

GCF: FINANCING CLIMATE ACTION



There is a shrinking window of opportunity to address the climate crisis. Average global temperature is currently estimated to be 1.1°C above pre-industrial times. Based on existing trends, the world could cross the 1.5°C threshold within the next two decades and 2°C threshold early during the second half of the century. Limiting global warming to 1.5°C is still narrowly possible and will be determined by the investment decisions we make over the next decade.

The Green Climate Fund (GCF) – a critical element of the historic Paris Agreement – is the world’s largest climate fund, mandated to support developing countries raise and realise their Nationally Determined Contributions (NDCs) ambitions towards low emissions, climate-resilient pathways.

OUR TRANSFORMATIVE APPROACH

We achieve our goal by investing across four transitions – built environment; energy & industry; human security, livelihoods and wellbeing; and land-use, forests and ecosystems – and employing a four-pronged approach:

ENABLING ENVIRONMENT FOR CLIMATE ACTION

by promoting integrated strategies, planning and policymaking to remove barriers to novel climate solutions and maximize co-benefits between mitigation, adaptation and sustainable development.

Developing countries are already the most vulnerable to the impacts of climate change and are now also being hit the hardest by the economic crisis resulting from the COVID-19 pandemic. GCF is supporting countries to design and integrate climate resilient recovery measures into their NDCs.

ACCELERATING CLIMATE INNOVATION

by investing in new technologies, business models and financial instruments and practices to establish a proof of concept.

Policy, institutional, technological, business, and financial Innovation is critical to accelerate the transition to low emissions development pathways. GCF is providing USD 20 million in equity and USD 5 million in grant to Acumen’s USD 110 million KawiSafi Ventures Fund, which provides growth-stage finance to green start-ups investing in off-grid renewable energy technologies in East Africa.



DE-RISKING INVESTMENT TO MOBILISE FINANCE AT SCALE:

by using scarce public resources to de-risk market creating projects and crowd-in private finance to deploy new climate solutions at scale, notably for adaptation, nature-based solutions, least developed countries (LDCs) and small island developing states (SIDS)

The [Global Subnational Climate Fund](#) will make blended finance work for LDCs and SIDS by leveraging private investment at scale. \$150 million in GCF first loss equity investment in partnership with Pegasus Capital Advisors will leverage investments of up to 25:1 for climate action at the sub-national level, where smaller, local climate projects are chronically under-funded and usually unable to access commercial finance. Almost half the 42 participating countries are LDCs and SIDS.

ALIGNING FINANCE WITH SUSTAINABLE DEVELOPMENT

by developing the capacity of domestic financial institutions to mainstream climate risks and opportunities in investment decision-making and to access capital markets to finance the widespread adoption of new climate solutions

GCF supported the effort of the Government of Jamaica to set up a Caribbean green bond listing on the Jamaica Stock Exchange. It will enable firms and domestic financial institutions to float green/adaptation bonds through a dedicated green bond facility and finance the widespread adoption of new climate solutions.

Climate change offers businesses an unprecedented chance to capitalise on new growth and investment opportunities that can protect the planet as well. GCF employs part of its funds to help mobilise financial flows from the private sector to compelling and profitable climate-smart investment opportunities.

COMPARATIVE ADVANTAGES

Country-driven



A core GCF principle is to follow a country-driven approach, which means that developing countries lead GCF programming and implementation. Country ownership of GCF financing decisions enables developing countries to turn NDC ambitions into climate action. GCF's country-driven approach is underpinned by capacity building support through its Readiness Programme that is available to all developing countries.

An open, partnership organisation



GCF operates through a network of over 200 Accredited Entities and delivery partners who work directly with developing countries for project design and implementation. Our partners include international and national commercial banks, multilateral, regional and national development finance institutions, equity fund institutions, United Nations agencies, and civil society organizations. This open partnership enables the Fund to foster unprecedented coalitions between private investors, development agencies, and civil society organisations to achieve transformative change and support harmonisation of standards and practices.

A range of financing instruments



GCF can structure its financial support through a flexible combination of grant, concessional debt, guarantees or equity instruments to leverage blended finance and crowd-in private investment for climate action in developing countries. This flexibility enables the Fund to pilot new financial structures to support green market creation.

Balanced allocation



GCF is mandated to invest 50 per cent of its resources to mitigation and 50 per cent to adaptation in grant equivalent. At least half of its adaptation resources must be invested in the most climate vulnerable countries (SIDS, LDCs, and African States). The GCF programming strategy recognises that we must scale up both mitigation and adaptation efforts. GCF aims to leverage synergies and minimise potential trade-offs between adaptation and mitigation.

Risk-taking, patient capital



GCF adds value to its partners by enabling them to raise the ambition of their climate action. By leveraging the risk management capacity of our partners and our own set of investment, risk and results management frameworks, GCF can accept higher risks to support early-stage project development as well as policy, institutional, technological and financial innovation to catalyse climate finance. This capacity to take risk is backed up by a robust second level due diligence system.

IMPROVING OPERATIONAL EFFICIENCY AND INTEGRITY

GCF is a digital organisation that continues to improve its operational efficiency to facilitate access to GCF resources and increase transparency. Our Project Review and Tracking Platform, Digital Accreditation Platform, and Readiness Fluxx systems increase efficiencies with our partners throughout the project cycle. GCF's processes and templates streamline proposal development through a manuals and guidebooks, including our [Programming Manual](#) and [Readiness Guidebook](#). GCF has also put in place a robust Portfolio Performance Management System to efficiently manage project operations and climate results.

GCF has a three-level project risk management system to identify early warning signals and manage project risks to strengthen portfolio integrity. Our first level of defence is undertaken by our Accredited Entities, with GCF verifying their risk management systems through our accreditation and re-accreditation process. The second level is a control function undertaken by the Secretariat throughout the project cycle from project design to implementation. The third level ensures that risks are in line with our Risk Management Framework and includes reviews by our Office of Internal Audit and a proactive approach to prevent integrity violations by the Independent Integrity Unit.

RESULTS TO DATE

GCF is delivering results. Over the past two years, GCF has **doubled** the size of its portfolio, and **tripled** the number of projects under implementation. In spite of the COVID-19 pandemic GCF is accelerating its support for a climate-resilient recovery and to raise the ambitions of Nationally Determined Contributions (NDCs).

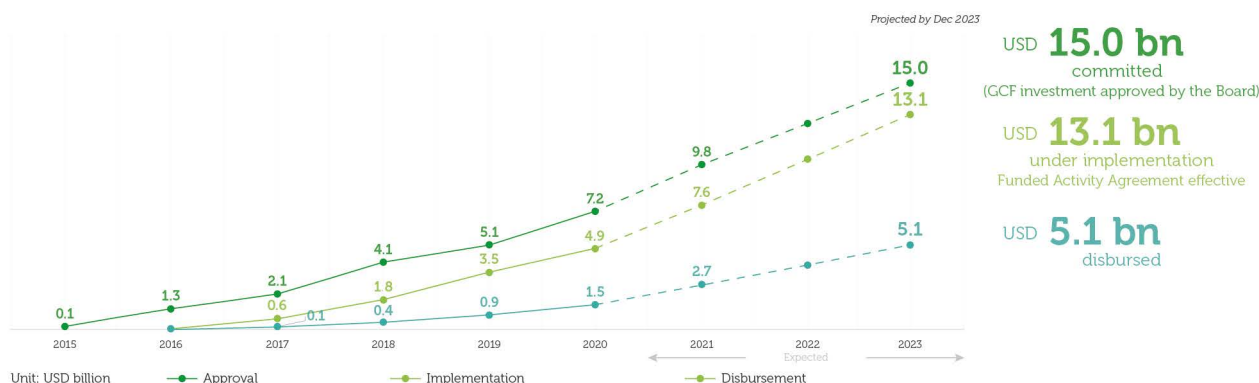
The total value of the GCF portfolio has grown to \$33 billion, with \$8.9 billion in GCF co-financing. \$3 billion of this portfolio is managed through our Private Sector Facility, which leverages GCF resources to mobilize private climate investment. In 2020 GCF approved an annual record of over \$2 billion in climate finance projects.

A total of \$5.7 billion worth of GCF projects – more than 64% of the portfolio – is now under implementation. Whilst most projects are at an early stage of their lifecycle, we are already seeing significant results on the ground. Highlights include the delivery of [Mongolia's first ever private bank-financed solar farm](#), built in little over half a year under the management of [XacBank](#); support for the sustainable development of [Morocco's argan forest](#) to strengthen the resilience of rural communities and preserve the forest; and the integration of gender action plans in all GCF projects that is [strengthening the role of women on the climate change frontline](#).

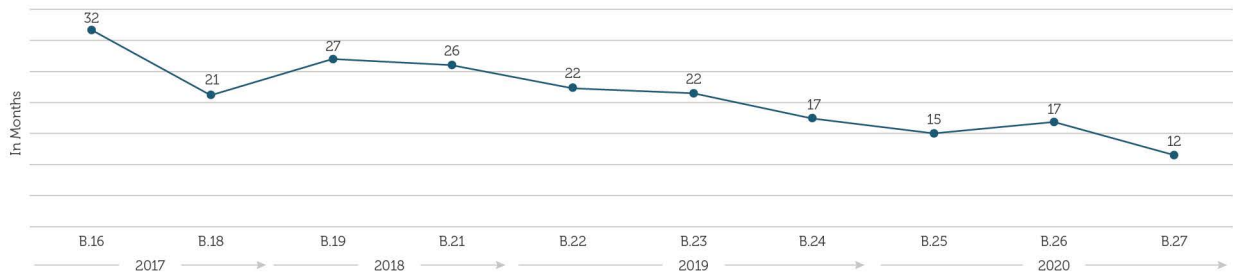
When the portfolio is fully implemented more than 500 million beneficiaries will benefit from adaptation measures, whilst over 1.8 billion tonnes of CO₂ equivalent will be mitigated.

OUR PERFORMANCE

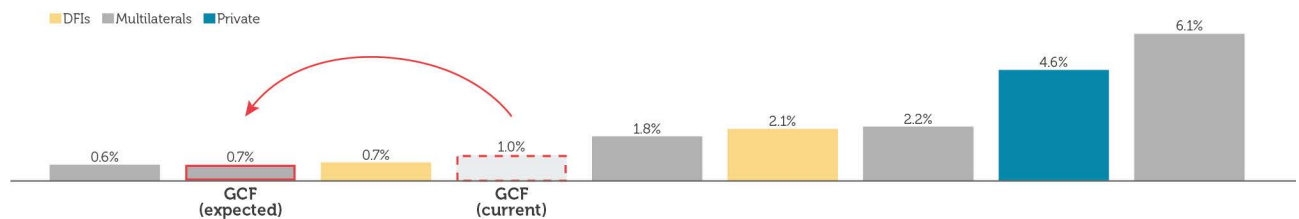
GCF is the largest multilateral climate fund. According to the Heinrich Boll Foundation, the GCF was the leader in approving climate finance projects in 2020 with USD 2.2 billion approved out of the USD 3.4 billion approved in total.



GCF is becoming faster. The time taken from proposal review to first disbursement has fallen to less than 12 months.



GCF is cost-effective. An independent assessment of the ‘operating expense-to-total approved investments’ ratio shows that the GCF - at 1% - is on the lower end of the spectrum relative to ‘near-peers’.¹ As the GCF’s allocation grows to USD 15 billion by the end of 2023, its ratio would fall from 1% to 0.7%.



A STRATEGIC PLAN TO INCREASE OUR IMPACT

During the 2020–2023 period (GCF-1), GCF is expected to deliver over 265 million tonnes of CO₂ reductions/removals per billion dollars invested in mitigation and reach over 155 million beneficiaries for each billion invested in adaptation.

Building on the success and the experience gained during its first funding period, GCF’s Updated Strategic Plan for 2020–2023 sets out an ambitious vision for GCF to increase its impact by:

- Maintaining a **balanced portfolio** between adaptation and mitigation.
- Ensuring a **50 per cent adaptation ‘floor’** for the most vulnerable countries (LDCs, SIDS, and African States).
- Significantly increasing financing towards and leveraging from the **private sector**.
- Significantly increasing funding to **direct access** entities, working directly with local, national and regional organisations, alongside our work with larger, international entities.
- **Improving speed, predictability, efficiency, effectiveness, and transparency**, to maximise the impact of GCF’s climate actions.

Meeting growing demand to address the finance gap

With \$10 billion pledged to date towards GCF’s first replenishment, GCF is on track to programming about \$1 billion per Board cycle. GCF is facing increasing demand from the countries it serves to support their efforts to foster a low emission climate resilient recovery from COVID-19 over the coming years.

The current pipeline of projects from public and private sectors is \$22.8 billion (GCF financing) in demand, \$75.8 billion (total financing) including projected co-financing by other partners. **With additional pledges, GCF has the capacity to meet the growing ambitions from developing countries by increasing its programming to \$1.5 billion per Board cycle (\$4.5 billion a year).**

¹ Review undertaken by Dahlberg Global Development Advisors, annexed to GCF Board document GCF/B.29/05 (<https://www.greenclimate.fund/document/gcf-b29-05>)

CONTACT

For any enquiries please contact:

• info@gcfund.org

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