Policy on Co-financing

This document captures the policy as adopted by the Board in decision B.24/14. The policy was sent to the Board for consideration at B.24 in document GCF/B.24/04 titled, “Review of the initial investment framework: Policy on co-financing”.

All decisions and documents adopted at B.24 can be found in document GCF/B.24/17 titled “Decisions of the Board – twenty-fourth meeting of the Board, 12 – 14 November 2019”.

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I. Purpose

1. This Policy on Co-financing (the Policy) sets out key principles and approaches to determine and monitor public and private co-financing applicable to all GCF-funded activities.

2. The Policy provides guidance on determining, reporting and monitoring co-financing (as defined in section V below) in GCF-funded activities, consistent with paragraphs 54 and 57 of the Governing Instrument for the GCF.

3. The Policy also contains provisions to support GCF in accounting for and reporting on the mobilization of private finance to maximize the impact of GCF interventions in developing countries while assisting entities and countries in understanding, defining and applying the concept of co-financing in the specific context of the mandate of GCF.

4. The Secretariat will support focal points, national designated authorities, accredited entities (AEs) and other relevant stakeholders for the successful implementation of this Policy.

II. Objective

5. The objective of the Policy is to clarify definitions and key principles for the GCF, working with its partners, to attain adequate levels of co-financing as a means to:

(a) Achieve the highest possible impact and ambition expected from the GCF and strengthen climate action through both public sector and private sector contributions to the projects and programmes in accordance with the objectives and guiding principles of the GCF;

(b) Strengthen country ownership and provide for the necessary resources for the long-term sustainability of climate actions in developing countries;

(c) Increase accountability by improving transparency and consistency of reporting of the amounts of co-financing; and

(d) Improve complementarity with other climate funds.

III. Definitions

6. The following terms, as defined, apply to the GCF Policy on Co-financing:

(a) "**Co-financing**" means the financial resources required, whether Public Finance or Private Finance, in addition to the GCF Proceeds, to implement the Funded Activity for which a Funding Proposal has been submitted;

(b) "**Expected Co-financing**" means the amount of Co-financing, based on ex-ante estimations, that is identified in the Funding Proposal submitted to the Board for adoption and included in the funded activity agreement that is expected to be necessary for the implementation of the Funded Activity;

(c) "**Funded Activity**" means the project or programme described in the Funding Proposal;

(d) "**Funding Proposal**" means, prior to Board approval, the Funding Proposal submitted to the GCF by the Secretariat, and, after Board approval, the Funding Proposal as approved by the Board, including any modification thereto made in accordance with the policies, rules and procedures of the GCF;

(e) "**GCF Proceeds**" means the amount of financial resources requested by the AE from the GCF in the Funding Proposal or, if different, the amount approved by the Board in respect of a particular Funded Activity;

(f) “**Leveraged Private Finance”** means private investment resulting from the contribution associated with GCF involvement in an investment, regardless of whether or not the GCF was actively and/or directly involved in raising such financing or soliciting investors, and includes investment made as a result of the intervention of additional investors after the first project is completed;

(g) “**Mobilized Private Finance**” means, in the context of a Funded Activity, the Private Finance mobilized as a result of the GCF Proceeds, calculated in accordance with relevant methodologies;

(h) **“Parallel Finance”** means the financial resources that flow alongside GCF Proceeds to a project, but which are not required for the implementation of the Funded Activity, and which are earmarked for other outcomes and may be consistent with general mitigation and adaptation measures;

(i) **“Private Finance”** means all financial resources that are provided for the implementation of a Funded Activity from entities that are more than 50 per cent owned and/or controlled by private shareholders;

(j) **“Public Finance”** means all financial resources, other than the GCF Proceeds, that are provided for the implementation of a Funded Activity from the public sector or entities that are more than 50 per cent owned and/or controlled by the public sector; and

(k) “**Realized Co-financing**” means the amount of Co-financing, based on ex-post assessments, actually provided to the Funded Activity during its implementation.

IV. Principles

7. There is no minimum amount of Co-financing required for a Funded Activity, and no specific sources of Co-financing that must be complied with.

8. Whenever possible, Funded Activities should seek to incorporate appropriate levels of Co-financing to maximize the impact of GCF Proceeds, as determined on a case-by-case basis, cognizant that while desirable to demonstrate alignment of interests between the GCF and AEs, and country ownership by developing countries, Co-financing may not always be achievable or realistic.

9. While maximizing Co-financing is desirable, GCF will avoid using Co-financing metrics as stand-alone targets since maximizing climate mitigation and adaptation results does not necessarily equate with minimizing or optimizing spending on climate mitigation and adaptation. Co-financing ratios as well as expected levels of Mobilized Private Finance or Leveraged Private Finance should therefore not become stand-alone targets, as this may disincentivize GCF from financing projects/programmes with strong impact potential and high paradigm shift potential.

10. Co-financing should be assessed in a comprehensive manner in conjunction with other indicators included in the investment framework.

11. Where GCF funding is covering the whole or part of the incremental costs of a Funded Activity, other costs should be co-financed by other sources.

V. Reporting and other requirements

5.1 Accredited entities

12. AEs shall include in each Funding Proposal the amount of the Expected Co-financing (broken down by Private Finance and Public Finance), if any, required for the implementation of the relevant Funded Activity.

13. AEs shall monitor and report on the delivery of Co-financing to the relevant Funded Activity in absolute numerical terms, including separately in respect of Private Finance and Public Finance delivered, in accordance with the provisions of the relevant legal agreements between the AE and the GCF.

14. Upon completion of a Funded Activity, the AE shall report on Realized Co-financing by including in the relevant reports required by GCF under the relevant legal agreements an assessment of the extent to which the Expected Co-financing (broken down by Private Finance and Public Finance) was actually provided by the relevant co-financier for the implementation of the Funded Activity. Such reports shall also include information on any financial resources provided for the implementation of the Funded Activity that were not identified in the Funding Proposal.

15. At the completion of the relevant Funded Activity, AEs should, to the extent possible, also report via the final annual performance report (or project completion report) on:

(a) Parallel Finance, which may be reported in qualitative terms; and

(b) Leveraged Private Finance, which should be reported in absolute numerical terms and on the basis of demonstrable casual links.

5.2 Secretariat

16. The Secretariat will monitor overall Co-financing at the Funded Activity, and portfolio, level, including in relation to the levels of Public Finance, Private Finance, Mobilized Private Finance, Parallel Finance and Leveraged Private Finance based on the information provided by AEs.

17. The Secretariat will report on such Co-financing, based on relevant methodologies, to the extent available and based on the information provided by AEs, through the annual portfolio review or other such reports as the Fund may request from time to time. In particular, to the extent available, the reporting shall include information on:

(a) The total amount of Co-financing, Mobilized Private Finance, Parallel Finance and Leveraged Private Finance at the individual Funded Activity level, distinguishing Public Finance and Private Finance; and

(b) The total amount of Co-financing, Mobilized Private Finance, Parallel Finance and Leveraged Private Finance at the GCF portfolio level, distinguishing Public Finance and Private Finance.

18. In reporting Leveraged Private Finance, the Secretariat will endeavour to the extent possible to complement information provided by AEs with any other reliable publicly available information.

19. The Secretariat shall develop guidelines that will include, among other things:

(a) an instrument-based methodology to measure and report to the Board and other relevant bodies Mobilized Private Finance in collaboration with relevant bodies and institutions;

(b) guidance and methodologies on, among others, measuring and reporting Leveraged Finance and Parallel Finance at project completion; and

(c) guidance relating to the treatment of in-kind contributions and tax exemptions.

VI. Effectiveness

20. This Policy shall apply to all Funding Proposals approved by the Board starting from the twenty-sixth-meeting of the Board.

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