

**GREEN  
CLIMATE  
FUND**

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**GCF/B.19/37**  
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# Identification of results areas where targeted GCF investment would have the most impact

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## **Summary**

This document identifies areas where targeted GCF investment would have a greater impact. The document analyses the GCF portfolio through the eight results areas and compares it with current analysis on country programme briefs. The removal of barriers is identified as a key way for GCF to have most impact, including, for example, mobilizing investors in re/insurance measures. Finally, a review of the quality of climate information and data used in the approved funding proposals is presented. The document includes several follow-up actions to be pursued by the Secretariat where targeted GCF investment would have the most impact.

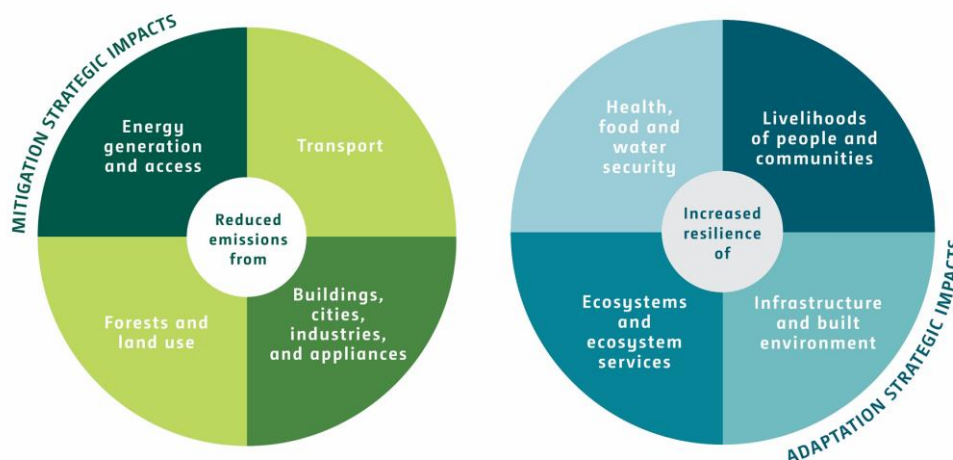
## I. Introduction

1. Following consideration of document GCF/B.17/09 at its seventeenth meeting, and in decision B.17/08, paragraph (b), the Board requested the Secretariat to undertake additional analysis that takes into consideration the potential investment priority areas presented in document GCF/B.09/06 and to identify results areas where targeted GCF investment would have the most impact.
2. This document prioritizes issues already identified by the Board, in particular those that will have an impact on all eight GCF results areas. The document outlines the status of the GCF portfolio through the eight results areas (as detailed in document GCF/B.09/06) with additional analysis on the regional distribution and comparison with country programme briefs for the approved funding proposals and the proposals in the GCF pipeline.
3. Furthermore, based on the recommendations noted in document GCF/B.17/03, this document looks at the potential to overcome barriers, especially within the public policy and regulatory frameworks domain, that could help to mobilize private and institutional investors at scale. In particular, further encouragement and investments in insurance and re-insurance have been identified by the Secretariat as an area that would have a stronger impact on the portfolio.
4. Finally, as noted in document GCF/B.17/18 on the review of the initial proposal approval process, Board members have expressed concern at the low quality of funding proposals, particularly in terms of their potential for climate impact, which, in certain cases, was not sufficiently developed or well connected to the proposed activities. Several Board members expressed concern that the climate-related objectives of certain projects were not sufficiently clear, particularly in the case of adaptation projects.
5. To further support this observation, this document undertakes a desk review of the comments from the Secretariat and independent Technical Advisory Panel (TAP) assessments regarding the extent and quality of climate information and data in the approved funding proposals to see if this can be improved as a focus area of strengthened investment by GCF.
6. The document includes follow-up actions for the Secretariat on the identification of results areas where targeted GCF investment would have the most impact, for example, in terms of: filling in the identified gaps of the results areas compared with the country programme briefs; overcoming or removing barriers through promotion of re/insurance and further policy or results-based financing; providing more guidance on the technical components of the result areas; and further supporting climate information. A draft decision for the Board's consideration is contained in annex I.

## II. Analysis of the GCF portfolio: the results areas

7. This section presents an overview of the current GCF portfolio, including approved funding proposals as well as funding proposals and concept notes in the pipeline, analyses the geographic distribution, and compares the proposals with analyses of country programme briefs in each of the eight results areas, which are highlighted in figure 1.

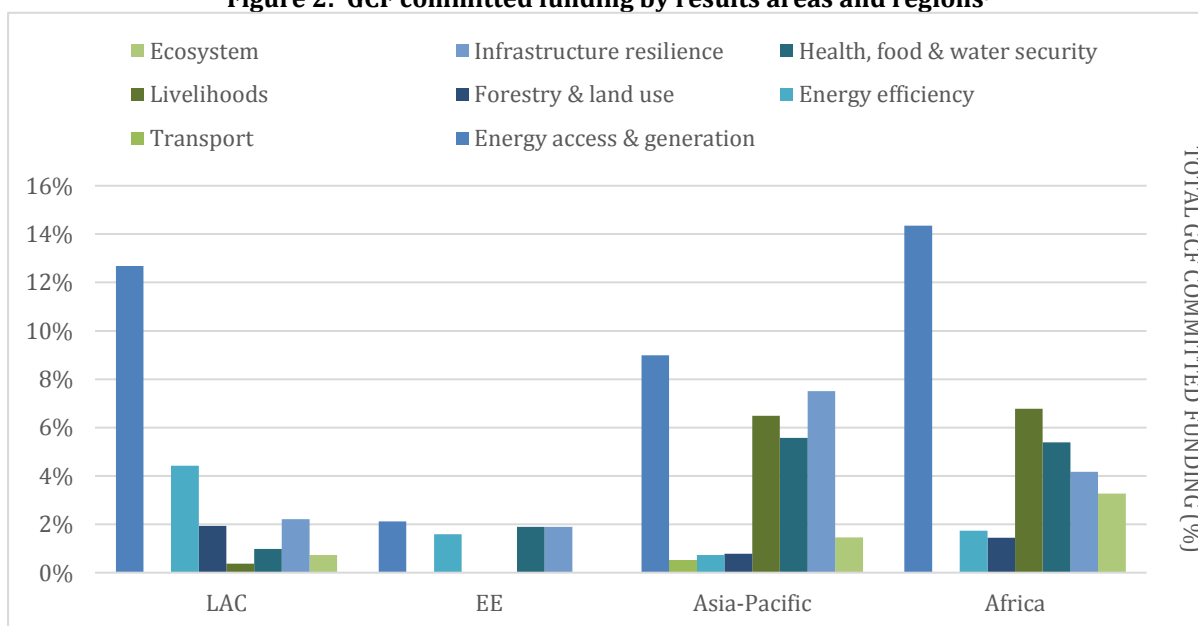
**Figure 1: The eight strategic results areas of GCF**



8. As at 31 December 2017, the GCF portfolio comprised 53 approved public and private sector projects and programmes with a total GCF committed funding of USD 2.6 billion, leveraging USD 6.5 billion of co-financing. As at the same date, the GCF pipeline comprised 245 public and private sector concept notes and funding proposals. The total requested GCF funding amount in the current pipeline is USD 15.5 billion, totaling USD 57.4 billion when taking co-financing into account.

9. The geographic distribution of the GCF funding amount for the approved funding proposals by results areas is presented in figure 2. The geographic distribution for the funding proposals and concept notes in the pipeline by results areas is presented in figure 3. A continued strong focus on energy generation and access can be observed across all regions. Transport remains low. In adaptation, the livelihoods of people and communities has the strongest emphasis, particularly in Africa, Latin America and the Caribbean. While there is interest in the health, food and water nexus/security results area, there are few proposals targeting health.

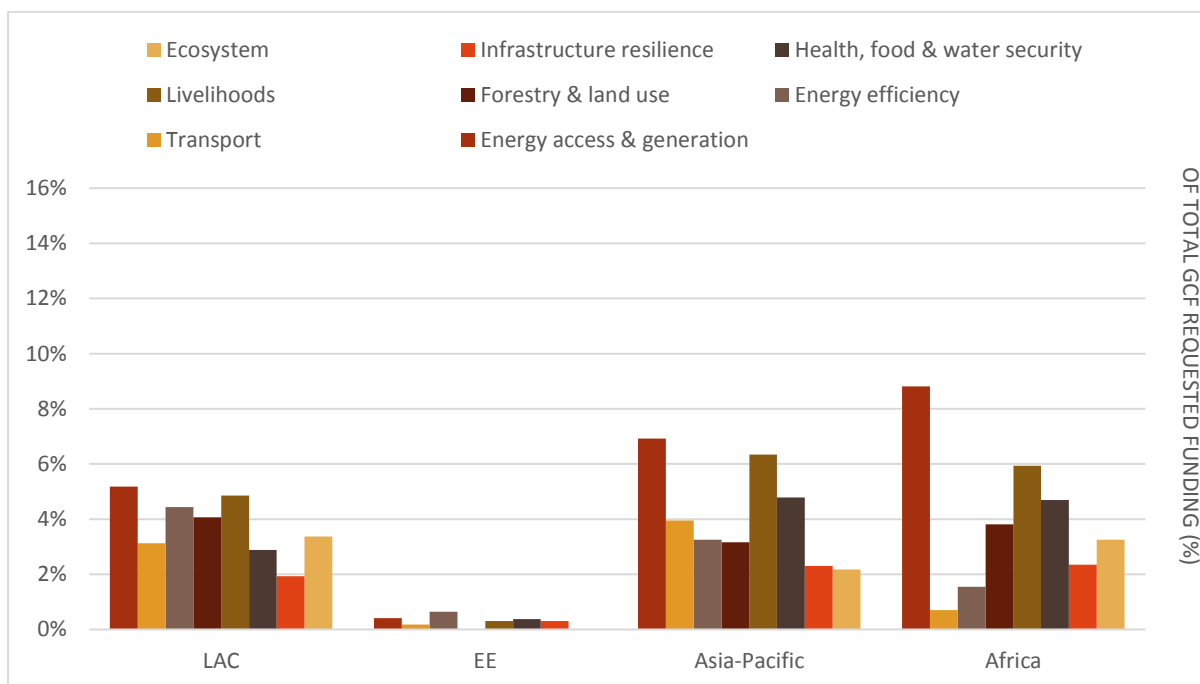
**Figure 2: GCF committed funding by results areas and regions<sup>a</sup>**



*Abbreviations:* LAC = Latin America and the Caribbean, EE = Eastern Europe.

<sup>a</sup> The breakdown of GCF funding into the eight results areas is based on the attribution of GCF funding amounts to each respective results area presented in the submitted funding proposals.

**Figure 3: Requested GCF funding by results areas and regions<sup>b</sup>**

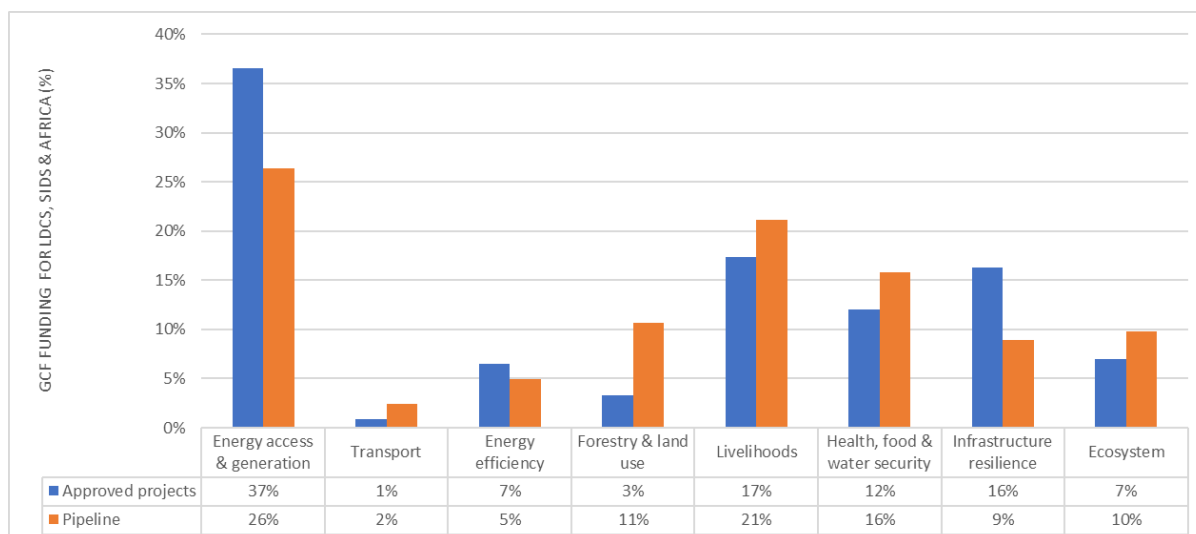


*Abbreviations:* LAC = Latin America and the Caribbean, EE = Eastern Europe.

<sup>b</sup> The breakdown of GCF funding into the eight results areas was done based on the attribution of GCF funding amounts to each respective results area presented in the funding proposals and concept notes.

10. The GCF funding committed and requested for least developed countries (LDCs) and small island developing States (SIDS), and African States accounts for 58 per cent and 49 per cent, respectively. The distribution of GCF funding amounts across the eight results areas for LDCs, SIDS, and African States is presented in figure 4. Among the eight results areas, the emphasis was on energy access and generation, reaching close to 40 per cent of GCF committed funding. However, the future pipeline does show signs of levelling off in energy access and generation. There is an increasing interest in forest and land use in the current pipeline of funding proposals and concept notes for the LDCs, SIDS and African States. More GCF funding is being requested in the four results areas in adaptation, particularly for livelihoods of people and communities, reaching above 20 per cent.

**Figure 4: GCF funding amount by results areas for LDCs, SIDS and African States**



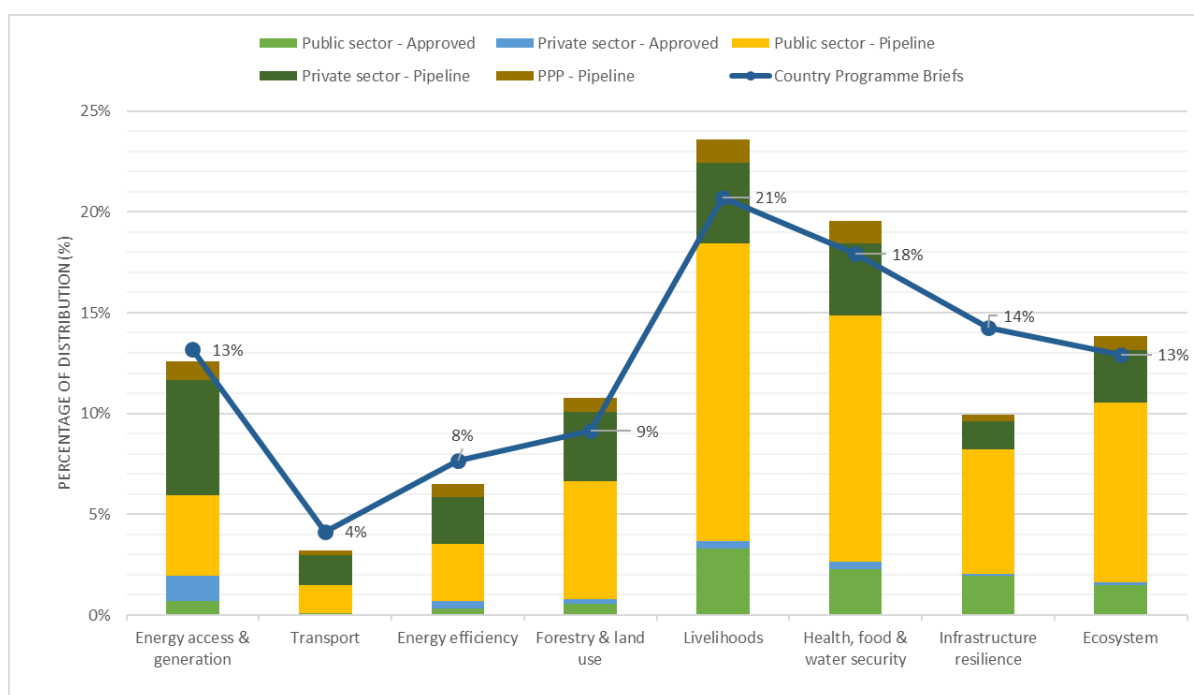
*Abbreviations:* LDCs = least developed countries, SIDS = small islands developing States

11. The GCF portfolio by number of approved funding proposals as well as the pipeline of funding proposals and concept notes across the eight results areas are compared with the country programme briefs in figure 5.<sup>1</sup> A stronger interest in adaptation (at least in the number of projects) is apparent in the pipeline as well as in the country programme briefs. Of the total 245 concept notes and funding proposals in the pipeline, around 66 per cent are targeting the four results areas of adaptation. Among the mitigation results areas, there is still an emphasis on energy access and generation, reaching around 11 per cent of the total number of concept notes and funding proposals in the pipeline.

12. Currently there is a relatively close correlation between the proposals coming to GCF and the expectations in the country programme briefs, for example, in forests and land use and ecosystem and ecosystem services. This comparison with the potential demand also shows that there are more needs in the incoming project ideas in country programme briefs. There are results areas, such as infrastructure and built environment, where there is a need for more alignment. To align results areas with each country’s nationally determined contributions (NDCs) and the GCF strategic priorities and policies, more strategic information and technical advice will need to be provided to national designated authorities (NDAs) and accredited entities (AEs) via support through the Readiness and Preparatory Support Programme.

13. Of the adaptation results areas, the trend has been for funding proposals to mark several results areas such as “livelihoods of people and communities” and “health, food and water security”, probably owing to their cross-cutting appeal as key impact areas. This may explain a possible overrepresentation in these results areas, but more analysis will be required to determine if this is indeed the case.

**Figure 5: Level of concentrations by results areas based on number of proposals<sup>c</sup>**



<sup>c</sup> For funding proposals and concept notes that target multiple results areas, a basic counting methodology is used according to the number of results areas marked in each proposal. For the project ideas in the country programme briefs without complete information on results areas, targeted results areas were estimated based on available information.

<sup>1</sup> The data for country programme briefs includes the incoming project ideas from the countries, covering a broad range of data to determine the areas of potential demands and needs. Therefore, this analysis should be considered for indicative purposes only.

14. These comparisons also show that private sector investment in energy access, generation and efficiency remains strong. There is a gap in private sector investment across the adaptation results areas of livelihoods of people and communities; health, food and water security; infrastructure and built environment; and ecosystems and ecosystem services. Public-private partnerships (PPPs) in cross-cutting adaptation areas, such as risk-reducing insurance measures and urban development, may help to close these gaps as well as maximize the results impacts.

15. Climate-compatible cities were identified as one of the five potential investment priorities in document GCF/B.09/06.<sup>2</sup> As noted in GCF/B.09/06, efforts to invest in climate-compatible cities may deliver impacts related to emission reductions from transport and waste as well as buildings, urban systems, industries and appliances. They will also support adaptation, particularly by helping to strengthen the resilience of livelihoods of urban communities, and they will increase the resilience of urban infrastructure while also reducing associated emissions. In particular, working closely with national governments and promoting access to finance as well as crowding in private sector investments in the cities most ready to move from climate change planning to climate change action would maximize the impact of GCF investments.

### III. Removing barriers

16. The main area where targeted GCF investment can have a large climate impact is in identifying the core investment priorities in attracting and leveraging different types of climate change investment, including from private and institutional investors, and in providing the right kind of drivers to bring in private sector support.

17. To attract private sector co-financiers (e.g. banks, asset managers, pension funds, etc.) to climate finance transactions, it is important that the main drivers for their involvement are present. These include, but are not restricted to, a low cost of capital and an acceptable risk-adjusted return on capital. Given sufficient private sector interest in investing, GCF concessional capital could be blended with other capital sources to achieve benefits such as decreasing the cost of capital for co-financiers, some of which are subject to compliance with stringent capital regulations. In turn, access to such private sector investments will help GCF address at least some of the specific barriers that affect investment levels, in particular those related to de-risking, which has been identified as a key barrier.

18. In document GCF/B.17/03, several barriers were identified around policy and regulation; access to climate finance and local markets, especially related to available de-risking modalities; affordability and technology; knowledge and education; and region- and country-related barriers.

19. Policy and regulatory related barriers, where the public sector must take the lead, are often associated with: (a) the lack of an appropriate strategic and regulatory framework; (b) inconsistent policy support, such as a direction shift or an interruption of regulatory and market incentives; and (c) the lack of a long-term commitment by governments to support climate-related industries and markets. Examples include: a 30 per cent fall in overall renewable energy investment in developing countries in 2016, where some of the decrease is attributed to a lack of policy support in countries where projects were delayed; a major setback in the renewable energy sector in Southern European countries due to inconsistent policy support following the 2008 financial crisis; and the impact of production tax credit expirations due to a lack of long-

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<sup>2</sup> The five potential investment priorities identified are climate-compatible cities, sustainable climate-smart agriculture, scaling up finance for forests and climate change, enhancing resilience in SIDS, and transforming energy generation and access.

term commitment by government regarding fiscal incentives in the U.S. solar market.<sup>3</sup>

20. These policy and regulatory barriers as they relate to the eight results areas of GCF revolve around inadequate public strategic and regulatory frameworks for several sectors (energy, agriculture, urban, forestry, etc.). Often these are coupled with retrograde policies (e.g. policies that provide incentives for fossil fuels and carbon-intense products and services). In addition, it needs to be emphasized that change and paradigm shift require a long-term commitment by governments to support climate-related businesses and market development, which ultimately requires strong public institutions and local government structures.

21. To take energy efficiency as an example, in many developing countries the obstacles to energy-efficient schemes and investments, particularly in the micro-, small and medium-sized enterprises sector, are both structural and multidimensional. Hence the Secretariat could induce further discussion on creating the enabling environment and regulatory framework. Energy savings alone generally are not a sufficient incentive for a transformational shift promoted by the usual approaches to the energy efficiency sector. Pure market forces on their own are unlikely to drive energy efficiency investments, regardless of available information, soft promotion and more accessible credits, if an energy efficiency policy framework remains a voluntary commitment.

22. The Private Sector Advisory Group identified solutions in their seven recommendations, compiled in document GCF/B.17/03. Specifically, these include building internal capacity and policy reforms, for example, by creating an enabling environment and regulations specific to renewable energy, energy efficiency, permits and/or available fiscal incentives (tax-based and non-tax-based), especially through enhancing key commercial and other viability thresholds. Facilitating private sector access to information, for example, through the creation of a “one stop shop” on renewable energy and/or energy efficient investment, is also important.

23. For adaptation-related results areas, one solution is to help GCF recipient countries overcome the barriers caused by a lack of technology. More attention can also be paid to the integration and transfer of knowledge for adaptation in businesses alongside the uncertainty, unfamiliarity and limited understanding regarding climate adaptation risks and the tangible investments that can be made to address them. Barriers associated with knowledge and capacity gaps can also be identified to complement the regulatory strengthening effort.

24. One area the Secretariat has identified is climate insurance and reinsurance products that can reduce climate risks, accelerate adaptation, crowd-in private capital and expand the market for climate finance. The barriers to attracting insurance capital include: the current patchwork of public capital solutions that are often very siloed and narrowly focused in terms of location; the policy and market barriers; the unavailability of risk information, assessment, and modeling; the lack of syndication; and the lack of competitive tension.

25. GCF could also provide a range of dedicated de-risking instruments, other than insurance for investment transactions, to attract private capital. For example, one of the main financial instruments GCF could deliver efficiently is the guarantee, which can enhance the credit worthiness of a project or of a company and catalyse public and private financial flows to developing countries by mitigating sovereign, institutional and project performance risks.

26. GCF could also support the continued development of green bond markets, particularly in regions/sectors where this is lagging at present. Green bonds offer the opportunity to attract a large amount of private capital to support developing countries and projects with climate change mitigation and adaptation objectives, but their development has not been uniform.

27. GCF could consider receiving a credit rating, which would allow it to efficiently support these initiatives from a capital perspective without having to reserve the face value of the guarantee at the outset.

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<sup>3</sup> Document GCF/B.17/03.

28. The current use of public funds often exposes them to risks that can more appropriately and efficiently be handled by the private sector. Example approaches that can be promoted include: engagement with countries on the importance of insurance for climate resilience and adaptation; mapping of sectors stated by countries in their NDC to identify policy gaps; development and provision of climate risk information both at the local and regional levels; and the provision of technical assistance to support insurance underwriting, pricing and packaging.

29. In addition to long-term changes to remove policy and regulatory barriers, short-term options should also be explored as in some instances the direction towards paradigm shift needs to start sooner, be targeted and capture all market segments. For example, GCF adopted the REDD-plus results-based payments system to specifically promote proposals from the private sector while at the same time exploring further policy- or results-based financing for certain deliverables that unlock and remove some of the identified barriers.

#### **IV. Review of climate information**

30. At its fifteenth and sixteenth meetings, the Board expressed concern at the low quality of funding proposals, particularly in terms of their potential for climate impact, which, in certain cases, was not sufficiently developed or well connected to the proposed activities. Board members also expressed diverging views on the climate and development nexus. In addition, there were observations that the climate-related objectives of certain projects were not sufficiently clear, particularly in the case of adaptation proposals. These were also noted in document GCF/B.17/18 on the review of the initial proposal approval process.

31. To begin addressing these concerns, the Secretariat studied comments from the Secretariat and independent TAP assessments of the 54 approved funding proposals to ascertain potential gaps in climate rationale, information and data, in particular (see table 1). Proportionally, there were many comments on gaps and insufficient climate information, especially for adaptation-related funding proposals. At the same time, it should be noted that in energy-related proposals, which focus on the reduction of carbon dioxide (CO<sub>2</sub>) emissions, the climate information and rationale is often implicit – with no specific comments or references.

**Table 1: Comments on climate information from the Secretariat or independent Technical Advisory Panel assessments of approved funding proposals**

<b>Topic</b>	<b>Number of comments</b>	<b>Examples</b>
Good climate information; or focused on seeking better climate data	18	<ul style="list-style-type: none"> <li>- “expected to generate climate information in decision-making”</li> <li>- “provides picture of the climate change impacts”</li> <li>- “will contribute to the risk reduction culture in beneficiary communities”</li> <li>- “will enable population to better react to the impact of climate change and obtain better climate information”</li> <li>- “presents an overview of the current and future climate scenarios”</li> </ul>
Insufficient climate evidence or rationale, lack of attribution to vulnerabilities on the ground, or climate disconnect with the theory of change	31	<ul style="list-style-type: none"> <li>- “climate related and geophysical extreme events and changes in the intensity and frequency of events are not always taken into consideration”</li> <li>- “there is little evidence that problems are related to climate change at this stage”</li> <li>- “the prevailing paradigm will largely continue perhaps only slightly being moderated by incorporating responses to climate change”</li> <li>- “there is no evaluation of the potential impact of extreme events, like 100-years return period rains”</li> <li>- “the stated climate impacts do not have any references to scientific data and projections”</li> </ul>



Climate information too generic (difficult to assess and/or downscale)	9	<ul style="list-style-type: none"> <li>- “the project has little information on the water basin and the implications of climate change for future water availability scenarios”</li> <li>- “there is no clear formula to calculate the costs associated with climate change”</li> <li>- “little information on the basin, and the implications of climate change for future water availability scenarios”</li> <li>- “lacks information on the current trends of climatic parameters at the local level”</li> </ul>
Identified gaps in climate data and baselines	13	<ul style="list-style-type: none"> <li>- “difficult to assess impacts without baselines”</li> <li>- “lack of national database on disaster impacts”</li> <li>- “there is clearly a gap in the data with regard to providing concrete and convincing evidence on a cause and effect relationship between climate and water flow volume”</li> <li>- “does not include activities to enhance climate information and needs better meteorological data gathering system”</li> <li>- “complete a climate change baseline impact study”</li> <li>- “present a matrix of climate change indicators”</li> <li>- “lack of data and complexity of modelling processes”</li> </ul>

32. The lack of robust climate information at the project level reveals the need to strengthen climate rationale and to support countries to design quality activities, including projects for GCF. Board decision B.07/04 (b)(iii) on project/programme level outcomes for adaptation also calls for strengthened institutional and regulatory systems for climate-responsive planning and development; increased generation and use of climate information in decision-making; strengthened adaptive capacity and reduced exposure to climate risks; and strengthened awareness of climate threats and risk-reduction processes. GCF is supporting proposals and country efforts to adopt integrated and comprehensive approaches that can benefit from climate information services.

33. Additionally, this exercise showed that, along with the desk reviews of the pipeline undertaken by the Secretariat’s sector experts, there is a strong need to provide much more detailed technical guidance on current best practice, climate rationale and explanations of the impacts of CO2 emission reduction to beneficiaries.

## V. Follow-up actions

34. This section of the document details several follow-up actions based on the additional analysis requested by the Board in decision GCF/B.17/09 to identify areas to be pursued by the Secretariat where targeted GCF investment would have the most impact. The following actions aim to remove barriers, improve results, and enhance climate information:

- (a) Recognize that to overcome barriers, the public sector must play a role in implementing of the seven recommendations outlined in document GCF/B.17/03;
- (b) Explore further policy- or results-based financing in the Readiness and Preparatory Support Programme and funding proposals for specific deliverables that unlock and remove some of the identified barriers;
- (c) Mobilize private sector participation on REDD-plus investments, particularly for results-based financing;
- (d) Promote, in readiness programmes and within Secretariat reviews of funding proposals, ways to overcome barriers such as affordability constraints, first-mover risks, behavioural and perceived risks, and low technology penetration rates;

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- (e) Promote PPP proposals where public interventions (i.e. guarantees, insurance, incentives, knowledge and policy support, and preparatory technical assistance) can be used to attract and mobilize private and institutional finance with staying power through de-risking structures and transformative interventions;
  - (f) Provide more strategic information and technical advice to NDAs and AEs through the Readiness and Preparatory Support Programme to align results areas with the country NDCs and the GCF strategic priorities and policies. There are results areas, such as infrastructure and built environment, where there is a particular need for more alignment;
  - (g) Explore possible interventions by GCF in climate-related insurance and reinsurance in sectors related to climate change adaptation and mitigation in both the public and private sectors;
  - (h) Focus investments that promote potential PPPs addressing climate change and promote synergies within GCF cross-cutting areas, including, for example, climate change mitigation and adaptation in the urban sector;
  - (i) Produce specific technical and sector guidance for each of the eight results areas for wider, public consumption. Such guidance will also allow NDAs/focal points and AEs to develop more targeted projects that meet GCF aspirations in terms of paradigm shift and transformation. Guidance could also focus on regions and technologies, such as renewables in South-East Asia; and
  - (j) Develop a programme of work to target and support the provision of stronger and better climate information and services across the results areas. In addition, this could be promoted through a request for proposal (RFP) targeting priority sectors and countries most in need of such information in the development of their pipeline of projects to GCF.

## Annex I: Draft decision of the Board

The Board, having considered document GCF/B.19/37 titled “Identification of result areas where targeted GCF investment would have the most impact”:

- (a) Takes note of the findings of the analysis of potential investment priority to identify results areas where targeted GCF investments would have the most impact, including the follow-up actions to be taken by the Secretariat; and
  - (b) Requests the Secretariat to report to the Board on the progress of implementation of the follow-up actions to be taken by the Secretariat as identified.
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