptation fell to 37 per cent, with 40 per cent going towards mitigation, 7 per cent supporting REDD+ activities and 15 per cent having cross-cutting objectives. This was in part due to the approval of several large GCF projects with mitigation and cross-cutting objectives in 2015–2016 (involving significant amounts of equity). Thus, although a greater number of adaptation projects were approved, the absolute value of mitigation projects was higher in this period.

Latin America and the Caribbean secured 22 per cent of the climate finance provided by the multilateral climate funds in 2015–2016. Over two thirds went to support mitigation projects (76 per cent), with only 14 per cent directed at adaptation. Of the total finance provided by the climate funds, 51 per cent took the form of concessional loans, whereas 47 per cent was delivered as grant finance. A much smaller amount (barely 2 per cent) took the form of guarantees. Funding approvals in 2015–2016 were concentrated in Argentina, Chile, Brazil and Colombia, where large scale mitigation projects supported by GCF and the CTF were launched.

In the Middle East and North Africa region, the share of finance from the multilateral climate funds was found to grow from 3 per cent to 16 per cent between 2013 and 2014. This trend has not continued, however, with the share falling to 6 per cent in 2015 and to 2 per cent in 2016. Concentrated in a small number of large projects, around half of the finance from the multilateral climate funds was delivered as concessional loans and half as grants. Mitigation was the target of just over half of the climate finance in the region provided by the climate funds.

Climate funds also support countries in Central, Eastern and South-Eastern Europe, the South Caucasus and Central Asia. Support in this region is concentrated through the CTF, which facilitates renewable energy and energy efficiency projects, but the GCF, the Adaptation for Smallholder Agriculture Programme and the SCCF have also been active. Mitigation is the target of 71 per cent of approved finance flows, with 20 per cent going to adaptation activities. Of the funding provided, 40 per cent is in the form of concessional loans, with the rest delivered as grants.

As already mentioned, Article 9 of the Paris Agreement emphasizes that the provision of scaled up financial resources should take into account the priorities and needs of the LDCs and SIDS, which are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints; and that both public and grant-based resources are required to support adaptation. According to the 2018 Biennial Assessment, in 2015–2016, 21 per cent of the climate finance provided by the climate funds went to the LDCs and 13 per cent to SIDS. Close to two thirds (63 per cent) of finance flows from the climate funds to the LDCs had a focus on adaptation, compared with 53 per cent for SIDS. Across SIDS and the LDCs, over three quarters of the finance provided by the multilateral climate funds took the form of grants. In the SIDS regions, the Pacific received 51 per cent of the finance from multilateral climate funds, followed by the Caribbean SIDS at 32 per cent.

The relevant recommendation from the SCF Biennial Assessment 2018, taking into account the analysis offered above, was:

> Encourage developed countries and climate finance providers to continue to enhance country ownership and consider policies to balance funding for adaptation and mitigation, taking into account beneficiary country strategies, and, in line with the mandates, building on experiences, policies and practices of the operating entities of the Financial Mechanism, particularly the GCF;[138]

Additionally, and as discussed in the previous section, the SCF has initiated the preparation of the 2020 Biennial Assessment and Overview of Climate Finance Flows, and the submissions to the SCF for its preparation have highlighted several issues in relation to this priority (see Box A - 18).

Box A - 18. Overview of key issues raised in submissions for the preparation of the 2020 Biennial Assessment in relation to this priority

The Economic Community of West African States[139]. In the GCF project portfolio in the region, the most funded sectors are agriculture and energy, when considering the number of projects. However, when considering volumes, two thirds of the funding went to energy and mitigation: the thematic balance between adaptation and mitigation is therefore considered not yet achieved in the region. In the agricultural sector, which still employs the vast majority of populations, risk mitigation instruments have yet to be fully exploited, particularly with GCF funding.

Stockholm Environment Institute. Developing countries seem to be giving emphasis to relatively few development sectors in their NDCs. Recent analysis[140] highlights countries may be deliberately focusing their NDC priorities in sectors where they know international funders are already inclined to provide support. Climate finance for SIDS has been allocated to a relatively narrow range of sectors in recent years. As a result, a recent paper[141] concludes that the most vulnerable countries are not being prioritized by funders for adaptation support.

World Resource Institute. Strong enabling environments are essential for private sector engagement in adaptation.[142] In particular, removing policy barriers and providing better and more reliable climate information can facilitate longer-term dynamic private sector participation. This requires considerable investment in information and research assessing physical climate risks, going beyond traditional centralized climate information services (which are also necessary). These information and assessment channels would enable easier access to the necessary data and information necessary for private sector scenario planning and operations. There are also gaps in the understanding of investable opportunities and the risks and uncertainties associated with these opportunities. Without easily available and digestible information on climate impacts, private sector actors face challenges in understanding operational risks (or opportunities). Further, as lessons from the GEF-supported Southeast Europe and Caucuses Catastrophe Risk Insurance Facility highlight, longer-term private sector involvement requires addressing regulatory conditions – including the need for capacity-building on private sector contract design, market regulation (e.g. insurance markets could be non-existent or in nascent stages of development), and the regulatory environment for enforcing pay-outs. Partially, these gaps arise from inexperience with such regulatory

---

[138] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018). p.14.
[139] United Nations Framework Convention on Climate Change (UNFCCC), Standing Committee on Finance, *Mapping of Climate Finance Flows to the ECOWASS-CILSS Zone* (Bonn, Standing Committee on Finance, 2020).
[140] Aaron Atteridge, Cleo Verkuijl and Adis Dzebo, "Nationally determined contributions (NDCs) as instruments for promoting national development agendas? An analysis of small island developing states (SIDS)", *Climate Policy*, vol. 20, No. 4 (2020), pp. 485–498.
[141] Nicholas Saunders, *Climate change adaptation finance: are the most vulnerable nations prioritised?*, Working paper (Stockholm, Stockholm Environment Institute, 2019).
[142] Global Environmental Facility, *Compendium of Adaptation Activities* (Washington D.C., 2016).

markets, the underlying risk or other economic modelling and analysis required to design or enforce regulations, or even the need to bridge smaller markets by expanding regionally. Addressing these base knowledge needs, supporting national, international and private actors in bridging (or in some cases, building) the current and future business and climate risk profiles,[143] and facilitating policy creation are important in spurring longer-term private sector action. Some areas of intervention in adaptation may lend themselves more to generating financial returns than others. For example, there is potential for private sector adaptation financing in the agricultural and resource management areas, in technological innovation and transfers, and supply chain management. There is also potential in climate-resilient infrastructure; coastal and other water infrastructure; water management and water systems, although financing volumes in these areas may be less.

Work streams under COP mandate

Adaptation

Within AC's functions is enhanced action on adaptation in a coherent manner under the Convention, including through providing information and recommendations, drawing on adaptation good practices for consideration by the COP when providing guidance to incentivize adaptation actions, including finance, technology and capacity-building. Moreover, the COP at its twenty-first session requested the AC and the Least Developed Countries Expert Group (LEG), in collaboration with the SCF and other relevant institutions, to develop methodologies and make recommendations to facilitate the mobilization of support for adaptation in developing countries. The scope of their work includes providing guidance on ways to best engage the private sector in adaptation actions.

Additionally, the CMA 1 requested the UNFCCC Secretariat, under the guidance of the AC and the LEG and in collaboration with relevant stakeholders, to prepare synthesis reports every two years, starting in 2020. These reports will examine specific adaptation themes, focusing on relevant lessons learned and good practices in developing country Parties, in the context of recognizing their adaptation efforts. The first report was prepared and finalized in 2020. It explores and analyses the good adaptation practices of developing countries that help to reduce their exposure and vulnerability to multiple climate hazards, thus strengthening their resilience and adaptive capacity and establishing an enabling environment for adaptation.[144] In terms of key challenges, the report highlights barriers to the development and transfer of technologies for adaptation and includes information obtained from the fourth synthesis report on technology needs identified by developing country Parties. Notably, 95 per cent of developing country Parties identified policy, legal and regulatory considerations, institutional and organizational capacity, and human skills as barriers. The most common barrier in this category was an insufficient legal and regulatory framework, which was identified by 88 per cent of Parties. The recommendations from the AC and LEG's group are outlined in Box A - 19.

Box A - 19. Recommendation from the AC and LEG group in the Synthesis Report on lessons learned and good practices

As the Adaptation Committee's Synthesis Report notes, the creation of enabling environments and ensuring good governance is crucial to encourage the integration of climate risk and resilience considerations into all sectoral development and planning activities, improve access to funding and increase investor confidence

[143] In some cases, facilitating private sector action in developing countries has already been a development challenge for some. In this case, operating in areas of high or variable climate risk poses an additional challenge.
[144] United Nations Framework Convention on Climate Change, Synthesis report by the Adaptation Committee in the context of the recognition of adaptation efforts of developing countries: How developing countries are addressing hazards, focusing on relevant lessons learned and good practices (2020).

and private sector support. Such enabling environments may be created through the development of policies and regulations, including the adoption of building codes, land tenure laws and public–private partnership legislation tax incentives and associated capacity-building. In addition, existing laws and policies, including their application, could be examined to identify and subsequently remove perverse incentives for making non-resilient or maladaptive investments and planning decisions.

Regarding the formulation of adaptation interventions addressing the identified needs, a more horizontal and cross-sector approach is appropriate in order to shape investments in a low-carbon and climate-resilient way. At the same time, investment needs and opportunities need to be clearly formulated and translated into concrete actions. Opportunities for investments in adaptation initiatives as well as initiatives with adaptation–mitigation co-benefits need to be better highlighted in forums for the mobilization of support.

While tools, vehicles and instruments for mobilizing public, international and domestic support are well-established, mobilizing private sector investments in adaptation is more challenging than for mitigation. While well-known methods to mobilize capital and transfer risk, such as guarantees and insurance, can be used in some cases, microfinance institutions face challenges in refinancing their portfolio and often cannot meet the loan demand without direct government support, including technical assistance and training on management information systems, proper loan assessments and loan product development.

b. Challenges and opportunities for achieving a balance between mitigation and adaptation

As a key opportunity for promoting the participation of the private sector in both mitigation and adaptation, the next SCF Forum is on the topic of "Finance for Nature-based Solutions" and is expected to identify clear and concrete opportunities for promoting synergetic mitigation and adaptation actions, and catalysing private sector engagement. The report is forthcoming. The analysis below draws on existing literature and submissions to the SCF for this forum.

Nature-based solutions (NbS) are defined as "actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits."[145]

In recent years, awareness has increased about the importance of investing in NbS to both mitigate and adapt to climate change.[146] This investment has focused on identifying promising approaches and developing initiatives that can scale finance for NbS for adaptation (NbSA), often through innovative mechanisms that blend public capital to catalyse and leverage private capital. NbSA projects are inherently complex, often delivering public goods that may imply longer-term returns on investment and entail bringing together a broad range of stakeholders to address systemic community and societal challenges.[147] Nonetheless, the benefits of NbSA are significant for their flexibility in terms of context, utility and cost efficiency.[148]

Furthermore, while awareness has grown, so has interest in funding and implementing these approaches. For example, 62 per cent of all first NDCs (104 out of 168) include NbS as adaptation actions, and 63 per cent of all NDCs declare that the protection of ecosystems and/or biodiversity is the intended outcome of adaptation planning.[149] Additionally, 19 NAPs submitted to the UNFCCC

[145] World Conservation Congress, Defining Nature-Based Solutions (Gland, 2016) International Union for Conservation of Nature.
[146] Bronson W. Griscom and others , *Natural Climate Solutions*.(Proceedings of the National Academy of Sciences of the United States of America 2016).
[147] Natalie Seddonand others, *Understanding the Value and Limits of Nature-Based Solutions to Climate Change and Other Global Challenges*.Philosophical Transactions of the Royal Society (2020).
[148] United Nations Environment Programme (UNEP), *The Adaptation Gap Report 2020* (Nairobi, 2020).
[149] Natalie Seddon and others*Nature-Based Solutions in Nationally Determined Contributions: Synthesis and Recommendations for Enhancing Climate Ambition and Action by 2020*. (IUCN; Oxford, UK 2019).

by March 2020 included NbSA and/or ecosystem-based adaptation.[150] In response to this, the GEF has launched a dedicated initiative and strategic guidance,[151] which includes the engagement of the private sector (see Box A - 20 and Box A - 21).

Box A - 20. New and explicitly dedicated NbS Initiative: GEF's initiative on nature-based solutions for adaptation

The GEF has approved a USD 2 million grant for a new venture, in partnership with the MAVA Foundation, the International Institute for Sustainable Development and the United Nations Industrial Development Organization. The venture aims to increase investment in nature-based infrastructure that can help countries adapt to the impacts of climate change. The new global initiative, supported by the GEF-managed SCCF, will use financial modelling and climate change projections to establish the business case for investing in nature and make it easier for investors and government officials to assign a value to and consider nature-based solutions when making infrastructure spending decisions. The project will equip decision makers with comprehensive, system-wide valuations of natural assets, reflecting capital and operating costs as well as co-benefits from carbon sequestration, air purification, protection against water scarcity, and climate change adaptation, plus cost comparisons with grey infrastructure alternatives. This is important as many decision makers currently lack the tools to directly compare green or hybrid infrastructure solutions with alternatives – for instance, when making decisions about flood control, food security, coastal protection, water conservation and wastewater treatment.

Source: GEF website, *GEF supports new initiative to boost investment in nature-based infrastructure for climate adaptation | Global Environment Facility (thegef.org)* [152]

Specific barriers and challenges in relation to NbS

Few funding modalities explicitly promote NbS investments. Many large climate funds and multilateral agencies bundle NbS interventions under other adaptation-related sectors (e.g. disaster risk reduction or water), which can make it difficult to track NbS investments. The following barriers prevent greater uptake of NbS investments:

- The absence of clear definitions, guidelines, and metrics and methodologies to track, quantify and value NbS benefits may contribute to the relative scarcity of the right types of capital (both grant and non-grant/investment capital), which in turn may significantly inhibit the development of a robust pipeline of NbS -related investments by public and private sectors. Thus, the single most important technical gap that, if addressed, may facilitate greater NbS financing is the need to develop, adopt and accelerate a common approach to define, quantify, value and measure NbS benefits in ways that are meaningful for investment decision-making, including quantifying (economic and financial) values for NbS outcomes for public and private investors and countries. Such a framework (e.g. monitoring, reporting and verification for NbS) will be foundational to increase evidence and awareness, shift planning and policy, and stimulate pipeline development and financing for NbS; thus, it is a critical component for scaling up these types of investments.
- Funding modalities rarely promote NbS as an explicit investment priority. Funding channels thus miss an opportunity to signal to recipients the potential value of developing such projects, and they miss the opportunity to support them in developing such projects, thus limiting pipeline development.

[150] Anika Terton and Julie Greenwalt, *Building Resilience with Nature: Ecosystem-Based Adaptation in National Adaptation Plan Processes*. NAP Global Network, International Institute for Sustainable Development (Winnipeg, 2019).
[151] Global Environmental Facility (GEF), *GEF Corporate Scorecard December 2020* (Washington DC, December 2020).
[152] Global Environmental Facility (GEF), GEF supports new initiative to boost investment in nature-based infrastructure for climate adaptation, (Washington DC, July 2020).

- Funding modalities do not match funding needs. Literature highlights a mismatch that exists between the modality of funding, either at the development stage (where primarily project development grants would be used) or at the investment stage, where a range of grant and investment instruments (e.g. debt, equity, results-based finance) could be useful.[153]

Specific opportunities in relation to NbS, including how to overcome above challenges:

There is clearly latent demand for NbS funding given the number of countries including such projects in their NDCs and NAPs. Funding should help countries develop and strengthen NbS concepts to make them a reality and build a pipeline of new and additional NbS investments. The following opportunities have been identified for the GCF:

- **Help mainstream NbS in alignment with country needs**. Ensure support provided to developing countries is aligned with country needs and priorities and – by leveraging existing technical assistance support – help developing countries to mainstream NbS in their country-driven prioritization of needs and in translating these priorities into investment programmes. This may include providing readiness and project preparation funding and technical assistance to help countries and subnational entities design NbS projects, including technical design, impact analysis and valuation of NbS benefits (economic and financial). It may also include specific support to help countries and subnational entities develop the financial structuring and investor proposition for NbS, including life cycle analysis and operating costs.
- **Explicitly promote and provide funding for NbS in a manner that aligns with project and/or investment needs.** NbS may require different funding approaches than those employed for traditional climate investments, such as the following:
  - Identifying innovative financing that can also help catalyse private investment (see Box A - 20 and Box A - 21).
  - The need to fund both capital expenditures (e.g. project development) and operations and management expenditures. Some NbS projects have little or no revenue streams to cover ongoing operations and management expenditures costs, discouraging investment.
  - The potential use of public funding to anchor and/or de-risk project finance structures and, where possible, the use of blended finance approaches to enable NbS investment.
- **De-risk NbS investments**, including through the following means:
  - Providing catalytic capital. This includes support for results-based financing schemes such as green or conservation bonds, the expansion of the resilience bonds market, credit facilities for habitat restoration and water quality improvement, blended finance mechanisms and credit guarantees.
  - Providing capital to aggregate NbS projects. This allows private investors to participate at scale, improving viability and reducing the cost of finance. Examples include aggregating outcomes at the project level (e.g. stacking), and aggregating NbS projects at sectoral, catchment or regional level to achieve the scale necessary to attract private investment.[154]
- **Develop clear definitions, guidelines and methodology for NbS.** Support and engage in the ongoing development of emerging criteria and standards for NbS best practices,[155] and apply them to support the identification of promising NbS projects in the pipeline. Guidance on

[153] United Nations Environment Programme (UNEP), *State of Finance for Nature 2021,* (Nairobi, 2021).
[154] David Young, Edward Lockhart-Mummery and Guy Thompson,, *Accelerating Investment in Nature-Based Solutions*, Broadway Initiative Paper (2020).
[155] See forthcoming SCF forum on NbS. Also consider, for example, that the International Union for Conservation of Nature has been leading the development of a global standard for NbS writ large, and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) supported the development of a framework for defining criteria and standards for NbS.

realistic assumptions and methodologies for those developing a business case is essential to increase confidence, build capacity and establish a place for NbS in the "solutions toolbox".

Box A - 21. Examples of GEF's projects engaging private sector in NbS and others

Wildlife Conservation Bond (GEFID 10330). This project is focused on addressing major challenges for financing conservation and proposes an innovative financial product that combines private, public and philanthropic resources to unlock private finance for the conservation of the black rhino in South Africa. The project builds on existing conservation efforts in two priority sites, Addo Elephant National Park and Great Fish River Nature Reserve, and product development under the USD 4.5 million Rhino Impact Investment Project funded by the GEF, The Royal Foundation, UK Aid and the Zoological Society of London. The World Bank will issue a conservation bond, and the bondholders (private finance institutions) agree upfront to forgo all periodic coupons that the bond will pay. Instead, these payments will directly finance the conservation initiatives in the two identified parks. The bondholders hence become direct co-financiers of the conservation efforts in the two parks of South Africa, and in return, they can be compensated with a contingent success payment if the rhino population grows in the two parks. The source of that contingent success payment is GEF NGI funding. The project will potentially create a new asset class to mobilize institutional investors to finance conservation.

Livelihoods Carbon Fund 3 (LCF3) (GEFID 10497). This project will build an innovative investment model that invests in community-based solutions to restore natural ecosystems (via NbS) and establishes agroforestry and regenerative agriculture systems in developing countries, with a view to generating high-quality, cost-effective certified carbon offsets for climate responsible corporates. The Fund investment model enables financial investors to monetize returns through a carbon offset mechanism offered to participating corporate investors. Carbon offsets will be verified by Gold Standard and Verra, the leading assurance services providers in the market. The investment strategy places local communities at its centre, as the key actors of the management and conservation of local natural ecosystems. LCF3 aims to showcase NbS as a new investable asset class, and the GEF early stage equity share will play a decisive role in removing barriers for private financial investors and unlocking capital at scale.

Source: GEF website, *https://www.thegef.org/sites/default/files/web-documents/10500_MFA_PIF_v1.pdf*; *https://www.thegef.org/sites/default/files/web-documents/10330_BD_PIF_Review.pdf*.

Independent Evaluation Unit
Green Climate Fund
175, Art center-daero. Yeonsu-gu
Incheon 22004
Republic of Korea
Tel. (+82) 032-458-6450
ieu@gcfund.org
https://ieu.greenclimate.fund