

Annex IX: Investment framework¹

1. The Fund's 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 set of investment policies covers all grants, concessional loans and other financial instruments extended by the Fund, and include:
 - (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 results management, and consistent with a country-driven approach;
 - (b) The Fund will work with accredited entities to attract co-investors, including inter-alia the private sector, other climate funds and development banks, to GCF-funded projects;
 - (c) The Fund does not require any minimum amount of co-financing for a Funded Activity, and no specific sources of co-financing that must be complied with;
 - (d) 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;
 - (e) 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;²
 - (f) 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;
 - (g) The Fund will not "crowd out" potential financing from other public and private sources; and
 - (h) Only revenue-generating activities that are intrinsically sound from a financial point of view will be supported through loans by the Fund.

¹ As updated by decision B.37/20 in relation to allocation parameters and portfolio targets for the GCF second replenishment period.

² Governing Instrument, paragraph 35.

II. Investment strategy and portfolio targets

3. The Fund's investment strategy includes portfolio targets and investment guidelines. Tables 1 and 2 are built on the provisions of decision B.07/06, as updated by decision B.37/20 for the GCF second replenishment programming period.³ In line with its longer-term vision and programming priorities, and working through overarching funding windows and dedicated structures, GCF will strive to achieve the targeted results for 2024-2027 as set out in Section 3.3 of the GCF Strategic Plan 2024-2027. Allocation parameters are determined in grant equivalents, unless indicated otherwise.

Table 1: Portfolio targets for the GCF second replenishment period (GCF-2)

| GCF-2 allocation parameters | GCF-2 portfolio targets |
|--|--|
| Readiness and preparatory support | Secure predictable resourcing for readiness and preparatory activities associated with GCF programming |
| Mitigation and Adaptation: Balance between mitigation and adaptation, and portfolio impact | 50/50 (over time), while seeking to meet or exceed portfolio-level mitigation and adaptation results as at the end of the first replenishment period ^a |
| Adaptation: Adaptation allocation for vulnerable countries (including the least developed countries, small island developing States and African States) taking into account their urgent and immediate needs | Floor of at least 50% of adaptation allocation, while aiming to meet or exceed first replenishment period outcomes ^a . The Board will aim for appropriate geographical balance. |
| Private sector | Increase in nominal terms the share of funding allocated through the Private Sector Facility compared to the first replenishment period ^a |

^a Secretariat to update and footnote all reference points as at 31 December 2023

³ Decision B.06/06 set out parameters and guidelines for the allocation of resources during the initial phase of the fund. Decision B.27/06 set parameters and guidelines for the allocation of resources during the GCF first replenishment period.. Decision B.37/20 adopted parameters and guidelines for the allocation of resources during the GCF second replenishment period.

III. Investment guidelines

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

Table 2: 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°C • 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 • 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-financing⁴ • Programme/project financial viability and other financial indicators • Industry best practices |
|------------------------------|--|--|

⁴ The Fund does not require any minimum amount of co-financing for a Funded Activity, and no specific sources of co-financing are needed to be complied with, in accordance with the GCF Co-Financing Policy adopted by the Board in decision B.24/14. Availability of co-financing should be evaluated and pursued where appropriate but the absence of co-financing, particularly at the concept note phase, should not disqualify a Funded Activity.