GREEN CLIMATE FUND

GCF: Catalysing finance for climate solutions

Established by the United Nations Framework Convention on Climate Change (UNFCCC) and serving the Paris Agreement, the Green Climate Fund (GCF) is the world's largest climate fund.

GCF is a climate finance catalyser. It uses its funds to accelerate green market creation, unlocking the financial flows needed for developing countries to transition to low-emission, climate-resilient development pathways. GCF is mandated to equally support adaptation and mitigation projects through a country-driven approach that prioritises direct access and targets the most vulnerable developing countries.

Since 2019, the GCF portfolio of climate projects has more than doubled from USD 5.1 billion to USD 13.5 billion of GCF finance, amounting with direct co-financing to over USD 51 billion of assets under management.

GCF is preparing for its 2024–2027 programming period (GCF-2). An ambitious replenishment for GCF-2 is essential to support global climate action.

A unique fund for humanity's greatest challenge

The window to address the climate crisis is rapidly shrinking. Floods, droughts, heatwaves, extreme storms, and wildfires are breaking records with alarming frequency around the world. Failure to limit global warming to the Paris Agreement targets will result in even more devastating consequences for people and planet, with vulnerable populations suffering the most. Ambitious action is urgently needed both to reduce emissions and to adapt to the changing climate in developing countries.

GCF is uniquely positioned to respond to the climate crisis through three defining features:

- **A country-owned partnership institution**

  GCF is the hub of the climate finance architecture. It is country-owned and has a 200+ strong global network of national, regional and international public -and private-sector partners with whom it builds unprecedented coalitions and novel investments for climate action.

- **Deployment of flexible financing instruments**

  GCF provides tailored climate solutions using a wide range of financial instruments, including grants, debt, equity, guarantees and insurance, and can serve as an anchor or first-loss investor.

- **Dedicated climate investment expertise**

  Through its second-level due diligence, GCF can help optimise climate impact and avoid maladaptation; and it can deploy an optimal mix of policy and financial instruments to de-risk climate investments.

GCF's transformative approach

Moving to a low-emission, climate-resilient world requires transformative climate solutions. GCF is driving this transformation by accelerating innovation. GCF unlocks climate innovation through four stages.

1 ENABLING ENVIRONMENT FOR CLIMATE ACTION

First, GCF helps countries develop integrated climate strategies, planning and policymaking, to establish a conducive environment for climate investments.

The GCF Readiness & Preparatory Support Programme is the world's largest funding source for climate capacity building. It supports climate investment planning, origination, and implementation so that developing countries are able to translate their climate ambitions into an increasing flow of impactful investments. The Readiness Programme has so far allocated USD 528.2 million for capacity-building support through 711 grants and is supporting initiatives in 142 developing countries with USD 325.6 million disbursed.

2 ACCELERATING CLIMATE INNOVATION

Next, GCF invests in new technologies, business models, and practices to bring new climate solutions to the market. The Fund supports incubators and accelerators and provides early growth finance.

Approved by the GCF Board in October 2022, the CATALI.5°T programme (pronounced "catalyst"), implemented in partnership with GIZ, will provide support for climate start-ups and other micro and small enterprises in Latin America and West Africa. It aims to set up regional incubators and accelerators that will trigger investments in start-ups and young businesses with the highest climate mitigation impact and business growth potential.

3 DE-RISKING INVESTMENT TO MOBILISE FINANCE AT SCALE

Third, GCF leverages its resources to bring these innovations to scale. GCF de-risks projects to crowd-in finance from risk-averse public and private institutional investors into new markets. Early-mover projects supported by GCF help establish a successful track record to enable financiers to re-price risk.

With an investment of USD 100 million from GCF, Climate Investor One, developed with FMO in 2018, provided project finance and first loss equity to fund renewable energy investments. It was composed of a development fund, which provides loans in the early stage of a project life cycle, and a construction equity fund which will meet up to 75 per cent of total construction costs in tandem with the project sponsor. This was followed by Climate Investor Two in 2022, which provides funding for climate resilient infrastructure, underpinned by USD 145 million from GCF. The fund aims to support the private sector to develop and construct climate resilient infrastructure projects in developing countries in the water, sanitation, and ocean sectors – areas which usually do not attract interest from the private sector.

4 GREENING THE FINANCIAL SECTOR

Finally, GCF supports greening the financial sector. The Fund is building the capacity of domestic financial institutions in developing countries to mainstream climate risks and opportunities into their investment decision-making, and to access capital markets. This will ensure wider finance flows can be aligned with low-emission, climate resilient development.

The Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP) is an example of how GCF is working with national development banks to support them in greening the domestic financial sector. This programme, with CRDB Bank, will provide agriculture adaptation loans to primarily smallholders and MSMEs. GCF is providing concessional loans, guarantees and grants to support the development of a climate insurance product in the local market.

Increasing access to climate finance

Developing countries face major challenges to access the climate funding they need. GCF strives to increase access to climate finance, helping developing countries to turn their climate ambitions into bankable projects, moving from idea to action. For GCF, access to finance means providing more funding, quicker, simpler, with harmonised procedures, and delivered closer to local communities on the ground.

Speeding up climate finance

Over the last four years, GCF has made huge strides to speed up the delivery of funds to developing countries. In fact, GCF is now programming funding to new projects as quickly as it is received from contributors. And 87 per cent of its projects are already under implementation—with over USD 3 billion disbursed so far.

Alongside swifter programming, GCF has also improved its operational efficiency. This has resulted in faster delivery times, with the time taken from project approval to first disbursement falling from an average of 19 months in 2019 to under 11 months in 2022. GCF is the fastest source of climate finance for large-scale projects of USD 250 million and above. The Fund has also developed simpler procedures for small scale projects with updates to our Simplified Approval Process (SAP), and a new one-stop process for new partners, the Project-Specific Assessment Approach (PSAA).

Simplicity: streamlining funding processes

GCF has codified and streamlined its funding processes, strengthening predictability and increasing transparency through programming guidance, project design and assessment tools to ease the application process and to facilitate the delivery of high-quality project proposals. GCF has published its appraisal manual online, making transparent its approach to evaluating proposals so that partners can check their proposals for themselves before submission. All of this is helping to improve the quality of proposals submitted to GCF, which in turn streamlines the project review process.

Harmonising the climate finance landscape

Whilst the Fund continues to strive to make its funding procedures more accessible, developing countries are faced with multiple climate finance sources, each with their own set of criteria, processes, and procedures, creating a landscape that is complex and difficult to navigate. GCF is therefore taking a lead in harmonising processes among the climate funds. GCF has established a Long-Term Vision on Complementarity and Coherence with the Global Environment Facility (GEF) to bring greater synergies for action on the climate / biodiversity nexus. It is working with GEF to coordinate programming approaches to simplify and harmonise application processes and to share successful practices among the climate funds.

Enhancing direct access

GCF supports developing countries to receive direct access to funding from GCF and other climate funds. In countries like the Federated States of Micronesia and Vanuatu, GCF is de-centralising climate finance by providing grants of up to USD 25 million to capitalise local climate funds, which then provides on-granting to community projects in small chunks of USD 250,000 each. The project in Micronesia moved from proposal submission to review, approval, and first disbursement within six months.

Another part of GCF efforts to enhance country ownership is to increase the share of programming channeled via direct access entities. During GCF-1 this has increased cumulatively from twelve to eighteen per cent. GCF's Readiness Programme has also helped to build the capacity of direct access entities to secure accreditation and then project funding.

Volume: catalysing finance for climate action

As the world's largest climate fund, GCF's portfolio has over 200 projects in 129 developing countries. The GCF portfolio value totals USD 12.8 billion in GCF funding, worth USD 48.3 billion when including co-financing.

Nonetheless GCF accounts for less than three per cent of climate financing under the UNFCCC, and an even smaller proportion of the trillions needed for the climate transformation. It is therefore essential for GCF to use its public funds to catalyse even more finance for developing countries, particularly from the private sector, and to support developing countries to access capital without increasing unsustainable debt. GCF is leveraging its role as the hub of climate finance to create public and private sector coalitions to mobilise climate finance to support large scale transformational initiatives.

Looking ahead: GCF's second programming period (GCF-2)

To deliver the world's climate goals, we need to drive systemic transitions across four major areas:

- Supplying low-carbon energy for all
- Building climate-resilient infrastructure
- Creating sustainable and secure food systems
- Protecting ecosystems and biodiversity

Over the next four years, GCF is ready to play its role in supporting these transitions.

During its first programming period (GCF-1), GCF programmed between USD 1.5 billion to 3 billion for climate action each year. With more resources for GCF-2, the Fund could scale up its programming, delivering more support for developing countries to achieve their climate ambitions.

In GCF-2, GCF will strengthen global climate action. GCF will accelerate the development of new green markets and increase the resilience of developing countries, helping them reach their goals for low-emission, climate-resilient development.

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