



**GREEN  
CLIMATE  
FUND**

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8 June 2018

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# Identification of results areas where targeted GCF investment would have the most impact

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## **Summary**

This document identifies areas where targeted GCF investment would have greater impact. It analyses the GCF portfolio through the eight GCF results areas and compares it with analyses of country programme briefs. A review of the quality of climate information and data used in the approved funding proposals is presented. In addition, the removal of barriers is identified as key to achieving the most impact, including by mobilizing investment in insurance and reinsurance in both the public and private sectors. The document also includes several follow-up actions to be pursued by the Secretariat in areas where targeted GCF investment would have the most impact.

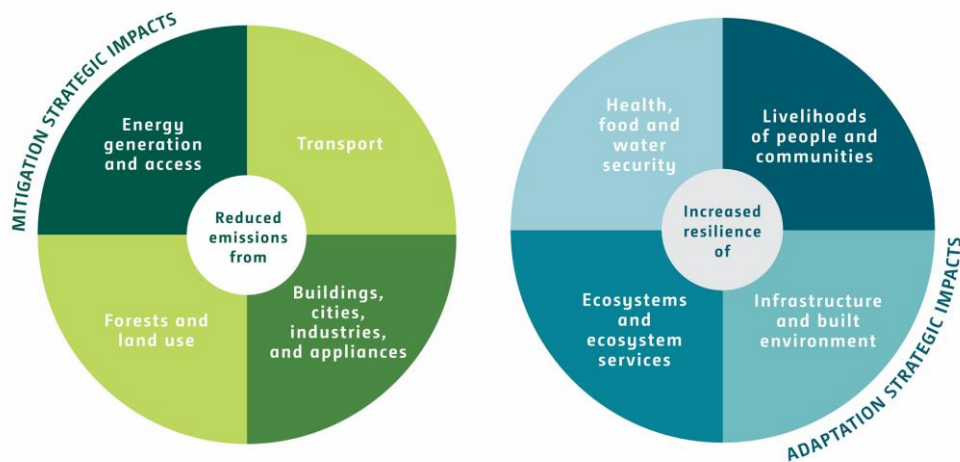
## I. Introduction

1. Having considered document GCF/B.17/09 titled “Status of the GCF portfolio: pipeline and approved projects” at its seventeenth meeting, the Board, by decision B.17/08, paragraph (b), requested the Secretariat to undertake additional analysis, taking into consideration the potential investment priority areas presented in document GCF/B.09/06 titled “Analysis of the Expected Role and Impact of the Green Climate Fund”, and to identify results areas where targeted GCF investment would have the most impact.
2. This document prioritizes issues already identified by the Board, in particular those that will have an impact on all eight GCF results areas (as detailed in the above-mentioned document GCF/B.09/06). It outlines the status of the GCF portfolio through the eight results areas, with additional analysis of its regional distribution and comparison with country programme briefs for approved funding proposals and proposals in the GCF pipeline.
3. Furthermore, as noted in document GCF/B.17/18 titled “Review of the initial proposal approval process”, Board members have expressed concern at the low quality of funding proposals, particularly in terms of their potential for climate impact, which, in certain cases, was not sufficiently developed or well connected to the proposed activities. Several Board members expressed concern that the climate-related objectives of certain projects were not sufficiently clear, particularly in the case of adaptation projects.
4. To further support this observation, this document undertakes a desk review of the comments from the Secretariat and the independent Technical Advisory Panel (TAP) assessments regarding the extent and quality of climate information and data in the approved funding proposals to examine whether this can be improved as a focus area of strengthened investment by GCF.
5. Lastly, based on the recommendations in document GCF/B.17/03 titled “Analysis of barriers to crowding-in and maximizing the engagement of the private sector, including Private Sector Advisory Group recommendations”, this document examines the potential to overcome barriers, especially within the domain of public policy and regulatory frameworks based on country demand, which could help to mobilize private and institutional investors at scale. In particular, further encouragement and investments in insurance and reinsurance have been identified by the Secretariat as an area that would have a stronger impact on the portfolio.
6. The findings of this document indicate that maximizing the impact of GCF investment in the potentially high-value areas identified would require focused efforts to integrate diverse areas of work, including strengthening the climate rationale; overcoming or removing barriers through the promotion of insurance and reinsurance and other financial products; avoiding investment risk such as portfolio concentration risks; and providing further guidance on the technical components of the eight GCF results areas.

## II. Analysis of the GCF portfolio: the results areas

7. This section presents an overview of the current GCF portfolio, including approved funding proposals, as well as funding proposals and concept notes in the pipeline, analyses the geographical distribution, and compares the proposals with analyses of country programme briefs in each of the eight GCF results areas, which are highlighted in figure 1 below.

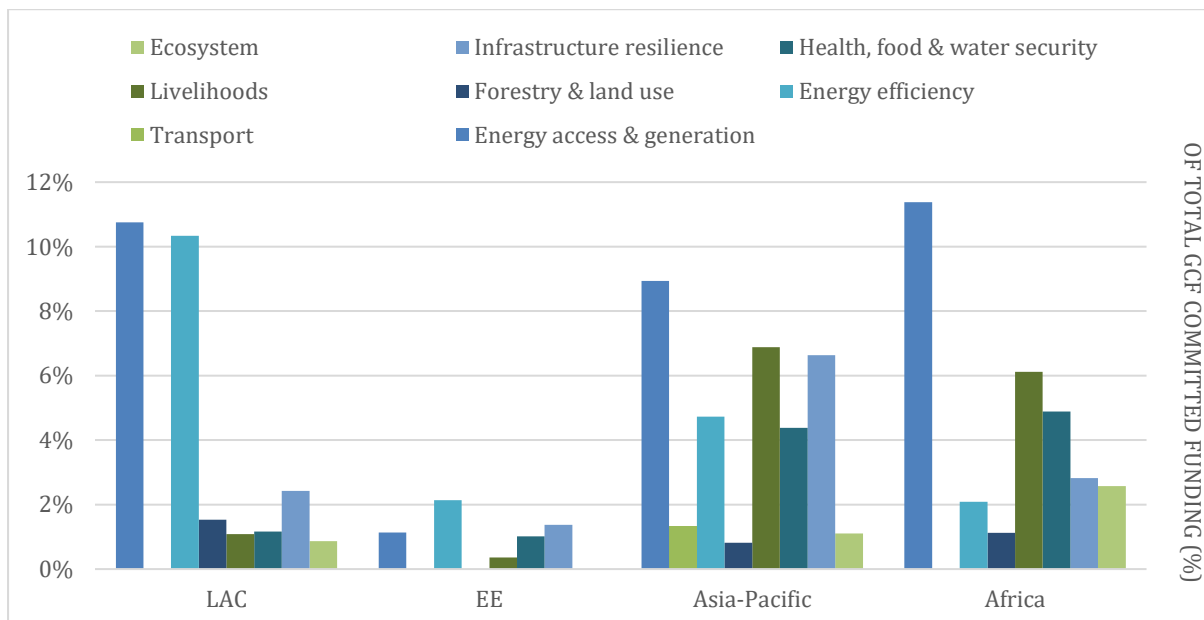
**Figure 1: The eight strategic results areas of GCF**



8. As at 30 April 2018, the GCF portfolio comprised 76 approved public and private sector projects and programmes with total GCF committed funding of USD 3.7 billion, leveraging USD 9.2 billion of co-financing. As at the same date, the GCF pipeline comprised 248 public and private sector concept notes and funding proposals. The total requested GCF funding amount in the current pipeline is USD 15.1 billion, totaling USD 54.8 billion when taking co-financing into account.

9. The geographical distribution of GCF funding for the approved funding proposals by results area is presented in figure 2 below. The geographical distribution of GCF funding for the funding proposals and concept notes in the pipeline by results area is presented in figure 3 below.

**Figure 2: GCF committed funding by results area and region<sup>a, b</sup>**

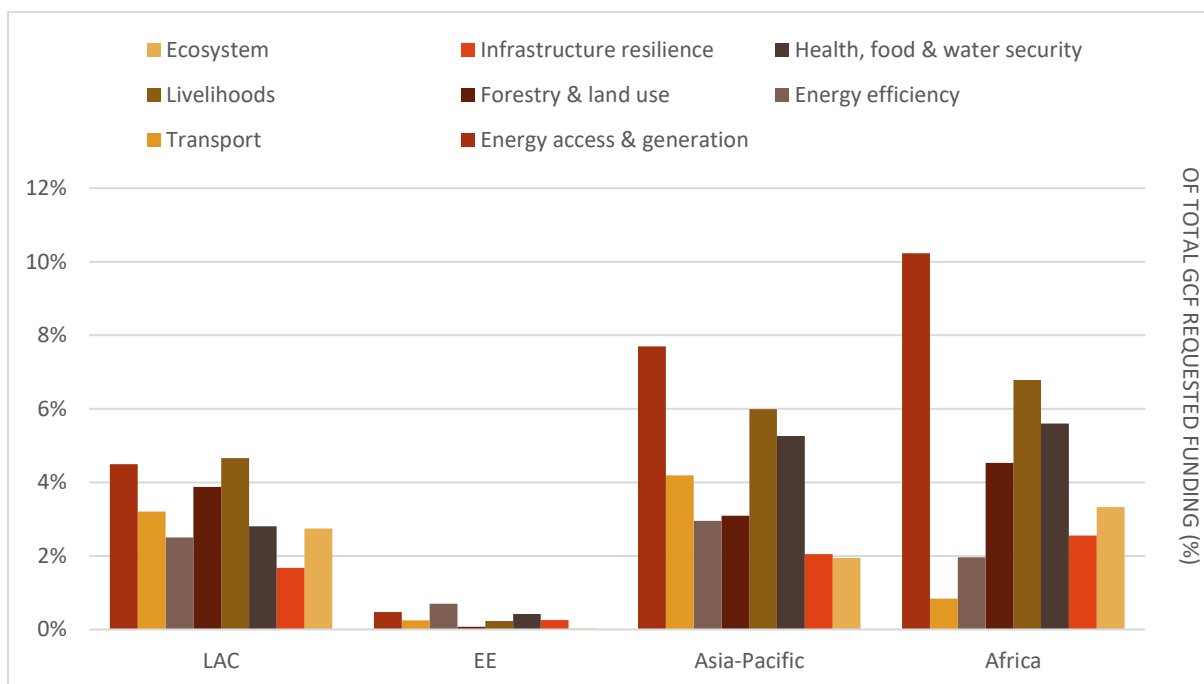


*Abbreviations:* EE = Eastern Europe, LAC = Latin America and the Caribbean.

<sup>a</sup> The breakdown of GCF funding into the eight results areas is based on the attribution of GCF funding amounts to each respective results area presented in the submitted funding proposals.

<sup>b</sup> From left to right: Energy generation and access; Transport; Buildings, cities, industries, and appliances; Forests and land use; Livelihoods of people and communities; Health, food and water security; Infrastructure and built environment; and Ecosystems and ecosystem services.

**Figure 3: Requested GCF funding by results area and region<sup>a, b</sup>**



*Abbreviations:* EE = Eastern Europe, LAC = Latin America and the Caribbean.

<sup>a</sup> The breakdown of GCF funding into the eight results areas is based on the attribution of GCF funding amounts to each respective results area presented in the funding proposals and concept notes in the pipeline.

<sup>b</sup> From left to right: Energy generation and access; Transport; Buildings, cities, industries, and appliances; Forests and land use; Livelihoods of people and communities; Health, food and water security; Infrastructure and built environment; and Ecosystems and ecosystem services.

10. In the mitigation results areas, a continued strong emphasis on energy generation and access can be observed across regions. This may be partly due to the characteristics of investments being mid- to large-sized projects and programmes targeting multiple countries. The focus on transport remains low. There is a significant increase in proposals targeting forestry and land use in the pipeline, particularly in Latin America and the Caribbean and Africa.

11. In the adaptation results areas, the livelihoods of people and communities has the strongest emphasis, particularly in Africa and Latin America and the Caribbean. Livelihoods and support for vulnerable communities has long been an area of focus of funding proposals submitted to GCF. For instance, out of the first eight funding proposals approved at the eleventh meeting of the Board, six projects included this sector as one of the results areas. Out of 76 approved projects as at the nineteenth meeting of the Board, 49 are listed as having an impact on the most vulnerable people and communities. The share of the focus on this sector is even greater in the GCF project pipeline. This may be partly due to the trend for funding proposals to identify and mark several results areas, such as “livelihoods of people and communities” and “health, food and water security”, probably owing to their cross-cutting appeal as key impact areas. Further analysis would be required to determine whether there is a possible overrepresentation of these results areas.

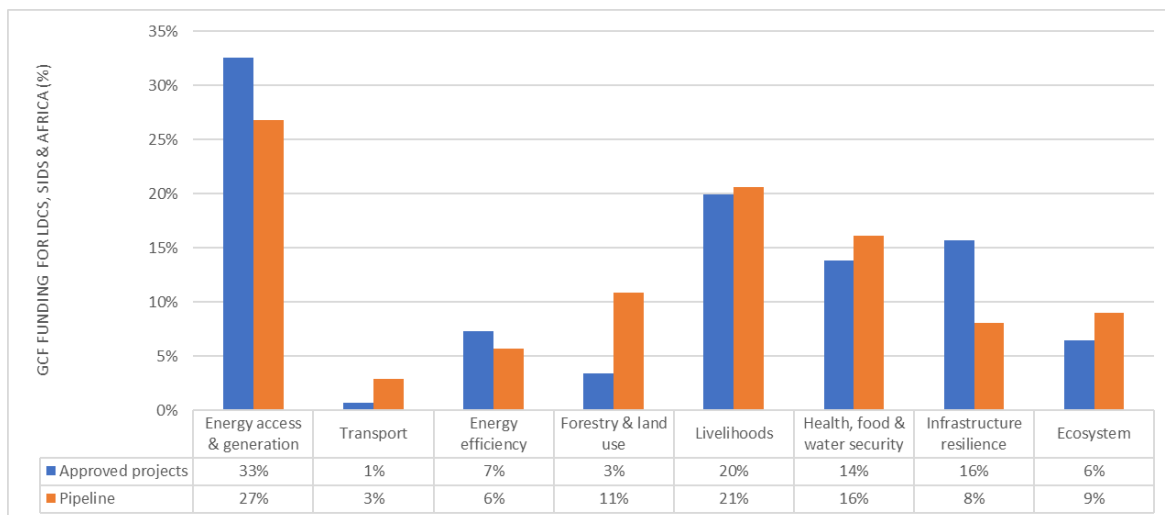
12. While there is interest in the health, food and water nexus/security results area, there are few proposals targeting health. Further analysis is required to ascertain whether health-related impacts of climate change could be a potential area of GCF investment.

13. Most proposals and approved projects and programmes in the results area of ecosystems and ecosystem services are in fact multifaceted and reporting under other results areas in adaptation, as well as forestry and land use under mitigation. A narrower definition of expected elements in proposals reporting under the results area of ecosystems and ecosystem

services is being developed (especially on topics such as quantification, valuation and attribution of ecosystem services, natural capital accounting, and ecosystem-based adaptation approaches) to increase clarity.

14. The GCF funding committed and requested for least developed countries (LDCs), small island developing States (SIDS), and African States accounts for 52 per cent of the total. The distribution of GCF funding amounts across the eight results areas for LDCs, SIDS and African States is presented in figure 4 below. Among the eight results areas, the emphasis was on energy access and generation, reaching above 30 per cent of GCF committed funding. However, the future pipeline shows signs of levelling off in the area of energy access and generation. There is an increasing interest in forest and land use in the current pipeline of funding proposals and concept notes for the LDCs, SIDS and African States. More GCF funding is being requested in the four adaptation-related results areas, particularly for livelihoods of people and communities, reaching above 20 per cent of the total requested GCF funding for projects and programmes targeting the LDCs, SIDS and African States.

**Figure 4: GCF funding amounts by results area for least developed countries, small island developing States and African States<sup>a</sup>**



*Abbreviations:* LDCs = least developed countries, SIDS = small island developing States.

<sup>a</sup> From left to right: Energy generation and access; Transport; Buildings, cities, industries, and appliances; Forests and land use; Livelihoods of people and communities; Health, food and water security; Infrastructure and built environment; and Ecosystems and ecosystem services.

15. The GCF portfolio by number of approved funding proposals, as well as the pipeline of funding proposals and concept notes across the eight results areas, are compared with the country programme briefs in figure 5 below.<sup>1</sup> A stronger interest in adaptation (at least in the number of projects) is apparent in the pipeline as well as in the country programme briefs. Of the total 248 concept notes and funding proposals in the pipeline, around 66 per cent are targeting the four results areas of adaptation. Among the mitigation results areas, there is still an emphasis on energy access and generation, amounting to around 10 per cent of the total number of concept notes and funding proposals in the pipeline.

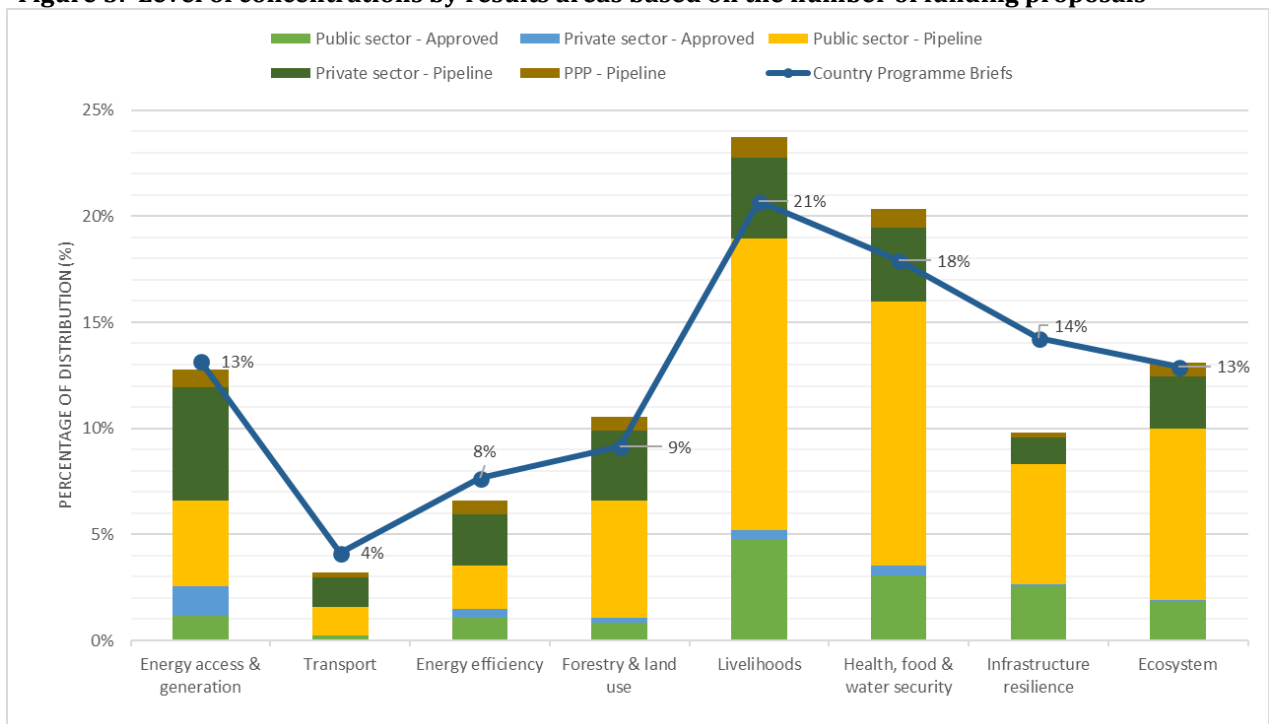
16. Currently, there is a relatively close correlation between the proposals submitted to GCF and the expectations in the country programme briefs, for example in the area of forestry and land use, and ecosystems and ecosystem services. This comparison with the potential demand also shows that there are more needs in the incoming project ideas in country programme

<sup>1</sup> The data for country programme briefs include the incoming project ideas from countries, covering a broad range of data to determine the areas of potential demand and need. Therefore, this analysis should be considered for indicative purposes only.

briefs. In certain results areas, such as infrastructure and built environment, there is a need for greater alignment. To align the results areas with each country’s nationally determined contributions (NDCs) and national adaptation plans and with the GCF strategic priorities and policies, further strategic information and technical advice will need to be provided to national designated authorities (NDAs) and accredited entities (AEs) via support through the Readiness and Preparatory Support Programme (Readiness Programme) and country programming.

17. It is also important to align the composition of the GCF portfolio with the sectoral regional priorities based on urgent and immediate needs, as stipulated in paragraph 52 of the Governing Instrument for the GCF. Further analysis can be undertaken on the impact potential of the results areas that are identified as not currently being adequately supported in the existing portfolio.

**Figure 5: Level of concentrations by results areas based on the number of funding proposals<sup>a, b</sup>**



*Abbreviation:* PPP = public-private partnership.

<sup>a</sup> For funding proposals and concept notes that target multiple results areas, a basic counting methodology is used according to the number of results areas specified in each proposal. For the project ideas in the country programme briefs without complete information on results areas, targeted results areas were estimated based on available information.

<sup>b</sup> From left to right: Energy generation and access; Transport; Buildings, cities, industries, and appliances; Forests and land use; Livelihoods of people and communities; Health, food and water security; Infrastructure and built environment; and Ecosystems and ecosystem services.

18. These comparisons also show that private sector investment in energy access, generation and efficiency remains strong. There is still a gap in private sector investment across the adaptation results areas; public-private partnerships (PPPs) in cross-cutting adaptation areas, such as risk-reducing insurance measures and urban development, may help to close this gap and maximize the impact of the results.

19. There are more incoming proposals in the pipeline focused on increasing urban resilience in areas of a cross-cutting nature, for example in the nexus between energy, water and waste management, which could create synergies across sectors and maximize the impact

of results. As noted in document GCF/B.09/06,<sup>2</sup> efforts to invest in climate-compatible cities may deliver impacts related to emission reductions from transport and waste, as well as buildings, urban systems, industries and appliances. They will also support adaptation, particularly by helping to strengthen the resilience of livelihoods of urban communities, and will increase the resilience of urban infrastructure while also reducing associated emissions. In particular, working closely with national governments, promoting access to finance and crowding-in private sector investments in cities most ready to move from climate change planning to climate change action would maximize the impact of GCF investments.

20. There is a significant level of focus on increasing the engagement of the private sector in adaptation activities, as noted in document GCF/B.20/12 titled “Recommendations of the Private Sector Advisory Group on opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international level”. Engaging the private sector would require shifts in patterns of investment, which would require considering the facilitation of blended finance and the use of different financial products, as noted in document GCF/B.20/19 titled “Interrelated policy matters on incremental cost and full cost, concessionality, and co-financing”. To ensure longer-term private sector involvement, the policy and regulatory barriers identified in document GCF/B.17/03 would need to be addressed (see section IV of this document for further analysis of this area).

### III. Review of climate information

21. At its fifteenth and sixteenth meetings, the Board expressed concern at the low quality of funding proposals, particularly in terms of their potential for climate impact, which, in certain cases, was not sufficiently developed or well-connected to the proposed activities. Board members also expressed diverging views on the climate and development nexus. In addition, there were observations that the climate-related objectives of certain projects were not sufficiently clear, particularly in the case of adaptation proposals. These views were also noted in document GCF/B.17/18.

22. To address these concerns, the Secretariat examined comments from the Secretariat and TAP assessments of the 76 approved funding proposals to ascertain, in particular, any potential gaps in the climate rationale, information and data (see table 1 for further information). Proportionally, there were many comments on gaps in and insufficiency of climate information, especially for adaptation-related funding proposals. At the same time, it should be noted that for energy-related proposals, which focus on the reduction of carbon dioxide (CO<sub>2</sub>) emissions, the climate information and rationale is often implicit, with no specific comments or references.

**Table 1: Comments on climate information from the Secretariat and independent Technical Advisory Panel assessments of approved funding proposals**

Topic	Number of comments	Examples
Good climate information; or focused on seeking better climate data	21	<ul style="list-style-type: none"> <li>- “expected to generate climate information in decision-making”</li> <li>- “provides picture of the climate change impacts”</li> <li>- “will contribute to the risk reduction culture in beneficiary communities”</li> <li>- “will enable population to better react to the impact of climate change and obtain better climate information”</li> <li>- “presents an overview of the current and future climate scenarios”</li> </ul>

<sup>2</sup> Five potential investment priorities were identified: climate-compatible cities; sustainable climate-smart agriculture; scaling up finance for forests and climate change; enhancing resilience in SIDS; and transforming energy generation and access.

Topic	Number of comments	Examples
Insufficient climate evidence or rationale, lack of attribution to vulnerabilities on the ground, or climate disconnect with the theory of change	32	<ul style="list-style-type: none"> <li>- “climate-related and geophysical extreme events and changes in the intensity and frequency of events are not always taken into consideration”</li> <li>- “there is little evidence that problems are related to climate change at this stage”</li> <li>- “the prevailing paradigm will largely continue perhaps only slightly being moderated by incorporating responses to climate change”</li> <li>- “there is no evaluation of the potential impact of extreme events, like 100-years return period rains”</li> <li>- “the stated climate impacts do not have any references to scientific data and projections”</li> </ul>
Climate information too generic (difficult to assess and/or downscale)	10	<ul style="list-style-type: none"> <li>- “the project has little information on the water basin and the implications of climate change for future water availability scenarios”</li> <li>- “there is no clear formula to calculate the costs associated with climate change”</li> <li>- “little information on the basin, and the implications of climate change for future water availability scenarios”</li> <li>- “lacks information on the current trends of climatic parameters at the local level”</li> </ul>
Identified gaps in climate data and baselines	13	<ul style="list-style-type: none"> <li>- “difficult to assess impacts without baselines”</li> <li>- “lack of national database on disaster impacts”</li> <li>- “there is clearly a gap in the data with regard to providing concrete and convincing evidence on a cause and effect relationship between climate and water flow volume”</li> <li>- “does not include activities to enhance climate information and needs better meteorological data gathering system”</li> <li>- “complete a climate change baseline impact study”</li> <li>- “present a matrix of climate change indicators”</li> <li>- “lack of data and complexity of modelling processes”</li> </ul>

23. The lack of robust climate information at the project level reveals the need to strengthen the climate rationale and support countries to design quality activities, including projects for GCF. Robust climate information is crucial for GCF investment decisions, as projects designed on flawed climate information may lead to maladaptation and suboptimal solutions that in the long term could pose significant risks to lives, assets and livelihoods. Board decision B.07/04, paragraph (b)(iii)(3), on project/programme level outcomes for adaptation, also calls for strengthened institutional and regulatory systems for climate-responsive planning and development; increased generation and use of climate information in decision-making; strengthened adaptive capacity and reduced exposure to climate risks; and strengthened awareness of climate threats and risk-reduction processes. GCF is supporting proposals and country efforts to adopt integrated and comprehensive approaches that can benefit from climate information services. In-depth analysis of the need and the potential support activities of GCF to strengthen the climate rationale is provided in document GCF/B.20/Inf.11 titled “Steps to enhance the climate rationale of GCF-supported activities”.

24. Additionally, this exercise showed that, along with the desk reviews of the project pipeline undertaken by the Secretariat’s sectoral experts, there is a strong need to provide much more detailed technical guidance on current best practice, climate rationale and explanations of the impacts of CO<sub>2</sub> emission reductions to beneficiaries.

#### **IV. Removing barriers**

25. The main area where targeted GCF investment can have a large climate impact is in



identifying the core investment priorities in attracting and leveraging different types of climate change investment, including from private and institutional investors, and in providing the right types of drivers to attract private sector support.

26. To attract private sector co-financiers (e.g. banks, asset managers, pension funds) to climate finance transactions, it is important that the main drivers for their involvement are present. These include, but are not restricted to, a low cost of capital and an acceptable risk-adjusted return on capital. Given sufficient private sector interest in investing, GCF concessional capital could be blended with other capital sources to achieve benefits such as decreasing the cost of capital for co-financiers, some of which are subject to compliance with stringent capital regulations. In turn, access to such private sector investments would help GCF address at least some of the specific barriers that affect investment levels, in particular those related to de-risking, which has been identified as a key barrier.

27. In document GCF/B.17/03, the following barriers to private sector investment were identified: policy and regulation; access to climate finance and local markets, especially related to available de-risking modalities; affordability and technology; knowledge and education; and region- and country-related barriers.

28. Policy and regulatory barriers, where the public sector must take the lead, are often associated with: (a) the lack of an appropriate strategic and regulatory framework; (b) inconsistent policy support, such as a direction shift or an interruption of regulatory and market incentives; and (c) the lack of long-term commitment by governments to support climate-related industries and markets. Examples include: a 30 per cent fall in overall renewable energy investment in developing countries in 2016, where some of the decrease is attributed to a lack of policy support in countries where projects were delayed; a major setback in the renewable energy sector in Southern European countries due to inconsistent policy support following the 2008 financial crisis; and the impact of production tax credit expirations due to a lack of long-term commitment by government regarding fiscal incentives in the United States solar market.<sup>3</sup>

29. These policy and regulatory barriers as they relate to the eight GCF results areas revolve around inadequate public strategic and regulatory frameworks for several sectors (energy, agriculture, urban, forestry, etc.). These are often coupled with retrograde policies (e.g. policies that provide incentives for fossil fuels and carbon-intensive products and services). In addition, it needs to be emphasized that change and paradigm shift require a long-term commitment by governments to support climate-related businesses and market development, which ultimately requires strong public institutions and local government structures.

30. To take energy efficiency as an example, in many developing countries the obstacles to energy efficiency schemes and investments, particularly in the micro-, small- and medium-sized enterprises sector, are both structural and multidimensional. Hence the Secretariat could induce further discussion on creating the enabling environment and regulatory framework. Energy savings alone are not generally a sufficient incentive for a transformational shift promoted by the usual approaches to the energy efficiency sector. Pure market forces on their own are unlikely to drive energy efficiency investments, regardless of available information, soft promotion and more accessible credits, if an energy efficiency policy framework remains a voluntary commitment.

31. The Private Sector Advisory Group identified solutions in its seven recommendations, compiled in document GCF/B.17/03. These include building internal capacity and policy reforms, for example by creating an enabling environment and regulations specific to renewable energy, energy efficiency, permits and/or available fiscal incentives (tax-based and non-tax-based), especially through enhancing key commercial and other viability thresholds. Facilitating private sector access to information, for example through the creation of a “one stop shop” dedicated to renewable energy and/or energy efficient investment, is also important.

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<sup>3</sup> Document GCF/B.17/03.

32. For adaptation-related results areas, one solution is to help GCF recipient countries overcome the barriers caused by a lack of technology. Increased attention can also be paid to the integration and transfer of knowledge for adaptation in businesses alongside the uncertainty, unfamiliarity and limited understanding regarding climate adaptation risks and the tangible investments that can be made to address them, as noted in document GCF/B.20/12 titled “Recommendations of the Private Sector Advisory Group on opportunities to engage the private sector, including local actors, in adaptation action at the national, regional and international level”. Barriers associated with knowledge and capacity gaps can also be identified to complement the regulatory strengthening effort.
33. One area identified by the Secretariat is climate insurance and reinsurance products that can reduce climate risks, accelerate adaptation, crowd-in private capital and expand the market for climate finance. The barriers to attracting insurance capital include: the current patchwork of public capital solutions that are often very siloed and narrowly focused in terms of location; the policy and market barriers; the unavailability of risk information, assessment, and modelling; the lack of syndication; and the lack of competitive tension.
34. GCF could also provide a range of dedicated de-risking instruments, other than insurance for investment transactions, to attract private capital. For example, one of the main financial instruments that GCF could deliver efficiently is the guarantee, which can enhance the creditworthiness of a project or of a company and catalyze public and private financial flows to developing countries by mitigating sovereign, institutional and project performance risks.
35. GCF could also support the continued development of green bond markets, particularly in regions/sectors where this is lagging at present. Green bonds offer the opportunity to attract a large amount of private capital to support developing countries and projects with climate change mitigation and adaptation objectives, but their development has not been uniform.
36. In the long term, GCF could consider receiving a credit rating, which would allow it to efficiently support these initiatives from a capital perspective without having to reserve the face value of the guarantee at the outset.
37. The current use of public funds often exposes them to risks that can be more appropriately and efficiently handled by the private sector. Example approaches that can be promoted include: engagement with countries on the importance of insurance for climate resilience and adaptation; mapping of sectors stated by countries in their NDCs to identify policy gaps; development and provision of climate risk information both at the local and regional levels; and the provision of technical assistance to support insurance underwriting, pricing and packaging. Several areas in adaptation results areas where private investment can have the most impact are further explored in document GCF/B.20/12.
38. In addition to long-term changes to remove policy and regulatory barriers, short-term options should also be explored as in some instances the direction towards paradigm shift needs to start sooner, be targeted and capture all market segments. For example, the GCF adopted the REDD-plus results-based payments system to specifically promote proposals from the private sector while at the same time exploring further policy- or results-based financing for certain deliverables that unlock and remove some of the identified barriers.

## V. Follow-up actions

39. This section of the document details several follow-up actions based on the additional analysis requested by the Board in decision GCF/B.17/09 to identify areas to be pursued by the Secretariat where targeted GCF investment would have the most impact. The following actions aim to remove barriers, improve results and enhance climate information:
- (a) Identify investment opportunities that promote a cross-cutting approach between results areas with innovative approaches through increased

- stakeholder engagement in a flexible and adaptive manner;
- (b) Recognize that to overcome barriers, the public sector must play a role in implementing the seven recommendations of the Private Sector Advisory Group outlined in document GCF/B.17/03;
  - (c) Continue the efforts to mobilize private sector participation in REDD-plus investments, particularly for results-based financing;
  - (d) Explore further policy- or results-based financing in the Readiness Programme and funding proposals for specific deliverables that unlock and remove some of the identified barriers, starting from quantitatively measurable results areas;
  - (e) Promote, in the Readiness Programmes and within Secretariat reviews of funding proposals, ways to overcome barriers such as affordability constraints, first-mover risks, behavioral and perceived risks, and low technology penetration rates;
  - (f) Promote PPP proposals where public interventions (i.e. guarantees, insurance, incentives, knowledge and policy support, and preparatory technical assistance) can be used to attract and mobilize private and institutional finance with staying power through de-risking structures and transformative interventions;
  - (g) Provide more strategic information and technical advice to NDAs and AEs through the Readiness Programme to align results areas with the country NDCs and the GCF strategic priorities and policies. For certain results areas, such as infrastructure and built environment, there is a particular need for greater alignment;
  - (h) Explore possible interventions by GCF in climate-related insurance and reinsurance in sectors related to climate change adaptation and mitigation in both the public and private sectors;
  - (i) Focus investments that promote potential PPPs addressing climate change and promote synergies within GCF cross-cutting areas, including climate change mitigation and adaptation in the urban sector;
  - (j) Identify the potential investment channels, arrangements and types to align the composition of the GCF portfolio; and
  - (k) Produce specific technical and sector guidance for each of the eight GCF results areas for wider, public consumption. Such guidance will also allow NDAs/focal points and AEs to develop more targeted projects that meet GCF aspirations in terms of paradigm shift and transformation. Guidance could also focus on regions and technologies, such as renewables in certain regions or sub-regions.
40. The Secretariat will report to the Board on the progress made in implementing the above follow-up actions to be taken by the Secretariat as identified.
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