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

Final Report - Volume I

September 2021

GREEN CLIMATE FUND
INDEPENDENT EVALUATION UNIT

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

FINAL REPORT – VOLUME I

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PREFACE

Humans are able to achieve great marvels, with great intent or under great duress. At different times in history, humans have done wonderous things such as developing agriculture, ballet and a recipe for the perfect hummus. These things were probably not the product of any one individual's vision or intent. These achievements are probably organic – you keep innovating, and some of the innovations lead to an unintended but welcome result.

There are yet other wonderous things such as the pyramids, going into space or the marvel of Netflix. What is common to these achievements? Intent. A small set of individuals probably had a clear vision and some pathways to get there and faced some setbacks and some victories along the way. Yet other wonders are achieved under duress. When faced with the challenge of maintaining world peace or safeguarding public health, humans developed peacekeeping institutions and vaccines. Overall, the result is a path-breaking (or paradigm-shifting) achievement that changes the course of humanity.

To achieve one such paradigm shift, the Green Climate Fund (GCF) was established with great intent to address one of the greatest challenges of our civilization, and was designed based upon lessons learned from all the previous experience of multilateral institutions. Among other things, it was given a specific mandate related to the private sector. Several years into operations, are we able to achieve the intended wonders? Is the GCF's approach to the private sector helping it meet its ambitious mandate? The evaluation of the GCF's approach to the private sector began with some of these questions.

As an evaluator, allow me to lay out things we know and things we don't quite know. What do we know for sure about the private sector, climate and GCF? First, climate change is certainly here, now, pressing, ever more urgent and dire than previously anticipated. Second, the intent behind the establishment of the GCF was precise, intentional and quite visionary. There is a specific mandate related to the private sector. The GCF is expected to directly and indirectly finance climate action, use a country-driven approach, and focus on local actors and in vulnerable countries. Third, the investor interest and landscape have changed. There is an interest in making investments that are climate responsible. Fourth, the mandate of the GCF is unique and specific. This has never been attempted, let alone achieved, before. We really have to learn as we go along.

There are several things we don't know. There are at least two subjective areas where we can develop certainty. First: where exactly are we going? The overall goals of the GCF and climate change are large, and there are several choices and pathways to reach these goals. As a principle, it is useful to have some flexibility to address the ever-changing and dynamic area of climate change. But there is ambiguity in the specific targets, and the GCF needs to make choices constantly. Through this evaluation, we know that there is an opportunity steer the GCF private sector portfolio to align with targeted results and geographies. Once this "direction of travel" is identified, we need to know the second area: how we will get there? Do we want to travel fast, or do we want to travel comfortably? Do we want to focus on the passengers that need extra support, or do we take everyone along at the same pace? What are we to do if there are trade-offs? Again, these are subjective but essential choices.

Let me end with a word of appreciation for the team that undertook this evaluation. They did so under a degree of duress, with several procedural challenges. But this team of authors rose to the challenge, going above and beyond the call of duty to produce a report that meets the standards in terms of quality and promised timelines. This team really made the evaluation greater than the sum of its parts. I am proud to present, on behalf of the authors, the report of the independent evaluation of the Green Climate Fund's approach to the private sector.

We remain hopeful that this evaluation will serve its due role in informing the Board and the GCF, and help this institution to make choices to meet its vast mandate.

Archi Rastogi, PhD.

Independent Evaluation Unit

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As they say, it takes a village. This evaluation really was undertaken by a village and then some. The evaluation team acknowledges the support of several colleagues.

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The evaluation team consulted an Advisory Panel, including Dr. Aaron Maltais (Senior Researcher fellow, SEI), Dr. George Marbuah (Research Fellow, SEI), Dr. Pieter Pauw (Senior Project Manager, FS-UNEP Centre) and Geeta Batra (Chief Evaluation Officer and Deputy Director, GEF). We thank them for their insightful and practical advice to the evaluation team.

Mr. Edoardo Cavallo and Mr. Adam Gibbon for NatureBased Ventures conducted the study on concessionality. Ms. Leila Swan, Ms. Dana Agrotti and Ms. Mattea Mrkusic supported the evaluation work with data collection and analysis. Ms. Beverley Mitchell edited the report, and Ms. Giang Pham designed and formatted the report for publication. Other IEU team members were also instrumental in the completion of this report. Mr. Temurbek Zokirov and Mr. Rishabh Moudgill provided analytical work, while Ms. Viktoriya Khan performed data quality assurance. Ms. Deborah Sun Kim supported on case studies and interviews. Dr. Martin Prowse, Ms. Yeonji Kim, Dr. Anastasia Aladysheva, Mr. Mutukwa Sikatala Ben Musole and Ms. Beatrice Muroni provided invaluable feedback during the final writing of the report. The IEU Communications team contributed to promoting and disseminating the key findings from this evaluation to a wide range of stakeholders. We express our thanks to all of them.

Under the guidance of Mr. Andreas Reumann, Head a.i. of the GCF IEU, this evaluation was a result of collaborative efforts by the IEU and an external team of experts. The IEU team members included Ms. Asha Warsame, Ms. Elangtlhoko Mokgano, Ms. Galyna Uvarova, Ms. Hellen Nassuna, Mr. Peter Mwandri and Mr. Mark Hopkins. The external team included Ms. Maria Garcia Espinosa and Dr. Ryan Hogarth, led by Ms. Daniela Rey Christen. The task manager for the evaluation was Dr. Archi Rastogi.

All responsibility, including for any errors, lies solely with the IEU, which carried out this assessment. Views expressed here are not a reflection of the official views of the GCF Board, nor its members and the countries they represent.

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GUIDE FOR BUSY READERS

The IEU recognizes that its evaluation reports are distributed to a wide range of stakeholders with different objectives and timeframes for reading them.

The IEU makes the following suggestions on how you might approach reading its Independent evaluation of the Green Climate Fund's approach to private sector:

- If you have **15** minutes: The Executive Summary.
- If you have **30** minutes: The Executive Summary, chapter II and chapter VII.
- If you have **120** minutes: The full report.

ABBREVIATIONS

AE	Accredited entity
AF	Adaptation Fund
APR	Annual performance report
CIF	Climate Investment Funds
COP	Conference of the Parties
CN	Concept note
DAE	Direct access entity
DCP	Division of Country Programming
DMA	Division of Mitigation and Adaptation
EPIU	Environmental Project Implementation Unit
FAA	Funded activity agreement
FP	Funding proposals
GCF	Green Climate Fund
GEF	Global Environment Facility
GI	Governing Instrument
GIZ	*Gesellschaft für Internationale Zusammenarbeit*
GHG	Greenhouse gas
IAE	International accredited entity
IEU	Independent Evaluation Unit
IFI	International financial institutions
IRM	Initial resource mobilization
IRMF	Integrated results management framework
iTAP	Independent Technical Advisory Panel
KPIs	Key performance indicators
LDC	Least developed countries
MAF	Monitoring and accountability framework
MDB	Multilateral development banks
MSME	Micro-, small- and medium-sized enterprises
NDA	National designated authorities
NDC	Nationally determined contributions
NOL	Non-objection letter
OECD	Organisation for Economic Co-operation and Development
PPF	Project Preparation Facility
PSAA	Project-specific assessment approach

PSAG	Private Sector Advisory Group
PSF	Private Sector Facility
REEEP	Renewable Energy and Energy Efficiency Partnership
REFiT	Renewable energy feed-in tariffs
RFP	Request for proposals
RPSP	Readiness and Preparatory Support Programme
SCF	Standing Committee on Finance
SIDS	Small island developing States
TAF	Technical Assistance Facility
UNFCCC	United Nations Framework Convention on Climate Change
USP	Updated Strategic Plan

EXECUTIVE SUMMARY

A. INTRODUCTION

As an operating entity of the Financial Mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), the Green Climate Fund (GCF) has the explicit mandate to contribute to the achievement of the ultimate objective of the UNFCCC make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change. The GCF 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. To achieve this objective, the GCF has a clear mandate to catalyse climate finance, both public and private. The following five core provisions are discernible in the GCF mandate on the private sector:

1) Channel private finance, including catalysing finance
2) Country-driven approach
3) Geographical and thematic balance between adaptation and mitigation
4) Efficiency and effectiveness to promote participation of private sector actors
5) Support to enable private sector involvement in small island developing States (SIDS) and least developed countries (LDCs)

During its twenty-seventh meeting, the Board of the GCF requested the Independent Evaluation Unit (IEU) to undertake an independent evaluation of the GCF’s approach to the private sector. This report presents the findings of that evaluation.

The evaluation team was guided by the GCF’s Governing Instrument (GI), the principles established by the Board in the Evaluation Policy for the GCF, and the GCF evaluation criteria provided in the terms of reference of the IEU.[1] The evaluation was carried out from March to August 2021. All data included here, unless otherwise noted, are valid up to 15 July 2021.

Considering the GCF’s mandate, the evaluation serves several objectives. The first is to assess the relevance and effectiveness of the GCF’s approach to the private sector. The evaluation also informs the second performance review of the GCF, which will be undertaken in parallel but conclude later than this evaluation. In parallel, the GCF is developing a strategy towards the private sector, and this evaluation may be used to inform that strategy.

B. KEY FINDINGS AND CONCLUSIONS

Mandate of the GCF:

1) The Board has provided limited guidance to the GCF regarding the private sector approach. The Private Sector Advisory Group (PSAG) was effective, but its term has expired.
2) The Updated Strategic Plan (USP) provides a list of priorities related to the private sector but is limited in its strategic guidance, and these priorities do not necessarily translate into actions and incentives for the Secretariat.
3) There is a lack of clarity regarding how the GCF defines its private sector portfolio. The distinction between the Division of Mitigation and Adaptation (DMA) and the Private Sector Facility (PSF) is artificial, as both divisions can target similar outcomes. The distinction

[1] GCF/B.BM-2021/15

between divisions is unclear, not only to accredited entities (AEs) and countries but also to Secretariat staff, and limits cross-divisional coordination.

4) It is unclear if the GCF, in implementing its long-term strategic vision over the 2020–2023 programming period in the USP, intends primarily to be (i) a high-leverage fund that mobilizes the maximum quantity of investment for a given input of public resources, and/or (ii) a high-risk fund mobilizing and catalysing investments in high-risk and new and emerging markets (particularly, for LDCs and SIDS).
5) The USP does not explicitly or clearly define that the GCF's accreditation, programming capacity and pipeline development related to the private sector will be driven and informed by a "country-driven prioritization" of financial, capacity-building, and technology development and transfer needs.
6) The USP does not clearly set out that the GCF's balanced programming capacity and pipeline development related to the private sector will be driven and informed by the initial resource mobilization's overall outcomes, and through "country-driven prioritizations" of financial, capacity-building, and technology development and transfer needs and priorities.
7) The GCF does not place a strong focus on promoting participation of micro-, small- and medium-sized enterprises (MSMEs) in GCF activities in LDCs, SIDS or African States.

Lessons learned from the landscape of institutions:

8) Evidence from climate funds, international financial institutions (IFIs) and development banks underlines the critical need to focus on enabling environments if the aim is to "catalyse private finance".
9) Evidence from climate funds, IFIs and development banks indicates that access to a diverse range of funding instruments helps to engage and mobilize private finance. Lessons from these institutions and their use of funding instruments demonstrate the importance of flexible financing structures, the principle of "least concessionality", enhanced risk appetites, and innovative blended finance.
10) Evidence from climate funds, IFIs and development banks indicates that the GCF private sector portfolio is targeting the same themes and regions, suggesting limited use of complementarity and coherence.
11) Evidence from climate funds, IFIs and development banks indicates that efforts to finance the private sector, directly and indirectly, require promoting and respecting country-driven processes that set the priorities for private sector engagement.
12) Evidence from climate and development funds indicates that the capacity for MSMEs to engage in climate action is restricted by weak enabling environments, limited knowledge and awareness of investment opportunities, and inadequate financial products.

Business model of the GCF:

13) The choice of access modality is linked to the country-driven approach. However, evidence indicates that the GCF's accreditation process has faced challenges of strategic clarity, which limits the identification and selection of entities for country-driven, private sector projects.
14) The GCF accreditation process has provided a portfolio of diverse AEs. However, it has not yet resulted in a portfolio that is in line with the priorities and mandate of its private sector approach, taking into account dimensions of country ownership, local private sector involvement and supporting the needs of developing countries, particularly LDCs and SIDS. The pool of AEs from the private sector remains very limited.

15) The GCF's accreditation process is perceived as too lengthy and too cumbersome to secure the accreditation of private sector entities, especially for direct access entities (DAEs). The project-specific assessment approach (PSAA) is not expected to address these challenges.

16) The Readiness and Preparatory Support Programme (RPSP) has limited structural linkages with the private sector or PSF. The RPSP has had limited use to encourage the participation of the private sector and has provided limited support to catalytic actions and an enabling policy environment for the sector.

GCF private sector portfolio:

17) The GCF's approach to private sector project development is not effectively country driven, and hence not in line with the priorities of the USP. Country programmes are yet to be deployed to increase the country drivenness of the project pipeline. Multi-country projects have limited effectiveness in country ownership.

18) On average, a PSF project takes 228 days from funding proposal submission to Board approval, with additional time needed for execution and effectiveness. The process and duration are unattractive for the private sector and considered unpredictable, which presents significant barriers, even for large international accredited entities (IAEs).

19) Evidence suggests that while the GCF may be appropriately gauging the concessionality of its funding on a project-by-project basis, at the portfolio level, the GCF has employed a lower risk appetite than that contained in its mandate, and hence has provided limited levels of concessional financing overall.

20) The GCF's overall, portfolio-level use of financial instruments provides another indication that it is not targeting high-risk private sector investments.

21) The PSF portfolio is strongly focused on mitigation, predominantly targeting energy generation and access. This portfolio has had a modest contribution to developing countries' mitigation and adaptation priorities, with limited support for private sector engagement in LDCs and SIDS. While nationally determined contributions (NDCs) are broadly addressed, PSF projects alone are not sufficiently targeting the most urgent NDC priorities of countries.

22) The Project Preparation Facility is underutilized, while Requests for Proposals (RFPs) are not effective or efficient in serving the mandate of the GCF with regard to the private sector. Both RFPs focused on the private sector were not able to fully commit the allocated budget, primarily owing to challenges in the business model.

Results and impacts of the GCF private sector portfolio:

23) The GCF will be unable to credibly measure and report results of its private sector mandate due to two key challenges: (i) the integrated Results Management Framework does not provide a robust framework from which to measure the success – or not – of the GCF's private sector approach, and (ii) the GCF's private sector approach does not include explicit logic models to assign appropriate indicators.

24) The quality of annual performance reports varies, leaving the GCF with limited oversight over AEs' compliance, especially for multi-country projects.

25) There is limited oversight over the reporting of funded activity agreement conditions and their compliance.

26) It takes over 18 months for PSF projects to go from funding proposal submission to first disbursement. AEs' ability to monitor and report against their projected impacts is undermined

by delays in meeting the conditions for the effectiveness of PSF projects, due to changes in the baseline context.

The evaluation's overall conclusion is that the GCF has a clear and unique mandate to engage with the private sector within the context of its role as an operating entity of the UNFCCC. However, the GCF's private sector approach has been largely disconnected from this mandate. The evaluation has found that the GCF has failed to operationalize several provisions set out by the GI and UNFCCC Conference of the Parties decisions. The evaluation's conclusions are structured around five normative provisions.

Conclusion 1. Channelling financial resources and catalysing public and private climate finance.

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." The GCF has successfully channelled new financial resources to developing countries. It has also leveraged large-scale co-funding from public and private sources. However, cha, partly because the process for securing funding through the GCF is slow and highly unpredictable, which presents significant barriers to local private actors that cannot afford the risks and delays associated with accreditation and funding applications. As explained in previous chapters, a distinction needs to be made between catalysing finance and leveraging co-funding. However, the USP uses these words interchangeably and overemphasizes leverage ratios as a measure of the impact of private sector activities. The PSF, in turn, has focused on maximizing leverage in individual projects, rather than the catalysing of private finance for adaptation and mitigation activities more broadly. The catalytic effect of the PSF specifically is likely limited due to its low risk-appetite and lack of funding for the enabling environment.

Conclusion 2. Pursue a country-driven approach.

Article 9.9 of the Paris Agreement states that the GCF, as an operating entity of the Convention, should ensure efficient access to climate finance in the context of national climate strategies and plans. The GI states 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."[2] Additionally, the GI stipulates that "the operation of the [private sector] facility will be consistent with a country-driven approach."[3] Despite this clear mandate to be country driven, the PSF has limited engagement with national governments to align spending on private sector projects with national climate strategies and plans. Under the PSF, project origination is driven primarily by IAEs, with limited country ownership.

Conclusion 3. Directly and indirectly finance private sector mitigation and adaptation.

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."[4] The PSF has directly financed several mitigation projects. These have primarily been implemented by IAEs and heavily weighted towards the energy sector. The PSF has provided very little direct finance for adaptation activities. It has also invested very little to indirectly finance private sector projects – for example, by supporting the upstream enabling

[2] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex I, paragraph 2
[3] Ibid., Annex V, C (2), paragraph 42
[4] Ibid., Annex V, C (2), paragraph 41

environment that indirectly results in private finance flowing to adaptation and mitigation activities.[5,6] GCF support for policy and regulatory reforms, technical capacity-building, readiness and the like is delivered primarily with limited targeting of or consultation with the private sector.

Conclusion 4. Promote the participation of private sector actors in developing countries.

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."[7] MSMEs are central to implementing several mitigation and adaptation actions that are commonly included in SIDS' and LDCs' national climate plans – for example, sustainable fishing practices, climate-smart agriculture, energy efficiency in buildings or small-scale manufacturing, and clean cookstoves. Deployment of these actions tends to require numerous small transactions in local currencies, which will likely be more efficiently deployed through local financial intermediaries, which in turn are likely to be DAEs. While several private DAEs have been accredited, almost no funding is flowing through them, and as a result, the PSF has not delivered its mandate to promote the participation of local private sector actors and financial intermediaries.

Conclusion 5. Support activities to enable private sector involvement in adaptation, particularly in SIDS and LDCs.

The GI states that 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."[8] Additionally, the GI states, "The [private sector] facility will also support activities to enable private sector involvement in SIDS and LDCs."[9] Despite the mandate to balance investment between adaptation and mitigation, the PSF has provided very little funding for adaptation projects at all. The PSF's support for private projects in SIDS and LDCs has focused on directly financing mitigation projects, despite the fact that the countries are recognized under the UNFCCC as highly vulnerable to climate change. A key challenge to financing adaptation projects is to show that they can be profitable and generate revenue streams. Overall, the GCF has had limited results with regard to investments in an enabling environment for private sector adaptation, channelling sufficient finance via DAEs, or exhibiting sufficient risk appetite to achieve its mandate to enable private sector involvement in adaptation in LDCs and SIDS.

C. KEY RECOMMENDATIONS

Based on the above findings, the evaluation has a number of recommendations for how the GCF can better align its private sector approach with its mandate.

Recommendation 1: The Board and the Secretariat may wish to clarify that the GCF is a high-risk fund that aims to catalyse investment in transformative adaptation and mitigation

[5] Jessica Brown and others, *Estimating Mobilized Private Finance for Adaptation: Exploring Data and Methods* (San Francisco and Paris, Climate Policy Initiative and Organisation for Economic Co-operation and Development, 2015). Available at https://climatepolicyinitiative.org/wp-content/uploads/2015/11/Estimating-mobilized-private-finance-for-adaptation-Exploring-data-and-methods.pdf
[6] Jessica Brown and others, *Improving the Effectiveness of Climate Finance: A Survey of Leveraging Methodologies* (San Francisco, Climate Policy Initiative, 2011). Available at https://climatepolicyinitiative.org/wp-content/uploads/2011/11/Effectiveness-of-Climate-Finance-Methodology.pdf
[7] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex V, C (2), paragraph 43
[8] Ibid., Annex I, paragraph 2
[9] Ibid., Annex V, C (2), paragraph 43

projects, rather than only a high-leverage fund that aims to maximize the quantity of co-investment.

strategic short-term

In line with the GI, strategically determine which private sector actors the GCF will target[10] and identify and adopt the appropriate modalities for engaging them.

operational long-term

Accordingly, determine and foster ambitious targets for private sector engagement in all GCF result areas. Develop and scale solutions by sharing new tools, methods, technologies and innovation to achieve these targets, such as systems for results management, including by drawing lessons from comparable climate funds[11].

operational short-term

Adopt a policy on concessionality to require project proposals to systematically assess wider market conditions to determine the private sector's appetite to bear identified risks, the additionality of the GCF finance proposed, and the level of concessionality required to make the project viable. As part of the internal guidance of the GCF on how the policy on concessionality will be applied, indicate that project proposals should only be approved if they demonstrate that GCF finance is targeting identified risks that the private sector is not willing to bear. Where the additionality of the GCF's support is weak, do not undertake any engagement.

operational short-term

Develop and adopt metrics and reporting for measuring the catalytic impact of interventions that do not focus narrowly on leverage ratios, and ensure adaptive management of the project.

operational long-term

Target the private sector portfolio towards higher-risk transformative projects that involve early stage technologies or business models that are not commercially viable, or towards geographies that are high risk due to high interest rates, weak regulatory frameworks, lack of capacity and the like, even if that means funding projects primarily through grants or highly concessional terms that are potentially loss making.

Recommendation 2: The Secretariat should enhance the speed and transparency of GCF operations to align with private sector needs for efficiency and predictability.

operational short-term

Streamline the accreditation process, and thus operationalize the USP priority (Section 4.4, Paragraph 26, Letter B).

operational short-term

Streamline the project approval process, and thus operationalize the USP priority (Section 5.1, Paragraph 29, Letter B).

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[10] For instance, actors may range from fishers and farmers, MSMEs, to international banks, heavy industry and/or corporations.
[11] See the Global Environment Facility's Private Sector Strategy for early lessons for targets on catalysation and measurement of results.

operational
short-term

Clarify the overall objectives of the PSAA and whether it is intended to address private sector needs. Accordingly, adjust the piloting of the PSAA.

operational
short-term

To ensure transparency and accountability, consider using an online tracking system, published average response times for decisions, and incentives to Secretariat staff for rapid processing, among other things.

Recommendation 3: The Secretariat should take measures to ensure that private sector projects are country owned. Access to the GCF should be informed by a country-driven approach, directed and prioritized by the NDC gap analysis.

strategic
short-term

In operationalizing strategic priority 4.1 of the USP, ensure that the accreditation of private sector entities and programming of private sector projects are also informed by country programmes.

strategic
long-term

At the request of countries, provide the means to include the private sector in multi-sectoral planning on financing the implementation of NDCs, NAPs and other national climate plans[12].

strategic
long-term

Promote strong alignment between national climate strategies and GCF private sector projects, and request that national designated authorities (NDAs) define the types of private sector projects that will be supported by the GCF in their countries, including in country programmes.

operational
short-term

Following a critical review of the current experience with RFPs, consider using an RFP for NDA-defined critical projects for the private sector.

operational
short-term

Go beyond the use of no-objection letters to ensure country ownership, especially for private sector projects. Ensure the engagement of NDAs, not just during project approval but throughout the life cycle. In the case of multi-country projects, once countries are selected the same process should apply.

Recommendation 4: The Secretariat should create institutional and organizational structures that operationalize direct and indirect finance for private sector activities.

strategic
short-term

Clearly articulate whether it is the DMA, PSF or another part of the GCF that has the institutional responsibility and strategic priority to provide technical support and funding for the enabling environment for private sector adaptation and mitigation.

strategic
long-term

Revise the GCF Readiness Strategy to ensure the following:

- Structural linkages are built between the GCF's private sector priorities and the RPSP.

[12] Previously recommended by PSAG (GCF/B.20/12)

- The RPSP includes appropriate objectives and outcomes for supporting the enabling environment for private sector adaptation and mitigation.
- Funding is carved out for supporting the enabling environment for private sector adaptation and mitigation, in line with country climate priorities, as outlined in their NDCs. The following are examples of projects that support the enabling environment:
  + Technical support to governments for the policy and regulatory reforms required to scale up private sector adaptation and mitigation
  + Funding for local industry bodies and associations to work with governments to design locally appropriate policy and regulatory frameworks for adaptation and mitigation
  + Training of local financial institutions, including microfinance institutions, in financing adaptation and mitigation activities to unlock finance in local currencies
  + Knowledge creation and peer-to-peer learning among private businesses regarding climate risks and solutions, and improved access to and use of climate data, analysis and projections, which in turn will help to improve private sector decision-making in relation to adaptation

Recommendation 5: Set out as a strategic priority for the GCF to channel finance to MSMEs, exploring access modalities and appropriate instruments for decentralized adaptation and mitigation actions.

operational short-term

Consider the mechanism and modality through which MSMEs can access GCF finance, recognizing the differentiated needs of targeted MSMEs vis-à-vis AEs.

operational long-term

Provide readiness support to accredited local and national intermediaries to build their capacity to channel finance to MSMEs through appropriate instruments for implementing decentralized adaptation and mitigation actions.

operational short-term

Stratify the simplified approval process specifically for private sector needs, with a focus on local actors to increase the efficiency and predictability of access to financial resources[13].

Recommendation 6: The GCF Board and Secretariat should expand the focus on financial instruments and GCF support specifically to enable private sector investment in adaptation, particularly in SIDS and LDCs.

operational short-term

Enhance GCF institutional and organizational capacity on adaptation, and review investment criteria, monitoring templates and indicators for adaptation and cross-cutting projects. Align adaptation investment criteria and indicators with

[13] The IEU previously recommended that the Secretariat take a tailored approach to the private sector and include a separate sub-strategy for attracting the private sector within a future SAP modality/modalities strategy. See: GCF, *Independent Assessment of the GCF's Simplified Approval Process Pilot Scheme, Final Report* (Songdo, South Korea, Independent Evaluation Unit, 2020).

Intergovernmental Panel on Climate Change definitions of adaptation, vulnerability, climate risks and exposures[14].

operational short-term

Consider financial innovations tailored to needs and context.[15] Increase the GCF's risk appetite to experiment with financial instruments and business models that can help improve the economics of private sector adaptation or cross-cutting projects.

operational short-term

Design Secretariat-level KPIs that support private sector projects in SIDS and LDCs.

[14] As previously recommended by PSAG (GCF/B.20/12), the GCF may allow for SIDS and LDCs to involve the private sector in the development and implementation of national adaptation plans and enhance peer-to-peer learning on private sector adaptation projects.

[15] As previously recommended by PSAG (GCF/B.20/12), some activities may include weather-indexed crop insurance and catastrophe risk insurance, resilience bonds, dedicated green/blue bonds and innovative financing for ecosystem-based management.

MAIN REPORT

Chapter I. INTRODUCTION

A. OVERVIEW

1. 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 or Convention hereafter). The goal of the GCF is to promote a paradigm shift towards low-emission and climate-resilient development pathways in developing countries. The GCF's Independent Evaluation Unit (IEU) has the mandate to discharge an accountability function and to support a learning function.[16] Both are central to the GCF as a learning organization and are laid out in its GI.
2. At its twenty-seventh meeting, in October 2020, the Board of the GCF approved the IEU's annual workplan for 2021.[17] This workplan includes an independent evaluation of the GCF's approach to the private sector. This report presents the findings of that evaluation.

B. OBJECTIVES AND SCOPE OF THE EVALUATION

3. The independent evaluation of the GCF's approach to the private sector serves several objectives. The first is to **assess the relevance and effectiveness of the GCF's approach to the private sector**. The evaluation also **informs the second performance review of the GCF**. This review will be undertaken in parallel to but conclude later than this evaluation. The GCF is also developing a **strategy towards the private sector**, and this evaluation may be used to inform that strategy.
4. In pursuing these key objectives, the evaluation team was guided by the GI, the principles established by the Board in the Evaluation Policy for the GCF, and the GCF evaluation criteria provided in the terms of reference of the IEU.[18] These criteria were applied to each of the key evaluation questions, creating an evaluation matrix to guide data gathering and analyses. The scope of the evaluation included the Private Sector Facility (PSF), as well as other parts of the GCF business model and operations. In the absence of a delineated GCF approach to the private sector, this evaluation has assessed evident private sector approaches exercised across the Fund, including the accreditation of private sector entities, the portfolio of private sector accredited entities (AEs), the use of non-grant financial instruments, the use of the Readiness and Preparatory Support Programme (RPSP) in regard to the private sector, and project-level engagement with the private sector in countries. See Annex 1 for details of the methodology.

C. LIMITATION OF THE EVALUATION

5. **Limited clarity over what constitutes the private sector portfolio**. Within the GCF, the private sector portfolio is often illustrated in many ways, such as the portfolio of AEs, the volume of finance leveraged and the portfolio with the PSF. Therefore, depending on the context, this evaluation variably makes use of the terms "AE portfolio", "PSF portfolio" and "GCF portfolio". While we use PSF portfolio illustratively, this is not the entirety of the GCF portfolio. In some other cases,

[16] Decision GCF B.16/07
[17] Decision GCF B.27/08
[18] GCF/B.BM-2021/15

however, we examine the specific mandate of the PSF, and in such cases we consider the specific portfolio of the PSF on dimensions provided for within the GI.

6. **Limited maturity of portfolio projects.** Most GCF private sector projects are in early phases. Most have not yet started implementation (15 out of 35 approved PSF projects had not received their first disbursement as of August 2021), which limits the scope to assess higher-level results and sustainability.
7. **Limited data access.** The availability, completeness and consistency of data affect the assessment of portfolio effectiveness. Data was limited with respect to project-level information, particularly in the annual performance reports (APRs). Due to the structure of the template, APRs provided limited information on some indicators regarding the implementation of the projects, as most projects were still in the early implementation stages. The evaluation team was informed that no PSF projects have completed interim or final evaluation reports of funded activities.
8. **Administrative delays.** The launch of this evaluation faced severe delays due to delays in the procurement process. Originally scheduled to commence in January, the evaluation was eventually launched only in late April. This created a significant limitation on the time available to undertake the evaluation.
9. The evaluation team has undertaken several steps to address these and other limitations, including measures to ensure reliability and validity. The team has also undertaken steps to ensure rigour in data collection, to provide credible and reliable evidence. Please refer to Annex 1, on the methodology, for further details.

D. STRUCTURE OF THE DOCUMENT

10. This evaluation report is organized into seven chapters. 0 introduces the objectives, scope and limitations of the evaluation. 0 examines the strategic priorities set out in the Updated Strategic Plan 2020–2023 (USP) in the context of operationalizing the GCF’s mandate regarding the private sector and in the context of the GCF’s overall mandate as an operating entity of the financial mechanism of the UNFCCC. **Chapter III** identifies relevant lessons from climate and development funds, and opportunities for coherence and complementarity. **Chapter IV** evaluates the suitability of the business model from the perspective of the GCF mandate related to the private sector. It also reviews the role of the RPSP. **Chapter V** evaluates the suitability of the project portfolio of the GCF to its mandate on the private sector. It also reviews the roles of the Project Preparation Facility (PPF) and dedicated access modalities. **Chapter VI** provides an analysis of results and impacts of the GCF’s private sector approach. **Chapter VII** provides the overall conclusions and recommendations of the evaluation.

Chapter II. OPERATIONALIZATION OF THE MANDATE OF THE GCF WITH REGARD TO THE PRIVATE SECTOR

A. INTRODUCTION

11. This chapter assesses the relevance and coherence of the strategic priorities set out by the USP, in the context of operationalization of the mandate of the GCF regarding the private sector and in the context of the GCF's overall mandate as an operating entity of the financial mechanism of the UNFCCC. In this way, this chapter speaks directly to the two underlying evaluation criteria: relevance and coherence.
12. One key question is discussed and analysed in this chapter: To what extent are the strategic priorities outlined in the USP relevant and coherent with the GCF's mandate regarding the private sector and with the GCF's overall mandate as an operating entity of the Convention?

B. BACKGROUND

13. As an operating entity of the financial mechanism of the UNFCCC, a role confirmed in the Paris Agreement, the GCF is "accountable to and function[s] under the guidance of the COP [Conference of the Parties]".[19] The COP provides annual guidance to the GCF on the latter's policies, programmes, priorities and eligibility criteria with regard to the operation of the Financial Mechanism of the Convention.[20] The GCF acts on the guidance received from the COP and submits annual reports for the COP's consideration and further guidance.[21]
14. The mandate of the GCF is further contextualized by the Paris Agreement and the commitment by developed countries to continue taking the lead in mobilizing climate finance from a wide variety of sources[22] and to "continue their existing collective mobilization goal [USD 100 billion per year by 2020] through 2025 in the context of meaningful mitigation actions and transparency on implementation".[23] The Fund will receive financial inputs from developed country parties to the UNFCCC and may also receive financial inputs from a variety of other sources, public and private, including alternative sources.[24]
15. 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 therefore applicable to the GCF's private sector approach. Article 9.4 the Paris Agreement places particular emphasis on the balance between mitigation and adaptation (although it does not prescribe a precise definition of this balance), the need for funding allocation that responds directly to country-driven needs and priorities, and the need for public and grant-based finance for adaptation. Article 9.9 provides that institutions such as the GCF would have simplified application and approval procedures, and provide enhanced and tailored readiness support. Therefore, the themes outlined in Table II-1 below are particularly important to recall in the context of examining the overall operationalization of the

[19] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, paragraph 3
[20] Ibid., paragraph 5
[21] Ibid., Annex II A, paragraph 6a
[22] FCCC/CP/2015/10/Add.1, Article 9, paragraph 3
[23] FCCC/CP/2015/2/Add.1, Decision 1/CP.21, paragraph 53
[24] FCCC/CP/2011/9/Add. 1, Decision 3/CP.17, Annex IV, paragraphs 29 and 30

mandate of the GCF with regard to the private sector. These themes encompass a set of normative principles, which are reflected in the GCF's GI and examined in this chapter.

16. In addition, to fulfil the obligations established by the Paris Agreement's Articles, the COP adopted several decisions that guide their effective implementation, which are also relevant to the GCF's private sector approach and priorities within the overall mandate of the GCF (See Annex 2 for discussion on how these decisions relate to the objectives and principles of the GCF's GI).

Table II-1. Provisions of the GI relevant to the private sector

THEME	GCF GOVERNING INSTRUMENT PROVISIONS
Channel private finance, including catalysing finance	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."[25] "The Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources".[26] 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."[27]
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."[28] Additionally, the GI stipulates that "the operation of the **[private sector] facility will be consistent with a country-driven approach.**"[29]
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."[30] 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."[31]
Efficiency and effectiveness to promote participation of private sector actors	The "Fund will operate in a transparent and accountable manner guided by efficiency and effectiveness."[32] 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."[33]
Support to enable private sector involvement in the small island developing States (SIDS) and LDCs	The GI provides 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 facility will also support activities to enable private sector involvement in SIDS and LDCs."[34]**

[25] Ibid., Annex I, paragraph 3
[26] Ibid., Annex IV, paragraph 30
[27] Ibid., Annex V, C (2), paragraph 41
[28] Ibid., Annex I, paragraph 2
[29] Ibid., Annex V, C (2), paragraph 42
[30] Ibid., Annex I, paragraph 2
[31] Ibid., Annex V, C (2), paragraph 41
[32] Ibid., Annex (2), 52, paragraph 2; GCF Governing Instrument, paragraph 2
[33] Ibid., Annex V, C (2), paragraph 54
[34] Ibid., paragraph 43

C. FINDINGS AND ANALYSES

1. STRATEGIC GUIDANCE

17. **Finding 1: The Board has provided limited guidance to the GCF regarding the private sector approach. The Private Sector Advisory Group (PSAG) was effective, but its term has expired.**

18. Specific to the private sector, the Board has taken decisions on topics such as the business model framework of the PSF,[35] the operationalization of the PSF and its modalities,[36] a pilot programme on micro-, small- and medium-sized enterprises (MSMEs)[37] and decisions on the terms of reference and membership of the Private Sector Advisory Group (PSAG).[38] However, interview respondents deemed this guidance insufficient to set the strategic direction of the private sector approach of the GCF and raised it as a key issue in interviews.

19. The GCF Board formally established the PSAG at its fifth meeting.[39] The PSAG consists of 10 private sector representatives, 5 from developing countries and 5 from developed countries; in addition, four representatives of the GCF Board are members of the PSAG.[40,41] From B.07 until B.23, the PSAG provided recommendations to the GCF Board on such topics as instruments to mobilize private sector resources,[42] engaging the private sector in adaptation[43] and the development of a private sector outreach plan,[44] and the private sector strategy.[45] In a limited distribution document, the PSAG was assessed relatively highly on perceptions of effectiveness, importance to the Board's decision-making and overall satisfaction. Its documents were rated as relatively significant outputs among all the outputs from GCF committees. Several interview respondents recalled the important "consultative role" played by the PSAG as an advisory body that could speak to the needs of private sector actors and thus help guide the GCF's private sector engagement.

20. The PSAG was established for an initial three years at B.05; at B.12 the Board renewed the PSAG for a further three years. However, the term of the PSAG members ended in 2019, and the PSAG ceased to exist. A report from the PSAG was last submitted to the Board at B.23. While the PSAG may have been viewed as relevant and effective in delivering reports to the Board, the results of its reports were limited on account of other processes. There was limited buy-in from the Board on the PSAG's recommendations, according to the limited distribution document referred to above. The PSAG struggled to have items included on what several Board Members described as an already overloaded agenda. A member of the PSAG recalled: "In 2018 PSAG was asking for items on the

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[35] GCF/B.04/08
[36] GCF/B.09/09 and GCF/B.06/04
[37] GCF/B.13/22
[38] GCF/B.05/13 and GCF/B.13/05
[39] GCF/B.05/13
[40] GCF/B.05/23, Annex XIX
[41] The role of the PSAG, as set out in its terms of reference, is to make recommendations to the Board and the PSF on the GCF's engagement on:
- how to engage the private sector to catalyse, mobilize and leverage flows of private climate finance in developing countries,
- the design and application of the Fund's policies, procedures and financial instruments,
- engaging the private sector in climate-resilient development, particularly in Africa, and in adaptation activities at national, regional and international levels,
- activities to enable private sector engagement in low-emission and climate-resilient development in small island developing States and least developed countries, and
- to respond to other matters on which its advice is sought by the Executive Director or the Board.

[42] GCF/B.08/38
[43] GCF/B.20/12
[44] GCF/B.19/30
[45] GCF/B.23/12/Add. 1

agenda – including some studies on adaptation. As always, the agenda was overloaded. We were never able to open the items." An interviewee remarked, "You need that body again. You should have more local private sector actors in it. When they give advice, it should be followed." One Board Member remarked, "the Board is micromanaging. We are going letter by letter and word by word. This is [not acceptable]." An interview respondent suggested that a less managerial approach to governance and policymaking could "empower the Secretariat to be more effective in terms of delivering projects."

2. Translating the USP into action

21. **Finding 2: The USP provides a list of priorities related to the private sector but is limited in strategic guidance, and these priorities do not necessarily translate into actions and incentives for the Secretariat.**

22. The Board approved the USP to provide overall strategic direction to the GCF for 2020–2023. One of the strategic objectives of the USP is to catalyse private finance at scale. The USP posits that making financial flows managed by the private sector consistent with pathways towards low greenhouse gas (GHG) emissions and climate-resilient development is key to realizing the scale of resources needed to implement developing countries' priorities and other climate strategies.[46] The USP outlines a set of strategic areas and actions for the GCF's private sector approach. The USP identifies four focus areas for the GCF's 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".[47] It also identifies seven key actions for the private sector: (i) identifying and increasing private sector engagement potential across results areas, (ii) strengthening engagement capacity, investment environments and climate-oriented financial systems, (iii) structuring to mobilize private sector resources at scale, (iv) supporting private sector engagement in all developing countries, including least developed countries (LDCs) and small island developing States (SIDS), (v) enhancing the role of the private sector in adaptation, (vi) executing a private sector outreach plan, and (vii) the staged development of the PSF modalities.[48]

23. There are many challenges in operationalizing these actions. First, several targets of the USP are relative to the initial resource mobilization (IRM), and these are not deemed ambitious enough or to correspond to the mandate of the Fund. Second, many of the key USP targets are qualitative in nature (for instance, "engagement" and "structuring") and are not sufficiently operationalized through quantitative targets. Third, many targets of the USP are not sufficiently operationalized by the Secretariat's key performance indicators (KPIs) and targets.

24. To illustrate, the evaluation team reviewed the KPIs and targets identified in the Secretariat's annual workplan and assessed whether these may be sufficient to achieve the priorities within the USP. The evaluation team found that certain USP priorities do not have directly associated KPIs. Such USP priorities include, for instance, supporting private sector engagement in all developing countries – including LDCs and SIDS – and enhancing the role of the private sector in adaptation. For other priorities, the achievement of KPIs may not result in full achievement of the USP priorities. For instance, against the overall USP priority to catalyse private sector finance at scale, the Secretariat has identified several KPIs and their associated targets. These targets include instituting a system for

[46] GCF, *Updated Strategic Plan for the Green Climate Fund: 2020–2023* (Songdo, South Korea, Green Climate Fund, 2020), paragraph 21.
[47] Ibid., paragraph 22
[48] Ibid., paragraph 23

tracking concept notes (CNs) and funding proposals (FPs) developed with readiness support and to support five CNs/ FPs through PPF technical assistance. Further, the Secretariat established a target of four direct access entity (DAE) FPs, with a total budget of USD 180 million, led by the PSF.

25. While these targets may individually be achieved, in the view of the evaluation team they are not sufficient to achieve the more ambitious outcomes of the USP. Yet other targets remain qualitative. For instance, the KPI on "High quality, country-driven CN & FP developed through RPSP and PPF" does not illustrate the "high quality" that is expected from the CNs. Overall, the evaluation finds that the USP targets related to supporting private sector engagement in all developing nations, including the SIDS and LDCs, and enhancing the role of the private sector in adaptation are not likely to be achieved through the current KPIs.

26. Most Secretariat staff interviewed for this evaluation indicated that while the USP provides high-level strategic guidance in terms of GCF objectives, it does not sufficiently clarify how to reach these objectives. This lack of clarity results in uncertainty regarding the priorities when engaging with private sector FPs on a day-to-day basis. The situation is further exacerbated by the lack of incentives to operationalize the strategic emphases on DAEs and adaptation. One respondent raised the example of the objective to channel more funding through DAEs: "There is no push for me to say, 'I don't want to work with [an IAE]', and instead find DAEs. None of this is there." Another respondent commented on the priority related to adaptation projects and noted that task managers are currently bringing "low-hanging fruit" (such as energy projects). Such projects are considered relatively simple to develop, because of the predictable outcomes of their reviews and established procedures. Adaptation projects, on the other hand, require more time and effort and are thus less likely to be brought forward by task managers.

27. The lack of incentives also relates to limited interest among Secretariat staff to develop potentially high-risk projects. Although the GCF is generally expected to take more flexible, risky financial structures that would help to distinguish it from the multilateral development banks (MDBs), one respondent recalled fearing reprisal or reproach for supporting risky investments: "When taking a risky position, there are chances that the money will not be recovered. People are unwilling to take responsibility for these risky decisions. 'Will there be a witch hunt if this falls through?' Instead, we are adopting the cookie-cutter approach [to project development] being taken by the MDBs. We need to develop a synchronized approach within the Secretariat to these decisions [on risk-seeking investments]."

3. Operationalising the PSF

28. **Finding 3: There is a lack of clarity regarding how the GCF defines its private sector portfolio. The distinction between the Division of Mitigation and Adaptation (DMA) and the PSF is artificial, as both divisions can target similar outcomes. The distinction between divisions is unclear, not only to AEs and countries but also to Secretariat staff, and limits cross-divisional coordination.**

29. The private sector portfolio of the GCF is variably described as the portfolio of the PSF, portfolio of private sector AEs, use of financial instruments or leverage of co-finance. This makes it unclear how the GCF defines its private sector portfolio. The GI provides for the PSF, and the Board of the GCF constituted it at B.04.[49] However, the boundaries between the PSF and the Division of Mitigation and Adaption (DMA) are blurred. The GCF Operations Manual does not provide definitive guidance for categorizing DMA and PSF projects, only stipulating that the "DMA is responsible for … all

[49] GCF/B.04/08

public sector projects", while the PSF "leads the development and structuring of all private sector concept notes and funding proposals."[50] Although there is an operational distinction, the DMA portfolio does include FPs with similar outcomes to those of the PSF. For example, FP082 (Catalyzing Climate Finance – Shandong Green Development Fund) is categorized as a public sector project, although it aims to "catalyse private finance by offering adequate returns … through the blending of public finance, concessional donor finance, and private finance."[51] The Operations Manual provides a more operational definition in the context of public and private finance, and relates it to the financial resources that are provided for the implementation of a funded activity.[52] This definition determines the operational distinction between the DMA and the PSF.

30. This distinction between the DMA and the PSF is unclear to most interview respondents, including within the GCF Secretariat. One respondent stated that "there is no basis. They are divided based on who the ultimate financier of a project is. They don't take into consideration who the AE is." "Private sector projects" are often perceived as strictly those within the PSF portfolio, even though many PSF proposals are qualitatively similar to DMA proposals, or proposals coming through MDBs (and not strictly through AEs identified as private sector). As another respondent noted, the "big challenge is how to define the private sector. The way we report it, the private sector is PSF. However, a lot of investments enable private sector involvement."

31. A functional distinction is that DMA staff includes sectoral specialists and the PSF staff includes financial experts. This distinction is not seen as optimal by respondents, who suggested that there is a need for further coordination between divisions. Most Secretariat respondents noted that the sharing of expertise is currently based upon individual relations and professional goodwill, as opposed to institutional design. According to one respondent, "both DMA and PSF have done a good job in going beyond their scope of work to go into origination and getting pipelines built. But we still take on much more at a personal level in order to get things done than is done at the corporate level." The issue of a lack of incentives to work across divisions was also noted in interviews, with respondents indicating that roles and responsibilities are not clearly defined at present. Many respondents argued that a coordinated, interdivisional approach to managing project proposals is needed, with some outlining an "ideal scenario" in which the Division of Country Programming (DCP) and DMA engage with countries to enable PSF and private sector involvement at a later stage when projects are more mature. In addition, the challenge of capacities and staff retention at the PSF was raised by Secretariat interviewees.

4. CHANNELLING PRIVATE FINANCE

32. **Finding 4: It is unclear if the GCF, in implementing its long-term strategic vision over the 2020–2023 programming period in the USP, intends primarily to be (i) a high-leverage fund that mobilizes the maximum quantity of investment for a given input of public resources, and/or (ii) a high-risk fund mobilizing and catalysing investments in high-risk and new and emerging markets (particularly for LDCs and SIDS).**

33. In implementing its long-term strategic vision over the 2020–2023 programming period, one of the USP's strategic objectives is "significantly increased portfolio level mobilization achieved through

[50] GCF, *Operations Manual (OM) for the project and programme cycle* (Songdo, South Korea, 2020), p.81.
[51] More information on FP082 can be found here: *https://www.greenclimate.fund/project/fp082.*
[52] Private Finance: All financial resources that are provided for the implementation of a funded activity from entities that are more than 50 per cent owned and/or controlled by private shareholders.
Public Finance: All financial resources, other than GCF proceeds, that are provided for the implementation of a funded activity from the public sector or entities that are more than 50 per cent owned and/or controlled by the public sector.

the GCF contributions to private sector projects under the PSF, relative to the IRM."[53] One of the strategic objectives of the USP is to catalyse private sector finance at scale. An implied assumption here is that making financial flows managed by the private sector consistent with pathways towards low GHG emissions and climate-resilient development is key to realizing the scale of resources needed to implement developing countries' priorities and other climate strategies. The third strategic priority 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's 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 a country-driven approach.

34. There is a lack of clarity, however, as to whether the GCF intends to be (i) a high-leverage fund that mobilizes the maximum quantity of investment for a given input of public resources, or (ii) a high-risk fund mobilizing and catalysing investments in high-risk and new and emerging markets (particularly, for LDCs and SIDS). The evidence suggests that several factors are driving this uncertainty.

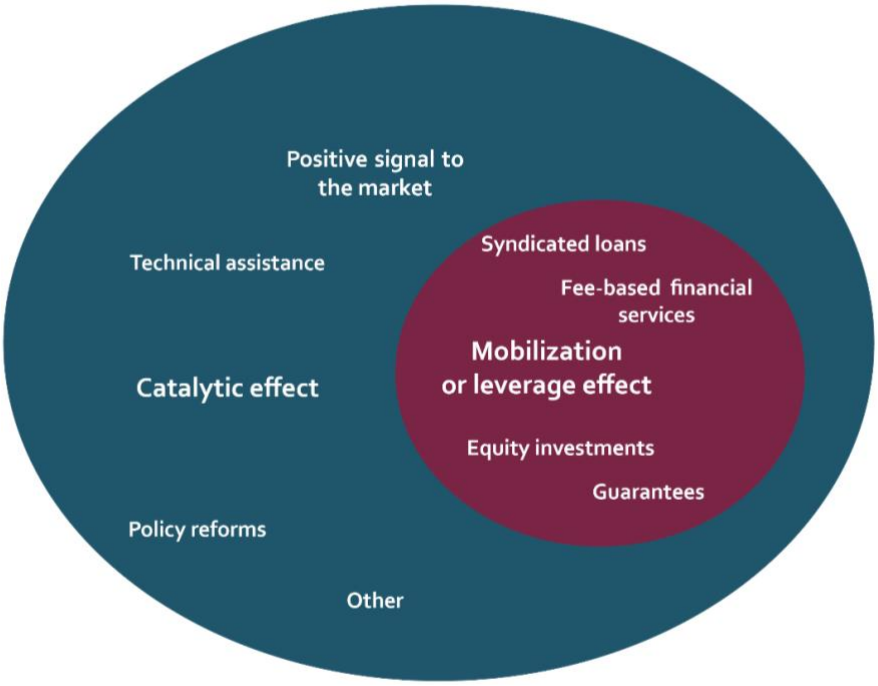
1) The GCF generally, and the USP specifically, are not consistent in definitions.

35. In the GCF documentation, the term "catalyse", in the context of public and private finance, is not defined. In the USP, words such as "mobilize", "catalyse", "leverage" and "co-finance" are often used interchangeably, with varying degrees of precision and consistency. Experts agree[54] that it is important to distinguish among these terms and their objectives (see Figure II-1), with the implication that this clarity could help the GCF's private sector approach to be "directly and indirectly financing the private sector",[55] in alignment with the GI:

- "Catalyse" usually refers to actions aimed at stimulating positive change. The result of such actions – the catalytic effect – may be non-financial (transfer of knowledge, sharing of new practices, introduction of a policy, etc.).
- "Mobilize" and "leverage" are usually used more restrictively to refer to the ways in which specific mechanisms stimulate the allocation of additional financial resources to particular objectives, as per the GCF's policy on co-financing.[56] In the context of Organisation for Economic Co-operation and Development (OECD) methodological work, the term "leverage" is usually associated with a quantitative indicator, such as a leverage ratio, whereas "mobilize" refers to a causal link between private finance made available for a specific project and the official flows that were used to incentivize them.

[53] The USP highlights that the initial resource mobilization's private sector co-financing ratio was 1:3.
[54] J. Benn, C. Sangaré and T. Hos, "Amounts mobilised from the private sector by official development finance interventions: Guarantees, syndicated loans and shares in collective investment vehicles", OECD Development Co-operation Working Papers, No. 26 (OECD Publishing, Paris, 2016). Available at https://doi.org/10.1787/8135abde-en
[55] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17, Annex V, C (2), paragraph 41.
[56] GCF/B.24/17.

Figure II-1. Catalytic versus mobilization or leverage effects



Source: Adapted from Benn, J., and others (2016)

2) The USP overemphasizes leverage ratios as a measure of the impact of private sector-funded activities.

The USP provides that portfolio-level mobilization of private finance will be assessed through the indicator of private sector co-financing that is leveraged through GCF investments.[57] This is also not aligned with the GCF's policy on co-financing.[58] Experts agree that leverage ratios may not always be an effective key results indicator, and this has been noted in a COP document.[59] This COP document states that high leverage ratios may not always indicate an effective use of public finance, as ratios can also be high in interventions that are the most commercially viable. Moreover, though leverage ratios can be helpful to track the flow of private capital to specific projects, they are inadequate – and sometimes even misleading – in measuring the success of public climate finance in leveraging private capital.[60] Traditional leverage ratios do not capture important public sector activities such as policy development and technical support, which are critical to fostering attractive investment conditions but not easily measured.[61] Moreover, leverage ratios alone would not capture the "additionality" of GCF funding – that is, whether GCF funding mobilizes new private finance for projects or crowds out private finance that would have been forthcoming without GCF support.

[57] GCF, *Updated Strategic Plan for the Green Climate Fund: 2020–2023*, page 4, footnote 7.
[58] GCF/B.24/04, paragraph 9: "While maximizing Co-financing is desirable, GCF will avoid using Co-financing metrics as stand-alone targets since maximizing climate mitigation and adaptation results does not necessarily equate with minimizing or optimizing spending on climate mitigation and adaptation. Co-financing ratios as well as expected levels of Mobilized Private Finance or Leveraged Private Finance should therefore not become stand-alone targets, as this may disincentivize GCF from financing projects/programmes with strong impact potential and high paradigm shift potential."
[59] FCCC/CP/2016/10/Add.1, Decision 8/CP.22/, Annex, paragraph 35.
[60] Shally Venugopal and Aman Srivastava, *Moving the Fulcrum: A Primer on Public Climate Financing Instruments Used to Leverage Private Capital* (Washington, D.C., World Resources Institute, 2012). Available at https://www.wri.org/research/moving-fulcrum
[61] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*, Policy Paper (Washington, D.C., Center for Clean Air Policy, 2017). Available at http://ccap.org/assets/CCAP-Mobilizing-Private-Sector-Investment-for-NDCs-July-2017.pdf

The USP does not consider or allude to qualitative and quantitative dimensions to measure the impacts of private sector funded activities and the extent to which they are achieving results on the ground. Research suggests that efforts to measure the "catalytic" effect of the non-financial actions should be an integral part of the thinking that goes into the design of every project, investment or activity, even if it is difficult to measure the impact with precision. It should also be an integral aspect of any effort to assess the additionality and the extent to which funded interventions are able to "crowd in" the private sector.[62,63]

Research further shows that private finance investments into low-emission and climate-resilient projects are typically the result of a combination of climate-related public finance and policy interventions, in the context of broader policy environments and enabling conditions.[64] The effect of these different factors on private finance can be more or less direct. While some improve the overall readiness of private sector actors to invest in a given country and climate-related sector or technology, others mobilize private finance for climate action more directly by improving the risk–return profile of specific low-emission and climate-resilient projects. Research also shows there are several ways that public funds can improve the risk–return profiles for private companies, ranging from direct investment in low-emission and climate-resilient businesses or projects, to altering the tax or regulatory regime under which they operate[65] (see Annex 2, Table 2).

As per the GI of the Fund, the PSF is expected to both "directly and indirectly finance" private sector mitigation and adaptation activities. **The operationalization of this provision requires that the GCF has a clear emphasis on catalytic actions, which can create new opportunities in countries and markets where alternative sources of support are absent or inadequate, to promote transformative action where it otherwise would not occur.** A number of interviewees also raised this issue, stating for instance that it "would be better for the GCF if they took more of an approach on capacity-building and less about scale of financing", and that the "GCF would be more useful as a signal- / standard-setting body rather than aiming to completely shift the financial flows by itself", and "At present the GCF is following the MDB approach and only coming in when the market is already developed, thus not meeting its mandate".

The *COP26 private finance strategy to drive Whole Economy Transition* that was launched under the leadership of the UN special envoy for climate action and finance, Mark Carney, in February 2020[66] and published in November 2020[67] has highlighted that **the domestic policy and enabling environment is critical to unlocking private finance at scale.** Additionally, the Climate Finance Leadership Initiative, the Association of European Development Finance Institutions and the Global Infrastructure Facility have, in partnership, set out to raise the profile of enabling environment priorities in terms of their potential to catalyse new private climate finance at scale. Moreover, the

[62]Organisation for Economic Co-operation and Development, *Development Co-operation Report 2016: The Sustainable Development Goals as Business Opportunities* (Paris, OECD Publishing, 2016).
[63] MDB Task Force on Mobilization, *Mobilisation of Private Finance by Multilateral Development Banks and Development Finance Institutions 2019* (MDB Task Force on Mobilization, 2021).
[64] Ivan Hascic and others, "Public Interventions and Private Climate Finance Flows: Empirical Evidence from Renewable Energy Financing", OECD Environment Working Papers, No. 80 (Paris, OECD Publishing, 2015).
[65] OECD, *Development Cooperation Report 2016*.
[66] Mark Carney, Governor of the Bank of England, "The Road to Glasgow", speech, Guildhall, February 27, 2020. Available at *https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-road-to-glasgow-speech-by-mark-carney.pdf*
[67] Mark Carney, *Building a Private Finance System for Net Zero: Priorities for Private Finance for COP26* (COP26 Private Finance Hub, 2020). Available at *https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf*

International Development Finance Club[68] has highlighted that consistency with Article 2.1. (c) of the Paris Agreement requires countries to put in place the regulatory frameworks, economic policies and incentives to create an investment environment that will incentivize increased private investment and finance in "consistent areas" – and a decrease or reduction and redirection of "non-consistent flows".

As research shows, creating investment-friendly business environments and strong pipelines of bankable opportunities requires an approach tailored to each country and sector, as each market has its own diverse economic, legal, political and financial circumstances.[69] To this end, several actions listed in the GCF's USP do reflect catalytic actions (see Annex 2, Table 3), **but it is unclear the extent to which they will be equally prioritized with the objectives of leveraging private finance.**

5. Country driven approach

36. **Finding 5: The USP does not explicitly or clearly define that the GCF's accreditation, programming capacity and pipeline development related to the private sector will be driven and informed by a "country-driven prioritization" of financial, capacity-building, and technology development and transfer needs**.

37. The GI of the GCF provides 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."[70] Additionally, the GI stipulates that "the operation of the [private sector] facility will be consistent with a country-driven approach".[71] The GCF Board has also clearly recognized "that a country-driven approach is a core principle to build the business of the Fund".[72] This principle of country ownership has been reaffirmed and refined in numerous Board decisions and is interwoven into many aspects of the GCF business model and GCF modalities, policies and procedures. Country ownership is also one of the six criteria in the GCF's initial investment framework, where it is defined as "[b]eneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)."

38. Paris Agreement Article 9.4 and associated COP decisions explicitly and clearly refer to ensuring that financial resources deployed consider country-driven strategies and the priorities of developing country Parties, including technological and capacity-building needs, and in translating climate finance needs into action. Research shows country ownership typically involves alignment with recipient-country strategies, vesting of decision-making authority in recipient countries, and the use of national systems to ensure accountability.[73,74]

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[68] 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). Available at *https://unfccc.int/sites/default/files/resource/Aligning%20with%20the%20Paris%20Agreement%20-%20Part%201%20-%20CPI-I4CE.pdf*

[69] Climate Finance Leadership Initiative (CFLI), European Development Finance Institutions (EDFI) and Global Infrastructure Facility (GIF), *Unlocking Private Climate Finance in Emerging Markets: Private Sector Considerations for Policymakers* (New York, Bloomberg, 2020). Available at *https://assets.bbhub.io/company/sites/55/2021/03/CFLI_Private-Sector-Considerations-for-Policymakers-April-2021.pdf*

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

[71] Ibid., Annex V, C (2), paragraph 42

[72] GCF/B.01-13/06, paragraph b

[73] Athena Ballesteros and others, *Power, Responsibility, and Accountability: Re-thinking the Legitimacy of Institutions for Climate Finance* (Washington, D.C., World Resources Institute, 2010). Available at *https://www.wri.org/research/power-responsibility-and-accountability*

[74] Louise Helen Brown, Clifford Polycarp and Margaret Spearman, *Within reach: Strengthening country ownership and accountability in accessing climate finance.* Working paper (Washington, D.C., World Resources Institute, 2013). Available at *https://www.wri.org/research/within-reach*

39. Research shows[75,76,77] that **the operationalization of Article 9.4, its associated COP decisions and the relevant provisions of the GI requires considering that overall accreditation, programming capacity and pipeline development should be driven by a "country-driven prioritization" of financial, capacity-building, and technology development and transfer needs.** The USP makes some general references, as in the following examples:

- "Complementing the overall programming approach in sections 4.1 and 4.2, for 2020–2023 the GCF private sector strategy will be developed …".[78]
- "Ensuring GCF programming capacity and pipeline development is guided by a country driven prioritization of the most impactful investments for countries in their respective national and regional contexts…".[79]
- "Strengthening developing countries' capacity to undertake transformational planning and programming, aligned with their NDCs [nationally determined contributions], ACs [adaptation communications], NAPs [national adaptation plans] and other national climate strategies…".[80]

40. However, such priorities are not clearly or explicitly spelled out in the USP in connection to strategic priority 4.3 in the context of the private sector.

41. **Additionally, there are clear opportunities for coherence and complementarity that are not explicitly or clearly considered in the USP.** To fulfil the mandate on supporting the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement, the UNFCCC Secretariat has developed the Needs-based Finance project.[81] The project is being implemented regionally and nationally in over 100 countries, with the aim of identifying public and private climate finance to support the needs identified by developing countries regarding implementation of priority mitigation and adaptation actions, in accordance with the goals outlined in their NDCs, NAPs and other relevant policies or strategies. Moreover, under the enhanced transparency framework for climate action under Article 13 of the Paris Agreement, COP 24 requested the Standing Committee on Finance (SCF) to prepare a report every four years on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement. The first report was due at COP 26 and CMA 3 (Conference of the Parties serving as the meeting of the Parties to the Paris Agreement).[82] These reports are also expected to outline developing countries' climate finance needs and priorities.

42. The USP does not include any mention of opportunities for coherence and complementarity, though the COP has requested the operating entities of the Financial Mechanism to collaborate on means to assist developing country Parties in assessing their needs and priorities, in a country-driven manner, including technological and capacity-building needs, and in translating climate finance needs into action. Instead, the USP sets out to refocus the GCF's country programming, planning to use country programmes as "a key tool to translate NDCs, ACs, NAPs and national climate strategies

[75] 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. Available at https://doi.org/10.1080/14693062.2019.1605331
[76] Nicholas Saunders, *Climate change adaptation finance: are the most vulnerable nations prioritised?*, Working paper (Stockholm, Stockholm Environment Institute, 2019). Available at https://www.sei.org/wp-content/uploads/2019/04/climate-change-adaptation-finance-are-the-most-vulnerable-nations-prioritised.pdf
[77] CFLI, EDFI and GIF, *Unlocking Private Climate Finance in Emerging Markets: Private Sector Considerations for Policymakers*.
[78] GCF, *Updated Strategic Plan for the Green Climate Fund: 2020–2023*, section 4.3, paragraph 22.
[79] Ibid., section 4.1, paragraph 16
[80] Ibid., section 4.1, paragraph 16
[81] Information on the NBF project is available at https://unfccc.int/NBF_Project.
[82] Decision 4/CP.24, paragraph 13

into country-driven investment programmes, identify the top priority projects ideas for each country or region, preferred AEs and how to structure and mobilize potential sources of finance."[83]

6. Geographical and thematic balance between adaptation and mitigation

43. **Finding 6: The USP does not clearly set out that the GCF's balanced programming capacity and pipeline development related to the private sector will be driven and informed by the IRM's overall outcomes and through "country-driven prioritizations" of financial, capacity-building, and technology development and transfer needs and priorities**.

44. The GI states that 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."[84] 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."[85]

45. Article 9.4 and associated COP decisions explicitly and clearly refer to ensuring the financial resources deployed consider country-driven strategies and the priorities of developing country Parties, in both adaptation and mitigation. **Research shows[86,87,88] the operationalization of Article 9.4, associated COP decisions and the relevant provisions of the GI requires a balanced allocation of funding in private sector projects across mitigation and adaptation to be guided and informed by developing countries' prioritization of needs**. Furthermore, research shows that to balance mitigation and adaptation, it will be crucial for international climate finance institutions to identify business models that enable private investment at scale and to design appropriate policies and incentives that link mitigation and adaptation to the private sector.[89,90]

46. This requirement is neither clearly nor explicitly addressed in the USP in connection to strategic priority 4.3, and instead reference is made to "complementing the overall programming approach [outlined] in sections 4.1 and 4.2, for 2020-2023 the GCF private sector strategy will be developed…".[91] This section refers back to the previous section's statements which suggest that

> the GCF would build on the project and programme ideas and priorities identified by developing countries, and the GCF strategic programming will seek to:
>
> (a) Help developing countries and implementing partners design projects and programmes that support paradigm shift across eight mitigation and adaptation results areas…
>
> (b) Promote projects and programmes with potential for innovation, replication, scale and financial sustainability…, as well as projects with potential to deliver integrated mitigation, adaptation and development benefits.

[83] GCF, *Updated Strategic Plan for the Green Climate Fund: 2020–2023*, section 4.1, paragraph 17.
[84] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex I, paragraph 2
[85] Ibid., Annex V, C (2), paragraph 42
[86] 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)".
[87] Nicholas Saunders, *Climate change adaptation finance: are the most vulnerable nations prioritised?*
[88] CFLI, EDFI and GIF, *Unlocking Private Climate Finance in Emerging Markets: Private Sector Considerations for Policymakers*.
[89] Marco Buso and Anne Stenger, "Public–private partnerships as a policy response to climate change", *Energy Policy*, vol. 119 (C), pp. 487–494.
[90] Ian Cochran and Alice Pauthier, *A Framework for Alignment with the Paris Agreement: Why, What, and How for Financial Institutions*.
[91] GCF, *Updated Strategic Plan for the Green Climate Fund: 2020–2023*, section 4.3, paragraph 22.

47. **Moreover, the separate carveout of 20 per cent allocated for the PSF is not clearly linked to the GCF's overall outcomes on thematic and geographic distribution.**

7. Efficiency and effectiveness to promote the participation of private sector actors

48. **Finding 7: The GCF does not place a strong focus on promoting participation of MSMEs in GCF activities in LDCs, SIDS or African States.**

49. 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 facility will also support activities to enable private sector involvement in SIDS and LDCs."[92]

50. COP decisions have emphasized the necessity for the GCF to expedite action to engage local private sector actors in developing country Parties, including MSMEs in the LDCs, SIDS and African States; to simplify and facilitate access to the Fund, including for DAEs and private sector actors, and simplify the process for approval of proposals for certain activities, in particular for small-scale activities; accelerate the implementation of the work programme on RPSP, ensuring that adequate resources are provided for its execution, among others.

51. **However, the USP does not place a strong focus on small-scale activities and MSMEs in LDCs, SIDS or African States**. In addition, and as noted in section 4 above, the USP does not place strong emphasis on catalytic actions, which are considered essential for creating enabling environments for local private sector and MSMEs.[93] Instead references are made in the USP:
    - "Building the programming and implementation capabilities of national and regional DAEs"[94]
    - "Strengthening capacity among NDAs [national designated authorities], AEs and local private sector partners to support private investments in climate activities, including supporting climate-oriented local financial systems, green banks, markets and institutions"[95]
    - "Strengthening engagement capacity, investment environments and climate-oriented financial systems"[96]
    - "Improved speed, predictability, simplified access, efficiency, effectiveness and transparency"[97]

52. As a SIDS interviewee noted, the "GCF's mandate to engage MSMEs can be better met if there was more emphasis on looking at private sector and building capacity to reach MSMEs in LDCs and SIDS to make sure they can do the types of projects they want and manage the funds, rather than focusing on innovative schemes to mobilize money".

[92] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17, Annex V, C (2), paragraph 43
[93] CFLI, EDFI, and GIF, Unlocking Private Climate Finance in Emerging Markets: Private Sector Considerations for Policymakers.
[94] GCF, Updated Strategic Plan for the Green Climate Fund: 2020–2023, section 4.1, paragraph 17 (c).
[95] Ibid., section 4.3, paragraph 22 (a)
[96] Ibid., section 4.3, paragraph 23 (b)
[97] Ibid., paragraph 13 (g)

Chapter III. LESSONS AND OPPORTUNITIES FOR COHERENCE AND COMPLEMENTARITY

A. INTRODUCTION

53. This chapter assesses the extent of the coherence and complementarity of the GCF's private sector approach with those of other climate funds. Beyond seeking such coherence and complementarity, COP decisions have requested that the Board consider important lessons learned from other existing funds – for example, lessons about country-driven processes (Decision 7/CP.21. Paragraph 16).

54. The key questions discussed and analysed in this chapter are as follows:

- What lessons can the GCF learn from other multilateral climate and development funds, as well as from MDBs?
- To what extent does the GCF's private sector approach promote coherence and complementarity within the climate change landscape?

B. FINDINGS AND ANALYSES

1. CHANNEL PRIVATE FINANCE, INCLUDING CATALYSING FINANCE

a. Catalytic actions

55. Finding 8: Evidence from climate funds, international financial institutions and development banks underlines the critical need to focus on enabling environments if the aim is to "catalyse private finance".

56. A key lesson from the Global Environment Facility (GEF) is that among the intervention models implemented to catalyse private sector engagement, the most impactful have been those that facilitate institutional strengthening and those that transform policy and regulatory environments.[98] According to the GEF's independent evaluation of its private sector approach,[99] these interventions were seen as critical elements to help build capacity and put in place the right incentives and signals to enable the private sector to redirect its investment in an environmentally sustainable manner. In response to this lesson, the GEF has recently adopted a private sector engagement strategy,[100] which emphasizes catalytic actions (See Annex 9).

57. A key lesson from climate and development funds, as well as from MDBs, is that fostering systemic change requires thinking beyond individual projects that directly reduce emissions and increase resilience. Instead, it requires supporting interventions that support broader policy and institutional reforms within countries to create environments that encourage the necessary shifts in investment patterns.[101,102] While it is important to address financing barriers, they are often not sufficient to catalyse private investment. In many cases, the experience of development agencies, climate funds

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[98] Global Environment Facility (GEF), *Evaluation of GEF's Engagement with the Private Sector*, GEF/ME/C.52/Inf.04/B (GEF Independent Evaluation Office, 2017).
[99] Ibid.
[100] GEF/C.58/05, adopted on 5 May 2020.
[101] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.
[102] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results?* (Brussels, Policy Department, Directorate General for External Policies, European Parliament, 2020).

and international financial institutions (IFIs) demonstrates that successfully engaging the private sector requires an integrated approach that combines direct project financing with broader policy and market reforms, capacity-building, and technical assistance that can enhance the investment context.[103] To this end, three critical areas for support emerge from their lessons:[104,105,106] improving national and sector policy frameworks; strengthening local financial institutions; and supporting the development of a strong project pipeline through technical assistance.

- **Integrating project financing with broader policy and planning can support long-term investment.** The experience of IFIs and climate funds has shown that supporting policymaking efforts in line with national priorities can provide a foundation for longer-term engagement with key public agencies and other domestic players, and support the development of private sector investment programmes tailored to the country's specific context and barriers.[107,108,109]
- **Building the capacity of local financial institutions can help create domestic markets for low-carbon investment**. Overall, the lessons from climate and development funds as well as from IFIs are that domestic financial institutions have a critical role to play and that partnering with local partners – who have a strong understanding of realities on the ground – can be an effective way to support domestic financial institutions.[110,111,112]
- **Technical assistance and capacity-building at different stages of the project lifecycle can promote a strong project pipeline.** The experiences across IFIs and climate and development funds suggest that early-stage project development support is vital to bring projects from concepts to finance-ready investments. Such support can help project proponents conduct feasibility studies and structure transactions in a way that addresses barriers and attracts private sector investment.[113,114]

b. Financial instruments

58. **Finding 9: Evidence from climate funds, IFIs and development banks indicates that access to a diverse range of funding instruments helps to engage and mobilize private finance. Lessons from these institutions and their use of funding instruments demonstrate the importance of**

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[103] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results*?
[104] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.
[105] European Bank for Reconstruction and Development (EBRD), *Special Study: The EBRD's Sustainable Energy Finance Facilities (SEFFs)* (London, EBRD, 2016).
[106] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results*?
[107] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.
[108] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results?*
[109] Global Environment Facility (GEF), *Evaluation of GEF's Engagement with the Private Sector.*
[110] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.
[111] Shelagh Whitley and Sam Barnard, "The role of multilateral climate funds in mobilizing private investment: a detailed review of the CTF, GEF, SREP, PPCR, and GEEREF", Working paper 398 (London, ODI, 2014). Available at *https://odi.org/en/publications/the-role-of-multilateral-climate-funds-in-mobilising-private-investment-a-detailed-review-of-the-ctf-gef-srep-ppcr-and-geeref/*
[112] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results?*
[113] European Bank for Reconstruction and Development (EBRD), "Special Study: The EBRD's Sustainable Energy Finance Facilities (SEFFs)".
[114] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.

flexible financing structures, the principle of "least concessionality", enhanced risk appetites and innovative blended finance.

59. As discussed in Chapter II, catalysing private finance involves steps to improve the risk–return profile for private actors. To this end, climate funds employ a variety of financial instruments including grants, loans, equity and de-risking instruments such as loan guarantees, insurance and foreign exchange facilities. The GCF has four instruments at its disposal: grants, concessional loans, guarantees and equity investments. The overwhelming majority of interview respondents indicated that the current range of instruments are well suited to the GCF's mandate in the immediate term.

60. Experience from climate funds, and development banks more broadly, has shown that different financial instruments are required in different contexts.[115] Grants are more appropriate for high-risk technologies and markets, early-stage technologies, or capacity-building and technical assistance for policy reforms. Loans and equity may be more effective when deployed in more established markets and emerging economies and for more established technologies and businesses that are expected to generate a return. Risk-mitigation instruments are effective at targeting specific risks that undermine a project's viability, including political risk, currency volatility, weather, the creditworthiness of contractual counterparties, and so forth. Experience has also shown that blended finance – the application of multiple financial instruments – can also be effective for some projects. For example, the Clean Technology Fund's application of blended finance has helped drive technology costs down for concentrated solar power in Morocco and South Africa, and for geothermal in Indonesia, Kenya and Turkey.[116]

61. **Funds that are explicitly mandated to engage and mobilize private finance will benefit from having the ability to employ a more diverse range of funding instruments.** The degree to which each fund engages with the private sector is reflected in the financial products they make available (Annex 3, Table 1). The Adaptation Fund, Least Developed Countries Fund and the Special Climate Change Fund only fund projects through grant-based funding. The GEF provides primarily grant-based support but has offered debt, equity and risk-mitigation instruments in some of its private sector engagements. The Climate Investment Funds (CIF) and the GCF offer the full range of grants, loans, risk-mitigation instruments and equity.

62. There are some experiences of IFIs, development funds and climate funds in relation to the use of financial instruments and relevant to the GCF.[117,118,119,120] This experience finds the following:

- **Flexibility in financing structure and instrument choice** can help institutions to channel concessional funds addressing specific project risks and barriers that vary by country and sector, as well as match financial instruments to needs at different stages of the project lifecycle. To do this, the institutions can make available a wide range of instruments and allow for flexibility in how the instruments are deployed within a programme (e.g. instrument choice and financing terms). Blended finance transactions are typically bespoke, based on the impact and return expectations of different private sector actors and the unique context of each project.

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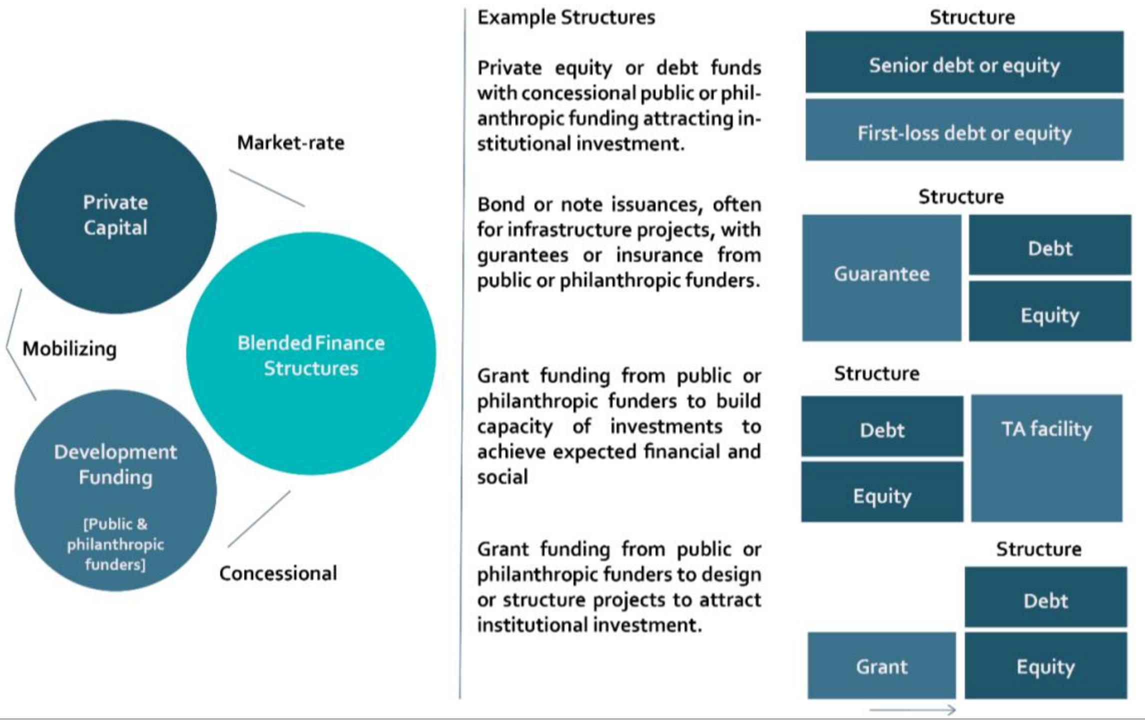
[115] Shally Venugopal and Aman Srivastava, *Moving the Fulcrum: A Primer on Public Climate Financing Instruments Used to Leverage Private Capital*.
[116] Niranjali Manel Amerasinghe and others, *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance* (Washington D.C., World Resources Institute, 2017).
[117] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.
[118] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results*?
[119] Shelagh Whitley and Sam Barnard, "The role of multilateral climate funds in mobilizing private investment: a detailed review of the CTF, GEF, SREP, PPCR, and GEEREF".
[120] European Bank for Reconstruction and Development (EBRD). (2016). Special Study: The EBRD's Sustainable Energy Finance Facilities (SEFFs).

However, depending on the type of project and the stage of development, different types of catalytic actions are needed to promote private sector engagement. Four common blended finance structures emerge from these lessons[121] (Figure III-1):

– Design-stage grants are designed to support transaction design and preparation. These grants are often used in conjunctions with concessional instruments and technical assistance facilities.
– Grant-funded technical assistance facilities strengthen the commercial viability and social and environmental impact of transactions either pre- or post- investment.
– Concessional guarantees or insurance are provided by public or philanthropic investors as credit enhancement mechanisms.
– Concessional debt or equity is provided by public or philanthropic investors to improve the risk–return profile for commercial investors by lowering the cost of capital or providing first-loss.

Figure III-1. Common blended finance structures



Source: Convergence. (2019). *State of Blended Finance*.

- **"Least concessionality" can help minimize distortions in the market** and avoid crowding-out private investment. Under the principle of least concessionality, IFIs and donors aim to set the level of subsidy embedded in the financing package at the minimum level required to enable the investment. While there is no exact methodology for determining minimum concessionality, the adoption of key definitions, principles and guidelines has been a common

[121] Convergence, *State of Blended Finance* (2019). Available at https://assets.ctfassets.net/4cgqlwde6qy0/58T9bhxExlNh2RilxWxSNe/ba56fa36c81349640179779ddd68cc99/Convergence_-_The_State_of_Blended_Finance_2019.pdf

best practice and approach.[122] Many IFIs have adopted a broad definition that goes beyond low-cost loans to include loans with longer tenures or grace periods, equity with or without lower return requirements, and subordination structures or risk-mitigation instruments that are priced below the full face value of the risks they cover. According to development funds,[123] concessionality may take the form of (i) interest rates below those available on the market; (ii) a maturity, grace period, security, rank or back-weighted repayment profile that would not be accepted/extended by a commercial financial institution; and/or (iii) the provision of financing to borrowers/recipients not otherwise served by commercial financing.[124]

- **Enhance risk appetite.** Many IFIs and climate and development funds have the mandate to use a wide range of risk-mitigation instruments to unlock investments in low-income countries. This includes guarantees, insurance and other credit enhancement mechanisms, as well as equity financing and subordinated debt. However, experience and lessons from these funds and IFIs highlight certain challenges that need to be overcome to enhance their risk appetite in the effective deployment of these instruments. In particular, deployment of guarantees has been overall limited,[125] in part because IFIs allocate the same ratio of equity capital to backstop guarantees as they do for loans, even though guarantees do not draw on IFI resources until called and are less likely to be called than loans. Additional work is needed to understand in what contexts guarantees are most effective and where the provision of other instruments that help address risk may be better suited to leverage private investment. Additionally, local currency and interest rate risk tools are limited. Nearly all international debt and equity financing to developing countries is denominated in foreign currency, exposing these investments to currency risks.[126]
- **Innovative blended financial instruments**. Most climate-related blended finance transactions have traditionally focused on mitigation efforts, especially renewable energy and energy efficiency, at the fund or project level.[127] To date, climate adaptation and resilience activities have struggled to mobilize private investment at the same scale. According to the SCF, less than 20 per cent of blended finance deals focus on climate adaptation, and the majority of these deals are concentrated on resilient agriculture, including agroforestry and sustainable fisheries.[128,129] To overcome the above issues, **lessons from IFIs and development and climate funds highlight the need to consider innovative blended financial instruments.** In particular, there is increased interest in developing blended finance based on conservation finance or ecosystem-based management, such as mangrove and coral reef protection, to

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[122] Organisation for Economic Co-operation and Development (OECD), O*ECD DAC Blended Finance Principle 3: Guidance. Revised note following public consultation* (Paris, OECD, 2020). Available at https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/documents/P3_Guidance_Note.pdf
[123] Kate Bayliss and others, *The use of development funds for de-risking private investment: How effective is it in delivering development results*?
[124] Ibid.
[125] United Nations Framework Convention on Climate Change (UNFCCC), *2018* B*iennial Assessment and Overview of Climate Finance Flows: Technical Report* (Bonn, Standing Committee on Finance, 2018). Available at https://unfccc.int/sites/default/files/resource/2018%20BA%20Technical%20Report%20Final%20Feb%202019.pdf
[126] European Commission and others, *The need to reduce FX risk in development countries by scaling blended finance solutions* (FX Risk Workshop, 2018). Available at https://assets.ctfassets.net/4cgqlwde6qy0/3UYrVVpyqckCsw802wWoOi/7abfe71c3b60ff521635f713865cad16/FX_Risk_in_Development_Primer.pdf
[127] Blended Finance Task Force, *Better Finance, Better World* (London, Business and Sustainable Development Commission, 2018). Available at https://www.blendedfinance.earth/better-finance-better-world
[128] United Nations Framework Convention on Climate Change (UNFCCC), *2018* B*iennial Assessment and Overview of Climate Finance Flows: Technical Report*.
[129] Lauren Carter, *The Ecosystem of Private Investment in Climate Action*, Invest4Climate Knowledge Series (New York, United Nations Development Programme, 2020).

address climate change. Annex 9 presents some innovative financing in instruments currently being deployed, as well as some examples from the GEF.

2. Geographical and thematic balance between adaptation and mitigation

63. **Finding 10: Evidence from climate funds, IFIs and development banks indicates that the GCF private sector portfolio is targeting the same themes and regions, suggesting limited use of complementarity and coherence.**

64. 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.[130] It is expected that climate funds support these thematic areas in a way that responds to country needs while avoiding unnecessary duplication. However, international climate support and financing targeting high levels of private sector mobilization has disproportionately gone to countries and regions in which emission levels are high and rising rapidly (e.g. large emerging economies).[131] Similarly, efforts to mobilize private finance have been less successful for technologies and solutions that are less well-established. Within IFIs and climate funds, investments tend to favour large, lower-risk projects that can generate greater returns and leverage additional sources of capital more easily.[132]

65. An assessment of the share of financial instruments used by the climate funds shows that the GCF is focusing on the same result areas as the CIF and using similar financial instruments to it. Both the GCF and CIF are channelling the majority of the finance for private sector projects through debt instruments, and both are using equity to a very small extent (see Figure III-2).

66. The majority of GCF funding under the PSF portfolio targets energy generation and access, which aligns with the CIF's higher share of funding targeting energy and access (see Figure III-3 and Figure III-4**Error! Reference source not found.**). These areas tend to be associated with higher returns and leverage ratios. Only a small share targets forests and land use; livelihoods of people and communities; or health, food, water and security. These are areas of critical importance for adaptation that tend to have smaller transaction sizes and leverage less private finance. The evidence also suggests that the thematic focus of the GCF (and CIF) private sector finance on "Energy Generation and Access" persists in LDCs and SIDS (Figure III-5**Error! Reference source not found.**). Although adaptation projects can target the energy sector, this sector tends to be associated with mitigation. For a more detailed assessment of the GCF portfolio and its distribution, please refer to Chapter V.

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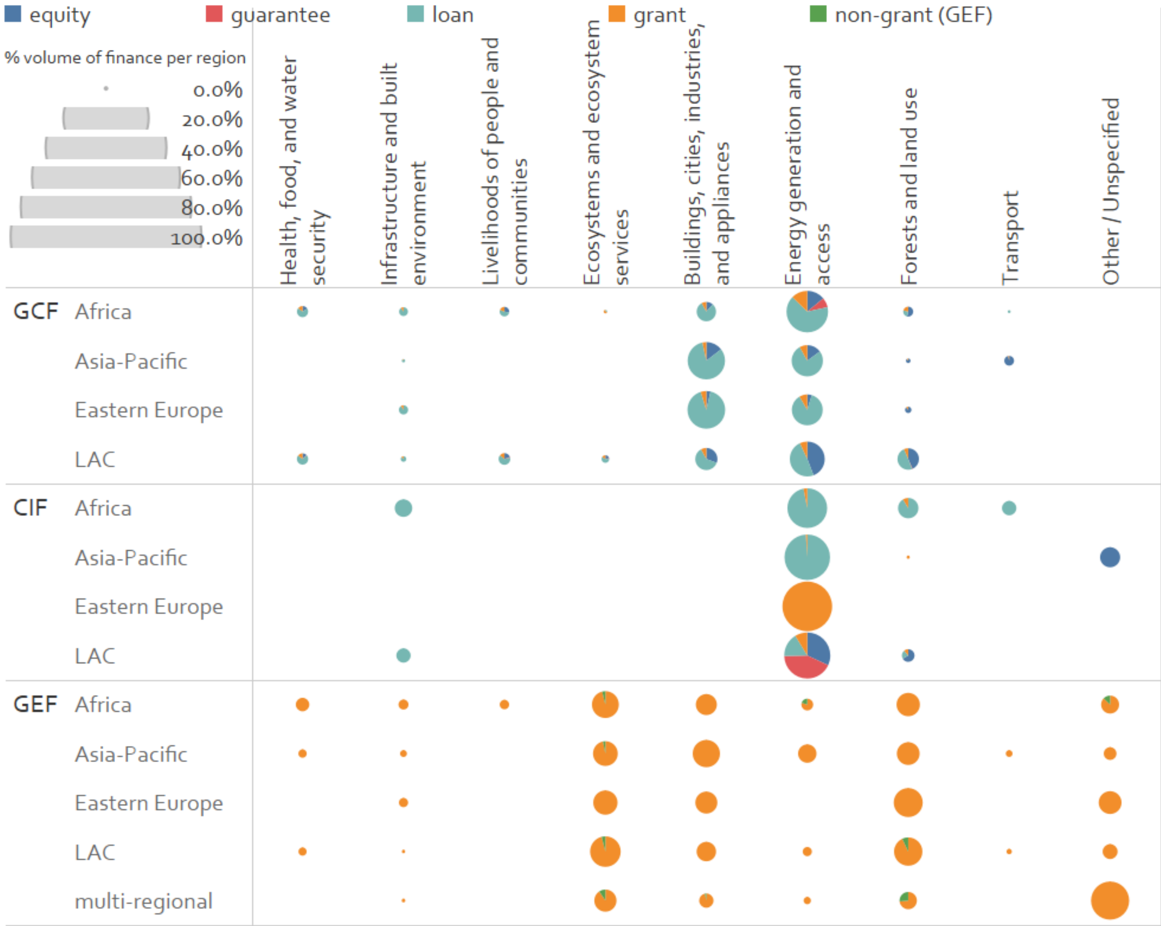
[130] United Nations Framework Convention on Climate Change (UNFCCC), *The Paris Agreement* (2015), Articles 9, 4.5, 7.6, 5.2, 10.6, and 11.3. Available at https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[131] United Nations Framework Convention on Climate Change (UNFCCC), *2018 Biennial Assessment and Overview of Climate Finance Flows: Technical Report.*
[132] Convergence, *State of Blended Finance*.

Figure III-2. Geographic distribution of private sector finance and associated financial instruments



Source: GCF – Tableau server; CIF – Fund's own data; GEF – Fund's own data. Analysis by IEU DataLab as of June 2021.

Note: Instrument (colour) and per cent of total volume of finance (size) broken down by result area versus climate finance provider and region. This analysis only includes data of GCF-eligible countries since the GCF's inception (2015–2021), private sector finance as categorized by the CIF and the PSF portfolio of the GCF. The GEF's portfolio is not disaggregated by private finance in the given period. The focus areas of the CIF and GEF were mapped according to the GCF's eight result areas, and those that fall outside these were categorized as "Other".

Figure III-3. Thematic distribution of private sector finance in climate funds

% of finance in million USD
0.0% – 100.0%

Climate finance provider	Region	Adaptation: Health, food and water security	Adaptation: Infrastructure and built environment	Adaptation: Livelihoods of people and communities	Adaptation: Ecosystems and ecosystem services	Mitigation: Buildings, cities, industries, and appliances	Mitigation: Energy generation and access	Mitigation: Forests and land use	Mitigation: Transport	Other: Other/Unspecified
GCF	Africa	4.7%	2.9%	3.5%	0.4%	14.7%	69.8%	3.7%	0.3%	0.0%
	Asia-Pacific	0.0%	0.4%	0.0%	0.0%	56.1%	39.2%	0.7%	3.6%	0.0%
	Eastern Europe	0.0%	3.2%	0.0%	0.0%	57.2%	38.2%	1.4%	0.0%	0.0%
	Latin America and the Caribbean	4.9%	1.1%	5.2%	2.1%	19.4%	49.0%	18.3%	0.0%	0.0%
CIF	Africa	0.0%	12.0%	0.0%	0.0%	0.0%	63.7%	16.4%	8.0%	0.0%
	Asia-Pacific	0.0%	0.0%	0.0%	0.0%	0.0%	83.9%	0.3%	0.0%	15.8%
	Eastern Europe	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
	Latin America and the Caribbean	0.0%	7.4%	0.0%	0.0%	0.0%	86.8%	5.8%	0.0%	0.0%
GEF	Africa	7.0%	3.8%	3.3%	28.8%	17.4%	5.3%	21.7%	0.0%	12.7%
	Asia-Pacific	2.6%	1.7%	0.0%	24.3%	29.7%	13.2%	20.5%	1.6%	6.3%
	Eastern Europe	0.0%	3.2%	0.0%	23.4%	19.2%	0.0%	33.6%	0.0%	20.6%
	Latin America and the Caribbean	2.5%	0.4%	0.0%	37.4%	14.9%	3.2%	32.1%	1.0%	8.6%

Source: GCF – Tableau server; CIF – Fund's own data; GEF – Fund's own data. Analysis by IEU DataLab as of 1 July 2021.

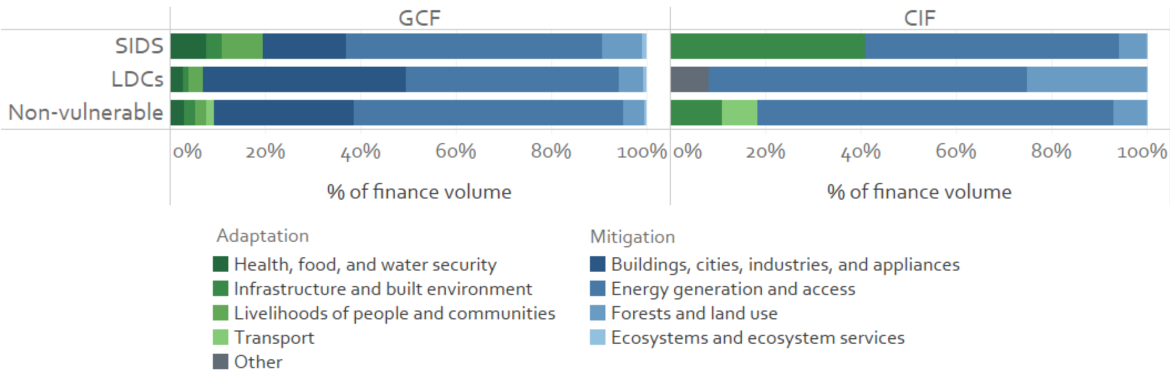
Note: Per cent of total volume of finance broken down by GCF result areas versus climate finance provider and region. The marks are labelled by per cent of total volume of finance across regions. This analysis only includes data of GCF-eligible countries since the GCF's inception (2015–2021), private sector finance as categorized by the CIF and the PSF portfolio of the GCF. The GEF's portfolio is not disaggregated by private finance. The focus areas of the CIF and GEF were mapped according to the GCF's eight result areas. Areas that fall outside these were categorized as "Other".

Figure III-4. Comparison of thematic distribution of private sector finance between CIF and the GCF

	Adaptation				Mitigation				Other
	Health, food and water security	Infrastructure and built environment	Livelihoods of people and communities	Ecosystems and ecosystem services	Buildings, cities, industries, and appliances	Energy generation and access	Forests and land use	Transport	Other/Unspecified
GCF	3.01%	1.95%	2.40%	0.47%	30.57%	55.97%	4.44%	1.20%	0.00%
CIF	0.00%	9.00%	0.00%	0.00%	0.00%	71.92%	11.52%	5.04%	2.52%

Source: GCF – Tableau server; CIF – Fund's own data. Analysis by IEU DataLab as of 1 July 2021.
Note: This analysis only includes data of GCF-eligible countries since the GCF's inception (2015–2021), private sector finance as categorized by the CIF and the PSF portfolio of the GCF. The focus areas of the CIF were mapped according to the GCF's eight result areas, and those that fall outside these areas were categorized as "Other".

Figure III-5. Thematic distribution of private finance in SIDS and LDCs



Source: GCF – Tableau server; CIF – Fund's own data; GEF – Fund's own data. Analysis by IEU DataLab as of 1 July 2021.
Note: The focus areas of CIF were mapped according to the GCF's eight result areas, and those that fall outside these were categorized as "Other".

3. COUNTRY DRIVEN APPROACH

67. **Finding 11: Evidence from climate funds, IFIs and development banks indicates that efforts to finance the private sector, directly and indirectly, require promoting and respecting country-driven processes that set the priorities for private sector engagement.**

68. According to the SCF, ownership remains a critical factor in the delivery of effective climate finance,[133] noting that a "government's ownership of climate finance manifests itself in the articulation of a national development agenda and climate change policies and strategies, whilst

[133] United Nations Framework Convention on Climate Change (UNFCCC), *Biennial Assessment and Overview of Climate Finance Flows: Technical Report.*

ownership by the private sector and civil society has to do with their role in developing such strategies".[134]

69. The last decade has seen a shift towards greater developing-country ownership in setting priorities for and managing climate finance.[135] This shift is reflected in multilateral climate funds in a variety of ways (see Annex 9 for details), including new processes for national institutions to access international finance, requirements for government endorsement of proposed activities, and increased developing-country representation on boards.[136] The OECD has emphasized[137] that including developing countries' governments at all stages of a project, as appropriate, and ensuring their position as co-owners can contribute to the success of blended finance deals and enable the long-term sustainability of investments. In facilitating such processes, it is important to also help determine the role expected of the private sector in delivering national and sectoral development and/or climate priorities.[138] In practice, blended finance deals may emerge from broader policy considerations and policy work initiated by central or local governments.[139] However, in most instances governments may potentially be involved only in later stages of approval/implementation of a project – if at all – thus missing key phases of project origination and design. A key lesson is that consultation and coordination mechanisms between the government and private sectors should not be perceived as a single event but rather as a process parallel to the whole investment. Such mechanisms can help ensure consistency with a country's development and climate priorities and ownership of results. They can also contribute to building public trust, pre-empting disputes that may arise in course of project implementation and controlling external risks that may be otherwise overlooked by foreign investors.

4. Efficiency and effectiveness to promote participation of private sector actors: MSMEs and local actors

70. **Finding 12: Evidence from climate and development funds indicates that the capacity for MSMEs to engage in climate action is restricted by weak enabling environments, limited knowledge and awareness of investment opportunities, and inadequate financial products.**

71. Promoting the engagement of the local private sector requires considering catalytic actions, as well as processes and procedures that are transparent, efficient, suitable and predictable.[140] Moreover, supporting policymaking efforts in line with national priorities can provide a foundation for longer-

[134] Ibid., paragraph 313
[135] Niranjali Manel Amerasinghe and others, *Future of the Funds: Exploring the Architecture of Multilateral Climate Finance.*
[136] Ibid.
[137] Organisation for Economic Co-operation and Development (OECD), *OECD DAC Blended Finance Principle 3: Guidance. Revised note following public consultation.*
[138] Global Partnership for Effective Development Cooperation, *Making Development Co-Operation More Effective. 2019 Progress Report* (OECD, UNDP, 2019). Available at https://www.oecd.org/dac/making-development-co-operation-more-effective-26f2638f-en.htm
[139] United Nations Capital Development Fund, *Blended Finance in the Least Developed Countries* (UNCDF, 2018). Available at https://www.uncdf.org/article/4220/blended-finance-in-ldcs-report
[140] CFLI, EDFI and GIF, *Unlocking Private Climate Finance in Emerging Markets: Private Sector Considerations for Policymakers.*

term engagement with key public agencies and other domestic players and support the development of private sector investment programmes suited to the country's specific context and barriers.[141,142]

72. Research shows that the transaction costs for MSMEs associated with accessing international climate finance are likely to be prohibitive.[143] Lessons from climate and development funds emphasize that the most cost-effective approach to deliver finance to MSMEs is through local financial intermediaries.[144] Building the capacity of local financial institutions can help create domestic markets for low-carbon investment. Domestic financial institutions have a critical role to play in promoting such investment. They are well positioned to assess local market conditions and risks, lend in local currency, and finance smaller-scale projects that larger financial institutions avoid due to high transaction costs.

73. Considering the mandate of the GCF to "promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries", emerging lessons to engage MSMEs emphasize the need to address the following barriers:

- **Improving the policy and enabling environment**. One of the major barriers limiting climate-related MSME investments is that the business environment and climate investment policies do not support or encourage climate-compatible investments in MSMEs. Weak policies, inadequate financial infrastructure and political instability can limit the attractiveness of MSME climate investments by increasing bureaucracy or reducing profitability.[145] For example, the Priority Sector Lending policy in India is a regulation requiring a fixed percentage of lending to be in underserved and target markets including the MSME sector. The objective of the policy is to increase the provision of finance to underserved markets and increase the competitiveness of these markets. The policy requires that banks must dedicate a certain proportion of their lending to underserved or target markets. As a result of the policy, around 90 banks have lent INR 15 trillion to priority sectors over 40 years.[146]
- **Reducing knowledge gaps and increasing awareness.** Supply and demand for MSME climate finance can be restricted due to a lack of knowledge and awareness because either (i) stakeholders are not aware of the opportunities or (ii) they are aware but do not fully understand or appreciate the opportunity. The lack of awareness can be due to a wide variety of reasons that often relate to inadequate efforts to market available opportunities. A lack of knowledge and understanding of climate finance opportunities could be due to the inherently nascent nature of several climate technology markets. Specifically, investors might be reticent to invest in new technologies, or intermediaries and MSMEs might not have the skills necessary to fully assess all costs and benefits of a particular climate finance product. An example is the Renewable Energy and Energy Efficiency Partnership (REEEP) Investment

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[141] Hannah Pitt and Laurence Blanford, *Mobilizing private sector investment in support of Nationally Determined Contributions*.
[142] James Rydge, *Aligning Finance with the Paris Agreement: An Overview of Concepts, Approaches, Progress and Necessary Action* (London, Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, 2018). Available at *https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/12/Aligning-finance-with-the-Paris-Agreement-3.pdf*
[143] Climate & Development Knowledge Network (CDKN), *Increasing MSME access to climate finance* (Dalberg, CDKN, 2015). Available at *https://cdkn.org/wp-content/uploads/2015/10/CDKN-Dalberg-Access-to-Finance-for-MSMEs_-final-1.pdf*
[144] Ibid.
[145] James Rydge, *Aligning Finance with the Paris Agreement: An Overview of Concepts, Approaches, Progress and Necessary Action*.
[146] Nathan Associates Inc., *Re-prioritizing priority sector lending in India: Impact of priority sector lending on India's commercial banks* (Nathan Associates Inc., 2013). Available at *https://www.nathaninc.com/wp-content/uploads/2017/10/Priority_Sector_Lending_India.pdf*

Accelerator.[147] REEEP is an NGO that invests funds in MSMEs and ventures that have strong potential to generate clean energy market growth. The REEEP Investment Accelerator aims to connect MSMEs with investors. MSMEs selected for the REEEP portfolio are provided with business training, mentoring and de-risking support to improve the viability of projects. MSMEs are then connected directly with private investors. Another example is the Small Enterprise Assistance Fund Business Assistance Program,[148] which provides customized business assistance to MSMEs in developing economies in fields including corporate governance, financial control and operations. MSMEs receive business assistance through a network of partners including investment teams, industry experts and mentoring entrepreneurs.

- **Targeted financial products.** Three main barriers result in existing financial products being poorly suited for MSME climate financing: funding is difficult for intermediaries and MSMEs to access; high costs and high risks are associated with lending to MSMEs; and products are sub-optimally designed for MSME needs. An example is the GET FiT programme in Uganda.[149] This programme seeks to leverage private investment into renewable energy generation projects in Uganda. It aims to close the gap between the current renewable energy feed-in tariffs (REFiT) and the financial incentives needed by investors, by using a results-based payment that tops up Uganda's REFiT and is front-loaded to the first five years of operation. The GET FiT Premium Payment Mechanism provides additional cash flow to project owners in the early phase of debt repayment. Another example is from the Regional MSME Investment Fund for Sub-Saharan Africa,[150] which is a debt fund with a focus on financing microfinance institutions, local commercial banks and other financial institutions in sub-Saharan Africa that serve MSMEs. It was founded as a public–private partnership aimed at combining funds from public and private investors and is structured as a multilayer fund that reflects the risk–return requirements of investors. The Regional MSME Investment Fund for Sub-Saharan Africa pools investment from a range of investors and provides local currency debt financing to partner lending institutions that serve MSMEs.

[147] Renewable Energy and Energy Efficiency Partnership (REEEP). Available at: https://www.reeep.org/about-reeep.
[148] Small Enterprise Assistance Funds (SEAF). Available at https://www.seaf.com/overview/.
[149] Global Energy Transfer Feed-in-Tariff (GET FiT) Uganda. Available at https://www.getfit-uganda.org/.
[150] Regional MSME Investment Fund for Sub-Saharan Africa (REFMIFA). Available at https://regmifa.com/.

Chapter IV. BUSINESS MODEL

A. Introduction

74. This chapter assesses the efficiency and effectiveness of the GCF's private sector approach, looking particularly at the business model of the GCF and examining accreditation, in-country capacities and country ownership. Three key questions are discussed and analysed in this chapter:

- To what extent is the accreditation of private sector entities effectively guided by a country-driven approach?
- To what extent is the GCF's accreditation process efficient in promoting the participation of private sector actors, in particular local actors?
- To what extent is the RPSP effectively deployed to promote the participation of private sector actors, in particular local actors?

B. Findings and analyses

1. Country driven approach to accreditation

75. **Finding 13: The choice of access modality is linked to the country-driven approach. However, evidence indicates that the GCF's accreditation process has faced challenges of strategic clarity, which limits the identification and selection of entities for country-driven, private sector projects.**

76. In general, the choice of access modality has implications for the country-driven approach. DAEs are considered more suitable for a country-driven approach for several reasons, including likely higher contextual understanding and alignment with the country/region's own priorities, deeper reach, and ability to work with MSMEs and local actors (Box IV-1). For example, as evidenced through key informant interviews with the Secretariat, adaptation and mitigation actions that require numerous small transactions will likely be more efficiently financed through retail banks, microfinance institutions and agricultural banks that are designed to provide credit products to households and small businesses.

Box IV-1. The efficiency of accrediting DAEs: experience in Armenia, Ghana and Chile

Armenia successfully accredited the Environmental Project Implementation Unit (EPIU) as its first DAE and is capitalizing on the GCF's readiness support to secure accreditation for more national public–private and private entities. Armenia's experience with the accreditation of its first DAE has been described as positive and straightforward, largely in part because of the facilitative role of UNOPS, rather than because of direct communication with the GCF Secretariat.

In the case of **Ghana**, a long process was required to fully understand what was needed to undergo accreditation. This process was largely facilitated by the NDA, which led the engagement of national stakeholders with the GCF. As a result, the accreditation of Ecobank Ghana Limited was a long yet smooth process because of the close relationship and coordination between the entity and the NDA. Despite this positive experience, in-country stakeholders emphasize the challenges for local associations representing communities to access to funding: even when they can play a key role in leveraging local private investments, standards and requirements to secure accreditation are so resource demanding that it makes it impossible for these local associations to engage with the GCF, both as DAEs and as local partners.

> **Chile's** DAE accreditation experience suggests a rather more challenging process, which according to in-country stakeholders has ultimately resulted in high levels of frustration and the decision to not pursue more DAEs. In the case of Finanzas y Seguros (FYNSA), pursuing accreditation under the GCF was seen as an opportunity to fill the climate change financing gap. While the accreditation process was not seen as complex necessarily, inefficiencies arose from the lack of predictability and transparency, and the lengthy interaction with the GCF. While the GCF refers to accreditation as a partnership with its AEs, according to interviewees, in practice the GCF Secretariat did not fulfil a technical backstopping role to support entities navigating accreditation but rather played more of an auditing role.

77. The challenge of identifying the right actors stems from a coherent or strategic view of accreditation. Interview respondents largely agree that one of the key issues with the accreditation of private sector AEs, both direct and international, is the fact that the GCF has not internalized "who they are engaging with, how the financial system works and the commitments they have with their clients", underscoring a lack of alignment between the GCF's business model and that of the private financial sector.

78. The USP proposes to increase country ownership by using country programmes to "inform the accreditation process" and thus increase the country drivenness of the project pipeline. However, according to interviewees, the development of country programmes has yet to materialize as a viable alternative, with one Secretariat interviewee noting it "will take a few years to mature and is a learning process". Overall, using these country programmes as a compass for ensuring country ownership over GCF investment could be a viable approach, as the programmes are to be developed through inclusive, consultative processes that seek to engage all relevant actors within the government, private sector, academia, civil society and other relevant stakeholder groups or sectors. Nevertheless, and as noted above, in practice the country programmes have yet to achieve widespread use to steer the selection and nomination of entities before the institutional assessments conducted by the Secretariat. From an institutional perspective, the objective to build a country programme remains somewhat unclear, as does whether it is targeted to develop a dedicated GCF pipeline or is more generally a climate-focused project pipeline. Interviewees opined that country programmes would also have to include a strategic investment plan for the country, to ensure operationalization of proposed country programming strategies and to identify the intended AEs for country priorities.

2. Accreditation portfolio

79. **Finding 14: The GCF accreditation process has provided a portfolio of diverse AEs. However, it has not yet resulted in a portfolio that is in line with the priorities and mandate of its private sector approach, taking into account dimensions of country ownership, local private sector involvement and supporting the needs of developing countries, particularly LDCs and SIDS. The pool of AEs from the private sector remains very limited.**

80. As of B.29, the GCF has accredited 113 entities. Of these 113 AEs, 28 (25 per cent) are private sector entities. Most of the private sector entities are large and medium (82 per cent), of which the majority are international entities. Of the 28 private sector AEs, 14 are DAEs and 14 are international accredited entities (IAEs) (Annex 4). Notably, only 7 private sector AEs have active FPs. The proportion of private sector AEs has remained consistent, at generally a quarter of the portfolio; in other words, if entities are accredited at a similar rate, about a quarter of GCF AEs will continue to be private sector AEs (please see Annex 4). As highlighted in the table below, the pipeline of project ideas and CNs remains clear, with only a few developed FPs. At least in the

medium term, it is unlikely that the GCF will be able to considerably increase its private sector project portfolio. All 11 withdrawn project proposals came from 6 AEs that are still involved in GCF project implementation and/or awaiting appraisal by the GCF (see Table IV-1). This highlights the limitations of a small pool of AEs for private sector projects.

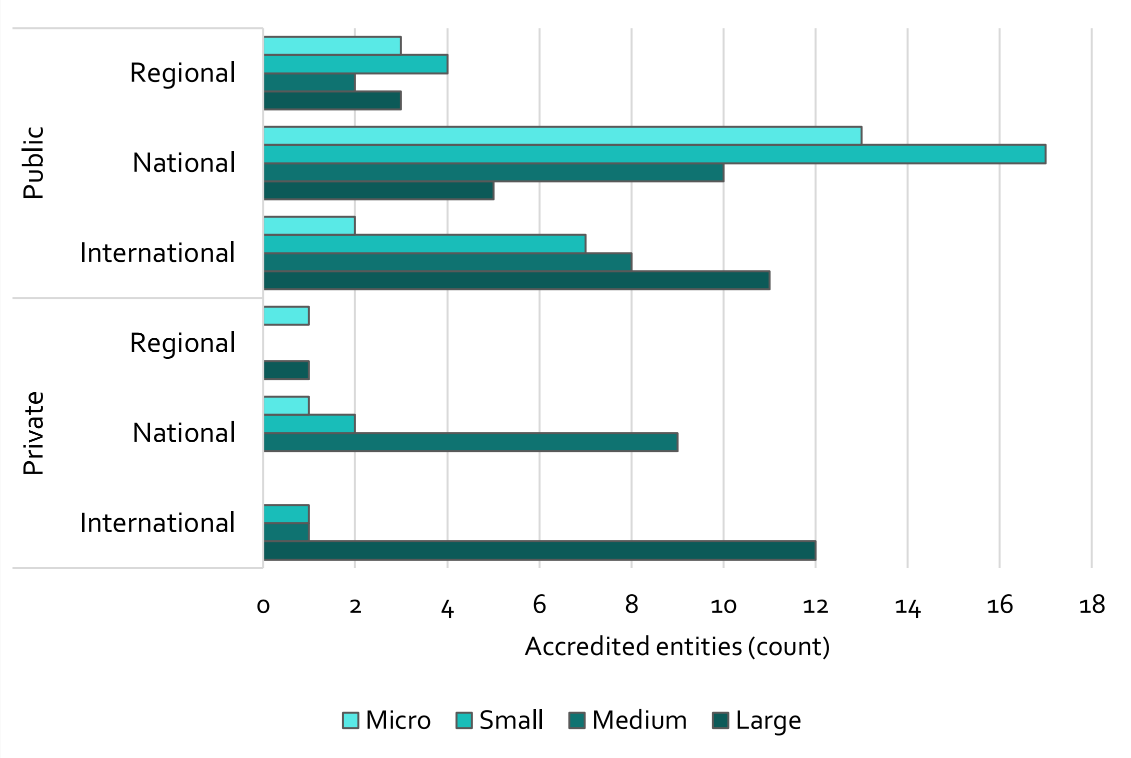
81. Despite DAEs occupying the majority of the accreditation portfolio (63 per cent), IAEs remain the predominant channel for volume of approved GCF finance (Figure IV-1). As of B.29, 81 per cent of overall GCF funding was approved through IAEs and 19 per cent via DAEs. The funding channelled through private sector AEs was also similarly distributed, with 21 per cent channelled through DAEs and 79 per cent through IAEs. The number of approved FPs was also skewed in favour of IAEs, with only 9 per cent of approved PSF projects being brought by DAEs. This is partially explained by the fact that IAEs are much more likely to be accredited for larger projects, with a larger variety of financial instruments, and can bring higher co-financing. In contrast, many DAEs are small and micro-sized, with smaller spending potential, and are thus generally considered less attractive to the GCF from a leveraging perspective. Among DAEs, 58 per cent are accredited for small or micro projects, compared to only 24 per cent of IAEs being accredited for small or micro project funding (Annex 4).

Table IV-1. Private sector AEs with FPs by project cycle stage

FP project cycle stage	# of FPs	Name of AEs	# of AEs in the project stage
Approved FPs	14	Acumen, DeutscheBank, FMO, MUFG_Bank, NEFCO, PCA, XacBank	7
Pipeline of FPs	14	BNP_Paribas, CACIB, CDG_Capital, CRDB, Ecobank Ghana, FMO, HSBC, JSBank, MUFG_Bank, PCA	10
Pipeline of CNs	25	Acumen, AFC, AWB, CAMCO, CDP, CRDB, FMO, JSBank, KCB, LBA, MAAML, NEFCO, PCA, TDBM, XacBank	15
Pipeline of project ideas (PIs)	16	AFC, AWB, BNP_Paribas, CRDB, FMO, HSBC, JSBank, MAAML, MUFG_Bank, PROPARCO	10
Withdrawn	11	AFC, AWB, CACIB, DeutscheBank, FMO, JSBank	6

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

Figure IV-1. Accredited entities by entity sector, size and modality



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

82. The key informant interviews and country case studies highlighted that developing countries seek to mobilize funding for private sector engagement through entities that can play a catalytic role in directing private sector financing into MSMEs, but many lack the necessary partners to execute projects in line with country needs and priorities. A majority of survey respondents disagreed that the GCF is effectively engaging the local private sector (Annex 4). The key informant interviews and country case studies (Box IV-2) further noted that developing countries feel obliged to support climate finance projects in their countries, even if these do not closely align with their own priorities. One NDA interviewee described it as “being in the driver’s seat with no control over the steering wheel.”

Box IV-2. A fit-for-purpose and country-driven private sector AE portfolio: experience in Armenia, Ghana and Chile

Armenia. The accreditation of Armenia’s first DAE has paved the way for more national private sector entities to pursue accreditation, facilitated by the country’s strategic approach to GCF readiness support. Securing such a diversity of public and private DAEs in Armenia is seen as a strategic opportunity for accessing climate finance with greater levels of independence, country-drivenness and country ownership, not only in terms of implementing a climate change portfolio aligned with country needs and priorities, but also with a view to monitoring and reporting on NDC implementation. As stressed by one of the interviewees, “having more DAEs will reduce bureaucracy in accessing the GCF, reduce intermediaries and transaction costs, and ultimately ensure more funding comes to the country.”

Ghana. Ecobank Ghana Limited is a commercial bank accredited under the GCF, motivated to mobilize green finance in alignment with both its institutional objectives and Ghana’s NDC. As a development bank, Ecobank Ghana can only access lending instruments. In-country stakeholders therefore emphasized the need for the country to have more diversified DAEs that can access and deliver other financial instruments for building an enabling policy environment, so private investments can be mobilized.

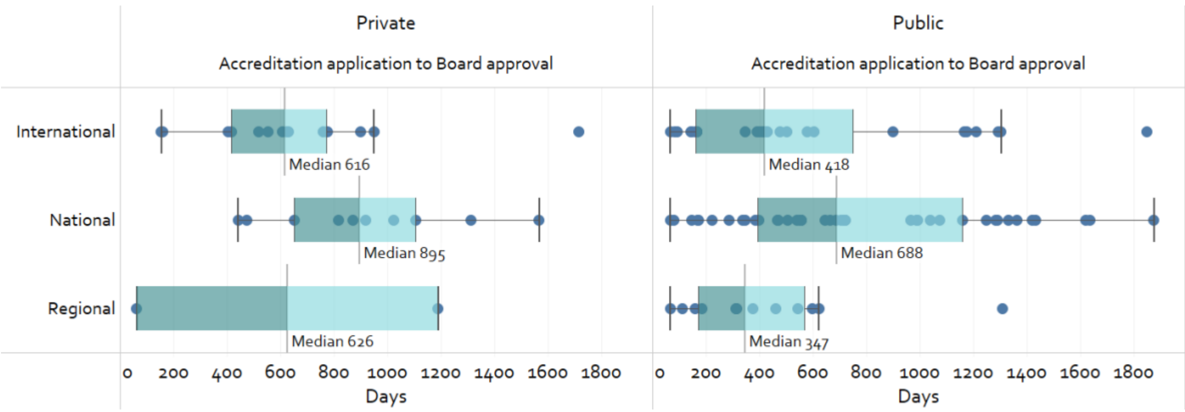
Chile. When establishing the NDA team and institutional procedures under the Ministry of Finance, Chile’s government had a plan to put forward nine national entities to be accredited under the GCF with a view to build a country-driven portfolio. However, because of the project approval rate, challenges faced in the accreditation process – as well as the fact that non-grant type of financial instruments were being pushed for Chile’s DAEs given the country’s categorization under the OECD – the NDA decided to pull out accreditation request(s) and not pursue further DAE accreditation under the GCF. As a result, the majority of AEs with a portfolio under the GCF are international entities such as the World Bank, United Nations agencies, or regional and international organizations. However, worth noting is that the accreditation of Chile’s only DAE, FYNSA, has been positive overall, as it has a well-established presence in the country and relationships with both the NDA and local private and financial entities.

3. Efficiency of the accreditation process, in particular for local private sector actors

83. **Finding 15: The GCF’s accreditation process is perceived as too lengthy and too cumbersome to secure the accreditation of private sector entities, especially for DAEs. The project-specific assessment approach (PSAA) is not expected to address these challenges.**

84. **Lengthy processes, with limited transparency**. There are no fixed timelines for the accreditation process: for a private sector entity the average duration between submitting an accreditation request and Board approval is 754 days (over two years), compared to an average of 650 days for public sector entities. Private sector national DAEs take a median difference of 207 days longer than the public sector national DAEs; for private sector regional DAEs this period is 279 days longer for public sector regional DAEs (see Figure IV-2). While private sector entities engaging with the GCF can expect some level of “culture shock” given the unfamiliarity of some of its processes, such extensive delays nonetheless undermine the planning, impact measuring and profitability of entities. As many interviewees emphasized, this poses a reputational risk to the GCF. The lack of real-time systems and time estimates – for example, web-based systems to indicate the GCF internal process with accreditation applications – is challenging for AEs, particularly from the private sector. As shown in the figure below, the time taken for accreditation is protracted, particularly for private sector DAEs.

Figure IV-2. Accreditation duration broken down by sector and access modality



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

85. During the accreditation process itself, the Secretariat does not have stated obligations to provide responses or feedback to applicants. Therefore, the process is perceived as non-transparent, a serious disincentive to engage with the GCF, and not aligned with the priorities of the private sector. One respondent described achieving accreditation success as “learning how to do what the GCF wants you to do without the GCF telling what you have to do”.

86. **Resource-heavy requirements**. Another challenge highlighted by interviewees was the heavy resource burden shouldered by applicants during the accreditation process. In addition to the GCF application fee (between USD 500 and USD 46,000), applicants can incur additional costs in fulfilling the process requirements. Some interviewees reported elevated costs in translation and consultant fees to support them in meeting the GCF criteria. This issue was also underlined in the IEU’s synthesis of the GCF’s accreditation function: The report found that GCF’s transaction costs are widely perceived as high in comparison to other multilateral financiers, thereby posing a barrier for DAE development of private sector projects and reducing the attractiveness of GCF financing.[151]

87. **Forms.** Interviewees reported burdensome forms and “unrealistic” requirements as part of the process. One organization was asked to submit general board meeting notes from over five years ago. Others were asked to provide theory of change approach papers, developed log frames and tools, which were described as not typically used in the private sector. The lack of clear and tailored guidance on templates and forms is a concern for the private sector. Overall, interviewees reported concerns over the GCF’s “cookie-cutter” accreditation process, where large IFIs and small financial entities are being reviewed in the same manner and assessed on similar, if not the same, criteria.

88. **Language**. The GCF’s use of the English language only was also cited as a systematic barrier throughout both the key informant interviews and the country case studies. In many of the countries, especially LDCs and SIDS, the private sector (especially local actors) may not necessarily have the tools to communicate effectively with the GCF in English, or the ability to address legal and contractual issues in English. One respondent explained that a low level of English is not just a barrier in vocabulary but also extends to not being able to match the GCF’s storytelling and narrative requirements, thus diminishing applicants’ ability to express themselves. This is further exacerbated by the technicalities and scientific terminology commonly deployed in exchanges with the GCF, including in the negotiation of the accreditation master agreements and funded activity agreements (FAAs). One respondent highlighted, “Unless you are Anglophone it is not possible to engage with the GCF.”

89. **Project-specific assessment approach.** The Board agreed to the principle of a PSAA in decision B.23/11, paragraph (c). The PSAA applies to any funding proposal not submitted by an AE and is intended as a complementary approach to institutional accreditation that enables the GCF to target specific projects/programmes.[152] According to the descriptions available in Board documents, the PSAA aims to provide a more fit-for-purpose approach by assessing whether the entity can undertake the proposed project/programme in line with the standards for GCF accreditation. Interview respondents generally regarded the PSAA as a promising development. The PSAA seeks to broaden access to the GCF for entities and countries that are seeking GCF resources on an ad hoc and limited basis but for whom the higher transaction costs of institutional accreditation are too high.[153]

[151] GCF, *Independent Synthesis of the Green Climate Fund’s Accreditation Function, Final Report* (Songdo, South Korea, Independent Evaluation Unit, 2020).
[152] GCF/B.29/06
[153] Ibid.

90. However, in the view of the evaluation team, the PSAA has limited potential to address needs related to the private sector mandate of the GCF. The challenges of accreditation stem primarily from the speed, transparency, resource-heavy requirements, language and clarity of the process. So far, the PSAA does not have an explicit aim to address these challenges. The IEU previously found several assumptions implied within accreditation, which the PSAA does not aim to address.[154] The updated accreditation framework including the PSAA was submitted for the Board's consideration at B.29, but it was not discussed during the meeting.

4. Use of Readiness for the private sector

91. Finding 16: The RPSP has limited structural linkages with the private sector and the PSF. The RPSP has had limited use to encourage the participation of the private sector and has provided limited support to catalytic actions and an enabling policy environment for the sector.

92. The GI mandates the RPSP to provide resources for readiness and preparatory activities and technical assistance, such as strengthening in-country institutional capacities and governance mechanisms to enable countries to access the GCF directly.[155] The Board has shaped the RPSP over time, through a series of decisions, most significantly through decisions B.08/11 and B.13/32. The most significant update came at B.22, when the Board approved the Readiness and Preparatory Programme Strategy 2019–2021.[156] The strategy was developed based on the outcome and conclusions of the IEU's Independent Evaluation of the Readiness and Preparatory Support Programme. It refocuses the orientation of the RPSP from indicative activity areas[157] into five cross-cutting streams of support, called objectives, on Capacity, Strategies, Adaptation Planning, Pipeline Development, and Knowledge.[158] These five objectives each have their own specific outcomes.[159] However, of the 14 outcomes of the RPSP, only 3 have a relationship with the private sector (Table IV-2). Institutionally, there are limited incentives and linkages to address these outcomes through an integrated approach that addresses capacity support or project development. Most interviewees from the Secretariat did not identify any explicit inputs or oversight from the PSF into the RPSP. They appreciated the efforts of the RPSP in building capacities but believed the outputs were limited in producing tangible FPs or CNs from the private sector.

Table IV-2. Objectives and outcomes in the Readiness and Preparatory Programme Strategy 2019–2021 related to the private sector (as approved in Decision B.22/11)

Objective	Outcome
Objective 1: Capacity-building GCF recipient countries and relevant stakeholders set up adequate systems – human, technical and institutional – that enable them to fulfil their roles and responsibilities towards the GCF and enhance their ability to achieve their objectives.	**Outcome 1.3:** Relevant country stakeholders (which may include executing entities, civil society organizations and private sector) have established adequate capacity, systems and networks to support the planning, programming and implementation of GCF-funded activities.
Objective 2: Strategic frameworks	**Outcome 2.4:** Strategic for transforming and attracting private sector investment for low

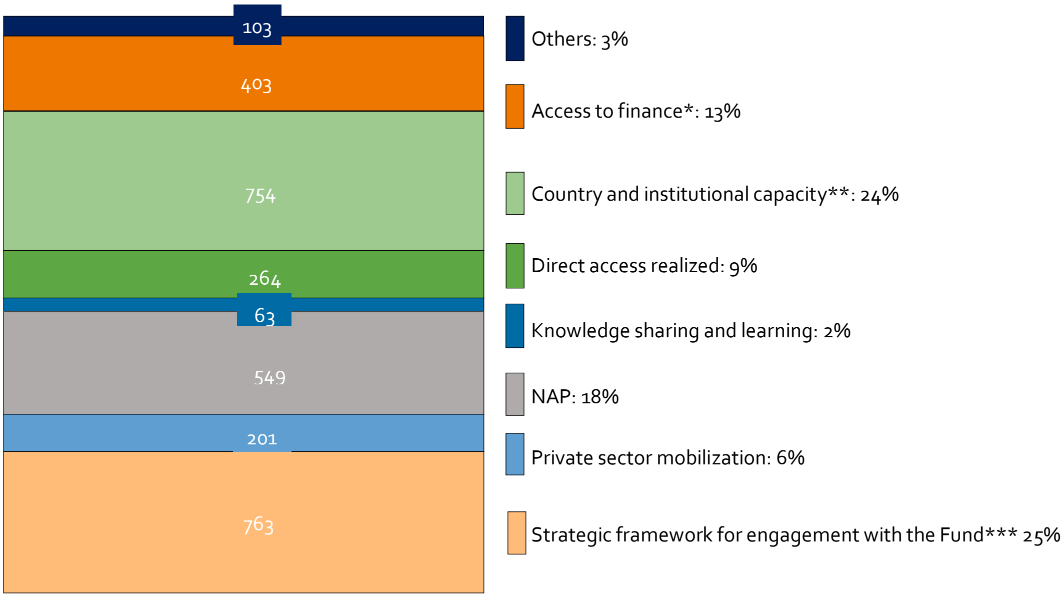
[154] For more information, refer to GCF, *Independent Synthesis of the Green Climate Fund's Accreditation Function, Final Report*.
[155] FCCC/CP/2011/9/Add.1/, Decision 3/CP.17, paragraph 40
[156] Decision GCF/B.22/11
[157] GCF/B.08/11 paragraph (i) and GCF/B.13/32 paragraph (e)
[158] GCF/B.22/24, Annex IV
[159] Ibid.

OBJECTIVE	OUTCOME
GCF recipient countries develop robust strategic frameworks to guide GCF investment in complementarity with other climate financiers.	emissions and resilience developed and being used [*sic*]
Objective 3: National adaptation plans and adaptation planning processes GCF recipient countries establish integrated adaptation planning and monitoring systems to enable climate resilience across sectors, as well as strengthen impact and catalyse the scale of public and private adaptation finance, based on a strong climate rationale and active stakeholder engagement.	**Outcome 3.3:** Private sector engagement in adaptation catalysed.

93. The use and effectiveness of the RPSP in catalysing the participation of private sector actors, in particular local actors, is extremely limited. Of the USD 344.3 million approved under the Readiness programme, 20 per cent is approved for NDA strengthening and only 5 per cent is for supporting DAEs (Annex 4). The effective deployment of the RPSP has been limited in helping to strengthen NDA / focal points; in supporting planning, programming and investment design; and in creating enabling conditions and a policy environment for the private sector. This was echoed by the key informant interviews, country case studies and survey results (Annex 4).

94. In addition, 415 approved RPSP grants are expected to deliver 3,100 outcomes, of which only 6 per cent (201) sought to support the private sector (Figure IV-3). No outcomes are explicitly and specifically linked or refer to catalytic actions to support the private sector.

Figure IV-3. Expected outcomes of the RPSP portfolio (415 RPSP grants with 3,100 individual outcomes)



Source: The outcome information is extracted from the logic framework section of the Readiness proposals. The categorization of outcome grouping was performed by the IEU DataLab, based on how the outcome is related to readiness objectives. Data from 415 RPSP grants as of 1 July 2021. Analysis by the IEU DataLab.

Note: One readiness proposal can have multiple objectives, which can include more than one outcome category.
* Access to finance, climate finance strategies and/or pipeline development
** Country and institutional capacity established/strengthened, including but not limited to NDA
*** Including but not limited to stakeholder engagement in consultative processes and country programming

Chapter V. PROJECT PORTFOLIO

A. Introduction

95. This chapter examines to what extent the GCF's private sector portfolio is promoting the efficient and effective participation of private sector actors from developing countries, in particular local actors. Four key questions are discussed and analysed in this chapter:

- To what extent is the private sector project portfolio effectively guided by a country-driven approach in the origination and review of projects?
- To what extent is the overall project cycle effectively and efficiently deployed to promote the participation of private sector actors, in particular local actors?
- To what extent is the private sector portfolio effectively contributing to achieving a geographical and thematic balance between adaptation and mitigation?
- To what extent is the PPF efficiently and effectively deployed to promote the participation of private sector actors, and to what extent are dedicated Requests for Proposals (RFPs) effective in promoting the participation of private sector actors, in particular local actors?

B. Findings and analyses

1. Country driven approach within FPs

96. **Finding 17: The GCF's approach to private sector project development is not effectively country driven, and hence not in line with the priorities of the USP. Country programmes are yet to be deployed to increase the country drivenness of the project pipeline. Multi-country projects have limited effectiveness in country ownership.**

97. Chapter IIIChapter IV and Chapter IV address dimensions of country ownership within accreditation and other parts of the business model. Country ownership is also partly operationalized through the role of NDAs and the non-objection letter (NOL) in project origination. AEs are required to present NOLs from the NDAs during the FP review. For a multi-country programme, no activities or investments can be undertaken in a country without obtaining a NOL from the NDA / focal point of the host country. Effective stakeholder engagement in each country can be challenging, provided different contexts, level of market activation and recipient needs.

98. Overall, interviewees confirmed the findings of the IEU's evaluation of the GCF's country ownership approach that the private sector is not yet sufficiently integrated into the processes of the GCF to support country-owned and country-driven project development.[160] Specifically, interviews with NDAs and within country case studies highlighted several challenges with the use of the NOL (See Box 3). One interviewee stated "We should be able to drive projects based on country priorities", and one government representative suggested the "GCF should be mindful of the needs of developing countries, not superimpose on countries or AEs what projects are to be financed." The majority of survey respondents also reported a lack of country ownership in the PSF portfolio.

[160] Puri, Jo, and Aemal Khan, "Climate Impact Bonds and the GCF", Independent Evaluation Unit blog, 17 December 2019. Available at https://ieu.greenclimate.fund/blog/climate-impact-bonds-and-gcf

Box V-1. Challenges with the NOL and multi-country projects

Armenia. While the thematic coverage of Armenia's GCF portfolio is broadly consistent with the country's priorities in terms of scaling up renewables and increasing forest coverage, the extent to which its portfolio is truly country driven is not as certain, as reported by interviewees. Despite Armenia's current and planned DAE portfolio, three out of five of projects in Armenia's portfolio are with an IAE; two of the three are multi-country. In-country stakeholders expressed feeling uncertain whether multi-country projects will be implemented in the country.

Ghana. A similar case can be seen in Ghana, where 50 per cent of the portfolio is undertaken by IAEs through multi-country projects. Interviewees stressed the limitations for local private sector entities, including Ghana's DAE – Ecobank Ghana Limited – to successfully engage and secure private-sector-dedicated financing under the GCF.

Chile. With only one DAE, project origination in Chile is mostly undertaken by IAEs. In-country stakeholders reported that often the NDA has little leverage to influence the approach, scope or objectives of FPs submitted by IAEs to the GCF for consideration and are left in a position to decide between providing a NOL for a project over which they have limited control, or risking missing out on much-needed climate financing in the country.

99. Secretariat staff identified no specific or systematic country-driven approach to the origination of private sector projects. In practice, several FPs are developed by IAEs, who seek advice from the PSF or DMA, before a review by the DCP and the NDAs. The experience of the GCF Secretariat helps with selection and revisions. This process is, however, not implemented systematically and is not included in any standard operating procedure (e.g. operations manual, programming manual).

100. An issue highlighted by respondents was that many of the proposals being brought forward by private sector AEs are not in line with the strategic priorities of the USP, indicating a poor understanding of the GCF's mandate among these actors. To address this, Secretariat respondents noted that the GCF Secretariat has been playing a "matchmaking" role, in which the PSF actively reaches out to private sector AEs that are viewed as appropriate partners for certain projects. However, this matchmaking role is not systematic, and interview respondents highlight the need for a deep relationship with the AEs, who have limited familiarity with the priorities within the USP.

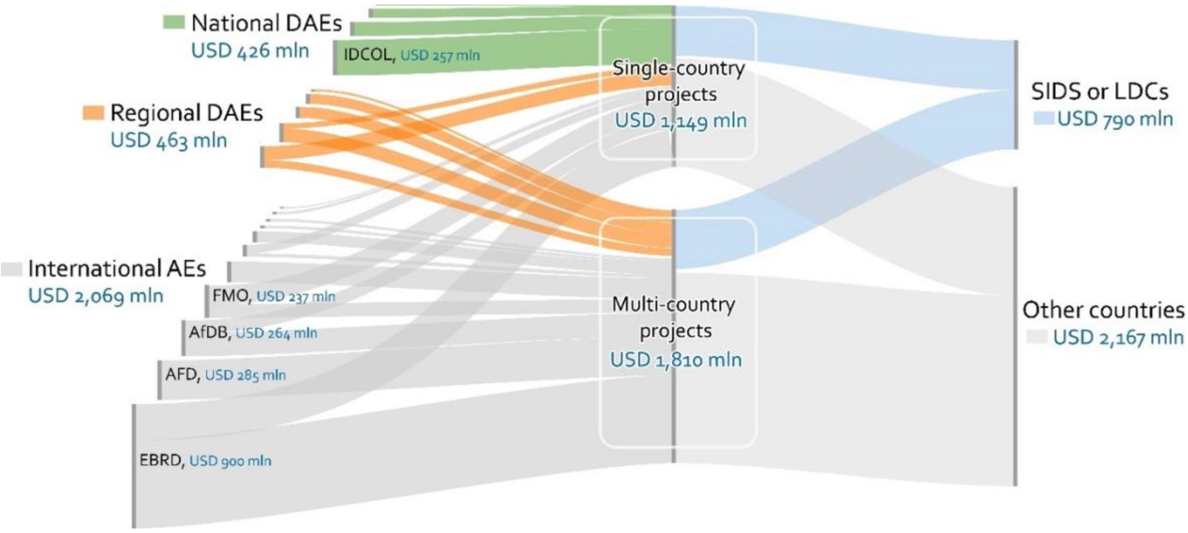
101. Some respondents noted that project origination should ideally be directed through country programmes, and one stated, "We are trying to move to a model where DCP will be at the forefront of project origination, with DMA and PSF coming in later when projects are more mature. It will take time to come into effect, but we have made some headway." Such an approach to project origination also requires greater staff numbers in DCP, an issue that was raised by one Secretariat respondent: "Do we have enough capacity to deal with the private sector and manage the project pipeline? (We don't.) Therefore, DCP and PSF are working quite closely together at present." The lack of streamlined origination for private sector projects to date results in concerns of capacity and coordination within the Secretariat. Neither country programmes nor entity work programmes (EWPs) are systematically used in the development of private sector FPs. Although AEs are supposed to develop EWPs,[161] many do not, and according to one Secretariat respondent "this is especially difficult for the private sector [AEs] because things move much faster, so we cannot adhere strictly to an entity programme."

[161] An EWP should provide an overview of the entity's areas of work, priority sectors and experience in implementing projects and programmes across the eight GCF strategic result areas. It should also summarize the potential projects that the entity is likely to submit to the GCF and outline an action plan for engagement with the GCF. See Board decision B.17/09, Annex IV.

102. Concern about country ownership in the origination and implementation of multi-country projects was strongly echoed in the key informant interviews and country case studies. In general, government stakeholders felt they had limited knowledge of, and involvement in, the origination of multi-country private sector projects. Their main concerns were that (i) these projects had not originated in the countries, (ii) AEs had undertaken limited consultations before the NOLs were sought, and (iii) it is unclear the extent to which they will directly be benefiting the country. Participatory multi-stakeholder engagements are not seen widely enough across the multi-country project portfolio. According to one LDC interviewee: "Many countries don't want multi-country [projects] and want to just work with local entities."

103. Furthermore, multi-country PSF projects have received lower ratings (12/35) on country ownership, on average, than single-country projects. Of 86 projects rated high by both the independent Technical Advisory Panel (iTAP) and the Secretariat, only 12 per cent are multi-country projects, whereas 88 per cent are single-country projects (Annex 5). This is an important consideration because, as of B.29, 61 per cent of the PSF portfolio (USD 1,811 million) has been allocated to multi-country projects. Moreover, out of the overall PSF portfolio, only 25 per cent is committed to either SIDS or LDCs, and 54 per cent of this finance is committed through multi-country projects[162] (Figure V-1 and Annex 5).

Figure V-1. PSF portfolio by AE modality, number of countries (single or multi-country) and targeting



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

2. Effectiveness and efficiency of the project cycle of private sector projects

104. **Finding 18: On average, a PSF project takes 228 days from FP submission to Board approval, with additional time needed for execution and effectiveness. The process and duration are unattractive for the private sector and considered unpredictable, which presents significant barriers, even for large IAEs.**

105. The GCF programming manual targets 190 days for project review. In practice, IEU DataLab analysis has shown that a PSF project would require a median of 228 days from FP submission to

[162] In GCF systems, to calculate funding per country project finance is equally divided among countries mentioned in funding proposal.

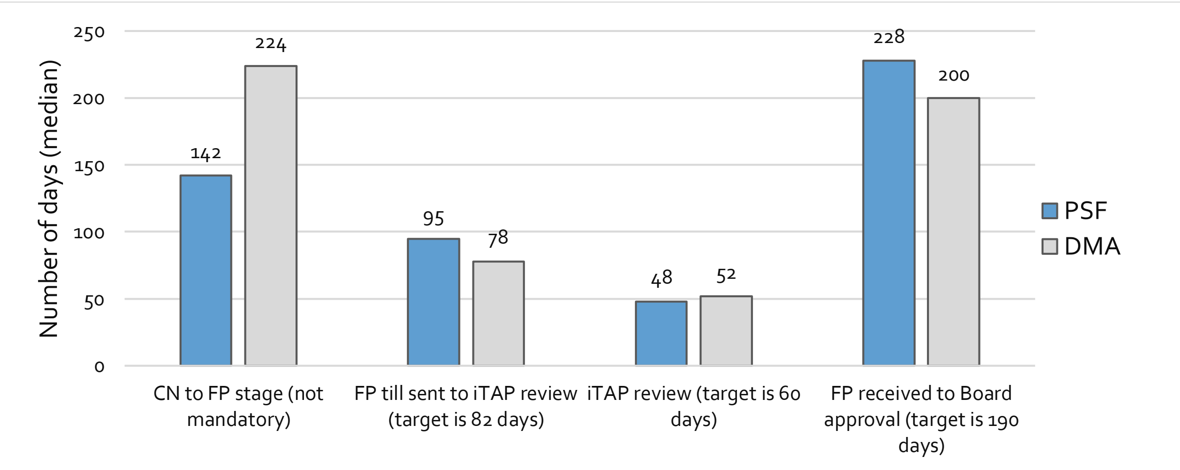
Board approval (Figure V-2). Post-approval FAA negotiations have steadily decreased over time, but still remain lengthy at 124 days. To receive first disbursement, the AE would still be required to fulfil conditions included in the term sheet during Board approval (Annex 5). On average, PSF projects take 33 days less than DMA projects to go from approval to the first disbursement (Annex 5). Overall, there is a tendency for PSF projects (compared to those of the DMA) to take more time on approval to execution (conditions negotiations) and less time on execution to effectiveness (implementing effectiveness conditions) (Annex 5). For PSF projects, approval to execution time is longer on adaptation projects and shorter on mitigation projects (Annex 5).

106. Taking into account the accreditation process prior to effective FPs, GCF processes are regarded by all stakeholders as exceedingly long. According to interviewees, these durations are not aligned with the speed required and expected by the private sector. As one IAE emphasized: "To engage the private sector GCF needs to have the ability to cut real-world 18-month processes down to 3-6 months". The length of the process can partly be associated with limited understanding of the GCF on the part of private sector actors, including the GCF's thorough review processes and the specific requirements related to climate rationale and ESS.[163] This was highlighted by respondents as a "blind spot" for many private sector entities, and one that is further exacerbated by the conflicting advice often received from the Secretariat and iTAP. A number of interview respondents stated that private sector entities are particularly unaccustomed to providing additional climate-related data for projects and often lack the required sectoral expertise.

107. In addition, both Secretariat staff and AEs indicated that the GCF's "one-size-fits-all" approach to project review tends to disadvantage private sector actors. An example offered by several respondents was that private entities are unaccustomed to working with the public sector tools such as logic frameworks and theories of change that are required for all GCF FPs. "This is a totally different business model that private sector entities are not used to at all. The GCF doesn't understand this – it has a strong public sector mindset."

108. Finally, the high costs of project preparation were also consistently cited as a key factor inhibiting greater private sector participation. An interview respondent from an IAE stated, "For every investment, the additional cost of developing a GCF project is USD 400,000 per project per country". This is considered exceedingly large, and potentially unattractive or even impractical, particularly for DAEs.

Figure V-2. Time analysis for project review process



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

[163] Oliver Wyman, *Second-level due diligence framework* (GCF internal document, 2019).

3. RISK APPETITE, CONCESSIONALITY AND FINANCIAL INSTRUMENTS

109. **Finding 19**: **Evidence suggests that while the GCF may be appropriately gauging the concessionality of its funding on a project-by-project basis, at the portfolio level, the GCF has employed a lower risk appetite than that contained in its mandate, and hence has provided limited levels of concessional financing overall.**

110. The GI outlines that the GCF will provide grants and concessional lending, and transparent[164] and predictable processes.[165] As per Board decision B.07/06, concessionality in the GCF is widely understood as "funding with below-market terms and conditions", where the minimum amount of concessional funding needed can be up to and including the full costs of the project or programme. "Concessionality can also be defined as a measure of the level of benefit provided to a borrower when compared with financing available at full market rates."[166] Such flexibility may be provided by a Policy on Concessionality, which is yet to be discussed and adopted by the Board. A draft of the proposed Policy on Concessionality[167] offers to provide concessionality to facilitate a high-impact climate action that would otherwise not take place. If adopted, this policy would align with the GI, which states that GCF "[f]inancing will be tailored to cover the identifiable additional costs of the investment necessary to make the project viable."

111. To test this, the evaluation team assessed the extent to which four approved GCF projects[168] adhered with the Guiding Principles (Section III) and Implementation and Other Requirements (Section IV) laid out in the proposed Policy on Concessionality (see Annex 5 for details of the analysis). The key findings of this analysis are as follows:

- 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 degrees of diligence), except for the application of grant equivalency for non-grant instruments.
- 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 whereby GCF investment was on the same terms and conditions as other private investors – that is, the GCF investment was not concessional but catalyst in nature (by acting as an 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 (TAF). As the use of funds for this facility were only outlined at a high level, further analysis on whether the TAF 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 TAF 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

[164] "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."
[165] 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."
[166] GCF/B.29/Inf.11.
[167] Ibid. A proposed "Policy on concessionality" (B.29/Inf.11) was taken to B.29, but the item was not opened and 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.
[168] GCF FP005 – Acumen; FP046 – XacBank; FP128 – MUFG_Bank; SAP013 – NEFCO. Projects were selected on the following criteria: projects under the evaluation's country case studies, projects from IAE and DAEs, and projects that had APRs.

the case of SAP013, the GCF loan was subordinated to other debt investors and sized to meet 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.

112. According to interview respondents, the GCF is not generally seen as risk seeking or attractive in terms of concessional financing. As one Secretariat interviewee highlighted, "The reality is, GCF's counterparts and beneficiaries are governments, and they expect to mobilize funding for private sector engagement through the use of grants and concessional loans / financial instruments that play a catalytic role in directing private sector financing into MSMEs. GCF's private sector approach is not matching this."

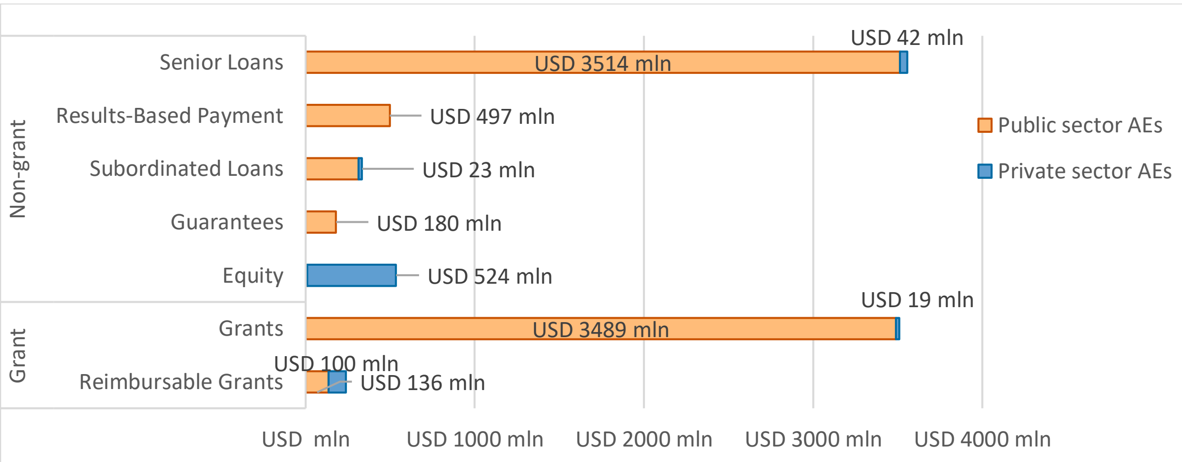
113. Finding 20: The GCF's overall, portfolio-level use of financial instruments provides another indication that it is not targeting high-risk private sector investments.

114. The Fund's overall portfolio is concentrated around grants and loans, with limited uptake of equity and guarantees (Figure V-3 and Annex 5). This is consistent with the findings of previous IEU evaluations. Although decisions regarding the use of concessionality and the appropriate type of financial instrument are dependent upon the particularities of individual projects, the evaluation team was able to get a sense of the type of private sector projects the GCF is targeting based on the overall split between loans and grants in its portfolio.

115. Private sector AEs constitute a small portion of the GCF's portfolio and are primarily reliant on non-grant instruments (Annex 5, Figure 8). The fact that so little GCF funding channelled via private AEs is deployed as grants indicates that there is a limited focus on enabling investments in high-risk technologies or business models, as well as in high-risk investment environments such as some LDCs and SIDS (see also Chapter III).

116. In 2017, the Fund initiated the Mobilising Funds at Scale pilot programme to identify innovative, high-impact projects and programmes that mobilize private sector investment in climate change activity through a wide range of instruments (Annex 5). While more than 350 ideas were submitted in response to the RFP, only five projects were subsequently approved (with only 53 per cent of funds committed).

Figure V-3. Financial instruments used in the GCF portfolio



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

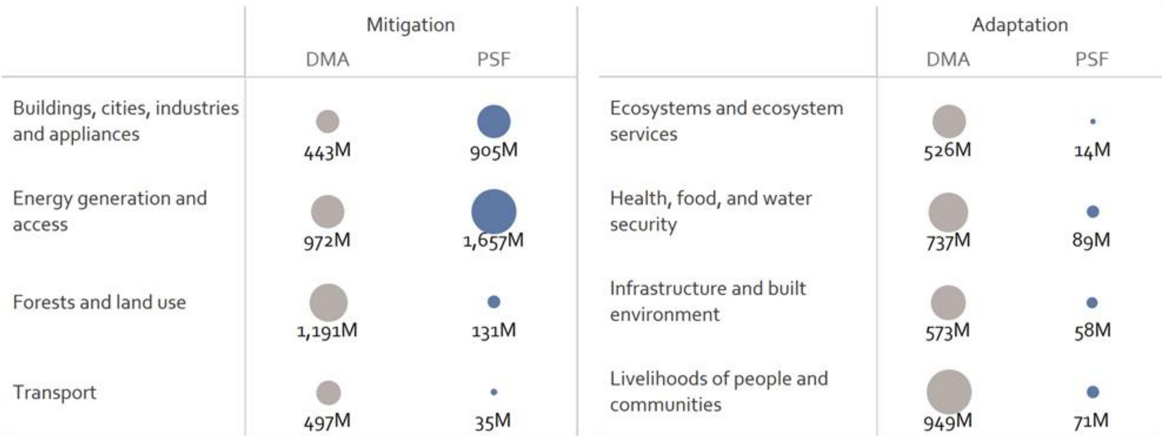
117. Corroborating this assessment, the GCF's Interim Risk and Investment Guidelines[169] specify that the grant component of PSF projects/programmes should be limited to 5 per cent of total project cost and should benefit the end beneficiaries such as through providing technical assistance and capacity-building. For a comparison, the European Union's flagship Innovation Fund (EUR 20 billion) will provide grants for up to 60 per cent of the additional capital and operational costs for private sector deployment of innovative low-carbon technologies and processes in energy-intensive industries, including carbon capture and storage and innovative energy storage technologies.[170] Exceptions to the GCF's 5 per cent cap on grant financing through the PSF can be made on a case-by-case basis for small-sized or transformative projects that have large non-revenue generating components, particularly in SIDS, LDCs and Africa, but these exceptions must always be properly justified and focused on mobilizing additional private sector investment.

4. Geographical and thematic distribution of PSF portfolio

118. **Finding 21: The PSF portfolio is strongly focused on mitigation, predominantly targeting energy generation and access. This portfolio has had a modest contribution to developing countries' mitigation and adaptation priorities, with limited support for private sector engagement in LDCs and SIDS. While NDCs are broadly addressed, PSF projects alone are not sufficiently targeting the most urgent NDC priorities of countries.**

119. **Thematic distribution.** PSF projects are strongly focused on mitigation, with projects worth about USD 2,046 million focused on mitigation and others worth USD 872 million focused on cross-cutting (covering mitigation and adaptation result areas, but predominantly mitigation); projects focusing solely on adaptation constitute USD 41.5 million, representing just 1.4 per cent of the PSF portfolio (Figure V-4). In terms of result areas, the private sector portfolio is predominantly targeting energy generation and access, which represents 56 per cent of private sector funding, with access across all regions (Figure V-5 below and Annex 5) but primarily in Africa and Asia. The status of the project pipeline (Annex 5) continues to be strongly focused on mitigation (42 per cent) and cross-cutting projects (40 per cent), with only 7 per cent of the project pipeline portfolio focusing on adaptation.

Figure V-4. Finance allocation across results areas, by division



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

[169] GCF/B.13/27/Rev.02
[170] European Commission, Innovation Fund. Available at https://ec.europa.eu/clima/policies/innovation-fund_en

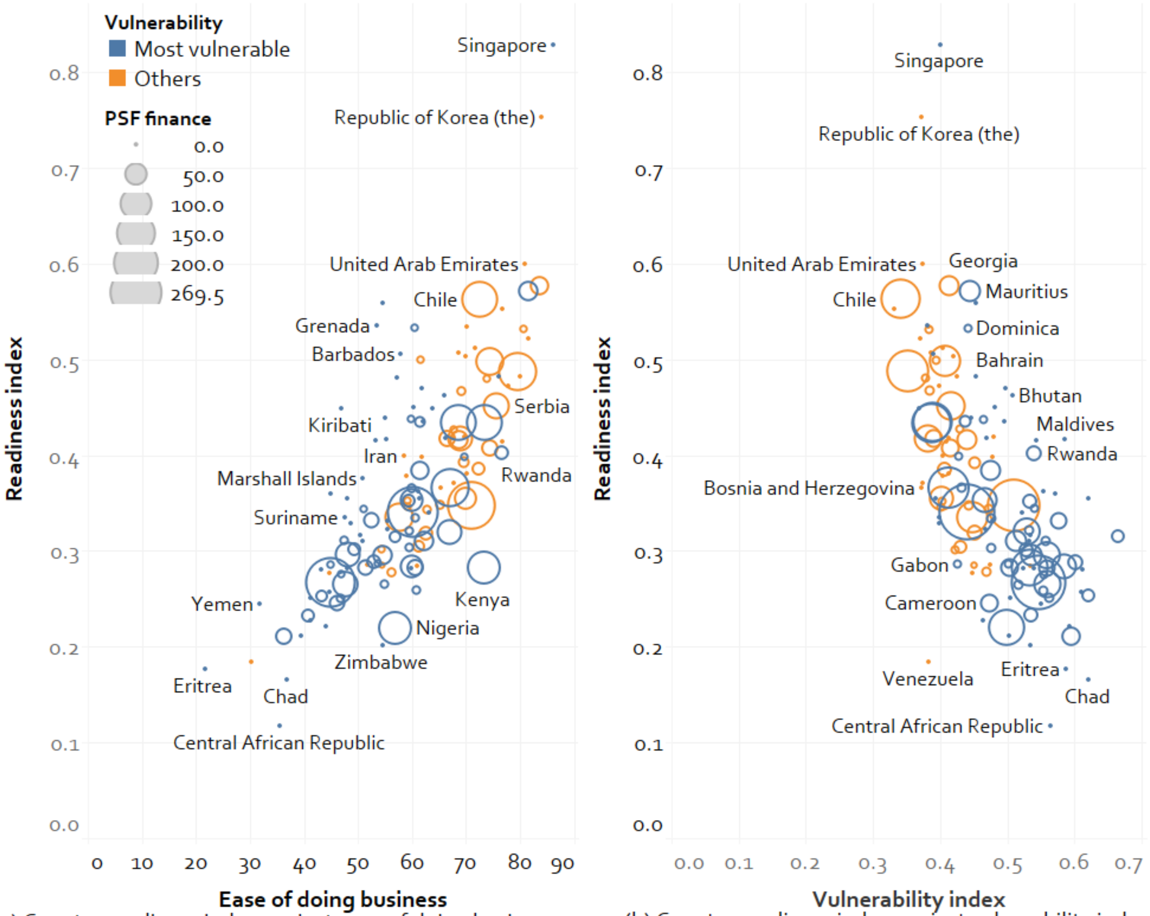
Figure V-5. Share of finance allocation to results areas across GCF regions

Region	Adaptation				Mitigation			
	Health, food and water security	Infrastructure and built environment	Livelihoods of people and communities	Ecosystems and ecosystem services	Buildings, cities, industries, and appliances	Energy generation and access	Forests and land use	Transport
Africa	2.42%	1.50%	1.77%	0.21%	7.54%	35.70%	1.91%	0.13%
Asia-Pacific	0.00%	0.10%	0.00%	0.00%	16.66%	11.64%	0.20%	1.06%
Eastern Europe	0.00%	0.22%	0.00%	0.00%	4.02%	2.68%	0.10%	0.00%
Latin America and the Caribbean	0.59%	0.13%	0.63%	0.26%	2.36%	5.95%	2.22%	0.00%

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

120. **Geographical distribution that targets the most vulnerable countries.** Overall, there is (i) a negative correlation between GCF finance and country vulnerability, (ii) no clear pattern for PSF finance, and (iii) no clear indication that the GCF is systematically reaching the most vulnerable. The evaluation team conducted a pairwise correlation analysis study using five proxy indicators, comprising a vulnerability index, readiness index, ease of doing business score, debt-to-GDP ratio and human development index, to test whether the GCF is strategically targeting the most vulnerable countries. The correlation analysis results show overall GCF investment is negatively correlated with the vulnerability index of the countries (r= -0.11) and debt-to-GDP ratio (r= -0.13). Similarly, GCF finance is positively correlated with the readiness index (r=0.06), ease of doing business (r= 0.25) and human development index (r = 0.04). However, there is no discernible pattern when considering PSF finance alone. Figure V-6 reveals that the GCF is not systematically reaching the most vulnerable countries, which have a high vulnerability score index, low ease of doing business score and low readiness index. A total of 46 SIDS/LDCs countries do not receive PSF finance, and only 13 countries are covered by PSF finance through single-country projects with total finance of USD 1,149 million (Annex 5). Altogether, 71 countries have access to PSF finance through multi-country projects, where the amount of GCF finance received by each country cannot be determined (Annex 5).

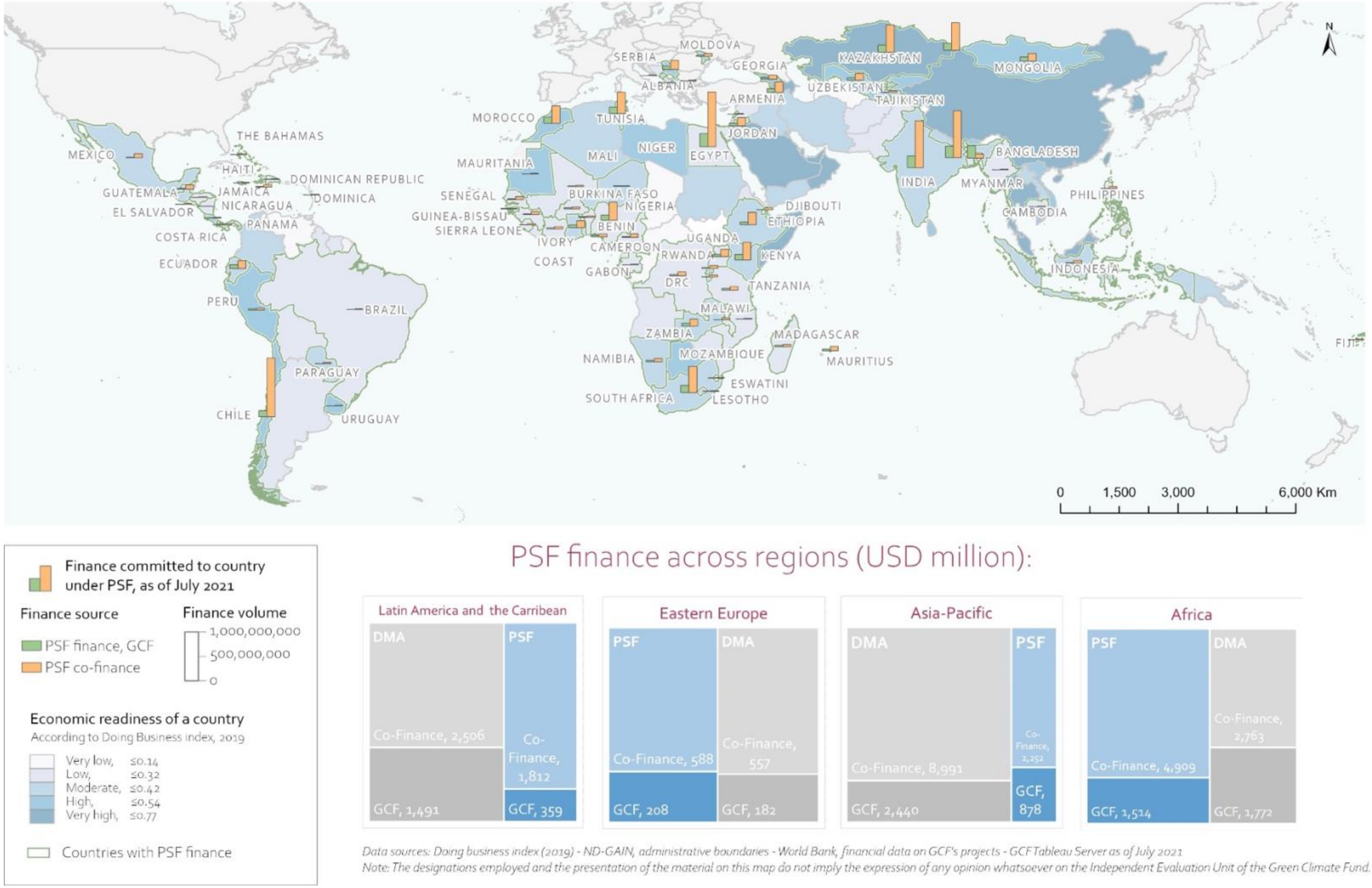
Figure V-6. Country readiness index against ease of doing business and vulnerability index



(a) Country readiness index against ease of doing business score (b) Country readiness index against vulnerability index

Source: Notre Dame Global Initiative country index (2019), World Bank (2020), GCF Tableau server as of 1 July 2021. Analysis by IEU DataLab.

Figure V-7. PSF finance and doing business index in GCF-eligible countries



Source: Notre Dame Global Initiative country index (2019), World Bank (2020), GCF Tableau server as of 1 July 2021. Analysis by IEU DataLab.

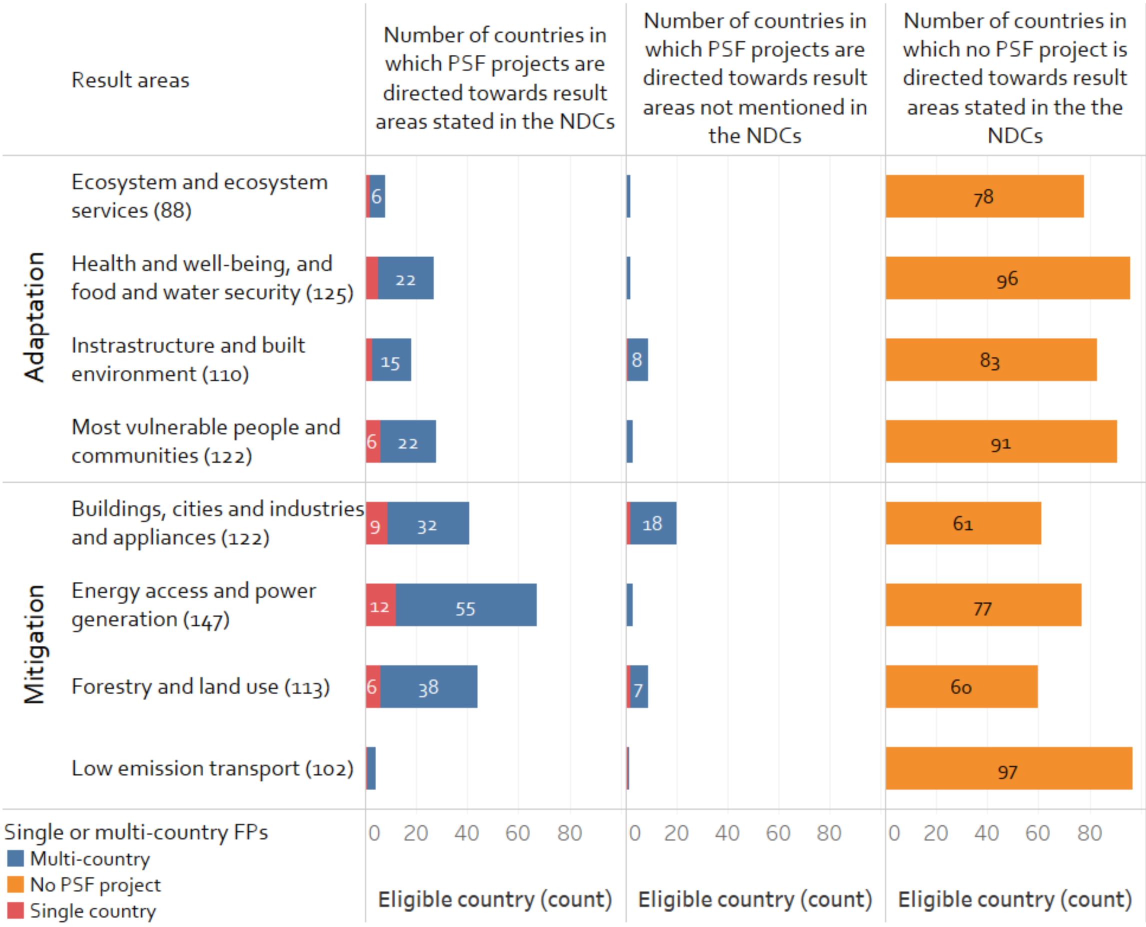
121. According to interviewees, the key barriers for PSF projects to be able to contribute to SIDS and LDCs priorities include (i) the GCF's excessive focus on leverage, leading to underinvestment in certain sectors and new markets where such support could help bring them closer to market-readiness; (ii) the GCF's limited focus on supporting catalytic actions in the context of broader policy environments and enabling conditions for private sector engagement; and (iii) difficulties in identifying AEs that are the right partners in terms of alignment with their country programming, strategies and priorities. Please refer to Chapter II and Chapter IV for more details. This aligns with previous IEU evaluations that pointed out that the GCF lacks a common understanding of the need for a tailored, context-sensitive strategy for the private sector in SIDS and LDCs, which are 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.[171] As noted by some SIDS interviewees, "GCF lumps SIDS together and proposes the same strategies and approaches, but we are vastly different, and cookie-cutter doesn't necessarily fit", and "Even in SIDS there is no homogeneity; it is difficult to address a blanket policy kind of way". According to SIDS respondents, the GCF is yet to take clear and concrete steps to operationalize the recommendations from the PSAG on this matter (Annex 5) – in particular, with regard to supporting catalytic actions that create strong, enabling policy, planning, regulatory and financial environments.

122. **Country priorities.** PSF projects are not sufficiently and exclusively targeting the most urgent NDC priorities of countries. The PSF projects are directed primarily towards the mitigation result areas, particularly the energy access and power generation result area. According to the analysis by the IEU DataLab, of the 147 GCF-eligible countries that mentioned energy access and power generation in their NDCs, 46 per cent of countries are targeted by PSF projects in this area. However, for the area of health and well-being, food and water security there are PSF projects in 22 per cent of countries that identify this in their NDCs. Interestingly, despite 97 countries mentioning transport as a priority in their NDCs, there are no PSF projects in this result area (Figure V-8). Further, 18 countries do not have an NDC priority but do have PSF projects in the area of buildings, cities, industries and appliances.

123. According to interviewees and the country case studies (see Annex 5), the GCF's PSF projects' alignment with, and contribution to, countries' NDC priorities is limited. For example, Chile's NDC seeks to target the land use, land-use change and forestry sector, with a view to maximizing synergies between climate mitigation, adaptation and sustainable development. Despite this, the country's PSF portfolio with the GCF is largely focused on mitigation and renewables. In Ghana, the portfolio is broadly aligned with the country's NDC, but the level of financing from the GCF effectively flowing for 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. Overall, the IEU DataLab analysis shows that the country coverage of GCF-funded PSF interventions is very limited compared to the overall needs across countries (as shown by the orange bar chart on the right-hand column of Figure V-8).

[171] Vasantha Chase and others, "Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in Small Island Developing States", Evaluation Report No. 8 (Songdo, South Korea, Independent Evaluation Unit, Green Climate Fund, 2020). Available at *https://ieu.greenclimate.fund/evaluation/sids2020*

Figure V-8. The extent to which the PSF's FPs are directed towards the needs of countries as expressed in their NDCs



Source: NDC Explorer and GCF Tableau server as of 1 July 2021. Analysis by IEU DataLab as of 13 November 2020.
Note: LDCs, SIDS and Africa are not mutually exclusive categories, some countries may appear in more than one category.

124. According to Secretariat and AE interviewees, it has been challenging for the GCF to fund a balanced portfolio of private sector projects that responds to country NDCs' most urgent priorities. In terms of institutional and coordination aspects, Secretariat interviewees noted that the PSF's key expertise is on energy, and the lack of adaptation specialists has, in their view, played a role in the prioritization of mitigation versus adaptation projects. Additionally, Secretariat interviewees emphasized the lack of coordination between divisions (PSF and DMA), with limited joint incentives or KPIs thus far. As some Secretariat interviewees noted, "At present, task managers are bringing low-hanging-fruit energy projects, because there is a precedent for iTAP and Board approval. Adaptation projects take more time and effort, so nobody wants to do this." Another interviewee noted, "There is no incentive to go out of their comfort zone and bring new, ambitious projects." AE interviewees noted that the lack of clarity on iTAP's scientific threshold to accept a project labelling of "adaptation" has disincentivized some actors to propose such projects to the GCF. More specifically, interviewees reported issues with how the classification and targeting of certain adaptation solutions (e.g. through clear taxonomy, sectoral and programmatic approaches) is communicated. Moreover, AE interviewees noted the lack of flexibility by the iTAP in terms of data requirements (30 years of historical data) for adaptation projects, when developing countries often

face challenges in data coverage and accessibility. This lack of flexibility is also particularly challenging for private sector AEs from developing countries. On this matter one regional AE stated, “To overcome challenges in adaptation projects, it requires consistency and clear messaging to communicate with partners of how GCF assesses investments.”

5. Effectiveness of the PPF and RFPs

125. **Finding 22: The PPF is underutilized, while RFPs are not effective or efficient in serving the mandate of the GCF with regard to the private sector. Both RFPs focused on the private sector were not able to fully commit the allocated budget, primarily owing to challenges in the business model.**

126. The evidence suggests that the PPF is underutilized, with only 12 per cent of the approved PPF proposals coming from private sector AEs (Annex 5). The PPF is primarily requested for pre-feasibility and feasibility studies, identification of programme and projects, and to assist in the development of gender action plans and gender studies (Annex 5). According to interviewees and the country case studies, PPF grants are underutilized because they take a median of 269 days (approximately nine months) from application submission to Secretariat approval, a process that is very lengthy and not suitable for the private sector. As one DAE emphasized, “PPF took about 9 months to get money in the bank … so also very lengthy and not accessible to everyone. GEF and AF are much more flexible than the GCF.”

127. According to the recent IEU evaluation of the RFP modality,[172] the success rates were very low for both RFPs (between 2 per cent and 13 per cent), meaning that most proponents were not successful in accessing the GCF through the RFPs. Furthermore, the funds committed through the approved projects and their disbursements were also low (Table V-1). Overall, the RFPs were not effective in improving access to GCF funding by the private sector.

Table V-1. RFP commitments and disbursements

RFP	Envelope size (USD million)	Approved FPs	Amount committed (USD million)	% committed
MFS	500	5	263.4	53%
MSME	200	3	60.0	30%*

Source: IEU DataLab
Note: *MSME RFP funding amount was subsequently capped at USD 100 million, from USD 200 million at B.13/22. Considering the B.13/22 cap, the commitment is 60 per cent.

128. The MSME pilot programme received 30 CNs requesting USD 739 million in financing from the GCF by international and national DAEs, private equity firms, private companies and foundations, including 13 non-accredited entities and 17 AEs. The MSME pilot programme generated seven shortlisted CNs: one from Africa, one from Asia–Pacific, one from Latin America and the Caribbean, two that were unidentified and two that were multi-regional. In terms of particularly vulnerable countries, 48 per cent of concept ideas came from SIDS, African States and LDCs. Finance was requested in grant instruments (7 per cent), equity (28 per cent) and guarantees (22 per cent). Of these concept ideas, 52 per cent were for mitigation actions and 48 per cent for cross-

[172] Independent Evaluation Unit, “Independent Rapid Assessment of the Green Climate Fund’s Request for Proposals Modality”, Evaluation Report No. 11 (Songdo, South Korea, Green Climate Fund, 2021). Available at https://ieu.greenclimate.fund/evaluation/RFP2021

cutting actions. The projects approved as of 1 July 2021 do not focus on LDCs or SIDS, although they were prioritised in the RFP selection criteria.

129. According to the IEU evaluation of RFPs (2021), uptake for the MSME RFP was limited, as project proponents did not see the value added of going through the RFP (the same process as for the project approval) while having smaller funding cap. According to interviewees, this was also due to the GCF's level of preparedness, awareness and ability to respond to MSMEs.

130. The MFS RFP attracted 350 submissions from more than 70 countries, with an estimated GCF-requested financing of over USD 18 billion. The top 30 CNs were shortlisted after this process; this number was not indicated in the terms of reference of the MFS RFP. The Secretariat announced a shortlist of CNs at a side event at the One Planet Summit in Paris, on 12 December 2017, and on the GCF website for the MFS RFP. The regular funding proposal appraisal process by the Secretariat and iTAP was applied after the FPs' submission. As of March 2021, 5 out of these 30 shortlisted proposals were approved. According to the recent IEU evaluation of the RFPs, the MFS RFP enabled the GCF to attract private sector proposals that might not otherwise have come through existing AEs. However, many private sector actors found the accreditation process too cumbersome. As a result, many of the original project proponents were thus replaced by entities that were already accredited. The Secretariat connected those original CN sponsors who were not ready or willing to be accredited with AEs that were able to step in and process the CN to FP stage and Board approval.

131. None of the approved FPs were pure adaptation projects. The PSAG recommendation subsequently informed the MFS RFP to focus more on the private sector in adaptation, but this was not fulfilled. Ultimately, according to interviewees, there was no real value added or incentive for going through the RFP for applicants, given that the process was the same and that entities needed to be accredited to access the GCF funds.

Chapter VI. MEASURING AND REPORTING RESULTS AND IMPACTS

A. INTRODUCTION

132. This chapter assesses the impacts and results of the GCF's private sector approach in the context of the overall role and mandate of the GCF as an operating entity of the Convention, as examined in Chapter II.

- Two key questions are discussed and analysed in this chapter:
- To what extent is the GCF ensuring robust measurement of private sector strategic results in alignment with its mandate?
- To what extent is the private sector portfolio achieving their objectives, and what are their current and attributable results?

B. FINDINGS AND ANALYSES

1. STRATEGIC RESULTS: MEASURING THE GCF'S PRIVATE SECTOR SUCCESS

133. Finding 23: The GCF will be unable to credibly measure and report the results of its private sector mandate due to two key challenges: (i) the integrated results management framework does not provide a robust framework from which to measure the success – or not – of the GCF's private sector approach; and (ii) the GCF's private sector approach does not include explicit logic models to assign appropriate indicators.

134. At B.29, the Board merged the results management framework and other performance measurement frameworks into one integrated results management framework (IRMF) by updating the GCF results architecture and related measurement and reporting approaches for the GCF-1 programming.[173] The recently approved IRMF has the following aims:

- Increase the GCF's accountability to consistently and credibly measure and report the results of its funded activities vis-à-vis its objectives to promote paradigm shift and support the goals of the UNFCCC and Paris Agreement
- Clarify the results measurement approach and strengthen the methodological basis, including for the paradigm shift
- Ensure effective implementation of results management by the Secretariat and key stakeholders through enhanced guidance and delivery of training[174]

135. To do this, the IRMF essentially sets out a two-pronged approach. The opening assessment approach follows the initial investment framework, which assesses FPs against – among other elements – the prospect of the project/programme's results potential, which is its potential for delivering on (i) climate impact, (ii) paradigm shift, and (iii) sustainable development.[175] The second tier takes the expected results previously identified and assesses whether or not they have actually been achieved. The framework newly includes four areas for qualitative and quantitative indicators of enabling

[173] GCF/B.28/09
[174] Ibid., paragraph 10
[175] Ibid., paragraph 11

environments: (i) institutional, (ii) technology and innovation, (iii) market transformation, and (iv) knowledge and learning.

136. In practice, the IRMF does not provide a robust framework from which to measure the success – or not – of the GCF’s private sector approach, and this for a number of reasons. The IRMF makes no mention of national monitoring and reporting requirements, completely bypassing any country monitoring systems and national reporting standards towards the Sustainable Development Goals, thus eroding country ownership over the projects the GCF has invested in. Further, the IRMF does not recognize an approach for the private sector in results management. It does not differentiate between public and private projects, rather it assesses projects by result area, which poses a significant challenge to any type of assessment of the GCF’s engagement with the private sector. As one Secretariat interviewee noted, “this illustrates how the GCF sees working with the private sector as a means to an end.” (Annex 6 illustrates the perceptions gathered through country case studies).

137. The IRMF does not include logic models for mitigation and adaptation to describe and demonstrate “how inputs and activities are converted to changes in the form of results achieved at the project/programme, country, strategic impact and paradigm shift levels”.[176] It should be noted here that, generally, attributing Fund activities to results achieved becomes increasingly difficult as one moves from inputs to results at the paradigm-shift level.[177] Without logic models, it will be increasingly difficult for AEs or executing entities to adequately assign indicators that could be aggregated at the Fund level. The probability of inconsistencies between impact indicators and result areas, and thus the under-planning for impact, was tested in the 2018 RMF review by the IEU. The review found that 39 per cent of the GCF’s committed USD 3.5 billion investment will not be able to report on at least one indicator and thus will not inform on the impacts identified for at least one result area. Logic models at the Fund level would enable AEs to align their projects’ logic frameworks more closely to the Fund. It would, however, be crucial to recognize the roles of the private sector and private finance as key enabling conditions.

138. While some enabling environments have been recognized in the IRMF, the framework does not address enabling conditions for the private sector, including direct investment of private sector finance, access to finance, global-to-local financial architecture, and enhancing capacities of private and financial institutions to accelerate climate action. None of the identified areas of enabling environments in the overall structure would be able to describe results pertaining to the mandates of private sector mobilization and catalysis. From the perspective of a private sector approach, the newly adopted IRMF does not address the lack of coherence and clarity around logic models, lack of guidance on credible measuring and robust reporting through the GCF indicators, or opportunity for coordination for results management at the country level. Considerations for the private sector remain general goals without specific planning. As an interviewee put it, “there is an issue around the GCF classifying disbursement as a success factor: finance is not the end result”. Another interviewee stated: “Private sector remains an afterthought for the GCF and never the driver for the desired change”.

139. In addition, the GCF’s monitoring and reporting requirements as per the monitoring and accountability framework (MAF) do not provide an adequate framework within which to properly assess the GCF private sector project portfolio. The MAF is a marginalized policy and thus not yet fully operationalized. With a lack of clear, consistent guidelines and a self-reporting approach, the data gathered do not provide a sufficiently clear overview within which to sufficiently monitor and report on the progress, or lack thereof, of the GCF’s private sector projects.

[176] Decision B.07/04
[177] Ibid.

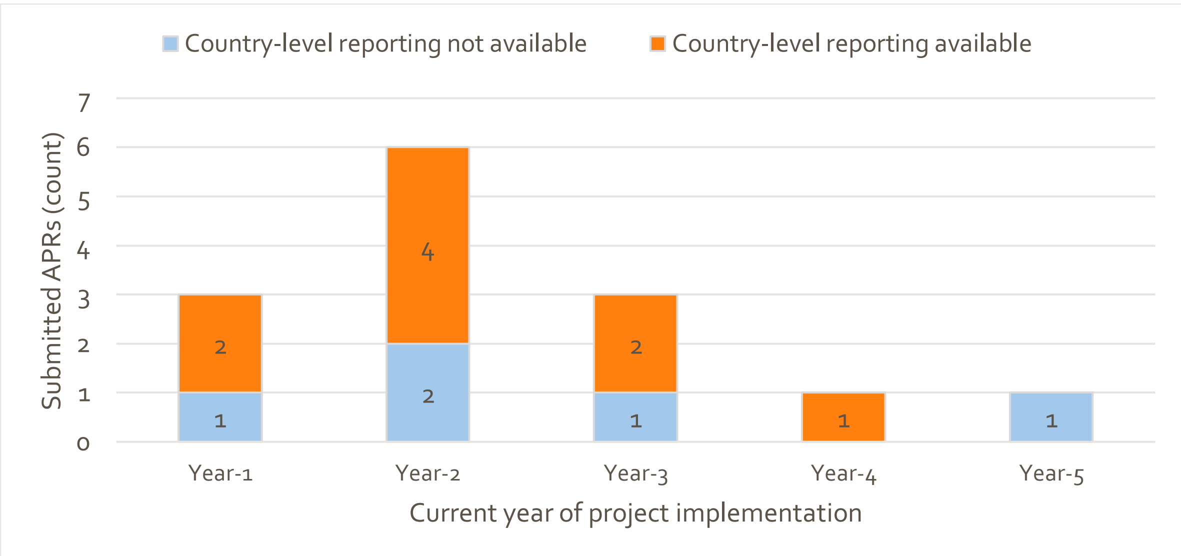
2. Monitoring and reporting of private sector projects

140. Finding 24: The quality of APRs varies, leaving the GCF with limited oversight over AEs' compliance, especially for multi-country projects.

141. As evidenced through interviews with the Secretariat and AEs, there are a number of reasons for variation in the quality of the APRs. First, the shortcomings in quality reporting are associated with the limited guidance from the GCF, which leads to very different styles and quality of reporting. Second, not all AEs – and DAEs especially – have the capacity to report on projects to the standard expected by the GCF. Third, by relying on the AE to report using GCF forms and templates, there is not necessarily a clear role for the NDA to participate – and be kept abreast of – developments with the project/programme. The GCF's reliance on AEs' self-reporting leaves the GCF with very limited oversight over AEs' compliance, and the GCF is unable to take remedial measures if there are any compliance or performance issues. One Secretariat interviewee stated, "we have to rely on what they [AEs] tell us, this is the challenge." Yet another challenge of self-reporting relates to the quality and content of the reporting, and the lack of incentives to report to the GCF. As one Secretariat interviewee pointed out, "When it comes to stakeholder assessment, impact reports, etc., this is a lot of work. Private sector doesn't really care about this."

142. A fourth limitation relates to multi-country projects, where APRs are insufficient to provide monitoring data at the country level. The APR template does not explicitly require reporting to identify countries in which project activities take place. Among the APRs submitted for the 2020 implementation period, at least 35 per cent of multi-country projects did not provide country-level information on activities implemented, only broad project-level implementation, as per Figure VI-1.

Figure VI-1. Country-level reporting in APRs of multi-country projects



Source: Submitted 2020 Annual Performance Reports (APRs). Extraction and analysis by IEU DataLab.

3. Fulfilling and reporting on contractual conditions set out in FAAs

143. Finding 25: There is limited oversight over the reporting of FAA conditions and their compliance.

144. In the GCF, AEs are responsible for implementing approved projects in compliance with the FAA conditions.[178] Only once these conditions have been fulfilled can the project or programme become effective, and the process of monitoring and evaluation can commence and continue until the project or programme closes and exits the Fund's portfolio.[179] The number and type of conditions in the FAA varies greatly according to the type of financial instrument used, as well as the nature of the project – the riskier the project, the more conditions will be included to mitigate the potential risks.

145. PSF projects on average contain more conditions than DMA projects (Annex 6). Given that projects involving non-grant financing (loans, equity, guarantees) have more stringent reporting requirements, private sector projects tend to carry more conditions and covenants than public sector projects with relatively straightforward financial structures. At present, AEs are responsible for self-reporting on their compliance with these conditions through the submission of financial information documents to the GCF, including APRs, interim reports and final reports. Secretariat interview respondents raised several concerns regarding this system of self-reporting. As one Secretariat interviewee noted, "PSF projects are not as ready as the DMA projects; private sector projects can be unpredictable, therefore there need to be more legal conditions to mitigate any risks that might occur." One respondent noted that not all covenants are monitored, with the omission, for instance, of subproject risk categories. Moreover, several respondents highlighted the issue of organizational capacity constraints that limit the GCF's ability to conduct sufficient oversight and perform full compliance checks. While the GCF has the right to request information from AEs at any time, it was noted by one Secretariat member that the GCF "doesn't even have the money for ad hoc checks. With only 200 people in Songdo, we don't have the capacity of the World Bank or IFC [International Finance Corporation]." With the substantial growth in the size of the GCF portfolio and lags in the Secretariat staff increase, many respondents argued that this issue is expected to worsen.

146. A further issue relates to the disclosure of project information. For some respondents, less willingness by private sector entities to make information publicly available (namely, through APRs published on the GCF website) was regarded as "the nature of the beast." It was noted that the GCF discloses more than other institutions such as the IFC, and that the protection of commercially sensitive information remains a key concern for private entities. The results of interviews indicate that the issue of compliance and disclosure remains an ongoing topic of debate. Given that the PSF portfolio is expected to scale up in GCF-1 and thereafter, there may be an opportunity to address this challenge by providing clear and transparent information.

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[178] There is a distinction between:
1) Conditions for execution of the FAA. Generally, these are known at the time of funding proposal approval – they either appear in the term sheet or Board decision text;
2) Conditions for effectiveness of the FAA. Generally, these are known at the time of funding proposal approval – they either appear in the term sheet or Board decision text;
3) Representations, warranties, and covenants. These are to be complied with on an ongoing basis during project implementation. Generally, these are known at the time of funding proposal approval – they either appear in the term sheet or Board decision text.

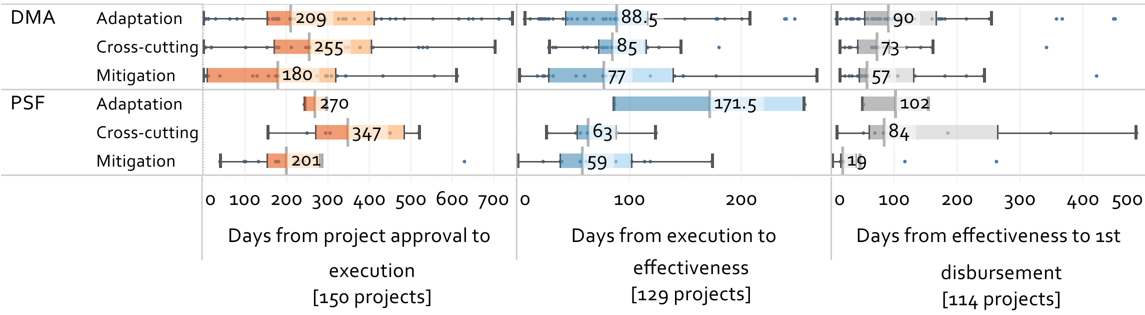
[179] GCF, "Approval and Implementation", 2021. Available at *https://www.greenclimate.fund/projects/legal*

4. Implementation of private sector projects

147. **Finding 26: It takes over 18 months for PSF projects to move from FP submission to first disbursement. AEs' ability to monitor and report against their projected impacts is undermined by delays in meeting the conditions for the effectiveness of PSF projects, due to changes in the baseline context.**

148. Overall, there is a tendency for PSF projects to take longer from approval to execution (likely the AEs take longer to fulfil conditions attached during the Board approval) and less time from execution to effectiveness – see Figure VI-2. For PSF projects, approval to execution time is longer on adaptation projects and shorter on mitigation projects. The time between execution to effectiveness is longest for adaptation projects under the PSF.

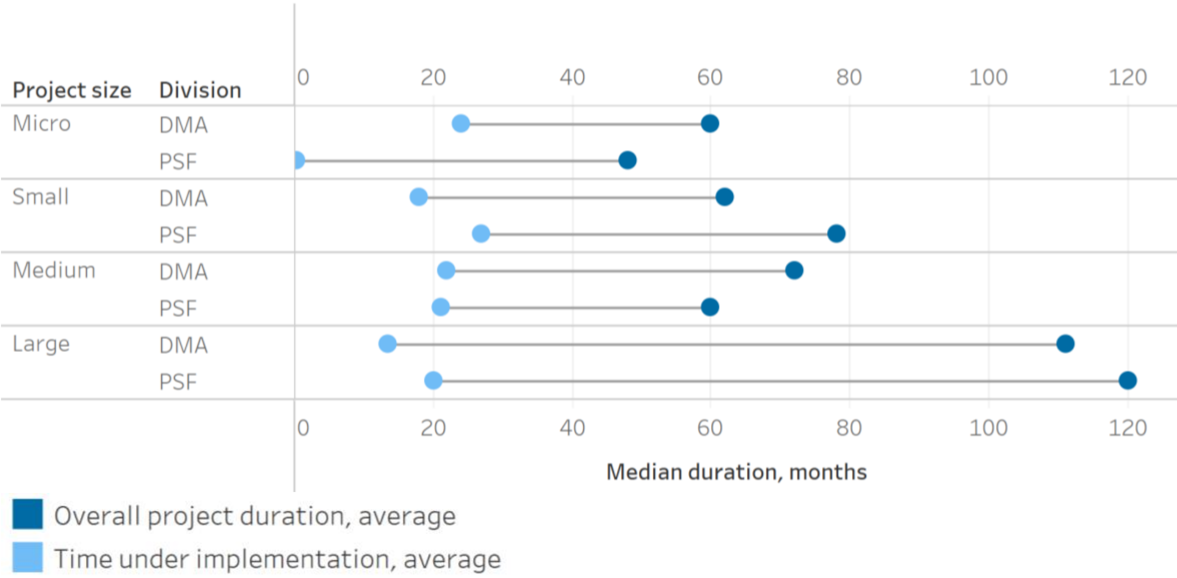
Figure VI-2. FAA execution timeline for each division per focus



Source: FAA data, as of 1 July 2021. Extracted and analysed by IEU DataLab.

149. These delays translate into the timeliness of projects' implementation, further skewing the data on the impact baseline, which poses a significant challenge to AEs' ability to monitor and report against their projected impact. Figure VI-3 depicts the median time under implementation of projects across the PSF and DMA.

Figure VI-3. Time under implementation, DMA and PSF



Source: iPMS data, as of 1 July 2021.

150. The factors behind the delays can stem from a range of issues, and often a combination of several issues at once. Secretariat interviewees reported that these delays result from the GCF's own approach to resource allocation, and the lack of coordination among teams. High staff turnover results in the departure of staff members leading and championing certain projects. This can result in contradictory feedback provided by different GCF staff members. One DAE interviewee underlined the unpredictable nature of the feedback received from the GCF each time, suggesting that as GCF staff members change, so does the nature of their feedback, which not only causes uncertainty and confusion, but has sizeable effects on project timeliness.

151. As noted in Chapter V, systematic delays to the project life cycle significantly skew projects' impact measurement potential. With the PSF project approval cycle taking an average of 18 months, there can be significant changes in the baseline contexts in this duration. AE interviewees emphasized that unless projects can be implemented as they were originally designed, impact cannot be measured accurately. Unclear and imprecise data from projects may erode the GCF's paradigm-shifting potential, particularly in relation to the scalability and replicability of its projects in the long-term and its capabilities for knowledge generation and capacity-building.

Chapter VII. CONCLUSIONS AND RECOMMENDATIONS

The GCF has a clear mandate to engage with the private sector within the context of its role as an operating entity of the UNFCCC. However, the GCF’s private sector approach has been largely divorced from this mandate. The evaluation has found that the GCF is yet to operationalize several provisions of the GI and COP decisions. This concluding section is structured around five core provisions, identifying prevailing gaps and providing recommendations for the GCF to align its approach with its mandate.

A. CHANNELLING FINANCIAL RESOURCES AND CATALYSING PUBLIC AND PRIVATE CLIMATE FINANCE

152. 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.” The GCF has successfully channelled new financial resources to developing countries. It has also leveraged large-scale co-funding from public and private sources. However, it has not leveraged an equally large scale of private funding at the national level, partly because the process for securing funding through the GCF is slow and highly unpredictable, which presents significant barriers to local private actors that cannot afford the risks and delays associated with accreditation and funding applications. As explained in previous chapters, a distinction needs to be made between catalysing finance and leveraging co-funding. However, the USP uses these words interchangeably and overemphasizes leverage ratios as a measure of the impact of private sector activities. The PSF, in turn, has focused on maximizing leverage in individual projects, rather than the catalysing of private finance for adaptation and mitigation activities more broadly. The catalytic effect of the PSF specifically is likely limited due to its low risk-appetite and lack of funding for the enabling environment.

153. **Recommendation 1: The Board and the Secretariat may wish to clarify that the GCF is a high-risk fund that aims to catalyse investment in transformative adaptation and mitigation projects, rather than only a high-leverage fund that aims to maximize the quantity of co-investment.**

In line with the GI, strategically determine which private sector actors the GCF will target[180] and identify and adopt the appropriate modalities for engaging them.

Accordingly, determine and foster ambitious targets for private sector engagement in all GCF result areas. Develop and scale solutions by sharing new tools, methods, technologies and innovation to achieve these targets, such as systems for results management, including by drawing lessons from comparable climate funds[181].

Adopt a policy on concessionality to require project proposals to systematically assess wider market conditions to determine the private sector’s appetite to bear identified risks, the additionality of the GCF finance proposed, and the level of

[180] For instance, actors may range from fishers and farmers, MSMEs, to international banks, heavy industry and/or corporations.
[181] See GEF’s Private Sector Strategy for early lessons for targets on catalysation and measurement of results.

concessionality required to make the project viable. As part of the internal guidance of the GCF on how the policy on concessionality will be applied, indicate that project proposals should only be approved if they demonstrate that GCF finance is targeting identified risks that the private sector is not willing to bear. Where the additionality of the GCF's support is weak, do not undertake any engagement.

operational short-term

Develop and adopt metrics and reporting for measuring the catalytic impact of interventions that do not focus narrowly on leverage ratios, and ensure adaptive management of the project.

operational long-term

Target the private sector portfolio towards higher-risk transformative projects that involve early stage technologies or business models that are not commercially viable, or towards geographies that are high risk due to high interest rates, weak regulatory frameworks, lack of capacity and the like, even if that means funding projects primarily through grants or highly concessional terms that are potentially loss making.

154. **Recommendation 2: The Secretariat should enhance the speed and transparency of GCF operations to align with private sector needs for efficiency and predictability.**

operational short-term

Streamline the accreditation process, and thus operationalize the USP priority (Section 4.4, Paragraph 26, Letter B).

operational short-term

Streamline the project approval process, and thus operationalize the USP priority (Section 5.1, Paragraph 29, Letter B).

operational short-term

Clarify the overall objectives of the PSAA and whether it is intended to address private sector needs. Accordingly, adjust the piloting of the PSAA.

operational short-term

To ensure transparency and accountability, consider using an online tracking system, published average response times for decisions, and incentives to Secretariat staff for rapid processing, among other things.

B. PURSUE A COUNTRY DRIVEN APPROACH

155. Article 9.9 of the Paris Agreement states that the GCF, as an operating entity of the Convention, should ensure efficient access to climate finance in the context of national climate strategies and plans. The GI states 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."[182] Additionally, the GI stipulates that "the operation of the [private sector] facility will be consistent with a country-driven approach."[183] Despite this clear mandate to be country driven, the PSF has limited engagement with national governments to align spending on private

[182] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex I, paragraph 2
[183] Ibid., Annex V, C (2), paragraph 42

sector projects with national climate strategies and plans. Under the PSF, project origination is driven primarily by IAEs, with limited country ownership.

156. Recommendation 3: The Secretariat should take measures to ensure that private sector projects are country owned. Access to the GCF should be informed by a country-driven approach, directed and prioritized by the NDC gap analysis.

strategic short-term

In operationalizing strategic priority 4.1 of the USP, ensure that the accreditation of private sector entities and programming of private sector projects are also informed by country programmes.

strategic long-term

At the request of countries, provide the means to include the private sector in multi-sectoral planning on financing the implementation of NDCs, NAPs and other national climate plans[184].

strategic long-term

Promote strong alignment between national climate strategies and GCF private sector projects, and request that NDAs define the types of private sector projects that will be supported by the GCF in their countries, including in country programmes.

operational short-term

Following a critical review of the current experience with RFPs, consider using an RFP for NDA-defined critical projects for the private sector.

operational short-term

Go beyond the use of NOLs to ensure country ownership, especially for private sector projects. Ensure the engagement of NDAs, not just during project approval but throughout the life cycle. In the case of multi-country projects, once countries are selected the same process should apply.

C. DIRECTLY AND INDIRECTLY FINANCE PRIVATE SECTOR MITIGATION AND ADAPTATION

157. 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."[185] The PSF has directly financed several mitigation projects. These have primarily been implemented by IAEs and heavily weighted towards the energy sector. The PSF has provided very little direct finance for adaptation activities. It has also invested very little to indirectly finance private sector projects – for example, by supporting the upstream enabling environment that indirectly results in private finance flowing to adaptation and mitigation activities.[186,187] GCF support for policy and regulatory reforms, technical capacity-building,

[184] Previously recommended by PSAG (GCF/B.20/12).
[185] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex V, C (2), paragraph 41
[186] Jessica Brown and others, *Estimating Mobilized Private Finance for Adaptation: Exploring Data and Methods* (San Francisco and Paris, Climate Policy Initiative and Organisation for Economic Co-operation and Development, 2015). Available at https://climatepolicyinitiative.org/wp-content/uploads/2015/11/Estimating-mobilized-private-finance-for-adaptation-Exploring-data-and-methods.pdf
[187] Jessica Brown and others, *Improving the Effectiveness of Climate Finance: A Survey of Leveraging Methodologies* (San Francisco, Climate Policy Initiative, 2011). Available at https://climatepolicyinitiative.org/wp-content/uploads/2011/11/Effectiveness-of-Climate-Finance-Methodology.pdf

readiness and the like is delivered primarily with limited targeting of or consultation with the private sector.

158. **Recommendation 4: The Secretariat should create institutional and organizational structures that operationalize direct and indirect finance for private sector activities.**

strategic
short-term

Clearly articulate whether it is the DMA, PSF or another part of the GCF that has the institutional responsibility and strategic priority to provide technical support and funding for the enabling environment for private sector adaptation and mitigation.

strategic
long-term

Revise the GCF Readiness Strategy to ensure the following:

- Structural linkages are built between the GCF's private sector priorities and the RPSP.
- The RPSP includes appropriate objectives and outcomes for supporting the enabling environment for private sector adaptation and mitigation.
- Funding is carved out for supporting the enabling environment for private sector adaptation and mitigation, in line with country climate priorities, as outlined in their NDCs. The following are examples of projects that support the enabling environment:
    + Technical support to governments for the policy and regulatory reforms required to scale up private sector adaptation and mitigation
    + Funding for local industry bodies and associations to work with governments to design locally appropriate policy and regulatory frameworks for adaptation and mitigation
    + Training of local financial institutions, including microfinance institutions, in financing adaptation and mitigation activities to unlock finance in local currencies
    + Knowledge creation and peer-to-peer learning among private businesses regarding climate risks and solutions, and improved access to and use of climate data, analysis and projections, which in turn will help to improve private sector decision-making in relation to adaptation

D. PROMOTE THE PARTICIPATION OF PRIVATE SECTOR ACTORS IN DEVELOPING COUNTRIES

159. 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."[188] MSMEs are central to implementing several mitigation and adaptation actions that are commonly included in SIDS' and LDCs' national climate plans – for example, sustainable fishing practices, climate-smart agriculture, energy efficiency in buildings or small-scale manufacturing, and clean cookstoves. Deployment of these actions tends to require numerous small transactions in local currencies, which will likely be more efficiently deployed through local financial intermediaries, which in turn are likely to be DAEs. While several private DAEs have been accredited, almost no funding is flowing through them, and as a result, the PSF has

[188] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex V, C (2), paragraph 43

not delivered its mandate to promote the participation of local private sector actors and financial intermediaries.

160. **Recommendation 5: Set out as a strategic priority for the GCF to channel finance to MSMEs, exploring access modalities and appropriate instruments for decentralized adaptation and mitigation actions.**

operational short-term

Consider the mechanism and modality through which MSMEs can access GCF finance, recognizing the differentiated needs of targeted MSMEs vis-à-vis AEs.

strategic long-term

Provide readiness support to accredited local and national intermediaries to build their capacity to channel finance to MSMEs through appropriate instruments for implementing decentralized adaptation and mitigation actions.

operational short-term

Stratify the simplified approval process specifically for private sector needs, with a focus on local actors to increase the efficiency and predictability of access to financial resources[189].

E. Support activities to enable private sector involvement in adaptation, particularly in SIDS and LDCs

161. The GI states that 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."[190] Additionally, the GI states, "The [PSF] will also support activities to enable private sector involvement in SIDS and LDCs."[191] Despite the mandate to balance investment between adaptation and mitigation, the PSF has provided very little funding for adaptation projects at all. The PSF's support for private projects in SIDS and LDCs has focused on directly financing mitigation projects, despite the fact that the countries are recognized under the UNFCCC as highly vulnerable to climate change. A key challenge to financing adaptation projects is to show that they can be profitable and generate revenue streams. Overall, the GCF has had limited results with regard to investments in an enabling environment for private sector adaptation, channelling sufficient finance via DAEs, or exhibiting sufficient risk appetite to achieve its mandate to enable private sector involvement in adaptation in LDCs and SIDS.

162. Recommendation 6: The GCF Board and Secretariat should expand the focus on financial instruments and GCF support, specifically to enable private sector investment in adaptation, particularly in SIDS and LDCs.

operational short-term

Enhance GCF institutional and organizational capacity on adaptation, and review investment criteria, monitoring templates and indicators for adaptation and cross-cutting projects. Align adaptation investment criteria and indicators with

[189] The IEU previously recommended that the Secretariat take a tailored approach to the private sector and include a separate sub-strategy for attracting the private sector within a future SAP modality/modalities strategy. See: GCF, *Independent Assessment of the GCF's Simplified Approval Process Pilot Scheme, Final Report* (Songdo, South Korea, Independent Evaluation Unit, 2020).
[190] FCCC/CP/2011/9/Add. 1., Decision 3/CP.17/, Annex I, paragraph 2
[191] Ibid., Annex V, C (2), paragraph 43

Intergovernmental Panel on Climate Change definitions of adaptation, vulnerability, climate risks and exposures[192].

Consider financial innovations tailored to needs and context.[193] Increase the GCF's risk appetite to experiment with financial instruments and business models that can help improve the economics of private sector adaptation or cross-cutting projects.

Design Secretariat-level KPIs that support private sector projects in SIDS and LDCs.

[192] As previously recommended by PSAG (GCF/B.20/12), the GCF may allow for SIDS and LDCs to involve the private sector in the development and implementation of national adaptation plans and enhance peer-to-peer learning on private sector adaptation projects.
[193] As previously recommended by PSAG (GCF/B.20/12), some activities may include weather-indexed crop insurance and catastrophe risk insurance, resilience bonds, dedicated green/blue bonds and innovative financing for ecosystem-based management.

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