
Annex XIV: Initial investment framework

1. The Fund's initial investment framework consists of the following components:
 - (a) Investment policies;
 - (b) Investment strategy and portfolio targets; and
 - (c) Investment guidelines.

I. Investment policies

2. The Fund's initial set of investment policies covers all grants, concessional loans and other financial instruments extended by the Fund. They are as follows:
 - (a) The Fund will finance projects and programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development, in accordance with the Fund's initial results management framework, its initial result areas, as laid out in decision B.05/03, and subsequent decisions on additional result areas for adaptation, and consistent with a country-driven approach;
 - (b) Funding received and extended by the Fund will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by the Fund based on best international practices to provide an accurate comparison of funding amounts between financial instruments;
 - (c) The Fund will provide the minimum concessional funding (i.e. a grant-equivalent subsidy element) necessary to make a project or programme viable. Concessional funding is understood as funding with below-market terms and conditions. Consistent with the Governing Instrument, the minimum amount of concessional funding needed can be up to and including the full cost of the project or programme;¹
 - (d) Financing provided by the Fund to intermediaries may be used by the latter to blend with their own financial resources in order to increase the level of concessionality of the financing they extend to projects and programmes;
 - (e) The Fund will not "crowd out" potential financing from other public and private sources; and
 - (f) Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.

II. Investment strategy and portfolio targets

3. The Fund's investment strategy includes portfolio targets and investment guidelines. Table 1 and table 2 represent the initial decisions. The strategy will be further developed from the initial parameters and guidelines for allocation of resources as laid out in decision B.06/06 and the initial result areas as defined in decision B.05/03 and subsequent decisions on additional result areas for adaptation.

¹ Governing Instrument, paragraph 35.

Table 1: Initial portfolio targets

Initial allocation parameters	Initial portfolio targets
Balance between mitigation and adaptation	50/50 (over time)
Adaptation allocation for vulnerable countries (including the least developed countries (LDCs), small island developing States (SIDS) and African States)	Floor of fifty per cent of adaptation allocation
Geographic balance	Reasonable and fair allocation across a broad range of countries
Engagement with the private sector	Maximize fund-wide engagement with the private sector, including through significant allocation to the PSF
Readiness and preparatory support	Sufficient support for readiness and preparatory activities associated with the above

III. Investment guidelines

4. The Fund's initial investment guidelines will be activity-based and will be composed of the 6 criteria and 24 coverage areas shown in table 2:

Table 2: Initial criteria for assessing programme/project proposals

Criterion	Definition	Coverage area
Impact potential	Potential of the programme/project to contribute to the achievement of the Fund's objectives and result areas	<ul style="list-style-type: none"> Mitigation impact Adaptation impact
Paradigm shift potential	Degree to which the proposed activity can catalyse impact beyond a one-off project or programme investment	<ul style="list-style-type: none"> Potential for scaling-up and replication and its overall contribution to global low-carbon development pathways, consistent with a temperature increase of less than 2 degrees Potential for knowledge and learning Contribution to the creation of an enabling environment Contribution to the regulatory framework and policies Overall contribution to climate-resilient development pathways consistent with a country's climate change adaptation strategies and plans
Sustainable development potential	Wider benefits and priorities	<ul style="list-style-type: none"> Environmental co-benefits Social co-benefits Economic co-benefits Gender-sensitive development impact
Needs of the recipient	Vulnerability and financing needs of the beneficiary country and population	<ul style="list-style-type: none"> Vulnerability of the country Vulnerable groups and gender aspects

Criterion	Definition	Coverage area
		<ul style="list-style-type: none"> • Economic and social development level of the country and the affected population • Absence of alternative sources of financing • Need for strengthening institutions and implementation capacity
Country ownership	Beneficiary country ownership of and capacity to implement a funded project or programme (policies, climate strategies and institutions)	<ul style="list-style-type: none"> • Existence of a national climate strategy • Coherence with existing policies • Capacity of implementing entities, intermediaries or executing entities to deliver • Engagement with civil society organizations and other relevant stakeholders
Efficiency and effectiveness	Economic and, if appropriate, financial soundness of the programme/project	<ul style="list-style-type: none"> • Cost-effectiveness and efficiency regarding financial and non-financial aspects • Amount of co-financing • Programme/project financial viability and other financial indicators • Industry best practices