

# 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:

### TRANSFORMATIONAL PLANNING AND PROGRAMMING:

by promoting integrated strategies, planning and policymaking to maximise the 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.

### CATALYSING CLIMATE INNOVATION:

by investing in new technologies, business models, 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. For example, GCF is supporting the development of the first Caribbean regional green bond exchange in Jamaica.



## DE-RISKING INVESTMENT TO MOBILISE FINANCE AT SCALE:

by using scarce public resources to improve the risk-reward profile of low emission climate-resilient investment and crowd-in private finance, 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.

## MAINSTREAMING CLIMATE RISKS AND OPPORTUNITIES INTO INVESTMENT DECISION-MAKING TO ALIGN FINANCE WITH SUSTAINABLE DEVELOPMENT:

by promoting methodologies, standards and practices that foster new norms and values.

GCF is supporting the development of new valuation methodologies for climate-resilient infrastructure that could attract deep pools of institutional capital. Such methodologies will enable investors to balance off the higher upfront costs of climate-resilient infrastructure and perceived higher technology risks with their lower operating costs and lower climate physical and transition risks, which could unlock private finance at scale through instruments such as resilience bonds.

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 raised NDCs ambitions.

The total value of the GCF portfolio has grown to \$30.3 billion, with \$8.4 billion in GCF co-financing. \$2.8 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, which enabled developing countries to maintain climate ambition in the era of COVID-19, including:

- The [Energy Access Relief Facility](#) (EARF), a \$60 million multi-country concessional debt fund realised in partnership with [Acumen](#). The facility provides energy access companies with vital liquidity during the COVID-19 crisis. The project was brought from initial concept to Board approval in only 190 days in response to the need for a climate-resilient response to the pandemic.
- [Climate proofing food production](#) through better agro-ecosystem management in the Imbo and Mosso plains of Burundi, a SAP project with IFAD.
- [Financing energy efficiency for the textile sector](#) in Bangladesh, GCF's largest ever direct access project. Together with [IDCOL](#), GCF will finance access to energy efficiency for this critical sector of the Bangladesh economy.

A total of \$5 billion worth of GCF projects – 60 per cent 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 498 million beneficiaries will benefit from adaptation measures, whilst over 1.8 billion tonnes of CO<sub>2</sub> equivalent will be mitigated.

## A STRATEGIC PLAN TO INCREASE OUR IMPACT

During the 2020–2023 period (GCF-1), GCF is expected to deliver over 265 million tonnes of CO<sub>2</sub> 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).**

### Innovative initiatives

GCF is stepping up its programming in 2021, a critical year for climate action. In response to country requests, here are some of the transformational initiatives under development with our partners. These will be submitted to the Board for consideration in the run-up to COP 26.

- **Great Green Wall / Desert2Power:** GCF is working on two ambitious approaches to rehabilitate land and provide energy access, creating a bio-economy in the Sahel region that includes ten of the poorest countries in the world. An umbrella programme proposal with IFAD will support adaptation as part of the Great Green Wall initiative, whilst the 'Desert2Power' proposal with AfDB will promote renewable energy access in the region.
- **Amazon rainforest:** promoting the protection of the Amazon rainforest and other critical ecosystems that serve as global carbon sinks, including through market-based mechanisms.
- **Caribbean Blue Economy:** with IDB we are developing a proposal to build resilient infrastructure, as well as providing disaster risk financing and nature based solutions for Small Island Developing States in the Caribbean.
- **Clean cooling:** working with the World Bank to propose a multi-country programme to target some of the 1.3 billion people who lack access to sustainable cooling systems.
- **Regional adaptation programmes:** these will encompass whole biomes such as forests, grasslands and peatlands, as well as strengthening nature-based solutions on a more local scale including mangroves, coral reefs, and upland freshwater catchments and watersheds.

## CONTACT

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