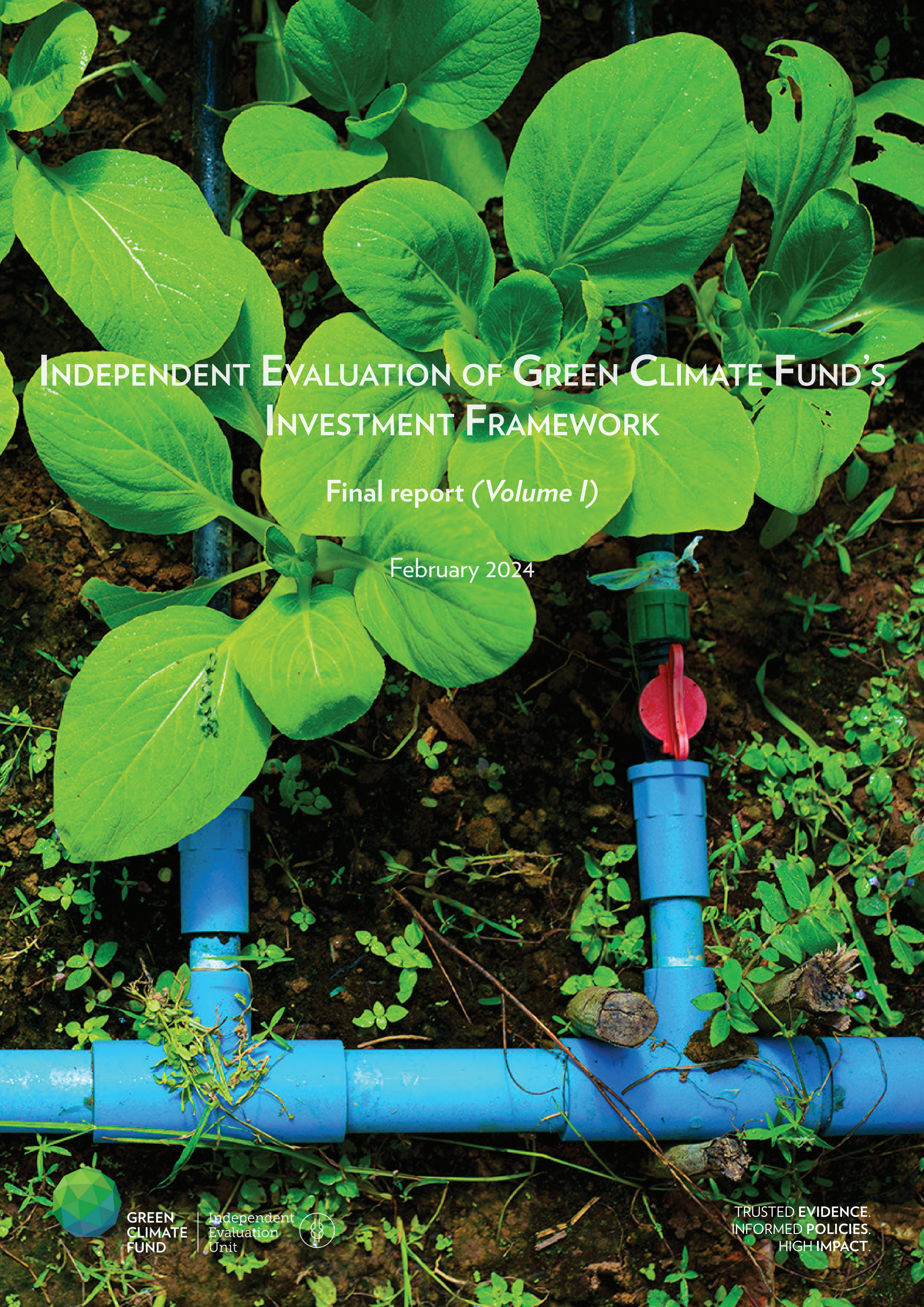

Independent Evaluation of Green Climate Fund's Investment Framework

Final report *(Volume I)*

February 2024

GREEN CLIMATE FUND | Independent Evaluation Unit

TRUSTED **EVIDENCE.**
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INDEPENDENT EVALUATION UNIT

Independent Evaluation of Green Climate Fund's Investment Framework

FINAL REPORT

02/2024

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First Edition

This evaluation is a product of the Independent Evaluation Unit at the Green Climate Fund (GCF/IEU). It is part of a larger IEU effort to provide open access to its research and work and to make a contribution to climate change discussions around the world.

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PREFACE

Do you know the classic moral dilemma of the "trolley problem"? The one where you are watching as a trolley is rolling down its track, bound to hit several imaginary people? Yes, that one, where you have the option to pull a lever, which would turn the trolley onto another track, with an equally unwanted outcome. This problem is an example of classic dilemmas. They are dilemmas because there is no right answer, but the dilemma makes you face tough internal choices and examine what your value system really is. You have to account for the outcomes of each choice, and then make a choice that aligns best with your value system.

In economic terms, all of us face competing choices with all our resources. Whether you spend your free time hiking or reading a book, or watching a movie, it is the result of an internal choice. How you choose to spend your time and money is an immensely personal choice, but also says a lot about the individual you choose to be. Transpose that same understanding to an institution, and you have a situation where the institution's investment framework is basically a means for it to articulate what it wishes to do and not do. This is very powerful! The GCF Investment Framework isn't just any framework in the system. It is in fact a statement of how the GCF chooses to position itself, how it will appear when seen from the outside, and what it will do in case of wrenching choices.

This evaluation finds that the GCF Investment Framework is indeed the best means for the GCF to show what it wants to do, what it wishes to support, and what doors it does not want to open. The GCF has a massive mandate, and the Investment Framework balances it all. But the evaluation also finds that more could be done. The articulation itself can improve, while reducing some redundant or repetitive parts of the framework. The Investment Framework could also include accounts of risks the GCF wishes to take. And there is a need for the GCF to align how it measures results. As it stands, the view of GCF investments has some parallels but not complete overlap with the way the GCF measures results. This needs to be resolved. And importantly, the evaluation recommends a closer look at complementarity and coherence. No matter how you look at climate finance, it is not immediately likely to fulfil all the needs. To avoid fragmentation of funds, and to keep making us look at the big picture paradigm shifts (beyond project-level finance), the evaluation recommends thinking of complementarity and coherence as part of the GCF investment planning. In fact, we also ask the GCF think about a focus on specific fundamental climate issues so that all projects are addressing the same root cause, all at once. A resolute single mindedness worked for the Montreal Protocol.

Do you prefer Barbie or Oppenheimer? Was the dress blue/black or white/gold? Should the GCF pursue higher impact, or should it instead emphasize dimensions of justice? How do we summarily answer these contentious questions? Well, research tells us that we can't. Some of these questions ultimately are answered by our core beliefs, our value systems, our foundational belief systems. How then do we reach consensus on these issues? Social psychology tells us that no amount of debate can completely resolve issues that are core to our fundamental belief system. Instead, we have to reorient the debates towards areas of agreement. And areas of agreement are often tacit and underexplored. At its core, the investment choices made by the GCF, or any institution or individual, are a result of the competition of internal priorities and reconciliation of diverse value systems. The choices made by the GCF play a key role in humanity's response to one of its greatest challenges. And these choices are demonstrated in the GCF Investment Framework.

No pressure, but the pressure is on.

Archi Rastogi, Ph.D.

ACKNOWLEDGEMENTS

Like any evaluation, this one was written while standing on the shoulder of giants.

First and foremost, we have to thank members of the wider team. The first thank-you is owed to Youn Soo Park and Emma Buckley, who supported the report in immeasurable ways throughout. Tauni Lanier gave this evaluation immense expertise and oversight.

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Institutions are built on administrative practices, and this evaluation is very grateful to the procurement unit of the GCF – in particular, Helena Ngau and Dragoljub Kelecevic. Our IEU colleague Elang Mokgano also consistently supported us with the administrative parts of the work. This report was supported further by our editor, Beverley Mitchell, and designer, Giang Pham.

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GUIDE FOR BUSY READERS

The IEU recognizes that its evaluation reports are distributed to a wide range of stakeholders with different objectives and time frames for reading them.

The IEU makes the following suggestions on how you might approach reading its Independent Evaluation of Green Climate Fund's Investment Framework:

- If you have **15** minutes: The Executive Summary.
- If you have **30** minutes: The Executive Summary and the first page of chapters 3–6.
- If you have **60** minutes: The Executive Summary, the first page of chapters 3-6 and chapter 7.
- If you have **two hours**, the full report.

ABBREVIATIONS

AE	Accredited entity
AF	Adaptation Fund
B.37	Thirty-seventh meeting of the Board
CIF	Climate Investment Funds
DAE	Direct access entity
FP	Funding proposal
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse gas
IAE	International accredited entity
ICS	Investment criteria scorecard
IEU	Independent Evaluation Unit
IRM	Initial resource mobilization
IRMF	Integrated Results Management Framework
iTAP	independent Technical Advisory Panel
NAP	National adaptation plan
NDA	National designated authority
NDCs	Nationally determined contributions
NOL	No-objection letter
RMF	Risk Management Framework
RPSP	Readiness and Preparatory Support Programme
ToC	Theory of change
UNFCCC	United Nations Framework Convention on Climate Change

EXECUTIVE SUMMARY

CONTEXT

The Green Climate Fund (GCF) is an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change, with a mandate to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. The GCF does this by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.

Under the overarching Governing Instrument, the GCF Investment Framework translates the Fund's overall strategic objectives into clear guidelines for investment decisions. The Investment Framework is evolving as the Fund matures further and its portfolio grows from the initial resource mobilization (IRM) period to GCF-2. The GCF's initial Investment Framework consists of investment policies, investment strategy and portfolio targets, and investment guidelines, including the Investment Criteria Scorecard (ICS). The initial Investment Framework was updated by the GCF Board, in decision B.27/06, paragraph k, to reflect the GCF's first replenishment allocation parameters and portfolio targets.

As part of the work plan and budget of the Independent Evaluation Unit (IEU) for 2023, the GCF Board approved the Independent Evaluation of the GCF Investment Framework. The purpose of this evaluation is to assess the relevance and effectiveness of the GCF Investment Framework in fulfilling the GCF's mandate and strategic goals. It considered all relevant policies, tools, frameworks and processes that come into play to enable the GCF to identify high-quality climate change projects and make investment decisions.

OBJECTIVES AND SCOPE OF THE EVALUATION

This evaluation of the GCF Investment Framework aims to assess the overall relevance and effectiveness of the Investment Framework in the context of the GCF's efforts towards climate change mitigation and adaptation. Specifically, the evaluation has the following objectives:

- Examine the investment priorities and portfolio targets to respond to the overarching question of how effective and fit-for-purpose the GCF Investment Framework, accompanying tools, criteria and guidelines are in fulfilling the Fund's strategic goals and mandate.
- Assess the coherence and complementarity of the GCF Investment Framework internally with other GCF internal policies, strategies and guidelines, and externally with the country-level climate change strategies and action plans.
- Assess and analyse the efficiency, effectiveness, coherence and complementarity of the GCF Investment Framework and the associated ICS with regard to funding proposals (FPs), projects and programmes.
- Review the alignment of the GCF Investment Framework with other corresponding frameworks, such as the Integrated Results Management Framework (IRMF) and the Risk Management Framework (RMF).

EVALUATION METHODS

The evaluation involved a mixed-methods approach, using both qualitative and quantitative data and methods to inform its evidence-based findings, conclusions and recommendations. The evaluation employed the following methods:

- Desk-based review of primary documents, academic and grey literature
- Policy analysis of the GCF Investment Framework
- Quantitative data analysis to identify certain trends and their contributing factors
- Landscape analysis and benchmarking of other large investment frameworks, predominantly in sectors relating to climate change and the environment
- In-depth interviews and focus groups with key stakeholders, including GCF staff and the staff of national designated authorities (NDAs), direct access entities (DAEs) and international accredited entities (IAEs)
- An online survey to gauge the perceptions and opinions of relevant stakeholders about the GCF Investment Framework and related policies, guidelines, frameworks and tools

TIMELINE

The evaluation was launched in early 2023. The data, unless otherwise mentioned, are relevant up to B.37. The evaluation report was finalized in December 2023, for sharing with the GCF Board in time for its first meeting in early 2024.

KEY CONCLUSIONS

Conclusion 1. Structure of the GCF Investment Framework

At the institutional level, the GCF Investment Framework provides an appropriate response to the GCF mandate to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. This is evident from the investment targets that the GCF has embarked upon – such as the 50:50 allocation balance for adaptation and mitigation, significantly increasing the allocation to DAEs, and achieving appropriate regional balance – in face of the associated complexities and the potential trade-offs of such investment decisions. The framework, therefore, is an articulation of the balance within the GCF mandate.

The GCF Investment Framework accommodates competing priorities and trade-offs, which are articulated through strategic, political, programmatic and operational considerations at the portfolio level. With its overarching scope, the GCF Investment Framework is intended to be a comprehensive tool for the GCF Board and Secretariat to make and communicate informed, strategic and consistent investment decisions that align with the GCF mandate. However, this wide scope has implications. **While the GCF is mandated to promote a paradigm shift, individual projects and programmes have limited influence at the country level; the Investment Framework has limited linkages with national climate strategies, NDCs and NAPs.** Generally speaking, the GCF is funding individual projects and programmes that are targeting specific sectors and beneficiaries, with limited policy influence towards accelerating national responses to the climate crisis.

The GCF Investment Framework emphasises greater coverage of GCF's investments across countries, sectors, results areas and AEs. This coverage partly undermines the depth of programming, which is key to achieving paradigm shift. Focused GCF funding to select priorities within countries/regions, sectors, results areas and AEs may contribute more to paradigm shift as a GCF strategic priority and operational efficiency as a GCF operational priority. In addition, GCF could translate its comparative advantages or value-add into a more programmatic focus on addressing specific structural barriers in addressing climate change. For instance, investment priorities for each strategic period could address a fundamental issue in specific sectors or geographies. Establishing specific investment priorities can help the GCF portfolio create a clear narrative and drive a paradigm shift as a coherent whole.

The GCF has a full suite of climate change financial instruments, including grants, loans, equity, guarantees and concessional funding, which meets the needs of both (i) the supply of finance by the GCF, by ensuring the deployment of the right types of finance for climate financing needs, and (ii) the demand for finance. There is a broad consensus that the range of options provided by the GCF for climate financing helps respond to the varying needs of countries in general, and projects/programmes in particular.

Conclusion 2. Operationalization of the GCF Investment Framework

In general, the Investment Framework brings uniformity, consistency and objectivity to the decisions made within and among various divisions, offices and functions of the GCF. In the GCF Secretariat, the Investment Framework is used as a key document to translate the GCF's strategic and operational priorities into actions at two levels: first, the allocation of financial resources at the portfolio level, based on investment portfolio targets; and second, the appraisal and approval of individual projects and programmes, based on the investment criteria, indicators and scorecard.

However, the operationalization of the Investment Framework creates various obstacles at many stages of FP review and assessment within the Secretariat, as in the following examples.

- At concept note submission (stage 3), some of the challenges faced by DAEs and IAEs include (i) lack of clarity on GCF investment priorities at the portfolio level; (ii) ambiguity around proposed funded activities, especially the classification of projects as climate or development interventions; (iii) lack of or limited data to establish climate rationale; and (iv) difficulties in obtaining NOLs from NDAs due to, inter alia, capacity issues, high turnover and political–economic considerations.
- At FP development (stage 4), which includes technical and conceptual dimensions, some of the challenges faced by DAEs and IAEs include (i) overlap in investment criteria points, especially between paradigm shift, sustainable development and impact potential; (ii) no benchmarking for efficiency and effectiveness measures; (iii) lack of data to establish paradigm shift; and (iv) lack of evidence for the ToC and sustainable development pathway for new and innovative projects.
- At FP review (stage 5), some of the challenges are related to the GCF's institutional requirements to strengthen the project's governance, oversight, management, financial management, results, risks, and so forth, including the (i) complex organizational, funding and delivery structures of GCF projects and programmes; (ii) limited capacity of DAEs, including the limited exposure of private sector entities to development sector tools, such as ToCs, results frameworks, and so forth; (iii) baseline values and measurability of results in FPs; and (iv) need for multiple adjustments to risk-mitigation measures in FPs.

The Secretariat uses an ICS tool, which is theoretically fit for purpose. Yet, its operationalization has remained a challenge for many national, regional and international AEs, as well as GCF Secretariat staff.

Conclusion 3. Alignment of the GCF Investment Framework with its RMF and IRMF

The GCF Investment Framework becomes mostly irrelevant after the approval of an FP. This is due to the lack of alignment of the Investment Framework with the GCF's other frameworks, such as the IRMF and RMF, that come in to play after the approval of FPs. The Investment Framework and the IRMF suffer from a lack of alignment and coherence, which creates challenges for monitoring and evaluating investment criteria indicators once the FP is approved and in the implementation phase. This is more relevant for three of the six investment criteria – namely, needs of the recipient, country ownership, and efficiency and effectiveness, where there is no clear evidence of any alignment with the IRMF.

Similarly, there is no clear indication of how the GCF's risk appetite statement is translated into the GCF's investment decision-making – particularly in the GCF Investment Framework and ICS tool at the portfolio and project/programme levels. **Overall, the GCF is a value-based organization, driven by its strategic objective of promoting a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. This is manifested through its considerable risk tolerance for activities necessary to realize its mandate. Nonetheless, proper consideration of risk–reward ratios is not explicit in the GCF Investment Framework.** The Investment Framework does not provide substantial guidance on how investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. There are four major programmatic risks that GCF FPs are subject to: (i) projects and programmes that are untested and innovative, yet promising; (ii) projects and programmes that are highly complex, such as multi-country, multi-sectoral and multi-stakeholder projects with complex institutional, financial and sectoral arrangements; (iii) projects and programmes in vulnerable countries that lack credible data to establish climate rationale or prospects for impact potential and paradigm shift; and (iv) projects and programmes that involve equity or loans, and hence require continued management of repayments after completion.

On an ex-ante basis, the potential impact of GCF investments in climate change adaptation and mitigation seems highly promising. However, there is still limited ex-post evidence of results being achieved by GCF-funded activities. This is partly because most GCF projects are at an early or middle stage of implementation. Therefore, there is a pressing need for the GCF to continue to strengthen its system of ex-post results monitoring and validation to ensure tracking of early results and strengthen the system to improve learning, course correction and adaptation.

KEY RECOMMENDATIONS

Recommendation 1. The GCF Secretariat should consider scenario planning, strategic forecasting and risk–reward assessment on each of the individual investment portfolio targets set in the *Strategic Plan for the Green Climate Fund 2024–2027*. The GCF pipeline of investments/funding data from the IRM and GCF-1 can be used to plot the likely scenarios, forecast the possible outcomes of investment policy decisions, and inform the risk–reward proposition for informed investment decisions.

Recommendation 2. The structure of the Investment Framework should be simplified and should be used as an instrument to clarify GCF investment choices at the portfolio and project levels. It is recommended that the investment policies – such as paradigm shift, grant-equivalent accounting, minimum concessional funding, blending, and not crowding out other financial sources and revenue – be merged with the strategic and operational priorities of the GCF, whereas the focus of the Investment Framework could be limited to (i) investment portfolio targets, which are aimed at informing GCF investment decisions at the portfolio level; and (ii) the ICS, which is aimed at informing GCF investment decisions at the project and programme level.

Further, the GCF Secretariat should consider institutional measures to continue to succeed on larger targets such as the balance of mitigation and adaptation, and programming through DAEs. Such targets require the use of institutional tools such as the RPSP to sustain the 50:50 allocation for adaptation and mitigation targets.

Recommendation 3. To reinforce high impact and to address potential fragmentation, the GCF should revisit the Investment Framework from the perspectives of depth/coverage, consideration for policy influence, and clarifying complementarity and coherence at the country level.

3.1. The GCF should consider revisiting the balance between coverage and depth of its investment financing across sectors and results areas. The intended position of the GCF within certain sectors, geographies or results areas may be translated, through the Investment Framework, into specific strategic priorities that further cascade into investment priorities and operational priorities. The GCF should consider identifying fundamental root causes or key structural barriers to address, allowing for synergistic programming that brings about a paradigm shift with intention.

3.2. The GCF Investment Framework should consider developing instruments for NDAs and DAEs to improve policy influence towards accelerating national response to the climate change crisis. This could mean conditional, payment-linked grants and/or loans as well as technical assistance for countries to incentivize the implementation of their NAPs/NDCs. It is likely that this approach will not only address the issue of country ownership but also enable the scaling up of impact, improve efficiency, support equitable allocation and increase the accountability of operations.

3.3. In addition, **the GCF may wish to consider "complementarity and coherence" as an operational priority**, to avoid duplication, promote learning and collaboration, and help address the issue of the crowding out of other climate finance investments.

Operationalization of the GCF Investment Framework

Recommendation 4. The GCF Board and Secretariat should address the issue of redundancies and duplication within the investment criteria and the tools used to operationalize the Investment Framework.

4.1. The investment criteria and subcriteria should be examined with a view to consolidating some of them. Some criteria points are complementary in nature and could be combined – for example, country ownership, sustainable development potential and paradigm shift. Similarly, the needs of the recipient country can be eliminated as a separate criterion, as every country and project has almost the same argument to justify these needs. Also, the needs of the recipient country are mostly explained in sections B.1 and B.2(a) of the FP, under the climate context and ToC.

4.2. To improve objectivity and consistency in the appraisal of funding tools, some of the qualitative and subjective criteria and subcriteria in the ICS tool need to be quantified and made measurable. Except for few indicators on cost-effectiveness and impact potential, all indicators in the ICS tool are qualitative (and somewhat subjective). It is hard for both the GCF (i.e. the Secretariat and iTAP) and AEs to objectively use these ICS indicators to present or measure FPs. The GCF should quantify and benchmark some of the qualitative and subjective aspects of the ICS tool, both to reduce the risk of inconsistency and errors of judgment on the part of the GCF when appraising individual projects and to promote more objectivity and transparency in the use of the ICS.

4.3. A comparatively complex but comprehensive solution would be to restructure the investment criteria into three distinct categories and tools. The first would be to use a simple checklist to assess the mandatory or essential requirements for projects/programmes to qualify for GCF funding, such as country ownership, the needs of the recipient country, and the scalability aspect of paradigm shift. The second would be to use the scorecard method to appraise the strength of an FP in terms of efficiency and effectiveness, impact potential, paradigm shift and sustainable development potential. The third would be to use additional tools, such as the log-frame, IRMF, RMF and financial proposals to measure the quality of project management, including compliance with GCF policies such as environmental and social risk assessment, gender assessment and action planning, financial management and procurement, and so forth.

Recommendation 5. The GCF should continue its efforts to introduce flexibility into the investment criteria subcategories and indicators – particularly in the use of best available information and data to demonstrate the alignment of FPs – and address perceptions that the requirements remain inflexible. The Board and Secretariat have made efforts to introduce the flexibility and simplicity sought by AEs and partners, as demonstrated by Board decision B.33/12, paragraph h, that the best available information and data are sufficient to form the basis for the demonstration of impact potential. Continued efforts to allow flexibility in the investment criteria subcategories, indicators and their data sources will enable particularly vulnerable countries to use alternate indicators, including proxy indicators, to demonstrate their impact potential and paradigm shift regarding climate change mitigation and adaptation. The Secretariat should also explore means such as providing extra weighting to FPs from particularly vulnerable countries, which may allow the GCF additional flexibility to respond to debt and other challenges. Efforts also need to be made to address the perceived concerns of partners in this regard.

Alignment of the GCF Investment Framework to improve results focus and risk mitigation

Recommendation 6. There is an urgent need for the GCF Secretariat to align the Investment Framework with the IRMF and the RMF and to seek internal coherence and alignment. As a learning organization, the GCF needs to instate a robust process of performance monitoring, learning and adaptive programming to ensure that the GCF's funded projects and programmes are delivered as per their approved FPs and are contributing to the GCF's strategic objectives and priorities. More specifically, the following actions need to be considered in this regard.

6.1. The GCF Board and Secretariat should work towards greater alignment between the Investment Framework and the IRMF, so that investments and results are assessed from similar perspectives. This can be supported by continued efforts for monitoring and results management:

- The GCF should increase the frequency of monitoring of complex projects, with more periodic reviews, spot checks and validation exercises to confirm whether projects are being delivered according to their design and implementation plans, or whether there is a need for adaptation and course correction to improve the success rate of the project delivery.
- The GCF should institute an expedited process of adaptive programming, whereby the Secretariat has delegated authorities to make/approve adjustments of an operational nature, rather than waiting for Board meetings and decisions to approve these changes.

- The GCF must strengthen its system of ex-post results monitoring and validation to ensure tracking of early results and to improve learning, course correction and adaptation. This may include structural adjustments by either establishing an audit/assurance unit within its Division of Portfolio Management or using external support for spot checks and systematic validation of reported results.

6.2. The risk appetite statement and risk–reward consideration need to be explicitly reflected in the GCF Investment Framework. In practice, this means that the GCF Investment Framework should provide sufficient guidance on how GCF investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. There is a need to reinforce and expedite the efforts already underway within the Secretariat.

Recommendation 7. The GCF should develop an online/real-time, publicly available Investment Portfolio Dashboard. The dashboard should provide information on the overall allocation to each investment target, the status of already allocated funds and the remaining balance so that NDAs and AEs and other stakeholders can plan accordingly.

MAIN REPORT

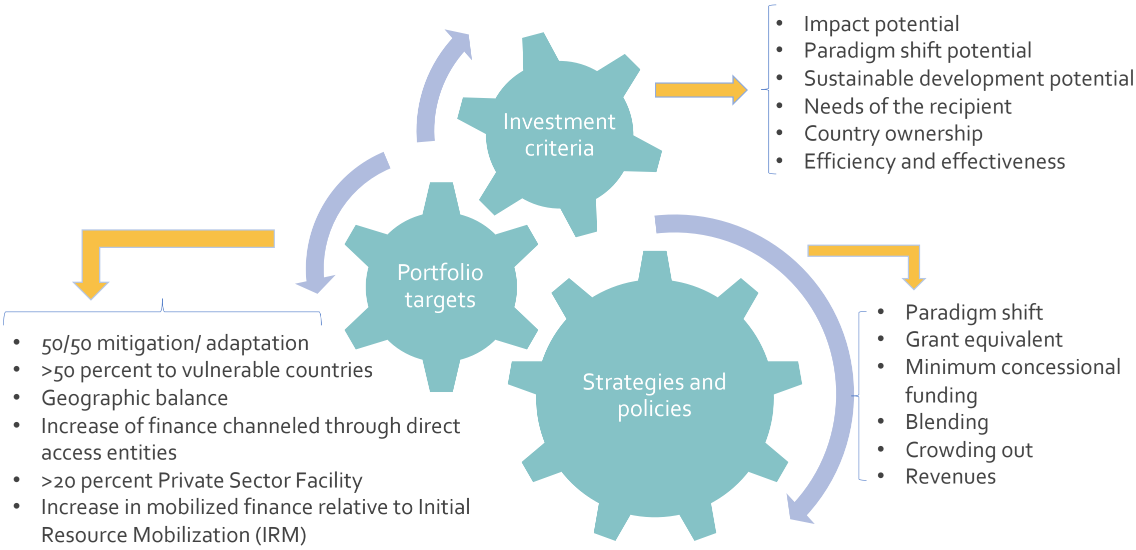
Chapter 1. INTRODUCTION

A. BACKGROUND

1. The Green Climate Fund (GCF) is an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC). The purpose of the Fund is to make a significant and ambitious contribution to the global effort to achieve the goals set by the international community to combat climate change. The GCF is charged with promoting a paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas (GHG) emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.
2. As described in its Governing Instrument,[1] the GCF is mandated to channel new, additional, adequate and predictable climate finance to developing countries; to catalyse public and private climate finance; to take a country-driven approach; to consider the needs of developing countries that are particularly vulnerable to the adverse effects of climate change; to balance funding for adaptation and mitigation; and to be a continuously learning institution guided by monitoring and evaluation, among other principles and provisions. To operationalize the priorities set out in its Governing Instrument, the GCF has developed and put in place several policy frameworks, such as (i) the strategic plan; (ii) policies and guidelines for replenishment, resource mobilization, accreditation/re-accreditation, the private sector, the business model and allocation framework, complementarity and coherence, country ownership, integrity and sustainability, among others; (iii) frameworks and tools for investments, the Private Sector Facility, results monitoring and evaluation, risk management and project approval, among others; and (iv) strategies and guidance for projects, programmes and initiatives, such as funded activities, including projects and programmes, the Readiness and Preparatory Support Programme (RPSP) and the Project Preparation Facility. The GCF classifies its policies into 10 broader domains or frameworks that influence the Fund's operations.
3. Under the overall Governing Instrument, the GCF Investment Framework was established to translate the Fund's overall strategic objectives into clear guidelines for investment decisions. The framework is evolving as the Fund matures further and as its portfolio grows over time, from the initial resource mobilization (IRM) to GCF-2. The GCF's initial Investment Framework consists of the following components: (i) investment policies; (ii) investment strategy and portfolio targets, and (iii) investment guidelines, including the investment criteria scorecard (ICS) (Figure 1–1). The initial Investment Framework was updated by the GCF Board, in decision B.27/06, paragraph k, to reflect the GCF's first replenishment allocation parameters and portfolio targets. It was subsequently updated at the thirty-seventh meeting of the Board (B.37), in decision B.37/20.

[1] Available at https://www.greenclimate.fund/document/governing-instrument.

Figure 1–1. GCF Investment Framework and related policies, allocation parameters and investment criteria



Source: GCF Investment Framework; visualization by the evaluation team.

B. Objectives and scope of the evaluation

4. At B.34, the Board approved the 2023 workplan of the Independent Evaluation Unit (IEU). This workplan includes an Independent Evaluation of the GCF Investment Framework. The evaluation broadly assesses the relevance and effectiveness of the GCF Investment Framework in fulfilling the GCF's mandate and strategic goals.
5. The objective of the evaluation is to provide evidence-based analysis and recommendations to strengthen the effectiveness of the Investment Framework and its accompanying tools, criteria and guidelines in fulfilling the GCF's strategic goals, targets and mandate. The evaluation examines the relevance, coherence and effectiveness of the GCF Investment Framework at the policy, structure and operational levels. The evaluation also analyses the framework's contribution to promoting flexibility, innovation, replication, risk management and scalability of best practices across its portfolios and climate change projects and programmes (Table 1–1).

Table 1–1. Scope of the evaluation

Key area	Rationale
Policy and landscape analysis of the GCF Investment Framework	Examines the investment priorities and portfolio targets to respond to the overarching question of how effective and fit for purpose the GCF Investment Framework, accompanying tools, criteria and guidelines are in fulfilling the Fund's strategic goals and mandate
Structure of the GCF Investment Framework	Assesses the coherence and complementarity of the GCF Investment Framework, both internally with other GCF policies, strategies, and guidelines and externally with country-level climate strategies and action plans
Operationalization of the GCF Investment Framework	Assesses and analyses the efficiency, effectiveness, coherence and complementarity of the GCF ICS in terms of funding proposals, projects and programmes
Alignment of the GCF Investment	Reviews alignment of the GCF Investment Framework with other

KEY AREA	RATIONALE
Framework with the Integrated Results Management Framework (IRMF) and Risk Management Framework (RMF)	corresponding frameworks, such as the IRMF and RMF

C. METHODOLOGICAL APPROACH

6. The evaluation involved a mixed-methods approach, using both qualitative and quantitative data and methods to inform its evidence-based findings, conclusions and recommendations. The evaluation employed the following methods:
   - Desk-based review of primary documents, academic and grey literature
   - Policy analysis of the GCF Investment Framework
   - Quantitative data analysis to identify trends and contributing factors
   - Landscape analysis and benchmarking of other investment frameworks, including in comparator multilateral agencies, predominantly in sectors relating to climate and the environment
   - In-depth interviews and focus groups with key stakeholders
   - An online survey to gauge the perceptions and opinions of relevant stakeholders about the GCF Investment Framework and related policies, guidelines, frameworks and tools
7. During inception, an evaluation matrix was developed and used to guide the process of collection, triangulation, verification and validation of all evaluation data. The data validation process enabled the IEU to identify and document the strength of evidence and confirm that the evaluation's findings, recommendations and conclusions are sound, practical and actionable. The deployment of methods was based on evaluation questions, initial stakeholder mapping and sampling. Stakeholders included GCF Board members, GCF staff members, national designated authorities (NDAs) / focal points, accredited entities (AEs) and other relevant stakeholders.

D. LIMITATIONS

8. Despite being rigorous in design and implementation, the evaluation has limitations, which were beyond the control of the IEU evaluation team. These limitations have no major implications for the quality of the evaluation findings and recommendations; however, they are important to acknowledge.
   - Almost all funded projects are in the early or middle stages of implementation. Therefore, there was limited evidence on the ex-post impact of GCF investments on investment criteria such as impact potential, sustainable development outcomes and paradigm shift.
   - Some of the GCF divisions, or staff within these divisions, were relatively new and had limited institutional knowledge about the Investment Framework. Thus, they may have been unable to provide a complete perspective on relevance, coherence and effectiveness. This is also true for some other divisions/staff, who had only had exposure to selected parts of the framework.
   - This evaluation places a particular emphasis on key GCF investment allocation parameters and targets, specifically two portfolio-level parameters: the 50:50 grant-equivalent allocation for mitigation and adaptation, and funding channelled through direct access entities (DAEs). This greater emphasis is due to the nature of these allocation parameters/targets as independent and

decisive factors with a direct influence on other subordinate investment allocation parameters and targets, such as co-financing, regional balance and engagement with the private sector. To address this issue, the evaluation report provides cross-referencing in several places and discusses these investment parameters/targets as a reciprocal effect of the GCF's primary investment decision parameters.

- Finally, it is worth noting that the Investment Framework was updated by the Board at B.37, after the conclusion of data collection by this evaluation. Therefore, the perception data or policy analyses are not able to take into account the most updated version. To the extent possible, the analysis is made relevant to the post-B.37 Investment Framework.

9. Besides the above, general limitations related to qualitative methods and mixed-methods evaluations remain – in particular, those related to internal and external validity. Many of these were addressed using standardized evaluation methodologies, triangulation, validation and other means of addressing limitations.

E. STRUCTURE OF THE EVALUATION REPORT

10. This report is structured to provide logical, coherent and succinct information, analysis and recommendations against the objective and scope of the evaluation. Specifically, the report is structured as follows:
    - Chapter 1 provides an overview and introduction to the evaluation's context, objectives, scope, methodology, ethical considerations and limitations.
    - Chapter 2 presents the GCF Investment Framework and how various investment policies, guidelines and tools inform the GCF's investment choices at the portfolio and project levels.
    - Chapter 3 assesses the normative dimensions of the GCF Investment Framework.
    - Chapter 4 assesses the appropriateness, coherence and effectiveness of the structure of the GCF Investment Framework.
    - Chapter 5 analyses the operationalization of the GCF Investment Framework, including challenges faced by various stakeholders in adoption and operationalization.
    - Chapter 6 reviews and examines the alignment of the GCF Investment Framework with other frameworks, such as the Integrated Results Management Framework (IRMF) and the Risk Management Framework (RMF).
    - Chapter 7 provides evidence-based, practical and actionable conclusions and recommendations.

Chapter 2. OVERVIEW OF THE GCF INVESTMENT FRAMEWORK

11. The GCF Investment Framework is composed of investment policies, strategies, targets and criteria to inform the design, assessment and approval of funding decisions within the GCF.[2] The overarching scope of the GCF Investment Framework makes it a comprehensive tool for the GCF Board and Secretariat to make more informed, strategic and consistent investment decisions that correspond to the Fund's vision of promoting the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development.
12. The Investment Framework is evolving as the Fund matures further and as its portfolio grows over time, from the IRM period to GCF-2. The GCF's initial Investment Framework was adopted by the Board and contained in annex XIV to decision B.07/06; an update to the initial Investment Framework was adopted by the Board in decision B.27/06, paragraph k. The initial Investment Framework consists of the following components: (i) investment policies (Table 2–1); (ii) investment strategy and portfolio targets, and (iii) investment guidelines, including an ICS. While the present evaluation was in progress, the Board approved a further update to the Investment Framework in decision B.37/20, with the updated framework contained in annex IX to the decision.[3]

Table 2–1. GCF investment policies from the initial Investment Framework and its updates

Policy	Description
Paradigm shift	The GCF will finance projects/programmes that demonstrate the maximum potential for a paradigm shift towards low-carbon and climate-resilient sustainable development.
Grant-equivalent accounting	Funding received and extended by the GCF will be accounted for in grant-equivalent terms based on a standard methodology to be developed by the GCF, and in turn based on best international practices, to compare funding amounts between financial instruments accurately.
Minimum concessional funding	The GCF will provide the minimum concessional funding necessary to make a project/programme viable. Concessional funding is funding with below-market terms and conditions. Consistent with the GCF's Governing Instrument, the minimum amount of concessional funding needed can be up to and including the total cost of the project/programme.
Blending	Intermediaries receiving GCF financing may blend the funds with their own financial resources.
Crowding out other financing sources	The GCF will not "crowd out" potential financing from other public and private sources.
Revenues	The GCF's loans will only support revenue-generating activities that are financially sound.
[Added at B.37]	The Fund will work with AEs to attract co-investors – including, inter alia, the private sector, other climate funds and development banks – to GCF-funded

[2] Further information on the GCF Investment Framework is available at https://www.greenclimate.fund/projects/investment-framework.
[3] The decision and the annex are available at https://www.greenclimate.fund/decision/b37-20.

POLICY	DESCRIPTION
	projects.
[Added at B.37]	The Fund does not require any minimum amount of co-financing for a funded activity, and there are no specific sources of co-financing that must be complied with.

13. To translate these overarching policy priorities and other allocation priorities, the Investment Framework includes the GCF's investment strategy and portfolio targets (Table 2–2). While the investment strategy is not fully articulated within the approved document, the table below contains the portfolio targets for the GCF's first replenishment period (GCF-1).

Table 2–2. GCF-1 allocation parameters and targets

GCF-1 ALLOCATION PARAMETERS	GCF-1 PORTFOLIO TARGETS	CURRENT STATUS AS OF B.37	RELEVANT GCF-2 ALLOCATION PARAMETERS
Balance between mitigation and adaptation and portfolio impact	50:50 (over time), while seeking to deliver portfolio-level mitigation and adaptation outcomes that exceed average IRM outcomes	Adaptation: mitigation 54:46 in grant equivalent terms 390 million tCO2eq reduced per USD billion in mitigation (nominal) 183 million total beneficiaries for USD billion in adaptation	Balance between mitigation and adaptation, and portfolio impact
Adaptation allocation for vulnerable countries (including least developed countries, small island developing states, and African states), taking into account their urgent and immediate needs	A floor of 50 per cent of adaptation allocation, while aiming to build on IRM outcomes	66 per cent of adaptation allocation in grant equivalent terms	Adaptation allocation for vulnerable countries (including the least developed countries, small island developing States and African States) taking into account their urgent and immediate needs
Supporting developing country mitigation activities	Support mitigation activities that respond to the urgency of action to hold the increase in global average temperature to well below 2°C and pursue efforts to limit it to 1.5°C	No quantitative measure	n/a
Geographic balance	Appropriate geographical balance	Percentages of approved finance in grant equivalent terms for Asia-Pacific, African States, Latin America and the Caribbean, and Eastern Europe are 35, 36, 26 and 3 per cent, respectively	The Board will aim for appropriate geographical balance

GCF-1 ALLOCATION PARAMETERS	GCF-1 PORTFOLIO TARGETS	CURRENT STATUS AS OF B.37	RELEVANT GCF-2 ALLOCATION PARAMETERS
Funding channelled through DAEs	Significantly increase relative to the IRM	19 per cent of approved finance in grant equivalent terms	n/a
Engagement with the private sector	Maximize Fund-wide engagement with the private sector, including micro-, small- and medium-sized enterprises, ensuring the allocation to the Private Sector Facility exceeds 20 per cent	36 per cent of approved finance in nominal terms; 17 per cent of approved finance in grant equivalent terms	Increase in nominal terms the share of funding allocated through the Private Sector Facility compared to the first replenishment period
Mobilized private sector finance at the portfolio level	Significantly increase relative to the IRM	A method for calculating mobilized private sector finance is not yet available. Co-finance ratio is 3.8: 1 based on approved finance in nominal terms (not realized private sector finance)	
Readiness and preparatory support	Sufficient support for readiness and preparatory activities associated with the above	No quantitative measure	Secure predictable resourcing for readiness and preparatory activities associated with GCF programming

Source: Tableau server iPMS data, as of B.37 (25 October 2023), analysed by the IEU. Further details are provided in the GCF's updated Initial Investment Framework, available at www.greenclimate.fund/document/initial-investment-framework.

14. Further, the Investment Framework includes the investment criteria for the approval of funded activities. With these criteria, the overarching structure of the GCF Investment Framework includes several levels, as illustrated in Table 2–3.

Table 2–3. Structure of the GCF Investment Framework at portfolio and funding activity levels

INVESTMENT POLICIES	INVESTMENT FRAMEWORK PORTFOLIO TARGETS	INVESTMENT FRAMEWORK CRITERIA AND INDICATORS	ICS
Paradigm shift towards low-carbon and climate-resilient sustainable development	Maintaining the 50:50 balance of adaptation and mitigation funding	Impact potential: mitigation and adaptation indicators	• Contribution to the shift to low-emission sustainable development pathways • Contribution to increased climate-resilient sustainable development for most vulnerable people and communities
Grant equivalence: funding received and	Maintaining a minimum allocation	Paradigm-shift potential: catalyse	• Innovation • Scalability: scale and impact of

INVESTMENT POLICIES	INVESTMENT FRAMEWORK PORTFOLIO TARGETS	INVESTMENT FRAMEWORK CRITERIA AND INDICATORS	ICS
extended by the GCF will be accounted for in grant-equivalent terms	floor of 50 per cent of adaptation funding for developing countries	impact beyond a one-off investment	proposed projects • Creation/strengthening of knowledge, learning or institutions • Sustainability of outcomes and results • Market development and transformation • Regulatory framework and policies to drive investments in climate action
Minimum concessional funding: necessary to make a project/programme viable	Aiming for appropriate geographical balance	Sustainable development potential: economic, social, environmental, gender co-benefits	• Environmental impact • Social and health impacts • Economic benefits • Gender equalities
Blending: intermediaries receiving GCF financing may blend the funds with their own financial resources	Increasing funding channelled through DAEs relative to the IRM	Needs of the recipients: barriers to climate-related finance	• Scale/intensity of exposure to people/risk from climate change • Country socioeconomic status • Funding opportunities
Crowding out: the GCF will not "crowd out" potential financing from other public and private sources	Ensuring the allocation to the Private Sector Facility exceeds 20 per cent	Country ownership: alignment with nationally determined contributions, relevant national plans and institutional frameworks	• In line with country's national climate change strategy/policies • Experience of AE / executing entity • Stakeholder consultation
Revenues: GCF loans will only support revenue-generating activities that are financially sound	Increasing mobilized private finance at the portfolio level relative to the IRM	Efficiency and effectiveness: cost per tonne of CO_2, ratio of co-financing, expected rate of return, application of best practices	• Financial adequacy/concessionality • Cost-effectiveness • Co-financing • Financial viability in long run • Best practice and innovation

Notes: Both investment policies and portfolio targets were updated at B.37, following the approval of the *Strategic Plan for the Green Climate Fund 2024–2027*. The list of modifications is as follows:
+Additions [only relevant to investment policies]:
- The Fund will work with AEs to attract co-investors – including, inter alia, the private sector, other climate funds and development banks – to GCF-funded projects.
- The Fund does not require any minimum amount of co-financing for a funded activity, nor any specific sources of co-financing that must be complied with.

Δ Changes [only relevant to portfolio targets]:

- Readiness and preparatory support – from “Sufficient support for readiness and preparatory activities associated with the above” to “Secure, predictable resourcing for readiness and preparatory activities associated with GCF programming”
- Portfolio-level mitigation and adaptation results – from “exceed” to “meet or exceed”
- Adaptation allocation for vulnerable countries – from “while aiming to build on IRM outcomes” to “while aiming to meet or exceed first replenishment period outcomes”
- Geographical balance – from a stand-alone allocation parameter to a subparameter under adaptation allocation for vulnerable countries
- Private sector – from “ensuring the allocation to the Private Sector Facility exceeds 20%” and “Significantly increase [mobilized private sector finance at the portfolio level] relative to the IRM” to “Increase in nominal terms the share of funding allocated through the Private Sector Facility compared to the first replenishment period”

– *Removals [only relevant to portfolio targets]:*

- Supporting developing country mitigation activities (non-quantitative target)
- Funding channelled through DAEs
- Engagement with the private sector – maximize Fund-wide engagement with the private sector, including micro-, small- and medium-sized enterprises

Chapter 3. NORMATIVE AND OPERATIONAL DIRECTION OF THE GCF INVESTMENT FRAMEWORK

KEY FINDINGS

- The GCF is a vehicle for channelling multilateral climate finance, and the Investment Framework is an apt institutional tool to provide an appropriate and bold response to addressing critical funding gaps currently faced by the most vulnerable developing countries in tackling the climate change crisis and achieving sustainable development.
- The GCF has a distinct approach to working via DAEs, and there has been a significant increase from the IRM to GCF-1 in allocations committed through DAEs. However, these allocations have remained less than 20 per cent of overall GCF commitments.
- The GCF Investment Framework reflects the diverse priorities of the Board and responds to the current contextual challenges, including both climate change and the economic crisis. The GCF Investment Framework responds to the contextual and political–economic considerations at the portfolio level (portfolio targets) and the programmatic considerations at the project/programme level.
- Despite being coherent at the conceptual and policy level, the GCF Investment Framework deals with several competing priorities at the strategic and operational levels. With the ambitious targets of maintaining a balance for adaptation and mitigation funding and increasing the allocation of funding through DAEs, the GCF needs to consider risk–reward calculations and a phased approach. With a sufficient degree of evidence from the IRM and GCF-1, such analysis (scenario planning, strategic forecasting, risk–reward ratios) can lead to more informed and calculated investment decisions.
- The GCF has a full suite of climate change financing options, including grants, loans, equity, guarantees and concessional funding, which enables both (i) the supply side of finance by the GCF by ensuring the deployment of the right types of instruments for climate finance needs; and (ii) the demand for finance by NDAs, IAEs and DAEs by ensuring multiple options to access Fund resources. There is a broad consensus that the range of options provided by the GCF for climate change financing helps respond to the varying needs of countries in general, and projects/programmes in particular.
- The Investment Framework is a tool to communicate the GCF’s vision, strategic priorities and continued commitment to financing countries for climate change adaptation and mitigation. At the portfolio level, the GCF Investment Framework has defined allocation priorities and targets. However, these are often not so evident to recipient countries and AEs, making it challenging for them to align with and access GCF funding.
- GCF-funded projects and programmes involve programming for transformative change. However, they have limited influence at the country level in the operationalization of national-level climate strategies, NDCs and NAPs. The GCF may wish to consider developing funding instruments for NDAs and national and regional DAEs, to improve policy influence towards accelerating national responses to the climate crisis.
- The Investment Framework currently promotes wider coverage across regions, countries and results areas. However, this means that the Fund is thinly spread, with implications for operational optimization/efficiency and its contribution towards paradigm shift at the country level. Respondents hold divergent views related to making allocations at the country level versus maintaining a central pool of funds to finance the most viable projects and programmes.

15. This chapter examines the GCF’s investment priorities and investment portfolio targets to respond to the overarching question of how effective and fit for purpose the GCF Investment Framework and its accompanying tools, criteria and guidelines are in fulfilling the Fund’s strategic goals and mandate. Besides the mix of evaluation methods, this chapter is particularly informed by an expert review of the GCF Investment Framework, and a review of other climate change and related investment funds, such as the Global Environment Facility (GEF), the Adaptation Fund (AF) and the Climate Investment Funds (CIF). In addition to these funds, for comparative purposes, the authors included a consideration of the NextGenerationEU green bonds.

A. INVESTMENT FRAMEWORK AS A NORMATIVE CHOICE

16. **The GCF is a vehicle for channelling multilateral climate finance, and the Investment Framework is an apt institutional tool to provide an appropriate response to addressing critical funding gaps currently faced by developing countries.** In particular, the GCF institutional and investment emphasis on two dimensions is key, these dimensions being direct access and having a balance between adaptation and mitigation funding. Both these dimensions exemplify a balance of diverse normative priorities of the governance structure, as made evident in investment choices.
17. **The GCF Investment Framework reflects the diverse priorities of the Board and responds to the current contextual challenges, including both climate change and the economic crisis.** The context in which the GCF operates is complex and evolving, requiring continued learning and adaptive programming. The urgency of climate finance is further reinforced by the recent wave of climate-induced disasters (such as floods, droughts and heatwaves) and macroeconomic crises (such as inflation, higher interest rates and debt crises). Similarly, the demand for climate finance continues to be far greater than the available resources.[4] The GCF addresses these complex challenges through the use of the Investment Framework, which allows for allocation parameters and priorities. For example, the GCF has a strategic priority to significantly increase allocations to DAEs, which is expected to build capacities and ownership for sustained climate efforts. The GCF Investment Framework also emphasizes a balance of adaptation and mitigation funding. While adaptation needs are more severe in comparison, the emphasis on balance itself enables the GCF to respond to multiple contextual and climate challenges simultaneously.
18. **The GCF Investment Framework responds to contextual and political–economic considerations at the portfolio level (portfolio targets) and to programmatic considerations at the project/programme level.** The GCF’s mandate of supporting the implementation of the Paris Agreement and UNFCCC while promoting the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development is well articulated and widely acknowledged by all stakeholders. However, as an institution accountable to and functioning under the guidance of the Conference of the Parties and governed and supervised by a Board comprising an equal number of developed and developing country representatives, the GCF has to make several investment choices that respond to contextual, political–economic, programmatic and operational considerations. At the portfolio level, the GCF Investment Framework responds to most of the contextual and political–economic considerations, such as appropriate geographical balance,

[4] Barbara Buchner and others, *Global Landscape of Climate Finance 2023* (Climate Policy Initiative, 2023). Available at https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/.

increased direct access funding and country ownership. At the project and programme level, the GCF investment criteria focus purely on programmatic and results considerations, such as the impact potential, paradigm-shift potential, sustainable development potential, needs of the recipients, country ownership, and efficiency and effectiveness.

Table 3–1. GCF Investment Framework – contextual and political–economic considerations at the portfolio level (portfolio targets) and programmatic considerations at the project/programme level

CONTEXTUAL AND POLITICAL–ECONOMIC CONSIDERATIONS AT THE PORTFOLIO LEVEL FOR THE ALLOCATION OF RESOURCES	PRAGMATIC AND PROGRAMMATIC CONSIDERATIONS AT INDIVIDUAL PROJECT/ PROGRAMME LEVEL FOR PARADIGM SHIFT
• Maintaining the 50:50 balance of adaptation and mitigation funding • Maintaining a minimum allocation floor of 50 per cent of adaptation funding for developing countries • Aiming for appropriate geographical balance • Increasing funding channelled through DAEs relative to the IRM • Ensuring the allocation to the Private Sector Facility exceeds 20 per cent • Increasing mobilized private finance at the portfolio level relative to the IRM	• Impact potential: mitigation and adaptation indicators • Paradigm-shift potential: catalyse impact beyond a one-off investment. • Sustainable development potential: economic, social, environmental and gender co-benefits • Needs of the recipients: barriers to climate-related finance • Country ownership: alignment with NDCs, relevant national plans and institutional frameworks • Efficiency and effectiveness: cost per tonne of CO_2, ratio of co-financing, expected rate of return, application of best practices

Note: Portfolio targets of the Investment Framework were updated at B.37 to align with the *Strategic Plan for the Green Climate Fund 2024–2027*.

B. PORTFOLIO TRADE-OFFS

19. **Despite being coherent at the conceptual and policy level, the GCF Investment Framework deals with several competing priorities at the strategic and operational levels.** The GCF has a very clear ambition of promoting the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development and supporting developing countries in the implementation of the UNFCCC and the Paris Agreement. To translate this vision into action, the GCF developed its initial Strategic Plan in 2016 and updated it in 2020 and 2023. Many of the GCF's strategic priorities have remained in place over time, such as a 50:50 balance of adaptation and mitigation funding, appropriate geographical balance, increased funding through DAEs and allocation to the Private Sector Facility at the portfolio level, along with a robust set of investment criteria for appraising funding proposals (FPs) at the project/programme level. Ultimately, investment decisions involve trade-offs and have policy, programmatic and operational implications.

20. Such trade-offs create challenges in the project review and appraisal process. First, comparing projects from different countries is rendered complicated. Second, the lack of coherent guidance on criteria measurement creates ambiguity in the review process. This ambiguity causes a subjective interpretation of investment criteria based on the reviewer's experience. In addition, a lack of guidance allows reviewers to request any information they deem necessary. Due to this, partnering

organizations see the level of detail/information requested as excessive, time-consuming and resource intensive.

a) **The 50:50 allocation for adaptation and mitigation funding is in itself a major challenge.** This strategic priority reflects the Paris Agreement (Article 9.4), which states that the provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation. However, it is clear that adaptation is a pressing need. Adaptation finance is estimated to be higher than before, at USD 63 billion per year, but is still woefully short of developing countries' estimated need of USD 212 billion per year by 2030.[5] Therefore the GCF emphasis on adaptation is welcome but also has several operational and administrative implications. For instance, it means an increase in the number of projects and programmes financed under the GCF, along with the operational burden of managing these. The average value of GCF mitigation projects is more than twice that of adaptation projects. Therefore, achieving a 50:50 balance for adaptation and mitigation funding would require the number of adaptation funded projects to be far higher than that of mitigation funded projects. This would require a corresponding increase in the capacity of both developing countries to develop adaptation FPs and the GCF to review, appraise and approve the increased volume of adaptation projects.

> [The target of] 50:50 proportion [for mitigation and adaptation funding] is misused. Projects that are categorized as adaptation often have a tiny amount of adaptation and huge focus on mitigation. Also, [the] Impact Potential component is a challenge for how the adaptation impact is measured [as is it too broad]. It includes the number of [impacted] farmers, people in general; this works fine with granular projects, but if this is ecosystem based (like water towers), then how to measure the impact/number of people affected? Therefore, the scale for climate adaptation is challenging.
> - *Respondent, key informant interview*

b) **The GCF has an emphasis on direct access, which is channelled through DAEs.** In and of itself, direct access is a relatively unique mandate among the climate funds. As stated in the IEU synthesis on direct access,[6] there has been a gradual shift in the share of GCF allocations from IAEs to DAEs. However, the funding channelled through DAEs still stands at 20 per cent. While a number of factors are at play, the IEU's Second Performance Review of the GCF[7] found that countries struggle to identify the right entities and that entities struggle with accreditation. The strategic result targeted in GCF-2 to double the number of DAEs with approved FPs places a major condition on funding allocations. But it also has a direct bearing on other strategic priorities, such as improving the speed, efficiency and effectiveness of GCF funding, and increasing portfolio-level mobilization from the private sector, among others.

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[5] Buchner and others.
[6] Independent Evaluation Unit, *Independent Synthesis of Direct Access in the Green Climate Fund*, Evaluation Report No. 15 (Songdo, South Korea, Independent Evaluation Unit, Green Climate Fund, February 2023). Available at https://ieu.greenclimate.fund/document/final-report-independent-synthesis-direct-access-green-climate-fund.
[7] Independent Evaluation Unit, *Second Performance Review of the Green Climate Fund*, Evaluation Report No. 13 (Songdo, South Korea, Independent Evaluation Unit, Green Climate Fund, February 2023). Available at https://ieu.greenclimate.fund/document/final-report-second-performance-green-climate-fund.

> To double the number of DAEs, the GCF will need seven new DAEs per year. Still, some GCF staff members believe that the paradigm-shift objective will not be achieved by DAEs because they lack the capacity to do so.
> *- Respondent, key informant interview*

c) Throughout the IRM and GCF-1, there was an emphasis on mobilizing private sector finance, through a portfolio-level target for co-finance. This target does not apply to GCF-2 and was perceived to compete with other priorities on direct access and mitigation/adaptation balance.[8] More specifically, in reference to both DAE projects and adaptation projects, respondents recalled the well-acknowledged challenge of mobilizing finance from the private sector. This challenge is acknowledged across the board, including by the Secretariat.[9]

21. The emphasis on direct access and adaptation, while welcomed by all, provides the GCF with specific choices and pathways. For instance, the GCF has already established a robust portfolio of 243 projects and, as of B.37, has made a disbursement of USD 3.8 billion, with USD 13.5 billion in committed finance. However, 80 per cent of this funding (USD 10.76 billion) is channelled through 28 IAEs, while only 20 per cent is through 30 DAEs. In order to gradually shift the allocations to DAEs, the GCF faces options such as increasing the number of DAEs, increasing the number of DAEs with approved projects, graduating high-performing DAEs to higher categories, and directing the RPSP towards building additional and higher-capacity DAEs. Such choices create markedly different costs and benefits, such as on the one hand a GCF with a high number of DAEs and a high administrative burden, or on the other hand significant development of lasting capacities and capable entities in developing countries. **Such choices are known to create path dependencies, and it is not clear the extent to which these implications are considered in the establishment of strategic priorities and the design of the Investment Framework.**

22. In the context of competing investment priorities, it is critical to give due consideration to risk–reward ratios. The IRM and GCF-1 portfolios can provide sufficient data and evidence to inform likely scenarios, trade-offs and comparative advantages of pursing strategic objectives in the short, medium and long terms. Such comparative analysis could establish if the rewards of pursuing these objectives are higher than the potential risks. There is also an opportunity to embrace a phased approach, which provides for a gestation period and a split of investment targets into yearly targets.

> Strengthening DAEs' capacities is crucial, and the RPSP is crucial as well. A readiness project is more easy to approve and has a positive impact on countries. It helps especially in terms of the government's understanding of climate needs.
> *- Respondent, key informant interview*

C. Operationalization at the country level

23. **The GCF has a full suite of climate change related financing options, including grants, loans, equity and guarantees, which meets the needs of both (i) the supply side (GCF), by ensuring the deployment of the right types of finance for climate change related financing needs, and**

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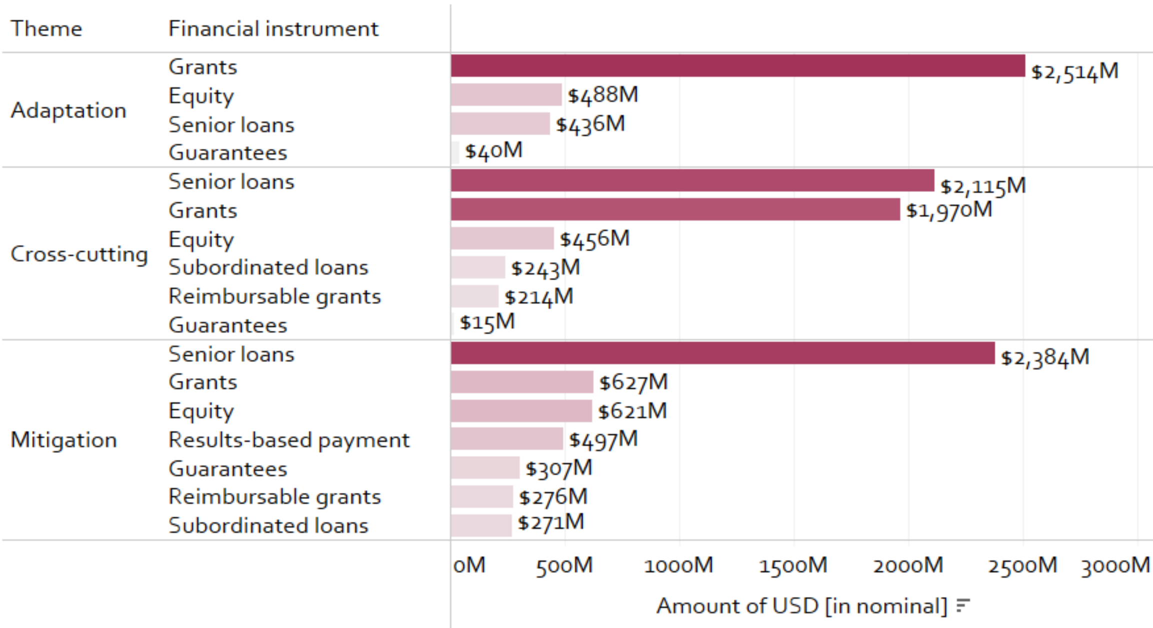
[8] According to the Investment Framework approved at B.37, "the Fund does not require any minimum amount of co-financing for a Funded Activity".
[9] See GCF/B.35/Inf.15/Add.02: Annual progress report on the implementation of the Strategic Plan for the GCF 2020–2023. Available at https://www.greenclimate.fund/document/gcf-b35-inf15-add02.

(ii) the demand side (NDAs, IAEs, DAEs), by ensuring multiple options to access Fund resources. Interviews with key stakeholders, from the GCF Secretariat as well as IAEs and DAEs, indicated some complexities in the navigation of these various financial instruments. Nonetheless, there is a broad consensus that the range of options provided by the GCF for climate change related financing meets the varying needs of countries in general, and projects/programmes in particular. These financing options enable the GCF to respond to its strategic and operational priorities, such as improving the speed, predictability, efficiency, effectiveness and transparency of GCF investment; optimizing operations; and aligning resources to achieve results. In addition, these financing options have the ability to enable a paradigm shift towards low-carbon and climate-resilient investment at the lowest possible cost, while supporting institutional capacity-building and creating incentives for private investors to engage in new, high-risk and emerging sectors relating to sustainable development. For example, most of the finance deployed through loans and equity is in the private sector and for revenue-generating mitigation activities, while grants and concessional loans are used to finance adaptation projects or elements of resilience in mitigation projects. Similarly, most of the senior loans are provided in the energy sector or transportation. Figure 3–1 below shows the allocation of the GCF investment portfolio across mitigation and adaptation.

Figure 3–1. Financial instruments deployed in the GCF portfolio



Source: Tableau server iPMS data, as of B.37 (25 October 2023), analysed by the IEU.

24. **The Investment Framework is a tool to communicate the GCF's vision, strategic priorities and continued commitment to financing countries for climate change adaptation and mitigation.** It can also serve as a set of incentives for countries to take policy, institutional, administrative and process reforms to accelerate climate action efforts. Apart from complexities related to the full-scale operationalization of the GCF Investment Framework at the country level, the GCF has been largely successful in leveraging its position and resources as a global institution to communicate climate change priorities and pursue associated changes.

25. **At the portfolio level, the GCF Investment Framework has defined allocation priorities and targets. However, these are often not so evident to recipient countries and AEs, making it**

challenging for them to align with and access GCF funding. Interviews with staff of AEs and the GCF Secretariat suggest that the GCF Secretariat adapts FPs/activities to ensure they are aligned with the overall portfolio targets set by the GCF for the respective quarter (Board meeting), year and overall strategic period. In practice, this means that if the GCF has already met most of the financial allocation targets or reached a desired threshold for one dimension of the allocation parameter (such as mitigation or adaptation, country allocation, or allocation to a particular type of entity), it has to deprioritize this category for the remaining period, which could be a quarter, a year or the remainder of the entire strategic period. These parameters are predominantly managed by the Secretariat through its Climate Investment Committee, with some review or reporting by the Division of Portfolio Management, the Office of the Executive Director, and the Division of Mitigation and Adaptation, among others.

26. **NDAs and AEs generally have limited insights into the process at the portfolio level, which has created challenges in aligning with and accessing GCF funding.** For example, during the in-depth interviews with country-level stakeholders, NDAs and DAEs confirmed that they were encouraged and incentivized to align FPs with the GCF priorities of increasing allocations for adaptation, which may have not been the focus of countries at that time. In other circumstances, there was increased pressure on entities to mobilize private sector finance, which was again a limiting factor for accessing GCF funding for projects that otherwise had higher impact potential. In other words, **while the long-term priorities are very visible, FP proponents often feel pressured to artificially align with short-term portfolio priorities.** This issue has been identified as a key factor affecting the speed, predictability, efficiency, effectiveness and transparency of GCF funding, and there is a perceived stakeholder need for further predictability. Some interview respondents further believe that the lack of predictability has inadvertently added to the prohibitive cost of project development (reaching half a million US dollars or even more), and a perception that fluctuating priorities may favour more nimble international institutions and investment types.

27. **GCF-funded projects and programmes involve programming for transformational change. However, they have limited influence at the portfolio level or at the country level in the operationalization of national-level climate strategies, NDCs and NAPs.** The overarching focus of the GCF Investment Framework is on financing individual projects and programmes, but it does not **fully incorporate** the RPSP. Therefore, the Investment Framework focuses on individual projects/programmes to achieve results. However, in practice, higher goals – such as country ownership, alignment with national climate change strategies and plans, and a paradigm shift – are all contributions beyond the direct scope of project-level interventions. Paradigm shift requires addressing structural, policy and institutional issues that are significantly hindering the mobilization of additional resources from stakeholders, including institutional investors, for climate change related financing. Despite being a strategic target in the Investment Framework, paradigm shift is often seen in the narrow scope of GCF-funded projects and programmes. The Investment Framework, or corresponding IRMF, does not emphasize paradigm shifts at the global, regional and country levels, which undermines the GCF's efforts. The Board of the GCF approved the Readiness Strategy 2024-2027 in decision B.37/21, paragraph (b), which puts NDCs and NAPs and long-term strategies into direct focus, and its effectiveness will be measurable in the future.

28. There is less certainty on how individual project-level intervention will contribute to a paradigm shift in terms of policy influencing and accelerating a national response to climate change mitigation and adaptation. Based on learning from the NextGenerationEU Green Bond instrument, a transition from individual projects/programmes to financing the operationalization of country-level climate change strategies / action plans could be an effective approach. Such an approach would require

mechanisms such as conditional, payment-linked grants and loans for countries against the implementation of their national climate plans / NDCs, which may not be applicable to GCF recipient countries. There may be an opportunity for the GCF to explore, discuss and pilot such an approach for greater effectiveness and to leverage its impact.

Box 3–1. Case example of NextGenerationEU green bonds – Approach to operationalization of country-specific national recovery and resilience plans through a green bond

The European Commission's NextGenerationEU recovery instrument aims to protect lives and livelihoods, repair the single market, and build a lasting and prosperous recovery from the COVID-19 pandemic. NextGenerationEU provides some EUR 807 billion for climate-related measures in European Union Member States. These funds are provided by issuing debt. The European Commission provides 30 per cent of the NextGenerationEU funds through green bonds, in line with its efforts to reorient capital flows to a more sustainable economy. Since June 2021, when the Commission debuted on the market with NextGenerationEU, issuances under the programme stand at €118.5 billion via long-term EU-Bonds, of which €28 billion through the NextGenerationEU green bond issuance Member States are required to develop costed national recovery and resilience plans, with activities/projects having direct and established links to climate change mitigation and adaptation. The NGEU Green Bond reviews and validates these national recovery and resilience plans and related costs. Upon funding approval, Member States start to implement their plans, submit annual progress reports and claim contributions from the Commission. Each Member State must dedicate at least 37% of the expenditure in its RRPs to measures contributing to climate objectives. So far, EU countries whose plans have already been approved have actually exceeded this target, with the estimated climate expenditure now amounting to about 40%. For the specific purpose of issuing green bonds, the Commission has developed a Green Bond framework, which is aligned with the Green Bond Principles developed by the International Capital Market Association. The approach helps the European Commission to ensure standardization, consistency, transparency and accountability in its approach to green bond financing.

Source: European Commission, NextGenerationEU Green Bonds. Available at https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu-green-bonds_en.

29. **The Investment Framework currently promotes wider coverage across regions, countries and results areas. However, this means that the Fund is thinly spread, with implications for operational optimization/efficiency and its contribution towards paradigm shift at the country level.** At the portfolio level, as of B.37, the GCF has allocated USD 13.5 billion and disbursed USD 3.8 billion to finance 243 climate change mitigation, adaptation and cross-cutting projects and programmes in eight results areas. In addition to these, the GCF has allocated RPSP grants worth USD 538 million, to support developing countries in strengthening their institutional capacities, governance mechanisms, and planning and programming frameworks towards transformational long-term climate action. When compared to the needs of countries, however, GCF allocations to individual countries through funded projects and programmes are meagre. On average, each country with at least one project received USD 105 million as a commitment, whereas, on average, only USD 25 million has been distributed per country since the launch of the GCF. Arguably, this indicates that GCF funding is spread thinly across developing countries, climate themes and target results areas / sectors. As the IEU's Second Performance Review of the GCF demonstrated, countries are at varying stages in terms of accessing climate finance, and there may be potential for the GCF to play different roles based on a country's socioeconomic status, climate impacts, urgency of response and the need for financing.

> There would be costs and benefits to predefined allocation by the GCF. The Investment Framework is focused on individual projects and can't speak to broader country-level climate change strategies, which otherwise could have the potential to contribute to contextually relevant solutions and paradigm shift.
> "Sectors not countries" is how the GCF Investment Framework thinks about allocation targets and ceilings. Still, for the GCF to be both priority-driven and country-driven creates tensions and undermines implementation efficiency.
> - *Respondent, key informant interview*

30. Respondents hold divergent views related to making allocations at the country level versus maintaining a central pool of funds to finance the most viable projects and programmes. Interview respondents from NDAs and DAEs are generally of the view that national allocations will improve the predictability of funding from the GCF at the country level and that this will help them understand and fill the gap in investments. Conversely, the interview respondents from IAEs do not see the need for country-level allocations, as they consider flexibility in GCF funding as a unique feature of the GCF, one that gives them more opportunities to access the funds. It is important to acknowledge the political economy around GCF funding, whereby NDAs', DAEs' and IAEs' interests and preferences are driven by their ability to access GCF funding. For the GCF, it is a trade-off between, on the one hand, providing predictability in allocations to countries, and on the other making investment decisions that best serve its investment objectives of paradigm shift, impact potential, and efficiency and effectiveness. Table 3–2 below lists some of the advantages and disadvantages of portfolio-level management of funds for the GCF, compared to country-level allocations.

Table 3–2. Advantages and disadvantages of portfolio-level management of funds for the GCF (compared to country-level allocations)

Advantages	Disadvantages
• The GCF can continue to use funds in a flexible manner, which it can use to finance the most viable projects and programmes across a pool of funding applications. • The GCF can continue to use appropriate financial windows for different types/natures of climate change interventions at the portfolio level. • The GCF can seek the most innovative projects, meeting the investment criteria, through a sense of competition. • The GCF can internally prioritize and deprioritize yearly portfolio performance against targets.	• Recipient countries and relevant stakeholders (counterpart governments, NDAs, AEs, the private sector, etc.) lack predictability in country-level allocations by the GCF; thus, they cannot identify the financial gap in climate finance at the national and sector levels. • The national government cannot use committed GCF funding (until secure) to leverage additional investments for climate change mitigation and adaptation purposes. • There is increased (unhealthy) competition between DAEs and the IAEs for GCF resources. • The transparency and accountability of funds allocated to each country are undermined. • GCF efforts to ensure country ownership, paradigm shift and transformational change through the operationalization of country NDCs and national climate change strategies / action plans are partially undermined. • The ability of local, grass-roots DAEs to access funds, in competition with other financial institutions, is partially restricted.

31. **Country-level allocations for RPSP funds have been found to be instrumental in increasing country ownership and addressing issues of fragmentation of climate finance at the country level.** Interview respondents from both NDAs and DAEs believe that the RPSP has significantly improved the capacity of national authorities, DAEs and a wider range of stakeholders to plan, prioritize and coordinate country-level responses for climate change mitigation and adaptation efforts. In addition, national capacities have also helped to leverage GCF and other public and private sector investments in their respective country and to address issues of fragmentation. As stated above, there may be an opportunity to consider supporting NDAs to develop a medium- to long-term joint national climate change capacity-development programme. Other as-yet-unexplored means may include allocating a yearly budget, with clear capacity-building actions and payment-based milestones; and direct allocation to NDAs or DAEs for the implementation, coordination, monitoring and evaluation of these joint national climate change capacity-development programmes.

32. **Despite some individual examples of operational-level collaboration and complementarities between climate change funds, global climate financing as a whole remains fragmented, with multiple funding channels, instruments and guidelines**. There has been a proliferation of multilateral climate funds, both under and beyond the UNFCCC. Each of these funds had a particular purpose and function at the time of their establishment. However, there is potential for overlap and fragmentation across the disparate channels. For instance, there is potential for overlap of the GCF with the AF, GEF and CIF, as made evident through the Investment Framework. For example, the GCF's operational priorities include "investment in new technologies", which the CIF are also particularly focused on. There is some potential for the GCF to consider "complementarity and coherence" as an operational priority to reduce duplication, promote learning and collaboration, and help address the issue of crowding out broader climate investments.

> Indicators and criteria between the climate funds are differently articulated but overall similar in nature.
> - *Respondent, key informant interview*

Chapter 4. STRUCTURE OF THE GCF INVESTMENT FRAMEWORK

KEY FINDINGS

- There is a general impression among stakeholders, including GCF staff and AEs, that the Investment Framework brings uniformity, consistency and objectivity to the decisions made within and among the various divisions, offices and functions of the GCF. In-depth interviews across various divisions and units of the GCF Secretariat confirmed that the GCF Investment Framework is used as a key document to translate the GCF's strategic and operational priorities into actions at two levels: first, the allocation of financial resources at portfolio level, based on investment portfolio targets; and second, the appraisal and approval of individual projects and programmes, based on the investment criteria, indicators and ICS.
- Despite some reservations, both DAEs and IAEs generally concur that the GCF Investment Framework is well articulated and coherent with country-level climate change strategies and adaptation plans and that it provides sufficient guidance on the GCF's investment priorities for climate mitigation and adaptation. Moreover, NDAs and AEs believe that the ICS provides them with the ability to think through and navigate important priorities in their FPs.
- Interviewees from national DAEs expressed the view that the GCF Investment Framework favours IAEs. They believe that accessing GCF funding is time- and resource-consuming and that IAEs have more resources and hence a comparative advantage in accessing GCF funding.
- Theoretically, the GCF Investment Framework is well articulated. However, its operationalization is weak as it lacks clarity in certain areas, such as the concept of country ownership in the context of multi-country programmes; the 50:50 allocation for mitigation and adaptation, especially for FPs that include both mitigation and adaptation; and sectoral proposals, especially those relating to the energy sector (including hydropower and solar energy projects, where the Investment Framework lacks clarity on whether such projects fall under mitigation and are eligible to receive GCF funding, or rather are part of development projects).
- While the Investment Framework articulates portfolio priorities from the GCF's perspective, FPs are expected to be country-driven. Country ownership has remained the most subjective (and therefore relatively unclear) investment criterion because – in the absence of proper policy guidance from the GCF – it has multiple interpretations.
- The GCF Investment Framework adds to the complexity of the design, financial and organizational structures of the funded projects, which could potentially pose risks to their successful delivery.

33. This section of the evaluation assesses the alignment of the GCF Investment Framework – both internally with other GCF internal policies, strategies and guidelines, and externally with country-level climate change strategies and action plans.

34. **Respondents from the GCF Secretariat find that the GCF Investment Framework is generally well aligned with other GCF internal policies, strategies and guidelines**. In-depth interviews across various divisions and units of the GCF Secretariat suggest that the GCF Investment Framework is considered a key document for translating the GCF's strategic and operational priorities into actions at two levels: first, the allocation of financial resources at portfolio level, based on investment portfolio targets; and second, the appraisal and approval of individual projects and programmes, based on the investment criteria, indicators and scorecard. The Investment Framework, in and of itself, brings uniformity, consistency and objectivity to the decisions made within and between the various divisions, offices and functions of the GCF. However, there is a common concern among most of the GCF offices and divisions that it can be a challenge to navigate competing priorities and make the choices that are best aligned with the GCF's strategic, operational and investment priorities.

> We do not see any major challenges/discrepancies in the GCF Investment Framework and related policies, guidelines and tools. The allocation targets in some ways can help – we would have not allocated funding to DAEs if this was not part of the strategic/portfolio targets. Similarly, we had a large number/volume of mitigation projects in the pipeline. The way we could align it is through portfolio-level targets. So, there are several advantages of these targets – especially as these help us align the needs of the countries with the GCF funding priorities.
> The GCF is trying to ensure that its Investment Framework is fit for purpose across the portfolio of projects and a range of countries. This is never easy to fulfil. However, I do believe that the Investment Framework is sufficiently aligned with the needs of the recipient countries.
> - *Respondent, key informant interview*

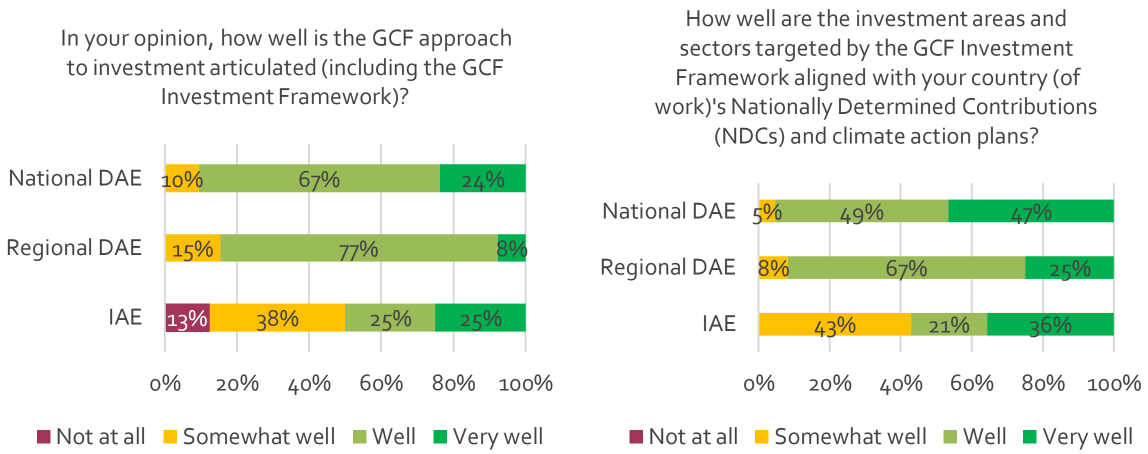
35. **Although the GCF Investment Framework is coherent, there are varying interpretations of it among GCF divisions and offices.** In-depth interviews with GCF Secretariat staff revealed that the GCF Investment Framework is interpreted differently by GCF divisions and offices, based on its relevance to them, and their needs and functions. Some feel that the GCF Investment Framework is more relevant and helpful in deciding the allocation of financial resources at the portfolio level, whereas others believe that it is an effective tool in deciding on the selection of individual projects and programmes. The extent to which various GCF divisions and offices find the Investment Framework useful depends on their mandate and functions, as well as their understanding of the Investment Framework.

> There is a lot of documentation/requirements. We have so many guidelines and tools. But if you are coming from the outside, it would be hard and challenging to comprehend and go about all of these documents. Also, understanding climate change and proposing solutions is a challenging thing – even for sector experts and climate change people.
> - *Respondent, key informant interview*

36. **Despite some reservations, both DAEs and IAEs generally concur that the GCF Investment Framework is well articulated and coherent with country-level climate strategies and adaptation plans and that it provides sufficient guidance on the GCF's investment priorities in**

climate change mitigation and adaptation. Compared to IAEs, DAEs are generally more positive about the GCF Investment Framework in terms of its articulation, relevance, alignment and effectiveness. In the evaluation survey, more than 80 per cent of national and regional DAEs agree that the GCF Investment Framework is clearly articulated and aligned with national climate change strategies and action plans, compared to 60 per cent in the case of IAEs. This aligns with the results of key informant interviews, where DAE respondents suggest that aligning country needs with the GCF investment priorities is not a major issue for them. Also, national DAEs reported that the GCF investment criteria are helpful for them in conceptualizing and designing projects when they are considering aspects such as paradigm shift, impact potential, sustainable development, and efficiency and effectiveness. With close engagement with NDAs, DAEs find it relatively convenient to assess and align projects with the needs of the country. However, both national DAEs and IAEs (25 per cent and 59 per cent, respectively) raised concerns about the transparency, accountability and effectiveness of the GCF Investment Framework. Interview data further suggest that the concerns of national DAEs and IAEs are not related to the GCF's investment priorities, portfolio targets or ICS, per se; rather, they feel that the process of operationalizing the GCF Investment Framework is ambiguous and lacks transparency and effectiveness. Figure 4–1, Figure 4–2 and Figure 4–3 below illustrate the responses, disaggregated by the type of entity, to questions on the relevance, alignment, coherence and effectiveness of the GCF Investment Framework.

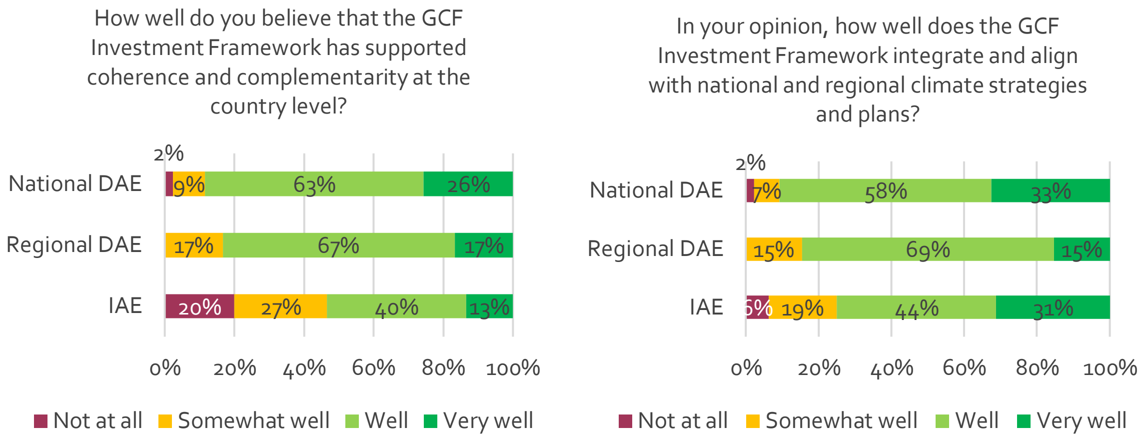
Figure 4–1.   Online survey results: relevance of the GCF Investment Framework



Source: Results of online survey of DAE and IAE respondents.
Note: Percentages per respondent type may not always equal 100 per cent due to rounding.
Key supporting remarks by respondents of online survey:

- The Investment Framework and related criteria are broad enough to encompass the challenges and outcomes we are trying to achieve.
- The GCF's investment areas and sector targets are more precise and nationally well-defined than those in my country.
- The framework needs to be socialized more effectively with country counterparts beyond NDAs, especially with ministries of finance (responsible agencies for national budget processes and planning).

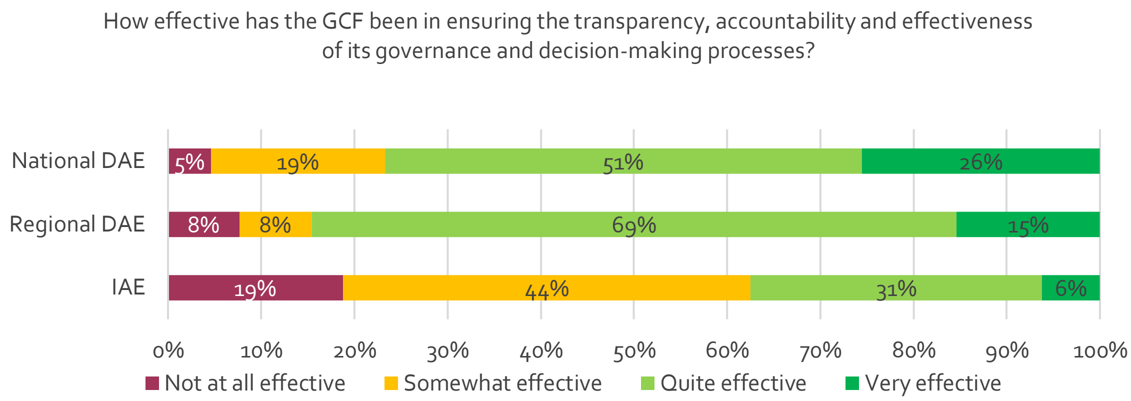
Figure 4–2. Online survey results: alignment of the GCF Investment Framework



Source: Results of online survey of DAE and IAE respondents.
Note: Percentages per respondent type may not always equal 100 per cent due to rounding.
Key supporting remarks by respondents of online survey:

- The Investment Framework ensures the projects are aligned with national climate change priorities such as NDCs, NAPs, etc.
- GCF funding is approved only if the intervention is included in the country's priorities. NDAs have an important role here when translating the priorities into concept notes to be submitted to the GCF.
- The lack of flexibility in the framework does not always allow for alignment with NDCs and climate change plans.
- Country programming should be strengthened as a tool to institutionalize and enhance coherence and complementarity.

Figure 4–3. Online survey results: effectiveness of the GCF Investment Framework



Source: Results of online survey of DAE and IAE respondents.
Note: Percentages per respondent type may not always equal 100 per cent due to rounding.
Key supporting remarks by respondents of online survey:

- While investment policies and procedures are available and reported, interpretation and use/non-use by task managers could be improved.
- The GCF has the highest standards and policies on transparency and accountability. Now, regarding the effectiveness and its governance, since the GCF is a relatively new organization, the effectiveness of its interventions and its decision-making mechanisms could be evaluated.

37. **NDAs, DAEs and IAEs believe that the GCF ICS helps strengthen the quality of their projects and programmes.** The ICS is a tool used by the Secretariat to communicate and internally appraise FPs against the investment criteria. There is wider agreement that the investment criteria (i.e. impact potential, paradigm-shift potential, sustainable development potential, needs of the recipients, country ownership, and efficiency and effectiveness) are all highly relevant criteria for appraising FPs. Moreover, the NDAs and AEs believe that the ICS provides them with the ability to think through and navigate all these important priorities in their FPs. Overall, stakeholders reiterated that the GCF ICS has significantly improved the effectiveness of their climate change programming at the country level, as there is more emphasis on a paradigm shift towards climate mitigation and adaptation.

38. **National DAEs, however, believe the GCF Investment Framework predominantly favours IAEs.** Through interviews and surveys, NDAs, DAEs and IAEs concur that accessing the GCF is time- and resource-consuming. Both DAEs and IAEs reported that they need to engage expensive consultants to develop FPs that respond to the requirements of the GCF investment criteria. Respondents referred to climate rationale, paradigm shift and impact potential as some of the most complex criteria points to justify, given the lack of appropriate data and due to the complexity of measures. There are other conditions, such as the proposed financing structures, innovation and risk mitigation, that are also considered hard to establish for climate projects. Among the AEs, national and regional DAEs in particular feel more aggrieved, as they raise concerns that they lack the financial resources required to engage consultants to prepare the proposals. Also, NDAs believe that IAEs have more resources, and hence a comparative advantage in accessing GCF funding.

> The current GCF Investment Framework provides global organizations with a competitive advantage and prevents locally tailored solutions from being designed and implemented. National DAEs are “competing” with global players. It’s unfair, given their capacity/resources/tools. The scale and resources international organizations possess allow them to win more projects that DAEs won’t be able to get. This is especially due to the substantial financial resources that are required to develop a proposal.
> It is very costly to prepare GCF proposals. Before we start the process, we want to ensure that GCF will be interested in the project because otherwise it’s a waste of money.
> - *Respondent, key informant interview*

39. **Theoretically, the GCF Investment Framework is well articulated. However, its operationalization is weak as it lacks clarity in several areas.** At a conceptual level, the GCF investment portfolio targets lack clarity on the concept of country ownership in the context of multi-country programmes; the 50:50 allocation for mitigation and adaptation, especially for FPs that include both mitigation and adaptation (and there is no easy benchmark to define exact allocations in these two thematic areas); and sectoral proposals, especially those relating to the energy sector (including hydropower and solar energy projects, where the Investment Framework lacks clarity on whether such projects fall under mitigation and are eligible to receive GCF funding, or rather are part of development projects). At the operational level, the GCF investment strategy and portfolio targets are largely ambiguous in defining appropriate geographical balance, increasing funding through DAEs and increasing mobilized private finance at the portfolio level. In comparison to the GCF, the Global Fund provides country-level (and corresponding results) allocations for the funding cycle, which provides predictability in the availability of funding for countries. Similarly, the GCF

Investment Framework does not provide any preference/focus by type of financial instrument (such as grants, loans, equity, results-based payments and guarantees) or by the scale of the project (such as micro, small, medium or large). The data suggest that the FPs/projects led by IAEs have a greater co-financing ratio compared to small-scale adaptation projects. Table 4–1 presents a SWOT analysis of the GCF Investment Framework.

> There are two types of problems with the investment criteria and the ICS tool. At a conceptual level, you cannot achieve a paradigm shift without sustainable development potential. And similarly, you cannot address sustainable development issues without addressing the needs of the recipient. Country ownership is the core of these three parameters. At the operational level, there are several differences – or rather, contradictions – in the Board decision and the guidance from the GCF Secretariat and its divisions. When we look at the Investment Framework, the way that it is structured leaves room for subjectivity. It depends on the person who is trying to have a sense of how to score using these investment criteria. There are different sub-investment criteria, and we don't know if we have to consider all or a list of selective criteria points that are relevant to the funding activity. The funding activities are generally broad, and that is also a reason for these inconsistencies.
> - *Focus group discussion participant*

Table 4–1. SWOT analysis of the GCF Investment Framework

Strengths	Weaknesses
• The GCF Investment Framework provides a **strong basis for the allocation of resources** to the GCF's strategic and operational priorities. • The Investment Framework is based on **consensus and represents the aspiration**s and ambitions of both developed and developing countries. • The Investment Framework provides **flexibility** in its criteria for the selection of projects and programmes, as it is not purely based on the ICS.	• There are several **competing priorities and trade-offs**, such as the decision to increase allocation to DAEs versus catalysing private sector finance. • There is greater flexibility in investment criteria, which **makes it less transparent**. • The project funding cycle/process is complex, which **makes it less time- and cost-efficient.** • There are robust investment criteria and management requirements for FPs, **leaving less room for innovation and risk-taking.** • There is l**imited alignment with the IRMF and RMF,** which means less focus on post-award project management.
Opportunities	**Threats**
• The GCF Investment Framework provides an **opportunity to accommodate strategic, political, programmatic and operational considerations in investment decisions.** • The GCF ICS **promotes country ownership at the project level**, which is an important mandate. It is also a recognized approach for improving the involvement of national governments and other local stakeholders in climate change (beyond GCF-funded projects), and mobilizing domestic public and private finance for operationalization of national climate change strategies and action plans. • The diversity of GCF financial instruments often adds to the complexity of project design but also has the potential **to create new investors, financial products, models and processes.**	• The GCF Investment Framework does not provide specific guidance on **collaboration and coordination of climate change investments** at the portfolio level, which could lead to a continued fragmented approach to climate change financing, particularly in the adaptation sector. • The GCF's internal management of investments across priorities at the portfolio level is less evident for recipient countries (NDAs, DAEs, IAEs, etc.), which creates ambiguities and **risks that the GCF will be seen as a less transparent organization.** • Although comparatively less significant, there is still a threat that **the GCF may be seen as unreasonably demanding** due to its complex, time- and resource-consuming process for funding applications. • The GCF's relatively weak systems of post-approval follow-up on matters related to implementation – as well as financial, results and risk reporting – might **undermine the effectiveness and impact of GCF-funded projects.**

Source: Assessment made by the evaluation team.

40. **While the Investment Framework articulates portfolio priorities from the GCF's perspective, FPs are expected to be country-driven. Country ownership has remained the most subjective (and therefore relatively unclear) investment criterion because – in the absence of proper policy guidance from the GCF – it has multiple interpretations.** The Investment Framework of the GCF is an articulation of the portfolio-level priorities, and as such is expected to bridge upstream (GCF-level) and downstream (country-level) priorities. There have been contradicting views about countries' ownership of projects/programmes proposed by the AEs. The interview respondents, including NDAs, DAEs and IAEs, believe that any project/programme that responds to the priorities

set in national climate change strategies, adaptation plans and entity workplans, and that is presented with the no-objection letters (NOLs) from NDAs, qualifies as a country-owed initiative. However, in practice, there are two interlinked factors that determine the country ownership and eligibility of FPs. First, the GCF Investment Framework has portfolio-level targets that are strategic in nature and top-down, requiring individual FPs to match the GCF's investment portfolio targets. Second, the country-level climate change strategies/plans have been defined broadly and at a superficial level, encompassing a range of climate initiatives. Hence, it is often hard to objectively analyse the degree to which FPs correspond to country climate change plans. To address this issue, the GCF faces multiple opportunities: (i) reviewing the effectiveness of and reemphasizing guidance on the definition of country ownership;[10] (ii) categorizing country ownership as a minimum eligibility criterion for a project to be considered for funding, rather than as a criterion for the ICS; and (iii) assigning impact weight to country ownership based on its significance for the GCF in making investment decisions about projects and programmes.

> The Government [of the respondent's country] has made a highly ambitious climate change strategy, with a range of interventions and activities – without giving a due consideration to prioritization of these.
> Ideally, while developing the country framework, the governments/NDAs should focus on selective and high-priority areas rather than a whole list of current and future needs of the country. This makes it difficult to assess the alignment of the country strategies with the GCF climate change strategies and investment framework.
> The process of developing national climate strategies involved consultations with a range of stakeholders from the public, private and development sectors, and during these consultations everyone come up with their own demands and list of projects. The subnational governments push for their own projects. Incorporating input/requests for interventions from all stakeholders make the national climate strategies more inclusive but highly ambitious, with no prioritization.
> - *Respondent, key informant interview*

41. **The GCF Investment Framework adds to the complexity of the design, financial and organizational structures of the FPs, which could potentially pose risks to their successful delivery.** Adhering to all the investment criteria at the strategic, portfolio and project/programme levels makes FPs highly complex for entities to properly implement and manage. Interviews with key informants from AEs confirmed that, despite some benefits of such robust programming, there are associated challenges that undermine the original design of the projects. For example, several AEs reported that they were required to make adjustments in the design of their initially proposed projects to accommodate the GCF's portfolio targets. One of the respondents reported that the "initial design of the project was altered to incorporate elements of adaptation in the mitigation project – to make it a cross-cutting project, which added to the complexity of design and implementation". Similarly, to address the GCF's concerns over low co-financing, the project's designs were adjusted to add new elements to the project just to bring in external financers from either the public or private sectors. Most of the GCF-funded projects are multi-sectoral and multi-stakeholder, and they have complex organizational and financial structures, requiring huge

[10] Independent Evaluation Unit, *Independent Evaluation of the Green Climate Fund's Country Ownership Approach*, Evaluation Report No. 4 (Songdo, South Korea, Independent Evaluation Unit, Green Climate Fund, October 2019). Available at https://ieu.greenclimate.fund/document/final-report-independent-evaluation-gcfs-country-ownership-approach-coa2019.

management and governance structures to deliver the projects. Based on a review of the portfolio of GCF-funded projects, there are currently 13 such projects that have failed to complete their inception phase and hence could not be launched in time for implementation. These projects require either a partial or full redesign or restructuring to address initial teething issues mostly linked to either multi-sectoral or multi-stakeholder approaches. The current frequency of annual reporting on project progress may not be sufficient for complex projects. They may require six-monthly or otherwise biannual reporting to confirm whether they can be delivered according to their design and plans, or whether there is a need for adjustment and course correction to improve the success rate of project delivery.

> The Investment Framework is an arbitration among political and economic choices. [As a public finance institution]..the maximization of return is not a priority. Another relevant challenge is the layered nature of the Investment Framework, which makes it complicated for the partners and challenging to navigate without the help of expensive consultants.
> - *Respondent, key informant interview*

Chapter 5. OPERATIONALIZATION OF THE GCF INVESTMENT FRAMEWORK AT PROGRAMME AND PROJECT LEVEL

KEY FINDINGS

- Although the GCF ICS tool is theoretically fit for purpose, its operationalization has remained a challenge for many national, regional and international AEs, as well as GCF Secretariat staff, as illustrated by the following examples:
  - At concept note submission (stage 3), some of the challenges faced by AEs include (i) the lack of clarity on GCF investment priorities at portfolio level; (ii) ambiguity around proposed funded activities, especially the classification of projects as either climate change or development initiatives; (iii) the lack of or limited data to establish climate rationale; and (iv) difficulties in obtaining NOLs from NDAs (e.g. capacity issues, high turnover, political economy).
  - At FP development (stage 4) technical and conceptual levels, some of the challenges faced by AEs include (i) overlap in investment criteria, especially paradigm shift, sustainable development and impact potential; (ii) no benchmarking for efficiency and effectiveness measures; (iii) the lack of data to establish paradigm shift; and (iv) lack of evidence for the theory of change (ToC) and sustainable development pathway of new and innovative projects.
  - At FP review (stage 5), some of the challenges are related to the GCF's institutional requirements to strengthen the project's governance, oversight, management, financial management, results and risks, including (i) complex organizational, funding and delivery structures of GCF projects and programmes; (ii) limited capacity of DAEs, including limited exposure of private sector entities to development sector concepts, such as ToC and results frameworks; (iii) baseline values and measurability of results in FPs; and (iv) need for multiple adjustments to risk-mitigation measures in FPs.
  - At FP review and Board approval (stages 5 and 6), some of the challenges faced by the GCF are related to navigating and managing the competing priorities and trade-offs at the portfolio level. More specifically, the challenges faced at this stage are related to (i) competing priorities and trade-offs among and within GCF strategic priorities, operational priorities and Investment Framework portfolio targets; (ii) appraisal of individual projects and programmes by the GCF Secretariat and the independent Technical Advisory Panel (iTAP), and variation in their assessment scoring and recommendations; (iii) ensuring allocations match the GCF replenishment cycle / allocations; and (iv) maintaining a robust pipeline of viable projects/programmes.
- Climate rationale is an important part of an FP. While the perception remains that this is a challenge for FP preparation, there are early signals of use of diverse data.
- The GCF Investment Framework and related policies, guidelines and tools (including the ICS tool) are published and strategic documents. However, the GCF is dealing with evolving issues of fund management.

42. This section of the report analyses the efficiency and effectiveness of the GCF ICS, as well as its coherence and complementarity with the project activity / funding cycle approach used by the GCF to make investment decisions at the project/programme level.

43. The ICS is a key tool for the GCF Secretariat to appraise FPs against the investment criteria and is also intended to help AEs to self-appraise FPs.[11] The current version of the ICS has been under implementation since 2020. In addition to this ICS tool (as shown in Table 5–1 below), the GCF uses a project activity / funding cycle approach to transform country-level climate change priorities and concept notes into individual FPs for the GCF. The process starts with AEs submitting a concept note for funding to the GCF through their respective NDAs. Submitting a concept note is not mandatory, however, unless funding is being sought via the simplified approval process or requests for proposals modalities. The GCF Secretariat can accept or reject the concept note or provide feedback to adjust the concept note to align it with the GCF's strategic and investment priorities. Approval of the concept note by the Secretariat is considered a go-ahead to the AEs to develop a full FP. Once a draft FP is developed and submitted by an AE, the GCF provides detailed feedback to ensure its alignment with the GCF's portfolio targets, ICS and other aspects – such as administrative, financial, risks and results. The AE incorporates this feedback into a revised proposal and resubmits this to the GCF (a cycle that can undergo numerous iterations). The GCF Secretariat undertakes a formal review/ appraisal of the revised proposal based on the ICS and also forwards it to the iTAP for an independent review and appraisal. The GCF Secretariat consolidates both assessments/ appraisals and present them, along with their recommendations, for approval by the Board.

Table 5–1. GCF investment criteria/score card and corresponding indicators

Investment criteria	Sub-criteria
Impact potential: mitigation and adaptation indicators	• Contribution to the shift to low-emission sustainable development pathways • Contribution to increased climate-resilient sustainable development for most vulnerable people and communities
Paradigm-shift potential: catalyse impact beyond a one-off investment	• Innovation • Scalability: potential for scale and impact of proposed projects • Contribution to creation/strengthening of knowledge, learning or institutions • Sustainability of outcomes and results • Market development and transformation • Regulatory framework and policies to drive investments in climate change
Sustainable development potential: economic, social, environmental and gender co-benefits	• Environmental impact • Social and health impacts • Economic benefits • Gender equalities
Needs of the recipients: barriers to climate-related finance	• Scale/intensity of exposure of people, and/or social or economic assets or capital

[11] The ICS tool is presented in annex I to the GCF Appraisal Guidance and is available at https://www.greenclimate.fund/document/investment-criteria-scorecard-tool.

INVESTMENT CRITERIA	SUB-CRITERIA
	• Socioeconomic status of country and target population • Opportunities for the Fund to overcome specific barriers to financing
Country ownership: alignment with NDCs, relevant national plans and institutional frameworks	• In line with the country's national climate change strategy • In cognizance of the other country policies • Experience of AE / executing entity • Stakeholder consultation
Efficiency and effectiveness: cost per tonne of CO_2, ratio of co-financing, expected rate of return, application of best practices	• Financial adequacy and appropriateness of concessional • Cost-effectiveness • Potential to catalyze and/or leverage investment • Financial viability in long run • Best practice and innovation

Source: The ICS tool is presented in annex I to the GCF Appraisal Guidance and is available at https://www.greenclimate.fund/document/investment-criteria-scorecard-tool.

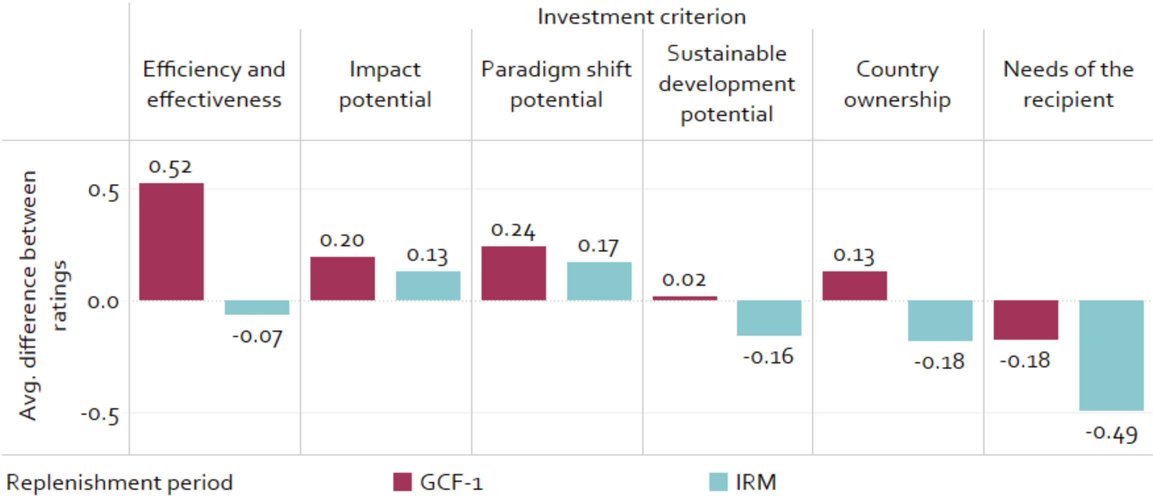
44. **Although the GCF ICS tool is theoretically fit for purpose, its operationalization has remained a challenge for many AEs, as well as the GCF Secretariat staff.** Primarily, the GCF ICS tool serves two interlinked objectives. First, it is intended to be used by the Secretariat to appraise FPs during the review process. Second, it is intended for use by AEs as well as NDAs to self-appraise FPs. Interviewed stakeholders, including GCF Secretariat staff and members of the iTAP, express the belief that there is a strong need to simplify the ICS. Many respondents found it very complex, time-consuming and resource intensive to use, with a direct negative impact on the efficiency of GCF operations.

45. The current version of the ICS was designed based on consultations. However, the design incorporates formulas that are not well understood within the GCF. Further, the ICS tool benchmarks indicators against preexisting data sets, either at the country level or a project/programme-level data set that covers 657 approved FPs from six different funds. Such data sets may be considered outdated or no longer suited to the current position of the GCF and may require an update based on the current GCF strategies. Also, the ICS is not perceived to be suitable to assess (and subsequently reward) risk or innovation. The ICS is also applied to all FPs, which provides for some degree of consistency, but can underplay unique features related to sectors or geographies.

46. There is notable variation in the scoring of FPs (based on the ICS) between the GCF Secretariat and the iTAP (Figure 5–1), which is useful in understanding which areas are subjective. This is particularly relevant for the ICS indicators relating to paradigm shift, impact potential (particularly for adaptation projects) and country ownership (which most iTAP members consider a highly subjective criterion). Assessing country ownership and the needs of the recipient country is a particular challenge for multi-country programmes, where AEs first design and/or develop the FPs and then seek advice and/or approval from NDAs. In such cases, country ownership is arguably limited. NOLs from NDAs are often a formality.[12] The indicators under "impact potential" and "efficiency and effectiveness" measure the same CO_2 emissions and climate resilience; however, "effectiveness" is used for cost comparison.

[12] Independent Evaluation Unit, *Independent Evaluation of the Green Climate Fund's Country Ownership Approach.*

Figure 5–1. The average difference between GCF Secretariat and iTAP ratings by investment criterion



Source: iTAP and Secretariat assessment data sets, as of B.37 (25 October 2023), analysed by the IEU.
Notes: The sample size includes 140 proposal approval process projects that have both iTAP and Secretariat ratings available ("not applicable" or "uncertain" responses omitted). Simplified approval process projects were excluded because an iTAP review for them is not mandatory.

47. The question here is how to simplify the ICS without compromising on all the values associated with it for the GCF, NDAs, AEs and other relevant stakeholders. Based on the evaluation team's review of similar assessment tools in other organizations, as well as in-depth interviews with GCF stakeholders, there may be several options that can be further explored and tested to simplify the ICS and improve the objectivity, time- and cost-efficiency, and transparency of the process. The list of possibilities below is not exhaustive, and many options may be explored in parallel by the Secretariat.

a) The first option is to simply continue with the same ICS but address issues of redundancies and duplication of measures. For example, there is scope to combine criteria points that are complementary in nature, such as country ownership, sustainable development potential and paradigm shift. Similarly, the needs of the recipient country can be eliminated as a separate criterion, as every country and project has almost the same argument to justify the needs of the recipient country. Also, the needs of the recipient country are mostly explained in sections B.1 and B.2(a) of the FP, under the climate context and ToC.

b) Another option is to quantify and benchmark some of the qualitative and subjective aspects of the ICS. This would address the most pressing concern of most of the AEs, who believe that there are varying, and often contradictory, views and definitions around these GCF investment criteria. In view of the respondents, more specific guidance on the ICS would limit subjective interpretations and can potentially reduce the back-and-forth with the GCF, the excessive time and costs incurred in preparing FPs, and, ultimately, the delays in accessing GCF funding. For example, in the ICS criteria related to impact potential, cost-effectiveness, and social, economic and environmental co-benefits can also be quantified and monetized. Similarly, some other investment criteria points that require a positive response (such as country ownership and the needs of the recipient country) can be appraised using a tick box, without the need for a narrative explanation.

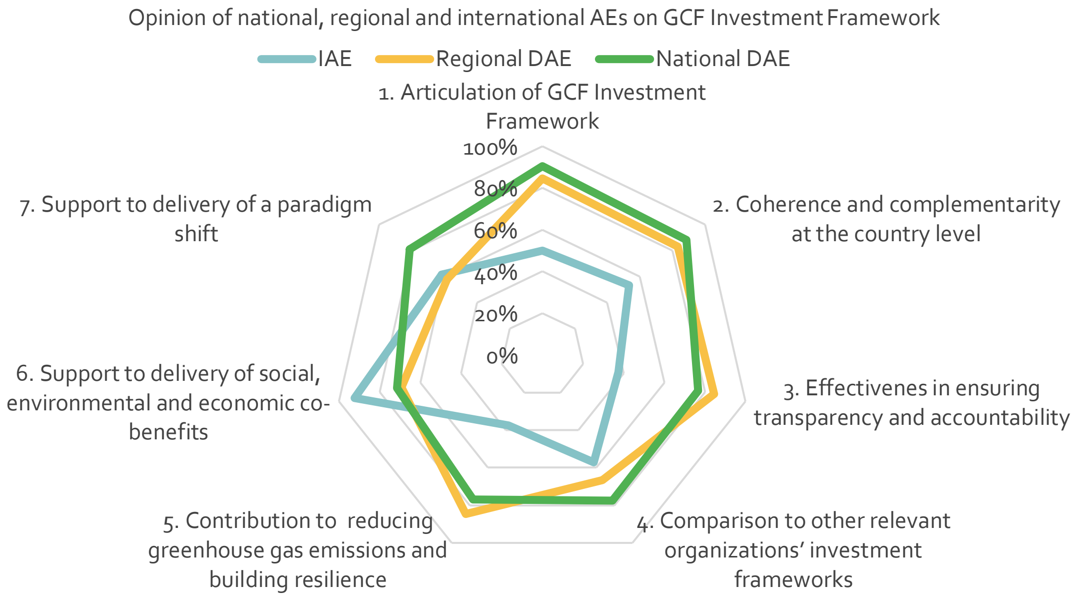
c) A comparatively complex – but comprehensive – solution emerging is to restructure the ICS into three distinct categories and tools. The first is using a simple checklist to assess the mandatory or essential requirements for projects/programmes to qualify for GCF funding – such as country ownership, the needs of the recipient country, and the scalability aspects of paradigm shift. The second is using the scorecard method to appraise the strength of the FP in terms of efficiency and effectiveness, impact potential, paradigm shift and sustainable development potential. The third is using additional tools, such as the log-frame, IRMF, IRMF and financial proposal to measure the quality of project management, including compliance with GCF policies such as environmental and social risk assessment, gender assessment and action planning, financial management and procurement.

d) It is possible to explore the use of the ICS to provide flexibility in funding. The GCF, like other major climate change and related funds, uses a scorecard for the composite value of the score against its investment criteria. Almost all climate change funds use a mix of qualitative and quantitative parameters for assessing FPs. By learning from the NextGenerationEU green bonds, it may be possible to explore a cap in investments based on the score of the FP. Specifically, this could mean that the GCF may have a choice beyond the decision to go or not go – for example, to include partial funding for projects that qualify as essential and above a minimum threshold of requirements of its investment criteria. For instance, FPs with high potential for impact but low cost-effectiveness may not qualify for 100 per cent of the requested finance but may be considered for partial funding, depending on the score.

e) Finally, despite the distinct nature of FPs, one standard ICS tool is used to appraise these projects. This approach allows for consistency and transparency in the selection of projects, and competition based on one unified criterion. However, it can ignore some of the unique features relevant to certain types of projects, and in certain sectors and geographical areas. Recognizing the distinct features of projects across adaptation and mitigation, it is possible to explore adding specific provisions in the Investment Framework and related ICS tool, based on the type of project. This is likely to promote more objectivity and simplicity in the investment criteria and improve operational efficiency.

48. **The GCF Investment Framework portfolio targets are mostly internal and aimed at informing GCF choices of financial allocations, whereas the ICS is used to appraise and select individual FPs that promote transformational change and have country ownership – leading to a potential for divergence.** The data from our online survey show that national, regional and international AEs have comparatively less confidence in the GCF Investment Framework’s effectiveness in terms of ensuring transparency and accountability (68 per cent responded positively), support to delivering paradigm shift (59 per cent) and flexibility for taking on more innovative and risk-taking projects (58 per cent) (Figure 5–2).

Figure 5–2. Online survey results: percentage of respondents who believe that the GCF Investment Framework meets (well or very well) the evaluation criteria

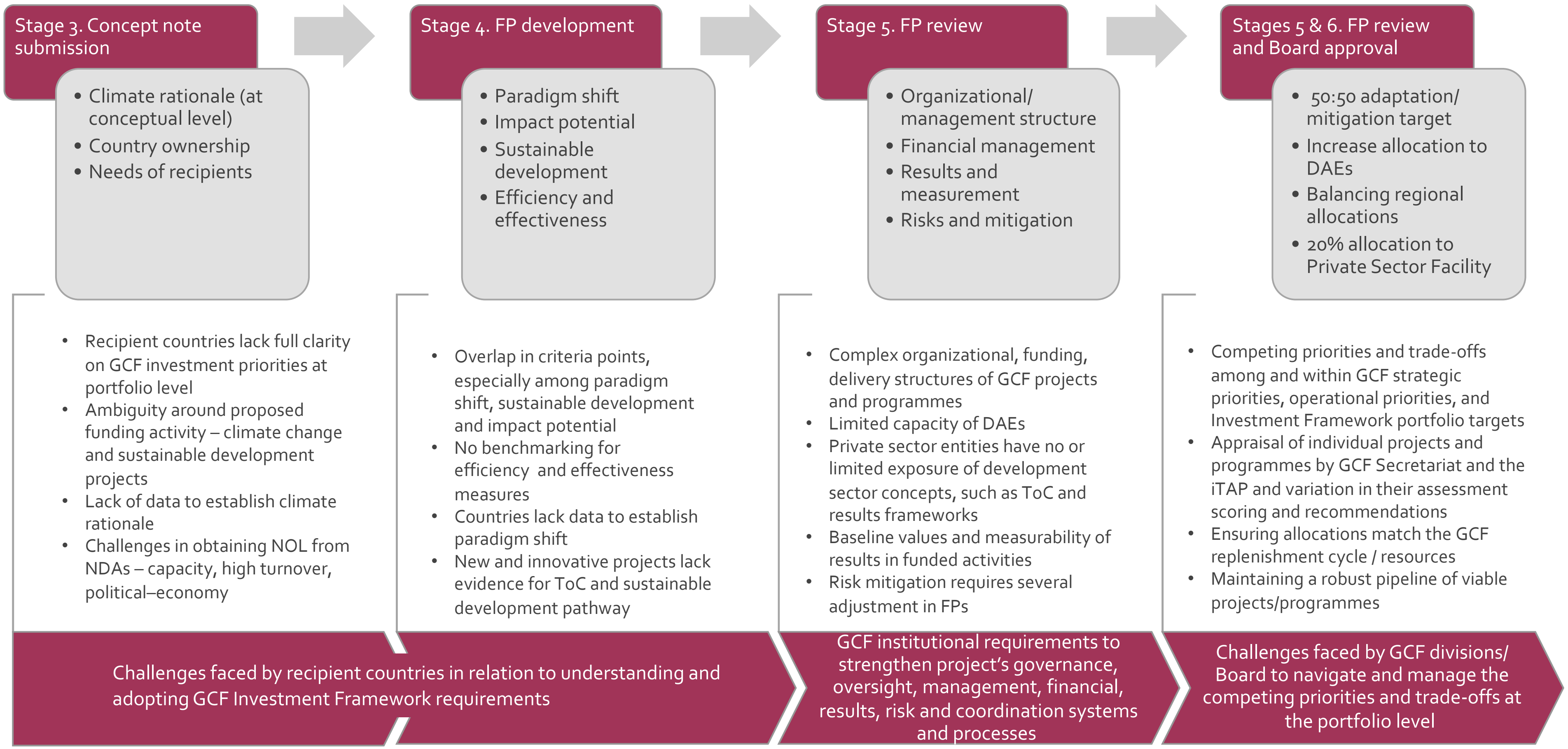


Source: Results of online survey of DAE and IAE respondents.

49. Further in-depth interviews with the GCF Secretariat and external stakeholders, including staff members of AEs and NDAs, also highlight prevalent concerns about the arbitrary nature of the GCF's approach to managing and maintaining investment portfolio targets and financing projects across a range of climate themes, sectors, geographical areas and types of executing agencies.[13] Other related investment funds, such as the GEF and NextGenerationEU green bonds, have adopted an alternate approach, in which they allocate resources to the countries first and then use country-level allocations to finance parts of projects from country-level climate and related strategies. The Investment Framework for Environmental Resources (INFFER) approach also suggested a similar process, by identifying significant projects that are candidates for investment from existing (national) documents or lists, community workshops, relevant experts, or analytical processes (such as systematic conservation planning).[14] It is possible that in GCF-2 this may be addressed in part through updated allocation parameters and portfolio targets, as approved through decision B.37/20. It may also be possible to explore an approach under which the GCF identifies a few select projects from national climate change strategies, NDCs and NAPs. The GCF may then use an ICS-type tool to pick the most promising projects – keeping competition within country-level projects and programmes. Figure 5–3 includes an account of some of the challenges identified by this evaluation through the operationalization of the GCF Investment Framework.

[13] The same issue was highlighted in a report by Pannell and others, stating that "typically, organizations have difficulty comparing the relative merits of projects for different types of environmental assets, of different funding scales or of different time scales. Often, the choice of policy mechanism or delivery mechanism is somewhat arbitrary, and not necessarily the most effective". David J. Pannell and others, *INFFER (Investment Framework for Environmental Resources)* (Perth, Australia, University of Western Australia, 2009). For further information on INFERR, see https://www.inffer.com.au/.
[14] Pannell and others.

Figure 5–3. Challenges in the operationalization of GCF Investment Framework at the project/programme level



Source: Multiple sources deployed for the collection of data/ information on this during the evaluation of GCF Investment Framework.

50. **Climate rationale is an important part of FPs. While the perception remains that this is a challenge for FP preparation, there are early signals of use of diverse data.** As shown in previous IEU evaluations, least developed countries[15] and small island developing States[16] face particular challenges in demonstrating impact proposition and progress against GCF outcomes, such as reduced GHG emissions and increased resilience. To achieve the appropriate geographical balance, the IEU has previously recommended that the GCF consider flexibility in investment criteria subcategories, indicators and their data sources for fragile and conflict-affected states, whereby these countries can use alternate indicators, including proxy indicators to demonstrate their impact potential and paradigm shift to climate change mitigation and adaptation. There remains a perception that climate rationale is a challenge due to a number of factors: generally limited data; no single source of data (government, bilateral or other entity); discrepancies in diverse data; ownership of data; and data not disaggregated by sectors, subsectors, geographical areas, gender, and so forth, rendering it difficult for use in FP preparation. However, in decision B.33/12, Steps to enhance climate rationale, the Board decided to use diverse data and information sources for demonstration of impact potential. A preliminary review of relevant sections of approved FPs focused on small island developing States and least developed countries suggests that after the B.33 decision there may be an increased use of diverse sources, including news reports, local media, national agencies, ministries and even own calculations.

> Right now, we struggle with the climate rationale. We receive different messages from consultants and others. These complexities depend on the people at the GCF we talk to. We have three projects in the pipeline, which are under review by the GCF. We faced various difficulties in the way. First, the focal points of the NDA have changed multiple times during the last few years. And every time a new secretary / focal point comes in, they lack understanding and context, and we have to brief them again and again and often the plan changes. Secondly, every change in NDA focal person means some changes to the plan. For example, a new NDA representative asked us to expand the geographical scope of the project – and when we decided to do that, there was not enough data available for establishing climate rationale. Thirdly, there are delays in GCF's feedback on FPs, particularly if there is a Board meeting. Also, the GCF lacks risk appetite, especially if these are private sector projects.
> - *Respondent, key informant interview*

51. **In addition to the Investment Framework, there are several other considerations that inform the decision about the selection of projects/programmes for GCF funding.** These considerations are generally applicable to stage 5 (FP review) of the GCF funding cycle and involve considerations such as project/programme organization, management, financial structure, results and risk management, coordination and collaboration. At this stage, the GCF works with AEs to assess whether project governance, management, implementation, monitoring, communication and learning are robust. Given the complex nature of climate interventions, this stage of the funding

[15] Independent Evaluation Unit, *Independent Evaluation of Relevance and Effectiveness of the Green Climate Fund's Investments in the Least Developed Countries*, Evaluation Report No. 12 (Songdo, South Korea, Independent Evaluation Unit, Green Climate Fund, January 2022). Available at https://ieu.greenclimate.fund/sites/default/files/document/220117-ldcs-final-report-vol-i-top-web.pdf.

[16] Independent Evaluation Unit, *Independent Evaluation of the Relevance and Effectiveness of the Green Climate Fund's Investments in Small Island Developing States*, Evaluation Report No. 8 (Songdo, South Korea, Independent Evaluation Unit, Green Climate Fund, October 2020). Available at https://ieu.greenclimate.fund/document/independent-evaluation-relevance-and-effectiveness-green-climate-funds.

cycle often takes a significant amount of time compared to other approval processes. In addition to the complexities associated with the design and structuring of such projects/programmes, other factors contribute to the delays in the approval of FPs – for example, the limited capacity of AEs (especially private sector entities that have no or limited exposure to development sector concepts such as ToCs and results frameworks); difficultly in agreeing on sources of information for baseline and target setting; and adjustments in intervention design and structure to address and mitigate serious risks.

52. **The GCF Investment Framework and its related policies, guidelines and tools (including the ICS tool) are published and strategic documents. However, the GCF is dealing with evolving issues of fund management.** AEs and other stakeholders often find it challenging to understand and align with the GCF's priorities, as they rightly rely on published GCF guidelines and policies. However, the feedback from the GCF Secretariat is based on the evolving needs and priorities of the GCF. For instance, respondents recalled varying prioritization of adaptation projects over mitigation projects. Other respondents recalled preference for a particular financial instrument, geographical priority or another portfolio objective. Most of these competing priorities are being faced by the GCF Secretariat but are less known or clear to AEs and NDAs. While the GCF does not directly turn down FP requests, the Investment Framework serves an important, albeit less visible to external partners, tool in communicating the institutional priorities with country priorities.

> Because the context is changing, with GCF receiving a greater number of funding applications, studying the approved proposals has little or no relevance for future decision-making on the award of projects.
> GCF has high staff turnover. One of our projects had five iterations. And each one had a different task manager. We were told not to look on what has been approved in the past because this is not an indication of what will be approved now.
> - *Respondent, key informant interview*

Chapter 6. ALIGNMENT OF THE GCF INVESTMENT FRAMEWORK AND INTEGRATED RESULTS AND RISK MANAGEMENT FRAMEWORKS

KEY FINDINGS

- The Investment Framework and the IRMF suffer from incomplete alignment and coherence, which makes it very difficult to monitor and evaluate investment criteria indicators once a project/programme is funded and in the implementation phase.
- Currently, the Investment Framework targets demonstrate the highest level of alignment between the frameworks, with the Investment Framework guidelines being the least comparable (due to their high-level nature being less relevant at the project/programme level).
- In general, the diverse nature of funded projects and programmes makes it difficult to measure results in an integrated manner. Similarly, integrating results measurement with investment criteria and strategic priorities remains an issue for the GCF.
- Overall, the GCF is a value-based organization, driven by its strategic objective of promoting a paradigm shift towards low-emission and climate-resilient development pathways. This is manifested through its considerable tolerance for investment and credit risk and the risk that some projects may not succeed.
- Despite being ingrained in the GCF’s investment decision-making, risk–reward considerations are not explicit in the GCF Investment Framework. The Investment Framework does not provide any substantial guidance on how investment decision-making at the portfolio level is informed by the RMF or its subordinate documents.
- At the project level, the use of the Investment Framework or ICS tool also leaves less space for the uptake of untested, yet promising, projects and programmes. Like CIF, the GCF has an opportunity to consider a “risk premium” in its ICS or the introduction of a special financial window under “innovative climate investments/financing” to promote promising yet high-risk projects and programmes.

53. This section reviews the alignment between the GCF Investment Framework and the IRMF and the RMF.

A. The GCF Investment Framework and the IRMF

54. The IRMF sets out the GCF's approach to assessing how its investments deliver climate results and how its results contribute to its overall objectives to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. The IRMF does so by providing guidance on the GCF's results architecture, specifically alignment with the GCF Investment Framework. In this respect, the IRMF sought to improve the degree of consistency and harmony between the initial Investment Framework, subcriteria and assessment factors that are designed to assess the feasibility and impacts, ex-ante and ex-post evaluation.
55. As detailed in Table 6–1 below, the IRMF is intended to track and monitor results at the following levels:
- Three impact-level results for paradigm-shift potential: scalability, replicability and co-benefits
- Eight outcome-level results across two interdependent layers: Impact potential (e.g. reduced emissions and increased resilience) and enabling environment
- Project-specific results: As identified and agreed in the project/programme log-frame document

Table 6–1. GCF IRMF core indicators at impact and outcome level

GCF impact level: paradigm-shift potential	GCF outcome level: impact potential and enabling environment	Project/programme level
• Scalability: Degree to which there has been a significant increase in quantifiable results within and beyond the scope of the intervention • Replicability: Degree to which the GCF investments exported key structural elements of the proposed programme or project elsewhere within the same sector as well as to other sectors, regions or countries	• Core indicator 1 (Mitigation): GHG emissions reduced, avoided or removed/sequestered • Core indicator 2 (Adaptation): Direct and indirect beneficiaries reached • Core indicator 3: Value of physical assets made more resilient to the effects of climate change and/or more able to reduce GHG emissions • Core indicator 4: Hectares of natural resource areas brought under improved low-emission and/or climate-resilient management practices • Core indicator 5: Degree to which GCF investments contribute to strengthening institutional and regulatory frameworks for low-emission climate-resilient development pathways in a country-driven manner • Core indicator 6: Degree to which GCF investments contribute to technology deployment, dissemination, development or transfer and innovation • Core indicator 7: Degree to which GCF investments contribute to market development/transformation at the	• As proposed/agreed in the project/programme log-frame to monitor and assess the project/programme's specific progress

GCF IMPACT LEVEL: PARADIGM-SHIFT POTENTIAL	GCF OUTCOME LEVEL: IMPACT POTENTIAL AND ENABLING ENVIRONMENT	PROJECT/PROGRAMME LEVEL
	sectoral, local or national level • Core indicator 8: Degree to which GCF investments contribute to effective knowledge-generation and learning processes, and use of good practices, methodologies and standards	

Source: GCF/B.29/12, Integrated results management framework. Available at https://www.greenclimate.fund/sites/default/files/document/irmf-policy.pdf.

Note: Key results areas:

- Mitigation: reduced emissions from (i) energy generation and access; (ii) low-emission transport; (iii) buildings, cities, industries and appliances; and (iv) forestry and land use
- Adaptation: increased resilience of (i) most vulnerable people and communities; (ii) health and well-being, and food and water security; (iii) infrastructure and built environment; and (iv) ecosystems and ecosystem services

56. **The Investment Framework and the IRMF suffer from incomplete alignment and coherence**, which makes it very difficult to monitor and evaluate investment criteria indicators once the project/programme is funded and in the implementation phase. Reiterating the same point, interview respondents from the GCF expressed their concern that after an FP is approved by the Board, the Investment Framework becomes irrelevant. However, there is less clarity on how to align both frameworks in such a way that the GCF could still monitor and evaluate whether the projects/programmes are delivering on the commitments made in their funding applications. Our policy analysis also highlighted how a tangible number of subsections differ between the Investment Framework and the IRMF. However, while not disagreeing with the view of practitioners, policy analysis revealed that in areas where the two frameworks overlap, there is either already a noticeable degree of coherence or strong potential for it to occur after a coherence mapping exercise. Overall, the IRMF elevates three of the six investment criteria: paradigm shift, sustainable development and impact potential. The degree to which the three other investment criteria – needs of the recipient, country ownership, and efficiency and effectiveness – are aligned with the IRMF is much less clear.

57. **Paradigm shift, sustainable development and impact potential are the three common areas of measurement between the Investment Framework and the IRMF.** The guidance on the measurement of impact potential in the Investment Framework resonates well with the IRMF. Hence impact potential is strongly aligned not only with the respective part of the IRMF but also with other subsections of the document. Similarly, the coverage area of paradigm-shift potential speaks comprehensively not only to the respective IRMF component but also to impact potential (since this concerns contribution to the creation of an enabling environment and climate-resilient development). Sustainable development potential has a comparatively weaker alignment between the Investment Framework and the IRMF than the former two criteria. However, it is substantially reflected in the IRMF as an approach in the enabling environment section, the quantitative indicator of direct and indirect beneficiaries (under the impact potential section), and the results areas.

58. **The needs of the recipient, country ownership, and efficiency and effectiveness demonstrate much weaker coherence between the two frameworks.** Needs of the recipient and country ownership are naturally connected to direct and indirect beneficiaries, and it can be argued that increased resilience speaks to the needs of recipients too. However, the needs of recipients and country ownership are not directly addressed in the IRMF. Indirectly, they can also be connected with the enabling environment core indicators 6–8 (including contribution to technology, innovation; contribution to market development/transformation at different levels; effective

knowledge-generation and learning processes, and use of good practices, methodologies and standards). Similarly, while efficiency and effectiveness can be seen to be connected to impact potential, it is challenging to see how this guideline is directly addressed in other IRMF components.

59. **Investment portfolio targets are more closely aligned with the IRMF than with the Investment Framework criteria, although not always in a direct manner.** This is especially relevant to the IRMF enabling environment core indicators, which are reflected in almost every investment allocation/portfolio target.

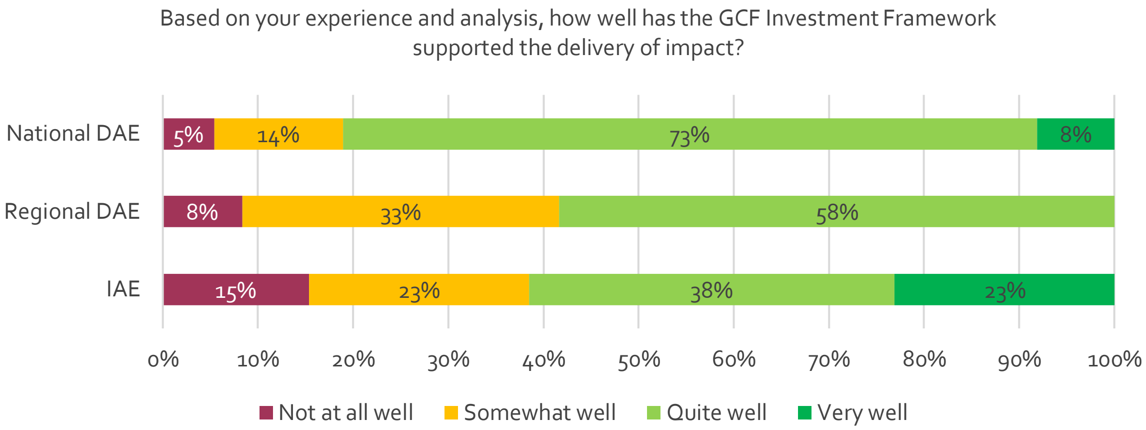
- The target of a 50:50 balance between adaptation and mitigation is reflected in each IRMF component with low to high coherence (see heatmap in annex 5 of Volume II of this evaluation report). This parameter measures the allocation of financial resources by the GCF itself, rather than the performance of the specific supported intervention. However, the balance is likely to have a potentially high coherence with such impact-potential subgroups as an increased value of assets with increased resilience or ability to mitigate, direct and indirect beneficiaries, and mitigation of GHG emissions.
- The adaptation allocation with a floor of 50 per cent for particularly vulnerable countries, building on IRM outcomes, naturally speaks to the IRMF components of increased resilience and enabling environment.
- Although it is a top-level indicator relevant to the portfolio structure, an appropriate geographical balance is aligned with several IRMF components. Chiefly, the focus on geography relates to beneficiaries of the intervention and local capacities (adaptation results area 1 – Mostly vulnerable people and communities, core indicators 5, 6, 7 and 8).
- With regard to the proportion of finance allocated to DAEs (with a significant increase relative to the IRM), although the increased number of DAEs is another internal parameter that does not directly speak to the interventions' performance, the activities of DAEs can improve the regulatory situation in a country and generate knowledge applicable internally and externally. Thus, this parameter speaks to core indicator 5 (Institutional and regulatory frameworks in a country-driven manner) and core indicator 8 (Effective knowledge-generation and learning processes, and use of good practices, methodologies and standards.)
- Two indicators outlining the GCF's approach to its investment portfolio for engagement with the private sector (with at least 20 per cent of GCF's funding to micro-, small- and medium-sized enterprises; and mobilized private sector finance at the portfolio level), follow a similar coherence pattern between the Investment Framework and the IRMF. They can be seen as having a high alignment with the IRMF core indicators concerning innovations (core indicator 5) and market transformations (core indicator 6).

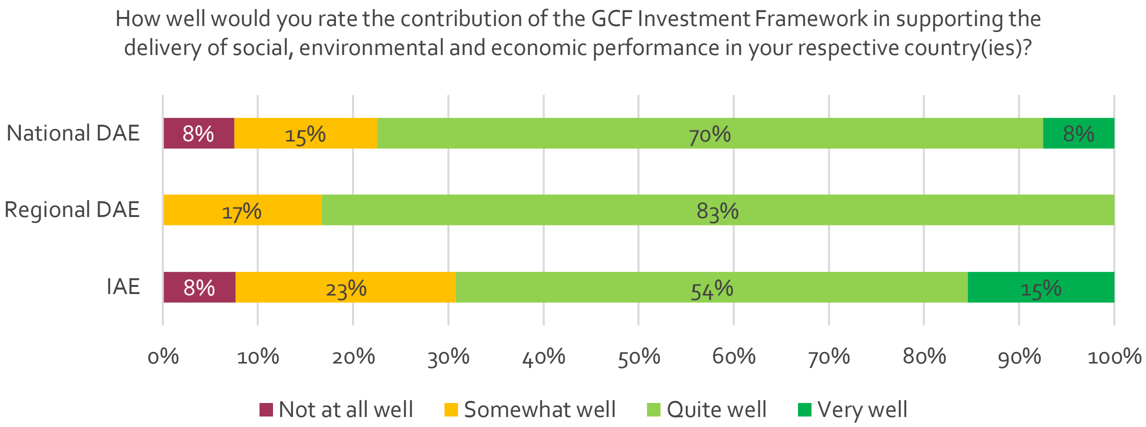
60. **Of the policies constituting the Investment Framework, only paradigm shift has a strong alignment between the Investment Framework and the IRMF. Other policies are mostly stand-alone features of the Investment Framework that focus more on the portfolio level than specific projects.** The Investment Framework includes several policy statements, of which paradigm shift is strongly aligned in definition. The Investment Framework directly refers to the IRMF in the description of the paradigm-shift policy component. By comparing how a project aims to contribute to a paradigm shift (ex-ante analysis) and to what extent it has succeeded in doing so (ex-post review), the GCF is expected to be able to develop knowledge and data on the degree to which outcomes meet expectations. This was one of the drivers for the creation of the original Investment Framework and has been maintained in the IRMF. The policies within the Investment Framework relate to the IRMF in varied ways:

- Grant-equivalent accounting is related to the financial instruments used by the GCF; therefore, it cannot be compared to the IRMF, since this policy does not address any ex-ante or ex-post assessment criteria of a proposal.
- Minimum concessional funding, defined by the Investment Framework as “funding with below-market terms and conditions”, is also an investment approach rather than an assessment criterion. However, less-demanding terms and conditions for funding may contribute to the enabling environment sub-indicators of core indicator 6 (contribution to technology deployment, dissemination, development or transfer and innovation) and core indicator 7 (contribution to market development/transformation at the sectoral, local or national level) because they provide room for unorthodox approaches.
- Blending, as an opportunity for intermediaries to blend GCF funds with other financial resources, demonstrates a similar alignment to the minimum concessional funding. Thus, it could contribute to the core indicators concerning technologies and market development (respectively, core indicators 6 and 7) but does not do so permanently.
- (Avoiding) Crowding out, being a source of additional funding in a country, speaks indirectly to core indicators 6 and 7 as well as having an impact on direct and/or indirect beneficiaries (core indicator 2, adaptation results areas 1–4).
- Revenue-generating activities are a policy that outlines the Fund’s intention, as stated in the Investment Framework, to support “only revenue-generating activities that are intrinsically sound from a financial point of view”. Therefore, the policy concerns the type of interventions, not their performance.

61. **AEs are generally optimistic about the potential ex-ante impact of GCF investments on climate adaptation and mitigation. However, there is little evidence of ex-post results being achieved by these GCF-funded activities**. This is partly because most GCF projects are in the early to middle stages of implementation. In anticipation, more than 60 per cent of the respondents from IAEs and DAEs believe that GCF investments are supporting the delivery of impact and the achievement of social, economic and environmental co-benefits. Also, almost 75 per cent of the respondents are positive about the contribution of GCF investments towards sustainable development and the replication and scale-up of climate projects and programmes. However, one common concern identified by most of the respondents is a lack of understanding and empathy on the part of the GCF about the context in which these projects are being implemented, and the kind of flexibility and adaptability these projects require to navigate the contextual and operational challenges and deliver results. From the GCF’s perspective, it is critical to establish and operationalize a robust system of ex-post results monitoring and validation to ensure the tracking of early results and to improve learning, course correction and adaptation.

Figure 6–1. Online survey results: potential impact of the GCF Investment Framework

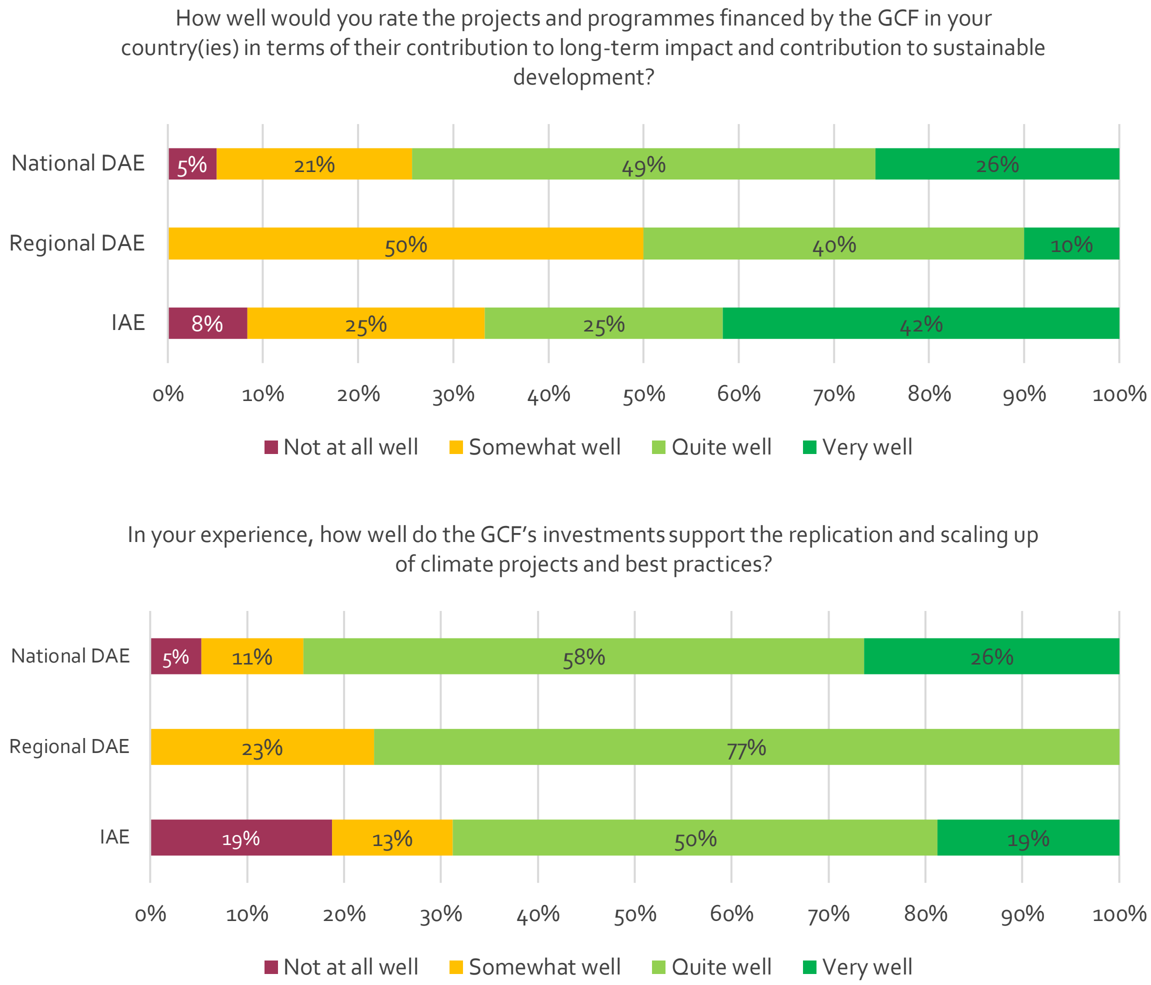




Source: Results of online survey of DAE and IAE respondents.
Note: Percentages per respondent type may not always equal 100 per cent due to rounding.
Key supporting remarks by respondents of the online survey:

- The GCF portfolio is overall quite young, but results are starting to show. The Investment Framework supports a strong project formulation, which is key for smooth implementation. However, the lack of flexibility from the GCF during implementation can cause delays.
- In general, good, but it is necessary to understand the reality of developing countries, with many deficiencies and limitations in technical and institutional capacity. Sometimes it seems that the GCF believes that interventions and projects are implemented only in ideal contexts and realities, in developing countries.
- GCF projects strongly support social, environmental and economic performance by contributing to gender mainstreaming, income improvement and strict safeguards.

Figure 6–2. Online survey results: potential sustainability of the GCF Investment Framework



Source: Results of online survey of DAE and IAE respondents.

Note: Percentages per respondent type may not always equal 100 per cent due to rounding.
Key supporting remarks by respondents of the online survey:

- There is rigour to the design to promote long-term and sustainable impacts. The GCF are better at this than many other donors.
- Great potential but it is too early to provide an objective answer to this question.
- It is still too soon to reach a conclusion on this. Nevertheless, the effectiveness of these projects will depend on several factors, such as the quality of implementation, the availability of resources and the political will to support them.

B. THE GCF INVESTMENT FRAMEWORK AND THE RMF

62. The GCF is required to take risks to fulfil its mandate of promoting a paradigm shift towards low-emission and climate-resilient development pathways. In practice, this means the GCF fully recognizes the uncertainties around investment risks in return for impact potential as well as the importance of effectively managing risks associated with its climate finance and investment activities. As noted in the risk appetite statement, adopted as a component of the RMF at B.17,

> The risks faced by the GCF range from those for which the GCF has no appetite (e.g. compliance risks) to those that the GCF has a relatively high risk appetite [for], e.g. certain Funding Proposal … risks. Overall, the GCF has zero-tolerance for illegal practices and integrity or policy breaches, relatively moderate risk tolerance for activities that arise as a result of operating a global investment fund, and considerable risk tolerance for activities necessary to realize GCF's mandate.[17]

63. The RMF is a crucial component of the GCF's efforts to address climate change and support sustainable development. The framework provides a comprehensive approach that guides the GCF in identifying, assessing, mitigating and monitoring risks across all levels of its operations. In addition to the RMF, the GCF has several other policies, frameworks and matrices to identify, manage, mitigate and report risks. These include (i) a revised risk register; (ii) a risk appetite statement; (iii) a risk dashboard; (iv) risk guidelines for FPs; (v) an investment risk policy; (vi) a non-financial risk policy; (vii) a funding risk policy; (viii) a compliance risk policy; and (ix) the Revised Initial Financial Risk Management Framework.[18]

64. The RMF, which brings together all these risk-related documents, provides guidance on the following:

- Direction setting is guided by (i) the risk register (risk identification); (ii) the risk appetite statement (risk strategy articulation); and (iii) the risk dashboard (risk monitoring)
- A risk-mitigation approach and processes are guided by (i) risk guidelines for FPs (investment level); and (ii) enterprise-level policies such as funding risks, investment risks and non-financial risks
- Enablers include risk processes and procedures; risk infrastructure; internal controls manual; and organization and governance
- Tools include risk rating models and grant equivalent calculator

65. **The GCF is a value-based organization, driven by its strategic objective of promoting the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development. This is manifested through a stated high risk appetite.** A consistent theme emerging from in-depth interviews with the GCF Secretariat was that the GCF has a greater risk appetite when it comes to policy, strategic and investment decisions related to discharging the GCF mandate. This is also evident from the GCF's bold and assertive investment targets at the portfolio level, which make the GCF unique and a leader in climate finance. For example, the GCF's investment target to maintain the 50:50 balance of adaptation and mitigation funding is in itself considered bold for a multilateral finance institution, especially considering the associated challenges such as the difficulty in establishing the impact potential, paradigm shift and sustainable development potential of adaptation projects; the relatively limited co-financing for adaptation; and the smaller value (and hence higher operational cost) of adaptation projects. Similarly, the investment decision to increase the funding channelled through DAEs is a relatively new approach and has several implications, including the smaller value of projects with higher

[17] Annex VI to decision B.17/11.
[18] The revised risk register, risk appetite statement and risk guidelines for FPs are annexes to decision B.17/11, available at https://www.greenclimate.fund/decision/b17-11; the risk dashboard, investment risk policy, non-financial risk policy and funding risk policy are annexes to decision B.19/04, available at https://www.greenclimate.fund/decision/b19-04; the compliance risk policy is annex VIII to decision B.23/14, available at https://www.greenclimate.fund/decision/b23-14; and the Revised Initial Financial Risk Management Framework is annex I to GCF/B.26/Inf.10/Add.01, available at https://www.greenclimate.fund/document/gcf-b26-inf10-add01.

operational costs (resulting in efficiency issues, higher risks of delivery failure due to capacity constraints faced by DAEs, and a compromise in co-financing). In addition, the GCF's investment decision to aim for appropriate geographical balance has several challenges, as it means that, apart from the selection of the most viable projects, the GCF has to consider geographical coverage across regions and countries. Such investment decisions at the portfolio level indicate a considerable commitment to the GCF's mandate, even if this means compromising other strategic priorities such as improving speed and efficiency, optimizing operations, and catalysing private sector finance at scale.

66. **Despite being ingrained in GCF investment decision-making, risk–reward considerations are not explicit in the GCF Investment Framework.** There is overall guidance in the risk appetite statement that the GCF has a relatively moderate risk tolerance for activities that arise from operating a global investment fund and considerable risk tolerance for activities necessary to realize the GCF's mandate. However, the GCF Investment Framework does not provide any substantive guidance on how GCF investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. GCF investment decisions at the portfolio level are informed by various political, strategic, programmatic and operational considerations, and this is a reflection of the GCF's mandate and governing structure. There is a lack of meaningful integration of risk–reward considerations in the GCF Investment Framework at the portfolio level, which can be potentially informed by analysing investment decisions from the perspective of potential risks and gains. With sufficient evidence from the IRM and GCF-1, the GCF has a body of evidence on which to base informed and calculated investment decisions. There are efforts underway within the Secretariat to address these issues.[19] Table 6–2 is an illustration of how the risk–reward assessment of the GCF's investment decisions related to an increase in funding channelled through DAEs can be used to inform the GCF's investment decisions.

[19] The GCF Secretariat is developing a project risk and opportunity mapping to improve risk assessment. The mapping is under development and its effectiveness was not included in this evaluation.

Table 6–2. A hypothetical illustration of risk–reward assessment of the GCF's investment decisions related to an increase in funding channelled through DAEs

Potential risks			Potential gains/reward		
Risk factor	Likelihood & impact	Impact weight (0–10)	Reward/gains	Likelihood & impact	Impact weight (0–10)
Risk of compromise in operational efficiency due to smaller value and higher number of projects	High	8	Improved country ownership	High	8
Increased support through the Project Preparation Facility in a funding application to compensate for comparatively weaker capacity than IAEs	Moderate	6	Higher potential for paradigm shift, beyond direct results	High	9
Higher risk of failure of GCF-funded projects due to weaker capacity of DAEs, compared to IAEs	High	8	Local institutional capacity to design, coordinate and implement climate change mitigation and adaptation projects	High	10
Compromise on co-financing (DAE 1.7; IAE 2.8)	Moderate	6	Structural improvements in policies, mechanisms, systems and processes for climate change related financing	Moderate	7
Total risk factor		**28**	**Total reward factor**		**34**
Risk–reward ratio (28/34)					**82%**
Investment decision: Consider the decision to increase allocation funding channelled through DAEs.					

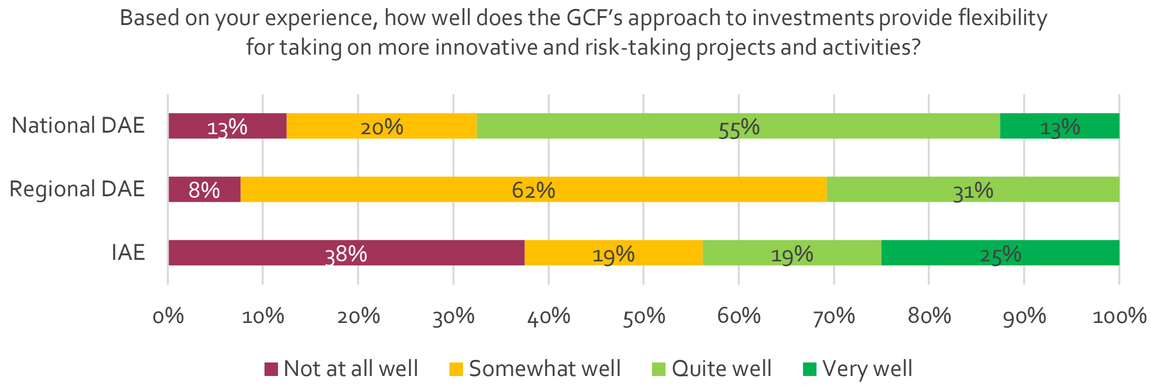
Note: Impact weights should be allocated based on (i) the GCF's mandate and strategic priorities; (ii) evidence of investment programming from the IRM and GCF-1; and (iii) the time-horizon we are considering, such as GCF-2 (2024–2027).
Impact weight: Low (0–3), Moderate (4–7), High (8–10).

67. **The CIF Investment Framework considers "risk premium" a key criterion for its investments, but this criterion is less explicit in the GCF's strategic priorities.** There are four major programmatic risks that GCF funding might be subject to: (i) projects and programmes that are untested and innovative, yet promising; (ii) projects and programmes that are highly complex, such as multi-country, multi-sectoral and multi-stakeholder projects with complex institutional, financial and sectoral arrangements; (iii) projects and programmes in countries that lack credible data to establish climate rationale or prospects for impact potential and paradigm shift; and (iv) the projects and programmes that involve equity or loans, and hence require continued management of repayments after completion. Most of the projects from the IRM and GCF-1 are ongoing, leading to limited clarity on the probability of these risks materializing. At the portfolio level, the GCF's strategic priorities, investment criteria and RMF highlight these risks and related risk-mitigation strategies. However, current risk-mitigation mechanisms limit the scope for funding highly innovative, potentially high-impact projects and programmes. At the project level, the use of the Investment Framework and the related ICS tool also leaves limited space for the uptake of untested, yet promising, projects and programmes. Like the CIF, the GCF has the opportunity to incorporate

risk premium with the Investment Framework or ICS or to introduce a special financial window under “innovative climate investments/financing” to promote promising yet high-risk projects and programmes. There is high-level support for such an approach.

> Innovation is not a well-defined concept at GCF, and there is a need to develop the relevant documentation. A challenge at country level is that a technology classified as innovation in one country could be a long-established practice in another. Hence, a coherent framework for country-level innovations might be a challenging document due to its subjectivity.
> - *Respondent, key informant interview*

Figure 6–3. Online survey results: flexibility in the GCF Investment Framework for innovative and risk-taking projects



Source: Results of online survey of DAE and IAE respondents.
Note: Percentages per respondent type may not always equal 100 per cent due to rounding.
Key supporting remarks by respondents of the online survey:

- At the project level, GCF has robust selection criteria (ICS) and requirements for project FPs, which makes it hard to propose/design innovation and risky projects.
- GCF Investment Framework is complex; this has caused AEs and countries to simplify designs and move away from complex innovative approaches and keep risk to a minimum (legal frameworks are very heavy) meaning that GCF processes have directly led to reduced willingness for innovation or risk-taking.
- GCF’s approach to investments provides flexibility for taking on more innovative but not many risk-taking projects and activities.
- More risk appetite is needed for highly innovative projects. The possibility of lending in local currency should be addressed by the GCF.

Chapter 7. EVALUATION CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Conclusion 1. Structure of the GCF Investment Framework

68. **At the institutional level, the GCF Investment Framework provides an appropriate response to the GCF mandate to promote a paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development.** This is evident from the investment targets that the GCF has embarked upon – such as the 50:50 allocation balance for adaptation and mitigation, significantly increasing the allocation to DAEs, and achieving appropriate regional balance – in face of the associated complexities and the potential trade-offs of such investment decisions. The framework, therefore, is an articulation of the balance within the GCF mandate.

69. The GCF Investment Framework accommodates competing priorities and trade-offs, which are articulated through strategic, political, programmatic and operational considerations at the portfolio level. With its overarching scope, the GCF Investment Framework is intended to be a comprehensive tool for the GCF Board and Secretariat to make and communicate informed, strategic and consistent investment decisions that align with the GCF mandate. However, this wide scope has implications. **While the GCF is mandated to promote a paradigm shift, individual projects and programmes have limited influence at the country level; the Investment Framework has limited linkages with national climate strategies, NDCs and NAPs.** Generally speaking, the GCF is funding individual projects and programmes that are targeting specific sectors and beneficiaries, with limited policy influence towards accelerating national responses to the climate crisis.

70. **The GCF Investment Framework emphasises greater coverage of GCF's investments across countries, sectors, results areas and AEs. This coverage partly undermines the depth of programming, which is key to achieving paradigm shift.** Focused GCF funding to select priorities within countries/regions, sectors, results areas and AEs may contribute more to paradigm shift as a GCF strategic priority and operational efficiency as a GCF operational priority. In addition, GCF could translate its comparative advantages or value-add into a more programmatic focus on addressing specific structural barriers in addressing climate change. For instance, investment priorities for each strategic period could address a fundamental issue in specific sectors or geographies. Establishing specific investment priorities can help the GCF portfolio create a clear narrative and drive a paradigm shift as a coherent whole.

71. The GCF has a full suite of climate change financial instruments, including grants, loans, equity, guarantees and concessional funding, which meets the needs of both (i) the supply of finance by the GCF, by ensuring the deployment of the right types of finance for climate financing needs, and (ii) the demand for finance. There is a broad consensus that the range of options provided by the GCF for climate financing helps respond to the varying needs of countries in general, and projects/programmes in particular.

Conclusion 2. Operationalization of the GCF Investment Framework

72. **In general, the Investment Framework brings uniformity, consistency and objectivity to the decisions made within and among various divisions, offices and functions of the GCF.** In the GCF Secretariat, the Investment Framework is used as a key document to translate the GCF's strategic and operational priorities into actions at two levels: first, the allocation of financial resources at the portfolio level, based on investment portfolio targets; and second, the appraisal and approval of individual projects and programmes, based on the investment criteria, indicators and scorecard.

73. However, the operationalization of the Investment Framework creates various obstacles at many stages of FP review and assessment within the Secretariat, as in the following examples.

    - At concept note submission (stage 3), some of the challenges faced by DAEs and IAEs include (i) lack of clarity on GCF investment priorities at the portfolio level; (ii) ambiguity around proposed funded activities, especially the classification of projects as climate or development interventions; (iii) lack of or limited data to establish climate rationale; and (iv) difficulties in obtaining NOLs from NDAs due to, inter alia, capacity issues, high turnover and political–economic considerations.
    - At FP development (stage 4), which includes technical and conceptual dimensions, some of the challenges faced by DAEs and IAEs include (i) overlap in investment criteria points, especially between paradigm shift, sustainable development and impact potential; (ii) no benchmarking for efficiency and effectiveness measures; (iii) lack of data to establish paradigm shift; and (iv) lack of evidence for the ToC and sustainable development pathway for new and innovative projects.
    - At FP review (stage 5), some of the challenges are related to the GCF's institutional requirements to strengthen the project's governance, oversight, management, financial management, results, risks, and so forth, including the (i) complex organizational, funding and delivery structures of GCF projects and programmes; (ii) limited capacity of DAEs, including the limited exposure of private sector entities to development sector tools, such as ToCs, results frameworks, and so forth; (iii) baseline values and measurability of results in FPs; and (iv) need for multiple adjustments to risk-mitigation measures in FPs.

74. **The Secretariat uses an ICS tool, which is theoretically fit for purpose. Yet, its operationalization has remained a challenge for many national, regional and international AEs, as well as GCF Secretariat staff.**

Conclusion 3. Alignment of the GCF Investment Framework with its RMF and IRMF

75. **The GCF Investment Framework becomes mostly irrelevant after the approval of an FP. This is due to the lack of alignment of the Investment Framework with the GCF's other frameworks, such as the IRMF and RMF, that come in to play after the approval of FPs.** The Investment Framework and the IRMF suffer from a lack of alignment and coherence, which creates challenges for monitoring and evaluating investment criteria indicators once the FP is approved and in the implementation phase. This is more relevant for three of the six investment criteria – namely, needs of the recipient, country ownership, and efficiency and effectiveness, where there is no clear evidence of any alignment with the IRMF.

76. Similarly, there is no clear indication of how the GCF's risk appetite statement is translated into the GCF's investment decision-making – particularly in the GCF Investment Framework and ICS tool at the portfolio and project/programme levels. **Overall, the GCF is a value-based organization, driven by its strategic objective of promoting a paradigm shift towards low-emission and**

climate-resilient development pathways in the context of sustainable development. This is manifested through its considerable risk tolerance for activities necessary to realize its mandate. Nonetheless, proper consideration of risk–reward ratios is not explicit in the GCF Investment Framework. The Investment Framework does not provide substantial guidance on how investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. There are four major programmatic risks that GCF FPs are subject to: (i) projects and programmes that are untested and innovative, yet promising; (ii) projects and programmes that are highly complex, such as multi-country, multi-sectoral and multi-stakeholder projects with complex institutional, financial and sectoral arrangements; (iii) projects and programmes in vulnerable countries that lack credible data to establish climate rationale or prospects for impact potential and paradigm shift; and (iv) projects and programmes that involve equity or loans, and hence require continued management of repayments after completion.

77. **On an ex-ante basis, the potential impact of GCF investments in climate change adaptation and mitigation seems highly promising. However, there is still limited ex-post evidence of results being achieved by GCF-funded activities.** This is partly because most GCF projects are at an early or middle stage of implementation. Therefore, there is a pressing need for the GCF to continue to strengthen its system of ex-post results monitoring and validation to ensure tracking of early results and strengthen the system to improve learning, course correction and adaptation.

B. Recommendations

Structure of the GCF Investment Framework

78. **Recommendation 1. The GCF Secretariat should consider scenario planning, strategic forecasting and risk–reward assessment on each of the individual investment portfolio targets set in the *Strategic Plan for the Green Climate Fund 2024–2027*.** The GCF pipeline of investments/funding data from the IRM and GCF-1 can be used to plot the likely scenarios, forecast the possible outcomes of investment policy decisions, and inform the risk–reward proposition for informed investment decisions.

79. **Recommendation 2. The structure of the Investment Framework should be simplified and should be used as an instrument to clarify GCF investment choices at the portfolio and project levels.** It is recommended that the investment policies – such as paradigm shift, grant-equivalent accounting, minimum concessional funding, blending, and not crowding out other financial sources and revenue – be merged with the strategic and operational priorities of the GCF, whereas the focus of the Investment Framework could be limited to (i) investment portfolio targets, which are aimed at informing GCF investment decisions at the portfolio level; and (ii) the ICS, which is aimed at informing GCF investment decisions at the project and programme level.

Further, the GCF Secretariat should consider institutional measures to continue to succeed on larger targets such as the balance of mitigation and adaptation, and programming through DAEs. Such targets require the use of institutional tools such as the RPSP to sustain the 50:50 allocation for adaptation and mitigation targets.

80. **Recommendation 3. To reinforce high impact and to address potential fragmentation, the GCF should revisit the Investment Framework from the perspectives of depth/coverage, consideration for policy influence, and clarifying complementarity and coherence at the country level.**

3.1. The GCF should consider revisiting the balance between coverage and depth of its investment financing across sectors and results areas. The intended position of the GCF within certain sectors, geographies or results areas may be translated, through the Investment Framework, into specific strategic priorities that further cascade into investment priorities and operational priorities. The GCF should consider identifying fundamental root causes or key structural barriers to address, allowing for synergistic programming that brings about a paradigm shift with intention.

3.2. The GCF Investment Framework should consider developing instruments for NDAs and DAEs to improve policy influence towards accelerating national response to the climate change crisis. This could mean conditional, payment-linked grants and/or loans as well as technical assistance for countries to incentivize the implementation of their NAPs/NDCs. It is likely that this approach will not only address the issue of country ownership but also enable the scaling up of impact, improve efficiency, support equitable allocation and increase the accountability of operations.

3.3. In addition, **the GCF may wish to consider "complementarity and coherence" as an operational priority**, to avoid duplication, promote learning and collaboration, and help address the issue of the crowding out of other climate finance investments.

Operationalization of the GCF Investment Framework

81. **Recommendation 4. The GCF Board and Secretariat should address the issue of redundancies and duplication within the investment criteria and the tools used to operationalize the Investment Framework.**

4.1. The investment criteria and subcriteria should be examined with a view to consolidating some of them. Some criteria points are complementary in nature and could be combined – for example, country ownership, sustainable development potential and paradigm shift. Similarly, the needs of the recipient country can be eliminated as a separate criterion, as every country and project has almost the same argument to justify these needs. Also, the needs of the recipient country are mostly explained in sections B.1 and B.2(a) of the FP, under the climate context and ToC.

4.2. To improve objectivity and consistency in the appraisal of funding tools, some of the qualitative and subjective criteria and subcriteria in the ICS tool need to be quantified and made measurable. Except for few indicators on cost-effectiveness and impact potential, all indicators in the ICS tool are qualitative (and somewhat subjective). It is hard for both the GCF (i.e. the Secretariat and iTAP) and AEs to objectively use these ICS indicators to present or measure FPs. The GCF should quantify and benchmark some of the qualitative and subjective aspects of the ICS tool, both to reduce the risk of inconsistency and errors of judgment on the part of the GCF when appraising individual projects and to promote more objectivity and transparency in the use of the ICS.

4.3. A comparatively complex but comprehensive solution would be to restructure the investment criteria into three distinct categories and tools. The first would be to use a simple checklist to assess the mandatory or essential requirements for projects/programmes to qualify for GCF funding, such as country ownership, the needs of the recipient country, and the scalability aspect of paradigm shift. The second would be to use the scorecard method to appraise the strength of an FP in terms of efficiency and effectiveness, impact potential, paradigm shift and sustainable development potential. The third would be to use additional tools, such as the log-frame, IRMF, RMF and financial proposals to measure the quality of project management, including compliance with GCF policies such as environmental and social risk assessment, gender assessment and action planning, financial management and procurement, and so forth.

82. **Recommendation 5. The GCF should continue its efforts to introduce flexibility into the investment criteria subcategories and indicators – particularly in the use of best available information and data to demonstrate the alignment of FPs – and address perceptions that the requirements remain inflexible**. The Board and Secretariat have made efforts to introduce the flexibility and simplicity sought by AEs and partners, as demonstrated by Board decision B.33/12, paragraph h, that the best available information and data are sufficient to form the basis for the demonstration of impact potential. Continued efforts to allow flexibility in the investment criteria subcategories, indicators and their data sources will enable particularly vulnerable countries to use alternate indicators, including proxy indicators, to demonstrate their impact potential and paradigm shift regarding climate change mitigation and adaptation. The Secretariat should also explore means such as providing extra weighting to FPs from particularly vulnerable countries, which may allow the GCF additional flexibility to respond to debt and other challenges. Efforts also need to be made to address the perceived concerns of partners in this regard.

Alignment of the GCF Investment Framework to improve results focus and risk mitigation

83. **Recommendation 6. There is an urgent need for the GCF Secretariat to align the Investment Framework with the IRMF and the RMF and to seek internal coherence and alignment.** As a learning organization, the GCF needs to instate a robust process of performance monitoring, learning and adaptive programming to ensure that the GCF's funded projects and programmes are delivered as per their approved FPs and are contributing to the GCF's strategic objectives and priorities. More specifically, the following actions need to be considered in this regard.

6.1. The GCF Board and Secretariat should work towards greater alignment between the Investment Framework and the IRMF, so that investments and results are assessed from similar perspectives. This can be supported by continued efforts for monitoring and results management:

- The GCF should increase the frequency of monitoring of complex projects, with more periodic reviews, spot checks and validation exercises to confirm whether projects are being delivered according to their design and implementation plans, or whether there is a need for adaptation and course correction to improve the success rate of the project delivery.
- The GCF should institute an expedited process of adaptive programming, whereby the Secretariat has delegated authorities to make/approve adjustments of an operational nature, rather than waiting for Board meetings and decisions to approve these changes.
- The GCF must strengthen its system of ex-post results monitoring and validation to ensure tracking of early results and to improve learning, course correction and adaptation. This may include structural adjustments by either establishing an audit/assurance unit within its Division of Portfolio Management or using external support for spot checks and systematic validation of reported results.

6.2. The risk appetite statement and risk–reward consideration need to be explicitly reflected in the GCF Investment Framework. In practice, this means that the GCF Investment Framework should provide sufficient guidance on how GCF investment decision-making at the portfolio level is informed by the RMF or its subordinate documents. There is a need to reinforce and expedite the efforts already underway within the Secretariat.

84. **Recommendation 7. The GCF should develop an online/real-time, publicly available Investment Portfolio Dashboard.** The dashboard should provide information on the overall allocation to each investment target, the status of already allocated funds and the remaining balance so that NDAs and AEs and other stakeholders can plan accordingly.

Annex. LIST OF INTERVIEWEES

GCF Secretariat

Name	Position	Division
Eldana Djumalieva	Coordinator for Support Programmes	Division of Country Programming
Adria Llach	Project Officer	Division of Mitigation and Adaptation (DMA)
AJ Untalan	PPF Associate Professional	DMA
Bapon Fakhruddin	Water Resources Management Senior Specialist	DMA
Demetrio Innocenti	SAP/PPF/EDA Manager	DMA
Devindranauth Bissoon	Senior Infrastructure Specialist	DMA
Euan Low	Climate Impact Area Lead (Energy and Industry)	DMA
Freddy Soto	Project Specialist, Simplified Approval Process	DMA
Gabriel Boc	Senior Agriculture and food Security Specialist	DMA
German Velasquez	Director	DMA
Grace Eunhye Lee	Economic and Financial Specialist	DMA
Johan Bentinck	Strategic Project Planning Specialist	DMA
Kunduz Masylkanova	Senior Agriculture and Food Security Specialist	DMA
Lena Kern	Senior Marine Ecosystems Management Specialist	DMA
Lucia Fuselli	Senior Energy Efficiency Specialist	DMA
Martin Bjerkmo	Project Officer, Simplified Approval Process	DMA
Nazeem Wasti	Project Preparation Facility and Technical Assistance Specialist	DMA
Rashmi Kadian	Climate Impact Area Lead	DMA
Subin Cho	Pipeline and Portfolio Insights Specialist	DMA
Gareth Zahir-Bill	Deputy Director	Division of Portfolio Management (DPM)
Ivo Besselink	Sector Specialist, Energy and Industries	DPM
Kyung Chul Lee	Monitoring and Evaluation Specialist	DPM
Lilian Macharia	Director of Portfolio Management	DPM
Neeraj Joshi	Climate Change Monitoring and Evaluation Specialist	DPM
Shahid Parwez	Senior Quality Assurance and Monitoring and Evaluation Specialist a.i.	DPM

NAME	POSITION	DIVISION
Vlad Arnaoudov	Senior Portfolio Management and Monitoring and Evaluation Specialist	DPM
Daniel Farchy	Climate Investment Manager, Nature & Ecosystems	Division of Private Sector Facility (DPSF)
Julien Taris	Senior Financial Structuring Expert	DPSF
Kavita Sinha	Director	DPSF
Soji Omisore	Deputy Director	DPSF
Adam Bornstein	Head of Financial Analysis and Product Innovation	DSS
Henry Gonzalez	Deputy Executive Director	Office of the Executive Director (OED)
Selina Wrighter	Head of Policy and Strategy	OED
Timothy Breitbarth	Investment Operations Manager	OED
Hansol Park	Climate policy and Governance Specialist a.i.	Office of Governance Affairs
Raphael Vendeville	Head	Office of the Internal Auditor (OIA)
Sisay Mekonen	Internal Audit Specialist	OIA
Bradley Punu	Deputy CFO	Office of Institutional Finance
Huishu Ji	Chief Risk and Compliance Officer	Office of Risk Management and Compliance (ORMC)
Mark Jerome	Head a.i.	ORMC
Tiffany Hodgson	Head	Office of Sustainability and Inclusion

Board members, panels and groups

NAME	POSITION	AFFILIATION
Edward Webber	GCF Alternate Board Member (United Kingdom) Chair of Investment Committee	Department for Business, Energy and Industrial Strategy, United Kingdom
Isatou F. Camara	GCF Alternate Board Member (Gambia)	Ministry of Finance, Gambia
Abdullah Bikzad	Operations Consultant	Independent Technical Advisory Panel (iTAP)
Carmenza Robledo Abad Althau	International Expert	iTAP
Caroline Petersen	Chair	iTAP
Ina Hoxha	International Expert	iTAP
Jan Martin Witte	International Expert	iTAP
Jurg Grutter	International Expert	iTAP
Kenel Delsuca	International Expert	iTAP

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