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Co-financing matters

Summary

This document outlines a proposal for a GCF approach to co-financing in its activities. The document presents a brief overview of the historical/political setting, as well as an outline of existing methodologies more widely used in the area of climate finance reporting.

The document introduces key definitions, including a differentiation between direct and indirect co-finance, mobilized finance, sequenced financing, in order to account for more granularity in reporting and for attribution purposes. This policy takes into consideration principles and guidelines based on best international practice. Key principles are also introduced in order to provide guidance internally and externally on the applications of GCF policies and guidelines.

Table of Contents

I. Background

1. In **decision B.12/20**, the Board adopted the strategic plan for the GCF. The strategic plan noted the need for "Identifying opportunities for the GCF to add value by co-financing projects and programmes together with the Global Environment Facility, the Adaptation Fund or Multilateral Development Banks. In the early stages of operations in particular, this might be a way of scaling up quickly and capitalizing on and learning from the knowledge and experience of these institutions" (para. 17(c), GCF Strategic Plan). The Board requested the Secretariat, under the Co-Chairs' guidance, to integrate the operational priorities and action plan included in the strategic plan in its work plans.

2. At its thirteenth meeting, the Board requested the Co-Chairs, through **decision B.13/05,** to present for consideration by the Board at its fourteenth session a proposal related to identifying opportunities for the GCF to add value by co-financing projects and programmes together with the Global Environment Facility, the Adaptation Fund or Multilateral Development Banks.

3. Following these, at its seventeenth meeting, the Board requested the Secretariat, under the guidance of the Co-Chairs, to develop a proposal for the Board's consideration at its nineteenth meeting, taking into account best practices from other multilateral funds and other approaches, to address some issues including a policy on co-financing (decision B.17/10, paragraph (c)).

4. Following this, in decision B.19/06, paragraph (d), the Board requested the Secretariat to develop an integrated approach to resolve interrelated issues for its consideration at its twentieth meeting, including "policies on the review of the financial terms and conditions of GCF instruments and concessionality, incremental costs, full costs, and co-financing".

5. **Other GCF board decisions related to co-financing.** The approach to co-financing in the GCF is also underpinned by several key Board decisions:

(a) **Decision B.05/07**, on the Fund's Financial Instruments – adoption of principles and factors for the terms and conditions of grants and concessional loans, notes that one of the guiding principles applicable to public and private sector operations is leveraging of other financing, including public and private financing, seeking to maximise leverage in the case of private financing. In addition, the same decision adopted the criteria for the terms and conditions of grants and concessional loans, which includes the catalytic use of resources (description of confirmed and potential sources of co-funding, including an estimate of the amount of co-funding and the probability of realization for each source).

(b) **Decision B.08/07**, on the Fund's mitigation and adaptation performance measurement frameworks. This decision requests entities to report the volume of finance leveraged by the Fund and notes that "Leveraged" is considered synonymous with the term "mobilized" (used by other funds) and that the report is to be disaggregated by public and private sources, prorated by the amount of co- financing.

(c) **Decision B.09/05** adopted the initial investment framework's activity-specific sub-criteria and indicative assessment factors, which defined the efficiency and effectiveness criterion, including the amount of co-financing. This covers the potential to catalyse and/or leverage investment for mitigation projects, and considers the expected volume of finance to be leveraged by the proposed project/programme and as a result of the Fund's financing, disaggregated by public and private sources, and the potential to catalyse private- and public-sector investment, assessed in the context of performance on industry best practices.

(d) **Decisions B.13/36** and **B.17/11**, on the interim risk and investment guidelines for the public sector noted that for loans, co-financing is highly recommended whenever feasible.

(e) **Decision B.17/04**, on the operational framework on complementarity and coherence – co-financing is emphasized at Board-level discussions on fund-to-fund arrangements to maximize impact and at the activity level for greater complementarity with main multilateral funds in the climate finance architecture.

6. GCF Funded Activity Agreements currently include provisions requiring AEs to show the delivery of evidence of the status and amount of co-financing disbursed and applied to the implementation of projects to ensure adequate reporting and monitoring of co-financing resources.

7. In addition, GCF currently requires accredited entities (AEs) in their funding proposals to report on "Co-financing, leveraging and mobilized long-term investments" (E.6.2) and "Expected volume of finance to be leveraged by the proposed project/programmes and because of the Fund's financing, disaggregated by public and private sources" (E.6.5). The responses to these requests currently form the ex-ante estimation of co-finance and leveraged finance.

8. As part of the criterion "Efficiency and effectiveness" in the GCF investment framework, the following indicative assessment factors are included: (i) expected volume of finance to be leveraged by the proposed project/programmes, disaggregated by public and private sources; (ii) co-financing ratio; and (iii) potential to catalyse private and public sector investment, assessed in the context of performance against industry best practices.

9. However, the lack of a clear definition of what constitutes co-finance or leveraged finance can lead to inconsistencies across funding proposals. This paper aims to provide clarity through a statement of definitions, supports further granularity in determining causality and thus attribution between funding streams, and presents guiding principles to calculate, track and report co-finance, thereby providing clarity to both countries and AEs as they prepare funding proposals.

10. A draft decision is provided in annex I and a draft policy on co-financing matters is provided in annex II.

II. Definitions

11. Co-financing terms have not formally been defined by the United Nations Framework Convention on Climate Change. The Standing Committee on Finance (SCF), inter alia, has however considered and provided useful insights to better understand current approaches on co-financing in its work on the Biennial Assessment and Overview of Climate Finance Flows. Thus, based on existing methodologies and approaches, GCF proposes the following main definitions that take into account the specifics of the work and mandate of GCF, and in particular as it refers to the robustness of data collection and reporting for both internal and external purposes. This granularity will support the Fund's effort to track attribution of financing, thus strengthening its understanding of its role as catalyst. For example, a demonstrable causal link between official and private investment underpin the methodologies of the OECD Research Collaborative on private climate finance, as well as by the MDBs.

12. **Direct co-finance** (also referred to as **additional finance, primary co-finance)** includes all financial resources – which can be private or public – from third parties that originate from or flow through the AE into the project/program alongside the financing provided by GCF. There is a causal link between GCF resources and third-party resources. The

provision of co-financing alongside GCF is determined on a project by project basis, and is not applicable to all funding proposals;

13. **Indirect co-finance** (also referred to as **secondary co-finance, or second/third tier finance**) includes all financial resources – which can be private or public – from third parties that indirectly flow downstream into projects/program supported by GCF. Based on the proposed financing structure, to the extent that it is feasible, a causal link needs to be proven between GCF resources and third-party resources, meaning that the GCF acts as a catalyst for this secondary co-finance;

14. **Leveraged finance** (sometimes also referred to as **mobilized finance** or **catalysed finance**) is all financial resources from third parties that flow into the intervention that can reasonably be assumed to have been the result of financing provided by GCF. Leveraged finance equals direct co-finance plus indirect co-finance. By definition of indirect finance, leveraged finance requires a causal role between GCF and third-party financiers. In other words, the additional financial resources would not have been applied in the absence of GCF participation. Ideally, this causal role needs to be proven, but may also be assumed because of the pivotal role of GCF, such as the role of anchor investor, financier of the riskiest tranche or provider of guarantees. These resources can be public or private. In the case of an equal partnership in catalysing additional financing (e.g. by another anchor investor alongside GCF or an investor with the same financing terms), the amount will be calculated on a volume-basis and pro-rated;

15. **Sequenced financing** defines the resources that are flowing alongside GCF resources to a project, but that are earmarked for other outcomes, which may be consistent with general mitigation and adaptation solutions but are not part of the GCF funding proposals, and as such are not tracked as GCF impacts. This can also be the case of projects / programs where the GCF takes the role of investor to further scale up the project / program which may have been initially (e.g. in its pilot phase) supported through a grant by the Global Environment Facility or the Adaptation Fund. In those cases where a causal link between the two financing streams can be established, on the basis of the proposed financing structure of a given operation, it can be possible to include these financing as direct co-financing.

16. **Public finance** is all financial resources other than the GCF resources that flow into projects/programs from the public sector or entities that are more than 50 per cent owned by the public sector[1].

17. **Private finance** is all financial resources that flow into projects/programs from entities that are more than 50 per cent owned by private shareholders[2].

18. The main differences with definitions with other funds or institutions may also be found in annex III of the document which provides a comparative analysis of existing approaches and methodologies on co-financing.

III. Linkages to other ongoing policy initiatives

19. This paper is part of a series of operational policies and guidelines presented to the Board at its twenty-first meeting. The policy overview and inter-linkages between the papers are presented within the document GCF/B.21/Inf.01 "An integrated approach to addressing

[1] The GCF Secretariat is following closely the discussion on the definition of private and public finance – and its evolution - alongside the OECD Collaborative on Private Climate Finance reporting and with financial institutions. For example, proposed changes link to the nature of ownership of the final beneficiary and the outcome of that specific financing stream.

[2] As above, GCF Secretariat is working alongside the OECD Collaborative on Private Climate Finance reporting and with financial institutions on these definitions.

policy gaps to ensure climate impact: an overview of policies related to the consideration of funding proposals".

20. Alignment among the incremental and full cost methodology, the concessionality guidance and the co-financing policy is important to determine the overall financial structure of proposed projects/programmes. The methodology for estimating incremental and full costs helps determine which part of the project is eligible to be funded by GCF and which may be better suited for co-financing. The co-financing policy explains how costs funded by other parties are to be classified and reported. Finally, the concessionality guidance and its associated tools determine the appropriate financial instruments and terms financed by GCF to ensure efficiency and effectiveness.

21. The estimation of agreed full costs and agreed incremental costs due to climate change is relevant for the co-financing policy, consistent with paragraph 54 of the Governing Instrument, which states "The Fund will seek to catalyse additional public and private finance through its activities at the national and international levels."

22. The concessionality policy is linked to the co-financing policy, because GCF concessional financing may be blended or applied in parallel with concessional or market-rate financing from other parties, affecting the overall concessionality and financial viability of the project. Changes to the way co-financing is defined, monitored and reported could have an impact on the need for GCF concessional financing.

23. Any co-financing policy should be tailored to fit within the programme framework of specific initiatives for direct access entities, such as enhanced direct access and the simplified approval process, so as not to undermine their effectiveness.

IV. Approach

24. The Secretariat proposes that the implementation of the policy on co-financing be aligned to the approach for incremental cost and full cost methodologies, which is based on a gradual learning process to accommodate the needs of GCF stakeholders, including national designated authorities and AEs. The approach also includes a review and evaluation of the policy after an agreed interval.

25. The Secretariat recommends that the Board adopt the proposed policy provided in annex II, to be implemented through a phased approach consistent with related policies including on concessionality and on incremental and full cost calculation methodologies.

V. Next steps necessary for implementation

26. The implementation of this policy should be aligned with the approach for incremental cost and full cost methodologies.

27. Implementation of this approach would require the Secretariat to adjust the existing concept note and funding proposal templates to enable them to distinguish between direct and indirect co-financing in a consistent manner. Owing to the multiple integrated and interrelated policies that are currently under consideration, it is proposed that all modifications to the template occur simultaneously.

28. In addition to changes in the templates, the Secretariat, as part of its support to NDAs/focal points and dialogue with AEs, would prepare a technical note and carry out a series of training sessions to ensure that proposals are consistent with the new principles and definitions discussed above.

29. The assessment and improvement of the policy could become an iterative process and repeated at regular intervals as directed by the Board. At an agreed interval, an independent evaluation of the policy could be undertaken.

Annex I: Draft decision of the Board

The Board, having noted document GCF/B.21/29/Rev.01 titled “Co-financing matters”:

(a) *Adopts* the policy on co-financing set out in annex II;

(b) *Requests* the Secretariat to update the templates for concept notes and funding proposals to reflect the policy and other matters related to the integrated approach to address policy gaps adopted at the twenty-first meeting of the Board, with a view to making these available by the twenty-second meeting of the Board;

(c) *Also requests* the Secretariat to design and implement a capacity-building programme, as part of the readiness and preparatory support programme, to support accredited entities, particularly direct access accredited entities, to enable them to implement the policy;

(d) *Notes* that the policy shall not apply to funding proposals which are in Stage 4 to Stage 7 of the project/programme activity cycle on the date on which the modified funding proposal template referred to in paragraph (b) above is made available;

(e) *Recommends* that the Secretariat review the policy on co-financing matters one year after adoption to develop lessons learned and improvements to the policy and report back to the Board; and

(f) *Decides* to conduct an evaluation of the implementation of the policy on co-financing three years after implementation.

Annex II: Policy on co-financing

I. Objectives

1. The primary objective of this policy is to present the general principles and approaches to determine and monitor co-financing (direct, primary) applicable to all GCF-funded activities, as well as approaches to monitor, track and evaluate the mobilization of additional resources (i.e. indirect co-financing and leveraged finance) to maximize the impact of GCF interventions in developing countries.

2. It also provides clarity by defining key terms so that comparisons can be made, and reporting can be consistent across all types of projects. The policy also proposes key guiding principles that can support the co-financing and leverage finance in the specific context of the mandate of GCF. The Secretariat will support focal points, national designated authorities (NDAs), accredited entities (AEs) and all relevant stakeholders in adopting this approach.

3. The Secretariat will implement the current policy and will ensure that the following actions are carried out:

(a) Review all funding proposals for consistency with the requirements of this policy and other interrelated policies;

(b) Provide the relevant documentation to support stakeholders in the calculations and reporting of co-finance and leveraged finance;

(c) Maintain a funding proposal database or registry to record all co-financing data during all the stages of the GCF project cycle;

(d) Monitor, evaluate and report to the Board, including on the progress achieved in improving the levels of co-financing over time both at the project and the portfolio level.

4. In the implementation of this policy, the Secretariat will avoid imposing a minimum threshold and/or specific co-financing sources as part of the individual project or funding proposal assessment process, cognizant that co-financing may not always be achievable or relevant.

5. For reporting purposes at the portfolio level, where possible, the policy will be applied retroactively. This is to ensure consistency in definitions, their application and data generation across the GCF portfolio.

II. Applicability

6. Co-financing is encouraged for all GCF funding proposals as a means to maximize the opportunity for strategic partnerships towards achievement of the highest possible impact and ambition in accordance with the GCF mandate and the Paris Agreement.

7. The co-financing policy is applicable to all funding proposals. Its application should be consistent with other related policies.

8. Co-financing is desirable for all GCF funding channels, including the Readiness and Preparatory Support Programme and the Project Preparation Facility.

III. Guiding principles

9. The general principles that GCF stakeholders should abide by in determining the appropriate level of co-financing to funding proposals are as follows:

(a) **Project proposals should seek to incorporate appropriate levels of co-financing to maximize the impact of GCF resources, as determined on a case-by-case basis.** Co-financing plays a critical role in ensuring country ownership by supporting more effectively the translation of national priorities into action. It also supports greater climate impact, including through knowledge transfer and the consideration of best practices in climate finance. Co-finance maximizes the opportunities for partnerships by bringing more resources alongside GCF financing. Potential sources of co-financing to be encouraged by the GCF include additional resources from national governments, AEs, other partners' agencies and private sector actors. However, establishing the right level of co-finance is dependent on project characteristics and determined on a case-by-case basis;

(b) **While maximizing co-financing is desirable in some proposals, GCF should avoid using co-financing metrics as stand-alone targets.** Maximizing climate mitigation and adaptation results does not necessarily equal minimizing or optimizing spending on climate mitigation and adaptation. Co-finance and leverage ratios should therefore not become stand-alone targets. High levels of co-finance and leveraged finance may not always be achievable or relevant. Using it as a stand-alone target may be counterproductive, as doing so may disincentivize financing projects/programmes with strong climate rationale and high paradigm shift potential. Rather, co-financing should be considered as one appraisal item among many in the investment framework;

(c) **Where GCF funding is covering the incremental costs of a project, the non-climate related costs should be provided by co-financing**. GCF policies on incremental costs and full costs provide the guiding principles for defining funding eligibility as agreed incremental costs or agreed full costs. In the case where a project is only eligible in respect of the "agreed incremental costs", the co-financing should complement GCF resources and be proportionate and adequate to at least cover the non-climate related components of the project;

(d) GCF should ascertain that **financial resources of third parties that are tracked by GCF as direct co-finance or indirect co-finance are consistent with the objectives of GCF**;

(e) In determining direct and indirect co-financing, the Secretariat and the AEs will endeavor to **establish and report on the causal links between financing streams**, as much as it is feasible;

(f) In **sequenced financing**, GCF will endeavour to explore the possibility of scaling up pilot projects and programs that have been supported through other UNFCCC-mandated climate funds. In those cases where a causal link between the two financing streams can be established, it can be possible to include these financing as direct co-financing.

(g) **The methodology should be based on the basic financial instruments of GCF**. These instruments consist of grants, (concessional) loans, guarantees and equity investments. Reporting will be done in absolute numerical terms without converting loans to their grant equivalent. The methodology is not applicable to policy interventions (e.g. capacity-building support on regulatory issues).

(h) **The methodology recognises that indirect co-finance is harder to track.** The Secretariat depends on the ability of the AE to track it.

IV. Definitions

10. Co-financing terms have not formally been defined by the United Nations Framework Convention on Climate Change. The Standing Committee on Finance (SCF), inter alia, has however considered and provided useful insights to better understand current approaches on co-financing in its work on the Biennial Assessment and Overview of Climate Finance Flows. Thus, based on existing methodologies and approaches, GCF proposes the following main definitions that take into account the specifics of the work and mandate of GCF, and in particular as it refers to the robustness of data collection and reporting for both internal and external purposes. For example, a demonstrable causal link between the official and private investment underpin the methodologies of the OECD Research Collaborative on private climate finance, as well as by the MDBs. The below definitions should be adhered to when reporting co-financing and leveraged finance to the GCF:

(a) **Direct co-finance** (also referred to as **additional finance, primary co-finance**) includes all financial resources – which can be private or public – from third parties that originate from and/or flow through the AE into the project/program alongside the financing provided by GCF. There must be a causal link between GCF resources and third-party resources. The provision of co-financing alongside GCF is determined on a project by project basis, and is not applicable to all funding proposals;

(b) **Indirect co-finance** (also referred to as **secondary co-finance, or second/third tier finance,**) includes all financial resources – which can be private or public – from third parties that indirectly flow downstream into projects/programs supported by GCF. A causal link needs to be proven between GCF resources and third-party resources, meaning that the GCF acts as a catalyst for this secondary co-finance;

(c) **Leveraged finance** (sometimes also referred to as **mobilized finance** or **catalyzed finance**) is all financial resources from third parties that flow into the intervention that can reasonably be assumed to have been the result of financing provided by GCF. Leveraged finance equals direct co-finance plus indirect co-finance. By definition of indirect finance, leveraged finance requires a causal role between GCF and third-party financiers. In other words, the additional financial resources would not have been applied in the absence of GCF participation. Ideally, this causal role needs to be proven, but may also be assumed because of the pivotal role of GCF, such as the role of anchor investor, financier of the riskiest tranche or provider of guarantees. These resources can be public or private. In the case of an equal partnership in catalysing additional financing (e.g. by another anchor investor alongside GCF or an investor with the same financing terms), the amount will be calculated on a volume-basis and pro-rated;

(d) **Sequenced financing** defines the resources that are flowing alongside GCF resources to a project, but that are earmarked for other outcomes, which may be consistent with general mitigation and adaptation solutions but are not part of the GCF funding proposals, and as such are not tracked as GCF impacts. This can also be the case of projects / programs where the GCF takes the role of investor to further scale up the project / program which may have been initially (e.g. in its pilot phase) supported through a grant by the Global Environment Facility or the Adaptation Fund. In those cases where a causal link between the two financing streams can be established, it can be possible to include these financing as direct co-financing.

(e) **Public finance** is all financial resources other than the GCF resources that flow into projects/programs from the public sector or entities that are more than 50 per cent owned by the public sector[3];

(f) **Private finance** is all financial resources that flow into projects/programs from entities that are more than 50 per cent owned by private shareholders.

V. Reporting requirements

5.1 Accredited entities

11. Timing: the ex-ante estimation of all direct co-finance and indirect co-finance takes place at the start of the project or programme. The tracking of actual leveraged finance takes place annually over the project/programme duration, as agreed in the FAA. Amounts of direct co-finance will be tracked annually as well as cumulatively, while those of indirect co-finance will be tracked based on the relevant agreements with the AE. At project/programme completion, an assessment will be made of the extent to which the actual leveraged finance amounts lived up to estimations (expressed as a percentage of actual direct co-finance and leveraged finance amounts vis-à-vis estimated amounts).

12. Data source: the main source for ex-ante estimation of direct and indirect co-finance is the funding proposal submitted to GCF by the AE. The estimation should be backed up by a solid explanation and methodology, notably in cases of expected indirect co-finance downstream. The main source for tracking of all leveraged finance is the AE-reported data that will be included in the annual performance reports submitted to GCF by the AEs, with the scope determined in the relevant FAA.

13. Methodology: to determine direct co-finance and indirect co-finance, the following steps need to be undertaken by the AE:

(a) Identify the GCF financing to the funding proposal;

(b) Identify the total financial resources from third parties that flow into the project/programme alongside the financing provided by GCF. Distinguish between public and private entities. This is the **direct co-financing** amount (also referred to as co-finance, additional or primary co-finance). GCF accredited entities are required to report all direct co-financing, in accordance with the FAA;

(c) Identify the financial resources by third parties that flow directly in the project/programme further downstream that are funded by the project/programme supported by GCF. Where available, this can be backed up by documentation, but this will primarily rely on the judgment of the task manager, taking into account the nature of the role of GCF (e.g. anchor investor, financier of the riskiest tranche,[4] or provider of guarantees). In the case of an equal partnership in catalysing additional financing (e.g. by another anchor investor alongside GCF or an investor with the same financing terms), the amount will be calculated on a volume-based pro rata calculation. This is the

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[3] The GCF Secretariat is following closely the discussion on the definition of private and public finance – and its evolution - alongside the OECD Collaborative on Private Climate Finance reporting and with financial institutions. For example, proposed changes link to the nature of ownership of the final beneficiary and the outcome of that specific financing stream.

[4] The risk level of different instruments from least to highest risk is: loans, concessional loans, equity, guarantees, and reimbursable grants, grants.

indirect co-financing amount attributable to the GCF (also referred to as secondary or second/ third tier finance). GCF accredited entities will report all indirect co-financing as much as it is feasible and demonstrable on the basis of known financing structures and reporting streams;

(d) Add (b) and (c). This is the total additional investment or **leveraged financing** amount.

(e) Divide (b) by (a). This is the **co-financing ratio**;[5]

(f) Divide (d) by (a). This is the **leveraged financing ratio**.

14. The following guiding definitions and references are used to support the GCF methodology:

(a) **Main term:** GCF tracks both direct /indirect co-finance and leveraged finance to ensure alignment with current practices and collected data to date, and to ensure alignment with the other climate funds such as GEF and international financial institutions;

(b) **Capital source:** GCF tracks both public and private flows of additional financing to be in line with most approaches, and because GCF actively cooperates with both public and private financing partners;

(c) **Boundaries:** GCF distinguishes between direct and indirect financing flows to adequately track and map where in the investment value chain co-finance takes place. This enables GCF to transparently explain and show why some projects generate higher co-financing and leveraged finance amounts and ratios than others;

(d) **Causality:** GCF includes an assessment of the causal role by determining the financing that can reasonably be assumed to have been catalysed by the financing provided by GCF. Through this endeavour, the GCF will gain better insights into its role as a catalyst of climate finance.;

(e) **Point of measurement:** GCF tracks committed direct co-financing flows by default, and disbursed flows where applicable (e.g. usually not applicable in the case of guarantees) and available. This ensures that GCF tracks actual financing flows, but retains the flexibility to fall back to committed amounts where disbursed amounts are not applicable, or where data collection is not feasible (e.g. exact disbursed co-finance amounts to a project invested by a climate fund that is invested by a fund-of-fund to which GCF provided financing); and

(f) **Reporting**: GCF tracks co-finance as agreed in the FAA, and may report on co-finance and leveraged finance at project inception (through the funding proposal), during the monitoring phase (through annual performance reports) and at project completion/closure. This is in line with the approach of GCF's main peer multilateral climate funds. It provides insights into annual progress, as well as the extent to which projects lived up to initial expectations (where applicable).

15. The specialist or task manager from the Secretariat who is responsible for the project/programme is expected to assess the plausibility of the direct co-finance and leveraged finance estimates and underlying assumptions, notably in cases of expected indirect co-finance downstream.

16. During the project implementation and at project closure defined as the end of implementation period, GCF accredited entities will report on materialized leveraged financing according to source and type to the Secretariat, as much as it is feasible and demonstrable on the basis of known financing structures. This will include resources secured or mobilized during

[5] It is expressed as a ratio where 1 represents the unit provided by GCF (e.g. 1:4 or 1:6.7).

project implementation that are in addition to the co-financing confirmed at the time of Board approval. All such financing will count as materialized leverage financing in monitoring and evaluation documents.

17. In relation to GCF's operational framework on complementarity and coherence, AEs are also requested to report funds received from other UNFCCC-mandated climate funds related to the proposed project, whether completed or done in parallel, as much as it is feasible and demonstrable on the basis of known financing structures.

5.2 Secretariat

18. The Secretariat will monitor overall portfolio co-financing and leveraged financing that materialized as reported by the AE and will report to the Board on levels of co-financing and leveraged financing through the annual portfolio review or other such reports as the Board may determine. Reporting will include:

(a) The total direct co-financing and leveraged financing at the GCF level, including corresponding ratios; and

(b) The total direct co-financing and leveraged financing at the individual project/programme level, including corresponding ratios.

19. Reporting will take place based on the estimated amounts provided in the funding proposals. Once a project/programme is financed by GCF, the actual annually reported co-financing figures will also be reported, subject to data availability.

20. In reporting, the Secretariat will break down direct co-financing and leveraged financing amounts by private or public, and by type of instrument. This will further inform GCF as well as the climate finance community on the effective design of the climate policy and associated financial instruments in such a way as to mobilize further public and, in particular, private finance.

21. In reporting, the Secretariat will visualize results as much as possible to facilitate understanding. GCF will also transparently provide explanations on the methodology, assumptions and challenges encountered. This may be included in the reporting itself or through clear referrals to other GCF documents.

22. GCF methodology strikes a balance between alignment with international guidance and the main approaches by partners (AEs) and peers, as well as practical limitations and current practices to date. The GCF methodology makes reference to guidance of the OECD, MDBs, GEF, and the CIFs, as detailed in annexes II, III and IV of this current document.

Annex III: Comparative analysis of existing approaches and methodologies on co-financing

1. The United Nations Framework Convention on Climate Change (UNFCCC) calls upon Parties and organizations serving in the capacity of observers to actively track the catalytic effect of public interventions. At the seventeenth session of the Conference of the Parties, held in Durban, South Africa, in 2011, Parties were called upon to (i) report on private financial flows leveraged by bilateral climate finance; and (ii) report on policies and measures that promote the scaling up of private finance in mitigation and adaptation activities. The work of several UNFCCC subsidiaries and constituted bodies under the Convention, including the Standing Committee on Finance,[6] as well as of the Subsidiary Body for Technological and Scientific Advice[7] provided significant insights to understand approaches to account for co-financing from both public and private sector entities in climate finance.

2. These important workstreams have benefited from technical inputs from expert organizations, such as the Organisation for Economic Co-operation and Development (OECD), and have been built on experience and learning from collaborative efforts made by multilateral development banks (MDBs) to report jointly on their climate finance figures in developing countries on an annual basis, with a clear explanation of the joint methodologies in the global efforts to improve the transparency of climate finance, including through effective and efficient tracking of climate finance flows from both private sector and publicly owned MDBs. The methodological contributions from OECD and MDBs, supported by think tanks and civil society organizations, have been instrumental in the development of approaches to estimate and track co-finance and leveraged finance.

3. There is no single, harmonized approach that covers all types of interventions and financial instruments to track co-finance and leveraged finance. OECD, a group of accredited entities and other multilateral climate funds all have their own approaches, driven by their own realities, stakeholders' demand, reporting requirements and data, or document availability.

4. The table below shows the different methodological choices made on key decision points according to the framework provided by OECD.

[6] Including the 2014, 2016 and ongoing 2018 biennial assessment and overview of climate finance flows, the measurement, reporting and verification of support beyond the biennial assessment and overview of climate finance flows, as well as the 2017 Standing Committee on Finance forum on "Mobilizing finance for climate-resilient infrastructure".
[7] The work on methodologies for the reporting of financial information by Parties included in annex I to the Convention, as well as on modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement.

	Year adopted	Main term used	Capital source	Boundaries	Causality	Point of measurement	Reporting period
Organisation for Economic Co-operation and Development (OECD)							
OECD Development Assistance Committee Methodologies[a]	2017	Mobilized finance	Private	Direct	Differs per instrument	Differs per instrument	Annually
OECD Research Collaborative[b]	2015	Mobilized finance	Private & Public	Direct & Indirect	Suggests proven if possible	Commitment, disbursed if possible	Not mentioned
Multilateral development banks (MDBs)							
MDBs Private Investment Mobilization[c]	2017	Mobilized finance	Private	Direct & Indirect	Proven causality (documents)	Commitment	Annually
MDBs Climate Co-Finance[d]	2015	Co-finance	Private & Public	Direct	Blanket causality	Not mentioned	Annually
Multilateral climate funds							
Global Environment Facility Co-Finance Policy[e]	2014	Co-finance	Private & Public	Not mentioned	Not mentioned	Not mentioned	Project inception, annually & closure
GCF Co-Financing and Leveraged Financing Methodology	2018	Co-finance & Leveraged finance	Private & Public	Direct & Indirect	Based on assessment	Commitment, disbursed if possible	Project inception, annually & closure

[a] OECD Development Assistance Committee. 2017. *Methodologies to Measure Amounts Mobilised from the Private Sector*. Available at < http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/OECD-DAC-Methodologies-to-measure-amounts-mobilised-from-the-private-sector-by-official-development-finance-interventions-2016.pdf>.

[b] Jachnik R, Caruso R and Srivastava A. 2015. *Estimating Mobilised Private Climate Finance: Methodological Approaches, Options and Trade-offs*. OECD Environment Working Papers, No. 83. Available at < https://www.oecd-ilibrary.org/environment/estimating-mobilised-private-climate-finance_5js4x001rqf8-en>. It should be noted that the Research Collaborative provides guidance on the development of a methodology rather than providing a single approach.

[c] African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Islamic Corporation for the Development of the Private Sector, Islamic Development Bank, World Bank Group, New Development Bank. 2017. *Methodology for Private Investment Mobilization. Reference Guide*. Available at < http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-PUBLIC-PrivInvestMob-Ref-Guide-Aug-14-2017.pdf>. For an example of reporting see African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Islamic Corporation for the Development of the Private Sector, Islamic Development Bank, World Bank Group, New Development Bank. 2017. *Mobilization of Private Finance by Development Banks*. Available at < http://www.eib.org/attachments/mdb_joint_report_mobilization_2016_en.pdf>.

[d] African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Islamic Development Bank, World Bank Group. 2015. *Tracking Climate Co-Financing: Approach Proposed by MDBs*. Available at <http://www.eib.org/attachments/documents/mdb_tracking_climate_cofinance_en.pdf>. For an example of results reporting see African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Islamic Development Bank, World Bank Group. 2017. *2016 Joint Report on Multilateral Development Banks' Climate Finance*.

[e] Global Environment Facility (GEF). 2014. *Co-Financing Policy*. Available at < https://www.thegef.org/sites/default/files/council-meeting-documents/GEF.C.46.09_Co-Financing_Policy_May_6_2014_1.pdf>. For an example of results reporting see GEF Independent Evaluation Office. 2017. *Project Performance and Progress to Impact 2017*. Available at < http://www.gefieo.org/sites/default/files/ieo/evaluations/files/project-accomplishments-2017.pdf>.

5. The OECD Development Assistance Committee has developed proposed methodologies for calculating amounts of mobilized finance from the private sector. These methodologies are tailored per instrument (guarantees, syndicated loans and shares in collective investment vehicles, credit lines and direct investment). The methodologies are perceived as robust and precise, but also rather complex to apply in practice. The methodologies are described by OECD as "ongoing work" and characterized by "causality assumptions and attribution techniques that balance accuracy with practicality".[8]

6. The OECD Research Collaborative on Tracking Private Climate Finance is a coordinating platform that cooperates closely with OECD DAC and is specifically focused on climate finance. In its 2015 guidance paper *Estimating Mobilized Private Climate Finance* the Research Collaborative provides a four-step framework approach for developing a methodology, and a discussion on the options, practical challenges, and trade-offs of various methodological choices.

7. Against the background of the increased focus on mobilizing finance in the context of blended finance and climate finance,[9] nine leading global multilateral development banks (MDBs) in 2017 developed a methodology to capture private investment mobilization (PIM). The approach includes a proven causal link, backed by evidence (e.g. mandate letters, fees linked to financial commitment or other validated or auditable evidence of a MDB's active and direct role leading to commitment of other private financiers). This makes not only the most recently developed, but also the strictest approach of the ones discussed here.[10]

8. Two years earlier, a consortium of six MDBs had started joint reporting on the co-finance of their climate investments according to the Climate Co-Financing (CCF) Approach.[11] The main differentiating characteristic is that CCF does not imply a causal relationship as to who catalyzed whom in a particular investment, but rather measures the amount of co-financing that has been invested alongside contributions made by MDBs. However, the MDBs mentioned that the use of private co-financing data is based on 'best available evidence of mobilization' of private finance by public finance in the absence of consistent evidence. The CCF document therefore acknowledges that 'private co-financing may not always equate to mobilization'.

9. The Global Environment Facility (GEF) first introduced a co-financing policy in 2002[12] which was updated in 2014[13]. The policy states that a full-sized project must provide confirmed co-financing amounts prior to being considered for Chief Executive Officer endorsement, and medium-sized projects must provide indicative co-financing. During project implementation and at project closure GEF partner agencies must report on materialized co-financing according to source and type. The GEF policy does not distinguish between direct and indirect co-finance and does not include any guidance on causality.

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[8] See for instance OECD. 2017. *Private Finance for Climate Action: Estimating the Effects of Public Interventions*. p.3 Available at < http://www.oecd.org/env/researchcollaborative/WEB%20private-finance-for-climate-action-policy-perspectives.pdf>.

[9] See for instance AfDB, ADB, EBRD, EIB, IDB, IMF and WBG, *From Billions to Trillions: Transforming Development Finance* (2015) – link.

[10] Note that the availability of evidence through documents is an option that is specifically suited for the operational reality of MDBs, and their relationships.

[11] This was a broadening of the scope of their reporting on climate change adaptation and mitigation projects, which they had performed an annual basis since 2011.

[12] Global Environment Facility. 2002. *Co-Financing Policy*. Available at < https://www.thegef.org/sites/default/files/council-meeting-documents/C.20.6_5.pdf>.

[13] Global Environment Facility (GEF). 2014. *Co-Financing Policy*. Available at < https://www.thegef.org/sites/default/files/council-meeting-documents/GEF.C.46.09_Co-Financing_Policy_May_6_2014_1.pdf>.

Annex IV: Comparative analysis of co-financing data from GCF and comparable funds

I. GCF Co-financing ratios

Table 1: Summary: Co-financing ratios (data up to the nineteenth meeting of the Board)

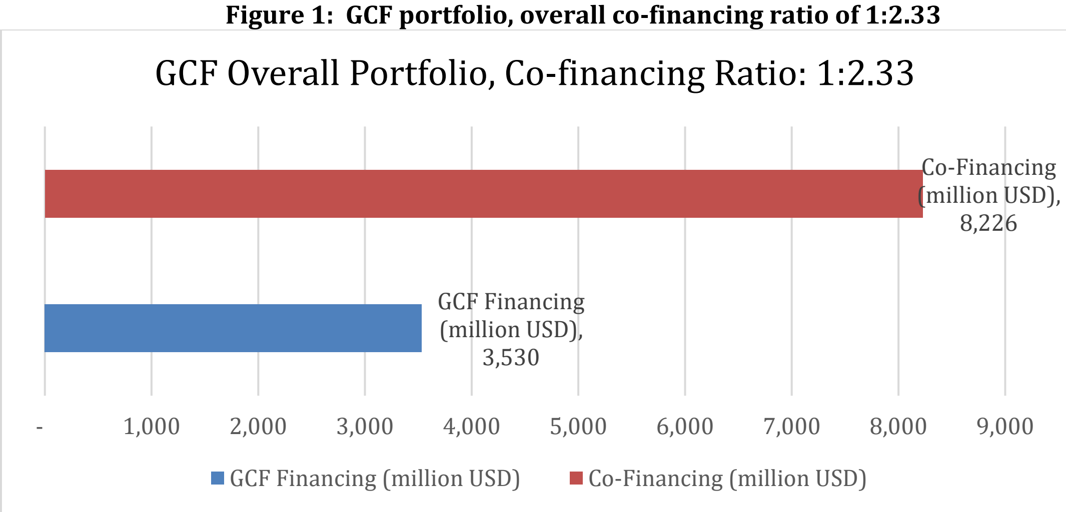
Sector	Overall Ratio	Median	Average Ratio	Max	Min
Public Sector	1.94	0.70	1.59	12.05	0.00
Private Sector	3.00	2.72	3.18	7.39	0.30
Overall	2.33	1.01	1.90	12.05	0.00

Table 2: Co-financing data by theme (data up to the nineteenth meeting of the Board)

Theme	Share of Co-financing	Portfolio Co-financing Ratio	Total Co-financing (million USD)	Total GCF Financing (million USD)
Adaptation	21%	1.57	1,705	1,084
Mitigation	51%	3.03	4,234	1,398
Cross-cutting	28%	2.18	2,286	1,048
Grand Total	100%	2.33	8,226	3,530

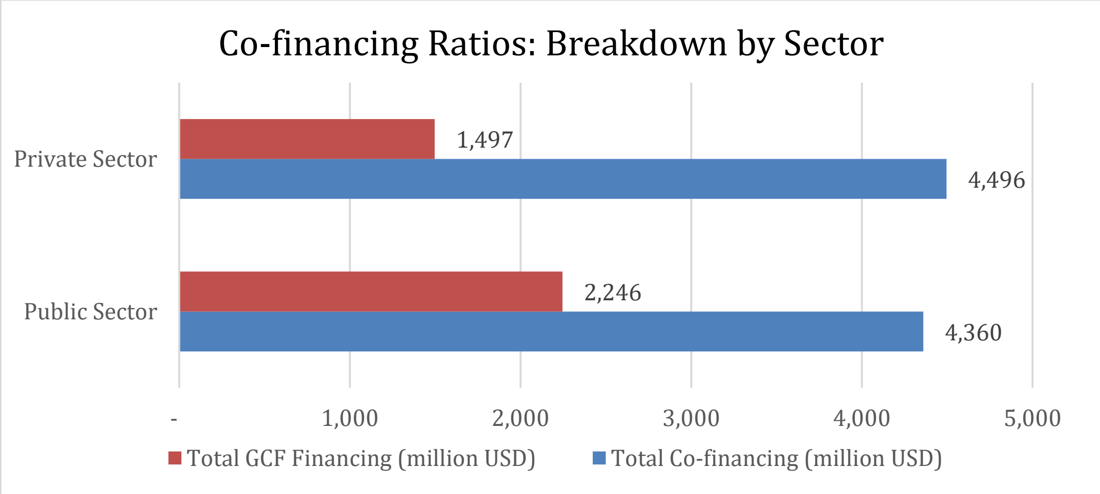
1. Table 1 and figure 1 indicate that the co-financing ratio of the overall GCF portfolio is 1:2.33. For all approved projects, the co-financing amount totals USD 8,226 million for GCF total financing of USD 3,530 million.

Figure 1: GCF portfolio, overall co-financing ratio of 1:2.33



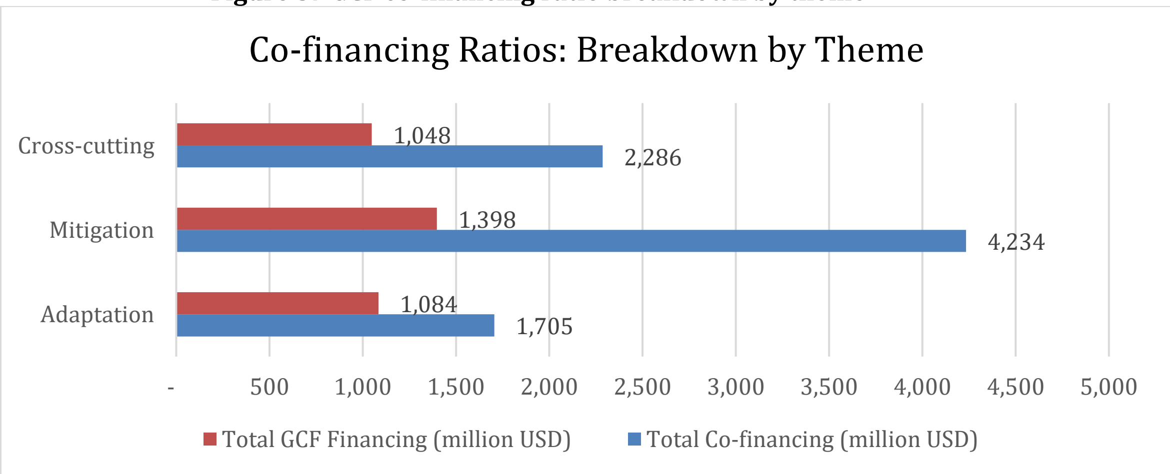
2. Sector wise, public sector projects have an overall co-financing ratio of 1:1.94, while that of private sector projects is 1:3.00, as indicated in figure 2.

Figure 2: GCF co-financing ratio breakdown by sector



3. In addition, the co-financing ratios of the three themes are adaptation (1:1.57), mitigation (1:3.03) and cross-cutting (1:2.18).

Figure 3: GCF co-financing ratio breakdown by theme



II. Comparison with other funds

4. Table 3 compares the portfolio co-financing ratios of major climate funds.

Table 3: Comparison: co-financing ratios

	GCF (up to B.19)	Global Environment Facility[a]	Climate Investment Funds[b]
Portfolio	2.37	6.6[c]	5.95
Median	1.04	3.4	-

[a] Global Environment Facility replenishment periods 4 and 5 only; source: GEF/C.46/09
[b] *Source:* Climate Investment Funds. CIF Learning: Assessing "Leverage" in the Climate Investment Funds.
[c] The Global Environment Facility's portfolio co-financing ratio for the climate change focal area is 12.2.

5. In terms of co-financing policy, the Global Environment Facility (GEF) requires co-financing for all GEF full-size projects, medium-size projects and GEF programmatic approaches. It is important to note that for GEF, co-financing is a longstanding practice that is an integral part of its operations to mobilize additional resources, increase country ownership, create

stronger partnerships on the ground and ensure that GEF supports only the incremental costs of a project.

6. Co-financing is optional for GEF enabling activities. GEF also encourages a minimum co-financing of 1:6 at the portfolio level. Specifically, GEF deems that an across-the-board requirement for minimum co-financing thresholds can create disincentives for undertaking projects where there is high potential for achieving global environmental benefits but prospects for co-financing are low. This is true for projects that take on higher levels of risk and can often be the case for technical assistance projects and projects seeking to support policy reform.

7. The GEF has a more inclusive definition of co-finance that also accounts for in-kind as well as leveraged and sequenced finance. Alongside the provision of grants, which can be small vis-à-vis the entire investment size, this can support the generation of higher ratios (as compared with GCF ratios).

8. On the other hand, co-financing is not formally required at the Climate Investment Funds; however, in concessional lending operations the aspiration has been for proposals to achieve a 1:4 ratio. Even in the absence of formal co-financing requirements, the Climate Investment Funds operational policies put strong emphasis on "facilitating the mobilization of co-financing. The CIF aims at leveraging financing not only from the MDBs themselves, but also from other development actors, including UN agencies and bilateral development agencies, and the private sector, thereby demonstrating the potential of scaled-up, blended development financing."

Annex V: Portfolio analysis of co-financing

FP #	Sector	Theme	GCF Financing (million USD)	Co-Financing (million USD)	Total Financing (million USD)	Co-financing Ratio
FP001	Public	Cross-cutting	6.24	2.87	9.11	0.46
FP002	Public	Adaptation	12.30	3.97	16.27	0.32
FP003	Public	Adaptation	7.61	0.55	8.16	0.07
FP004	Public	Adaptation	40.00	40.00	80.00	1.00
FP005	Private	Cross-cutting	25.00	85.00	110.00	3.40
FP006	Private	Mitigation	22.00	162.50	184.50	7.39
FP007	Public	Adaptation	23.64	4.59	28.23	0.19
FP008	Public	Adaptation	31.04	374.10	405.14	12.05
FP009	Public	Mitigation	21.70	20.00	41.70	0.92
FP010	Public	Mitigation	20.00	9.82	29.82	0.49
FP011	Public	Adaptation	20.55	4.97	25.52	0.24
FP012	Public	Adaptation	22.75	4.50	27.25	0.20
FP013	Public	Cross-cutting	29.52	11.01	40.53	0.37
FP014	Public	Adaptation	19.00	49.78	68.78	2.62
FP015	Public	Adaptation	36.01	2.86	38.87	0.08
FP016	Public	Adaptation	38.08	14.00	52.08	0.37
FP017	Private	Mitigation	49.00	216.00	265.00	4.41
FP018	Public	Adaptation	36.96	0.50	37.46	0.01
FP019	Public	Mitigation	41.17	42.84	84.01	1.04
FP021	Public	Adaptation	18.52	69.14	87.65	3.73
FP022	Public	Cross-cutting	39.29	9.90	49.19	0.25
FP023	Public	Adaptation	9.50	0.50	10.00	0.05
FP024	Public	Adaptation	10.00	-	10.00	0.00
FP025	Private	Cross-cutting	378.00	1,007.00	1,385.00	2.66
FP026	Private	Cross-cutting	53.50	16.30	69.80	0.30
FP027	Private	Mitigation	80.00	221.60	301.60	2.77

FP028	Private	Mitigation	20.00	40.00	60.00	2.00
FP033	Public	Mitigation	28.21	163.18	191.39	5.78
FP034	Public	Adaptation	24.14	20.12	44.26	0.83
FP035	Public	Adaptation	22.95	3.68	26.64	0.16
FP036	Public	Cross-cutting	17.00	9.00	26.00	0.53
FP037	Public	Adaptation	57.72	8.00	65.72	0.14
FP038	Private	Mitigation	265.00	500.00	765.00	1.89
FP039	Private	Mitigation	154.70	852.30	1,007.00	5.51
FP040	Public	Cross-cutting	50.00	83.00	133.00	1.66
FP041	Public	Adaptation	126.79	50.25	177.04	0.40
FP042	Public	Adaptation	24.69	69.14	93.83	2.80
FP043	Public	Adaptation	39.47	215.68	255.15	5.46
FP044	Public	Cross-cutting	86.00	147.98	233.98	1.72
FP045	Public	Adaptation	34.36	131.94	166.30	3.84
FP046	Private	Mitigation	8.65	8.91	17.56	1.03
FP047	Private	Mitigation	110.00	447.00	557.00	4.06
FP048	Private	Cross-cutting	20.00	138.00	158.00	6.90
FP049	Public	Adaptation	9.98	-	9.98	0.00
FP050	Public	Cross-cutting	26.56	91.70	118.26	3.45
FP051	Public	Mitigation	17.35	105.22	122.57	6.07
FP052	Public	Cross-cutting	26.91	38.29	65.20	1.42
FP053	Public	Adaptation	31.39	73.81	105.19	2.35
FP054	Public	Adaptation	58.53	256.82	315.35	4.39
FP056	Public	Adaptation	38.50	78.72	117.21	2.04
FP058	Public	Adaptation	45.00	4.96	49.96	0.11
FP059	Public	Adaptation	43.57	8.35	51.92	0.19
FP060	Public	Cross-cutting	27.61	17.60	45.21	0.64
FP061	Public	Adaptation	20.00	-	20.00	0.00

FP062	Public	Cross-cutting	25.06	65.20	90.26	2.60
FP063	Public	Mitigation	23.00	20.00	43.00	0.87
FP064	Public	Mitigation	103.00	60.85	163.85	0.59
FP065	Public	Mitigation	195.00	1,111.00	1,306.00	5.70
FP066	Public	Adaptation	25.00	19.13	44.13	0.77
FP067	Public	Adaptation	9.27	0.70	9.97	0.08
FP068	Public	Adaptation	27.05	43.24	70.29	1.60
FP069	Public	Adaptation	24.98	8.00	32.98	0.32
FP070	Public	Cross-cutting	20.00	62.17	82.17	3.11
FP071	Public	Mitigation	86.30	1.70	88.00	0.02
FP072	Public	Adaptation	32.00	105.27	137.27	3.29
FP073	Public	Cross-cutting	32.79	0.36	33.15	0.01
FP074	Public	Adaptation	22.50	2.50	25.00	0.11
FP075	Public	Adaptation	5.00	5.00	10.00	1.00
FP076	Public	Cross-cutting	40.00	101.39	141.39	2.53
FP077	Public	Cross-cutting	145.00	399.01	544.01	2.75
FP078	Private	Adaptation	26.00	30.00	56.00	1.15
FP080	Private	Mitigation	52.50	101.50	154.00	1.93
FP081	Private	Mitigation	100.00	150.00	250.00	1.50
SAP001	Public	Adaptation	9.30	0.70	10.00	0.08
		Total	*3,530*	*8,226*	*11,756*	*2.33*
