Review and update of the GCF Strategic Plan

Thirty-third meeting of the Board – Informal Day
17 July 2022

AGENDA

GREEN CLIMATE FUND

09.10 – 10.30 (70 mins)	**PART I: REVIEWING THE GCF APPROACH TO STRATEGY** How GCF strategic planning has evolved since the Fund's inception
10.30 – 12.30 (120 mins)	**PART II: AMBITIONS FOR PROGRAMMING IN GCF-2** Opportunities for GCF to respond to evolving climate change science, finance & market trends, developing country needs & experience
13.30 – 15.00 (90 mins)	**PART III: OPERATIONALIZING THE STRATEGIC VISION** Tackling tensions in aligning strategy and operations

PART I:
REVIEWING THE GCF APPROACH TO STRATEGY

USP IMPLEMENTATION: OUTCOMES TO DATE

SIGNIFICANT PROGRESS SINCE USP ADOPTION

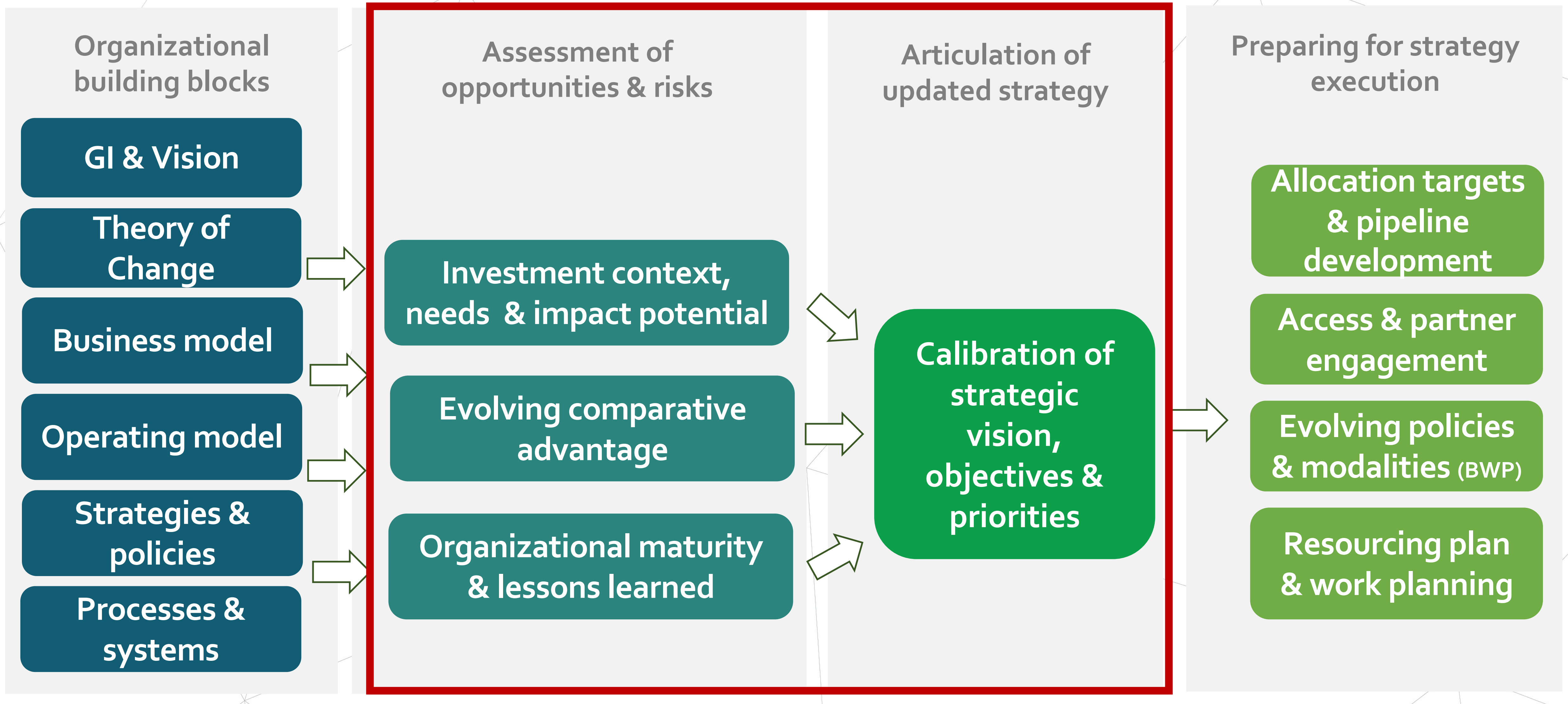
- Programming of USD 10B with full commitment authority execution
- Aligning with GCF-1 goals, boost in PSF adaptation & DAE programming
- 80% portfolio in implementation (↑ 50%+ from 2020)
- Strengthening results management through IRMF & results/data systems
- Speeding up delivery through process codification & digitalization
- Strengthening organizational capacity & talent

ON-GOING ACTION AREAS FOR 2022 & 2023

- Portfolio balance & trade-offs between programming goals
- Translating readiness, country programming, NAP investments into pipeline
- Managing a growing AE portfolio and reaccreditation pipeline
- Consolidating risk management systems
- Shift from process/ policy codification to consistency of implementation
- Preparing for the GCF second replenishment

Reports presented at B.28 and B.31; Upcoming at B.35

REVIEW OF APPROACH TO STRATEGIC PLANNING



IRM TO TODAY: THE EVOLUTION OF GCF

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- Co-financier business model
- First-come 2DD operating model
- Emergent policy frameworks & nascent business processes

- Initial Strategic Plan (B.12, 2016)

- Allocation targets (B.06)
- Accreditation framework (B.07)
- Annual Board workplan (2017+)
- Annual work planning (2017+)
- Annual budgeting & ad hoc capability assessment (2017)
- Initial results/performance measurement framework (B.07+) & risk management framework

IRM (2015-2019) – "Creating the building blocks"

- Co-investor business model
- Partially prioritized 2DD o/m: high speed delivery or patient architect?
- Matured policy frameworks & codified/digitized processes

- USP (B.27, end 2020)

- Updated allocation targets (B.27)
- UAF & PSAA (B.31)
- 4-year BWP & policy cycle (B.24)
- USP-aligned work planning (2021)
- Annual budgeting & scheduled capability assessment (B.30)
- IRMF & RTT (B.29) & Revised risk management framework

GCF-1 (2020-2023) – "Aligning the building blocks"

- Partnership hub business model? (shift to convenor focused on catalytic impact and systems transitions)
- Prioritized 2DD o/m: high speed delivery or patient architect?

- USP-2 (B.36, 2023), sets vision, strategic objectives & high level priorities/focus areas, which is...

- Aligned with decisions on allocations, partnerships, Board workplan & resourcing
- Results tracked via IRMF
- Regional presence?

GCF-2 (2024-2027) – "Integrated strategic planning"

MODEL STRUCTURE FOR STRATEGIC PLANNING

USP: Strategic vision
Strategic Objectives?
Strategic Priorities

VISION

Governing
Instrument

OBJECTIVES

STRATEGY

'Thematic'
strategies

APPROACH

Work plans

TACTICS

WHY does GCF exist?

WHAT results does GCF aim to deliver?

HOW: Long-term plan to achieve objectives

HOW: Methodology for executing the plan

HOW: Focused action plans

MAPPING GCF PROGRAMMING

GOVERNING INSTRUMENT

STRATEGIC PLAN

RESULTS FRAMEWORK

Sets the desired "destination" & direction of travel

Readiness strategy

DAE action plan

Private Sector Strategy

Adaptation approach

Accreditation strategy

DRAFT Sector Guides

Maps a "pathway" for getting there

Readiness workplan & budget

Annual work plans & budgets

Engagement plans

Determines specific actions to be taken

GCF HAS LEARNED LESSONS FROM EVALUATIONS – FORWARD-LOOKING PERFORMANCE REVIEW

- Medium progress areas: balance between Adaptation and Mitigation; country needs / country ownership; geographic balance; use of instruments
- Low progress: direct access; promotion of paradigm shift: no clear definition and only based on likelihood as reporting is low; private sector participation; criteria on sustainable development and impact.
- Initial Strategic Plan was more aspirational than operational.
- 25 different mandates in GCF strategic documents – with trade offs and tensions
- Trade-offs: country ownership, direct access, private sector
- FPR found having to respond at once to all principles and priorities creates tensions and perception of insufficient predictable and transparent.
- Ensuring such vision in operational maturity of the GCF, establish niche with innovation and impact.

GCF HAS LEARNED LESSONS FROM EVALUATIONS – SPR Evaluation Synthesis takeaways

- **Access:** process is protracted and inefficient. Direct access remains limited, with funded projects still skew towards IAEs, lack of capacity, effectiveness of RPSP and PPF not well known.
- **Programming:** country programmes and entity work progammes not adequately delivered on their aims and not aligned. PPF used but limited. SAP does not streamline project development process or reach different audience. RFPs insufficiently used in generating FPs. Nearly balanced Mitigation/Adaptation but still struggle to reach most vulnerable countries.
- **Private Sector:** PSF has limited AEs, slow approval and low DAE engagement. Programmatic approach could play valuable role.
- **Progress towards achieving impact:** portfolio still nascent, although moving under implementation. Reporting is limited and reliant on self-reporting by AEs. Paradigm shift focus on project potential rather than assessing projects' actual contribution to transformational change.
- **Catalyzing climate finance:** progress towards mobilizing finance is not yet fully known.
- USP does not have all the attributes and elements of a strategic plan. IEU projections indicate that in GCF-1:
  - Likely to exceed its IRM baseline on funding channeled through DAEs.
  - Not likely to meet: mitigation targets (The GCF is likely to meet less than 0.8-0.9 % of needs stated in NDCs); Private Sector Facility target; speed and predictability targets, except in area of legal arrangements.

PART I:
ICEBREAKER DISCUSSION

PART II:
AMBITIONS FOR PROGRAMMING IN GCF-2:
Assessing opportunities & GCF comparative advantage

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PART II: DISCUSSION STARTERS:

Does the GCF's long-term strategic vision – of promoting paradigm shift and supporting developing countries in implementation of the UNFCCC and PA – remain relevant and ambitious as a vision for the Fund?

Based on evolving climate science, global trends, developing country needs and experience, how should GCF evolve its programming directions through the second replenishment period? What should GCF try to do more of (or less of) to support the mitigation & adaptation priorities of developing countries?

What are GCF's unique comparative advantages in the climate finance landscape? What are the opportunities for complementarity, coherence and partnerships?

THE GLOBAL INVESTMENT LANDCAPE HAS CHANGED SINCE GCF-1

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Updated NDC ambition cycle & net zero targets: 143 parties submitted 116 new/updated NDCs; 24 developing countries have submitted LTS and 33 submitted NAPs; UNFCCC global stocktake

Latest science (IPCC AR6) emphasizes the narrowing window of opportunity for both mitigation and adaptation action, requiring a shift from incremental to systemic responses

Rapidly changing cost curves for new technologies, with renewable energy now cheaper than almost any other fossil fuel solution, but access to innovation & finance unevenly spread

Climate finance increasing, but at a slower pace, with the majority flowing to proven technologies, mature economies and through conventional instruments

Increasingly unstable macroeconomic conditions, fragile post-COVID recovery with energy crisis exacerbating inflationary pressures, tightening monetary policy and access to credit

Climate action is even more urgent and systemic responses are needed, but affordable finance is likely to become more scarce

UNDERSTANDING OF DEVELOPING COUNTRY NEEDS HAS EVOLVED

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Total developing country climate investment needs remain in the trillions, capacity support is needed to translate ambitions into bankable investments

NDC needs analysis has quantified financial needs of 78 developing countries at USD 5.8-5.9 trillion (USD 700B annually) up to 2030, with 60% of needs still to be costed; **More adaptation needs have been identified**, but are far less quantified compared to mitigation

Qualitative needs analysis shows concentration of mitigation needs for RE, LULUCF and transport; and adaptation needs for agriculture, water, EWS, coastal zone management & health

Assessment of readiness demand shows ongoing capacity needs across all readiness objectives to support progress from planning to implementation, with **opportunities to better focus support**

Potential GCF-2 pipeline already stands at over USD 40 billion, including project ideas from country programmes, entity work programmes, concept notes and funding proposals

Developing countries need strengthened ability to attract diverse sources of finance to climate investments, in order to meet the scale of the need

ADDITIONAL GUIDANCE HAS BEEN GIVEN BY THE COP/CMA

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Serve the UNFCC and Paris Agreement

- Support formulation and implementation of NDCs and NAPs
- Mobilize resources and facilitate access to finance

On-going guidance for GCF operations

- Maintain balance in allocation of resources between adaptation and mitigation
- Continue to provide support for activities related to averting, minimizing, addressing loss & damage
- Enhance coherence and complementarity with other climate finance delivery channels
- Finalize work related financing for forests and alternative approaches
- Prioritize closure of policy gaps
- Advance collaboration with the UNFCCC Technology Mechanism
- Ensure the Fund enjoys privileges and immunities as necessary

Specific new guidance

- Explore diversification of financial instruments for addressing climate risk, including parametric insurance
- Improve access for local non-governmental and private sector organizations
- Clarify the role of data from IPCC and traditional, local and indigenous knowledge and practices

THERE IS OPPORTUNITY FOR GCF TO EVOLVE ITS VISION

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Support developing countries in the implementation of the PA and UNFCCC

THE OPPORTUNITY: Expand on GCF's approach for advancing implementation of NDCs, NAPs and LTS in the context of the UNFCCC/PA ambition cycle

- Better articulate the steps for moving from NDC/NAP/LTS to bankable investment
- Focus GCF support on key gaps, e.g. strengthening use of climate information/risk assessments in investment planning/decision-making to accelerate systemic responses
- Deploy 'financial engineering' approach to optimize financing pathways

Promote paradigm shift towards LECR development pathways

THE OPPORTUNITY: Orient GCF programming approach toward unlocking barriers to systems transitions and paradigm shift pathways

- Four-pronged theory of change for promoting paradigm shift operationalized through thematic programming strategies
- Elaborate GCF's risk appetite and evolving comparative advantage, to identify where GCF can add the most value relative to others
- Leverage position at hub of a global partnership network for co-investment approaches

SHIFTING THE MODEL FOR NDC/NAP/LTS IMPLEMENTATION

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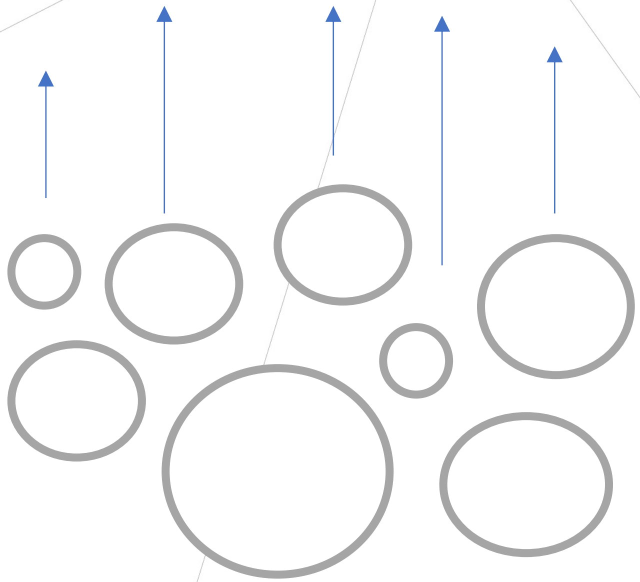
Status quo / “incremental” approach

NDC / NAP / LTS



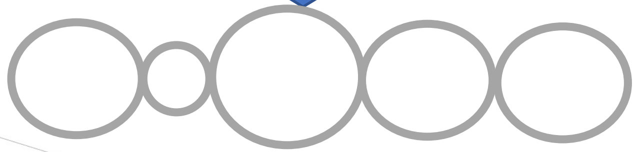
AEs/countries identify discrete project ideas, usually within one sector/area, fitted into the NDC narrative. Climate risk assessments, feasibility studies and project structuring done on a case-by-case basis, with frequent review iterations required.

Desired / “systemic” approach

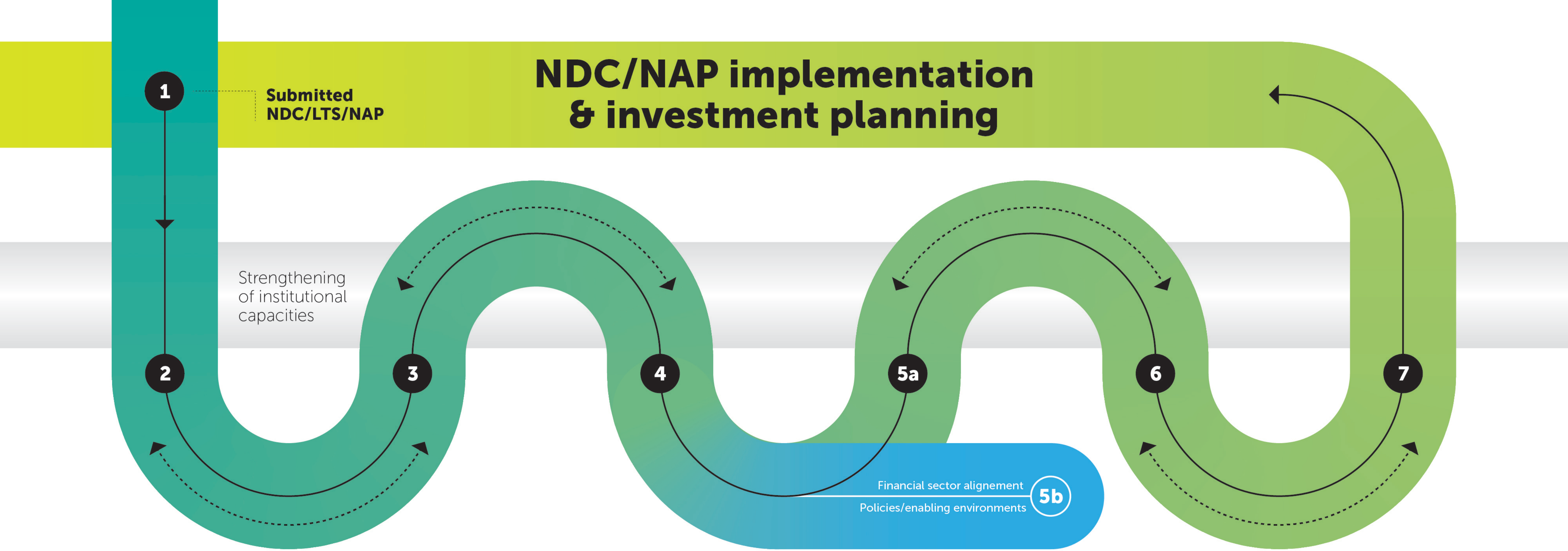
NDC / NAP / LTS

Systemic climate analysis / feasibility assmt – to ID most critical responses

Analysis of financial sources & structuring to optimize bankable projects & use of GCF resources



NDCs guide priority intervention areas. Climate assessments and feasibility studies done at a systems level, looking at trade-offs/synergies across sectors. Leads to analysis of financial sources & structuring of an optimized programme of investments



OPPORTUNITIES FOR GCF

3 Evidence-based option identification

- Strengthen climate information & leverage first generation readiness/ NAP outcomes (climate risk assmts etc) to ID systemic interventions

4 Investment Planning

- Support 'financial engineering' approach to optimize financing to barriers & comp. adv. of financiers, and structure programmes of investments

6,7 FPs & implementation

- FPs & co-investment approaches
- Knowledge for NDC/ NAP updates
- Climate capacity (XC)

THEORY OF CHANGE FOR PROMOTING PARADIGM SHIFT

GOAL	The GCF promotes paradigm-shift in developing countries towards low-emission climate resilient (LEDR) development pathways, in line with the goals of the UNFCCC and Paris Agreement	IRMF *Paradigm-shift impact*
THEORY OF CHANGE STATEMENT	IF GCF helps remove technical, financial and entrepreneurial barriers to climate investment THEN developing countries will shift towards LECR pathways by 2030 BECAUSE finance will be available at scale for an increasing flow of bankable climate initiatives in developing countries across mitigation and adaptation result areas	Applicable results measurement
OUTCOMES	1: Transformational planning and programming: Strengthened developing country capacity to establish enabling environments for climate investment: promoting integrated climate and sustainable development strategies, plans, policies to inform investment planning, incubate new climate solutions and crowd-in the private sector. 2: Catalyzing climate innovation: Increased number and deployment of innovative & inclusive high-potential business models, financial instruments, technologies or practices successfully piloted and high-quality innovation ecosystems established and supported 3: Mobilization of transformational investment at scale: De-risking and establishing a commercial track record to scale up pioneer climate investment, crowd-in private finance and increase local country capacity to attract private capital for climate action 4: Aligning finance with sustainable development: Strengthened capacity of domestic financial systems to mainstream climate risks into financial decision-making, originate and appraise climate projects, develop new financial products & services for climate outcomes.	Readiness Results Framework All IRMF results levels • *Mitigation & adaptation impact* • *Enabling environment impact* • *Paradigm-shift impact*

GCF-2 PROGRAMMING OPPORTUNITIES: SYSTEMS TRANSITIONS

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- **ENERGY:** Making a systemic switch from fossil fuels to low-carbon energy sources, while ensuring energy security and improving energy use efficiency and energy infrastructure resilience

- **LAND, OCEANS AND ECOSYSTEMS:** Preserving and restoring nature and evolving food systems and water use to secure livelihoods and resilience

- **INFRASTRUCTURE, URBAN, TRANSPORT:** Switching from grey to green infrastructure, re-configuring business incentives in water use systems, massively increasing electrification, improving efficiency and reducing waste through sustainable urban planning and shift toward circular economies

- **INDUSTRY:** Shifting value chains and switching to new, more efficient production processes and materials

- **SOCIETAL**: Building a foundation of climate services, risk sharing systems, social safety nets and diversifying livelihoods to ensure health, wellbeing and sustained and inclusive development. Enabling financial systems transitions

COMPARATIVE ADVANTAGES CAN INFORM *WHERE/HOW* GCF INTERVENES

- **Climate expertise :** Largest global fund specialized in climate change – can provide technical know-how to strengthen climate investment capacities, methodologies and use of climate information/assessments

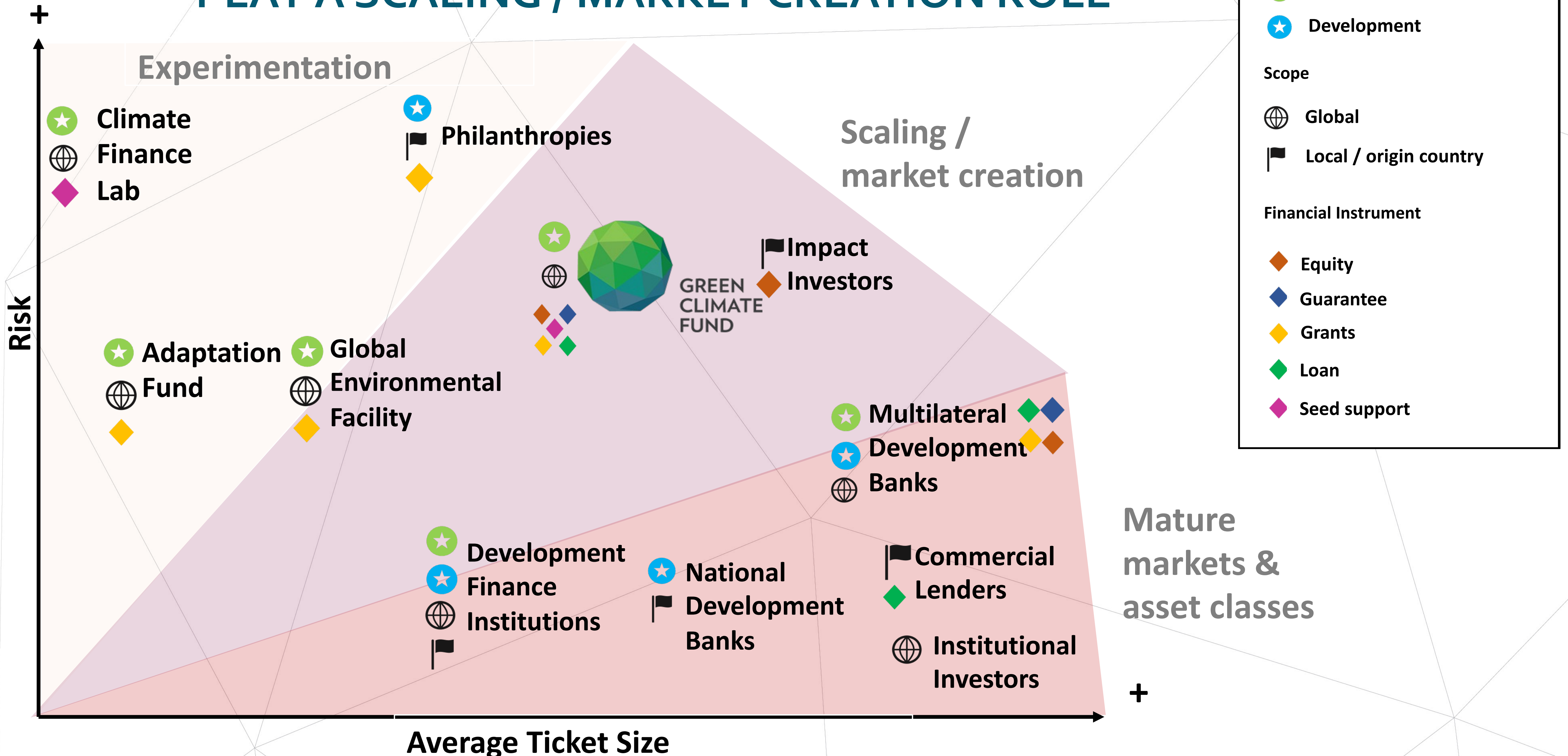
- **Country-driven:** Offers sustained support through largest climate capacity program for developing countries to institutionalise ability to own/drive climate investments, and evolve wider climate-compatible enabling environments and domestic financial systems

- **Risk-taking, patient capital:** Higher risk appetite than conventional financiers, designed to catalyze climate action through investing in early-stage project development, innovation and unconventional asset classes. Flexible financial instruments and ability to use blended finance to de-risk conventional finance.

- **Partnership institution and a knowledge hub:** Sits at hub within the climate finance landscape, with ability to forge novel investment partnerships and co-investment approaches between public, private, local and international actors

- **Balanced investment, focus on vulnerable**: Opportunity to apply GCF's risk-taking market creation approach to advance financing for adaptation and particularly vulnerable countries

GCF'S SIZE AND RISK APPETITE POSITION IT TO PLAY A SCALING / MARKET CREATION ROLE



GCF-2 PROGRAMMING: “TARGET FOR PRACTICE”

PROPOSITION FOR DISCUSSION: GCF should do MORE:

- Support for developing countries and their partners to access and use climate information, projections and risk/ vulnerability assessments to inform investment planning, FP design and decision-making
- Support to institutionalize climate investment capacities in developing countries, in particular through direct access entities and strengthening climate capabilities of national financial systems
- Low-risk, replicable interventions through SAP that target common/urgent areas of developing country needs (climate information/EWS, agriculture, energy access), NB for LDCs/SIDS/Africa
- Risk-taking to support innovation in technologies, business models, instruments and practices in developing countries, even where there is risk of failure/climate impact may not be ‘guaranteed’
- De-risking of private sector investment in developing countries, particularly in areas where private sector investment does not conventionally flow (adaptation, new asset classes, new markets etc)

GCF-2 PROGRAMMING: "TARGET FOR PRACTICE"

PROPOSITION FOR DISCUSSION: GCF should do LESS OF OR LEAVE TO OTHERS:

- Readiness support for areas covered by other established capacity-building programmes (e.g. NDC updates, socio-economic analysis, action gap analysis, MRV etc)
- Small-scale seed funding for rapid experimentation with climate innovation (eg AF Innovation Facility, Climate Finance Lab). GCF can instead focus on acceleration/scaling of promising innovations that emerge from such initiatives
- Small grants for direct implementation by NGOs, CSOs, academic institutions, private sector (eg AF, GEF small grants). GCF's business model & policies are built on a partnerships approach adapted for scale.
- 'High cost-efficiency / high-leverage' interventions, which can be more effectively delivered by carbon markets or less concessional financiers
- Providing financing for tranches that could be financed by other concessional multilateral or development finance institutions

PART III:
OPERATIONALIZING THE STRATEGIC VISION
Tackling tensions in aligning strategy & operations

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PART III: DISCUSSION STARTERS:

Are the strategic objectives in the USP appropriately aligned with the Fund's vision and programming ambitions, and each other? How could they be updated to be more relevant, actionable and results/impact-focused?

Do the strategic priorities set out sufficiently clearly and coherently how the Fund will implement its vision and strategic objectives? How could they be evolved to provide clearer guidance on delivery?

What enhancements or adjustments to the GCF's operating modalities, policies or institutional capacities might be needed to optimize the Fund's operating model for successful strategy execution and improved access?

THE USP COULD BE UPDATED TO REFLECT THE GCF'S EVOLVING VISION, COMPARATIVES ADVANTAGES AND MATURITY

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VISION	Vision may be recalibrated to changed global environment, evolving comparative advantages & organizational maturity
STRATEGIC OBJECTIVES	Strategic objectives can be updated to focus more on ambition for results, to qualitatively orient programming efforts
STRATEGIC PRIORITIES OPERATIONAL AND INSTITUTIONAL PRIORITIES	Strategic and operational priorities can be updated to identify areas where focus will be needed over the next programming period/policy cycle to deliver the vision & strategic objectives

THERE ARE STRATEGIC TENSIONS EMBEDDED IN THE CURRENT GCF-1 PROGRAMMING TARGETS

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- **Should GCF be focused on paradigm-shift/risk-taking or impact maximization?** The Fund currently has an average portfolio impact target, but this may not properly incentivize programming aimed at paradigm shift or full exercise of risk-appetite

- **Should GCF aim to be catalytic or leverage-maximizing?** The PSF share (in GE) and private finance mobilization targets tend to incentivize higher concessionality and high leverage within the project, which may not create the right impetus for catalytic de-risking for innovation & new market creation.

- **Should GCF be guided by ambitions on results, or ambitions on allocations?** Other than the average portfolio impact target, the current GCF strategic objectives are either directional statements or allocative goals, which misses the opportunity to orient programming to qualitative climate results

- **Should the GCF focus on volumes or stimulating new programming?** Meeting the combined targets on adaptation, DAEs and private sector requires a pipeline that does not yet exist: should GCF hold funding to meet these targets even if it means slowing delivery? This is also relevant to the DAE target, which is currently framed as a volume target rather than a goal on expanding DAE engagement.

THERE ARE ALSO STRATEGIC TENSIONS IMPACTING THE FUND'S OPERATING MODEL

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- **Should GCF operate as a high speed/high volume funder or patient architecture builder?** Per the draft Accreditation Strategy, this would influence the choice of whether GCF seeks to work with AEs/ partners who are ready to program at scale; provide patient support for building new partner capacities to strengthen the climate finance architecture; or a hybrid strategy based on segmentation.

- **Should origination of GCF projects be supply-driven or demand-driven?** To what extent does the GCF want to continue relying on an AE-driven pipeline, orient programming to country-driven investment planning, or itself guide programming directions based on an assessment of high need/high impact areas and use of programming initiatives including RfPs? What does this imply for the future of EWPs and CPs?

- **Should GCF rely on partner capabilities per its second level business model, or take more on itself to support implementation, including moving toward more direct forms of implementation?** Does GCF continue to be a lean organization that relies on AEs/DPs (including through PSAA/EDA) for delivery, or does it expand its institutional footprint to prop up implementation for partners who lack capacity, and initiate modalities to engage directly with NGOs, local private sector and other actors ?

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ANNEX:
BACKGROUND ANALYSIS
(Slides pre-circulated to the Board)

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THE GLOBAL INVESTMENT LANDCAPE HAS CHANGED SINCE GCF-1

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Updated NDC ambition cycle & net zero targets: 143 parties submitted 116 new/updated NDCs; 24 developing countries have submitted LTS and 33 submitted NAPs; UNFCCC global stocktake

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Increasingly unstable macroeconomic conditions, fragile post-COVID recovery with energy crisis exacerbating inflationary pressures, tightening monetary policy and access to credit

Climate action is even more urgent and systemic responses are needed, but affordable finance is becoming more scarce

Global Investment Context: Climate science

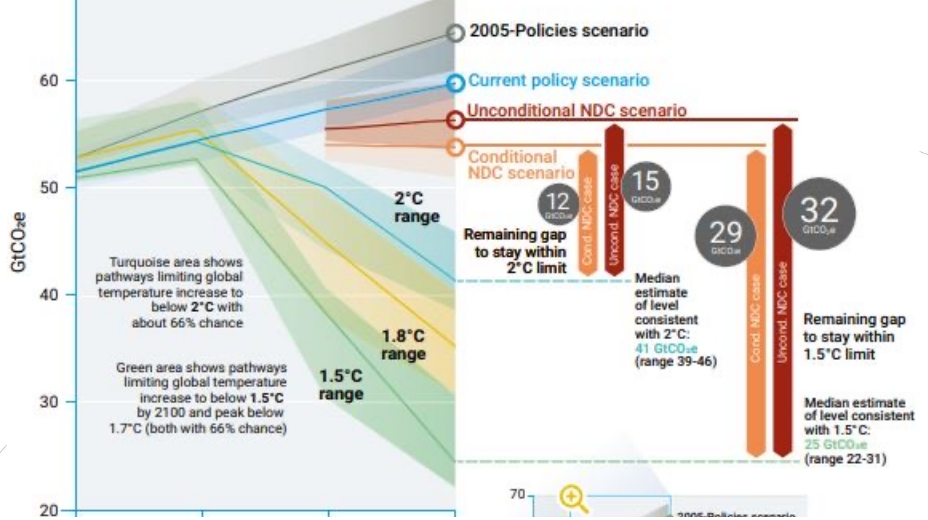
➢ **Climate change is happening fast: the window of opportunity is shrinking, impacts are being felt now**

- All climate scenarios indicate a more than a 50% chance that the lower goal of the Paris agreement (1.5°C) will be exceeded by 2040
- Evidence of extreme events has strengthened since previous IPCC reports and projections show all regions will experience multiple increases in climatic impact-drivers with future warming

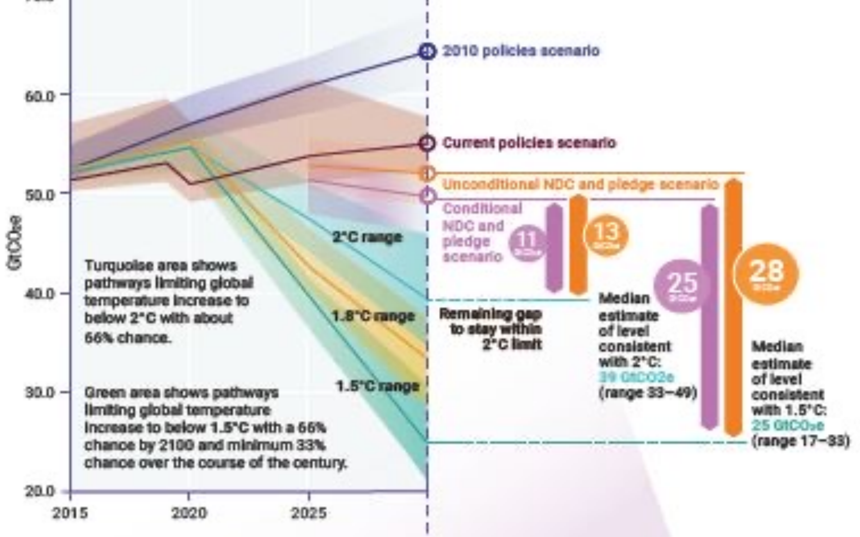
➢ **Modest but insufficient progress is being made toward closing the emissions gap, and this requires investment in the trillions**

- Gap 7.5% lower vs. previous NDCs, **if fully implemented** (30% needed for 2° and 50% for 1.5° by 2030)
- Meeting PA goals estimated 1-1.5% global GDP; $48 trillion over 20 year

Emissions gap 2019



Emissions gap 2021



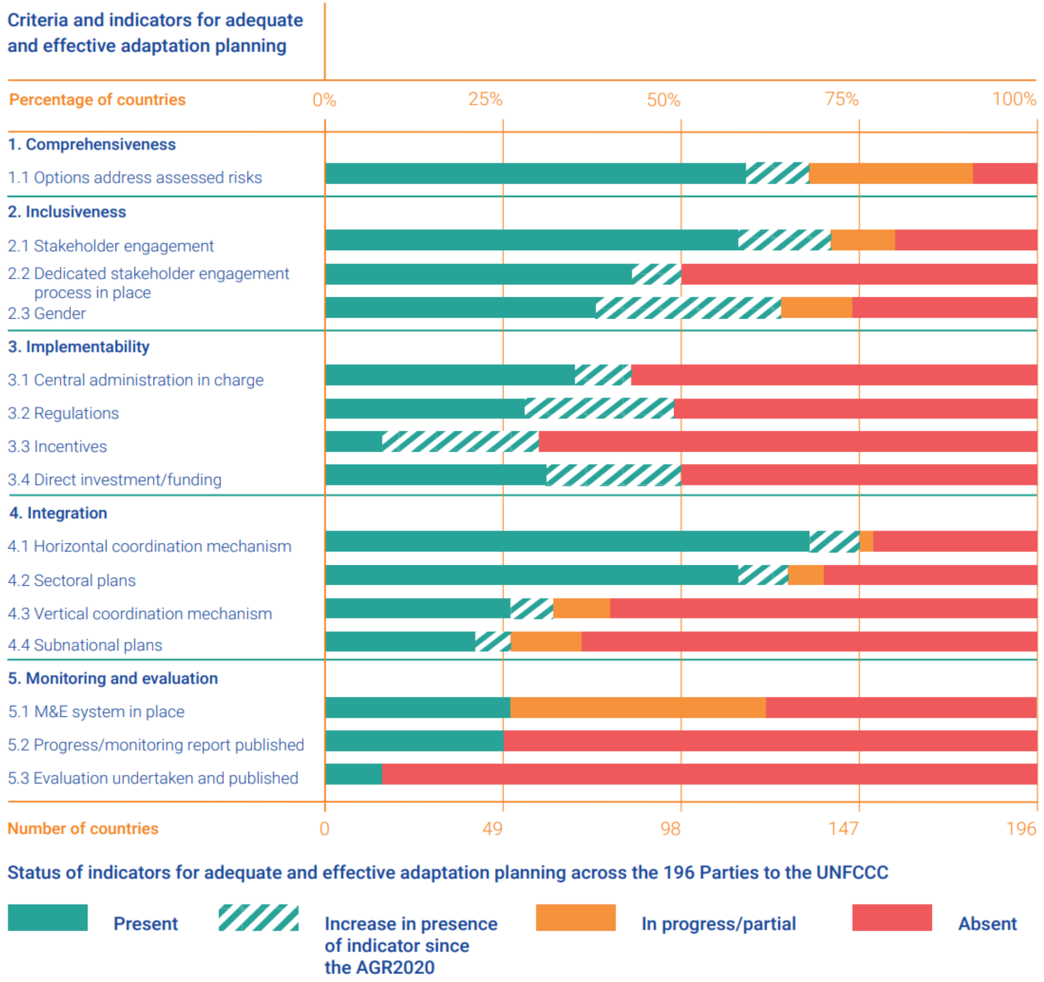
Global Investment Context: Climate science

- **Estimates of adaptation needs have increased; with a widening adaptation finance gap**
  - US$ 140–300 billion by 2030 and US$ 280–500 billion by 2050 and increasing as costing efforts are more comprehensive
  - IPCC recognizes soft and hard limits to adaptation: soft limits can be overcome, but losses/damages will become increasingly hard to avoid with increasing global warming (AR6 SPM)

✓ **The window of opportunity is narrowing, and an effective response requires a shift from piecemeal interventions and an acceleration of five systems transitions** (energy; ecosystems; infrastructure; industry; society) which would allow adaptation for high levels of human wellbeing

- Long-term integrated approaches that consider trade-offs and co-benefits across sectors

Figure ES.2 Assessing the adequacy and effectiveness of adaptation planning worldwide



Global Investment Context: Climate innovation trends

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Noticeable expansion of policies, technologies, business models, market trajectories and innovations supporting climate action

Technology	• Renewable energy sources are today cheaper than almost any other fossil fuel solution; • Global utility-scale solar PV for newly commissioned projects fell by 85 per cent between 2010 and 2020 • Onshore wind global costs dropped 56 per cent • The global electric car stock hit the 10 million mark in 2020, a 43% increase over 2019
Financial	• A record USD 481 billion in green bonds was issued in 2021 on track to surpass the milestone of USD 1 trillion in cumulative issuance since the first green bond in 2007
Policies & regulations	• A doubling of number of green finance policy and regulatory measures; • Membership of the Network of Central Banks and Supervisors for Greening the Financial System quadrupled • The value of assets under management of corporates with climate targets doubled to reach 52 trillion. • Adoption of net zero emission targets a major policy innovation. More than 140 countries (~90 % of global emissions) have put forward net zero targets by 2050 => if implemented fully, could result in global warming by 2100 as low as 1.8 °C.

But real-economy impacts remain to be observed and impacts are even less visible in the developing world

Global Investment Context: Climate finance landscape

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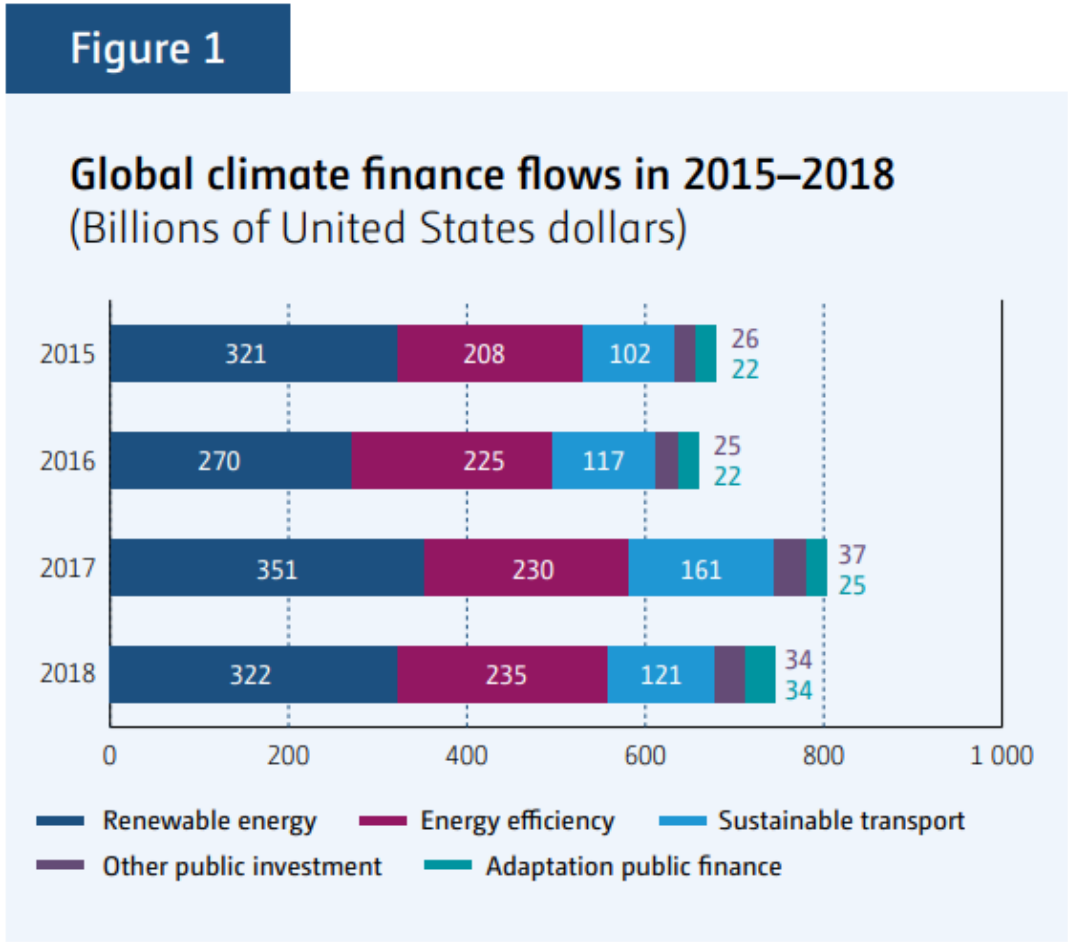
- **Global climate finance is trending upward, but at a slowing pace over recent years**
  - Decline due in part to decreasing renewables costs
  - Vast majority of climate finance still flowing to mitigation, and to advanced economies
  - Falls far short of investment needs, and a fraction of overall global finance flows
  - Adaptation continues to be financed mostly by public funds

- **GCF drove a significant increase in financing from multilateral climate funds, providing over half such finance in 2019/20**
  - But remains a sliver of financing overall

Figure 1



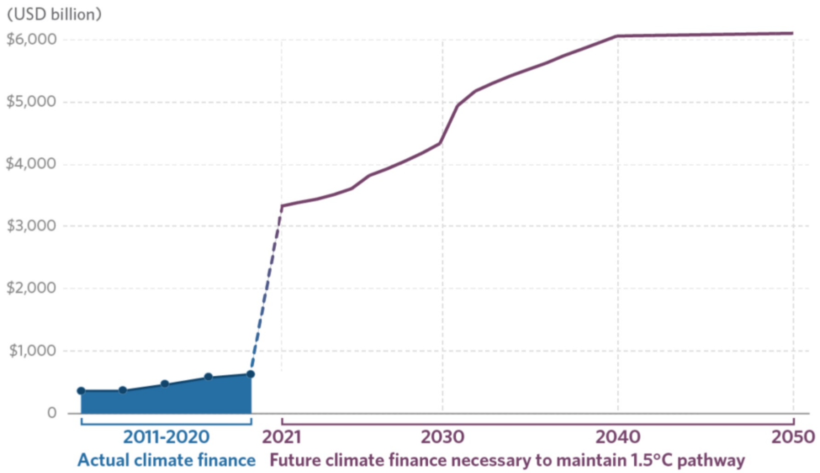
Global Investment Context: Climate finance landscape

- **Developed countries mobilized 79.6B for developing countries in 2019 , falling short of the 100B annual goal (OECD)**
  - COP26 committed to double adaptation finance
  - UNFCCC working to define a new climate finance goal
- **The greatest potential for increasing climate finance flows lies with the private sector, but this is difficult to tap for many developing countries**
  - Domestic capital is a critical source of climate finance where there are mature capital markets
  - Most concessional climate finance is directed to lower- and lower-middle income countries
  - Investment in LDCs and fragile/conflicts countries is very limited

✓ **Making the transition requires large scale shifts in financial flows, and the catalytic and inclusive use of public finance to unlock these**

✓ **Scarce public concessional funding should be used to strengthen access to capital markets, deploying blended finance to de-risk and create investment grade projects**

Figure 3: Global tracked climate finance flows and the average estimated annual climate investment need through 2050



UNDERSTANDING OF DEVELOPING COUNTRY NEEDS HAS EVOLVED

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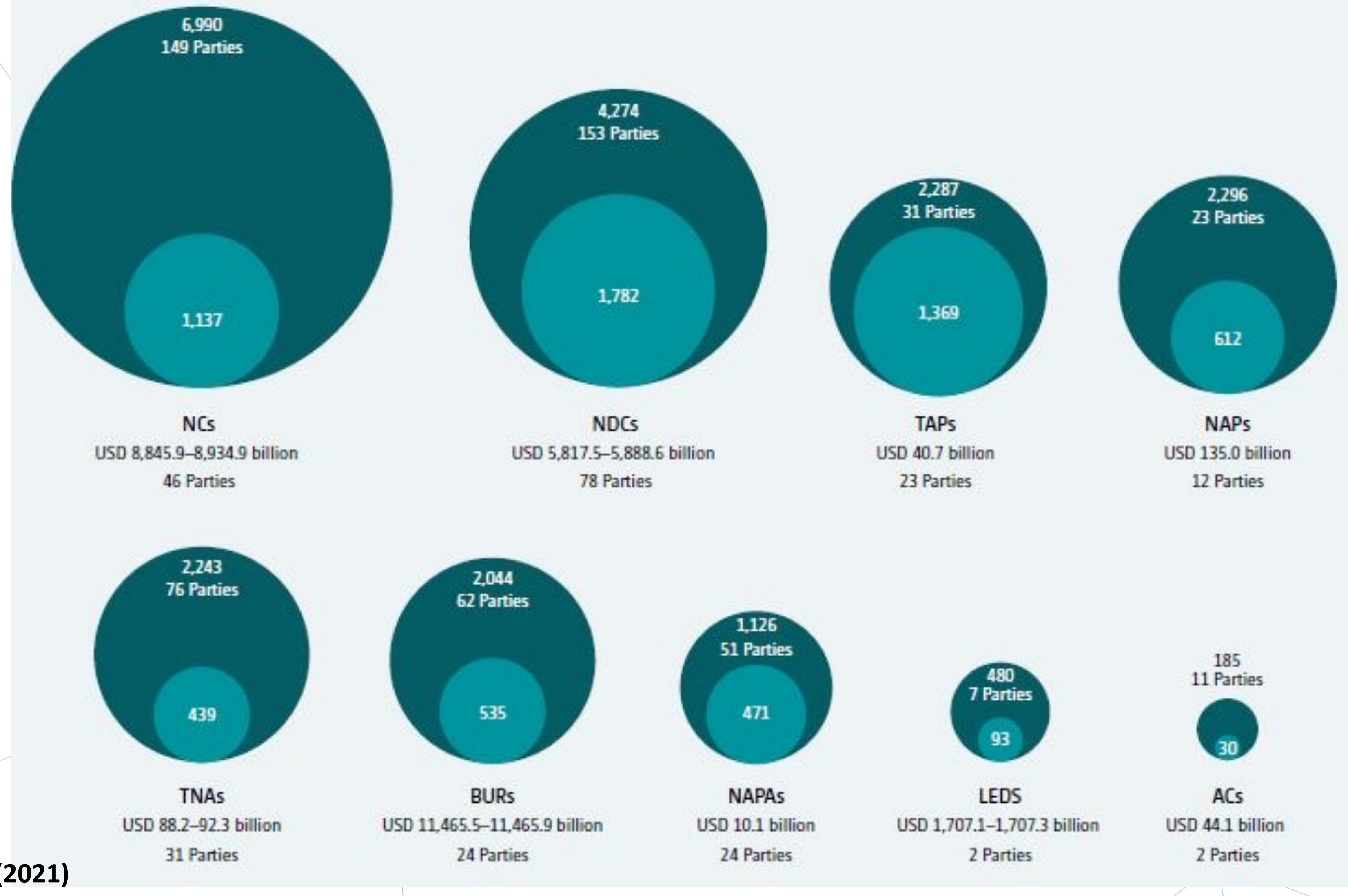
Developing countries need strengthened ability to attract diverse sources of finance to climate investments, in order to meet the scale of the need

Developing country needs: Total demand

- **Trillions in investment are needed to support developing countries' current climate ambitions and needs**

- Highest needs value of **USD 8.8 – 8.9 trillion for just 46 parties** (NCs)
- National and regional reports estimate **USD 23.8–29.4 trillion** (2016-2030)
- **USD 5.8-5.9 trillion for 40% of articulated needs** in 78 countries (NDCs)



Source: Data from UNFCCC Needs Determination Report (2021)

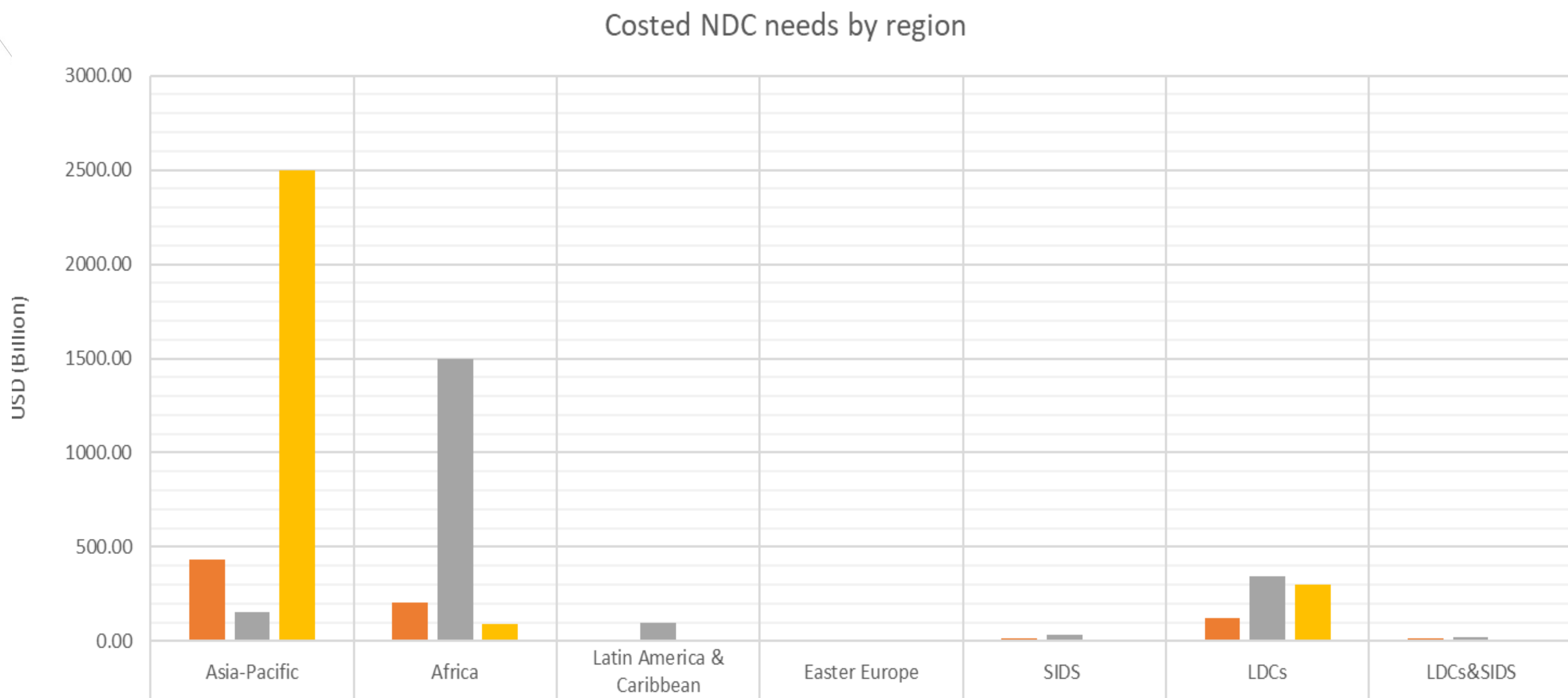
Developing country needs: NDCs

- 78 developing countries have specified financing needs of **USD 5.8-5.9 trillion** (USD 700 billion annually) up to 2030 for implementation of 40% of their identified NDC needs

- 60% of needs remain to be costed
  - LAC and EE have least costed needs
  - There is great distribution across countries and regions on # costed needs per sector
  - countries identified more adaptation than mitigation needs, but the former are least quantified.

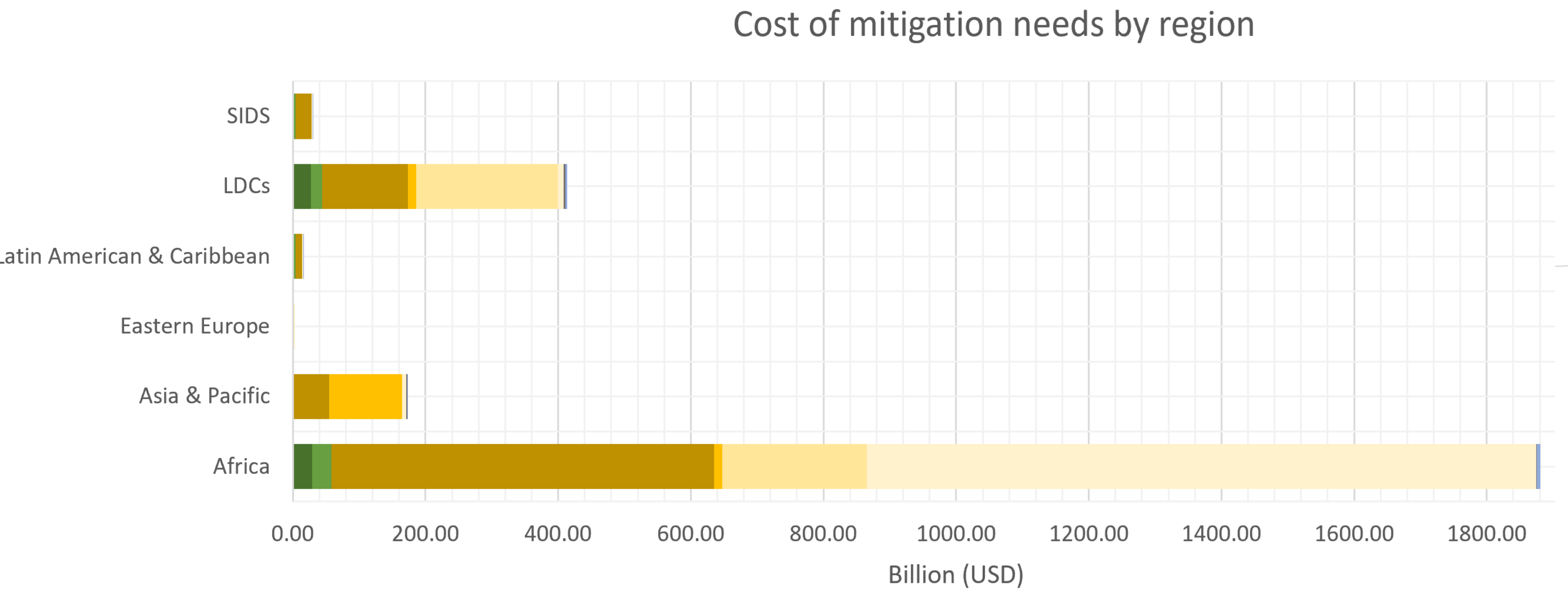
- International and domestic sources of finance were attached to needs amounting to USD 502 billion and USD 112 billion respectively, but 89 per cent of costed needs did not identify potential sources of finance

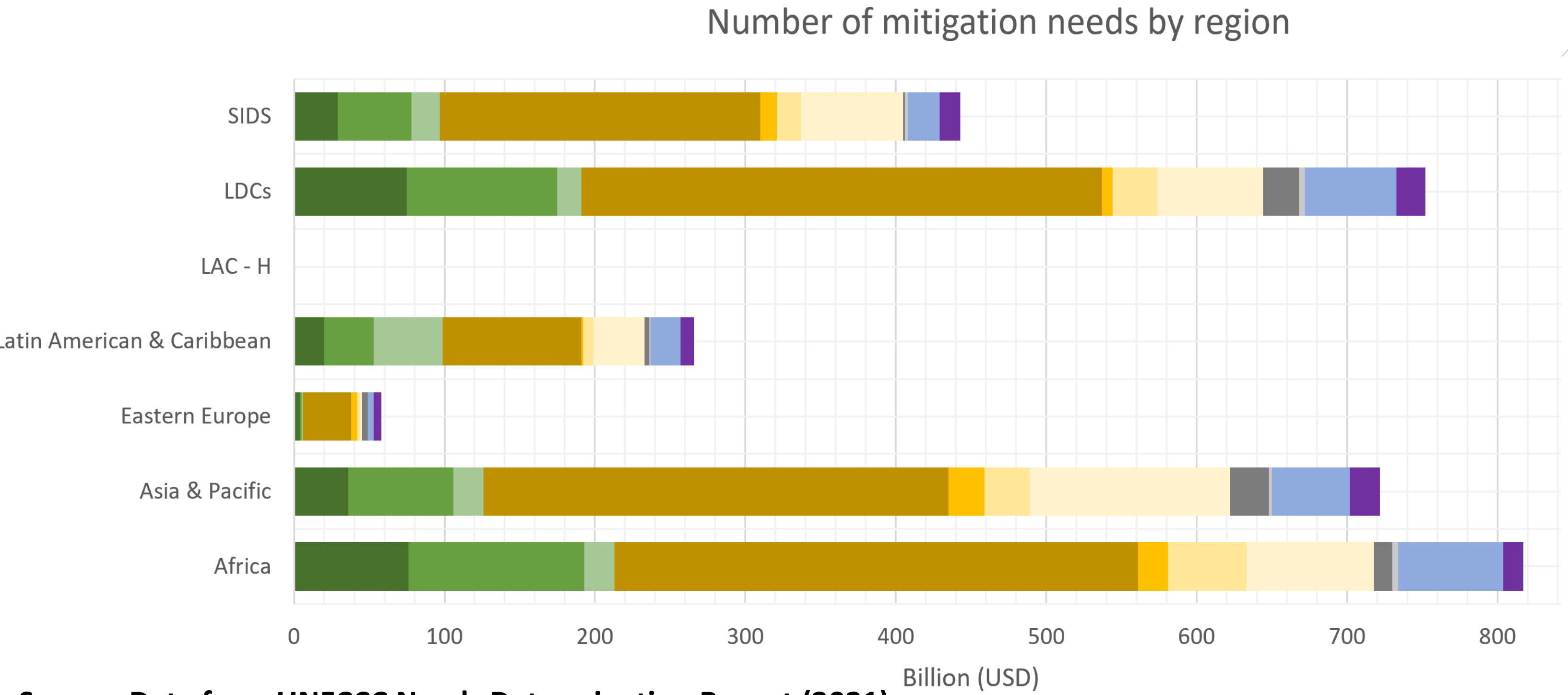
Source: Data from UNFCCC Needs Determination Report (2021)



	Asia-Pacific	Africa	Latin America & Caribbean	Easter Europe	SIDS	LDCs	LDCs&SIDS
Adaptation	431.39	203.43	1.78	4.38	17.00	124.52	17.24
Mitigation	151.84	1497.85	100.08	2.11	36.35	346.71	21.15
Cross-cutting	2500.00	91.66	0.00	0.00	0.00	301.72	0.01

All regions identified a large number of cross-cutting needs, but majority remain to be costed



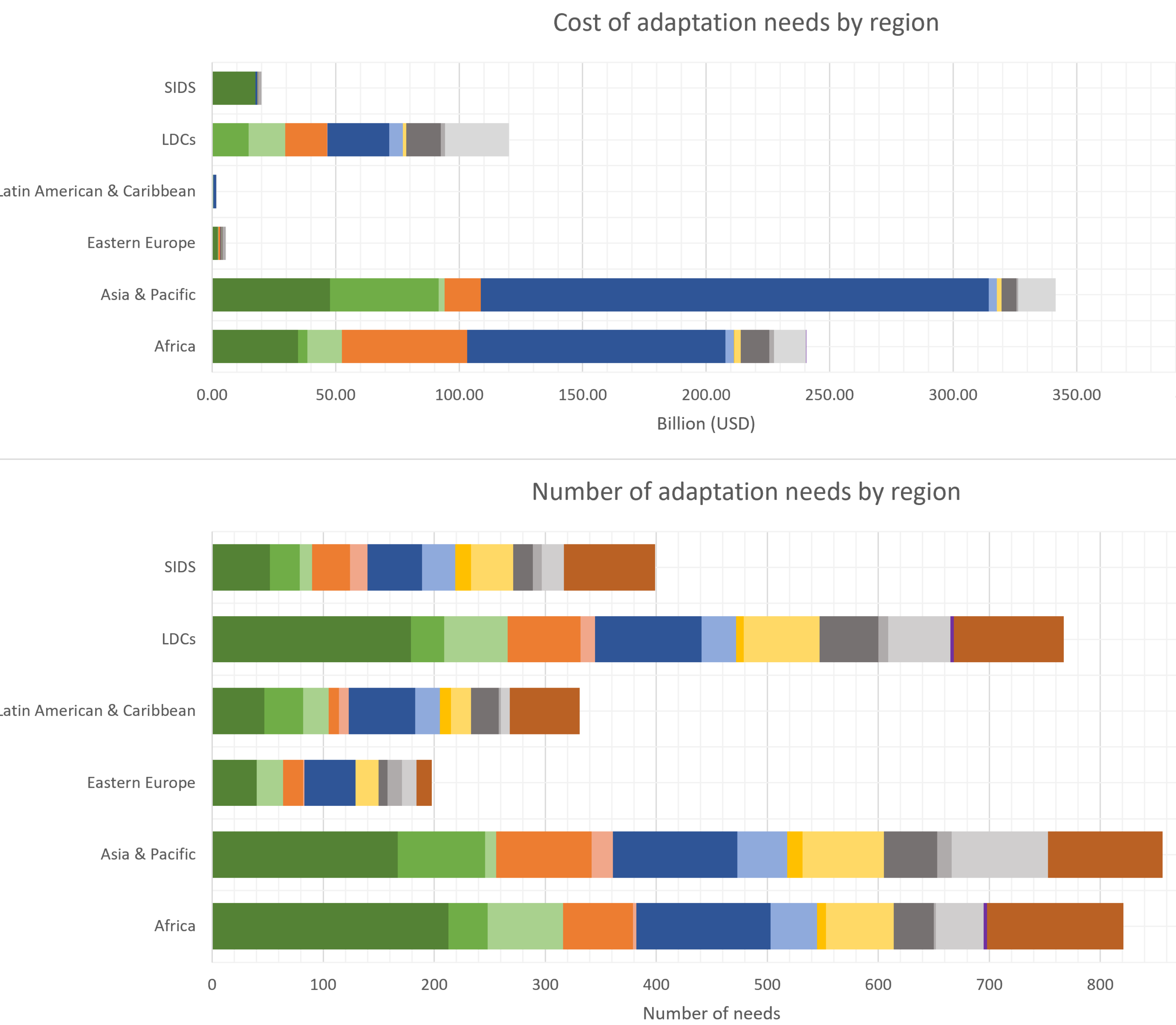


NDC mitigation needs

GREEN CLIMATE FUND

- Minor sectoral shifts since IRM: RE power generation continues to dominate mitigation; water/sanitation targeted more
- LULUCF = 2nd ,features heavily in densely forested countries in Africa and LDCs (reforestation needs most costed)
- Transport = 3rd most targeted mitigation action(requires further cost analysis)
- Agriculture predominant in Africa/LDCs (require costing)

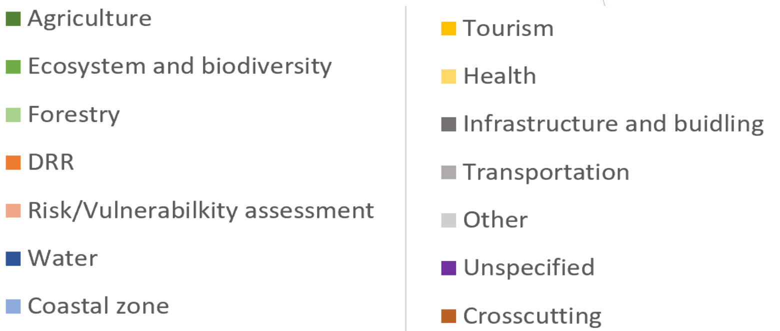
Source: Data from UNFCCC Needs Determination Report (2021)



Source: Data from UNFCCC Needs Determination Report (2021)

NDC adaptation needs

- Agriculture: land uses that overlap with other key sectors (forestry, water and relate to diversification, development of resistant crops, soil management, livestock, fisheries and aquaculture)
- Water: need for distribution, harvesting and irrigation infrastructure
- Followed by disaster prevention and preparedness, coastal zone management and health.

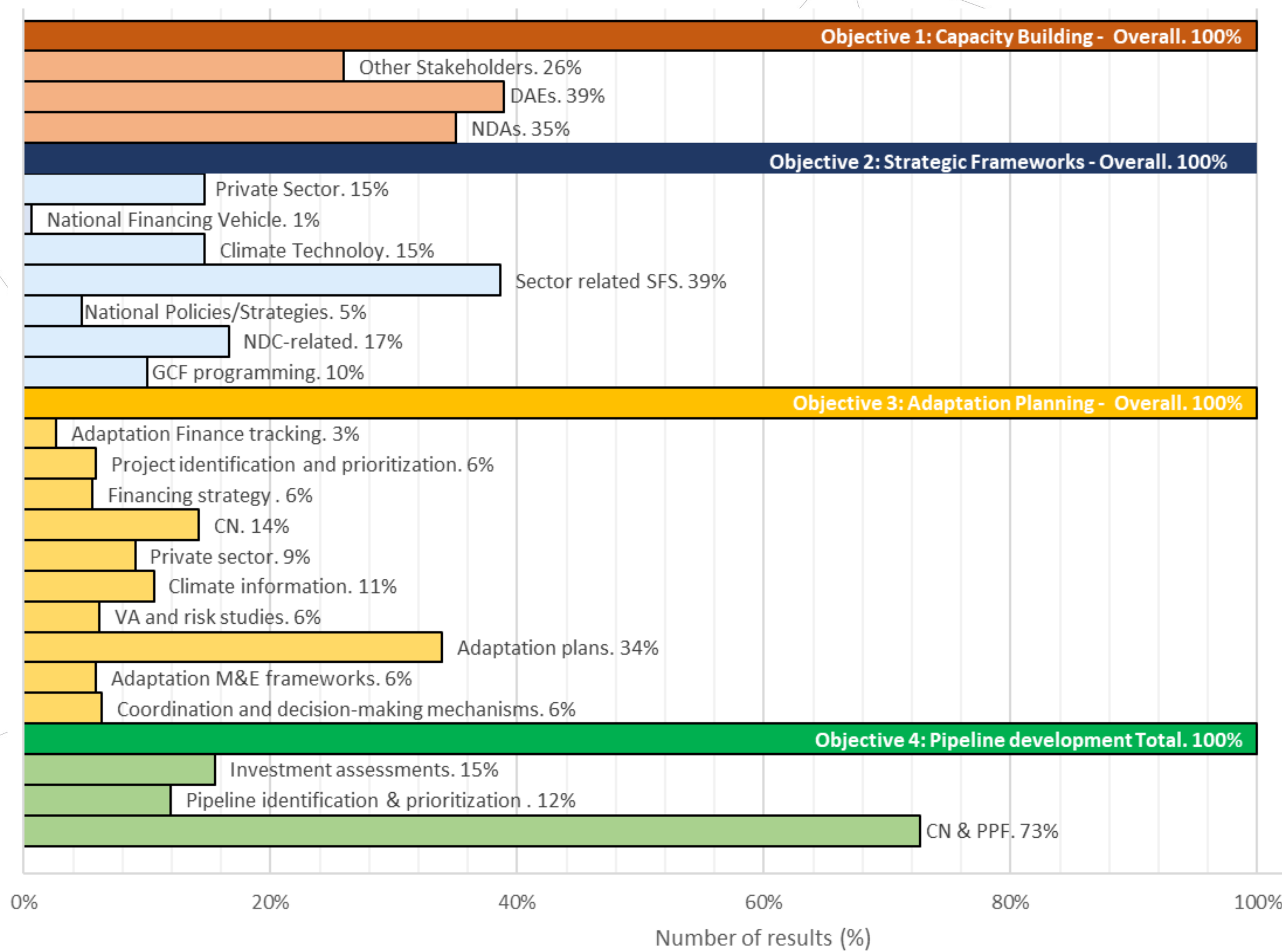


GREEN CLIMATE FUND

Developing country needs: Demand for readiness/NAPs

➢ **More support is needed to move countries beyond planning and into implementation**

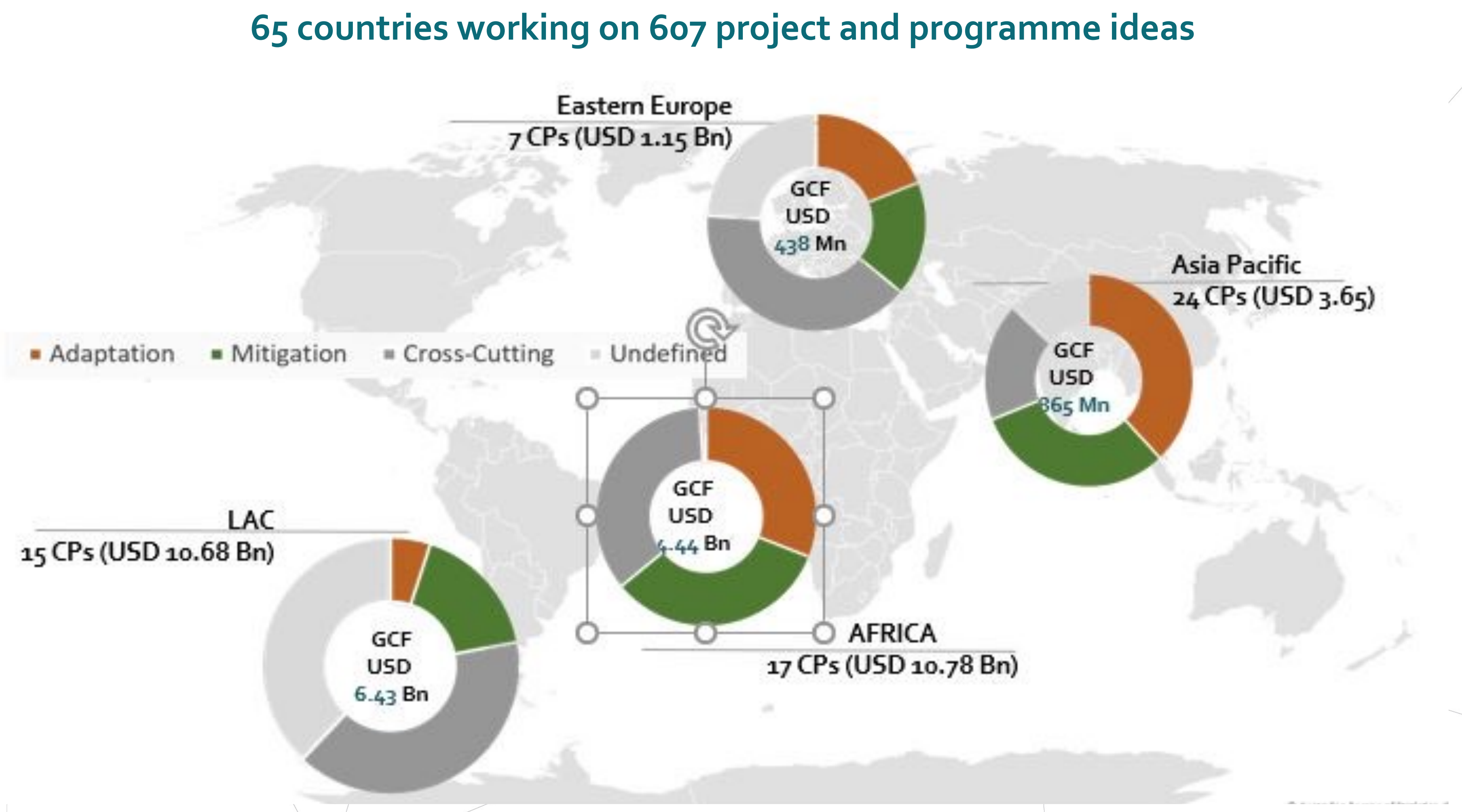
- Current countries support requests to GCF cover the broad spectrum of implementation planning needs
- Adaptation is earlier in the planning rather than implementation phase and support is sought mostly for setting up institutional arrangements
- GCF-1 saw increased support being sought for bespoke climate solutions/CNs/FPs



Source: Data from UNFCCC Needs Determination Report (2021)

Developing country needs: Country Programmes

GREEN CLIMATE FUND



- **Many projects are yet to define the financing request from GCF and investment modality:** Only half have a financing need for the GCF (> USD 12 billion for total ~ USD 26.26 billion) or indicate whether public/private is expected

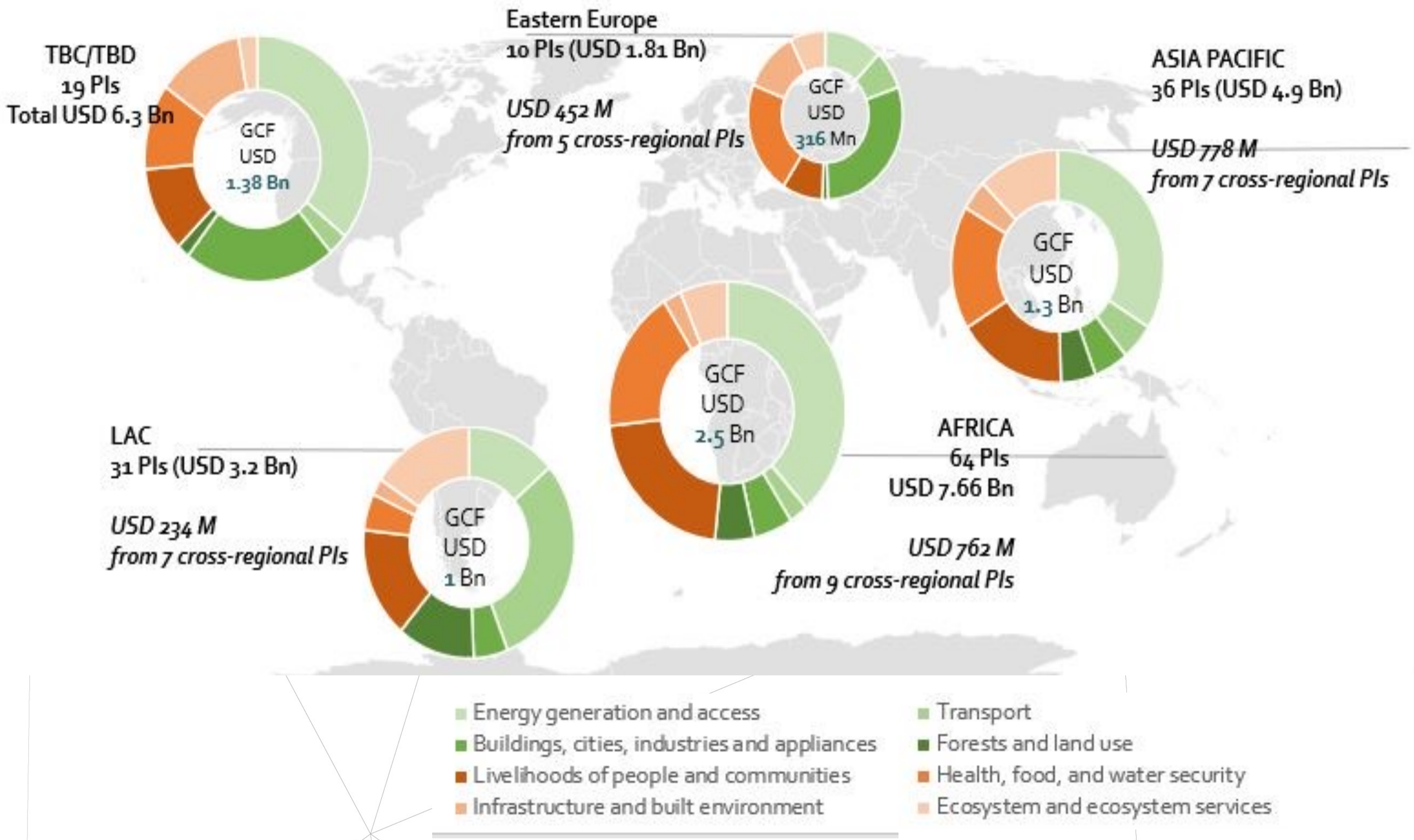
- **Private sector largely untapped** (except for Africa), <1% in LAC

- **Partner mapping in progress:** 57% of project ideas (70% funding request) have identified a potential entity, of which 18% are DAEs.

Developing country needs: Entity Work Programmes

GREEN CLIMATE FUND

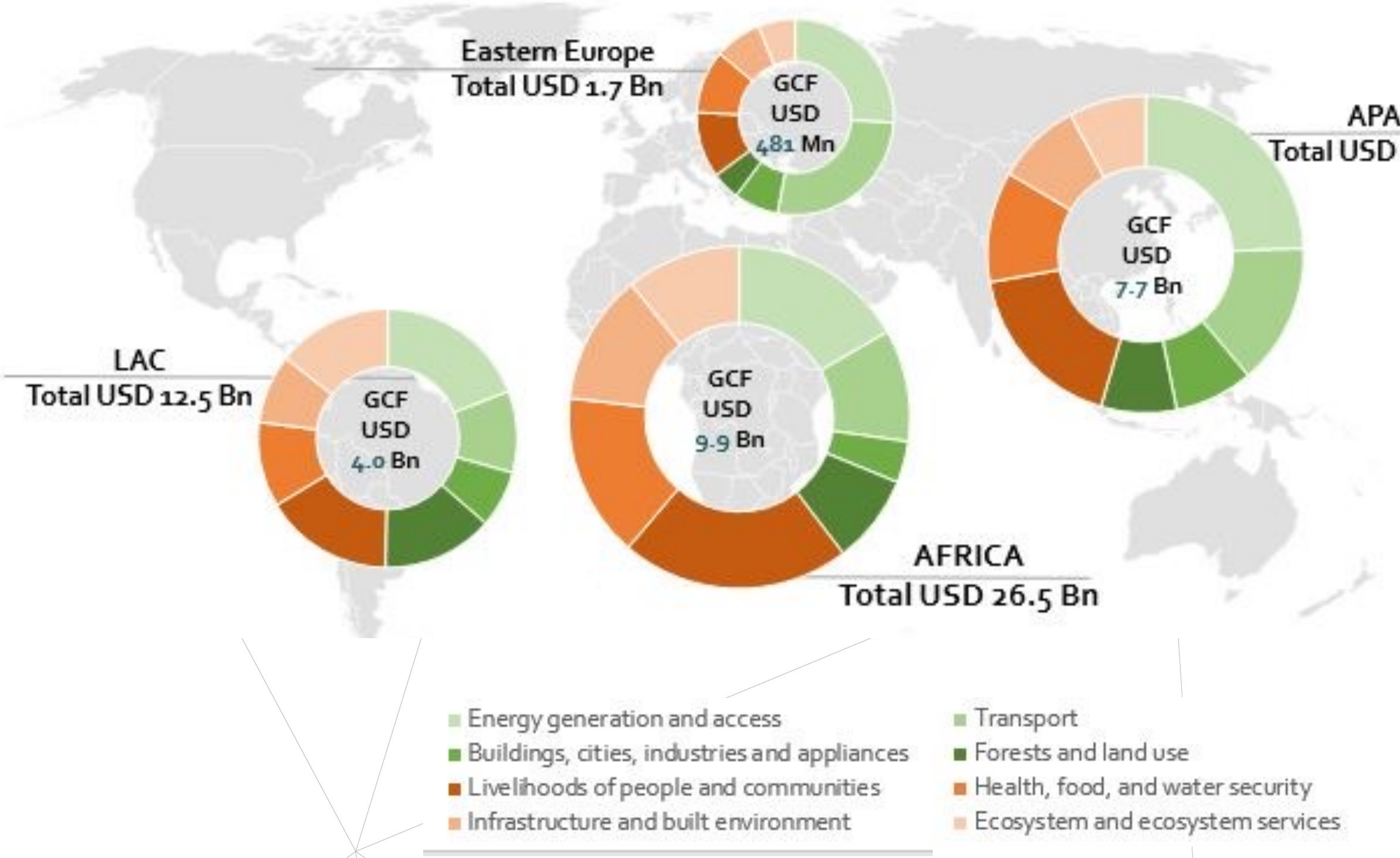
224 PIs requesting USD 11.92 billion in GCF financing
35 PIs (USD 1.9 billion in GCF financing) are also included in the country programming demand



- 1/3 EWPs have been submitted to the GCF as CN/FP (USD 5 bn); 4 proposals approved.
- Graph shows **distribution of non-submitted 142 PIs (USD 6.62 Bn**, total of USD 23.87 bn)
- Outstanding pipeline almost evenly split across mitigation and adaptation in all regions (exc. LAC, where mitigation is more predominant).
- **Submitted EWP pipeline more focused on adaptation in terms of volume due to pipeline management**

Developing country needs: GCF pipeline

USD 22.8 billion in GCF funding (total USD 76 billion)
A significant increase from the USD 16.6 pipeline captured during GCF-1 strategic programming



- Adaptation a higher priority in Africa
- Mitigation a higher priority in EE and Asia

ADDITIONAL GUIDANCE HAS BEEN GIVEN BY THE COP/CMA

Serve the UNFCC and Paris Agreement

- Support formulation and implementation of NDCs and NAPs
- Mobilize resources and facilitate access to finance

On-going guidance for GCF operations

- Maintain balance in allocation of resources between adaptation and mitigation
- Continue to provide support for activities related to averting, minimizing, addressing loss & damage
- Enhance coherence and complementarity with other climate finance delivery channels
- Finalize work related financing for forests and alternative approaches
- Prioritize closure of policy gaps
- Advance collaboration with the UNFCCC Technology Mechanism
- Ensure the Fund enjoys privileges and immunities as necessary

Specific new guidance

- Explore diversification of financial instruments for addressing climate risk, including parametric insurance
- Improve access for local non-governmental and private sector organizations
- Clarify the role of data from IPCC and traditional, local and indigenous knowledge and practices

THERE IS OPPORTUNITY FOR GCF TO EVOLVE ITS VISION

GREEN CLIMATE FUND

Support developing countries in the implementation of the PA and UNFCCC

THE OPPORTUNITY: Expand on GCF's approach for advancing implementation of NDCs, NAPs and LTS in the context of the UNFCCC/PA ambition cycle

- Better articulate the steps for moving from NDC/NAP/LTS to bankable investment
- Focus GCF support on key gaps, e.g. strengthening use of climate information/risk assessments in investment planning/decision-making to accelerate systemic responses
- Deploy 'financial engineering' approach to optimize financing pathways

Promote paradigm shift towards LECR development pathways

THE OPPORTUNITY: Orient GCF programming approach toward unlocking barriers to systems transitions and paradigm shift pathways

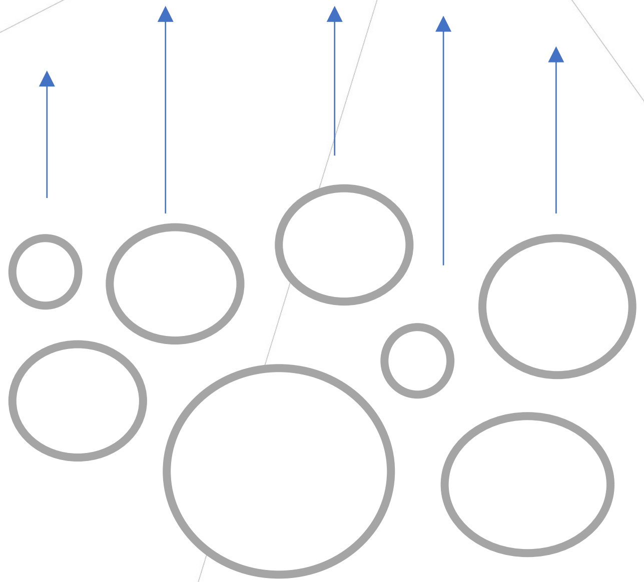
- Four-pronged theory of change for promoting paradigm shift operationalized through private sector strategy, adaptation approach, sector guides etc
- Elaborate GCF's risk appetite and evolving comparative advantage, to identify where GCF can add the most value relative to others
- Leverage position at hub of a global partnership network for co-investment approaches

SHIFTING THE MODEL FOR NDC/NAP/LTS IMPLEMENTATION

GREEN CLIMATE FUND

Status quo / "incremental" approach

NDC / NAP / LTS



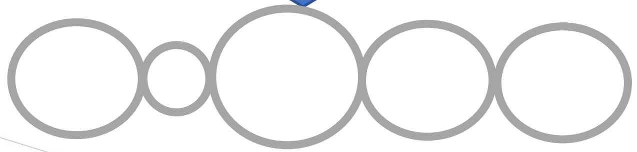
AEs/countries identify discrete project ideas, usually within one sector/area, fitted into the NDC narrative. Climate risk assessments, feasibility studies and project structuring done on a case-by-case basis, with frequent review iterations required.

Desired / "systemic" approach

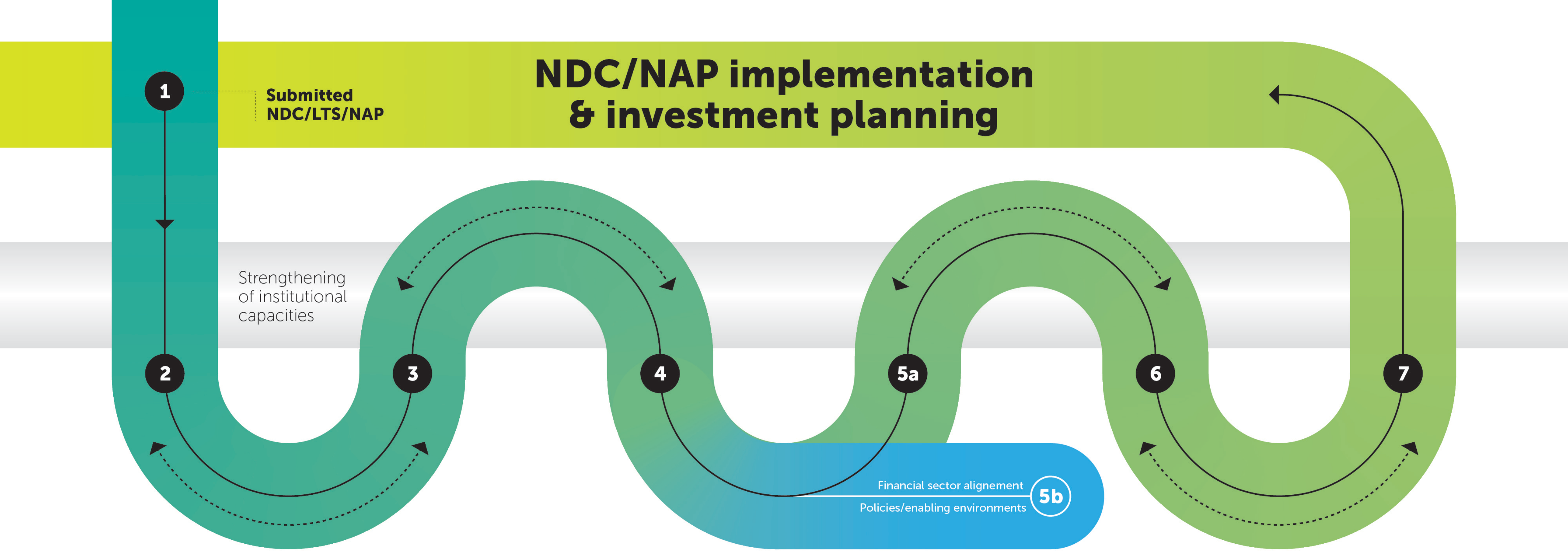
NDC / NAP / LTS

Systemic climate analysis / feasibility assmt – to ID most critical responses

Analysis of financial sources & structuring to optimize bankable projects & use of GCF resources



NDCs guide priority intervention areas. Climate assessments and feasibility studies done at a systems level, looking at trade-offs/synergies across sectors. Leads to analysis of financial sources & structuring of an optimized programme of investments



2 NDC/LTS/NAP implem. planning

- Macro-economic planning
- National budgeting
- Sector & subnational planning
- Socio-economic analysis
- Action gap analysis

3 Evidence-based option identification

- Emissions scenarios
- Climate risk and vulnerability assessment
- Option identification analysis & costing

Opportunities:

- **Systems-level analysis to ID transformations and key interventions needed**
- **Options/methodologies responsive to LTS/2.1c**

4 Investment planning

- Assess funding needs for prioritized interventions
- Assess financing barriers
- Assess financing options (private/blended/public)

Opportunities:

- **Optimize solutions for barriers & comparative advantages or financiers**
- **Sequence programmes of investments**

5a

- **Public financing**
- **Financial de-risking**

5b

- **Policy de-risking**
- **Private financing**

6 Proposal development

- FP development
- Project & financial structuring
- Investor roadshows
- National budget prioritization

Opportunities:

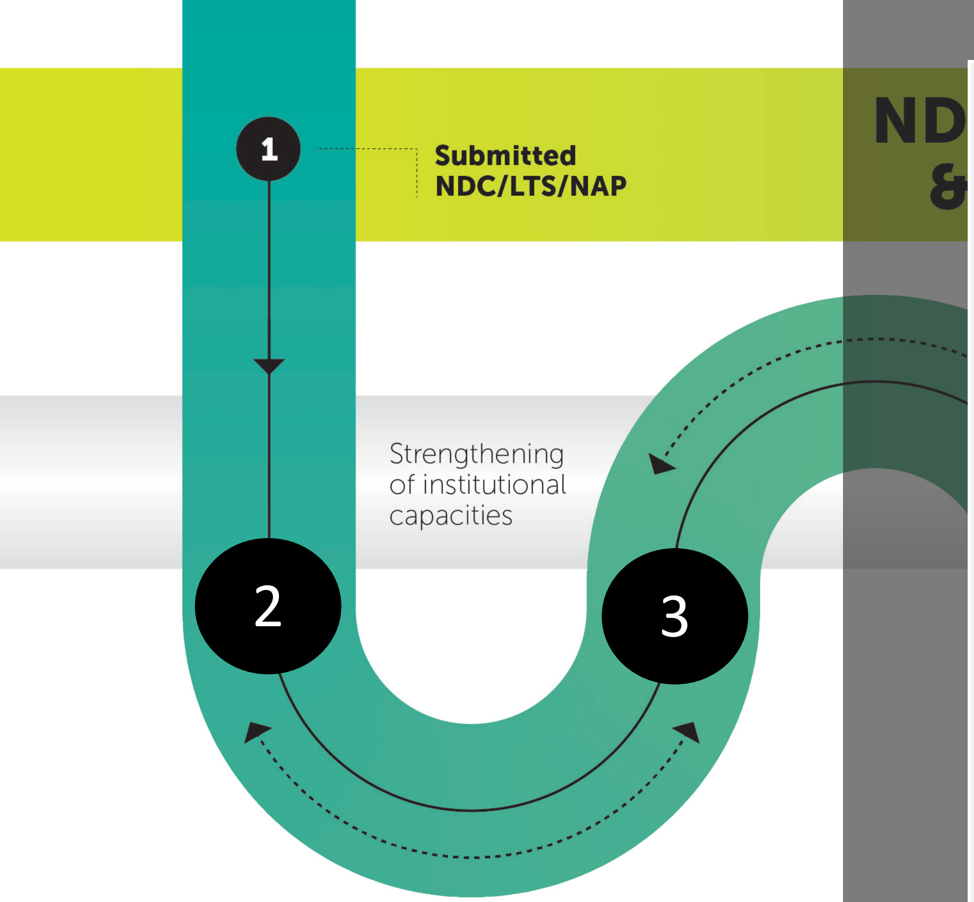
- **Co-investment platforms**
- **Aggregators**

7 Implementation & monitoring

- Project implementation
- Project monitoring & evaluation

Opportunities:

- **Tracking of finance flows**
- **Performance analytics**
- **Evidence generation for revised NDCs/NAPs formulation**



2

NDC/LTS/NAP planning

- Macro-economic planning
- National budgeting
- Sector & subnational planning
- Socio-economic analysis
- Action gap analysis

Readiness

3

Evidence-based option identification

- Emission scenarios
- Climate risk and vulnerability assessments
- Option identification analysis and costing

Opportunities for GCF:

- Harvest/utilize first generation readiness/NAP outcomes
- Systems-level analysis to ID transformations and key interventions needed
- Options/methodologies responsive to LTS/2.1c

Readiness **PPF**

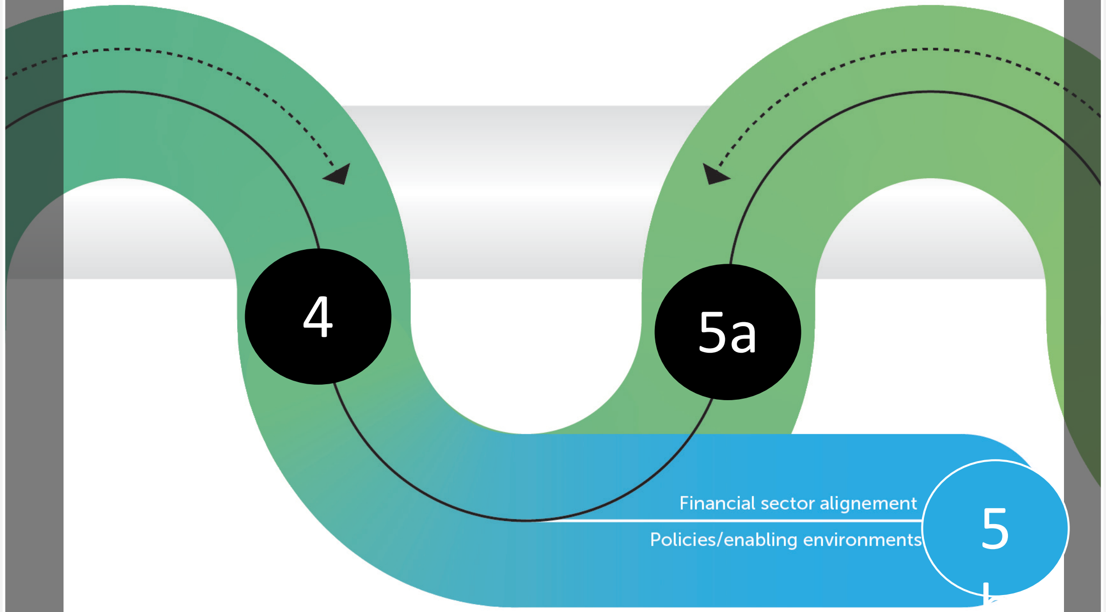
4

Investment Planning
- Assess funding needs for prioritized interventions
- Assess financing barriers
- Assess financing options (private/blended/public)

Opportunities for GCF:
- Support financial engineering approach to optimize financing solutions to barriers & comparative advantage of financiers
- Sequence programmes of investments

Readiness

NDC/NAP implementation & investment planning



5a

Public financing

Financial de-risking

Funding Proposals

5b

Policy de-risking

Private financing

Readiness

6

Proposal development

- FP development
- Project & financial structuring
- Investor roadshows
- National budget prioritization

Opportunities for GCF:

- Co-investment platforms
- Aggregators

PPF

Funding Proposal

7

Implementation & monitoring

- Project implementation
- Project monitoring & evaluation

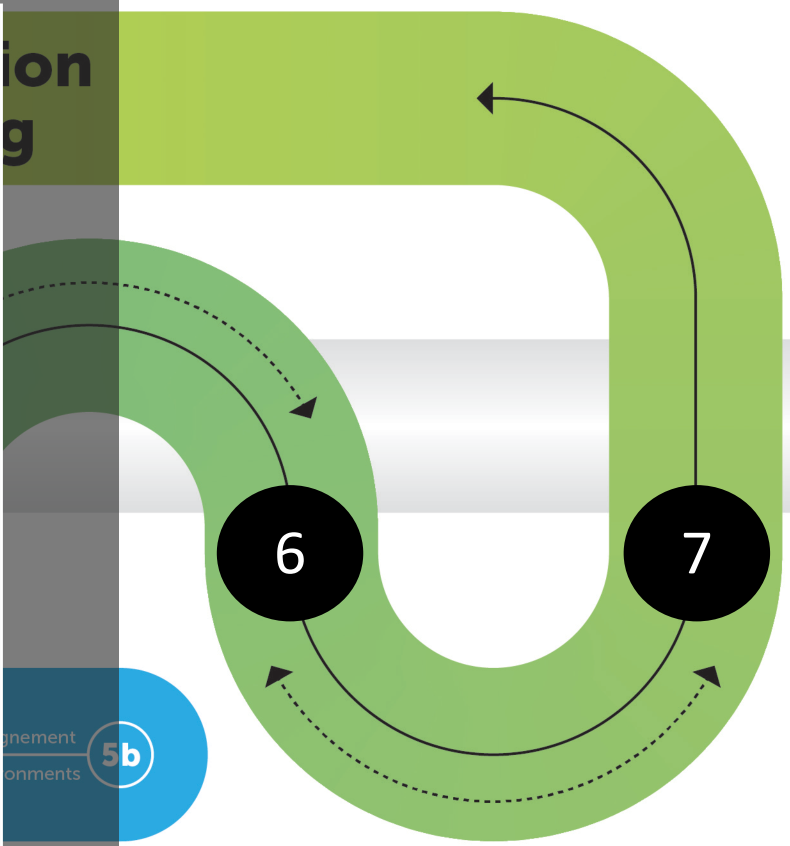
Opportunities for GCF:

- Tracking of finance flows
- Performance analytics
- Evidence generation for revised NDCs/NAPS formulation

Funding Proposal

CROSS CUTTING

- Building capacity and expertise for planning, design, structuring, implementation of climate investments



THEORY OF CHANGE FOR PROMOTING PARADIGM SHIFT

GREEN CLIMATE FUND

GOAL	The GCF promotes paradigm-shift in developing countries towards low-emission climate resilient (LEDR) development pathways, in line with the goals of the UNFCCC and Paris Agreement	IRMF *Paradigm-shift impact*
THEORY OF CHANGE STATEMENT	IF GCF helps remove technical, financial and entrepreneurial barriers to climate investment THEN developing countries will shift towards LECR pathways by 2030 BECAUSE finance will be available at scale for an increasing flow of bankable climate initiatives in developing countries across mitigation and adaptation result areas	**Applicable results measurement**
OUTCOMES	1: Transformational planning and programming: Strengthened developing country capacity to establish enabling environments for climate investment: promoting integrated climate and sustainable development strategies, plans, policies to inform investment planning, incubate new climate solutions and crowd-in the private sector. 2: Catalyzing climate innovation: Increased number and deployment of innovative & inclusive high-potential business models, financial instruments, technologies or practices successfully piloted and high-quality innovation ecosystems established and supported 3: Mobilization of transformational investment at scale: De-risking and establishing a commercial track record to scale up pioneer climate investment, crowd-in private finance and increase local country capacity to attract private capital for climate action 4: Aligning finance with sustainable development: Strengthened capacity of domestic financial systems to mainstream climate risks into financial decision-making, originate and appraise climate projects, develop new financial products & services for climate outcomes.	Readiness Results Framework All IRMF results levels • *Mitigation & adaptation impact* • *Enabling environment impact* • *Paradigm-shift impact*

GCF-2 Programming Opportunities: supporting systems transitions

GREEN CLIMATE FUND

- **ENERGY:** Making a systemic switch from fossil fuels to low-carbon energy sources, while ensuring energy security and improving energy use efficiency and energy infrastructure resilience
- **LAND, OCEANS AND ECOSYSTEMS:** Preserving and restoring nature and evolving food systems and water use to secure livelihoods and resilience
- **INFRASTRUCTURE, URBAN, TRANSPORT:** Switching from grey to green infrastructure, re-configuring business incentives in water use systems, massively increasing electrification, improving efficiency and reducing waste through sustainable urban planning and shift toward circular economies
- **INDUSTRY:** Shifting value chains and switching to new, more efficient production processes and materials
- **SOCIETAL**: Building a foundation of climate services, risk sharing systems, social safety nets and diversifying livelihoods to ensure health, wellbeing and sustained and inclusive development. Enabling financial systems transitions

COMPARATIVE ADVANTAGES CAN INFORM *WHERE/HOW* GCF INTERVENES

- **Climate expertise :** Largest global fund specialized in climate change – can provide technical know-how to strengthen climate investment capacities, methodologies and use of climate information/assessments

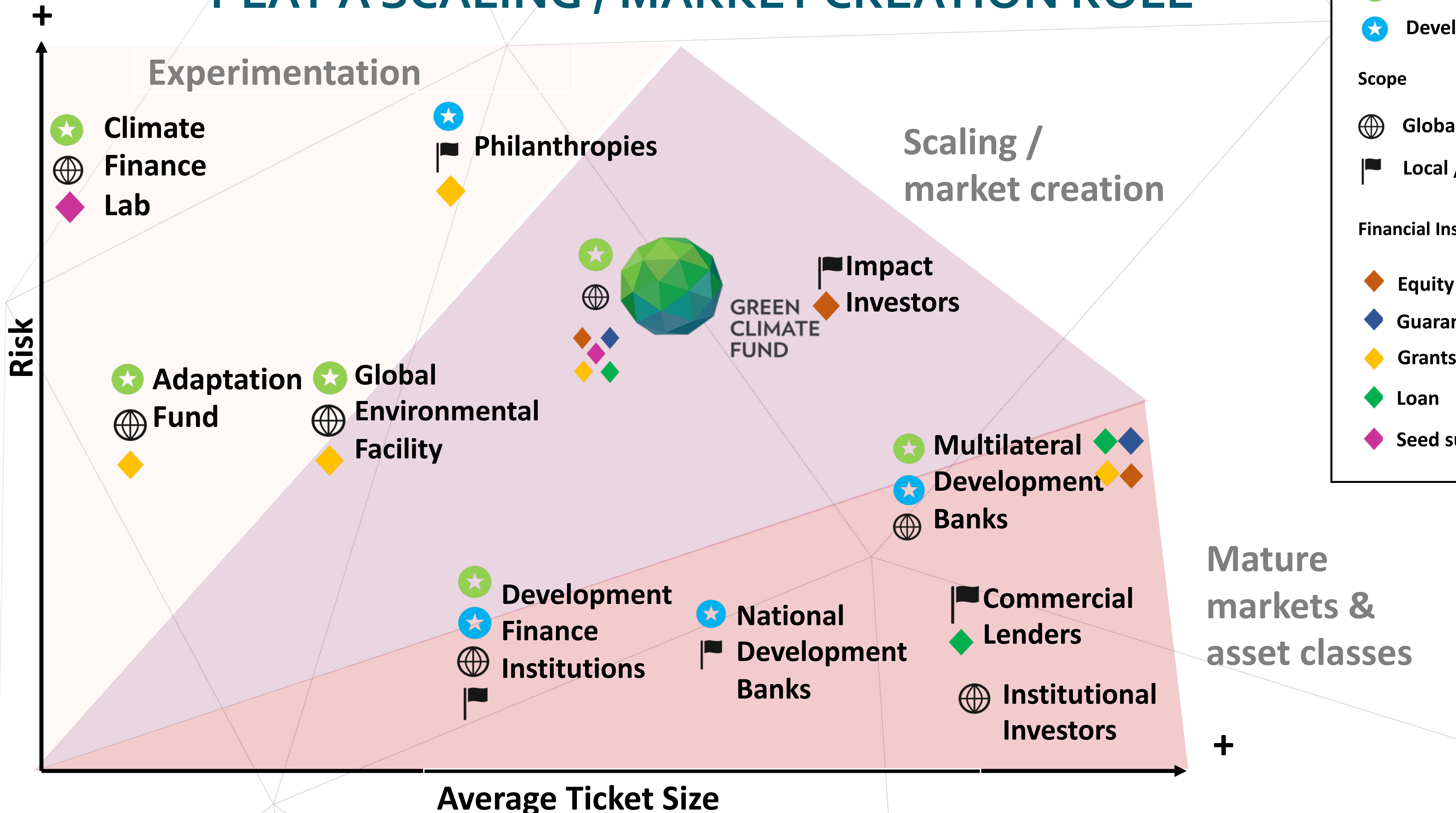
- **Country-driven:** Offers sustained support through largest climate capacity program for developing countries to institutionalise ability to own/drive climate investments, and evolve wider climate-compatible enabling environments and domestic financial systems

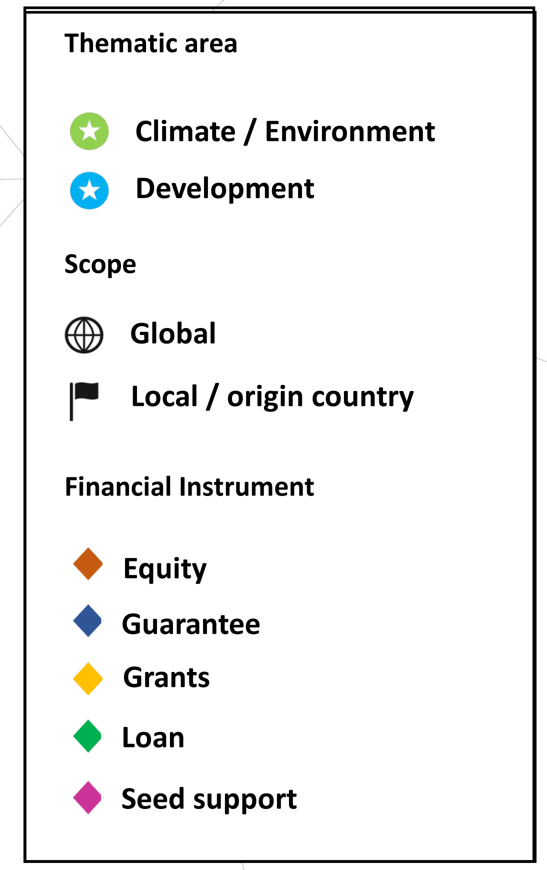
- **Risk-taking, patient capital:** Higher risk appetite than conventional financiers, designed to catalyze climate action through investing in early-stage project development, innovation and unconventional asset classes. Flexible financial instruments and ability to use blended finance to de-risk conventional finance.

- **Partnership institution and a knowledge hub:** Sits at hub within the climate finance landscape, with ability to forge novel investment partnerships and co-investment approaches between public, private, local and international actors

- **Balanced investment, focus on vulnerable**: Opportunity to apply GCF's risk-taking market creation approach to advance financing for adaptation and particularly vulnerable countries

GCF'S SIZE AND RISK APPETITE POSITION IT TO PLAY A SCALING / MARKET CREATION ROLE





ONGOING EFFORTS ON COMPLEMENTARITY & COHERENCE: GCF-GEF Long-term vision on complementarity

gef

GREEN CLIMATE FUND

Collaborative and coordinated programming

Major initiatives

National investment planning

List of priorities for each fund

Collaborating financing platforms

Sharing information, lessons learned and knowledge

Lessons learned from portfolio to strengthen implementation

Development and use of guidance products and methodologies for design and measurement

Communication and outreach

Communicate about LTV in programming

Enhance outreach and communications with donors, at COPs

GCF-2 PROGRMAMING: “TARGET FOR PRACTICE”

PROPOSITION FOR DISCUSSION: GCF should do MORE:

- Support for developing countries and their partners to access and use climate information, projections and risk/ vulnerability assessments to inform investment planning, FP design and decision-making
- Support to institutionalize climate investment capacities in developing countries, in particular through direct access entities and strengthening climate capabilities of national financial systems
- Low-risk, replicable interventions through SAP that target common/urgent areas of developing country needs (climate information/EWS, agriculture, energy access), NB for LDCs/SIDS/Africa
- Risk-taking to support innovation in technologies, business models, instruments and practices in developing countries, even where there is risk of failure/climate impact may not be ‘guaranteed’
- De-risking of private sector investment in developing countries, particularly in areas where private sector investment does not conventionally flow (adaptation, new asset classes, new markets etc)

GCF-2 PROGRMAMING: "TARGET FOR PRACTICE"

PROPOSITION FOR DISCUSSION: GCF should do LESS OF OR LEAVE TO OTHERS:

- Readiness support for areas covered by other established capacity-building programmes (e.g. NDC updates, socio-economic analysis, action gap analysis, MRV etc)

- Small-scale seed funding for rapid experimentation with climate innovation (eg AF Innovation Facility, Climate Finance Lab). GCF can instead focus on acceleration/scaling of promising innovations that emerge from such initiatives

- Small grants for direct implementation by NGOs, CSOs, academic institutions, private sector (eg AF, GEF small grants). GCF's business model & policies are built on a partnerships approach adapted for scale.

- 'High cost-efficiency / high-leverage' interventions, which can be more effectively delivered by carbon markets or less concessional financiers

- Providing financing for tranches that could be financed by other concessional multilateral or development finance institutions

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