



GREEN  
CLIMATE  
FUND

# GCF REGIONAL DIALOGUE

with EASTERN EUROPE & CENTRAL ASIA

**Skopje, Republic of North Macedonia**  
18–22 March 2024





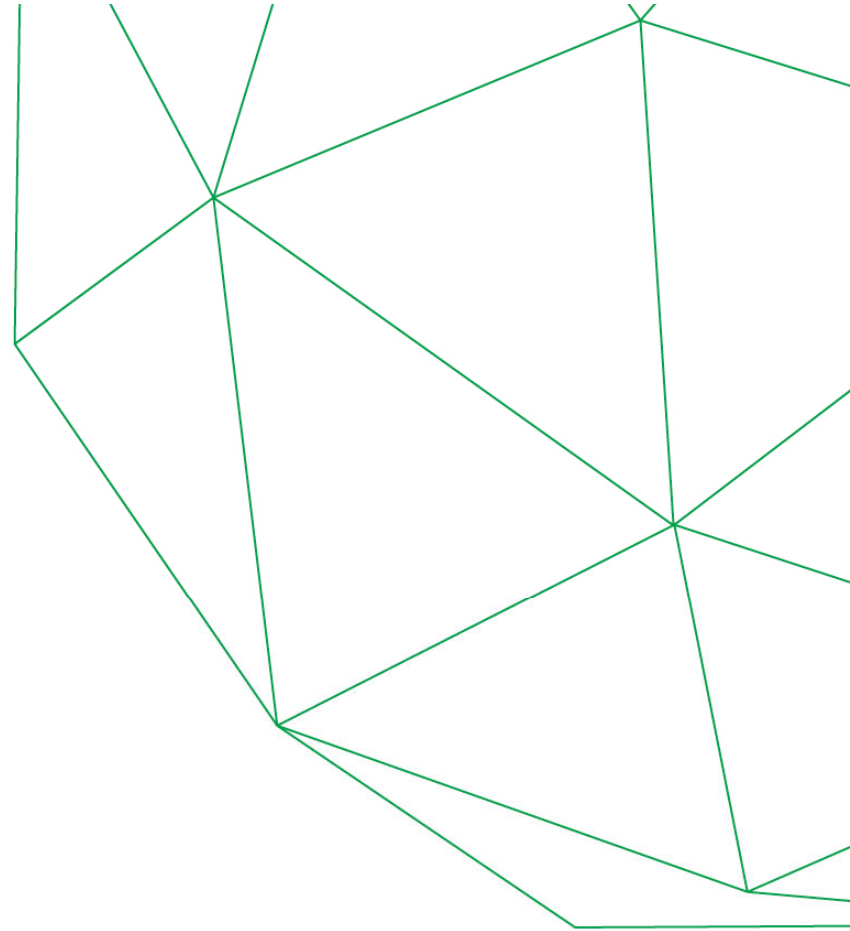
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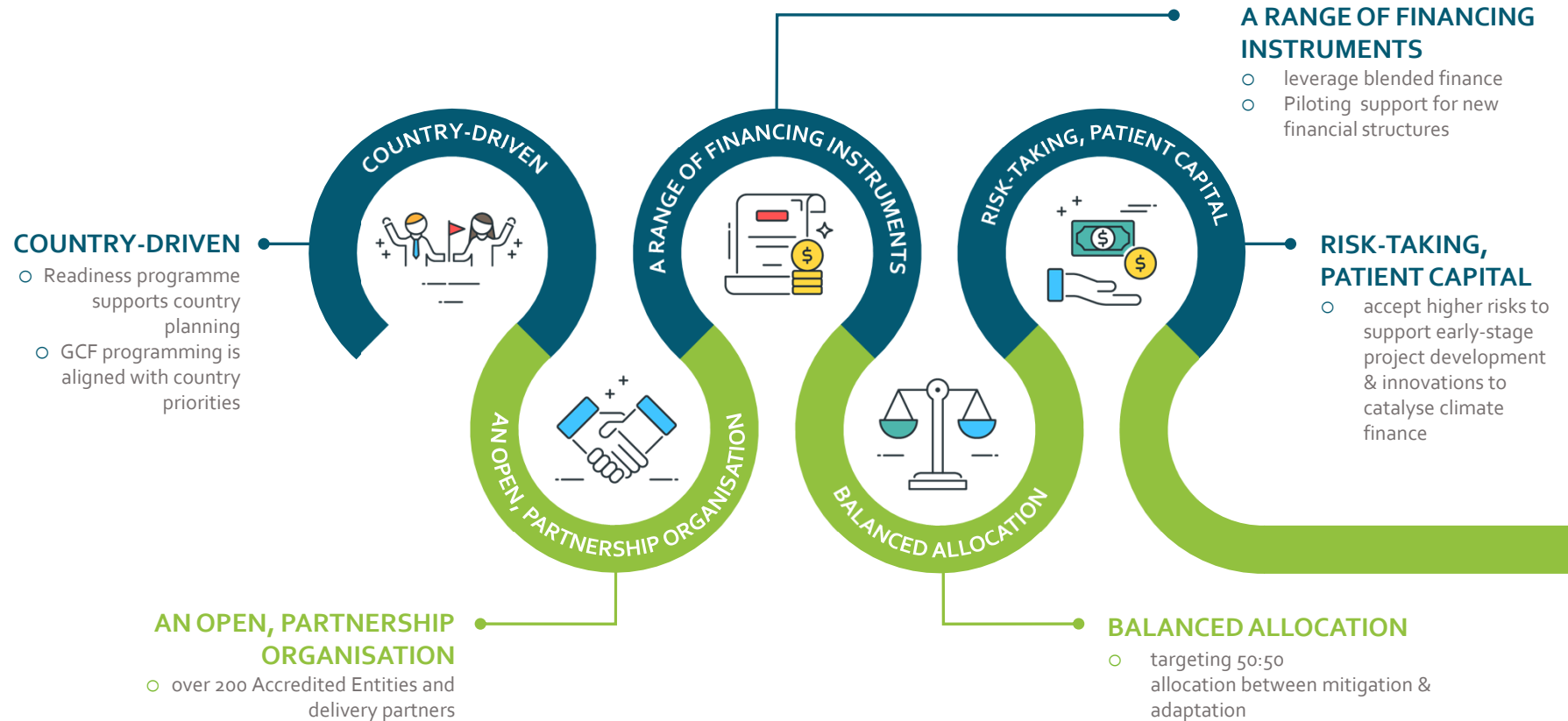
# Developing GCF-aligned and high-quality projects - Financial Instruments

Rajeev Mahajan, Private Sector Facility

**Skopje, Republic of North Macedonia**  
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# How we work



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# Where we focus

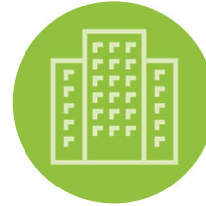
## Reduced Emissions from:



Energy  
generation  
and access



Transport



Buildings,  
cities,  
industries and  
appliances



Forests and  
land use

## Increased Resilience of:



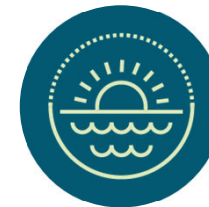
Livelihoods of  
people  
and communities



Health, food and  
water security

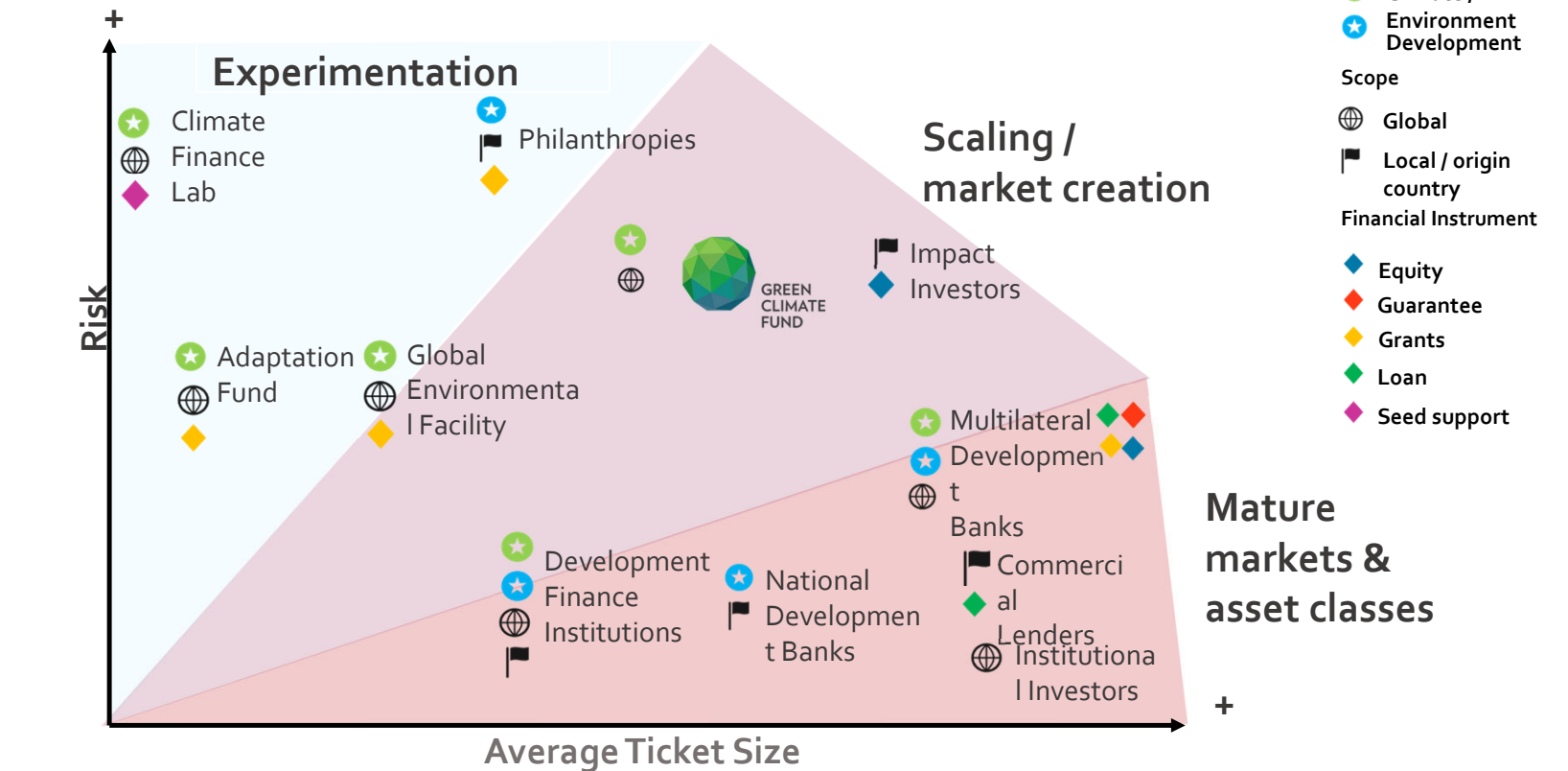


Infrastructure and  
the built  
environment



Ecosystems and  
ecosystem  
services

# GCF's unique position

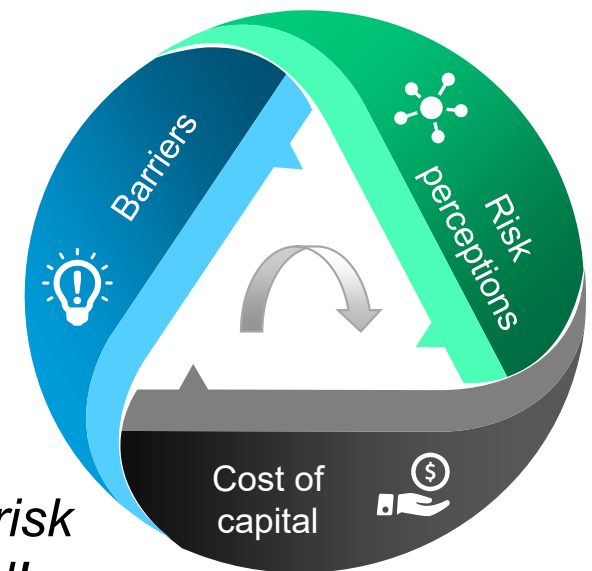


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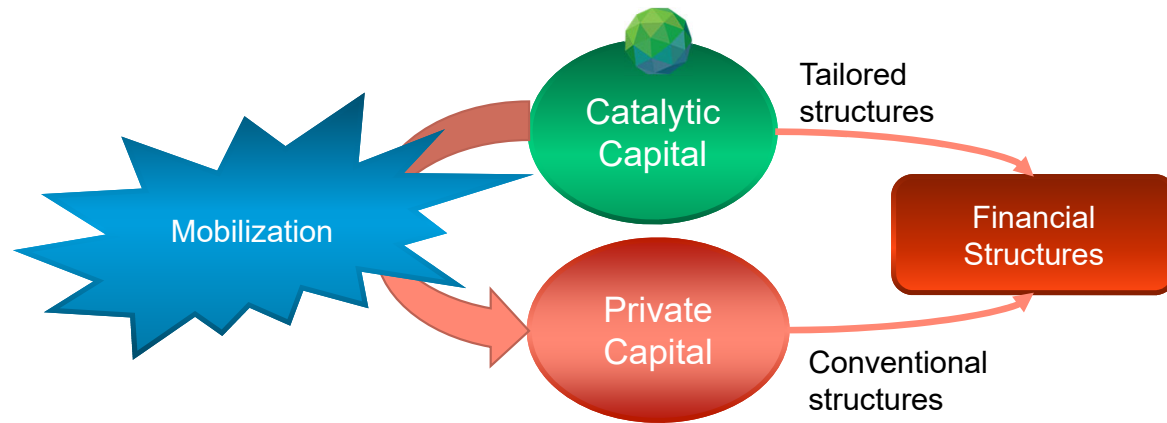
# Addressing impediments to financing

- Lack of risk and vulnerability data for project developers.
- Limited clarity on capital investment gaps.
- Regulatory and policy ambiguities – macroeconomic & sectoral.
- Business models in nascency, inadequate track record.
- Low perceived or actual returns on investment.
- Limited scope & commerciability of new climate technologies.

*These challenges manifest themselves as elevated risk perceptions that translate into a high cost of capital!*

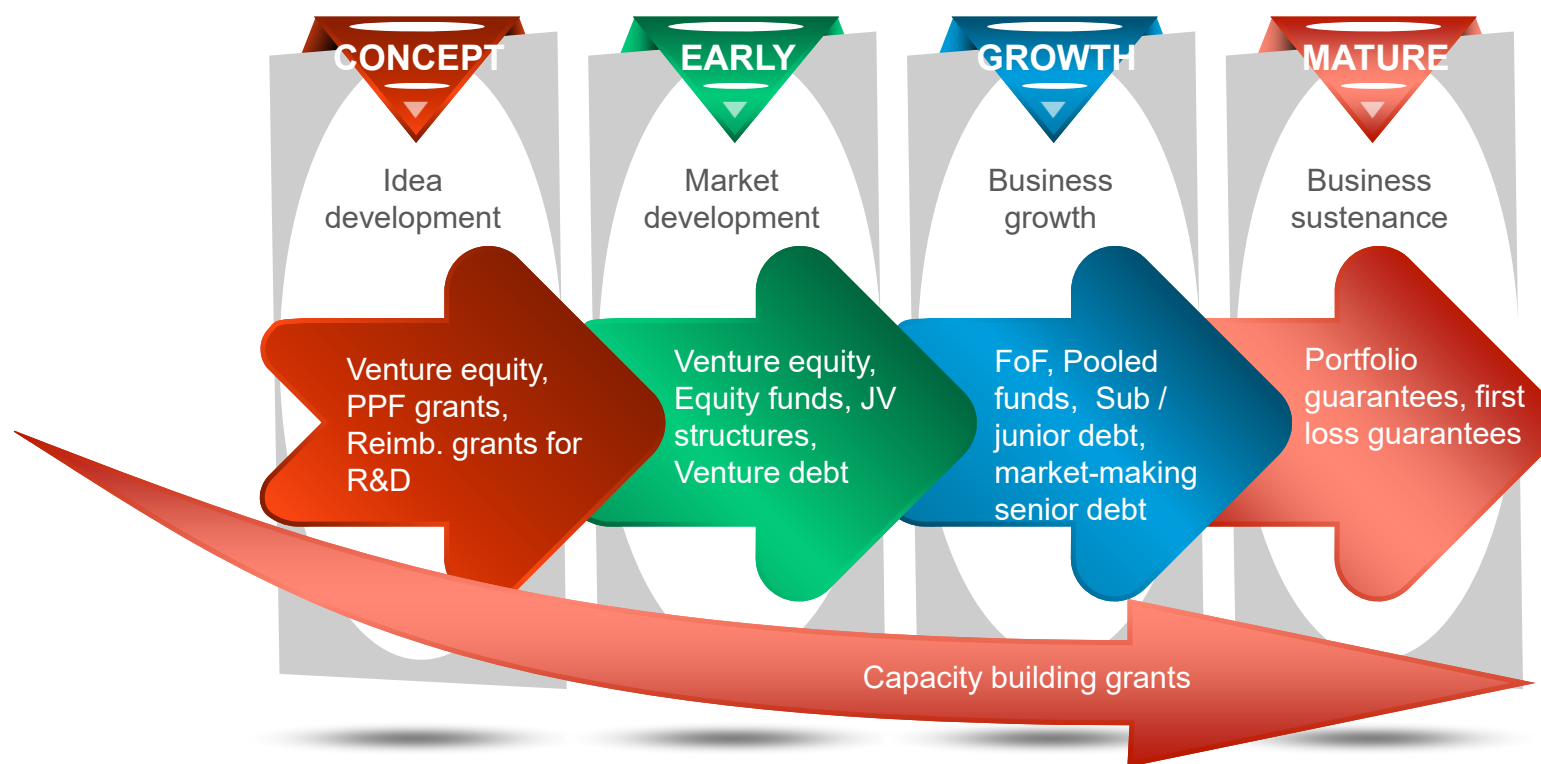


# Role of the GCF



*Carefully calibrating three catalytic levers of concessionality – pricing, tenor, structural subordination – can incentivize private capital flows!*

# Deploying capital for impact





# Equity structures



## VENTURE

Early stage of idea development → **high of failure** → impact

**Solution:** Good through incubators, accelerators → minimum viable (MVP) → derisking



## POOLED FUNDS

**Growth capital**, suitable for larger ideas that have proven venture / development

**Track record** → growth & macroeconomic ability to raise

**Solution:** Partner credible fund manager, due-diligence capacity, balance between risk & return



## FoF

Appropriate for supporting smaller scale climate impact funds, reduces **transaction costs** for GCF

**Solution:** Fund of Fund economics will need to be carefully negotiated – economies of scale



## JV

**Strong anchor** supporting a new climate investment idea

Idea to address a significant **market failure** and demonstrate impact at scale but challenges on direct liability

**Solution:** Structuring and economics key. Safeguards against moral hazard



# Debt structures



## VENTURE

Post-seed venture idea with track record → capital for growth over profitability

Trusted venture investor → Risk mitigation

Future venture infusion to repay debt but impact attrition

**Solution:** Collateralization and careful target-based covenants → pathway to profitability



## MEZZANINE

Early-stage concessional debt capital → limits cost of capital to ease pressure

Covenanted convertibility to offer upside

**Solution:** Conversion terms → Valuation on conversion? Emergence of moral hazard issues, hands on management necessary



## SUBORDINATED

Suited for growth phase, to derisk debt raise from markets

Suitable in situations of low liquidity → mobilizing effect – alternative to derisking guarantees

**Solution:** Limited impact based concessionality structures



## SENIOR

Suited for LDCs and SIDS where financial sector is nascent → derisking will not help

Minimal mobilization effects

**Solution:** Carefully target sectors where commercial capital isn't available



# Guarantee structures



## COLLATERALIZED

Cash parked with AE → fully collateralized to issue guarantees. Inefficient 1:1 leverage at capital

Missed opportunity for higher impact

**Solution:** Mobilize through credit enhancement for capital markets / green bonds → higher mobilization



## CLIMATE GUARANTEE VEHICLE

GCF to seed / invest in a climate guarantee vehicle

On the basis of an investment grade rating, vehicle issues guarantees → higher efficiency of GCF capital

**Solution:** Structuring and economics key. Safeguards against moral hazard



## SYNTHETIC PORTFOLIO

GCF's performing senior loan portfolio to be notionally segregated

Obtain investment grade rating of the portfolio → GCF could directly provide guarantees through AEs

**Solution:** Careful identification of portfolio critical for investment grade rating





**Thank you**