Independent Evaluation of Green Climate Fund's Investment Framework

Executive summary

February 2024

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Independent Evaluation of Green Climate Fund's Investment Framework

EXECUTIVE SUMMARY

02/2024

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Contents

ABBREVIATIONS

AE	Accredited entity
B.37	Thirty-seventh meeting of the Board
DAE	Direct access entity
FP	Funding proposal
GCF	Green Climate Fund
IAE	International accredited entity
ICS	Investment criteria scorecard
IRMF	Integrated Results Management Framework
NDA	National designated authority
RMF	Risk Management Framework
ToC	Theory of change

EXECUTIVE SUMMARY

A. Context

The Green Climate Fund (GCF) is an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change, with a mandate to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. The GCF does this 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.

Under the overarching Governing Instrument, the GCF Investment Framework translates the Fund's overall strategic objectives into clear guidelines for investment decisions. The Investment Framework is evolving as the Fund matures further and its portfolio grows from the initial resource mobilization period to GCF-2. The GCF's initial Investment Framework consists of investment policies, investment strategy and portfolio targets, and investment guidelines, including the Investment Criteria Scorecard (ICS). The initial Investment Framework was updated by the GCF Board, in decision B.27/06, paragraph k, to reflect the GCF's first replenishment allocation parameters and portfolio targets.

As part of the work plan and budget of the Independent Evaluation Unit for 2023, the GCF Board approved the Independent Evaluation of the GCF Investment Framework. The purpose of this evaluation is to assess the relevance and effectiveness of the GCF Investment Framework in fulfilling the GCF's mandate and strategic goals. It considered all relevant policies, tools, frameworks and processes that come into play to enable the GCF to identify high-quality climate change projects and make investment decisions.

B. Objectives and scope of the evaluation

This evaluation of the GCF Investment Framework aims to assess the overall relevance and effectiveness of the Investment Framework in the context of the GCF's efforts towards climate change mitigation and adaptation. Specifically, the evaluation has the following objectives:

- Examine the investment priorities and portfolio targets to respond to the overarching question of how effective and fit-for-purpose the GCF Investment Framework, accompanying tools, criteria and guidelines are in fulfilling the Fund's strategic goals and mandate.
- Assess the coherence and complementarity of the GCF Investment Framework internally with other GCF internal policies, strategies and guidelines, and externally with the country-level climate change strategies and action plans.
- Assess and analyse the efficiency, effectiveness, coherence and complementarity of the GCF Investment Framework and the associated ICS with regard to funding proposals (FPs), projects and programmes.
- Review the alignment of the GCF Investment Framework with other corresponding frameworks, such as the Integrated Results Management Framework (IRMF) and the Risk Management Framework (RMF).

C. Evaluation methods

The evaluation involved a mixed-methods approach, using both qualitative and quantitative data and methods to inform its evidence-based findings, conclusions and recommendations. The evaluation employed the following methods:

- Desk-based review of primary documents, academic and grey literature
- Policy analysis of the GCF Investment Framework
- Quantitative data analysis to identify certain trends and their contributing factors
- Landscape analysis and benchmarking of other large investment frameworks, predominantly in sectors relating to climate change and the environment
- In-depth interviews and focus groups with key stakeholders, including GCF staff and the staff of national designated authorities (NDAs), direct access entities (DAEs) and international accredited entities (IAEs)
- An online survey to gauge the perceptions and opinions of relevant stakeholders about the GCF Investment Framework and related policies, guidelines, frameworks and tools

D. Timeline

The evaluation was launched in early 2023. The data, unless otherwise mentioned, are relevant up to B.37. The evaluation report was finalized in December 2023, for sharing with the GCF Board in time for its first meeting in early 2024.

E. Key conclusions

Conclusion 1. Structure of the GCF Investment Framework

At the institutional level, the GCF Investment Framework provides an appropriate response to the GCF mandate to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. This is evident from the investment targets that the GCF has embarked upon – such as the 50:50 allocation balance for adaptation and mitigation, significantly increasing the allocation to DAEs, and achieving appropriate regional balance – in face of the associated complexities and the potential trade-offs of such investment decisions. The framework, therefore, is an articulation of the balance within the GCF mandate.

The GCF Investment Framework accommodates competing priorities and trade-offs, which are articulated through strategic, political, programmatic and operational considerations at the portfolio level. With its overarching scope, the GCF Investment Framework is intended to be a comprehensive tool for the GCF Board and Secretariat to make and communicate informed, strategic and consistent investment decisions that align with the GCF mandate. However, this wide scope has implications. **While the GCF is mandated to promote a paradigm shift, individual projects and programmes have limited influence at the country level; the Investment Framework has limited linkages with national climate strategies, nationally determined contributions and national adaptation plans.** Generally speaking, the GCF is funding individual projects and programmes that are targeting specific sectors and beneficiaries, with limited policy influence towards accelerating national responses to the climate crisis.

The GCF Investment Framework emphasises greater coverage of GCF's investments across countries, sectors, results areas and AEs. This coverage partly undermines the depth of programming, which is key to achieving paradigm shift. Focused GCF funding to select priorities within countries/regions, sectors, results areas and AEs may contribute more to paradigm shift as a GCF strategic priority and operational efficiency as a GCF operational priority. In addition, GCF could translate its comparative advantages or value-add into a more programmatic focus on addressing specific structural barriers in addressing climate change. For instance, investment priorities for each strategic period could address a fundamental issue in specific sectors or geographies. Establishing specific investment priorities can help the GCF portfolio create a clear narrative and drive a paradigm shift as a coherent whole.

The GCF has a full suite of climate change financial instruments, including grants, loans, equity, guarantees and concessional funding, which meets the needs of both (i) the supply of finance by the GCF, by ensuring the deployment of the right types of finance for climate financing needs, and (ii) the demand for finance. There is a broad consensus that the range of options provided by the GCF for climate financing helps respond to the varying needs of countries in general, and projects/programmes in particular.

Conclusion 2. Operationalization of the GCF Investment Framework

In general, the Investment Framework brings uniformity, consistency and objectivity to the decisions made within and among various divisions, offices and functions of the GCF. In the GCF Secretariat, the Investment Framework is used as a key document to translate the GCF's strategic and operational priorities into actions at two levels: first, the allocation of financial resources at the portfolio level, based on investment portfolio targets; and second, the appraisal and approval of individual projects and programmes, based on the investment criteria, indicators and scorecard.

However, the operationalization of the Investment Framework creates various obstacles at many stages of FP review and assessment within the Secretariat, as in the following examples.

- At concept note submission (stage 3), some of the challenges faced by DAEs and IAEs include (i) lack of clarity on GCF investment priorities at the portfolio level; (ii) ambiguity around proposed funded activities, especially the classification of projects as climate or development interventions; (iii) lack of or limited data to establish climate rationale; and (iv) difficulties in obtaining no-objection letters from NDAs due to, inter alia, capacity issues, high turnover and political – economic considerations.
- At FP development (stage 4), which includes technical and conceptual dimensions, some of the challenges faced by DAEs and IAEs include (i) overlap in investment criteria points, especially between paradigm shift, sustainable development and impact potential; (ii) no benchmarking for efficiency and effectiveness measures; (iii) lack of data to establish paradigm shift; and (iv) lack of evidence for the ToC and sustainable development pathway for new and innovative projects.
- At FP review (stage 5), some of the challenges are related to the GCF's institutional requirements to strengthen the project's governance, oversight, management, financial management, results, risks, and so forth, including the (i) complex organizational, funding and delivery structures of GCF projects and programmes; (ii) limited capacity of DAEs, including the limited exposure of private sector entities to development sector tools, such as ToCs, results frameworks, and so forth; (iii) baseline values and measurability of results in FPs; and (iv) need for multiple adjustments to risk-mitigation measures in FPs.

The Secretariat uses an ICS tool, which is theoretically fit for purpose. Yet, its operationalization has remained a challenge for many national, regional and international AEs, as well as GCF Secretariat staff.

Conclusion 3. Alignment of the GCF Investment Framework with its RMF and IRMF

The GCF Investment Framework becomes mostly irrelevant after the approval of an FP. This is due to the lack of alignment of the Investment Framework with the GCF's other frameworks, such as the IRMF and RMF, that come in to play after the approval of FPs. The Investment Framework and the IRMF suffer from a lack of alignment and coherence, which creates challenges for monitoring and evaluating investment criteria indicators once the FP is approved and in the implementation phase. This is more relevant for three of the six investment criteria – namely, needs of the recipient, country ownership, and efficiency and effectiveness, where there is no clear evidence of any alignment with the IRMF.

Similarly, there is no clear indication of how the GCF's risk appetite statement is translated into the GCF's investment decision-making – particularly in the GCF Investment Framework and ICS tool at the portfolio and project/programme levels. **Overall, the GCF is a value-based organization, driven by its strategic objective of promoting a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. This is manifested through its considerable risk tolerance for activities necessary to realize its mandate. Nonetheless, proper consideration of risk–reward ratios is not explicit in the GCF Investment Framework.** The Investment Framework does not provide substantial guidance on how investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. There are four major programmatic risks that GCF FPs are subject to: (i) projects and programmes that are untested and innovative, yet promising; (ii) projects and programmes that are highly complex, such as multi-country, multi-sectoral and multi-stakeholder projects with complex institutional, financial and sectoral arrangements; (iii) projects and programmes in vulnerable countries that lack credible data to establish climate rationale or prospects for impact potential and paradigm shift; and (iv) projects and programmes that involve equity or loans, and hence require continued management of repayments after completion.

On an ex-ante basis, the potential impact of GCF investments in climate change adaptation and mitigation seems highly promising. However, there is still limited ex-post evidence of results being achieved by GCF-funded activities. This is partly because most GCF projects are at an early or middle stage of implementation. Therefore, there is a pressing need for the GCF to continue to strengthen its system of ex-post results monitoring and validation to ensure tracking of early results and strengthen the system to improve learning, course correction and adaptation.

F. KEY RECOMMENDATIONS

Recommendation 1. The GCF Secretariat should consider scenario planning, strategic forecasting and risk–reward assessment on each of the individual investment portfolio targets set in the *Strategic Plan for the Green Climate Fund 2024–2027*. The GCF pipeline of investments/funding data from the initial resource mobilization and GCF-1 can be used to plot the likely scenarios, forecast the possible outcomes of investment policy decisions, and inform the risk–reward proposition for informed investment decisions.

Recommendation 2. The structure of the Investment Framework should be simplified and should be used as an instrument to clarify GCF investment choices at the portfolio and project levels. It is recommended that the investment policies – such as paradigm shift, grant-equivalent accounting, minimum concessional funding, blending, and not crowding out other financial sources and revenue – be merged with the strategic and operational priorities of the GCF, whereas the focus of the Investment Framework could be limited to (i) investment portfolio targets, which are aimed at informing GCF investment decisions at the portfolio level; and (ii) the ICS, which is aimed at informing GCF investment decisions at the project and programme level.

Further, the GCF Secretariat should consider institutional measures to continue to succeed on larger targets such as the balance of mitigation and adaptation, and programming through DAEs. Such targets require the use of institutional tools such as the Readiness and Preparatory Support Programme to sustain the 50:50 allocation for adaptation and mitigation targets.

Recommendation 3. To reinforce high impact and to address potential fragmentation, the GCF should revisit the Investment Framework from the perspectives of depth/coverage, consideration for policy influence, and clarifying complementarity and coherence at the country level.

3.1. The GCF should consider revisiting the balance between coverage and depth of its investment financing across sectors and results areas. The intended position of the GCF within certain sectors, geographies or results areas may be translated, through the Investment Framework, into specific strategic priorities that further cascade into investment priorities and operational priorities. The GCF should consider identifying fundamental root causes or key structural barriers to address, allowing for synergistic programming that brings about a paradigm shift with intention.

3.2. The GCF Investment Framework should consider developing instruments for NDAs and DAEs to improve policy influence towards accelerating national response to the climate change crisis. This could mean conditional, payment-linked grants and/or loans as well as technical assistance for countries to incentivize the implementation of their national adaptation plans / nationally determined contributions. It is likely that this approach will not only address the issue of country ownership but also enable the scaling up of impact, improve efficiency, support equitable allocation and increase the accountability of operations.

3.3. In addition, **the GCF may wish to consider "complementarity and coherence" as an operational priority**, to avoid duplication, promote learning and collaboration, and help address the issue of the crowding out of other climate finance investments.

Operationalization of the GCF Investment Framework

Recommendation 4. The GCF Board and Secretariat should address the issue of redundancies and duplication within the investment criteria and the tools used to operationalize the Investment Framework.

4.1. The investment criteria and subcriteria should be examined with a view to consolidating some of them. Some criteria points are complementary in nature and could be combined – for example, country ownership, sustainable development potential and paradigm shift. Similarly, the needs of the recipient country can be eliminated as a separate criterion, as every country and project has almost the same argument to justify these needs. Also, the needs of the recipient country are mostly explained in sections B.1 and B.2(a) of the FP, under the climate context and ToC.

4.2. To improve objectivity and consistency in the appraisal of funding tools, some of the qualitative and subjective criteria and subcriteria in the ICS tool need to be quantified and made measurable. Except for few indicators on cost-effectiveness and impact potential, all indicators in the ICS tool are qualitative (and somewhat subjective). It is hard for both the GCF (i.e. the Secretariat and the independent Technical Advisory Panel) and AEs to objectively use these ICS indicators to present or measure FPs. The GCF should quantify and benchmark some of the qualitative and subjective aspects of the ICS tool, both to reduce the risk of inconsistency and errors of judgment on the part of the GCF when appraising individual projects and to promote more objectivity and transparency in the use of the ICS.

4.3. A comparatively complex but comprehensive solution would be to restructure the investment criteria into three distinct categories and tools. The first would be to use a simple checklist to assess the mandatory or essential requirements for projects/programmes to qualify for GCF funding, such as country ownership, the needs of the recipient country, and the scalability aspect of paradigm shift. The second would be to use the scorecard method to appraise the strength of an FP in terms of efficiency and effectiveness, impact potential, paradigm shift and sustainable development potential. The third would be to use additional tools, such as the log-frame, IRMF, RMF and financial proposals to measure the quality of project management, including compliance with GCF policies such as environmental and social risk assessment, gender assessment and action planning, financial management and procurement, and so forth.

Recommendation 5. The GCF should continue its efforts to introduce flexibility into the investment criteria subcategories and indicators – particularly in the use of best available information and data to demonstrate the alignment of FPs – and address perceptions that the requirements remain inflexible. The Board and Secretariat have made efforts to introduce the flexibility and simplicity sought by AEs and partners, as demonstrated by Board decision B.33/12, paragraph h, that the best available information and data are sufficient to form the basis for the demonstration of impact potential. Continued efforts to allow flexibility in the investment criteria subcategories, indicators and their data sources will enable particularly vulnerable countries to use alternate indicators, including proxy indicators, to demonstrate their impact potential and paradigm shift regarding climate change mitigation and adaptation. The Secretariat should also explore means such as providing extra weighting to FPs from particularly vulnerable countries, which may allow the GCF additional flexibility to respond to debt and other challenges. Efforts also need to be made to address the perceived concerns of partners in this regard.

Alignment of the GCF Investment Framework to improve results focus and risk mitigation

Recommendation 6. There is an urgent need for the GCF Secretariat to align the Investment Framework with the IRMF and the RMF and to seek internal coherence and alignment. As a learning organization, the GCF needs to instate a robust process of performance monitoring, learning and adaptive programming to ensure that the GCF's funded projects and programmes are delivered as per their approved FPs and are contributing to the GCF's strategic objectives and priorities. More specifically, the following actions need to be considered in this regard.

6.1. The GCF Board and Secretariat should work towards greater alignment between the Investment Framework and the IRMF, so that investments and results are assessed from similar perspectives. This can be supported by continued efforts for monitoring and results management:

- The GCF should increase the frequency of monitoring of complex projects, with more periodic reviews, spot checks and validation exercises to confirm whether projects are being delivered according to their design and implementation plans, or whether there is a need for adaptation and course correction to improve the success rate of the project delivery.
- The GCF should institute an expedited process of adaptive programming, whereby the Secretariat has delegated authorities to make/approve adjustments of an operational nature, rather than waiting for Board meetings and decisions to approve these changes.

- The GCF must strengthen its system of ex-post results monitoring and validation to ensure tracking of early results and to improve learning, course correction and adaptation. This may include structural adjustments by either establishing an audit/assurance unit within its Division of Portfolio Management or using external support for spot checks and systematic validation of reported results.

6.2. The risk appetite statement and risk–reward consideration need to be explicitly reflected in the GCF Investment Framework. In practice, this means that the GCF Investment Framework should provide sufficient guidance on how GCF investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. There is a need to reinforce and expedite the efforts already underway within the Secretariat.

Recommendation 7. The GCF should develop an online/real-time, publicly available Investment Portfolio Dashboard. The dashboard should provide information on the overall allocation to each investment target, the status of already allocated funds and the remaining balance so that NDAs and AEs and other stakeholders can plan accordingly.

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