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GCF RISK APPETITE AND CONCESSIONAL FINANCING

September 16, 2025

GCF Regional Dialogue with Latin America

Risk Appetite: Programming and Projects



- To achieve its strategic objectives, GCF accepts **considerable risk tolerance for credit and equity risks** in its projects in return for high impact potential. Each proposal is assessed individually to ensure alignment with GCF's risk appetite.
- GCF seeks to maintain **a stable and manageable institutional risk profile** while building **a diversified and well-balanced** portfolio of projects.
- GCF applies **proactive risk management** – covering risk identification, assessment, mitigation, monitoring, reporting and minimisation - either directly or through its accredited partners implementing the GCF projects.

GCF: Concessional Finance Mechanism



- Concessional financing is a **targeted and disciplined tool** to overcome risks and incentive barriers that constrain private sector investment. It must be deployed in a **catalytic, transparent, and accountable manner**.
- GCF provides **concessional financing through grant, concessional loans, guarantees, and equity** with the goal to accelerate the development objectives and enable high-impact transformational projects, **that would not proceed without such specialized financial support**.
- **Concessionality** is achieved through mechanisms such as interest rate buy-downs, longer tenors and grace periods, risk mitigation (e.g., first-loss guarantee and equity, subordination), as well as grants and technical assistance.

Concessional Finance: Key Principles



- **Crowding-in, Minimum Concessionality:** Concessional terms should not displace investments that would occur anyway, including from private sector. Financing structures **must catalyse market development, mobilise private capital, and minimise reliance** on concessional financing.
- **Rationale for Use:** Concessional finance should efficiently address **financing gaps** and **market failures** while maximizing development impact. Where relevant, it should include mechanisms to **pass benefits to recipients in need**.
- **Commercial Sustainability:** Financing must support **commercial viability** and the **long-term financial sustainability** of projects, while fostering demonstration effects for replication and scaling.
- **High standards:** Projects must uphold **strong standards in governance, environmental impact, social inclusion, transparency, integrity, and disclosure**.

Concessional Finance: Decision Framework



Strategic Alignment Check:

- Alignment with GCF mandate and country priorities
- Is concessionality needed to achieve transformational impact

Catalytic Effect Check:

- Does concessionality mobilise private and other capital
- Will the project reduce future financing barriers

Additionality Check:

- Would the project proceed without concessional finance
- What development objective is addressed – impact created beyond what commercial terms could achieve

Risk-Return Check:

- Are the risks appropriately shared between GCF and partners
- Does the concessional structure deliver a sustainable risk-return profile for other investors

Minimum Concessional Check:

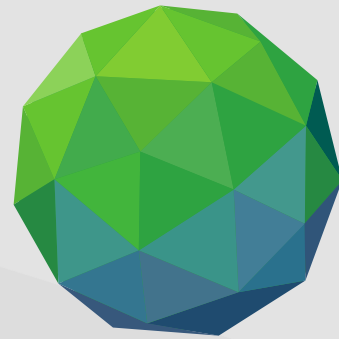
- Lowest level of concessionality necessary
- Avoid crowding out private sector investment

Commercial Sustainability Check:

- Will the project be commercially viable in the long run
- Does it support pathways towards market-based financing

Governance and Standards Check:

- Does the project comply with GCF's standards on governance, environmental and social safeguards, integrity
- Are monitoring and reporting mechanisms in place



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