

GREEN  
CLIMATE  
FUND

# GCF: FINANCING CLIMATE ACTION

There is a shrinking window of opportunity to address the climate crisis. Average global temperature is currently estimated to be 1.2°C above pre-industrial times. Based on existing trends, the world could cross the 1.5°C threshold within the next two decades, and 2°C threshold early during the second half of the century. Limiting global warming to 1.5°C is still narrowly possible and will be determined by the investment decisions we make over the next decade.

The Green Climate Fund (GCF) — a key element of the historic Paris Agreement — is the world's largest climate fund mandated to support developing countries raise and realise their Nationally Determined Contributions (NDCs) ambitions towards low-emissions, climate-resilient pathways.

## OUR TRANSFORMATIVE APPROACH

GCF achieves its goal by investing across four economic transitions – built environment; energy and industry; human security, livelihoods and wellbeing; and land-use, forests and ecosystems, employing a four-pronged approach:

### ENABLING ENVIRONMENT FOR CLIMATE ACTION

By promoting integrated strategies, planning and policymaking to remove barriers to novel climate solutions and maximise co-benefits between mitigation, adaptation and sustainable development.

Developing countries are already the most vulnerable to the impacts of climate change and are now also being hit the hardest by the economic crisis resulting from the COVID-19 pandemic. GCF is supporting countries to design and integrate climate resilient recovery measures into their NDCs.

### DE-RISKING INVESTMENT TO MOBILISE FINANCE AT SCALE

By using scarce public resources to de-risk market creating projects and crowd-in private finance, notably for adaptation, nature-based solutions, Least Developed Countries (LDCs) and Small Island Developing States (SIDS).

The Global Subnational Climate Fund will make blended finance work for LDCs and SIDS by leveraging private investment at scale. USD 150 million in GCF first loss equity investment in partnership with Pegasus Capital Advisors will leverage investments of up to 25:1 for climate action at the sub-national level, where smaller, local climate projects are chronically under-funded and usually unable to access commercial finance. Almost half of the 42 participating countries are LDCs and SIDS.

### ACCELERATING CLIMATE INNOVATION

By investing in new technologies, business models, and practices to establish a proof of concept.

**Policy, institutional, technological, business, and financial Innovation is critical to accelerate the transition to low emissions development pathways.** GCF is providing USD 20 million in equity and USD 5 million in grant to Acumen's USD 110 million KawiSafi Ventures Fund, which provides growth-stage finance to green start-ups investing in off-grid renewable energy technologies in East Africa.

### ALIGNING FINANCE WITH SUSTAINABLE DEVELOPMENT

By developing the capacity of domestic financial institutions to mainstream climate risks and opportunities in investment decision-making and to access capital markets to finance the widespread adoption of new climate solutions.

GCF has supported the Government of Jamaica to set up a Caribbean green bond listing on the Jamaica Stock Exchange. It will enable firms and domestic financial institutions to float green/adaptation bonds through a dedicated green bond facility and finance the widespread adoption of new climate solutions.

# OUR KEY FEATURES



## COUNTRY-DRIVEN

A core GCF principle is to follow a country-driven approach, which means that developing countries lead GCF programming and implementation. Country ownership of GCF financing decisions enables developing countries to turn NDC ambitions into climate action. GCF's country-driven approach is underpinned by capacity-building support through its Readiness Programme that is available to all developing countries.



## FLEXIBLE RANGE OF FINANCING INSTRUMENTS

GCF can structure its financial support through a flexible combination of grant, concessional debt, guarantees or equity instruments to leverage blended finance and crowd-in private investment for climate action in developing countries. This flexibility enables the Fund to pilot new financial structures to support green market creation.



## RISK-TAKING, PATIENT CAPITAL

GCF adds value to its partners by enabling them to raise the ambition of their climate action. By leveraging the risk management capacity of its partners and its own set of investment, risk and results management frameworks, GCF can accept higher risk to support early-stage project development as well as policy, institutional, technological and financial innovation to catalyse climate finance. This capacity to take risk is backed up by a robust second level due diligence system.



## AN AMBITIOUS STRATEGIC PLAN

Building on the success and the experience gained during its first funding period, GCF's Updated Strategic Plan for 2020-2023 sets out an ambitious vision for the GCF to maximise the impact of GCF's climate actions. GCF will maintain its unique features as above, whilst also significantly increasing financing towards and leveraging from the private sector; significantly increasing funding to direct access entities; and improving our speed, predictability, efficiency, effectiveness, and transparency.



## OPEN, PARTNERSHIP ORGANISATION

GCF operates through a network of over 200 Accredited Entities and delivery partners who work directly with developing countries for project design and implementation. GCF partners include international and national commercial banks, multilateral, regional and national development finance institutions, equity funds institutions, United Nations agencies, and civil society organisations. This open partnership enables the Fund to foster unprecedented coalitions between private investors, development agencies and civil society organisations to achieve transformative change and support harmonisation of standards and practices.



## BALANCED ALLOCATION TO ENSURE ADAPTATION FINANCE

GCF is mandated to invest 50 per cent of its resources into mitigation and 50 per cent into adaptation in grant equivalent terms. Two thirds of those adaptation resources (66 per cent) are invested in the most climate vulnerable countries (SIDS, LDCs, and African States). Our programming strategy recognises that we must scale up both mitigation and adaptation efforts. GCF aims to leverage synergies and minimise potential trade-offs between adaptation and mitigation.



## STRONG SAFEGUARDS

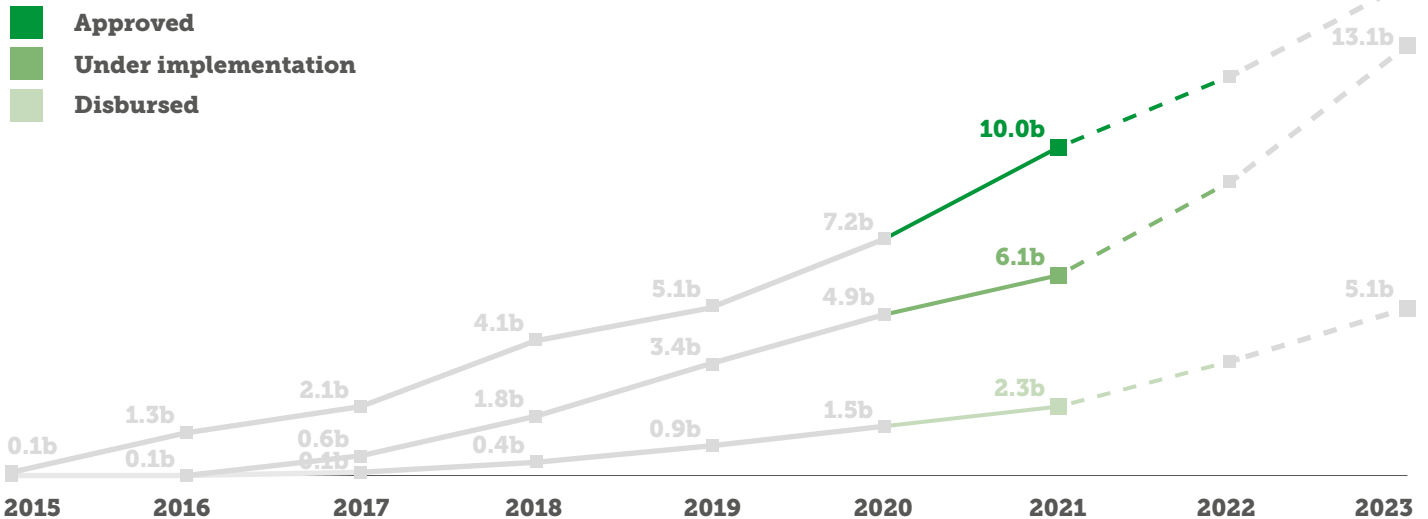
GCF has strong environmental and social standards, a comprehensive gender policy to mainstream gender considerations, and a ground-breaking Indigenous Peoples Policy. GCF also has a three-level project risk management system to identify early warning signals and manage project risks. This consists of Accredited Entities' risk management processes, verified by GCF's accreditation and re-accreditation process, followed by a control function undertaken by the GCF Secretariat throughout the project cycle from project design to implementation. Finally, risks are assessed under GCF's Risk Management Framework including reviews by its Office of Internal Audit and a proactive approach to prevent integrity violations by the Independent Integrity Unit.

# DELIVERING RESULTS

**GCF is delivering results.** Over the past two years, GCF has **doubled** the size of its portfolio, and **tripled** the number of projects under implementation. In spite of the COVID-19 pandemic, GCF is accelerating its support for a climate-resilient recovery and to raise the ambitions of Nationally Determined Contributions (NDCs).

**GCF is the largest multilateral climate fund.** The GCF portfolio has grown to USD 40 billion of assets under management, including nearly USD 11 billion in GCF resources. According to the Heinrich Boll Foundation, GCF was the leader in approving climate finance projects in 2020 (USD 2.2 billion out of USD 3.4 billion total). In 2021, GCF approved nearly USD 3 billion in new climate projects. And we are growing fast: by 2023 we expect our portfolio to reach USD 13 billion.

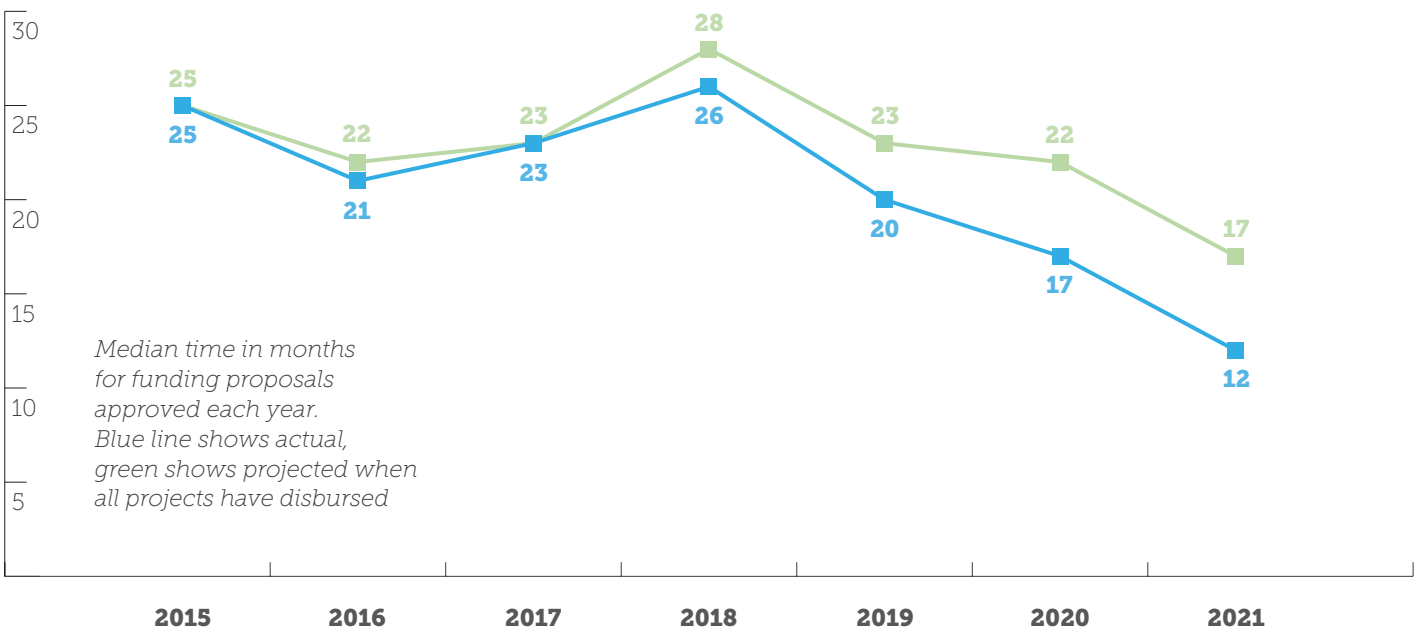
## Projected portfolio growth



**GCF is delivering finance more rapidly.** A total of USD 6.7 billion worth of GCF projects was under implementation at the end of 2021 — almost 80 per cent of the portfolio by the number of approved projects. And GCF disbursed USD 2.3 billion to projects in 2021, exceeding targets for the year.

Our delivery times are getting much shorter too: the average time taken from the start of our review of Funding Proposals to first disbursement has fallen from 26-28 months in 2018 to 12-17 months for projects approved in 2021.

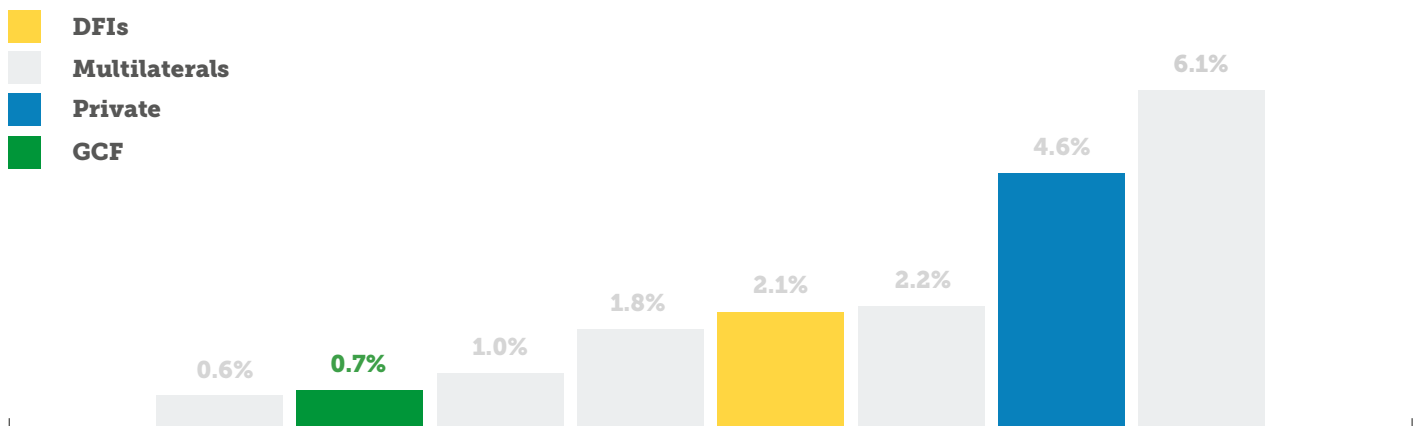
## Time taken from proposal review to first disbursement of funds



**GCF is cost-effective.** An independent assessment of the 'operating expense-to-total approved investments' ratio showed that GCF is on the lower end of the spectrum

relative to 'near-peers'. This ratio has now fallen even further to 0.7 per cent.<sup>1</sup>

## Cost effectiveness compared to peers



**GCF is increasing access.** We are streamlining and simplifying our processes and procedures for countries to secure finance. Initiatives include further streamlining our Simplified Approval Process (SAP) and the Project Specific Assessment Approach (PSAA) – set to launch in 2023, PSAA will allow organisations to bring project proposals directly to GCF for rapid consideration. As well, GCF programming and appraisal manuals and tools – available on the GCF website – and digital platforms help increase transparency and efficiency with partners throughout the project cycle.

**GCF is delivering climate impact on the ground.** Whilst most projects are at an early stage of their lifecycle, we are already seeing significant results. Highlights include the delivery of [Mongolia's first ever private bank-financed solar farm](#), built in little over half a year with XacBank; support for the sustainable development of [Morocco's argan forest](#) to strengthen the resilience of rural communities and preserve the forest; and the integration of gender action plans in all GCF projects that is [strengthening the role of women on the climate change frontline](#).

## MEETING THE GROWING DEMAND TO ADDRESS THE FINANCE GAP

With USD 10 billion pledged to date towards GCF's first replenishment, GCF is on track to programme about USD 1 billion per Board cycle. GCF is facing increasing demand from developing countries to support a low emission climate resilient recovery from COVID-19 over the coming years.

GCF is programming its funds as quickly as they are received from contributors: with USD 13 billion received from contributors to date, we have already programmed USD 12.9 billion for climate action (projects/programmes, readiness programme/project preparation facility, and other expenses).

<sup>1</sup> Review undertaken by Dahlberg Global Development Advisors, annexed to GCF Board document GCF/B.29/05 (<https://www.greenclimate.fund/document/gcf-b29-05>).

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