Accelerating Sustainable Finance for Emerging Markets and Developing Economies

Independent High-Level Expert Group Review of the Vertical Climate and Environmental Funds

October 2024

DISCLAIMER

This report has been prepared by the Independent High-Level Expert Group appointed by the Brazilian G20 Presidency and the G20 Sustainable Finance Working Group to undertake the work set in the Terms of Reference for this review of the Vertical Climate and Environmental Funds.

Its findings and recommendations reflect a broad agreement within the Independent High-Level Expert Group without entailing agreement on every specific point. Members participated in a personal capacity, and their participation does not imply the support or agreement of their respective institutions.

The report has been drafted independently and does not seek to represent the views of the G20 membership or the Brazilian G20 Presidency. It also does not represent the positions of the Vertical Climate and Environmental Funds or any other external party consulted during the Funds Review.

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G20 BRASIL 2024
BUILDING A JUST WORLD AND A SUSTAINABLE PLANET

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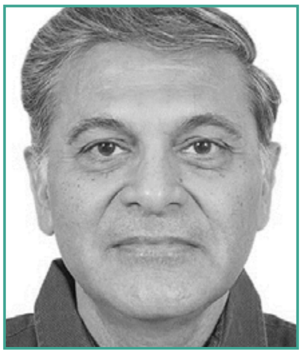
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The urgent deployment of finance at scale is critical to address the rising climate challenge confronted by emerging markets and developing economies. In this context, the members of the Independent High-Level Expert Group (IHLEG) express their appreciation to the Brazilian G20 Presidency and the G20 Sustainable Finance Working Group (SFWG) for the opportunity to address this issue through this review of the Vertical Climate and Environmental Funds (VCEFs, VCEF or the Funds). While independent, the IHLEG has greatly benefited from the effective guidance and close interaction with the Brazilian G20 Presidency and the SFWG.

This report reflects extensive consultations with over 150 persons from governments, international organizations, local public and private entities, non-government organizations, and think tanks with experience with the VCEFs. Their time and insights are gratefully acknowledged.

The IHLEG thanks the management and staff of the Adaptation Fund, the Climate Investment Funds, the Global Environment Facility and the Green Climate Fund for their work and responses to a long set of questions. Beyond the timely provision of data and detailed insights on their operations, the work of the IHLEG benefited from frank and direct dialogue with the heads of these Funds and their staff.

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The members of the IHLEG hope that this report provides a practical basis to further enhance the contribution of the VCEFs to effective climate action and impact.

CITATION

Accelerating Sustainable Finance for Emerging Markets and Developing Economies: Independent Review of the Vertical Climate and Environmental Funds. G20 Independent High-Level Expert Group (G20 IHLEG, 2024). The report is available on the website of the G20 at www.g20.org/en/ and on the website of the G20 SFWG at www.g20sfwg.org.

VCEF REVIEW CONSULTATION LIST

- Acumen Fund
- Adaptation Fund
- African Development Bank
- Agence Française de Développement
- Agency for Agricultural Development Morocco
- Antigua and Barbuda
- Argentina
- Asian Development Bank
- Asian Infrastructure Investment Bank
- Australia
- Brazil
- Canada
- Climate Investment Funds
- Climate Vulnerable Group V20
- Convergence
- Development Bank of South Africa
- ECOS Asociacion Civil
- European Bank for Reconstruction and Development
- European Union
- Finance in Common
- Fondo Mexicano para la Conservación de la Naturaleza A.C. Mexico
- France
- Germany
- Global Environment Facility
- Green Climate Fund
- Green Climate Fund Board Developing Country Private Sector Observer
- India
- Indonesia
- Infrastructure Development Company Limited (IDCOL) Bangladesh
- Inter-American Development Bank
- International Development Finance Club
- International Finance Corporation
- International Monetary Fund
- Islamic Development Bank
- Italy
- Japan
- JS Bank Pakistan
- KCB Bank Kenya Limited
- Korea
- LDC Group – LDC Climate Change
- Mitsubishi UFJ Financial Group
- Multilateral Organization Performance Assessment Network
- Norway
- ODI
- Rwanda
- South Africa
- Switzerland
- TBC Bank Georgia
- Türkiye
- United Kingdom
- United Nations Development Program
- United Nations Framework Convention on Climate Change
- United States
- United States International Development Finance Corporation
- World Bank
- World Resources Institute

EXECUTIVE SUMMARY

As the pace of climate change accelerates and its impacts rise across the globe, the **urgency of responding at scale** to the magnitude of the climate and environmental challenge is increasingly clear.

The fast-rising **costs of inadequate** action were demonstrated in the first half of 2024, with devastating floods in Brazil, unbearably high temperatures in India, and hurricane-wrought destruction in the Caribbean. As the first Global Stocktake of the Paris Agreement underscores, **commitments and actions are falling short** of what is needed to deliver global climate and nature goals. **The large and growing gap for financing the transition to a low-carbon economy, delivering climate resilience, and protecting nature requires an urgent and concerted response from all actors.**

While developed countries have attracted 44% of finance for climate action, emerging markets and developing economies (EMDEs) and least-developed countries (LDCs) account for only 14% and 2% of global climate finance, respectively. As a result, **EMDEs and LDCs are falling further behind in the transition to low-carbon, resilient economies while being increasingly affected by the impacts of climate change.**

In order to meet the goals of the Paris Agreement, **climate investment in EMDEs will need to increase more than fourfold to USD 2.4 trillion per year by 2030.** This includes an estimated USD 1.6 trillion for clean energy, including to support a just transition, USD 250 billion for adaptation and resilience, USD 300 billion for coping with loss and damage and USD 300 billion for natural capital and sustainable agriculture. After accounting for their own resources, EMDEs will need around **USD 1 trillion per year in external finance by 2030.** This will require a fifteenfold increase in private finance, a fivefold increase in concessional finance, and a tripling in multilateral development finance as reflected in the Songwe-Stern report on “A climate finance framework” acknowledged by the recent COPs.

In this context, the Brazilian G20 Presidency and the G20 Sustainable Finance Working Group (SFWG) established an Independent High-Level Expert Group (IHLEG) with the **objective of providing a set of actionable recommendations to: (i) optimize the operations of the Vertical Climate and Environmental Funds (VCEFs) and to (ii) enhance their contribution to the mobilization of other sources of sustainable finance.**

The VCEFs, in sequence of their establishment, include:

- The **Global Environment Facility (GEF)**, which has the broadest mandate serving six different international conventions related to climate and the environment.
- The **Adaptation Fund (AF)**, which supports small-scale, locally-led adaptation with an emphasis on direct access and country ownership.
- The **Climate Investment Funds (CIF),** which have a long track record of collaboration on climate action with six multilateral development banks (MDBs).
- The **Green Climate Fund (GCF)** which has a mandate to invest equally across mitigation and adaptation, an emphasis on direct access, private sector engagement, and on scaling projects or programs.

The VCEFs cumulative resources range from USD 1.6 billion for the AF to USD 32 billion each for the GEF and the GCF. The Funds have a collective a**nnual commitment capacity of around USD 4 billion to USD 5 billion,** with the GCF accounting for around half of this amount. **Annual disbursements were USD 1.4 billion** in 2022, with the ratio of disbursements to approvals ranging from 76% for the GEF to 31% for the GCF. All of the VCEFs address climate change, with the GEF Trust Fund also covering biological diversity, international waters, land degradation, chemicals, and waste. The VCEFs have different structures, business models, and approaches to engaging with other actors, including the MDBs and the private sector.

While quantitatively small, both in absolute terms and relative to other public and private sources, these Funds have strengths that enable them to play an **important catalytic role in advancing systemic change** by working with development partners including MDBs, building markets, and mobilizing additional finance aligned with the Paris Agreement. The VCEFs also play a **critical role in reducing the cost of capital, supporting policy work, planning, project preparation, and implementation, as well as mobilizing private sector action.**

Given the scarcity of concessional finance—crucial in areas including just transition, adaptation, nature, and biodiversity—the highly concessional funds provided by the VCEFs are essential to support an effective climate transition in EMDEs and LDCs. It is therefore imperative to ensure that these Funds can deliver to their full potential. It is important to also consider their role in relation to ongoing work on the broader architecture of instruments for investment in global public goods and MDB reform and evolution, in particular in the context of the G20 Roadmap on MDB Reform.

To cover the objectives set out in the Terms of Reference, the work and recommendations of the IHLEG are structured across the following levels:

- Level 1 covers the overall **climate finance landscape** within which the VCEFs operate.
- Level 2 examines how the VCEFs can enhance the **mobilization** of public and private finance.
- Level 3 outlines potential options to **integrate** the work of the VCEFs and enhance their collective impact.
- Level 4 identifies measures to **harmonize** procedures across the VCEFs.
- Level 5 defines measures to further improve **access to and the efficiency of individual Funds.**

Based on an assessment of the mandate and activities of each Fund, the proposed strategy to enable the VCEFs to deliver at their full potential and enhance their impact includes the following:

- The VCEFs should build on work to date on specific measures to **improve efficiency,** including in accreditation processes, project approval times, and accelerated disbursements, with particular attention on increasing access for LDCs and Small Island Developing States (SIDs), and on engaging the private sector.
- **The VCEFs should collaborate to harmonize procedures** in support of their integration and reduction of transaction costs.

- **The VCEFs should work together—strategically and sequentially**—based on their comparative advantages, leveraging and connecting with existing sources of climate finance, public and private.
- **The VCEFs should proactively support country platforms**, shifting from a focus on individual projects to **country-driven strategies and investment plans for system transformation.**
- **The VCEFs should seek to operate as a system** on upstream country programming and pipeline development, leveraging each VCEF's comparative advantages, including its monitoring, reporting, and learning.

LEVEL 1: FOSTER THE SCALE, COHERENCE, AND EFFECTIVENESS OF GLOBAL CLIMATE FINANCE

The current climate finance landscape has developed incrementally and idiosyncratically in an *ad-hoc* manner rather than as a systematic, structured, and coherent response. This has resulted in a **high level of fragmentation and overlaps.** The ongoing work on MDB reform provides relevant context for this review in terms of its aims to scale up finance, boost climate action, strengthen country-level collaboration and co-financing, catalyze private sector mobilization, and enhance development effectiveness and impact. Establishing a climate finance landscape that can address both the scale and urgency of the challenge ahead will require an overhaul to create a more effective, efficient, and equitable configuration.

1. **Main recommendations on the global concessional finance landscape include:**

   1.1. **Policymakers and G20 countries should incorporate new climate finance initiatives within well-functioning existing structures and organizations** rather than creating additional entities in the already fragmented climate finance landscape.

   1.2. Given the required scale and urgency for increasing climate finance, and building on the recommendations for the VCEFs contained in this report, **policymakers and G20 countries should review the full range of concessional climate finance entities and streams within the global climate finance architecture** to identify opportunities to enhance the effectiveness and efficiency of this system.

      1.2.1. In this context, all actors should place renewed emphasis on ensuring the availability and accessibility of **high-quality, consistent climate and environmental finance data** that is widely accessible and comparable to better measure and, in turn, manage activities, outcomes, and impact.

LEVEL 2: INCREASE VCEF FINANCE MOBILIZATION

Given their unique roles and their limited size relative to the magnitude of the climate finance gap, the VCEFs need to **use their scarce resources to fill critical financing gaps and mobilize other sources of finance,** domestic and international, to enhance their impacts and contributions to climate action. This can be done by: (i) working more effectively with key partners who can mobilize other sources of capital, such as other development finance institutions (DFIs) and banks; and (ii) employing their own funds more flexibly, including by providing financing on terms that can close financing gaps for projects mobilizing other sources of financing.

Driven by country context and priorities, and based on a country platform approach (see Level 3), VCEFs can scale climate finance mobilization by working with a range of public and private financing actors, with the **contributions varying across countries and sectors.** VCEF funding can be highly catalytic if deployed well, leveraging each VCEF's ability to bear or share risks and adopt flexible terms and conditions in project financing structures.

Certain sectors, regions, and countries can attract a wider range of private capital than others with lower prospects for financial returns. In contexts where private sector mobilization is challenging, VCEFs can help to mobilize further public finance by working with MDBs, national development banks (NDBs), public development banks (PDBs), and other public sector actors by providing catalytic finance unavailable to these institutions.

2. The main recommendations to increase financial mobilization by the VCEFs include:

2.1. The VCEFs should leverage the full potential and impact of their capital by taking the following actions, where relevant.

2.1.1. Deploy a full range of financing instruments (grants, concessional debt, guarantees, equity, and local currency products) and ensure flexibility in instrument terms (pricing, tenor, rank, and security). The Funds should also make full use of respective risk capacities, to ensure additionality in the capital stack, thereby maximizing climate impact. This is particularly relevant to the GCF and CIF in terms of risk mitigation instruments, multi-instrument structures, and local currency financing.

2.1.2. Dedicate grant resources to address upstream policy, institutional, and capacity gaps, including through capacity building and technical assistance, and particularly in high risk contexts. The VCEFs should often provide such grants in parallel with investment capital.

2.1.3. Foster the development of credible, verifiable, market-based approaches that support climate action and address market imperfections or barriers to private investment.

2.1.4. Actively pursue co-financing mechanisms with MDBs, DFIs, NDBs, PDBs, and private actors to syndicate and otherwise increase opportunities to mobilize complementary funding from these sources and enhance coherence in the global climate finance landscape.

2.2. **The VCEFs should also set clear mobilization goals reflecting their mandates, priorities, and activity composition.**

2.2.1. Set and review mobilization goals periodically to adjust for evolving market conditions, both domestically and internationally, Fund capital availability and strategies, and to ensure that limited VCEF resources are allocated efficiently. These should be based on a uniform approach to measure and report on mobilization and co-financing.

LEVEL 3: IMPLEMENT AN INTEGRATED VCEF COUNTRY-DRIVEN APPROACH

The Funds should proactively engage in developing and implementing a country platform approach by using their concessional finance to tackle key gaps, such as support for formulating policy and investment programs or bringing down the cost of finance. In this manner, VCEFs can significantly increase their impact by shifting from an individual project approach to supporting the definition and implementation of investment plans. This would also connect VCEFs to a broad set of stakeholders—including key decision makers such as finance or planning ministries—and other sources of public and private finance.

The VCEFs should strengthen their impact by building on their respective comparative advantages, for instance, with:

- The GEF adding value by addressing climate alongside other environmental global public goods in an integrated manner.
- The AF focusing on the poorest and most vulnerable countries and communities.
- The CIF building on its proven country program approach.
- The GCF pioneering new models and approaches to scale up finance to address critical priorities.

3. **The VCEFs should enhance their transformational impact by working as a system to support country-driven platforms and their related investment pipelines.** This integrated programmatic support of country platforms would be facilitated by:

3.1. **Improved country ownership:**

3.1.1. Strengthen the leadership of focal points and encourage the appointment of cross-fund country focal points.

3.1.2. Help countries to establish or strengthen national climate and environmental investment coordination platforms and support the development of country investment plans and access strategies.

3.2. Operating as a system:

3.2.1. Advance towards joint monitoring, evaluation, and reporting, adopting common IT systems and approaches to routine tasks.

3.2.2. Establish a cross-fund readiness facility as a one-stop shop to support this country-driven programmatic approach.

3.3. Enhanced responsiveness:

3.3.1. Establish stronger mechanisms to learn from and replicate effective, innovative approaches. This would align with and be supportive of work on country platforms in the context of the G20 Task Force-CLIMA and the International Financial Architecture Working Group, strengthening complementarity between VCEFs and MDB reform.

LEVEL 4: PURSUE HARMONIZATION ACROSS VCEFS

Harmonization across the Funds can **enhance access, reduce transaction costs, support process integration and country platforms**, and **improve the coherence of climate finance at the VCEF level.**

4. **Building on their work to date, VCEFs should pursue a time-bound process to harmonize their core operational activities, with tangible organizational and process changes,** including:

4.1. Develop common approaches to accreditation, pipeline development, and project approval processes.

4.2. Implement a coordinated approach to sharing data, consolidation of cross-fund knowledge exchange, and systematic exchanges, including on pipelines and impact metrics.

4.3. Adopt a uniform approach to measurement and reporting requirements.

In these areas, there is great merit in coordinating with and, as appropriate, joining ongoing MDB efforts to improve harmonization of standards and policies.

LEVEL 5: MAINTAIN FOCUS ON ENHANCING INDIVIDUAL FUND ACCESS AND EFFICIENCY

Funds have been working to enhance access and efficiency in terms of accreditation, project approval, disbursement, and capacity building within their respective policies.

5. **Building on work to date, VCEFs should engage in a time-bound process to enhance the effectiveness and efficiency of their systems and procedures** by taking the following actions:

   5.1. Adopt a demand-driven, value-added, and fit-for-purpose accreditation approach. This includes simplifying accreditation and entity reporting requirements to accelerate processes and providing integrated, tailored, and continuous support for Direct Access Entities' pre- and post-accreditation.

   5.2. Intensify efforts to streamline project approval processes considering project size and risk level, building transparency and predictability.

   5.3. Develop mechanisms for enhanced engagement with and access for the most vulnerable countries (LDCs and SIDS) and populations (local communities, indigenous peoples, and women) to VCEF resources.

   5.4. Increase disbursement speed and efficiency of monitoring and reporting processes, including through the use of IT.

   5.5. Strengthen access to and effectiveness of capacity-building programs for countries and entities.

In line with these broad measures, a set of detailed proposals has been formulated to **enhance access and efficiency at the level of each individual Fund**. The report also highlights **specific policy changes** that would help to enhance access to and the efficiency of individual Funds, subject to consideration by their respective governing bodies.

IMPLEMENTATION

This executive summary outlines the main recommendations arising from the VCEF Review. The full report provides context, detailed analysis, and a set of specific recommendations ranging from systemic to individual Fund-level actions. **Annex 2 provides a structured list of actions** corresponding to these recommendations, mentioning **actors** involved in their implementation and a **timeframe** from 2025 to 2027. Implementation timing will in many cases be dependent on Fund shareholders, Board governance and Secretariat leadership with clear support for specific recommendations contributing to faster implementation.

Implementation of Level 1 recommendations on the global concessional finance context will require political leadership, both through the G20 and other countries, to rationalize, streamline, and expand the climate finance landscape with a view to optimizing its impact. This should involve a **shift from the incremental establishment of additional funds to a cohesive climate finance system that is more responsive to individual country priorities aligned with ambitious climate action**. This VCEF review represents a first step in this direction.

Political leadership will also be needed to implement Level 2 recommendations aimed at **increasing the financial mobilization** achieved by the Funds. While the VCEFs are an important source of concessional climate finance, particularly in terms of grants, their overall impact depends on the scale of finance they can mobilize to support their activities. A balanced funding allocation will be particularly important to address specific country priorities and contexts while increasing the overall impact of the Funds significantly beyond their actual size.

The implementation of Level 3 recommendations on VCEF integration will depend on the effective combined involvement of a range of stakeholders, including recipient countries, and effective coordination across the Funds at the country level. **Country-driven platforms can be an effective approach in pursuing this coordination and will need strong engagement by recipient country governments** to reflect local priorities, set effective local institutional arrangements, and optimize the benefits from coordinated VCEF finance and support. This will also depend on an **effective joint engagement of the Funds** with governments to define their role in supporting impactful country platforms.

Building on the harmonization work of the Funds to date, the implementation of Level 4 and Level 5 recommendations on harmonization and enhancing individual fund access and efficiency will both require **clear and sustained support from their respective Boards and leadership from their Secretariats**. It will also be important for the Funds to have the capacity and resources to define and implement these recommendations.

Effective implementation across the five levels of action set out in this VCEF review will contribute to strengthening and accelerating climate finance and action. This is ever more relevant, considering the urgency and scale of climate and environmental challenges.

ABBREVIATIONS

AF	Adaptation Fund
AF-TERG	Technical Evaluation Reference Group of the Adaptation Fund
AAU	Assigned Amount Unit
ACT	CIF Accelerating Coal Transition Program
ADB	Asian Development Bank
AE	Accredited Entity to the Green Climate Fund
AfDB	African Development Bank
AFOLU	Agriculture, Forestry, and Other Land Use
BBNJ	Biodiversity Beyond National Jurisdiction Agreement
CAF	Capital Adequacy Framework
CBD	Convention on Biological Diversity
CBIT	GEF Capacity Building Initiative for Transparency
CCCM	CIF Capital Market Mechanism
CER	Certified Emissions Reduction (a unit of 1tCO2e)
CES	Country Engagement Strategy
CIF	Climate Investment Funds
CIF-TAF	Climate Investment Funds – Technical Assistance Facility
COP	Conference of the Parties
CO2	Carbon Dioxide
CPI	Climate Policy Initiative
CTF	CIF Clean Technology Fund
DAE	Direct Access Entity accredited to the Green Climate Fund
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
EMDEs	Emerging Markets and Developing Economies
FAA	Funded Activity Agreement
FCS	Fragile and Conflict-Affected States
FIP	CIF Forest Investment Program
GBFF	Global Biodiversity Framework Fund
GCF	Green Climate Fund
GEF	Global Environment Facility
GEF TF	Global Environment Facility Trust Fund
GHG	Greenhouse Gas
IADB	Inter-American Development Bank
IAE	International Accredited Entity to the Green Climate Fund
IBRD	International Bank for Reconstruction and Development
IEO	GEF Independent Evaluation Office
iTAP	GCF Independent Technical Advisory Panel
IFAWG	International Financial Architecture Working Group
IHLEG	Independent High-Level Expert Group
KPI	Key Performance Indicator
LDC	Least-developed Country
LDCF	Least Developed Countries Fund
LDF	Loss and Damage Fund
LIC	Low-income Country

LTS	Long-term Strategy
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
MIC	Middle-income Country
MIE	Multilateral Implementing Entity accredited to the Adaptation Fund
MRV	Monitoring, Reporting, and Verification
MSME	Micro-, Small- and Medium-sized Enterprises
NAP	National Adaptation Plan
NDA	National Designated Authority
NDB	National Development Bank
NDC	Nationally Determined Contribution
NIE	National Implementing Entity accredited to the Adaptation Fund
NGO	Non-Governmental Organization
NPC	CIF Nature, People and Climate Program
PDB	Public Development Bank
PIF	GEF Project Identification Form
POP	Stockholm Convention on Persistent Organic Pollutants
PPCR	CIF Pilot Program for Climate Resilience
PPF	GCF Project Preparation Facility
PPG	GEF Project Preparation Grant
PSAA	GCF Project-specific Accreditation Approach
PSF	Green Climate Fund Private Sector Facility
RAE	Regional Direct Access Entity accredited to the Green Climate Fund
RBF	Results-based Finance
RDB	Regional Development Bank
REDD	Reducing Emissions from Deforestation and Forest Degradation
REI	CIF Renewable Energy Integration Program
RIE	Regional Implementing Entity accredited to the Adaptation Fund
RPSP	GCF Readiness and Preparatory Support Program
SAP	GCF Simplified Approval Process
SCCF	GEF Special Climate Change Fund
SCF	Strategic Climate Fund
SFWG	G20 Sustainable Finance Working Group
SIDS	Small Island Developing States
SPV	Special Purpose Vehicle
SREP	Scaling-Up Renewable Energy Program
TA	Technical Assistance
TF-CLIMA	Task Force for the Global Mobilization against Climate Change
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar
VER	Voluntary Emission Reduction
VCEF	Vertical Climate and Environmental Funds (AF, CIF, GCF, GEF)
WB	World Bank

1 CONTEXT

1. CONTEXT

The G20 Sustainable Finance Working Group (SFWG) defined four priority areas of work in 2024. As part of Priority 1 on "Optimizing the operations of International Environmental and Climate Funds to deliver sustainable finance", the Brazilian G20 Presidency and the SFWG appointed an Independent High-Level Expert Group (IHLEG) in February 2024 to provide actionable recommendations to optimize the operations of these Funds and to enhance their contribution to the mobilization of other sources of sustainable finance for consideration by the SFWG in the preparation of the 2024 G20 Sustainable Finance Report.

As mentioned in a document prepared by the Brazilian G20 Presidency for the first meeting of Finance and Central Bank Deputies in December 2023: "Vertical funds are a critical part of the evolving international financial architecture. Besides some governance issues, improving the operational efficiency of these Funds has been highlighted as a promising avenue to increase access to climate finance. Given the growing complexity of international financial architecture, identifying ways to simplify the system is imperative to attract private sector co-financing and better serve beneficiaries."

These vertical Funds are, in order of establishment:

- The Global Environment Facility (GEF)
- The Adaptation Fund (AF)
- The Climate Investment Funds (CIF)
- The Green Climate Fund (GCF)

This report refers to these as the 'VCEF', 'VCEFs', or 'Funds' and the work undertaken by the IHLEG as the 'VCEF Review'. Individual Funds are presented in the following sections in order of their establishment.

The 12 members of the IHLEG were appointed by the Brazilian G20 Presidency and the SFWG. They cover a broad range of experience, including climate and environmental policy and finance architecture, perspectives from emerging markets and developing economies (EMDEs), direct operational interaction with the Funds, multilateral development bank (MDB) reform, the private sector, innovative financial instruments, and blended finance.

The IHLEG had five meetings starting with the identification of the set of topics to be covered and followed by the review of the successive stages of development of the report.

The work of the IHLEG was supported by:

- The Instituto Clima e Sociedade (iCS – Climate and Society Institute) which has worked with the Brazilian G20 Presidency to prepare the ground for the activity of the IHLEG and allow its work to start rapidly.
- The Groupe-conseil Baastel and Globalfields, two specialized consulting firms hired by iCS to undertake data collection and analysis of the Funds leading to a set of specific recommendations for consideration by the IHLEG.
- Climate Policy Initiative (CPI) was engaged to cover the climate finance landscape within which the Funds operate and their financial mobilization role, reflecting CPI's expertise and track record in this area.

2

VCEF REVIEW CONCEPTUAL FRAMEWORK

2. VCEF REVIEW CONCEPTUAL FRAMEWORK

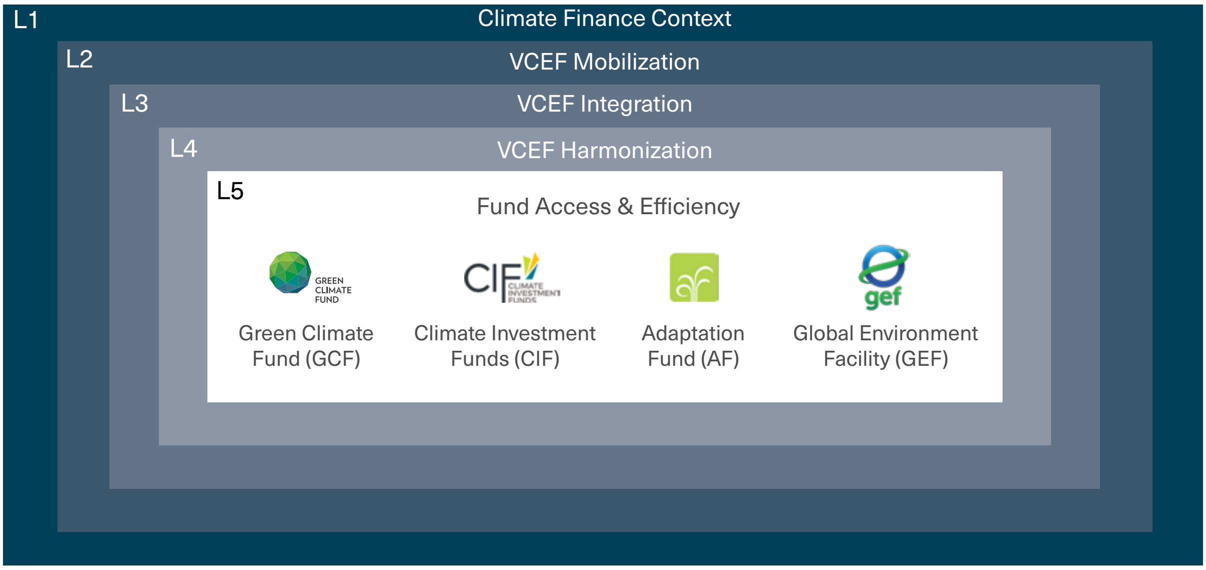
This report's components relate to the Terms of Reference of the IHLEG approved by the Brazilian G20 Presidency and the SFWG for the VCEF Review to address the following questions:

1. "How to optimize the operations of the VCEFs to deliver sustainable finance including: (i) the accreditation process; (ii) project preparation requirements, including project assessment criteria and financing terms; and (iii) disbursement requirements and processes.
2. How to enhance complementarity, coherence, and collaboration to promote sustainable finance, including the roles of Funds in mobilizing capital in the broader climate finance architecture alongside MDBs and the private sector.
3. How to maximize financial leverage and capital mobilization, by identifying challenges and opportunities for participating in blended finance and co-financing structures, and other innovative financial structures such as guarantees, equity, resource pooling, risk pooling, securitization and portfolio approaches.
4. How to prioritize the actions of supporting capacity building to better deliver sustainable finance, including project preparation and identification of financial needs."

Accordingly, the conceptual frame of the VCEF Review is structured in the following five levels as illustrated in Figure 2.1:

- Level 1 covers the overall climate finance landscape in which the VCEFs operate.
- Level 2 examines how the VCEFs interact with different sources of public and private. finance looking at their mobilization record and financing instruments.
- Level 3 outlines potential options to integrate the work of the VCEFs.
- Level 4 identifies measures to harmonize procedures across the VCEFs.
- Level 5 defines measures to enhance the access to and efficiency of individual Funds

Figure 2.1: VCEF Review conceptual frame



Source: Climate Policy Initiative

3

LEVEL 1: CLIMATE FINANCE LANDSCAPE

3. LEVEL 1: CLIMATE FINANCE LANDSCAPE

The large and growing gap in the funding needed to address climate change and global commons issues more broadly is leading to a failure to deliver a full implementation of the Paris Agreement at the required pace and scale. Furthermore, the incremental and idiosyncratic development of the climate finance landscape has rendered its responses ad hoc and reactive rather than systematic, structured, and coherent.

The climate finance landscape requires an overhaul to achieve a more impactful, efficient, and equitable configuration that can address both the scale and urgency of climate and environmental challenges. As an initial step in this direction, this review focuses on the role of the Vertical Climate and Environmental Funds (VCEFs). It provides recommendations to scale the impact of their scarce concessional capital, and to enhance their efficiency and catalyze action along with other public and private actors in the climate finance landscape. This review acknowledges that climate finance is only a means to an end, with an effective climate transition comprising a range of climate-positive actions, such as regulatory reforms.

Recommendations in this report address the following general issues related to the VCEFs at each conceptual level considered:

- Level 1: The concessional climate finance landscape is highly fragmented.
- Level 2: The extent to which the Funds have been able to mobilize additional finance and their track records in utilizing innovative financial instruments and structures.
- Levels 3 and 4: The Funds are not yet working coherently and collaboratively as an integrated system.
- Level 5: Accessing the Funds is onerous and difficult for beneficiary countries and accredited entities (AEs).

Based on extensive consultations with VCEF recipients and donors undertaken for this review, the following concerns were highlighted:

- Limited scale of finance and barriers to access.
- Long periods of time between initial proposal and disbursement.
- Creation of ‘competition’ between entities with different institutional capacities, including between low- and middle-income countries, and smaller in-country organizations and large international organizations.
- From a donor perspective, impact, mobilization, and value for money.
- Limited capacity-building results generated by international entities, which are often not sustained within recipient countries.
- High upfront information requirements for accreditation and accessing finance.
- Differing requirements across VCEFs create high transaction costs at the country level.

3.1 THE CLIMATE FINANCE CHALLENGE

As the first Global Stocktake of the Paris Agreement underscores, commitments and actions are falling short of those needed to achieve global climate and nature goals. The large and growing gap in the finance needed to transition to a low-carbon economy, deliver climate resilience, and protect nature requires an urgent and concerted response by all actors.

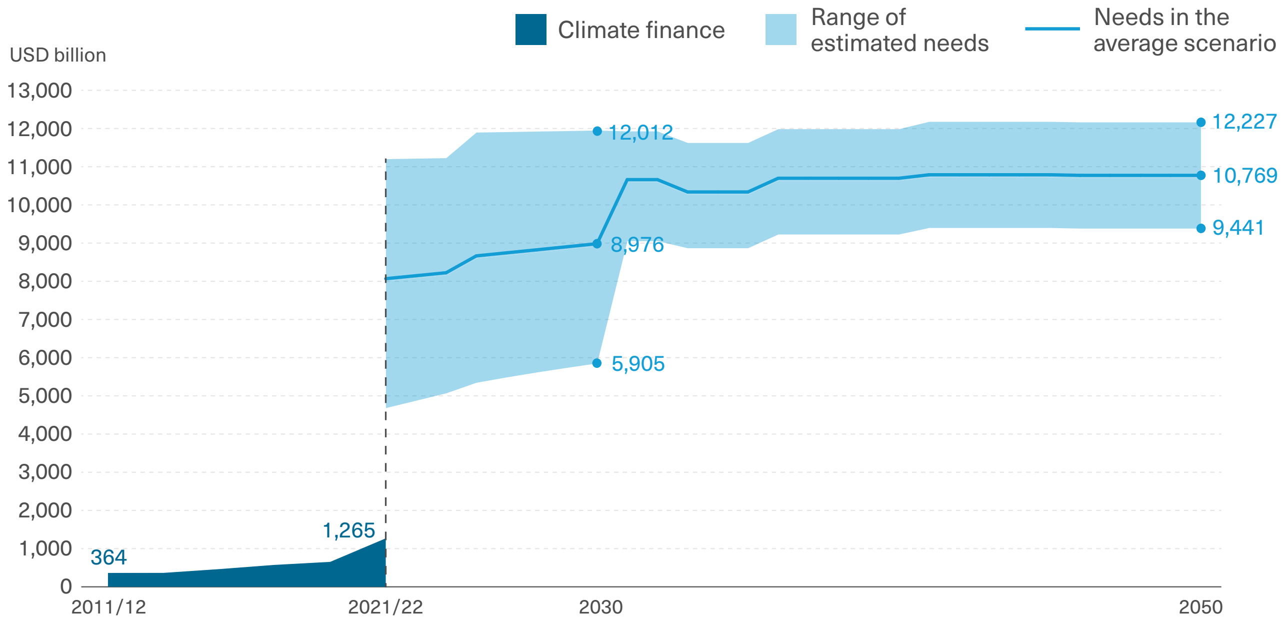
Considering the mutually reinforcing links between the biodiversity and climate crises—both in terms of feedback loops (one crisis driving the other) and compounding effects (overlapping risks)—it is important that finance harnesses synergies to address nature loss while simultaneously delivering climate mitigation or adaptation outcomes. Nature-based solutions provide an important opportunity to finance the climate-nature nexus and promise to deliver other social benefits, including better air quality and associated health gains. It is equally important to consider and avoid possible trade-offs or unintended consequences when tackling climate change and nature loss in an integrated manner.

While developed countries attracted 44% of climate finance in 2021/2022,[1] EMDEs and least developed countries (LDCs) accounted for only 14% and 2% of global climate finance, respectively.[2] Accordingly, EMDEs and LDCs are falling further behind in the transition to a low-carbon, climate-resilient economy. This leads them to miss out on the economic benefits of participating in emerging value chains and the health benefits of reduced fossil fuel use while also being increasingly affected by the impacts of climate change.

In order to meet the goals of the Paris Agreement, the Songwe-Stern report on "A climate finance framework" estimates that climate investment in EMDEs and LDCs will need to increase by more than fourfold to USD 2.4 trillion per year by 2030. Of this, an estimated USD 1.6 trillion is needed for clean energy, including to support a just transition, USD 250 billion for adaptation and resilience,[3] USD 300 billion for coping with loss and damage, and USD 300 billion for natural capital and sustainable agriculture. After accounting for their own resources, EMDEs and LDCs will need around USD 1 trillion per year in external climate finance by 2030. This will require a fifteenfold increase in private finance, a fivefold increase in concessional finance, and a tripling in multilateral development finance. The right regulatory framework and structured project pipelines are enabling factors that can support increased investments.

According to CPI, annual global climate finance investments must grow by more than six times to remain within a 1.5°C pathway (Figure 3.1),

Figure 3.1: Climate finance flows vs. estimated annual needs 2011-2050



Source: Climate Policy Initiative

1 All data from this section is from Climate Policy Initiative (CPI)'s Global Landscape of Climate Finance 2023, unless indicated otherwise. CPI tracks financial commitments not disbursements, and reports a biennial average to smooth out fluctuations in the (annual) data. See: CPI (2023). Global Landscape of Climate Finance

2 For the purposes of this report, we use the classification of LDCs and EMDEs as described in the 2023 Global Landscape of Climate Finance. EMDEs and LDCs are defined as non-overlapping, while China is considered separate to EMDEs.See: CPI (2023). Global Landscape of Climate Finance Methodology

3 Adaptation finance needs are particularly difficult to estimate given uncertain climate impacts and different mitigation scenarios; that is, adaptation needs promise to spiral with insufficient mitigation. See CPI & GCA, (2023). State and Trends in Climate Adaptation Finance 2023

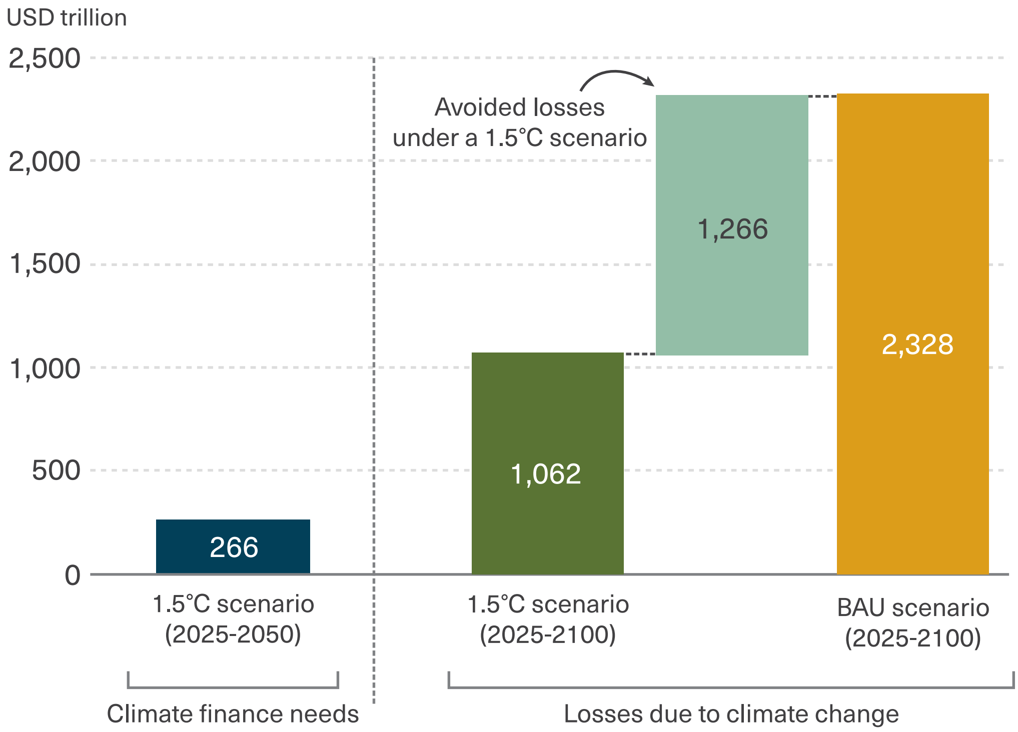
reaching an estimated almost USD 9 trillion by 2030. In 2021/2022, average annual global climate finance flows reached around USD 1.27 trillion, nearly doubling on 2019/2020 levels. Despite this growing momentum, tracked flows are still modest in the global context, representing only around 1% of global GDP.

The rising costs of inaction are increasingly observable. Devastating floods in southern Brazil, unbearably high temperatures in India, and destruction wrought by Hurricane Beryl in the Caribbean in the first half of 2024 give a notion of the nature and magnitude of challenges ahead as greenhouse gas (GHG) emissions continue to rise and adaptation efforts cannot keep pace with accelerating climate change. In this context, Figure 3.2 illustrates that the estimated cost of inaction is expected to vastly exceed climate finance needs.

An examination of global climate finance flows over the period 2021/2022 shows that:

- Overall, climate finance is balanced between public (USD 640 billion) and private actors (USD 625 billion), with some variation across country groups:
- In EMDEs, there was parity between public and private contributions (50% each).
- In LDCs, public finance accounted for 88% of all climate finance, mostly from international sources.
- Developed economies sourced a higher share of climate finance from private sources (64% of their total) compared to EMDEs (50%) and LDCs (12%).
- Developed countries only recently met their goal of USD 100 billion in annual international climate finance for developing countries, as pledged at COP15. USD 115.9 billion was channeled in 2022, with most of the increase

Figure 3.2: Cumulative climate finance needs vs. losses under 1.5°C and business-as-usual scenarios



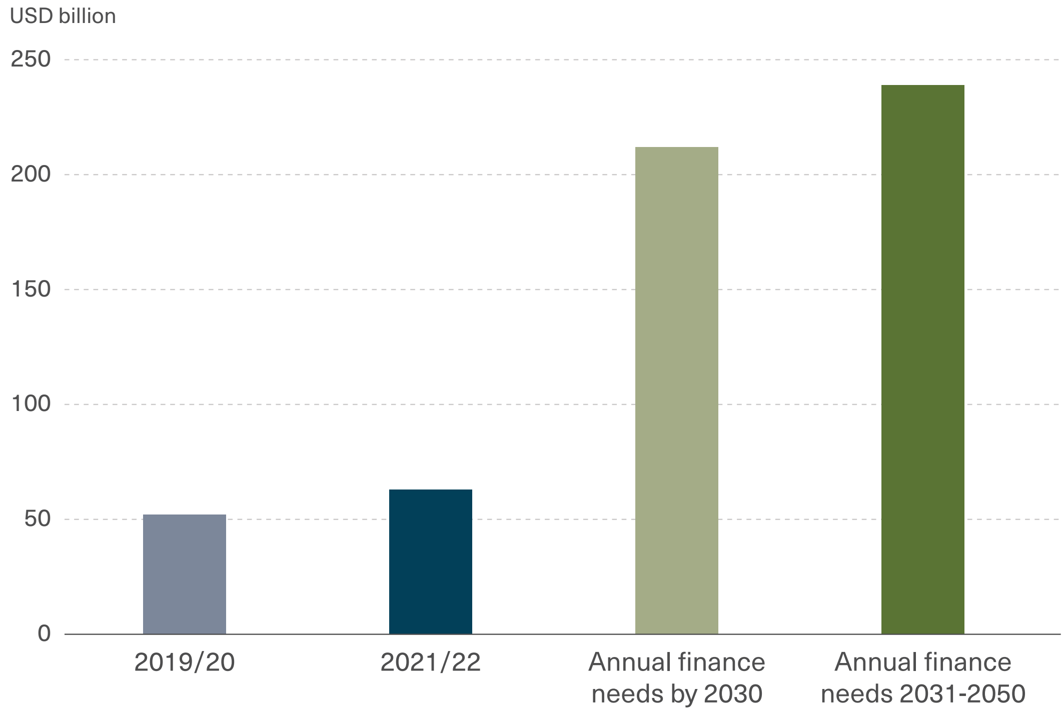
Source: Climate Policy Initiative

between 2013 and 2022 (226%) driven by MDBs.[4] This includes a rise in private finance mobilized (from developed to developing countries) from USD 14.4 billion in 2021 to USD 21.9 billion in 2022, with an increase of 52% since 2016.

- Mitigation activities continue to receive the highest share of climate finance (91%), with a focus on the energy and transport sectors (44% and 29%, respectively) and sustained sectoral and geographic concentrations in a handful of countries.[5]
- In EMDEs and LDCs, industry and agriculture received little mitigation finance (in absolute terms and proportionally) despite their significant mitigation potential, while emerging technologies (e.g., battery storage and hydrogen) are only beginning to attract private finance globally.
- The adverse impacts of climate change pose an immediate and existential threat to many EMDEs and LDCs, which face large and growing adaptation finance needs. Developing countries need an estimated USD 212 billion per year in adaptation finance up to 2030 and USD 239 billion between 2031 and 2050.[6] Adaptation finance needs were approximately 3.5 times higher than tracked adaptation flows in 2021/2022. This gap will only grow as insufficient mitigation leads to the breaching of global temperature targets.

Concessional climate finance to EMDEs and LDCs reached USD 61 billion in 2021/2022, accounting for only 5% of total global flows. Estimates suggest that concessional financing in the range of USD 150 billion to USD 200 billion is needed annually by 2030 for EMDEs and LDCs to address global commons issues: adaptation and resilience-building, loss and

Figure 3.3: Adaptation finance gap in EMDEs and LDCs



Source: Climate Policy Initiative

4 OECD (2024). Climate Finance Provided and Mobilised by Developed Countries in 2013-2022
5 Mitigation finance is concentrated in China, the USA, Western Europe, India, Brazil and Japan.
6 These figures may be underestimated due to weak data and the unpredictability of climate change impacts.

damage, support for a just transition, and restoration of nature.[7]

The current global concessional climate finance landscape is highly fragmented, with many funding structures, stakeholders, and initiatives pursuing individual project approaches or very specific thematic objectives at a relatively low scale. In 2021/2022, 180 different entities or organizations were tracked as providing concessional finance, with approximately 75% providing funding of less than USD 100 million. This fragmentation results from a context in which the short-term optics and political benefits of establishing a new fund are clearer than longer-term costs and impacts.

A fragmented climate finance landscape has multiple adverse implications, including but not limited to: duplicate action, costs of multiple governance and management structures, and inefficient use of limited public resources; norm conflicts undermine the effective allocation of funding; varied social and fiduciary safeguards imposing complex and potentially confusing administrative burdens; as well as inconsistencies in definitions applied and accounting standards used, making it hard to track and compare funding flows so as to ensure donors are accountable to their commitments.[8]

Development finance institutions (DFIs) and governments are the key actors channeling concessional climate finance. National DFIs dominate the concessional landscape (37% of the global total), followed by governments and their agencies (29%). Multilateral DFIs provide 14% of global concessional finance and are themselves beneficiaries of concessional financing from VCEFs. The spectrum of concessional finance is broad, with further analysis required for more granular insights.

Adaptation activities are more reliant on concessional finance (38% of total adaptation finance) than mitigation (9%). The adaptation finance landscape is dominated by public actors (98% of total tracked adaptation flows), given that adaptation interventions often provide public goods, in contrast to more commercially viable mitigation solutions.

As of 2022, there were 81 active green funds, 90% of which were publicly funded. Around three-quarters of these operate multilaterally, housed in MDBs and bilateral or UN agencies. This proliferation of small-scale funds operating individually, rather than coherently as part of a larger system, raises questions about the effectiveness and efficiency of this configuration.[9]

3.2 VCEFS' ROLE IN CLIMATE FINANCE

The VCEFs[10] and their respective work programs aim to respond to key concepts and criteria developed under the Paris Agreement, namely that climate finance is adequate, predictable, and accessible; activities are nationally owned or country-driven; and the Funds are transparent and accountable in their governance procedures.[11] Distinct from other international organizations, the particular institutional structure of the VCEFs has both strengths and shortcomings: working through other entities in the climate finance architecture, they are able to maintain a relatively small staff base while leveraging other institutions' resources, technical expertise and local presence to

7 IHLEG on Climate Finance (2023). A climate finance framework: decisive action to deliver on the Paris Agreement
8 Pickering, Betzold & Skovgaard (2017). Special issue: managing fragmentation and complexity in the emerging system of international climate finance.
9 FERDI (2023). Climate funds: time to clean up
10 The CIF lies outside the UNFCCC framework, whereas the GCF, the GEF and the AF are explicitly part of the institutional framework of the UNFCCC. See: WRI (2022). The Future of the Funds.
11 Schalatek, et al. (2022). The Principles and Criteria of Public Climate Finance - A Normative Framework

implement climate projects and programs. Yet, this translates into multi-stage approval and disbursement processes, a reliance on external actors to design projects or programs, and, often, a lack of direct relationship-building with recipient governments and their stakeholders.

In light of the scarcity of concessional finance and its crucial role in areas including just transition, adaptation, nature, and biodiversity, the VCEFs' highly concessional funding is essential. Making better use of and scaling such finance is imperative for delivering global public goods.

The VCEFs can support policy work, planning, project preparation, and implementation, reduce the cost of capital, and mobilize private sector action. Their concessional finance also plays a catalytic role within joint financing structures—including with the MDBs, which have limited highly concessional and grant funding to deploy. The VCEFs occupy a niche within the broader climate finance system of bridging with less concessional public finance pools and enabling them to mobilize additional capital and support an effective climate transition in EMDEs and LDCs. They also serve the important function of engaging with regional, national, or subnational DFIs, which can serve as delivery channels for concessional finance to EMDEs and LDCs, including at the city level.

Primarily funded through donor grants, VCEFs have the flexibility to pursue innovative approaches with higher risk tolerance than most other finance sources. By using the scarce concessional resources at their disposal, the VCEFs can also be relevant partners in supporting the MDB evolution agenda (see Section 4.2), which calls for a tripling in sustainable annual lending to USD 390 billion by 2030.[12] The VCEFs also play an essential role in building capacities and project pipelines for national and subnational DFIs, and filling funding and knowledge gaps to kick-start implementation on the ground.

Quantitatively, the VCEFs' contribution to concessional climate finance in EMDEs[13] and LDCs is limited, reaching an estimated 4% of total concessional climate finance to these country groups in 2021/2022.[14] As such, the VCEFs alone cannot address these countries' overall climate finance needs. However, the impact of these Funds can significantly exceed the sum of their parts by advancing transformative, systemic change while building markets and capacity to mobilize additional climate-aligned finance.

The VCEFs cumulative resources range from USD 1.6 billion for the AF to USD 32 billion each for the GEF and the GCF. The Funds have a collective annual commitment capacity of around USD 4 billion to USD 5 billion, with the GCF accounting for around half of this amount. Annual disbursements were USD 1.4 billion in 2022, with the ratio of disbursements to approvals ranging from 76% for the GEF to 31% for the GCF. The average yearly disbursement amount, calculated by dividing the total cumulative disbursed amount by the number of years in the lifetime of each respective Fund, is USD 556 million for the GEF, USD 50 million for the AF, USD 312 million for the CIF and USD 286 million for the GCF.

On an aggregate basis, VCEF funding is skewed to mitigation (40%), with a significant share of projects and programs delivering multiple objectives (38%)—both mitigation and adaptation—reflecting the Funds' ability to pursue investments with multiple co-benefits for climate and nature.

12 IHLEG on Climate Finance (2023). A climate finance framework: decisive action to deliver on the Paris Agreement

13 Excluding China

14 The VCEFs' annual climate finance commitments data is sourced from the Climate Funds Update database, managed by ODI and Heinrich-Böll-Stiftung.

Approximately one-fifth of VCEF climate finance is channeled to LDCs, with the VCEFs generally more active in EMDEs with a higher capacity to design and implement eligible projects or programs. In terms of total financial commitments, only the AF had a balanced portfolio between EMDEs and LDCs in 2021/2022,[15] while the GEF has a specialized trust fund for LDCs (the LDCF), and the GCF has priority groups covering the LDCs, Small Island Developing States (SIDS), and African States.

15 CPI tracks total (*ex-ante*) financial commitments not grant equivalents only.

3.3 CLIMATE FINANCE LANDSCAPE RECOMMENDATIONS

Considering the urgency of addressing the climate and environmental crises and the magnitude of the climate finance gap, it is widely accepted that a range of public and private capital—both domestic and international—is required to quickly scale the quantity and quality of climate finance, with a focus on EMDEs and LDCs already suffering from climate change-induced loss and damage.

Proposals arising from this brief overview of the climate finance landscape and the role of the VCEFs within it include:

MAIN RECOMMENDATIONS

- **Policymakers and G20 countries should incorporate new climate finance initiatives within well-functioning existing structures and organizations** rather than creating additional entities in the already fragmented climate finance landscape.
- **Policymakers and G20 countries should review the full range of concessional climate finance entities and streams to identify opportunities to enhance the effectiveness and efficiency of the overall system.**[16] Stakeholders should evaluate whether existing structures and processes should be maintained individually or merged in some cases to reduce administrative costs and burdens on funding recipients. An initial step could be the creation of a coordinated capacity-building unit working across the VCEFs that is firmly embedded within a country-driven approach (see Section 5.4.1).
- There needs to be renewed focus among all actors on making **high-quality, consistent climate and environmental finance data**[17] that is widely available and accessible, ensuring transparent reporting to better measure and, in turn, manage activities, outcomes, and impact.

16 Such a review aligns with existing VCEF strategies. For example, the GCF Strategic Plan for 2024-2027 includes provisions related to underscoring adaptation support, mobilizing the private sector, and promoting innovative use of climate investment approaches.
17 Such data typically comprises *ex-ante* financial commitments rather than *ex-post* disbursements.

ADDITIONAL RECOMMENDATIONS

- To facilitate this, ensure the flexibility of existing funds, including the VCEFs, to adapt to evolving needs and challenges in terms of financial instruments, application of finance, risk-bearing capacity, and operational efficiencies.
- Individually and in coordination, the VCEFs must maximize the impact of their limited concessional finance. Action to do so will differ across Funds but could include strategic use of concessional finance for the most transformational projects for a just transition, accelerating adaptation finance, supporting the uptake of innovative technology, mobilizing private finance, and creating new markets, including by fostering enabling policy and regulatory environments. Overall, emphasis should be on harnessing synergies to finance the climate-nature nexus and deliver on the Sustainable Development Goals.
- The particular funding requirements, challenges, and opportunities of both EMDEs and LDCs should be acknowledged, with emphasis on providing concessional adaptation finance to the most vulnerable countries that are already experiencing escalating climate change impacts.[18] In this context, the VCEFs need to balance the opportunities and challenges of different sectors and countries. For example, they could focus more on private finance mobilization in more developed economies and on concessional finance for adaptation in LDCs and SIDS.

18 Acknowledging there is no universal definition or measurement of vulnerability in the climate context, generally speaking, the term "vulnerable countries" refers to those with substantial exposure and sensitivity to the adverse impacts of climate change, and limited or little capacity to cope or adapt.

4

LEVEL 2: VCEF FINANCE MOBILIZATION

4. LEVEL 2: VCEF FINANCE MOBILIZATION

As observed in the preceding section, the VCEFs are small relative to the size of the climate finance gap. Accordingly, building on their comparative advantages (see Section 5.1), the VCEFs need to use their scarce resources to mobilize other sources of finance to enhance their impact and contribution to climate and environmental action.

The private sector manages USD 210 trillion globally, which represents the scale needed to address the magnitude of finance requirements identified in Section 3.1.[19] Some sectors and regions, such as renewable energy investment in large emerging markets, have significant potential to mobilize private finance from both local and international sources. In such cases, one role of the VCEFs, where appropriate, would be to maximize private finance mobilization and the impact of those private flows.

In general, the potential for private sector mobilization will be higher for mitigation projects in middle and high-income countries. Such projects are increasingly commercial as costs have become competitive over time leading to attractive returns, and as middle- and high-income countries tend to have fewer market risks than LICs and LDCs.

Private sector mobilization will be harder to achieve in sectors with currently limited financial returns but positive societal (non-market) benefits such as adaptation, nature, and just transition, and in markets such as LDCs and SIDS with less developed private sectors.

Private sector actors, particularly larger institutional investors, seek investments that have a favorable risk-return profile fitting their fiduciary responsibilities, a track record of performance, and a large ticket size. Furthermore, these investors have limited exposures, if any, to smaller high-risk markets and constrained staff capacity and experience to assess investments in these markets which will often be small in relation to their average ticket size. In addition to creating an attractive investment opportunity, successfully crowding in private investment may require an intermediary who is experienced in efficiently connecting VCEFs and institutional investors.

In addition to mobilizing private capital, VCEFs can play an important role in mobilizing public finance by working with MDBs, NDBs, public development banks (PDBs), and other public sector actors and providing catalytic finance to complement these institutions' funding. In this context, it is relevant to note that the PDBs that are part of Finance in Common are also a significant source of finance, with USD 23 trillion in assets under management, accounting for approximately 10% of global public and private investment flows.[20]

4.1 VCEF MOBILIZATION

At a high level, VCEF mobilization, or co-financing, can be defined as additional financing invested in a project in addition to finance from a Fund.[21] While there are several definitions of mobilization and co-financing, mobilization is assessed as follows for the purposes of this report:

- Direct mobilization: All private and public co-financing confirmed at the time of project approval with evidence of a causal link between fund involvement and external financing.
- Indirect mobilization: Private or public sector investment that occurs for the same project in which a VCEF invests without evidence of

19 GCF (no date). Private sector financing
20 FiC (2023). FiCS Report 2023
21 See, for example: IFC (2022). 2022 Joint Report: Mobilization of Private Finance by MDBs and DFIs

the VCEF's active or direct role resulting in the private and public sector investment.

Measuring direct mobilization requires determining whether there is a causal relationship between initial concessional finance and overall finance. This report covers both direct and indirect mobilization as components of co-financing, in line with the MDB definition of private sector co-financing as the sum of private direct mobilization and private indirect mobilization.[22,23] MDBs define private finance mobilization as direct if there is evidence such as a mandate letter or investment linked to an MDB financial commitment; whereas private indirect mobilization does not require evidence of the MDB having played an active or direct role in the resulting private investment.

VCEFs differ in their definitions of co-financing, as shown in Table 4.1. They also use different methodologies to track co-financing, which means that comparisons across Funds using Fund-reported data should be interpreted with caution. Also, maximizing co-financing may not result in maximizing environmental benefits and could be counter-productive.[24] While this analysis assumes that co-financing is a driver of scale and broader potential impact, results should be interpreted with caution. VCEFs should continue to monitor the impact of their co-financing and avoid maximizing co-financing at the expense of impact.

The VCEFs express their co-financing targets in different ways:

- The GEF is the only Fund that sets publicly available targets, which aim for a minimum 7:1 co-financing ratio for the overall GEF portfolio and a minimum 5:1 ratio of investment mobilized to GEF financing for projects in

Table 4.1: VCEF co-financing definitions[25]

GCF[26]	GEF[27,28]	CIF
The GCF's co-financing policy differentiates between: "Mobilized Private Finance"—private investment "mobilized as a result of the GCF Proceeds"—which is the equivalent of direct mobilization, and "Leveraged Private Finance"—private investment resulting from the contribution associated with GCF involvement in an investment, regardless of whether or not the GCF was actively and/or directly involved in raising such financing or soliciting investors—which is the equivalent of indirect mobilization.	The GEF defines co-financing as: resources that are additional to GEF project financing and provided by the GEF Partner Agency (e.g., an MDB) and/or other non-GEF sources to support the implementation of the GEF-financed project and the achievement of its objectives without the need for a direct causality link.	The CIF definition of co-financing includes the number of financial resources contributed by external resources and includes entities categorized as MDBs, governments, bilaterals, private sector, and others. Co-financing is based on figures provided by implementing partners at the time of project approval, and causality is not directly measured.

22 IFC (2022). 2022 Joint Report: Mobilization of Private Finance by MDBs and DFIs
23 The World Bank Group is working on measuring so-called "private-finance enabled", which aims to capture indirect mobilization and could, therefore, be relevant to the VCEFs in future.
24 Kotchen and Vogt (2023). Is the Emphasis on Cofinancing Good for Environmental Multilateral Funds?
25 The AF is not included as it has a mandate to fund the "full cost of adaptation" with no requirement for co-financing.
26 GCF (no date). Policy on Co-financing
27 GEF (2018). Policy on Co-Financing
28 The GEF permits agencies to count a very broad range of interventions as co-finance, some of which may not bring additional financial to the project, including in-kind contributions from recipient country governments.

upper-middle-income and high-income countries that are not SIDS or LDCs.[29]

- While the GCF aims to maximize co-financing, its results are determined on a project-by-project basis. The GCF notes that mitigation and adaptation benefits are not equivalent; meaning that targeting climate funding to maximize co-financing might create disincentives in some sectors.[30] Hence, the goal needs to be used with caution or be sector-specific.
- Within the CIF, the Clean Technology Fund (CTF) and the Scaling up Renewable Energy in Low Income Countries Program (SREP) both report co-financing targets on a rolling basis, as each individual project includes its co-financing target at approval.[31] The CIF subsequently tracks the co-financing realized over time against the total program-level target. Moreover, the Pilot Program for Climate Resilience (PPCR) and the Forest Investment Program (FIP) have *de facto* co-financing targets based on all project approvals and the Fund has recently started tracking achieved co-financing at the project completion stage.[32]

The AF does not have specific co-financing targets and does not track co-financing as its current mandate is to fund the "full cost of adaptation".

VCEF funding may catalyze finance beyond the funded project itself by creating system-wide impacts, such as helping a technology to mature or lowering perceived risk across an entire market. While identifying such causal relationships and measuring system-wide impacts would provide a more complete picture, doing so requires extensive data that VCEFs do not actively track, placing such an exercise beyond the scope of this report.

4.2 VCEF CO-FINANCING TRENDS

The analysis in this section is based on co-financing data from the VCEFs,[33] covering five years of *ex-ante* data from 2019-2024 (i.e., as indicated at the time of project approval, as opposed to *ex-post* data, which would reflect a mid-term and final evaluation based on actual co-financing numbers).[34] Accordingly, the numbers in this section reflect *ex-ante* commitments from the VCEFs and co-financing institutions, unless otherwise specified. As the co-financing analysis is based on the sum of direct and indirect mobilization commitments, as defined above, **there may not necessarily be a full causal relationship between VCEF funding and co-financing from other sources.**

Additionally, each VCEF uses a **different methodology to track co-financing.** As this analysis is based on Fund-reported data, comparisons of co-financing ratios between the Funds should be interpreted with caution and may not necessarily indicate different levels of mobilization effectiveness.

Based on their self-reported data, the Funds' co-financing results range from 2.9:1 for the GCF to almost 7.2:1 for the GEF, based on their total direct and indirect mobilization, as defined above.

While these are only *ex-ante* estimates based on projects approved within the past five years (2019-2024), data from the GEF Annual Performance Report on the success of implemented projects in meeting their co-financing targets are consistent with the above

29 GEF (2018). Policy on Co-Financing
30 GCF (no date). Policy on Co-financing
31 The CIF considers the MDB approval-stage figures to be the co-financing target and these figures are compared against achieved levels of co-financing.
32 Data received directly from fund representative.
33 As the Adaptation Fund has a mandate to fund the "full cost of adaptation" with no requirement for co-financing, they are not included in the below charts.
34 Only CIF was able to provide *ex-post* funding data, hence for comparability *ex-ante* funding data was used.

ratios. Cumulatively across all of GEF's projects, 62% of projects have met or exceeded their *ex-ante* co-financing targets. However, this number is only 48% for projects in the last Annual Performance Report cycle (2021-2023).[35]

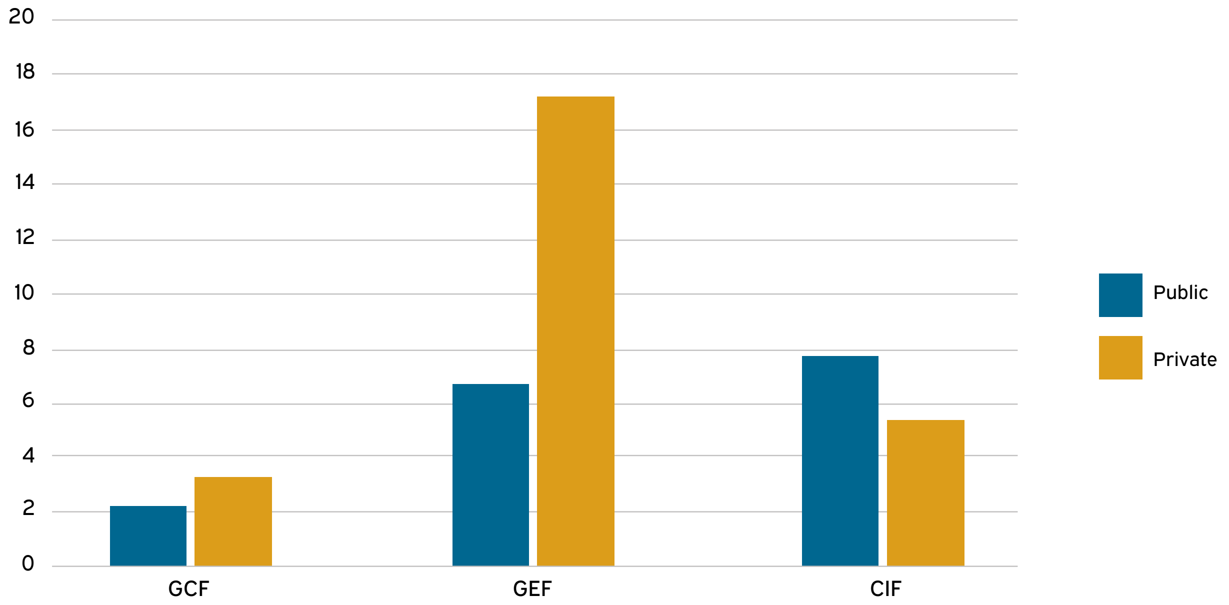
As noted above, this co-financing is not necessarily causally linked to the GEF funding, and the methodology used to compute these ratios is not clearly defined.

The relatively lower reported co-financing of the GCF, which does not have a Fund-wide co-financing target, can be at least partly attributed to the Fund's activities in vulnerable countries and adaptation initiatives. Specifically, 30% of the GCF's portfolio targets LDCs, and half of its portfolio is dedicated to adaptation initiatives.[36,37] This has a material impact on GCF's co-financing outcomes, as GCF's co-financing ratio for mitigation projects is 3.6:1, while it is only 2.2:1 for adaptation-focused projects. Additionally, the co-financing levels could also be influenced by the type of implementing agencies with which it works, the sectors in which it operates, and its more conservative methodology for tracking co-financing.[38] Hence, Fund mandates, thematic priorities, and country coverage should be considered when comparing co-financing ratios.

The CIF acknowledges that co-financing potential varies across its strategic programs, based on the type and context of intervention, including the type of financial instrument and target technology, leading to variability in co-financing figures. It is also important to note that securing co-financing from MDBs is a standard condition for applying for CIF funding.[39]

As shown in Figure 4.3, the VCEFs have different co-financing outcomes when comparing finance provided to public and private implementing entities. The GCF and GEF have higher co-financing ratios when providing finance to private entities, whereas the CIF has higher

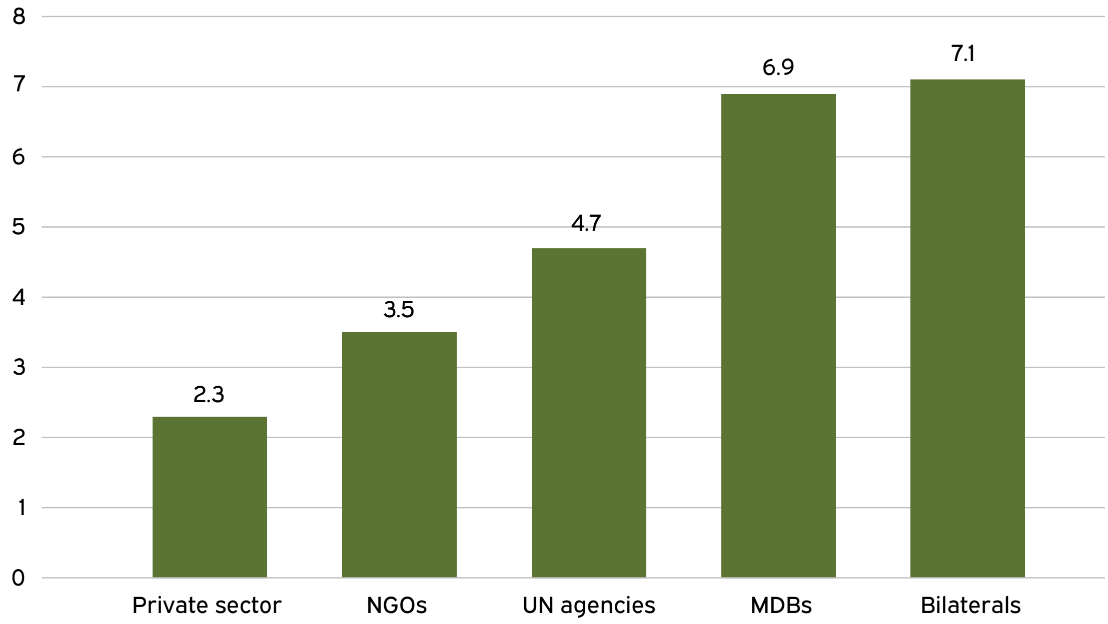
Figure 4.3: Co-financing to VCEF commitment ratios by public vs. private implementing entities



Source: CPI analysis. Note: Chart is based on ex-ante data from 2019-2024.

35 GEF (2023). GEF IEO Annual Performance Report 2023
36 GCF (no date). Adaptation
37 Data was received directly from the Fund representative.
38 CGDev (2023). Concessional Climate Finance: Is the MDB Architecture Working?
39 CIF (2020). Operational Modalities for the Climate Investment Funds' New Strategic Program

Figure 4.4: Co-financing to VCEF commitment ratios by implementing entity (USD)



Source: Center for Global Development (2023). Note: Chart includes cumulative data from GEF, GCF, and CIF through each Fund's lifetime, not just the past five years.

outcomes with public entities. A large share of GEF funding goes through UN agencies, and has fewer projects with private partners. CIF operations through the MDBs result in high public co-financing as the overall public portfolio share of MDBs remains significant.

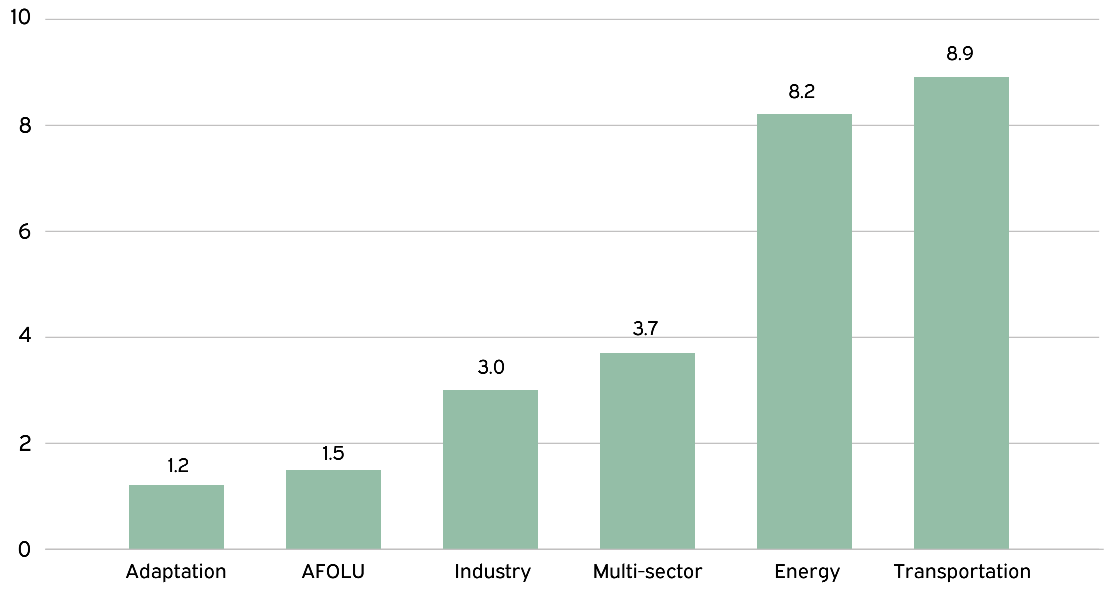
Looking across types of implementing entity, co-financing ratios are higher for VCEF commitments to MDBs and bilateral organizations, as shown in Figure 4.4.

Beyond co-financing, there are **important commonalities between this review of the VCEFs and the ongoing work on MDB reform** as reflected in the World Bank's Evolution Agenda, the Heads of MDBs Group Viewpoint Note,[40] and the work towards a G20 Roadmap for a bigger, better, and more effective MDB system under the Brazilian G20 Presidency. Common reform agenda items between the VCEFs and MDBs include boosting joint action on climate, scaling up finance, strengthening country-level collaboration and co-financing with country platforms and harmonization, private sector mobilization, local currency financing, enhancing development effectiveness and impact, and working as a system. In addition, there could be value in identifying potential areas of common interest related to current MDB work on operational effectiveness, mobilization reporting, and impact assessments.

Across the GCF, GEF and CIF, projects in the energy and transportation sectors tend to have higher levels of total co-financing than in adaptation and agriculture, food, and other land uses (AFOLU), as shown in Figure 4.5. This is to be expected as energy and transport are more commercially mature sectors with clear revenue flows, investment track records, standardized technologies (e.g., wind and solar power and electric vehicles), and clearly attributable climate impacts. Given that the financial benefits of adaptation and agriculture, food and land use are harder to quantify, these areas require

40 ADB (2024). Viewpoint Note: MDBs Working as a System for Impact and Scale

Figure 4.5: VCEF co-financing ratio by sector

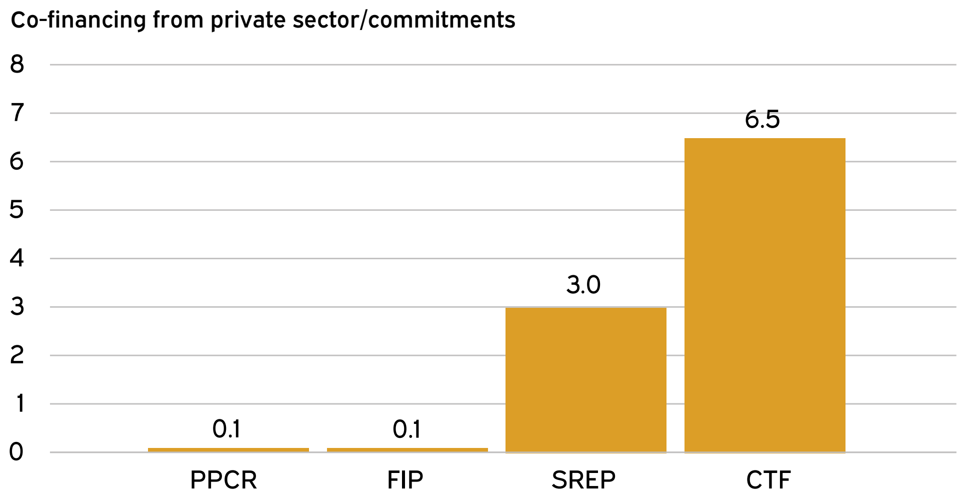


Source: Center for Global Development (2023). Note: Chart includes cumulative data from the CIF, GCF, and GEF through each Fund's lifetime.

a relatively higher proportion of concessional funding from VCEFs or other sources.

When looking into co-financing from private sector entities by sector in the CIF, a similar pattern of **higher co-financing ratios in more commercially mature sectors emerges**, as shown in Figure 4.6. The CTF's work with countries to develop country-specific plans to pursue projects that prioritize private investments and encourage financial institutions to lend to private companies. This may have contributed to its private co-financing to CIF commitment ratio of 6.5:1. While the SREP works in LICs and does not specifically target private sector mobilization, its focus on renewable energy may contribute to its private to co-financing ratio of 3:1. In contrast, the

Figure 4.6: CIF entities private sector co-financing to commitment ratios



Source: Center for Global Development (2023). Note: Data are cumulative

Table 4.2: VCEF co-financing to commitment ratios by country group

	Co-financing to commitments ratios		
Country Income Group	GEF	GCF[42]	CIF
High income	10.3	2.6	-
Upper middle income	8.5	3.0	9.1
Lower middle income	6.8	3.0	8.6
Low income	4.8	2.5	5.4

Source: CPI analysis of VCEF data

PPCR and the FIP both have a private sector co-financing ratio of 0.1:1

Of the three VCEFs that track co-financing, **the GEF and CIF have achieved higher co-financing ratios in countries with higher incomes**, though the GCF showed no clear pattern across different country income groups. As shown in Table 4.2, the GEF's co-financing ratio ranges from 10.3:1 in high-income countries to 4.8:1 in low-income countries, while the CIF's ranges from 9.1:1 in upper-middle-income countries to 5.4:1 in low-income countries.[41] Lower-income countries often lack the resources and capacity to fund projects and require VCEFs to provide a relatively larger proportion of the funding.

Despite co-financing ratios being an important metric of VCEF success, it is important for the VCEFs to support LDCs and SIDS to address their rising climate challenges given their higher dependency of concessional finance.

4.3 VCEFS FINANCING INSTRUMENTS AND STRUCTURES

4.3.1 FINANCING INSTRUMENTS

The current range of financial instruments used by the VCEFs broadly includes **grants, loans, equity, and guarantees.** As shown in Table 4.3, the GEF and the AF primarily or wholly deploy their finance as grants. The GCF and the CIF primarily deploy a combination of grants and loans, with limited use of guarantees. The GCF also reports equity activity over the last five years for which data was available. Within the CIF, the CTF currently has 16 operations that use equity.[44] The GEF has provided concessional loans, equity, and guarantees as part of its non-grant instruments. The assessment period

Table 4.3: VCEF portfolio instrument composition (2019-2023)

Instrument Type	GEF[44]	AF	GCF[45]	CIF[46]
Grants	97%	100%	37%	43%
Loans	1%	-	40%	56%
Equity	1.5%	-	15%	-
Guarantees	0.5%	-	3%	1%

Source: CPI analysis of VCEF data.

41 Due to data limitations, these co-financing to commitment ratios for the CIF are only for funding provided to public implementing entities.
42 This analysis for GCF uses data taken from the GCF website, as the data received from the fund did not include country information.

44 Data shared with CPI did not include equity investment, yet CIF has information from CTF stating a committed portfolio of own debt and equity investments. See: CIF (2023). CTF Co-Financing Ratio by Technology

of this review and data availability have precluded a more granular breakdown within these instrument categories.

Data from the three VCEFs that track co-financing (GEF, GCF, and CIF) shows no clear correlation between their use of specific instruments and co-financing ratios, as illustrated in Table 4.4. Taking grants as an example, the only instrument used at scale by all VCEFs, shows that USD 1 in grant financing yielded USD 7.2 in co-financing for the GEF, USD 9.9 for the CIF, and USD 1.6 for the GCF. This variation likely reflects the Funds' different uses of grants, with grants for capacity building or project preparation[48] resulting in lower co-financing ratios than larger grants used for a risk facility, for example. Further analysis would be needed to assess mobilization across different categories of grant purpose for each Fund, which could not be conducted at this stage due to lack of granularity in the available data.

Within each Fund, there is no stable pattern in terms of which instruments are correlated with higher levels of co-financing. For the GCF, USD 1 provided through debt (loans) yielded USD 3.7 in co-financing, compared to USD 1.6 for grants and USD 3 for guarantees. For the CIF, grants provided the highest levels of co-financing at USD 9.9 for every USD 1 of CIF funding, with loans at USD 7.4 and guarantees at USD 4.7.[49]

Acknowledging the lack of evidence at an aggregate level of a relationship between instruments and co-financing ratios, the remainder of this section assesses the relevance and use of each financial instrument category by the VCEFs, providing illustrative examples of where the use of each instrument yielded successful mobilization.

GRANTS

Grants, which are provided without expectation of repayment, are well suited for activities that support a public good but do not generate direct financial returns. They are often used to support early project development, as well as broader capacity building and technical assistance necessary for the success of a project, program, or market transformation activity. **Increased and enhanced grant provision is a frequent request from developing countries**, with reference to the financial expectations underpinning the Paris Agreement and a just and equitable transition.

Grants can play a key role in public and private capital mobilization. If deployed effectively, they can stabilize and improve enabling

Table 4.4: VCEF average co-financing to commitment ratios by financial instrument (2019-2023)

Co-financing to commitment ratios			
Instrument Type	**GEF**	**GCF**	**CIF[49]**
Grants	7.2	1.6	9.9
Loans	-	3.7	7.4
Equity	-	5.0	-
Guarantees	-	3.0	4.7

Source: CPI analysis of VCEF data.

45 GEF (2022). GEF, Blended finance global program and non-grant instruments policy update
46 Numbers for the GCF do not add to 100%, as 5% of GCF financing is categorized as "Results-Based Payment".
47 Due to data availability, this more detailed breakdown of instruments is only available for CIF funding to public implementing entities. For projects where the CIF provided funding through multiple non-grant instruments, CPI estimated the amount of funding for each instrument as an equal portion of all of the non-grant funding for that project.
48 GCF's Readiness Programme has provided USD 627 million in grants. See GCF (2024) Status of the GCF portfolio: Approved projects and fulfillment of conditions. GCF/B.39/Inf.10.
49 Due to data availability, the co-financing to commitment ratio values for CIF loans and guarantees is only available for CIF funding to public implementing entities. The co-financing to CIF funding ratio for grants is calculated based on grants to public and private entities. The co-financing ratio for CIF funding to public implementing entities alone would be 11.1:1.

environments, markedly improve the risk profiles of early-stage investments, and develop nascent markets. Crucially, grants often provide support directly to the recipient and on to end beneficiaries. This instrument is accompanied by appropriate administrative requirements to support the achievement of intended goals but without the ongoing financial implications of debt or equity instruments.

Grants are used for various purposes, including direct project technical support, enhancing skills and knowledge, and investing in data and tools to support decision-making. Grants can also lead to mobilization outcomes.

- For example, **the GEF grant-funded *Sustainable Cities Impact Program*** supports cities in pursuing integrated urban planning that delivers environmental benefits. This program yielded a co-financing ratio of approximately 11.5:1, mobilizing finance from governments, donor agencies, along with some private finance.
- The **GEF grant-funded *Sustainable Forest Management Impact Program on Dryland Sustainable Landscapes***, which tackles the degradation and deforestation of dryland ecosystems, yielded a co-financing ratio of approximately 8.4:1 and improved the enabling conditions for farmers and agricultural input companies to engage in sustainable production practices.

Capacity building and project preparation, core activities across the VCEFs, are funded through grants (or in-kind technical support) since they do not generate direct financial returns. Project preparation facilities and developer platforms are essential for building viable project pipelines in EMDEs, especially at the early stages. Private financiers face a shortage of projects that meet their investment criteria, while project sponsors encounter difficulties securing funding due to high project development risks.[50] VCEFs may leverage the local expertise of Direct Access Entities (DAEs) in order to build such a pipeline of bankable projects.

Project preparation can account for around 5% to 10% of an infrastructure project's total cost and varies across regions.[51] There is a **lack of very early-stage project preparation support**, which is key to unlocking the next stages of project development. This, in turn, can help catalyze private capital as opportunities progress through the investment value chain.

Project preparation support is, to varying degrees, a feature of the VCEFs' work programs (see Annex 1):

- The AF provides small project formulation grants for full- or medium-sized projects.[52]
- The CIF Technical Assistance Facility (TAF), which focuses on accelerating clean energy investment, includes project pipeline development and a matchmaking component.[53]
- The GCF houses a dedicated project preparation facility (PPF) to support its AEs in preparing funding proposals for submission to the Fund, conducting feasibility studies, gender, risk, environmental, and social assessments, and providing pre-contract services, among others.

The additionality of the GCF's in-house PPF stems from its direct link with financing, which often is not the case for other PPFs. Furthermore, in the case of the GCF, the PPF funds can be repaid at financial close if the project successfully generates income, recycling some capital for further PPF activity.[54]

Capacity building plays an important role in mobilization by strengthening support for

50 CPI (2003). An Innovative IFI Operating Model for the 21st Century.
51 ODI (2018). Clean energy project preparation facilities. Mapping the global landscape.
52 AF (2024). Options for Modifications of Project Formulation Grants
53 CIF (2022). CIF Technical Assistance Facility (TAF) – Implementation Report 2020-21
54 GCF (2020). Project Preparation Facility (PPF) Guidelines

projects at all stages, from early development to implementation. It is key to ensuring that the right skills and abilities are developed in local contexts, creating agency and routes to draw on local insights and understanding. All VCEFs support capacity-building activities, which are described in Annex 1.3.

DEBT

Loans are a mainstay of the GCF and CIF portfolios and can be effective for financing creditworthy entities with projects that have clear potential for returns. Loans also offer the possibility for the VCEFs to recycle capital over time, thereby multiplying the amount they can provide relative to grants.

Concessional loans form a high proportion of GCF and CIF lending and are a common component of blended investments. These include first-loss debt, long-tenor project loans, investment-stage repayable grants, and loans that bear risk at below-market financial returns. If deployed effectively, they can be a key factor in mobilizing additional public and private capital.

Bond issuance can attract resources from private capital markets for certain pre-defined objectives (e.g., green finance or resilience outcomes). The VCEFs may consider further supporting bond issuances by emerging market entities, which is a long-term process requiring sustained buy-in from governments, financial institutions, and MDBs.[55]

VCEFs with sufficient portfolio reflows may also consider raising capital through their own bond issuance. The CIF has been working to establish a CIF Capital Market Mechanism (CCMM) to expand its capital base for climate action. The CCMM aims to raise funds from private capital markets to support climate projects of multiple MDBs through a first-of-its-kind dedicated platform. The CIF is best placed for this, given its status and association with the MDBs, which have established treasury functions and experience in this area. The CCMM is not expected to change the risk appetite of the CIF or the concessionality of its finance. As the CCMM will primarily fund middle-income countries, it is anticipated the mechanism will, in effect, free up grant resources for LDCs, enabling the CIF to take on even more risk in countries that need it most. Pending the success of, and lessons learned through, the CCMM, the GCF could also consider pursuing such an approach.

EQUITY

Equity investments play a specific role in a project or entity's financing structure. Appropriate levels of equity are critical as projects and businesses grow and expand. Equity also enhances an entity's capacity to attract other forms of capital, especially debt. **Equity is scarce** in VCEFs' target markets and the additionality of this instrument is therefore high. Equity investments are generally riskier than debt, with a potentially severe downside balanced by a potentially significant upside if the project succeeds. It can be split by level of seniority and may be received via two main channels: privately raised funding and publicly listed funding.[56]

Attracting privately raised equity is important for emerging companies in developing countries where capital markets are not yet well developed. For private financing, projects must be well-conceived and already have equity in place to secure debt financing. Projects with higher leveraging ratios may be more attractive to private investors, promoting the emergence, deployment, and widespread adoption of new climate solutions.[57]

The GCF has developed a meaningful equity portfolio, mainly taking first-loss equity

55 NGFS (2023). Scaling Up Blended Finance for Climate Mitigation and Adaptation in Emerging Market and Developing Economies
56 Mustapha, S (2022). Using the right mix of financial instruments to provide and mobilize climate finance: Lessons from the Global Stocktake.
57 GCF (2021). Leveraging Equity Finance to scale up climate innovation & investment

positions in projects including innovative adaptation technologies and nature-based solutions, accounting for 14% of its portfolio. Examples of GCF equity investments and their mobilization include:

- The *Acumen Resilient Agriculture Fund*, with a co-financing ratio of 5.3:1, uses GCF first-loss equity in five African countries to support MSMEs that provide resilience-building services to smallholder farmers.
- The *Global Subnational Climate Fund*, with a co-financing ratio of 4:1, has attracted additional equity investments, including from institutional investors, across 42 countries, including SIDS and LDCs.
- The *Green Growth Equity Fund*, with a co-financing ratio of 7.4:1 , supports investment in large-scale renewables, electric buses, and waste management projects in India. The GCF provided the first-loss equity investment as well as a grants for strengthening local capacity and policy advocacy.

HYBRID CAPITAL

Hybrid capital has recently received attention as a means to expand MDB lending capacity.[58] Previously, equity capital of the largest MDBs consisted solely of shares issued to member governments, in addition to accumulated reserves.[59] Hybrid capital offers a new addition to the MDB capital structure providing greater flexibility by either allowing private investors to capitalize MDBs, without diluting the latter's institutional mandate and mission,[60] or giving willing shareholders the ability to provide additional capital without affecting the institutions' governance structure. The African Development Bank (AfDB) has been a first-mover in pursuing hybrid capital, issuing a USD 750 million note to private investors in January 2024.[61] The World Bank announced contributions to its hybrid capital facility from Denmark, Germany, Italy, Latvia, the Netherlands, Norway, and the United Kingdom in April 2024.[62] The EBRD is also considering a hybrid capital pilot.

In relation to VCEFs, the question revolves around whether they could be providers or receivers of hybrid capital. The rationale to be a provider of hybrid capital, for example to the MDBs, would be to leverage the balance sheet of the MDBs. The efficient capital structure of the MDBs would result in multiplying the hybrid capital contribution, though direct co-financing may be a simpler way of leveraging VCEF capital to mobilize further funds, as reflected in the high mobilization ratios of the CIF, for example. There is weak rationale for VCEFs to be receivers of hybrid capital, as providers of this capital would not achieve any multiplier effect from their contribution.

GUARANTEES

Guarantees can significantly improve the risk-return profile of climate investments, thereby crowding in more risk-averse public and private capital. Key risks for climate investments include currency risk, political and regulatory risk, technology risk, and environmental risk.[63] Studies suggest that using guarantee facilities can mobilize between 6 to 25 times more financing than loans, with particular potential in EMDEs that face the aforementioned risks.[64] As shown in Table 4.3, only the GCF and the CIF have used guarantees to date, and only minimally. For example:

- The *CIF's Zanzibar Energy Sector Transformation* program combined loan and grant financing with a guarantee of USD

58 CGDEV (2022). Hybrid Capital and SDRs for the Uninitiated
59 ODI (2023). Making sense of hybrid capital for multilateral banks
60 CGDev (2024). One Small Step for the AfDB, One Giant Leap for all MDBs.
61 AfDB (no date). Hybrid Capital
62 World Bank (2024). New Financing Tools Receive Major Funding Boost
63 CPI (2022). Climate Finance Innovation for Africa.
64 CPI (2024). Landscape of Guarantees for Climate Finance in EMDEs.

4 million to provide risk mitigation for an independent power producer in Tanzania, enabling the development of solar PV.

- The *GCF's Caribbean Net-Zero and Resilient Private Sector* program has deployed USD 25 million as guarantee financing (in combination with lending, equity, and grant funding) across a range of sectors to deliver both adaptation and mitigation outcomes, with an emphasis on gender mainstreaming.

4.3.2 POWERING MOBILIZATION THROUGH FINANCIAL STRUCTURES

Financial structures combine instruments—including grants, debt, equity, and guarantees—to generate a multiplier effect for climate finance mobilization. These structures can involve a range of financial partners and may aim to reduce the cost of capital, increase co-financing ratios, and address specific technical and financial risks, barriers, or gaps.

This section highlights examples of financial structures with the potential to be expanded or implemented by VCEFs to increase their financial mobilization record. Within each structure, concessional finance may be blended with private and public capital to achieve specific climate and environmental objectives and mobilize additional sources of finance.

Risk mitigation facilities may be suited to sectors or geographies with established private financial markets but where certain barriers or a poor risk-reward equation stifle investment. Facilities that provide insurance, guarantees, or risk reserves to improve the risk-return profile of investments can attract more risk-averse private capital. Similarly, a risk mitigation facility can mitigate credit risk for lenders, thereby reducing the cost of debt. Risk mitigation facilities can also address currency risk, which is a major barrier to climate investment in developing countries, given that project revenues are generally in local currency, while fluctuations in foreign exchange rates can result in significant increases in local currency required to meet repayment obligations.[65]

A coordinated credit risk mitigation platform can help streamline options for recipient countries and de-risk projects through **a combination of upfront capital for risk mitigation and investments through multiple types of instruments depending on the project's investment capital stack and need.** The GCF and perhaps the CIF could expand the following activities for this type of facility with the following instruments:

- Grants, used to establish risk reserves or guarantee funds that backstop potential losses for private investors.
- Equity investments to provide the facility with the capital needed to absorb losses, strengthen its balance sheet, and increase its ability to support high-risk projects. Equity can be structured as first-loss capital within the facility.
- Concessional loans can be used to provide affordable credit lines to local financial institutions, which in turn can lend to high-risk sectors such as smallholder farmers or renewable energy projects.

Examples of such facilities include:

- The *Tanzania Agriculture Climate Adaptation Technology Deployment Program*, a lending and de-risking facility aimed at making agriculture adaptation technologies affordable to local farmers and agri-enterprises, while strengthening risk-reduction processes across government, industry and the financial sector.[66] The GCF blends its own concessional finance (grant and loan) with that of CRDB Bank, a national AE establishing dedicated credit

65 CPI (2014). Long-Term FX Risk Management Instrument Overview.
66 GCF (2001). Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP)

lines for the Bank's Agriculture Resilience and Adaptation (ARA) lending operations, while providing guarantees to facilitate the bank's lending to smallholder farmers, deemed a high-risk market segment. The facility also involves an ARA insurance scheme for smallholders.[67]

- The GCF is also considering a *Local Currency Financing Pilot Program* with options for providing funding in local currency to AEs.[68]

Structured debt and equity funds may be used to achieve higher mobilization by pooling resources into investment vehicles designed for targeted climate objectives. The structuring of such funds can be done with the following financing instruments currently used by the VCEFs:

- Grants can be used to cover technical assistance, capacity building, and initial project development costs.
- Equity can help to anchor such funds and support their establishment which in turn develops an investment track record. Support may be provided as subordinate equity or first-loss equity to help protect investors and provide confidence in minimum returns, thereby attracting additional more risk-averse/senior financiers to the capital stack.
- Concessional or junior debt can also be used when borrowers cannot access sufficient market-rate debt. This form of support has lower priority for repayment in the capital stack in case of default.
  - An innovative example is *CRAFT*, a private investment fund for adaptation technologies in developing countries. This was initially supported through the GEF Special Climate Change Fund (SCCF) and then taken up by the GCF, crowding in private equity contributions. It also includes a South-South technology transfer mechanism, which is particularly important in the adaptation context.

The expansion of **climate bond issuance** in private and public capital markets offers a significant opportunity to channel resources to developing economies. VCEF financing instruments can be used with different goals:

- VCEFs could support (nascent) green bond capital markets in developing countries with grants to foster the initial development and certification of green bond frameworks, subsidize bond issuance costs, or provide technical assistance to build local capacities.
- Such structures could use a results-based financing structure, with outcome-based bonds that only pay bondholders if stipulated environmental impacts are met.
- Guarantees can also be provided to mitigate risks for private investors, ensuring that bondholders receive their payments even if the underlying projects face challenges.

An emerging example of this is the GCF-funded *Green Guarantee Company*, which will provide guarantees to enhance the creditworthiness of projects and bond issuances, thereby connecting local issuers with international investors and allowing them to access global credit and capital markets for mitigation and adaptation.

In addition, the GCF and GEF are members of the Technical Task force on Credit Enhancements, with the objective of boosting sustainability-linked sovereign financing for nature and climate.[69]

SWAPS/CONVERSIONS

The GCF has provided grant funding to improve the readiness of one of the SIDS to explore

67 GCF (2001). FP179: Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP)
68 GCF (2023). Consideration for a Local Currency Financing Pilot Program (GCF/B.36/16)
69 Task Force on Credit Enhancement for Sustainability-Linked Sovereign Financing (no date). Credit Enhancement for sovereigns to contend with nature and climate crises

debt-for-climate conversions. The GEF also recently approved guarantees to support an MDB regional facility to replicate and scale debt-for-nature conversions in Latin America and the Caribbean. Where the objective is to encourage climate action without adding to the debt burden of the recipient country, a debt-for-climate swap/conversion can be considered on a case-by-case basis, expanding fiscal space for climate investment. In appropriate circumstances, the GCF or the CIF could potentially support the assessment of the opportunity and development of model deal structures. In theory, they could also consider a direct financial intervention refinancing coupon payments at concessional rates while stipulating conditions on the use-of-proceeds. However, there are likely to be significant challenges given the scale of the debt positions, the complexity of restructurings, and legal obligations.

RESULTS-BASED FINANCE (RBF)

RBF makes access to finance contingent upon the performance of pre-specified project or program objectives, such as achieving pre-defined GHG emissions reductions or energy savings.[70] Such financing structures may include and combine pay-per-success instruments, payment for ecosystem services, impact-linked bonds/loans, and policy-based loans. RBF requires the establishment of relevant key performance indicators and (internationally accepted) monitoring and evaluation (M&E) standards to determine adequate achievement of outcomes.

Some VCEFs are considering using RBF, given its potential for delivering on climate and development objectives. For example, the GCF funding for the REDD+ (Reducing Emissions from Deforestation and Forest Degradation) pilot scheme allowed developing countries to access payments linked to demonstrated emissions reductions achieved via forest protection and restoration. Funding for this pilot was quickly exhausted, indicating the need for additional private finance to meet demand, potentially through (voluntary) carbon markets.[71] There is also evidence of RBF in the context of MDB-supported mechanisms and national funds, which could provide existing channels for the VCEFs, rather than having to create new schemes of their own.

PROGRAMMATIC APPROACH

While not a financial instrument, programmatic approaches can involve a set of financing instruments and structures as a vehicle to scale up financial mobilization. In line with the work on the MDB reform agenda, there is increased attention on shifting from a short-term project-by-project approach to a long-term programmatic approach aiming at scaling up impact and driving systemic changes. While an individual project-based approach involves the financing of individual low-carbon or climate-resilient projects, a programmatic approach involves the development and implementation of a pipeline of projects supporting systemic transformation in line with the transition to a low-carbon resilient economy. Programmatic approaches certainly lend themselves to, and will be an integral feature of, country platforms (see Section 5.4.1), but should not be considered synonymous with the latter.

The CIF has been an early mover in adopting a programmatic approach structured as the CTF, PPCR, FIP, and SREP—and including as a key component the definition of country-led investment plans with broad government buy-in.[72] The GEF and the GCF have developed some programmatic approaches[73] and the VCEFs should consider opportunities to expand these

70 CPI (2022). Climate Finance Innovation for Africa
71 GCF (2022). GCF results-based payments: Stepping stone to unlock private finance at scale.
72 ICF (2018). Evaluation of the Climate Investment Funds' Programmatic Approach: Final Report and Management Response
73 Requirements to obtain non-objection letters from all countries included under a programme (e.g. for project restructuring that only concerns some, not all, countries) has been observed as an impediment.

as a powerful means of enhancing public and private finance mobilization.

4.3.3 RISK APPETITE

The four VCEFs face a set of common risks, which can be broadly categorized as:

- **Resource risk:** Whether resources will be made available (via donor replenishments) for continued operations. Received resources are also subject to currency risk linked to exchange rate variations between donor currencies against the lending currency (USD).
- **Implementation risk:** Whether projects will be seen through to completion, achieving their intended financial results.
- **Credit risk:** Whether a Fund will incur (partial or complete) financial losses due to adverse economic, technical, or political events.

These are not theoretical concerns, as illustrated by the recent cancellation of a GCF project due to implementation issues related to environmental and social standards,[74] and by the CIF's exposure to loan impairments.[75]

The 2024 GEF Risk Appetite Statement sets its risk appetite as substantial for context risk, high for innovation risk, and moderate for execution risk.[76]

- **Context risk** refers to the extent to which external factors—including climate, environmental, and social factors, as well as politics and governance—affect GEF outcomes.[77]
- **Innovation risk** covers institutional and policy risk, technological risk, and financial and business model risk.
- **Execution risk** captures the capacity of the recipient country, and specifically the executing entity, to execute GEF-financed activities and achieve the expected results.

The GEF has a high risk appetite for innovation, which is critical for supporting transformational change. This reflects the GEF's flexibility to use innovative technologies that may carry a risk of failure but are expected to deliver higher impacts and benefits than more conventional approaches.[78] At the overall portfolio level, however, an Independent Evaluation Office recently determined that the GEF has a 'low to moderate' risk profile—noting that different implementing agencies have different risk cultures and vary in their ability to take on high risks—and acknowledged that the GEF aims to 'embrace more calculated risks' in its pursuit of transformative environmental outcomes.[79]

The **AF**'s *Risk Management Framework* is primarily concerned with project implementation and entity risk. The framework (last amended in 2014 and set to be amended before 2027) outlines three key types of risk: **ethical transgressions, financial mismanagement, and adverse social and environmental impacts** arising from projects or programs.[80]

The AF Board also seeks to mitigate resource availability risk and the concentration of resources by setting programming caps: for example, it uses country caps for single-country projects and sets annual funding provisions per various windows or themes (including for locally-led adaptation and large versus small innovation projects). In addition, the AF has, since 2023, established an Innovation Risk Management Framework and Risk Tolerance Targets for its innovation projects portfolio. As a result, risk

74 Civillini and Rodriguez (2024). UN climate fund axes Nicaragua forest project over human rights concerns
75 EBRD (2016). EBRD CIF Special Fund Report 31 December 2016
76 GEF (2024). GEF Risk Appetite (GEF/C.66/13)
77 Ibid.
78 Ibid.
79 GEF (2024). Assessing Portfolio-Level Risk at the GEF (GEF/E/C.67/03)
80 AF Risk Management Framework

tolerance is greater for innovation projects than for the portfolio at large, as reflected in the benchmarks adopted by the Board.

The **CIF**'s risk appetite was approved in 2019, with specific statements for the CTF, FIP, and PPCR. The CIF is implemented entirely through the MDBs, enabling the MDBs to take on more risk than they otherwise would. Overall, the CIF risk framework is focused on risk to the successful operation and resource availability rather than underlying project risk, which is managed by the MDBs. The CIF considers risk across the following four parameters, with the following evaluation as of 2024:[81]

- **Low resource availability risk:** The CTF Trust Fund Committee permits over-programming by 30% of the program's pledged resources in order to accelerate the implementation of viable projects rather than delay until non-viable projects have been identified and removed from the pipeline.
- **Low currency risk (to contributions):** Currency risk has remained low for the past seven reporting periods.
- **High implementation risk:** programs/projects continue to struggle with disbursements.
- **High credit risk:** As of March 2023, 11 private sector CTF loans were experiencing payment defaults while two guarantees had been called. The CTF's primary source of credit risk is through loans, while other financial instruments (e.g. guarantees) offer lower credit risk exposure.

The **GCF 2017** Risk Appetite Statement distinguishes between different levels of risk tolerance ('zero,' 'moderate,' and 'considerable') that are assigned according to a range of specific risks, including **compliance risk, foreign exchange risk, legal risk, and financial instrument risk.**[82] Considerable risk tolerance is afforded to credit risk, equity investments, and impact risk. The GCF takes on considerable credit risk to meet its strategic mandate of promoting a paradigm shift towards low-emission and climate-resilient development pathways, for example by its active use of equity despite the financial risk such investments may pose.[83] Its Risk Appetite Statement is currently under revision and is scheduled to go to the Board in October 2024, including refining risk appetite in some areas.

The VCEFs must continue to evaluate and refine their respective risk appetites to ensure that they position themselves as innovative, risk-taking actors that can deliver transformative outcomes in recipient countries. This may require regularly assessing and adjusting the levels of risk in fund exposure and specific financing terms (pricing, tenor, rank, security) and guidelines the Funds will take. Overall, risk appetite continues to evolve across the Funds, which already appear to take relatively high risks for innovative projects in their portfolios. It is essential that the Funds assume their position in the climate finance ecosystem as first-movers, using their concessional resources to pilot new and innovative approaches to catalyze systemic change. Accordingly, donors must be willing to accept and actively encourage the VCEFs to put more capital "at risk." Because both risk and risk appetite evolve over time, the Funds must develop strong risk management functions, tools, and internal processes so as to maintain financial prudence and balance the mandate to scale climate action with the sustainability of their operations.

81 CIF Risk Report May 2024
82 GCF (2015). Risk Management Framework for the Adaptation Fund
83 https://www.greenclimate.fund/sites/default/files/document/risk-appetite-statement-component-ii.pdf

4.4 VCEF MOBILIZATION RECOMMENDATIONS

MAIN RECOMMENDATIONS

- **The VCEFs should leverage the full potential and impact of their capital** by, where relevant:
  - **Deploying a full range of financing instruments (grants, concessional debt, guarantees, equity, and local currency products), and ensuring that these can be flexible** in their terms (pricing, tenor, rank, and security). The Funds should also making full use of their risk appetite, thereby ensuring additionality in the capital stack and enabling them to maximize their climate impact. Risk mitigation instruments, multi-instrument structures and local currency financing apply particularly to the GCF and CIF. Achieving this goal will require:
  - **Dedicating grant resources to address upstream policy, institutional, and capacity gaps, including through capacity building and technical assistance**, particularly in high risk contexts. The VCEFs should often provide such grants in parallel with investment capital. Such grant funding has the potential to catalyze significant private climate finance, though the mobilization effects are difficult to quantify and monitor. Grants can be used to address information asymmetries, knowledge gaps, or missing infrastructure and skills that the private sector needs to engage in climate action, in addition to technical assistance to address climate risk, participate in green value chains, and implement enabling policies to catalyze domestic markets.
  - Fostering the development of credible, verifiable, **market-based approaches** that support climate action and address market imperfections or barriers to private investment. To do so, new financial structures and instruments may be required. However, to quickly scale-up support, it will also be important to apply existing standard structures in new contexts, where possible, since developing novel structures takes time, especially to reach the necessary scale.
- The VCEFs should also set **clear mobilization goals** reflecting their mandates, priorities, and activities.
  - Such goals should be reviewed periodically to adjust for evolving market conditions, both domestically and internationally. Mobilization goals should be based on a **uniform approach to measuring and reporting on mobilization and co-financing.**
  - Co-financing goals should be tailored for investment pipelines, reflecting the mobilization potential of different sectors and regions. This includes the difference in potential mobilization between mitigation and adaptation and when comparing middle-income countries and LDCs and SIDS, and should balance mobilization objectives and climate goals for countries or themes that offer high impact but low mobilization. These goals should include explicit objectives for overall and private capital mobilization. They should be revised periodically to reflect market maturity and to ensure that limited VCEF resources are allocated efficiently and in line with the capital needs of each sector and region. VCEFs should confirm that their risk appetite and risk management strategies are aligned with their mobilization goals.
  - VCEFs should **establish a joint definition of mobilization** that includes metrics tracked, standardized methodologies, and transparent disclosures via a publicly accessible joint database (acknowledging possible data sharing limitations due to confidentiality clauses), including *ex-post* assessment. This definition should distinguish between additional co-financing and business-as-usual parallel co-financing, while also reflecting the differences

between the Funds, and coordinate with and build on the work that the MDBs have done to avoid duplicating efforts or diverging methodologies.

- The Funds should also **join co-financing mechanisms with the MDBs, DFIs, NDBs, PDBs, and private actors** to syndicate and otherwise increase opportunities to mobilize complementary funding from these sources and enhance coherence in the global climate finance landscape. The VCEFs can meet these mobilization goals by **strategically enhancing their collaboration with local financial institutions**, including by increasing the number of national accredited entities, subject to country demand and needs, and by supporting projects to strengthen local public and private financial institutions. Funds should periodically review the number of and engagement by their accredited entities.

ADDITIONAL RECOMMENDATIONS

- **Enhance project preparation support, particularly for early-stage infrastructure projects.** Particularly at the critical (and underfunded) initial stage of investment, VCEFs are well-placed to provide grants and other types of support where appropriate. This should be provided through a programmatic approach with systemic coordination between the VCEFs, MDBs, and other DFIs, and should be aligned with action on the ongoing MDB reform (e.g., efforts by the G20 IFAWG). This would enable more systematic identification and addressing of barriers to project development and investment, engagement with local communities, and modification of support based on countries' specific needs. A coordinated capacity-building unit focused on project preparation could be established to work across the VCEFs that is firmly embedded within a country platform approach, thereby avoiding duplication of efforts.
- **Consider increasing further support for green and climate bond issuance** through capacity building to build project pipelines as well as developing the necessary infrastructure to manage and report on use-of-proceeds. VCEFs (especially the GCF and CIF) could offer guarantees or first-loss tranches for early bond issuance in developing countries where capital markets are still under development.[84] There is an opportunity to partner with interested MDBs and NDBs on developing local currency platforms so that green and climate bonds can be issued in local currency.[85]
- **Expand the use of finance structures and blended instruments to increase the affordability of finance, particularly for LDCs.** The VCEFs can blend their valuable concessional finance with other sources of public finance development finance—whether multilateral, national, or subnational—to increase the supply of long-tenor, low-interest lending for climate action, helping to alleviate the worsening debt positions of the most vulnerable countries. Where appropriate, the VCEFs could provide capacity-building support for debt-for-climate or debt-for-nature swaps in EMDEs and LDCs.

The following applies to the GCF and the CIF, taking account of their broader range of financing instruments and structures.

- **Expand the use of risk mitigation instruments** and multi-instrument structures to attract additional and more risk-averse capital. Whether used in individual projects and programs or via dedicated facilities, risk mitigation instruments are key to enhancing the risk-return equation

84 CDKN (2011). The Green Climate Fund: Options for Mobilizing the Private Sector
85 GCF (2022). Review of the financial terms and conditions of the Green Climate Fund financial instruments (GCF/B.33/11)

and crowding in additional capital. This requires assessing the role of the VCEFs' support in the investment value chain and in relation to the support of other public and private financiers in a project or program's capital stack. These approaches may not be immediately relevant to funding for adaptation or LDCs, where the priority is providing low- or no-cost capital.

- **Issue guarantees to address specific risks for a share of financial institutions' climate portfolios.**[86] Guarantees are especially valuable when targeting specific risks, such as foreign exchange, off-taker, market, or political risks. These tools can use a relatively small amount of capital to address risks that hinder public and private investment. Using portfolio-level guarantees can be more effective in amplifying the impact of donor resources than the current transaction-by-transaction or project-by-project approach. For example, the International Finance Facility for Education uses donor resources to issue portfolio-level guarantees for MDBs, allowing them to raise additional financing in capital markets and multiply initial resources for investing in education and skills in recipient countries.[87] This topic should be explored carefully, however, given the inherent risks involved in using VCEF funds to guarantee other (often better-resourced) public funders.

- **Further explore opportunities for local currency lending**, including by structuring project or program finance to mitigate foreign exchange rate risk, a particular challenge in EMDEs and LDCs. In addition to local currency lending, one possible approach is a risk capital facility (or hedging facility) that uses grants to cover hedging costs, where appropriate, and considers different currency market maturities.[88] More broadly, VCEFs can develop a list of countries in which they can engage in local currency financing, and identify strategies ahead of time for managing forex risk in remaining countries, including by bearing that risk directly. This could be implemented by an institutional forex management framework. VCEFs considering local currency solutions can look to recent MDB initiatives for local currency lending[89] as well as outputs emerging from the Finance in Common Summit (FiCS) Innovation Lab, which have local currency solutions as a focus area.

86 CGD (2023). Concessional Climate Finance: Is the MDB Architecture Working?
87 IFFEd (2022). IFFEd: A generation of possibilities
88 GCF (2023). Consideration for a Local Currency Financing Pilot Program (GCF/B.36/16)
89 AIIB (2024). Viewpoint Note: MDBs Working as a System for Impact and Scale

5

LEVELS 3 AND 4: VCEF INTEGRATION AND HARMONIZATION

5. LEVELS 3 AND 4: VCEF INTEGRATION AND HARMONIZATION

As described in Section 3, the current global climate finance landscape is highly fragmented, presenting a range of opportunities for improvement. This is reflected at a smaller scale across the four VCEFs.

To address the challenges and opportunities posed by the complex climate finance landscape, this section examines options for how the VCEFs could evolve in a coordinated and integrated manner to improve their overall effectiveness and efficiency in delivering climate finance. This builds on an examination of the Funds' different comparative advantages and on their current efforts to strengthen complementarity and coherence following their Joint Declaration at COP28 on "Enhancing access and increasing impact: the role of the multilateral climate funds."

This section then identifies harmonization measures through which VCEFs can increasingly collaborate under a process integration approach aimed at enhancing impact and reducing transaction costs for entities working with them.

5.1 VCEF COMPARATIVE ADVANTAGES

The features of each VCEF influence how it is accessed and how it contributes to climate and environmental action. The comparative advantage of each Fund relative to each other is assessed according to the following parameters:

- Mission/Scope
- Country ownership
- Accreditation
- Country programming
- Country allocation/Prioritization
- Specific measures related to LDCs, SIDS, and the private sector

This assessment is based on each VCEF's objectives and policies rather than observed performance. Operational process considerations will affect whether these objectives and policies are translated into practice.

Mission/Scope. The GEF has a broader thematic scope than other VCEFs, as it serves multiple conventions (see Annex Table A1.1). This gives it a wider remit through which climate co-benefits can be realized, as projects can cover multiple focal areas or GEF Trust Funds (LDCF/SCCF). This allows focal areas other than climate change to contribute to mitigation targets, while GEF TF focal areas can contribute to adaptation co-benefits. The GEF has also developed an integrated programmatic approach that systematically addresses the drivers of environmental degradation.

The other VCEFs focus on climate change, with the AF focusing exclusively on climate change adaptation, which has advantages for developing fit-for-purpose procedures. Both the CIF and the GCF cover climate change adaptation and mitigation, and can also cover both simultaneously. The CIF is the only VCEF that does not serve a multilateral environment convention with its mission being to provide a catalytic multilateral response to address the climate challenge through MDBs.

Country ownership. Country ownership is required across all VCEFs, and is mostly operationalized through project endorsement by a government focal point and requirements on alignment with national policies. The AF, a direct access pioneer, has a robust approach to a country-led nomination system for its National Implementing Entities (NIEs) and requires alignment with national priorities. The GCF also supports direct access and country ownership is one of its investment criteria. While CIF investment planning is country-led, implementation takes place exclusively through MDBs, which is less conducive to country ownership. Out of 18 GEF Agencies, only three are national agencies.

Accreditation. The GCF can accredit an unlimited number of diverse entities, providing an advantage in terms of building a large pool of entities for project implementation, including DAEs and private sector organizations. However, managing accreditation is complex, especially given the diverse nature and range of capacities of these entities and the Fund's limited resources.

The GEF, on the other hand, relies on a limited number of selected agencies and does not offer rolling accreditation. While this limits the funding channels, it also eases management costs and agency capacity. Under the AF hybrid model, international entities can be invited to seek accreditation, while countries can nominate regional and a limited number of national entities. The CIF functions exclusively through MDBs.

None of the Funds have directly accredited subnational authorities, such as cities or regions, even though this is not explicitly barred under either the AF or GCF. The GCF and the CIF can work with subnational authorities as executing entities through AEs/MDBs.

Country programming. The GCF and the CIF promote the use of country programs for planning investments. The CIF approach to country/sector programming, which enables the integration of CIF Investment Plans into Nationally Determined Contribution (NDC) finance strategies, has been more effective at guiding programming than the GCF approach. Under the GCF, while countries are invited to develop country programs comprising a list of projects, projects may be originated by any type of entity at any moment, as long as an AE submits it to the GCF. This enables a wide range of projects to be submitted but limits the effectiveness of country programming processes. Programming decisions for GEF funds are made by countries based on the amounts allocated to them under each GEF cycle, and must align with GEF priorities under that cycle. Investment priorities are often identified through National Dialogues supported by the GEF. There are no country programming processes for the AF.

Country allocation/Prioritization. The GEF allocation system provides predictability in terms of resources available but generates high competition among agencies at the country level. The GEF and CIF have an advantage in that they can reach additional countries that are not covered by some of the other funds. However, this benefit is limited by the fact that access to the CIFs is primarily through the MDBs, rather than direct. The GCF has no country allocation system, meaning there is no ceiling on how much a country can receive in funding. While this means that some countries could benefit from a high number of projects, it also creates uncertainty and unpredictability. The AF has no country allocation system setting a cap for single-country projects.

Specific measures for LDCs. The GEF-operated LDCF only supports LDCs. The GCF considers LDCs as investment priority countries (along with SIDS and African States) and has a portfolio target, which is weaker than a dedicated allocation. Neither the AF nor the CIF have specific measures for LDCs. Notably, the AF country cap assures that SIDS have equivalent access to any other country applicant.

Specific measures for SIDS. The GEF has a dedicated window for SIDS under the SCCF. The GCF considers SIDS an investment priority and has a portfolio target on investments in them, which is weaker than a dedicated allocation. Neither the AF nor the CIF targets specific measures for SIDS.

Specific measures for the private sector. Two of the VCEFs have clear approaches for engaging with the private sector. The GCF has a dedicated Private Sector Facility driven by a portfolio target and it is the only VCEF that can directly accredit private sector entities. Mobilizing private capital is a CIF priority, with dedicated private sector programs. Both the GCF and the CIF are able to use non-grant instruments at scale to mobilize private finance. Neither the GEF nor the AF have strong measures to engage with the private sector, but both are starting to implement some, such as the GEF non-grants instrument set-aside and the AF innovation grants.

Measures for local communities, indigenous peoples, and women. The CIF has a program focused on supporting indigenous peoples, the Dedicated Grant Mechanism under the Forest Investment and Nature, Climate, and Peoples Programs.[90] The AF promotes locally-led adaptation through a specific window that builds on its Enhanced Direct Access window and includes a program to channel grants for locally-led adaptation through non-accredited entities. The GCF has also piloted an Enhanced Direct Access program. This had limited success but is expected to be renewed. While women and indigenous peoples are considered in VCEF strategic planning and processes, the only dedicated funding identified is through the CIF Dedicated Grant Mechanism.

5.2 VCEF COMPLEMENTARITY, COHERENCE, AND COLLABORATION

As described in Annex 1, the VCEFs share several common features, starting with the fact that all seek to advance climate change mitigation and/or adaptation in developing countries, and two of them (the GCF and GEF) are operating entities of the Financial Mechanism of the UNFCCC and the Paris Agreement. The GEF is the only VCEF with a wider scope, with the GEF TF having climate change mitigation and other global environmental objectives, addressing resilience as a crosscutting topic. The LDCF and SCCF, like the AF, focus exclusively on climate change adaptation.

In terms of geographic coverage, 133 developing countries are eligible for all four Funds (see Table A1.1), with the exception of the LDCF, for which only LDCs are eligible. All Funds work through designated government focal points in each country, which must provide some level of support or endorsement for the projects and ensure they align with national priorities. Country investments are guided by national investment programs for GCF and CIF, while the GEF TF has country allocations.

There are some similarities in the way financial support is delivered in that all Funds work through AEs to implement projects. Most MDBs are accredited to more than one VCEF, and they are the only entities eligible to implement projects through the CIF. Several UN organizations are accredited to the GEF, the GCF, and the AF. The AF and the GCF also accredit regional and national entities to strengthen direct access. While the GEF does not have a rolling accreditation process, three national entities were accredited during the last expansion of the GEF partnership.

As discussed, despite several overlaps, there are differences in what each Fund ultimately supports and how it operates. In this context, the following main types of complementarities could be leveraged across Funds:

- **Thematic:** Thematic overlaps can be leveraged as complementarities based on the different VCEF features either in terms of financing instrument or of strategic planning. The wider thematic coverage of the GEF can also be a complementarity to leverage.
- **Project origination/country planning:** Overlaps in country coverage provide opportunities to coordinate programming at the country level to increase relevance, country ownership, and impact.

90 CIF (no date). CIF Dedicated Grant Mechanism

- **Types of implementing entities (direct and international):** MDBs and UN agencies have both more experience and more capacity to access climate funds. By developing multiple projects, they facilitate the disbursement of funds and impact. DAEs have less capacity and are less effective at accessing VCEF funding. However, they generally have better knowledge of national conditions, better in-country capacity, stronger country ownership and, thus, contribute to the sustainability of results. Complementarity efforts may help to balance between types of entities.
- **Accreditation processes:** There are overlaps and differences to be leveraged across Funds, as some have a strong emphasis on direct access (AF, GCF) while others work with a limited set of global or regional organizations (GEF, CIF). Accreditation processes have been instrumental in the institutional development of AEs, particularly when accompanied by targeted capacity-building support (AF, GCF).
- **Project sizes and structure:** There is some complementarity across VCEFs in terms of the size and structure of projects supported. For example, all have the ability to fund programmatic approaches, including cross-country or stand-alone projects of different sizes, with the GCF being well positioned to scale up successful interventions initially funded by the GEF or the AF.
- **Capacity to engage the private sector**, where the GCF's dedicated Private Sector Facility is a unique model as it enables the Fund to directly finance private entities. The recent addition of the Project-specific Accreditation Approach (PSAA) may further strengthen this capacity.
- **Range of instruments:** All VCEFs have the ability to support technical assistance, either through stand-alone operations or integrated into their funded activities. This enables them to provide not only technical support, but also to work on policy or the preparation of infrastructure investments. With the exception of the AF, the VCEFs have the ability to deploy, to different extents, a range of financial instruments, including loans, equity, guarantees, tailored to the needs of clients and projects (see Section 4.4).
- **Innovation and scaling:** More innovative projects, often associated with higher risks, could be trialled first by the smaller funds with grant support, and then scaled up by the larger funds with reflow instruments.
- **Capacity building for readiness**, including for planning, investment program preparation, accreditation, project preparation and reporting building on the set of capacity building activities of the Funds.

The Fifth Review of the UNFCCC's Financial Mechanism encouraged operating entities to collaborate among themselves and with other structures (including the CIF) to enhance their complementarity.[91] Since then, several initiatives have been undertaken to enhance complementarity and coherence among VCEFs, including the Climate Funds Collaboration Platform, which involves the GEF, GCF, CIF, and the AF, and the establishment in 2017 of an Annual Dialogue of Climate Finance Delivery Channels to guide collaborative efforts. Opportunities were subsequently identified to deepen their partnership for enhanced complementarity and synergies to increase impact. The GEF and the GCF also signed the Long-Term Vision on Complementarity, Coherence, and Collaboration (LTV). At COP28, the AF, CIF, GCF, and GEF published a Joint Declaration titled "Enhancing access and increasing impact: the role of the multilateral climate funds." A joint action plan[92] is currently under development for COP29. The draft action plan divides the actions into three time horizons—short (COP29), medium (2026),

91 UNFCCC (2014). Decision 9/CP.20 Fifth review of the Financial Mechanism (Decision 9/CP.20)
92 GCF (2023). Enhancing access and increasing impact: the role of the multilateral climate funds

and longer-term (2027 and beyond)—under the following areas: (i) profiles, policies and processes; (ii) capacity building and programming; (iii) elevated knowledge exchange and communications; (iv) the international financial architecture; and (v) coordination and implementation.[93]

The VCEFs are already implementing measures to enhance **harmonization** across Funds in the following areas:

- **Accreditation:** Fast-track accreditation to the GCF for entities already accredited to the GEF and AF substantially reduces the average duration of the process (from around 27 to 15 months for DAEs, and from around 22 to 17 months for International Accredited Entities [IAEs]),[94] but many entities still consider the process too time-consuming.[95] Further efficiencies might be gained from the ongoing restructuring of accreditation processes (see Section 6.1).
- **Programming:** There are instances of GCF participation in GEF programming events at regional and national levels. In addition, joint GEF-GCF programming consultations were held in Rwanda and Uganda in 2022 and 2023, respectively. The GCF has also reported providing input to nine country programs to enhance complementarity and coherence, and it has updated its Entity Work Program guidelines to emphasize synergies with other Funds.[96]
- **Readiness:** The new GEF Country Engagement Strategy includes "increased coordination at the country level with other funds" as an expected outcome. Similarly, the new GCF Readiness Strategy aims for stronger support for pipeline development, increasing complementarity and coherence at the country level, and exploring scaling up opportunities for successful projects from other funds.
- **Synergies across projects:** Efforts in this area include piloting joint programming and synergies between GEF and GCF projects; exploring options for the coordinated use of the GCF Simplified Approval Process (SAP) and GEF funding; the development of a scaling-up approach for AF projects through the GCF; and exploring how to bring opportunities identified by CIF beneficiary countries to GCF programming. In addition, some entities are now to link projects across VCEFs (e.g., the GEF and CIF; and the AF and GCF). The GCF systematically tracks any links between its projects and AF, CIF, and GEF projects as part of its reporting to the UNFCCC.[97]
- **Evaluation:** Evaluation offices of all four Funds have held meetings to explore potential synergies.

Complementarity and coherence have also been integrated into the most recent **strategic plans** of the GEF (including for the LDCF and SCCF), the AF, and the GCF. For the GCF, this builds on the 2017 Operational framework for complementarity and coherence. In addition, in 2023, the GEF and the GCF jointly commissioned a review of their policies and processes to identify opportunities for enhanced complementarity and coherence.[98] This review suggested possible entry points such as: (i) harmonizing project cycles and templates; (ii) simplified compliance requirements; and (iii) coordination among teams working on regional coordination, accreditation, sustainability policies, and communication activities. Some of the more specific recommendations center around enhancing opportunities for joint

93 A consultation draft on "The Multilateral Climate Funds Action Plan on Complementarity and Coherence" was issued in May 2024 and is being discussed with the governance of each fund. Not public yet.
94 GCF (2024). Consideration of accreditation proposals (GCF/B.38/03).
95 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
96 GCF (2023). Annual update on complementarity and coherence (GCF/B.37/Inf.14/Add.02)
97 GCF (no date). GCF in Brief Complementarity and Coherence
98 GCF (2023). Annual update on complementarity and coherence (GCF/B.37/Inf.14/Add.02)

programming, and include, for instance: (i) harnessing country support and engagement strategies and programs to support interested countries in undertaking joint programming; (ii) enhancing coherence/alignment between project templates and supporting GEF Agencies/GCF AEs to help ease compliance in the context of joint programming; and (iii) designing streamlined procedures for joint project design and funding to increase time and resource efficiencies for countries and GEF Agencies / GCF AEs when pursuing joint programming. Other recommendations include harmonizing guidance on the application of key concepts within each Fund's investment criteria and the corresponding reporting requirements at the project level, as well as harmonizing guidance on the application of investment criteria and the corresponding reporting requirements at the portfolio level.

While there is no evidence yet of the effectiveness or efficiency gains resulting from these recommendations, these provide a positive base upon which to develop further integration across the activities of the VCEFs to enhance impact and efficiency.

5.3 VCEF INTEGRATION OPTIONS

A range of options can be identified to integrate VCEFs with a view to accelerating the deployment of climate finance in EMDEs. These options, summarized in Table 5.1, range from efficiency measures within the current VCEF configuration to a simplification of the climate finance landscape through restructuring and consolidation.

Table 5.1: VCEF integration options

Incremental efficiencies	• Focus on improving individual VCEF process efficiencies • Harmonization and coordination across VCEFs • Pilot joint programming activities • No change in individual VCEF activities or structures
Thematic specialization	Specialize each VCEF on a particular theme. As an example, this could involve: • The GCF focusing only on adaptation at scale (primarily infrastructure), large-scale direct access (e.g., NDBs), UN, and private sector • The CIF focusing on mitigation and MDBs • The GEF focusing on other global environment benefits than climate • The AF focusing on direct access through NIEs only, and programming of community/small-scale adaptation projects including focused support to LDCs and SIDS
Process integration	• VCEFs working as a system through "one-stop shop" solutions, supported by strong harmonization, coordination, and improved efficiencies, while leveraging each Fund's comparative advantages according to its specific mandate • VCEFs becoming more active in country platform development and implementation to enhance coordination with other stakeholders, financial mobilization, and scale of transformational impact • Maintaining current, diverse structures, to benefit from opportunities for innovation and opportunities for mutual knowledge sharing
Restructuring and consolidation	This could be partial (e.g., only among VCEFs under the UNFCCC) or full consolidation (across all VCEFs) creating a single entity (umbrella organization) coordinating the activities of all Funds. Partial restructuring options could include: • Restructuring the AF as a window of the GCF focused on adaptation through DAEs • Restructuring the LDCF and SCCF as windows of the AF to support adaptation through national organizations • Re-channeling of CIF funds to a specific MDBs-oriented window of the GCF

Each of these options has advantages and disadvantages, which are outlined below.

Incremental efficiency option (see sections 5.4.2 and 6.2)

PROS	CONS
• Builds on ongoing work by Funds on harmonization and efficiency. • Actions are mainly under the sphere of responsibility of Secretariats. • Does not involve structural changes to the climate finance architecture, which would be complex and time-consuming to implement.	• Limited effectiveness as structural challenges and opportunities remain unaddressed. • Improvements would be slow and insufficient given the urgency of climate change action. • Lack of external pressure/oversight encourages continuation of business as usual.

Thematic specialization option

PROS	CONS
• Addresses thematic overlaps across Funds, reducing the need for coordination. • Increases clarity of individual Fund purpose and reduces complexity for countries and entities. • Funds can focus on thematic specialization, deepen knowledge, and improve their performance.	• Strong leadership is required to review governance mechanisms and business models • Limits options to address specific environmental and climate issues to a single specialized entity • Decreases possibilities to leverage synergies across themes (mitigation-adaptation or climate change-global environment benefits), limiting the ability to address interactions between climate and other natural systems • Requires some restructuring to be fully effective (e.g., transfer of the LDCF/SCCF from the GEF).

Process integration option

PROS	CONS
• Increased clarity and efficiency for countries through country-driven approach. • Integration at accreditation, readiness and programming levels to rationalize pipeline preparation and enhance access potential. • No individual VCEF structural changes. • Aligned to ongoing discussions within the funds and to work on country platforms in context of G20 TF-Clima and International Finance Architecture Working Group.	• Will require clear leadership by VCEFs' Boards and Secretariats to build institutional complementarity and coherence in operating processes. • Likely to require changes to policies and procedures by governing bodies such as those pertaining to focal points/ NDAs, accreditation, readiness or the project cycle. • May face institutional bottlenecks.

Restructuring and consolidation option

PROS	CONS
• Rethink the climate finance architecture building on experience acquired over last three decades. • Establish the most effective and efficient structure for channeling climate finance by reducing fragmentation and eliminating overlaps and duplications.	• Leadership for this process is difficult to establish (not all funds respond to the UNFCCC). • Only conceivable with full buy-in of all (independent) governing bodies of the four VCEFs. • High risk of political and institutional bottlenecks. • Implementation can take time and significant resources. • Even if successful, this still only addresses a small segment of overall climate finance landscape.

Based on the above assessment, the **process integration option** appears to provide the best balance in terms of benefits and feasibility. This approach should scale up impact and improve access without requiring substantial structural changes, which are likely to be complex and time-consuming. It leverages VCEFs' comparative advantages to increase impact potential without compromising individual Funds' mandates. Furthermore, it builds on, reinforces and accelerates processes already underway both in terms of the VCEFs and of country platforms. This approach is consistent with the investment planning approach established since the creation of the CIF and is in line with current AF, GCF, and GEF thinking and priorities both in terms of ensuring country ownership and scaling up impact. Driven by country decisions, GEF country allocations could also be used to support this approzach in an integrated manner with the VCEFs. This approach would also position the VCEFs to enhance their transformational impact contributing to support policies and systemic change.

In comparison, the incremental efficiency option promises limited impact on scale, while the thematic integration and the restructuring and consolidation options are not feasible under the Funds' current legal mandates and settings.

The VCEF process integration approach could play a significant role in the development of effective country environment and climate investment platforms aimed at scaling up finance mobilization and impact. This would connect the proposed approach in the context of the SFWG work program to the work undertaken under the leadership of the Brazilian G20 Presidency in the **Task Force-CLIMA** and in the **International Finance Architecture Working Group.** It would also connect with work on **MDB reform** and in the **closer integration of PDBs** in country platforms discussed in the FiCS/G20 event in May 2024.[99] Furthermore, this is consistent with a recent report by the Multilateral Organization Performance Assessment Network on accelerating climate action, which considers that the VCEFs need to define their role in supporting country-led platforms and just transition and ensure their processes are fit-for-purpose.[100]

99 G20 - Finance in Common (FiCS) Joint Event 20 & 21 May 2024, Rio de Janeiro: Key takeaways and recommendations by the FiCS Chairman to the Brazilian Presidency of the G20
100 MOPAN (2024). Accelerating Climate Action: Multilateral Development Banks' Readiness and Performance.

5.4 VCEF PROCESS INTEGRATION AND HARMONIZATION RECOMMENDATIONS

5.4.1 PROCESS INTEGRATION RECOMMENDATIONS

Beyond financial mobilization, the VCEFs can increase their transformational impact by **working as a system in support of country-driven platforms and their investment pipeline.** The Funds can provide integrated support for the development and implementation of a country platform approach, including support for policy and investment program formulation. In this manner, the VCEFs **can significantly increase their impact by shifting from an individual project approach to supporting the definition and implementation of investment plans.** This would also connect VCEFs to a broad set of stakeholders—including key decision makers such as finance or planning ministries—and other sources of public and private finance. The CIF practice in supporting country platforms combined with the significant resources of the GCF Readiness Program can be particularly useful in this context.

Going forward, the VCEFs can strengthen their impacts by operating as a system building on their respective comparative advantages with:

- The GEF **adding value** to address climate alongside other environmental global public goods in an integrated manner.
- The AF **focusing** on adaptation in the poorest and most vulnerable countries and communities.
- The CIF's experience with its **proven programmatic country-led planning process with the MDBs.**
- The GCF **pioneering new models and approaches** to scale up finance to address critical priorities.

MAIN RECOMMENDATIONS

The VCEFs should **enhance their transformational impact by working as a system to support country-driven platforms and their related investment pipelines.** This integrated programmatic support of country platforms would be facilitated by:

IMPROVED COUNTRY OWNERSHIP

- **Strengthen the leadership of focal points and encourage the appointment of cross-fund country focal points to reflect national priorities and foster coherence in project portfolios.** While each country should define its own configuration reflecting its local context, consideration should be given for focal points to be based within countries' ministries of finance or other ministries with cross-sectoral coverage and national financial priority-setting functions. This would be complemented by a supporting unit and/or working group closely connected to those line ministries involved in delivering VCEF activities.
- **Help countries to establish or strengthen national climate and environmental investment coordination platforms.** These platforms can articulate support from different sources, including VCEFs. They would enable the coordinated development of initiatives, including potential parallel/joint or sequential projects, and would also monitor their implementation. These platforms would engage a range of national and subnational stakeholders, including relevant institutions, local communities, women's groups, and indigenous peoples. Cross-fund country focal points and their

supporting units could hold the secretariat of these platforms and thus be responsible for their coordination and for implementing their decisions.

- **Support the development of country investment plans and access strategies.** Support platforms to develop country-driven, multi-fund, multi-entity country investment plans and project pipelines, driven by their Long Term Strategies, NDCs, and/or National Adaptation Plans (NAPs), as well as access strategies for direct access accreditation and the engagement of existing entities based on their comparative advantages to address country needs as defined in country investment plans.

VCEFS OPERATING AS A SYSTEM

Advance towards joint monitoring, evaluation, and reporting.

- Fully align key indicators and their related methodologies and reporting across Funds and with the Paris Agreement Enhanced Transparency Framework to improve efficiencies and comparability. Each Fund could have additional indicators tailored to its specific mandate (especially the GEF, whose mandate spans several conventions). This should be supported by the development of a joint theory of change across Funds, which would enable joint reporting on VCEF impacts through annual accountability reports.
- Conduct joint evaluations on topics of common interest.
- Adopt **common IT systems/approaches** for routine tasks, which will reduce administrative burdens for the VCEFs and entities and enable more efficient country-level reporting under the Paris Agreement Enhanced Transparency Framework. This can also reduce the reporting burden of DAEs, which, in some cases, work with three of the VCEFs directly or indirectly.
- **Establish a cross-fund readiness facility in place of current stand-alone efforts.** This facility should support the establishment of the country-driven programmatic approach outlined above, as well as efforts to enable countries' direct access to the VCEFs (pre- and post-accreditation). Developing such a cross-fund readiness facility would imply a restructuring of the VCEFs' capacity-building programs, with some functions centralized by the facility (e.g., support for country platforms and direct access) and others retained by the Funds' secretariats (e.g., engagement and outreach, including capacity building on specific Fund policies). This facility could be hosted independently or by the GCF, which has the largest readiness program among the VCEFs. In either case, the facility would support the following stakeholders:
- Cross-fund focal points, coordination units, and country platforms on activities such as strengthening of country institutional arrangements, analytical and planning work to define country priorities and actions, South-South peer-to-peer learning, as well as investment planning and monitoring.
- **Direct access entities** on activities such as accreditation, capacity building in critical technical functions, implementation, monitoring and reporting.

ENHANCED RESPONSIVENESS

- Establish stronger mechanisms to learn from and replicate effective, innovative approaches. This would align with and be supportive of work on country platforms in the context of the G20 Task Force-CLIMA and the International Financial Architecture Working Group, strengthening complementarity between VCEFs and MDB reform. It would also help to build on each Fund's comparative advantages to enable continued experimentation in response to emerging priorities.

5.4.2 HARMONIZATION RECOMMENDATIONS

In line with the above process integration measures, **Funds should undertake the following harmonization measures to develop common approaches to accreditation, pipeline development, and project approval processes.**

ACCREDITATION

- At an initial stage, adopt a phased accreditation approach across Funds to incrementally build the capacities of DAEs, particularly in LDCs and SIDS. There are successful examples of entities that, thanks to the capacities built as GEF Executing Agencies, GEF Agencies and/or entities for small AF projects, have achieved GCF accreditation, which potentially opens the opportunity to implement larger projects such as the Brazilian Fund for Biodiversity (Funbio) and the Mexican Fund for the Conservation of Nature (FMCN). These synergies should be pursued more systematically by the Funds.
- At a subsequent stage, align accreditation processes and templates as far as possible, such as by harmonizing requirements that are similar across Funds (e.g., for GCF DAEs and AF NIEs that intend to implement small, low-risk projects), while maintaining fund-specific requirements as relevant. These efforts should leverage ongoing work such as the assessment of the GEF partnership, the AF-TERG accreditation evaluation, and the revision of the GCF accreditation framework.
- Finally, enable simultaneous accreditation of DAEs to the AF and the GCF (and possibly also to the GEF, if it decides to expand the partnership) through a single online application portal.

PIPELINE DEVELOPMENT

- Support systematic project pipeline sharing at the country/regional level, including country-led project prioritization based on both Funds' comparative advantages and national priorities.
- Support the establishment of national climate adaptation, mitigation, and finance measurement, reporting, and verification (MRV) systems to support coordinated planning efforts.
- Establish incentives for developing joint/parallel initiatives (e.g., simplified processes, use of the same feasibility studies) that leverage each Fund's comparative advantages.
- Facilitate up-scaling and replication of projects through other Funds by incorporating the use of data and reports generated by projects into the new project's evidence base.

PROJECT APPROVAL PROCESSES

- Harmonize standards and procedures required of all projects, including minimum environmental and social standards and fiduciary standards, taking account of work on MDB reform in this area.
- Develop joint guidance on policy compliance (e.g., through the proposed cross-fund readiness facility) and increase alignment between project approval templates.

- Formalize pathways across project approval processes to enable the development of joint/parallel initiatives that leverage each Fund's comparative advantages. Significantly different project cycles and limited predictability currently hinder the development of joint, parallel, or subsequent projects across Funds. VCEFs could work together to identify pathways to enable this, which would likely include modifications to the project cycle and other policies. Country platforms can play an important role in advancing joint/parallel initiatives.

IMPLEMENT A COORDINATED APPROACH TO SHARING DATA, CONSOLIDATION OF CROSS-FUND KNOWLEDGE EXCHANGE, AND SYSTEMATIC EXCHANGES, INCLUDING ON PIPELINES AND IMPACT METRICS.

- Enable systematic exchanges across Funds at operational level and formalize joint working groups for regular progress updates on reform and performance, including on pipelines and impact metrics.
- Building on the COP28 Joint Declaration, formalize the Standing Joint Working Group with regular updates on progress on the reform agenda during COP and World Bank/IMF Annual Meetings.
- Establishment of joint AF-GCF support for the DAEs/NIEs Community of Practice. This will provide a platform for the Funds and entities to share best practices and knowledge to increase the efficiency and effectiveness of working together.
- Consolidate cross-fund knowledge exchange to learn from each other.
- Establish staff exchanges/secondment programs between Funds to support knowledge and experience sharing and enhance collaboration.

ADOPT A UNIFORM APPROACH TO MEASUREMENT AND REPORTING REQUIREMENTS.

Harmonize reporting requirements at the project and portfolio levels through common IT solutions for financial management and monitoring that may help enhance accountability and risk management while simplifying data collection and processing.

6

LEVEL 5: INDIVIDUAL FUNDS' ACCESS AND EFFICIENCY

6. LEVEL 5: INDIVIDUAL FUNDS' ACCESS AND EFFICIENCY

6.1 KEY FINDINGS

This section examines the accreditation, project approval, and disbursement processes of each individual VCEF. Enhancing these processes can improve access to and the operational efficiency of each Fund, and is also relevant to improve coordination and increase impact at the country level (see Section 5). This section draws on an in-depth analysis of VCEF documents—including relevant Council and Board documents, policies and guidelines, M&E reports, and learning reviews—as well as of portfolio data (either available online or provided directly by the Funds) on accredited entities, project portfolio, and disbursements.

6.1.1 GLOBAL ENVIRONMENT FACILITY

ACCREDITATION

The GEF project portfolio is highly concentrated among a small number of global agencies. In GEF-7, the original agencies—the UNDP, UNEP, and World Bank—still accounted for 64% of approved funding, while the agencies added in the first expansion (1999-2006) and second expansion (2013-2015) accounted respectively for 25% and 11%, according to a GEF assessment in 2023. As of March 2023, global agencies, including FAO, remained key partners in all regions, and only around 5% of all GEF resources had been channeled through regional and national agencies.[101]

Barriers to increasing the engagement of regional agencies, all of which are MDBs, include competition with UN agencies, which tend to have longstanding local relationships with environment ministries. Other factors include: (i) limited transparency and predictability in pipeline development at the country level, which prevents the identification of opportunities to blend GEF funding with larger lending and grant operations; and (ii) misalignments between GEF and agency procedures, paired with the increased availability of financing from donor trust funds that are aligned with MDB procedures.[102] Greater reliance on MDBs' governance and safeguards would enhance the efficiency and level of interaction between the GEF and MDBs, supporting higher MDB involvement with the GEF. Beyond their programming capacity within their own countries, national agencies are limited to implementing GEF projects and programs beyond their national borders. In light of this, the Development Bank of South Africa requested a change in status to implement GEF projects in other countries in southern Africa.[103]

While small relative to overall GEF activity, the use of blended finance is growing in size and number of agencies. In GEF-7, the blended finance portfolio comprised 10 projects from six agencies with USD 122.6 million in GEF financing, compared to five projects implemented by three agencies (USD 75.6 million) in GEF-5. This is expected to continue in GEF-8, as the GEF plans to deploy up to USD 196 million in blended finance.[104] Despite this progress, the blended finance portfolio represented a small fraction of the projects

101 GEF (2023). Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies (GEF/C.64/10).
102 GEF (2022) GEF-8 Policy Directions (GEF/R.08/31).
103 GEF (2023). Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies (GEF/C.64/10).
104 GEF (2023). Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies (GEF/C.64/10). The six Agencies with blended-finance projects in GEF-7 are the African Development Bank (1), Conservation International (4), the Development Bank of South Africa (1), the European Bank for Reconstruction and Development (1), the Interamerican Development Bank (1), and the World Bank (2).

approved during GEF-7, which totaled USD 3,756 million.[105]

In light of this, the GEF-8 Policy Directions prioritize reducing the concentration of funding and encouraging further engagement of agencies that joined the GEF during the second round of expansion, especially national and regional entities.[106] The policy recommendations for GEF-8 place emphasis on: [107]

- Monitoring and reporting on agency concentration and barriers to participation, including on the achievement of an aspirational target of 10% of GEF-8 approved amounts for regional MDBs and the International Fund for Agricultural Development, and of an aspirational ceiling of no more than 30% of approved amounts during GEF-8 for any one agency.
- Further empowering operational focal points to make informed decisions on the selection of GEF Agencies.
- Making information available on GEF Agency capacity, and scope of activities to all relevant stakeholders, including operational focal points.
- Streamlining the project cycle to reduce administrative and transaction costs, as well as to facilitate increased access by the MDBs, and promote collaboration among agencies.
- Exploring possibilities, where necessary, to improve the thematic and geographic coverage of the GEF Partnership.

In line with these recommendations, the GEF Council and Secretariat had taken the following measures by June 2023: [108]

- Monitoring and reporting on the issue[109] and piloting of Agency Factsheets.[110]
- The GEF-8 Integrated Programs are providing opportunities for the engagement of agencies added in the second expansion as implementers of individual projects under a program.
- The Country Engagement Strategy aims to involve a broader set of government ministries, including ministries of finance, to facilitate financing across agencies and to provide operational focal points and other stakeholders with opportunities to facilitate the choice of Implementing Agencies.

Other actions planned for GEF-8 include: [111]

- Identifying further efficiency gains in the GEF project and program cycle to incentivize all GEF Agencies, particularly RDBs, to increase their engagement through GEF-financed programs.
- Increasing emphasis on Integrated Programs and Non-Grant Instruments and the role of MDBs in these modalities.
- Opening eligibility for the implementation of Small Grants Program funding to agencies aside from the UNDP.

PROJECT APPROVAL

The GEF requires several layers of project approval and is perceived to have high transaction costs, given the relatively small size of most GEF projects. A lack of alignment between GEF project approval processes and MDBs' internal processes also limits their participation.

105 GEF (2023). GEF-7 Funding Retrospective (Prepared by the Trustee) (GEF/A.7/05/Rev.01).
106 GEF (2021). GEF-8 Policy Directions: The Enabling Environment for Transformation (GEF/R.8/06).
107 GEF (2022). Annex II: Policy recommendations for the eighth replenishment of the GEF Trust Fund. In: Summary of negotiations of the eighth replenishment of the GEF Trust Fund (GEF/C.62/03).
108 GEF (2023). Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies (GEF/C.64/10).
109 See, for example, GEF/C.64/10 (2023) and GEF/C.66/03 (2024).
110 See: GEF (no date). GEF Agencies
111 GEF (2023). Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies (GEF/C.64/10).

The Fund's Project Identification Form (PIF) requirements are particularly complex. The project cycle requires Council approval of this document and the subsequent set-aside of funds by the Trustee at an early stage, with approval of the full project document (CEO Endorsement) is delegated to the GEF CEO.

The preparation of CEO Endorsement documents requires demonstrating compliance with key GEF policies, notably on stakeholder engagement, gender, and environmental and social safeguards. Compliance requirements are frontloaded in the project cycle to the CEO Endorsement stage. For the stakeholder engagement and safeguards policy, there is little evidence of how these policies contribute to impact, as there is a lack of results-focused reporting available.[112]

Overall, the time elapsed from PIF submission and CEO Endorsement for full-sized GEF projects (over USD 2 million) was over 25 months for GEF-7, with 15% of the time spent in processes under GEF Secretariat control, 80% with agencies, and 5% with Council.[113] This highlights the limited opportunities for efficiency improvements at the secretariat level as well as opportunities to incentivize agencies to accelerate project preparation.

To address these challenges and improve project cycle efficiencies, improvements to the project cycle have been approved by the Council including:

- Increasing the number of projects eligible for a 1-step approval process (with no PIF) by raising the medium-sized project (MSP) cap from USD 2 million to USD 5 million. Taking GEF-7 as a reference, this would take the number of projects eligible as 1-step MSPs would go from 10% to 64% of approved projects.[114] This 1-step project cycle has been characterized as efficient and streamlined by the GEF Independent Evaluation Office (IEO).
- Introduction of the GEF Project Cancellation Policy[115] to incentivize faster project preparation by agencies. The cancellation period is further reduced from 18 months in the GEF TF for full-size projects (12 months for MSPs) to 9 months in the GBFF.[116]

DISBURSEMENTS

The time between CEO Endorsement and the first disbursement largely depends on the efficiency of GEF Agencies, which undergo internal project approval after CEO endorsement.

When looking at the timeline of operations, 82% of projects that were disbursed for the first time in fiscal year 2023 did so within 18 months of CEO Endorsement,[117] in line with 85% in 2022[118] and up from 71% in 2021 (likely related to COVID-19).

According to the GEF IEO OPS7,[119] 80% of completed projects have satisfactory implementation and execution ratings. The quality of M&E design and implementation has improved over time, with more than two-thirds of projects rated as satisfactory. However, low execution capacity at the country level,[120] complex execution arrangements, and high staff turnover in executing agencies[121] can cause significant delays in project implementation, and hence delay subsequent disbursements.

112 IEO (2022). Working Toward a Greener Global Recovery
113 GEF (2024). Streamlining the GEF Project Cycle
114 Ibid.
115 GEF (202). Project Cancellation Policy
116 GEF (2024). Global Biodiversity Framework Fund (GBFF) Project Cycle Policy
117 GEF (2023). The_GEF_Monitoring_Report_2023
118 GEF (2022). The GEF Monitoring Report 2022
119 GEF (2022). Working Toward a Green Global Recovery
120 This statement was informed by stakeholder interviews, as IEO OPS7 data does not differentiate between executing agency type in provided ratings.
121 GEF (2022). Working Toward a Green Global Recovery

6.1.2 ADAPTATION FUND

ACCREDITATION

Accreditation to the AF is rigorous and follows best practices. Accreditation is currently limited to no more than two Implementing Entities per country. A number of multilateral implementing entities have been accredited and, in some cases, re-accredited without drawing on AF resources. This is unlikely to be a good use of resources both within the AF accreditation team and the entities.

While there is generally a positive view of engagement with the AF, there are three points that could be strengthened in the accreditation approach:

- Broadening access for NIEs.
- Enhancing the scale of support available to NIEs in the accreditation pipeline.
- Identifying NIEs for accreditation scope upgrading and preparation for GCF accreditation.

PROJECT APPROVAL

The general view is that AF project approval processes are efficient and effective. This is supported by the 2015 independent evaluation of the AF.[122]

The AF project approval process is seen as rigorous but supportive by NIEs, and appropriate to the size of projects and needs of the IEs. Support is available in multiple languages, and the AF Secretariat engages constructively with the IEs during the project review process. A rolling project approval process was introduced to accelerate approvals, remove bottlenecks, and pressure on both the Secretariat and the IEs.

There is a USD 14 million ceiling on regional allocations outside country limits, which restricts the potential size of regional projects.

DISBURSEMENTS

The AF has a ratio of approvals to fund size of 69%, a ratio of disbursements to approvals of 65%, and a ratio of disbursements to fund size of 45%.

6.1.3 CLIMATE INVESTMENT FUNDS

ACCREDITATION[123]

Access to CIF funding is made through an active MDB lending program in a country. In cases where MDBs are re-entering countries, this can prevent or delay access to CIF funding, as it would not be possible to use CIF support during the initial phase of planning for MDB investments. The MDB Committee provides an opportunity for AEs to coordinate and share knowledge and experiences.

PROJECT APPROVAL

CIF project approvals are based on country-/sector-level investment plans. These plans provide a medium-term roadmap for investments that, taken together, can achieve transformative change in a specific sector and location (e.g., renewable energy in Kazakhstan).[124] The disadvantage can be that these plans lock up substantial funding with no short-term disbursement prospect.[125]

Specific project approval is undertaken on a rolling basis, for projects included in an investment plan. This is an efficient process that is aligned with MDB operating practices. Documentation requirements are also relatively light compared to the GCF, due to reliance on

122 AF (2015). Independent Evaluation of the Adaptation Fund First Phase Evaluation Report
123 Country eligibility as no accreditation is possible with CIFs.
124 CIF (2020). Sparking a Clean Energy Revolution
125 CIF (no date). Evaluation of the Climate Investment Funds' Programmatic Approach

MDB systems and processes, which precludes second-level due diligence.

DISBURSEMENT

CIF disbursements have varied over the years with a current disbursement rate of 69%. While approval for countries and MDBs can be quick, CIF disbursements depend on the speed of MDB approval and disbursements.. There has been substantial action to speed up disbursements through cancellation and recovery of funds, with varying success.

6.1.4 GREEN CLIMATE FUND

ACCREDITATION

The GCF faces the following challenges related to accreditation:.

Accreditation requirements are insufficiently differentiated. While accreditation scopes differ, accreditation requirements are insufficiently differentiated by entity type, characteristics (e.g., for private sector entities), and capacity (e.g., for DAEs). There is also a lack of clear performance benchmarks for reaccreditation.[126]

Low time and cost-efficiency of the accreditation process. Despite efforts to address operational issues during GCF-1, the accreditation process is protracted, costly, and insufficiently transparent.[127] As shown in Table 6.1, as of 31 December 2023, an average of 25 months elapsed between application submission and Board approval. Fast-track accreditation, used by 48 AEs already accredited to the GEF, the AF, and EU DEVCO, has partly mitigated this challenge.[128]

Low time and cost efficiency is due to the complexity of information requested, process duplications within the GCF Secretariat, lengthy Accreditation Panel reviews, the required adoption of new policies and standards by AEs, high transaction costs, unclear decision-making, and lengthy communications with the GCF. An additional factor is the growing pipeline of accreditation and reaccreditation applications, which the Secretariat is struggling to process. These challenges—which particularly affect DAEs due to their more limited capacities—have led some AEs to reduce or plan to change their mode of engagement with the GCF. Furthermore, the lengthy accreditation process is unattractive to most private entities.[130] According to the Independent Evaluation Unit's (IEU) Synthesis on Access in the GCF, these challenges are a consequence of the "mission overload" of the accreditation function, leading to a culture driven by processes and compliance.[131]

Accreditation is not always driven by demand and value addition. As of March 2024, 100 of 120 AEs had their legal agreements effective,

Table 6.1: Duration of the GCF accreditation process (months)

	Average	Fast track	Normal track
DAEs	26.9	15.2	30.6
IAEs	21.8	16.6	27.4
Private sector entities (DAEs and IAEs)	31.7	Not applicable	31.7

126 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
127 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
128 GCF (2024). Consideration of accreditation proposals (GCF/B.38/03).
129 GCF (2024). Consideration of accreditation proposals (GCF/B.38/03).
130 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
131 GCF IEU (2024). IEU Synthesis on Access in the GCF.

and 57 had one or more approved projects (27 IAEs, 10 rDAEs, and 20 nDAEs).[132] The GCF's supply-driven approach to accreditation and the relatively low capacities of some DAEs have led to misalignments between countries' accreditation and programming decisions, resulting in difficulties in increasing the finance channeled through DAEs for adaptation projects and for large and medium-scale private sector operations, and those covering equity and guarantee instruments.[133]

Project portfolio concentration. The approved project portfolio remains skewed toward IAEs and a relatively small number of DAEs. IAEs dominated the GCF project portfolio with 187 approved projects, equivalent to USD 10.8 billion in GCF financing; nDAEs followed with 32 approved projects (USD 1.1 billion), while rDAEs totaled 25 approved projects (USD 165 million). The IAE portfolio was dominated by UNDP, the World Bank, EBRD, and the ADB, which accounted for 42% of approved financing. Similarly, four entities, three of which are located in Asia and the Pacific, accounted for 55% of approved financing in the nDAE portfolio,[134] and 90% of approved funding in the rDAE portfolio was concentrated by four entities, two in Latin America and the Caribbean, and two in Africa.[135], [136]

The factors found to be most significant for achieving project approval are: (i) access to readiness and preparation funds through the Readiness and Preparatory Support Program (RPSP) and the PPF; (ii) previous project development and implementation experience; and (iii) medium-to-large AE size. Additional enabling factors for DAEs include prior engagement with the GCF as Executing Entities or RPSP Delivery Partners, country interest in accessing climate finance, and the capacities of the National Designated Authority (NDA).[137]

Barriers to direct access. Direct access is growing but remains limited as countries struggle to identify potential DAEs, which struggle with accreditation and project approval. While DAE capacity remains a major constraint for increased direct access, the expectation that IAEs will build the capacities of DAEs without associated resources or incentives was not realized and capacity support provided through the RPSP and the PPF have yet to show results at scale.[138]

By July 2023, 40 RPSP grants had supported direct access applicants with training, capacity development, or systems improvements. At least 59 national entities had entered the accreditation pipeline with RPSP support, but only 20 had secured accreditation. It should also be noted that less than 12% of accredited DAEs, or DAEs at Stage I or II of accreditation, have received RPSP support, even where eligible.[139] However, the revised RPSP for 2024-2027 will give DAE applicants access to up to USD 1 million over four years to close gaps and meet the GCF accreditation standards (e.g., to clear any outstanding accreditation conditions before concluding a legal agreement with GCF, which is a pre-requisite for direct access to GCF funds).[140]

In addition, there are considerable bottlenecks to private sector accreditation and participation in funded activities.
As of December 2023, 31 of the 120 AEs (25.8%), including both DAEs and IAEs, were categorized as private sector entities.[141] By

132 GCF Open Data Library (04 March 2024); Sign-in required.
133 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
134 Infrastructure Development Company Limited (Bangladesh), National Bank for Agriculture and Rural Development (India), Korea Development Bank, and CRBD Bank (Tanzania).
135 Central American Bank for Economic Integration, Development Bank of Southern Africa, Andean Development Corporation (CAF), and West African Development Bank (BOAD).
136 GCF Open Data Library (04 March 2024).
137 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
138 GCF IEU (2023). Second Performance Review of the Green Climate Fund Final Report (GCF/B.35/07).
139 GCF IEU (2023). Independent Evaluation of the GCF's Readiness and Preparatory Support Programme: Final Report, Vol. I.
140 GCF (2023). Readiness and Preparatory Support Programme: revised strategy 2024-2027 (GCF/B.37/17).
141 GCF (2024). Consideration of accreditation proposals (GCF/B.38/03).

June 2022, only 35% of private sector AEs had any approved funding activities (most of them IAEs), corresponding to 28% of approved private financing, most of which was equity financing.[142] This is partly explained by widespread challenges to compliance with the GCF Environmental and Social Policy and delays in signing Accreditation Master Agreements, which provide legal confirmation of accreditation decisions, with international commercial banks.[143]

While private sector AEs with approved funding activities are mostly IAEs, XacBank's experience in Mongolia provides an example of the role that the GCF can play in supporting the development of climate-friendly investments of a local commercial bank.[144]

To address these challenges, the Updated Strategic Plan for 2024-2027[145] establishes a target of doubling the number of DAEs with approved GCF funding proposals by strengthening their capacities, increasing the predictability of GCF programming, and clarifying communications to ease the funding and investment process. This plan also identifies the following operational and institutional priorities in relation to accreditation:

- **Predictability:** Ensure predictable and appropriate timeframes for accreditation.
- **Speed:** Reduce median times to process accreditation during GCF-2 relative to GCF-1.
- **Simplicity:** Reach full-scale implementation of the PSAA, further simplify accreditation and reaccreditation, and remove any duplication across accreditation and investment processes.
- **Partnerships and direct access:** Actively manage accreditation, reaccreditation, and PSAA pipelines through the lens of AE value addition; continue to increase the share of DAEs in the AE network and their role in GCF programming; encourage and facilitate cooperation and learning between IAEs and DAEs, as well as DAE peer learning.

In addition, one of the plan's targeted actions is to inform reaccreditation decisions by examining AEs' performance in contributing to GCF programming results.

Along the same lines, one of the tenets of the "50by30 vision" presented by the GCF Executive Director (ED) in September 2023 is to reinvent the partnership model, including the accreditation process.[146]

Ongoing work in this context includes the following:

- In July 2024, the GCF Secretariat submitted to the Board a draft Partnership and Access Strategy that outlines four pathways to enhancing access through a partnership approach.[147] Reformulating accreditation as a screening of prospective new partners against minimum requirements (followed by a separate assessment of programming fit based on country and GCF priorities) and stronger monitoring instead of reaccreditation are among the proposed actions.
- The GCF Board requested the Secretariat to present a revised accreditation framework at the final Board meeting of 2024 and extended the accreditation term of all AEs.[148]
- The PSAA is currently in its pilot phase (April 2023 – March 2026) and seeks to accelerate access to GCF resources and reduce

142 Reyes, O. and Schalatek, D. (2022). Green Climate Fund: Private Sector Finance in Focus. Briefing 3: Accreditation. Heinrich Böll Stiftung.
143 Ibid.
144 Ibid.
145 GCF (2023). Strategic Plan for the Green Climate Fund 2024–2027 (adopted at B.36).
146 GCF (2023). Executive Director unveils "50by30" blueprint for reform, targeting USD 50 billion by 2030
147 GCF (2024). Partnerships and Access Strategy (GCF/B.39/18/Rev.01)
148 GCF (2024). Consideration of accreditation proposals (GCF/B.38/03).

transaction costs by accrediting entities to implement specific projects.[149] However, the GCF IEU's Synthesis on Access in the GCF notes that "the PSAA is not expected to address the lengthy and cumbersome accreditation process", but rather will provide opportunities to "explore cooperation beyond the 'traditional' route of institutional accreditation followed by funding proposal development."[150]

- The GCF Secretariat is assessing options to enable AEs to apply their own systems and policies during accreditation and throughout the project cycle, and to enable interested IAEs to play the role of Executing Entities in DAE-led funding proposals.[151]
- The accreditation process is also expected to benefit from the "Efficient GCF Initiative", which seeks to streamline processes and organizational design.[152]

PROJECT APPROVAL

Project origination may be guided by Country Programs and Entity Work Programs, but this is not mandatory. The GCF Secretariat supports countries in developing Country Programs through the RPSP and is integrating alignment with these in its review process. The main requirement for a project to be brought to the Board by an AE is a no-objection letter from the NDA, with each country free to establish its process to deliver this letter.[153]

Current challenges to access at this stage include:

- **Weak country programming:** This structure does not enable countries and AEs to jointly determine programming priorities.
- **Project origination and preparation is essentially led by AEs.** While NDAs may submit concept notes to the GCF, only AEs can bring projects for approval to the Board. This results in many "orphan" concept notes, when no AE is found to champion a concept note. On the other hand, AEs may develop projects independently from NDAs.
- **Multi-country projects are not included in country programming.** While countries are encouraged to include up to five (national) projects in their national programming, global projects are not included, and their number is unlimited, which contributes to the portfolio concentration in the hands of IAEs.
- There is **limited in-country capacity (including within the NDA) to develop GCF concept notes.** The RPSP has been supporting this, but between August 2020 and July 2023, only 2% of approved funding proposals had been developed with RPSP support. Barriers include the inability of concept notes and funding proposals to meet GCF requirements and the inability to continue engaging consultants throughout the review process to help address Secretariat comments.[154]
- The **evidence threshold is difficult to meet.** Requirements for funding proposals are complex and require strong evidence, which is an asset in delivering high-quality products but has proven difficult to meet when data is not available.

The **project review (appraisal)** process is complex, involving many Secretariat staff and several rounds of discussions between the Secretariat and the AE. In addition to appraisal criteria, the Secretariat review considers alignment with GCF portfolio targets. Funding

149 GCF (2022). Accreditation Framework (decision B.31/06).
150 GCF IEU (2024). IEU Synthesis on Access in the GCF.
151 GCF (2024). Consideration of accreditation proposals (GCF/B.38/03).
152 Interviews with GCF Secretariat staff.
153 GCF (2020) Programming Manual.
154 IEU (2023). Independent Evaluation of the GCF's Readiness and Preparatory Support Programme: Final report, p.52.

proposals are reviewed on a rolling basis and should be submitted at least 190 days before the targeted Board meeting for approval. [155] Once the GCF Secretariat endorses a project, it is submitted to the independent Technical Advisory Panel (iTAP) for assessment on whether to recommend it for Board approval.[156]

Challenges related to this process include:

- This **process is too long.** According to the Independent Evaluation UnitIEU, this process from funding proposal submission to Board approval takes 225 days for private sector projects and 240 days for public sector projects (median). [157]
- The **process is inefficient.** Despite improvements, "the project appraisal and approval cycle is widely perceived as bureaucratic, lengthy, inconsistent and non-transparent".[158] The Secretariat has published guidance to clarify expectations and manuals on the programming cycle and appraisal processes. Nonetheless, entities and countries complain about multiple rounds with large numbers of comments that are difficult to address, even for high-capacity IAEs. During GCF-1, AEs and NDAs noted that the process became "more rigid, repetitive, unpredictable and unwieldy, particularly in the concept note stage."[159]
- **Project review lacks transparency and predictability.** The Secretariat's management of concept notes and funding proposals is perceived as lacking transparency, as some proposals move faster than others based on the need to maintain alignment with the targets. This reduces the predictability of the process.
- **Review speed is increasing for projects submitted by IAEs, but less so for those submitted by DAEs.** This is likely due to improvements in IAE proposals, increased familiarity with the GCF, increased efficiency within the Secretariat, and differences in AE response times. It may also be linked to IAE's greater financial capacity to cover high project preparation costs.
- **Simplification efforts have not succeeded.** Processing times have tended to increase for the SAP, while those for the regular project approval process have decreased.
- **Inefficiencies disproportionately affect projects in the most vulnerable countries.** The overall process, from concept note submission to Board approval is the longest for LDCs (median of 688 days), followed by African States and SIDS (538 days), against 501 days for other eligible countries. [160]
- **Significant comments come at the end of the review process.** The iTAP review comes right before submission to the Board and often involves significant comments and requests for additional data. This generates unpredictability and is highly demanding for entities and countries. [161]
- The **absence of a programmatic approach hinders efforts to innovate with large-scale, stakeholder-driven approaches.** The GCF does not have an approved programmatic approach that would allow AEs (including DAEs) to present programs that are flexible in delivering support to sub-projects/initiatives according to local needs. Projects that intend to do so are required to provide the same level of detail as regular projects. For example, the Enhancing Direct Access (EDA) pilot

155 GCF (2020). Programming Manual
156 GCF (2022). Appraisal Guidance
157 IEU (2022). Report of the Synthesis Study: An IEU Deliverable Contributing to the Second Performance Review of the Green Climate Fund
158 IEU (2023). Second Performance Review of the Green Climate Fund (SPR). Evaluation report No. 13
159 IEU (2023). SPR, p.76.
160 IEU (2023). SPR, p.75.
161 IEU (2023). SPR, p.76.

attempted to provide DAEs with opportunities to move beyond financing individual projects to a more comprehensive and stakeholder-driven programmatic approach. However, the limited number of DAEs accredited for on-lending led to only two projects being selected, highlighting the misalignment between DAE accreditation and needs. The process also applied the usual criteria to EDA sub-projects, even though sub-projects were to be selected at a later stage.[162]

- **Process complexity, length, and unpredictability hinder private sector engagement**, as evidenced by the limited number of private sector AEs with active projects.

In December 2023, the GCF launched the "Efficient GCF Initiative" to address some of these challenges, including by providing a single point of contact throughout the project appraisal process and streamlining documentation for all new concept notes and funding proposals.[163] Interviews conducted in the context of this review suggest that challenges around Board effectiveness and efficiency affect not only the approval and application of policies but also the entire project cycle. While an analysis of Board governance was beyond the scope of this review, such an analysis wouldcould help the GCF better identify these challenges and possible solutions.

Projects that have submitted concept notes may request PPF support to develop funding proposals. The PPF was slow to take off after its launch in 2015. As of 27 May 2024, the GCF had approved 94 PPF requests supporting 52 entities for a total commitment of USD 57.1 million, of which USD 41.3 million had been disbursed.[164] Various adjustments have been made to improve the clarity and effectiveness of processes, including the development of guidelines. Despite this, the reach of the PPF is limited relative to existing needs. Barriers include a lack of awareness, as well as the perceived length and complexity of the process. Approval processes take longer for national DAEs compared to regional or international entities and take significantly longer for LDCs and SIDS than non-priority countries.[165] Although the Secretariat processes 100% of PPF proposals within its service standard of 21 days,[166] processing times have not decreased significantly since the Initial Resource Mobilization of the GCF.

DISBURSEMENTS

The disbursement phase at the GCF starts from project approval by the Board and extends until the end of project implementation. The steps following Board approval include the negotiations, execution, and effectiveness of Funded Activity Agreements (FAAs). The timeframe for FAA execution and FAA effectiveness is established by the Board when it approves a project (typically 180 days for execution and 90 additional days for effectiveness), but extensions are frequently required. Each stage involves a set of conditions that must be fulfilled before moving on to the next.[167]

The median time from Board approval to first disbursement has significantly decreased since during 2020-2023 compared to 2015-20182015for both public and private sector projects, especially the time between Board approval and FAA execution (i.e., FAA negotiations), reflecting efforts to this end by the Secretariat. This has included piloting a process through which FAA negotiations start before Board approval, which has allowed some

162 IEU (2021). Rapid assessment of the Request for Proposals modality
163 GCF (2023). Efficient GCF Initiative
164 IEU (2019). Forward-looking performance review of the GCF, p.110
165 IEU (2023). SPR, p.70.
166 GCF (2024). Report on the activities of the Secretariat (2023) (GCF/B.38/Inf.01)
167 GCF (2020). Programming Manual

projects to sign the FAA on the same day as Board approval. In 2021, the median time from approval to first disbursement was of nine months for public sector projects and 10 months for private sector projects. The process is longer for adaptation projects and for projects from DAEs. [168]

As of May 2024, only two projects out of 253 had been completed, reflecting the relative youth of the GCF portfolio. There were 221 projects under implementation, while 30 had been approved and were pending implementation. Among projects that had not yet obtained their first disbursement,these, 18 hadave been approved at the last two Board meetings (since October 2023), with the other 12 projects predating that.

The main reasons for delays in disbursement include:

- The need for an effective Accreditation Master Agreement. Seven projects approved have lapsed for this reason.
- Internal AE approval timelines.
- Unresolved commercial/technical issues including co-financing requirements.
- Language/translation issues.
- Policy ambiguities allowing for differing interpretations (including when an AE must follow GCF policies instead of their own).
- Retroactive application of new policies approved by the Board.
- Misaligned internal incentives within the Secretariat.
- Issues related to the COVID-19 pandemic.[169]

While in 2015, private sector projects went through these stages much faster than public sector projects (10 months vs. 27 months), that time had increased by one monthby 2021, and was longer than for public sector projects (9 months). Still, the process is longer for adaptation projects and for projects from DAEs.[170]

During project implementation, management processes have also generated some challenges including:

- **Inconsistent application of policies, due to policy gaps and overlaps**, leading to internal discussions and decisions being made on a case-by-case basis, which delays processes.
- A **lack of flexibility relative to policy requirements**, particularly for DAEs, which report that questions and suggestions seem to be driven by a failure or insufficient capacity to consider the local context and/or their capacity. Country stakeholders have reported perceived micro-management and strong risk aversion.
- **Partners report difficulties in making even minor changes to FAAs**, while disbursement processes are disconnected from project needs and concerns. This is particularly complex for multi-country projects, which must obtain no-objection letters from all NDAs.
- **Reporting requirements are insufficiently differentiated across the types of entities and projects.** Reporting relies heavily on the capacities of AEs, which are highly variable. The same risk management standards are applied regardless of project type, including programs.
- **Reporting places significant focus on fiduciary aspects**, but less on risk and results management. Annual Progress Reports are considered useful to report on progress, but less so to manage risk. The time lag between reporting and feedback makes it ineffective as a tool to manage implementation risks.

168 IEU (2023). SPR, p.81.
169 GCF (2022) Status of the GCF portfolio: Approved projects and fulfilment of conditions (GCF/B.35/Inf.11)
170 IEU (2023). SPR, p.81.

- **The adaptive management process is perceived as particularly stringent**, with a large number of situations "triggering" adaptive management and requiring Board approvals (such as a request for a second no-cost extension). The GCF approach does not enable projects to be managed according to best adaptive management practice, i.e., by actively enabling projects to consider and adjust to a changing context. The number of projects triggering adaptive management measures keeps increasing and requires increasing attention from the Secretariat.
- **Unexplained delays in disbursement of funds or clearance of reports** due to internal processes.
- **NDAs have a limited role following project approval.** While GCF policies include systematic sharing or Progress Reports with NDAs, interviews indicate this is not consistently implemented. While country ownership is not synonymous with NDA engagement, it is currently the authority that most represents this engagement.
- **Lack of country ownership for global/ multi-country initiatives.** Countries are often unfamiliar with these projects beyond the information received for the no-objection letter process and with processes to access these Funds. This leads to limited interest and capacity to take full advantage of approved GCF projects."[171]

6.2 ENHANCING INDIVIDUAL FUNDS' ACCESS AND EFFICIENCY RECOMMENDATIONS

The following recommendations are geared towards enhancing access to and increasing the efficiency of each VCEF, thus providing a solid base for the integration and harmonization proposals outlined in the previous sections. Recommendations to increase the efficiency and effectiveness of capacity building are intended as short-term measures to increase access, while a transition to a cross-fund readiness facility is proposed beyond that timeframe (see Section 5.4.1).

For each Fund and focus area, recommendations are grouped into four categories:

- Continue doing: Acknowledging what each Fund is doing well and should continue doing.
- Moving in the right direction: Acknowledging and encouraging ongoing efforts by the VCEFs to reform their policies, processes, and organizational structure to improve access and enhance their efficiency.
- Further improvement needed: Highlighting areas where the ongoing reform efforts should be stepped up.
- Key policy bottlenecks to be addressed: Highlighting policy changes that would be beneficial to enhance access and unlock efficiencies.

While these recommendations are tailored to each Fund, they have the shared purpose of:

- Facilitating accreditation, project approval, and disbursement, particularly for LDCs and SIDS, through a gradient approach that establishes differentiated requirements based on entity type, project size, and risk rating, and by allowing AEs to use their own processes insofar as they are aligned with Fund policies.
- Enhancing private sector engagement through accreditation or tailored partnership approaches. The GCF has a key role to play in this.
- Improving project approval processes by strengthening upstream support for pipeline development and by providing quick feedback at early stages.
- Tracking process efficiency against time benchmarks.

171 Based on interviews with countries. No data is currently available on disbursement rates for multi-country projects.

6.2.1 GLOBAL ENVIRONMENT FACILITY

ACCREDITATION

Continue doing	• GEF accreditation approach based on the value added and comparative advantage of each agency in addressing global needs under the six conventions served by the GEF.
Moving in the right direction	• Continue monitoring the strength of the GEF partnership along the five dimensions of geographic coverage, thematic coverage, effectiveness, efficiency, and engagement, with the aim of presenting an updated analysis in advance of the GEF-9 replenishment negotiations.172 • Remove barriers for the engagement of regional MDBs and national agencies (see Section 6.1.1).
Further improvement needed	• Expand direct access by **accrediting additional regional and national agencies, particularly in LDCs and SIDS**, and especially in the Pacific. • Expand the private sector portfolio by **accrediting private sector entities** or by developing tailored partnership models (e.g., dedicated investment platforms) with MDBs and other partners. • Further expand the portfolio dedicated to non-grant instruments.
Key policy bottlenecks to be addressed	• Allow agencies **greater flexibility in applying their own policies and procedures** to satisfy GEF policy requirements, evaluated on an equivalency basis, instead of requiring adoption of GEF policies and procedures. • In future accreditation processes, consider entity capacity for **effective engagement with indigenous peoples and local communities, as well as women and girls.**

PROJECT APPROVAL

Continue doing	• Deliver high-quality projects, with strong evidence base and upstream contributions from the Scientific and Technical Advisory Panel to influence good design practices. • Work jointly with agencies in proposing streamlining, harmonization, and other efficiency improvements. A summary of ongoing efforts by the GEF Secretariat and Agencies to improve the GEF project cycle was presented at the GEF's 66th Council meeting in February 2024. • Continue prioritizing grant instruments for LDCs and SIDS for the adaptation portfolio, while supporting innovation when possible (i.e. LDCF and SCCF) and ring-fencing resources for LDCs and SIDS (e.g. GBFF).
Moving in the right direction	• Consider opportunities for streamlining the project cycle, including through the *ad-hoc* working group of interested Council Members and Alternates equally representing donors and recipient countries, as requested by GEF Council at its 66th meeting (February 2024).
Further improvement needed	• **Increase the implementation of differentiated requirements reflecting project size and risk rating.** • Strengthen Knowledge Management platforms to more effectively extract lessons learned and good practices from past experience (e.g., through AI-enabled tools and GIS).
Key policy bottlenecks to be addressed	• Develop mechanisms for enhanced engagement with indigenous peoples and local communities in project origination. • Tackle agency concentration at project origination by enabling further engagement of regional MDBs (e.g., through country-level awareness raising and by ring-fencing resources).

172 Based on interviews with countries. No data is currently available on disbursement rates for multi-country projects.

DISBURSEMENT

Continue doing	• Adopt policy incentives for GEF Agencies to accelerate first disbursements. • Prioritize national execution arrangements (including government, CSOs, private sector, etc.) to build country ownership and capacity, while supporting the enhancement of country capacity for execution.
Moving in the right direction	• Revise policies to streamline the project cycle, such as incentivizing agencies to disburse faster after CEO Endorsement.
Further improvement needed	• **Strengthen monitoring and reporting** with the use of Information and Communication Technology, while making it agile, transparent, and timely (e.g. GEF Portal).
Key policy bottlenecks to be addressed	• Enable fund governance arrangements and resources to deliver capacity-building support to executing entities to enhance disbursement speed.

CAPACITY BUILDING

Continue doing	• Provide direct, demand-based support to countries for capacity building, programming, and participation in GEF governance bodies.
Moving in the right direction	• Improve timing of programming support at the beginning of the GEF cycle. • Increase emphasis on strengthening operational focal points, including through direct support. • Broaden stakeholder engagement through a range of in-person and remote activities. • Evaluate the new GEF Country Engagement Strategy in the context of the next Comprehensive Evaluation (OPS8).
Further improvement needed	• Carry out any improvements to the new GEF Country Engagement Strategy based on evaluation recommendations to strengthen its role in increasing access to the GEF.
Key policy bottlenecks to be addressed	• Consolidate capacity-building support currently spread across different windows: Country Engagement Strategy (corporate program), Enabling Activities, Capacity-building Initiative for Transparency, and NAP support through the LDCF and SCCF.

6.2.2 ADAPTATION FUND

ACCREDITATION

Continue doing	• Supporting AEs through proactive engagement.
Moving in the right direction	• Coordination with GCF on aligning accreditation requirements.
Further improvement needed	• Enable NIEs to move beyond two per country, with nominations of private sector NIEs and increased financial support for NIEs.

PROJECT APPROVAL

Continue doing	• The current approach is lauded by NIEs for responsiveness.
Moving in the right direction	• High level of responsiveness to the needs of NIEs.
Further improvement needed	• Consider **more flexibility with country/regional ceilings** including flexible allocation between these.

CAPACITY BUILDING

Continue doing	• Support for accreditation and project preparation.
Further improvement needed	• Higher funding volume for support in total and per approval.
Key bottlenecks to be addressed	• Focus on NIEs strengthened

6.2.3 CLIMATE INVESTMENT FUNDS

ACCREDITATION

Continue doing	• Relying on MDBs structures and processes for implementation.
Moving in the right direction	• Consideration of expansion of partners to other MDBs.
Further improvement needed	• Establishing a mechanism Consideration of how to work in **countries with no active MDB program.** • Allowing countries to nominate themselves rather than relying on MDBs to do so.
Key policy bottlenecks to be addressed	• The requirement for an active MDB program should be reconsidered.

PROJECT APPROVAL

Continue doing	• Operating in alignment with MDB policies and procedures. • Building country-owned approaches in direct partnership with Finance, Treasury and Planning Ministries and through inclusive stakeholder engagement – supported by their active role on CIF's governing bodies.
Moving in the right direction	• Broadening of program range in recent years.

DISBURSEMENT

Continue doing	• Systematic tracking of the status of approved projects against clear milestones.
Further improvement needed	• **More aggressive use of cancellation policy.** • Consider mechanisms that prevent investment plans locking up funding where the underlying projects are not fully developed.
Key policy bottlenecks to be addressed	• Cancellation approach for non-moving MDB projects and programs dependent on negotiation with MDB in partner framework.

CAPACITY BUILDING

Continue doing	• Capacity building integrated with investment plans and support for project preparation has delivered results. • Joint MDB missions can bring together multiple actors to identify in-country support needs to be addressed by TA.
Moving in the right direction	• The CIF-TAF is a valuable addition.

6.2.4 GREEN CLIMATE FUND

ACCREDITATION

Continue doing	• The GCF accreditation approach is "fit-for-purpose," i.e., it requests compliance with specific standards according to the project type and funding instrument used, and it emphasizes direct access and private sector engagement.
Moving in the right direction	• Look beyond accreditation to other partnership models. • Streamline the accreditation process to increase efficiency and predictability. • Scale up the PSAA if the pilot proves successful. • Strengthen readiness support to DAEs pre- and post-accreditation. • Explore other partnership models with the private sector.
Further improvement needed	• **Shift from a supply-driven to a demand-driven, value-added approach to direct access** to ensure that DAEs are well positioned to help countries finance their climate change priorities, particularly in relation with adaptation and private sector engagement. • Accelerate accreditation of national private sector entities, including through enhanced support from the Readiness Programme. • Seek a balance between *ex-ante* policy compliance checks at accreditation, *ex-ante* policy compliance checks at project approval, and *ex-post* policy compliance and performance checks through monitoring and audit to increase time efficiency at accreditation.
Key policy bottlenecks to be addressed	• Take the fit-for-purpose approach one step further by **simplifying accreditation requirements for DAEs focused on smaller-size, low-risk projects, especially those located in LDCs, SIDS, and African States.** • Eliminate reaccreditation unless an entity: (i) wants to shift to other project types and funding instruments; and (ii) has been inactive for a certain period of time (e.g., one replenishment cycle). • Diversify windows for direct access, especially for smaller-size projects that indigenous peoples and local communities can implement directly, building on the experience of mechanisms such as the GEF Small Grants Program and the CIF Dedicated Grant Mechanism. • Allow AEs greater flexibility in applying their own policies and procedures to satisfy GCF policy requirements, evaluated on an equivalency basis, instead of requiring adoption of GCF policies and procedures.

PROJECT APPROVAL

Continue doing	• Deliver high-quality projects, with strong evidence base and climate impact potential. • Develop guidelines, handbooks, and training to clarify expectations to project developers. • Establish and report on timelines for review processes. • Continue increasing the share of the portfolio targeting LDCs and SIDS and efforts to mobilize more private sector finance. • Increase the reach of the PPF.

Moving in the right direction	• Improve project appraisal times by:
	  • Increasing Secretariat capacity to process high volumes of projects.
	  • Reviewing internal appraisal processes to identify efficiency enhancement opportunities and improve predictability, including by designating single points of contact throughout the process.
	  • Separating project development support from project appraisal within the Secretariat.
	• Take into account country programs in appraisal processes.
	• Adopt the Partnerships and Access Strategy along with related policy and operational reforms.
	• Update the Readiness Strategy to increase focus on project pipeline development.
	• Increase the share of DAEs in the project portfolio.

Further improvement needed	• **Further decrease project processing times, especially to address private sector operational expectations.**
	• Enhance predictability on technical comments and on timelines.
	• Ensure entities, in particular DAEs, have the required capacities and support to meet the project approval requirements and effectively implement projects.
	    • Increase support through project preparation and approval.
	    • Continue enhancing support provided by Secretariat directly or through PPF and Readiness.

Key policy bottlenecks to be addressed	• **Significantly modify project appraisal processes to decrease processing time, increase predictability, increase transparency, and simplify throughout.**
	    • Improvements to the SAP should go beyond the use of simpler templates and consideration for higher risk taking, especially to improve access to LDCs and SIDS.
	    • Ensure policy requirements, especially on environmental and social standards, fiduciary standards and adaptation evidence base, are communicated and applied consistently by the Secretariat.
	    • Transparently communicate criteria for prioritizing projects to be considered at subsequent Board meetings.
	• Review the project approval process to increase predictability by delegating further authority to the Secretariat.
	    • Move Board approval to the concept note stage, based on iTAP's review and delegate final approval to the ED. iTAP's review would therefore come earlier in the process. This would also help with the alignment with the GEF, and the CIF project cycles, and contribute to facilitate the development of parallel or joint projects.
	    • Delegate approval of SAP projects to the ED.
	• **Adopt a programmatic approach policy that would (i) enable devolution of decision-making at the subnational level and the development of regional programs, which are particularly relevant for SIDS**; **and (ii)** facilitate the development of impactful **multi-country private sector initiatives.** This programmatic approach would also include a tailored no-objection process.
	• Develop tailored programming (with ring-fenced resources) and processes for SIDS and for fragile and conflict-affected states and communities, taking into account the specific constraints and needs related to their context, in particular with adapted budget structures that consider the high costs of working in such areas. This could include:
	    • A specific access window for SIDS that facilitates access to smaller entities or regional entities
	    • Tailored processes, risk assessments, implementation mechanisms and adequate budget allocations.

DISBURSEMENT

Continue doing	• Develop guidelines, manuals and training sessions. • Clarify roles and responsibilities for project monitoring. • Update policies to address policy gaps.
Moving in the right direction	• Decrease time between project approval and first disbursement by standardizing FAA templates and successfully piloting FAA negotiations during final stages of project approval, for signature on approval day and rapid disbursement. • Increase focus on results management, risk management, adaptive management and knowledge management. • Streamline monitoring processes through the implementation of the integrated results management framework (or its simplified version, as per the Partnership and Access Strategy). • Support capacity building of NDAs and DAEs on project implementation and oversight through the Readiness Programme.
Further improvement needed	• Further clarify role of Secretariat oversight to enable focus on management and project performance rather than fiduciary.

Key policy bottlenecks to be addressed	• **Move to a monitoring and reporting approach that enables projects to maximize their impact, through effective feedback loops and adaptive management, while simplifying and standardizing fiduciary controls.** This would involve:
	  ◦ Ensure consistent Secretariat communication over the application of policies
	  ◦ Simplify requirements in Annual Progress Reports to focus on risk management
	  ◦ Promote adaptive management within the project
	  ◦ Narrow down instances where Board involvement is required for project adjustments (e.g. only for deep restructuring) and empower the Secretariat to demonstrate flexibility on application of policies to account for local context.
	• Increase regional presence and responsibilities with regards to project monitoring and adaptive management, including to ensure effective involvement of NDAs in project monitoring processes.

CAPACITY BUILDING

Continue doing	• Support country capacity building through the Readiness Programme to enhance country ownership. • Provide multi-year funding that enables continuity in support and in capacity. • Support policy processes that are wider than the GCF (e.g., Long Term Strategies, NAP, NDC and country platform development). • Develop tools and guidelines to clarify expectations and delivering webinars.
Moving in the right direction	• Increase support for the development of country-led projects and programs through the Readiness Programme and ramping up deployment of the PPF. • Support capacity building for DAEs before, during and after accreditation. • Increase support for the enabling environment (beyond GCF-specific Readiness), such as building climate data and information management capacity, MRV and other mechanisms to support better country-level coordination of climate finance.
Further improvement needed	• Increase regional presence and capacity to support countries and DAEs throughout the project cycle. • Increase access of LDCs and SIDS to Readiness grants (both number and size of grants) and decrease time required to access them. • Help build capacity to coordinate Readiness support and build NDA institutional memory. This should include support to conduct needs assessment and strategic planning for DAE nomination. • Support country capacity to access already approved global projects.
Key policy bottlenecks to be addressed	• Strengthen the role of NDAs/focal points during project implementation to ensure country ownership is maintained throughout the project cycle.

ANNEX 1: VERTICAL CLIMATE AND ENVIRONMENTAL FUNDS OVERVIEW

A1.1 SUMMARY FEATURES

The four VCEFs covered by this review were established at different moments in time and with different purposes. Each one has its own mission, with that of the AF being the most specific with its sole focus on climate change adaptation. At the other end of the spectrum, the GEF addresses a range of global environmental challenges serving as operating entity of six conventions, including the UNFCCC, and the Paris Agreement. The GCF also serves as an operating entity to the Financial Mechanism of the UNFCCC and the Paris Agreement while the AF serves the Kyoto Protocol and the Paris Agreement directly. The CIF, while strictly not serving the UNFCCC or the Paris Agreement, has signed a Memorandum of Understanding (MoU) with the UNFCCC and the UNFCCC Secretariat (including under the Paris Agreement) to establish a partnership with a framework for cooperation.[173]

The GEF and the CIF are not funds *per se*, but facilities that manage more than one fund. The GEF manages the GEF Trust Fund (GEF TF), as well as the SCCF, the Least Developed Countries Fund (LDCF) and the newly established Global Biodiversity Framework Fund (GBFF). The CIF comprises the CTF and the Strategic Climate Fund (SCF).

The AF, GEF, and GCF work through Secretariats, which help to select the projects to which they award funds but do not implement them directly. This means that they do not design, implement or monitor project directly, as MDBs do. These Secretariats do not have physical presence in countries and some VCEFs do not have a legal personality (see Table A1.1). This structure affects how VCEFs engage with countries and ensure access and country ownership.

The VCEFs have established different processes to channel funds through Implementing Entities. CIF funds are channeled through six established MDBs, and the GEF has 18 agencies, which have not changed since 2013. The AF and the GCF have a growing number of entities that obtain accreditation, including international, regional and national organizations. Regional and national organizations that are accredited can also provide direct access to countries, such as the Development Bank of South Africa in southern sub-Saharan Africa.

The GEF manages bilateral relations with countries through focal points and the GCF and AF manage them through NDAs[174] An analysis of 141 focal points and NDAs of the GEF, GCF, and AF shows that in 38% of cases the focal points and NDAs are located within the same ministry/agency while in 4% of cases the position of focal point/NDA is held by the same person for all three Funds.[175] Most overlap occurs between the GEF and AF (60%) and GEF and GCF (57%) in terms of ministry or agency, while the overlap is larger between GEF and GCF (23%) compared to GEF and AF (13%) when looking at the person holding the position of focal point and NDA.[176]

173 The MoU is valid between 2023 – 2027.

174 Focal points and NDAs serve as interfaces between countries and the VCEFs and therefore have an important role in communicating on country priorities.

175 Overlap between focal points/NDAs by both ministry/agency or in person is considered to be beneficial for coherence and coordination.

176 GCF and AF share in 50% of the analyzed cases a ministry/agency for their NDAs and in 9% of the cases the position is held by the same person.

VCEFs have different approaches to engaging with the private sector in terms of strategic targets, dedicated funding windows, accreditation for access, and support to project development. Only the GCF has directly accredited private sector entities.

Key observations related to Table A1.1 below include:

- The GEF serves six different international conventions[177] and therefore has an explicit mandate to work synergistically across different sectors and themes. Its work program is grant-dominated and focused on the upstream enabling environment (CIF & GCF, 2020). More recently, arrangements were made for a new trust fund, within the GEF, to support and channel biodiversity finance under the Kunming-Montreal Global Biodiversity Framework. This fund, the GBFF, has commenced operations.
- The AF has developed a niche for supporting small-scale, locally-led adaptation based on direct access and country ownership. Its work program is largely grant based and supports enabling conditions and catalytic adaptation, including through building capacity, technological innovation, advancing proof of concept and enhancing learning and knowledge sharing.
- The CIF works exclusively through six MDBs[178] and has adopted a programmatic approach[179] tailored to a smaller number of mostly middle-income countries. With a greater range of financial instruments at their disposal, the CIF's work is more oriented towards investing at scale and building partnerships.
- The GCF has a mandate to invest equally across mitigation and adaptation, with an emphasis on scaling projects or programs through private sector engagement. Designed to be flexible in its use of financing instruments, its work program includes technology development and transfer, as well as reducing market barriers to MSMEs in developing countries (UNFCCC, 2018).

177 Climate Change (UNFCCC); Biological Diversity (CBD and BBNJ); Persistent Organic Pollutants (Stockholm Convention); Desertification (UNCCD); and Mercury (Minamata Convention).
178 ADB; AfDB; EBRD; IDB; WBG
179 Its programs are the Clean Technology Fund (CTF); Forest Investment Program (FIP): Pilot Program for Climate Resilience (PPCR); and Scaling Up Renewable Energy Program (SREP).

Table A1.1: Summary VCEF features

	Global Environment Facility	Adaptation Fund	Climate Investment Funds	Green Climate Fund
Est.	**1991**	**2001**	**2008**	**2010**
Mission	To support developing countries to prioritize environmental action that delivers global environmental benefits.	Helping developing countries build resilience and adapt to climate change.	To act as catalytic multilateral response to address climate challenge through MDBs, with focus on low-carbon, climate-resilient development	To foster paradigm shift towards low-emission, climate-resilient development pathways in developing countries.
Bodies served	CBD, BBNJ, UNFCCC , Paris Agreement, POPs, UNCCD, Minamata Convention on Mercury	Kyoto Protocol Paris Agreement	None (MoU signed with UNFCCC and UNFCCC Secretariat (Kyoto Protocol and Paris Agreement))	UNFCCC Paris Agreement
Legal entity	No	Yes	No	Yes
Thematic scope	Biological diversity, climate change, international waters, land degradation, chemicals and waste. LDCF and SCCF exclusively cover climate change adaptation.	Adaptation	Adaptation, Forestry, Mitigation	Adaptation, Mitigation
Programming targets	Global Environment Benefit Targets for GEF-8 (2022-2026) on climate: • GHG emissions mitigated: 1.85Gt CO2eq LDCF/SCCF 2022-2026 targets: • No targets established	Supporting particularly vulnerable countries in meeting the cost of adapting to climate change	Catalytic, innovative financing for low-carbon, climate resilient development	For GCF-2 (2024-2027): • Mitigation of 1.5 to 2.4 Gt CO2eq • Enhanced resilience of 570 to 900 million people
Countries Covered	IBRD and ODA-eligible countries [180] LDCF: LDCs	Non-Annex I (UNFCCC), developing countries Parties (Paris Agreement)	ODA-eligible countries (OECD) with at least one MDB lending program	Non-Annex I (UNFCCC), developing country Parties (Paris Agreement)
Implementing Entities	18 Agencies: 5 UN agencies, 7 MDBs, 3 international NGOs, 3 national government entities (Brazil, China, South Africa).	56 Implementing Entities compromising of 32 NIEs, 9 RIEs and 15 MIEs. Regional distribution of RIEs and NIEs: Africa: 34% APAC: 27% Eastern Europe: 2% LAC: 37%	6 Multilateral Implementing Entities (AfDB, ADB, EBRD, IADB, IFC, World Bank)	120 AEs, including 44 IAEs, 14 regional DAEs and 62 national DAEs
Readiness Programme	Country Engagement Strategy	Readiness Programme for Climate Finance	n/a	Readiness and Preparatory Support Program (RPSP)

180 Countries can be eligible for funding from the GEF in two ways: if they have acceded the conventions that the GEF serves and meet the eligibility criteria decided by the Conference of the Parties of each convention; or if they are eligible for World Bank financing or are a recipient of United Nations Development Programme (UNDP) technical assistance through its target for resource assignments.

	Global Environment Facility	Adaptation Fund	Climate Investment Funds	Green Climate Fund
Private sector	• 2020 Private Sector Engagement Strategy • GEF-8 Programming Directions includes measures to engage the private sector through the Integrated Programs; blended finance; and other entry points to the GEF portfolio • LDCF/SCCF Challenge Program for Adaptation Innovation is key entry point • None of the GEF Agencies are private sector organizations.	• Partnership between the AF and the United Nations Foundation • Enables donations from private sector and individuals • Innovation facility fosters MSMEs support	• Dedicated Private Sector Program is funding windows that provide risk-appropriate capital to finance high-impact, large-scale private sector projects. • The CIF works with MDBs to identify Dedicated Private Sector Program funding opportunities that can be deployed rapidly, efficiently, and in large enough volumes to move markets in low- and middle-income countries.	• Accreditation of private sector organizations • Private Sector Facility (PSF) • Portfolio target to increase share of funding to Private Sector Facility for 2024-2027 • Private sector observers to the Board
Key Performance Indicators	GEF-8 Results Measurement Framework has 2 tiers: • **Tier 1:** Project and Program Results: 10 Core Indicators and targets overing the 5 focal areas[181] • **Tier 2:** Operational Performance indicators (speed of operations, strong portfolio management and increase in co-financing)	AF Strategic Results Framework[182]: • 8 outcome areas with 11 target outputs • 2 Impact level results with 5 core impact indicators	The CIF has multiple reporting levels. • CIF Impact (across programs) • Program Results (across projects in portfolio) • Country-specific IP Results • Project Results • CTF: Three M&E levels (Program, Country, Project) with five core indicators • REI: Five M&E levels (CIF impact, Country Impact, Program Outcomes, Program Co-Benefits, Program Outputs) with nine core indicators + co-benefit reporting • ACT: Five M&E levels (CIF Impact, Country Impact, Program Outcomes, Program Co-Benefits, Program Outputs) with 11 core indicators and co-benefit reporting • NPC: Five M&E levels (CIF Impact, Country Impact, Program Outcomes, Program Co-Benefits, Program Outputs) with 9 core indicators and co-benefit reporting • PPCR: Three M&E levels (Program, Country, Project) with 15 indicators • SREP: Three M&E levels (Program, Country, Project) with four indicators and co-benefit reporting • FIP: Three M&E levels (Program, Country IP, Project) with seven indicators (called "reporting themes" in FIP) and two additional qualitative reporting areas.	The GCF-2 Portfolio Targets are: • **Readiness and preparatory support:** Secure predictable resourcing for readiness and preparatory activities associated with GCF programming. • **Mitigation and Adaptation:** 50/50 (over time), while seeking to meet or exceed portfolio-level mitigation and adaptation results as at the end of the first replenishment period. • **Adaptation:** Floor of at least 50% of adaptation allocation, while aiming to meet or exceed first replenishment period outcomes. The Board will aim for appropriate geographical balance. • **Private sector:** Increase in nominal terms the share of funding allocated through the Private Sector Facility compared to the first replenishment period. The Integrated Results Management Framework has 8 Core Indicators (4 on impact potential, 4 on enabling environment).

181 GEF (2023). GEF Core Indicators and Targets
182 AF (2019). Strategic Results Framework (Amended in March 2019)

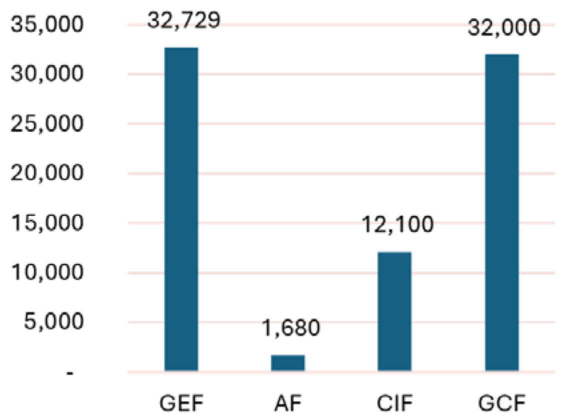
A 1.2 FUNDS FINANCIAL AND PORTFOLIO OVERVIEW

A1.2.1 FUND SIZE AND REPLENISHMENT

The cumulative size of each VCEF ranges from USD 1.6 billion for the AF to USD 32 billion each for the GEF and the GCF (Figure A1.1). On average, the VCEFs have had a total of USD 4.1 billion available to invest each year, with the GCF accounting for 56% of this, followed by the GEF (24%), the CIF (18%) and the AF (2%) (Figure A1.2).

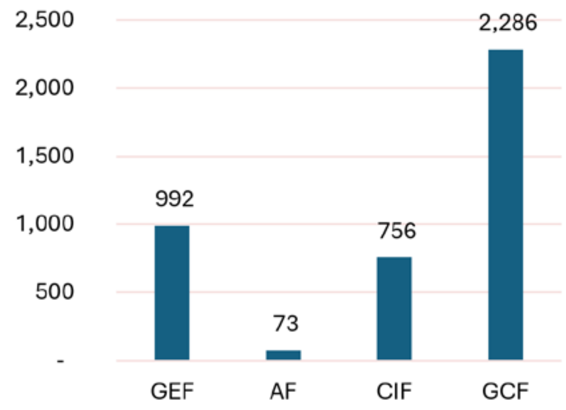
The GCF and GEF operate through replenishment cycles, the AF has an annual resource mobilization effort with an annual target set by its Board, and the CIF raises funding on an *ad-hoc* basis. The AF also has income from the sale of Certified Emission Reduction (CER) certificates allocated to it and owns a stock of Assigned Amount Unit (AAU) certificates that have not been monetized.[183] The CIF has pioneered the securitization of its portfolio through the CCMM, which is expected to be launched in 2024 to raise additional funding and enable additional approvals of up to USD 750 million per year for ten years.[184]

Figure A1.1: Total VCEF funding



(USD million, as of May 2024, excluding CERs/AAUs/CCCM)

Figure A1.2: Average annual funding since date of establishment



(USD million, not adjusted for inflation/PPP, as of May 2024)

These differences in fund sizes are reflected in terms of staffing levels and budgets, as presented in Table A1.2. Comparisons of budget and staff relative to average annual funding need however to take account of the roles and responsibilities of the Secretariat of each Fund, for example in preparing or reviewing projects.

183 AF (2008) Monetization of Certified Emissions Reductions for the Adaptation Fund (AFB/B.2/9)
184 CIF (2023). CIF Receives $568M Boost from US Treasury and Accelerates Efforts to Issue CIF Capital Markets Mechanism
185 Multiple sources (VCEF websites and annual budgets). Includes Secretariat and staff of independent units, but excludes Board/Council and independent experts. For the GEF, STAP Secretariat staff has been included, even if they are UNEP staf

Table A1.2: VCEF Staffing and administrative budgets

	GEF	AF	CIF	GCF
Staff (2023)[185]	99	29	29	311
Administrative budget (approved 2023)	USD 57.7m	USD 10.6m	USD 30.9m	USD 125.1m
Administrative budget (requested 2024)	USD 69m	USD 12.7m (approved)	USD 36.0m	USD 125.7m

A1.2.2 APPROVALS AND DISBURSEMENTS

Beyond large differences in absolute amounts of total funding (see Figure A1.1), the VCEFs also show differences in the ratio of approvals to total funding: the GEF, CIF, and AF have approved more than half of their total funding, respectively 74%, 68%, and 59% while the GCF has approved 43% of its total funding. The GEF was replenished in 2022, with LDCF and SCCF receiving significantly larger contributions than in previous years. The GCF was replenished in 2023, which largely explains the lower proportion of total funding committed.

The VCEFs disbursed USD 1.4 billion in 2022. The GEF has disbursed a high share of its approved funding (76%), while the AF and CIF have respectively disbursed 65% and 61% of their approved funding. The approved funding disbursement ratio of the GCF, the newest VCEF, is the lowest at 31%.

Figure A1.3: VCEF amounts approved and disbursed, USD bn186

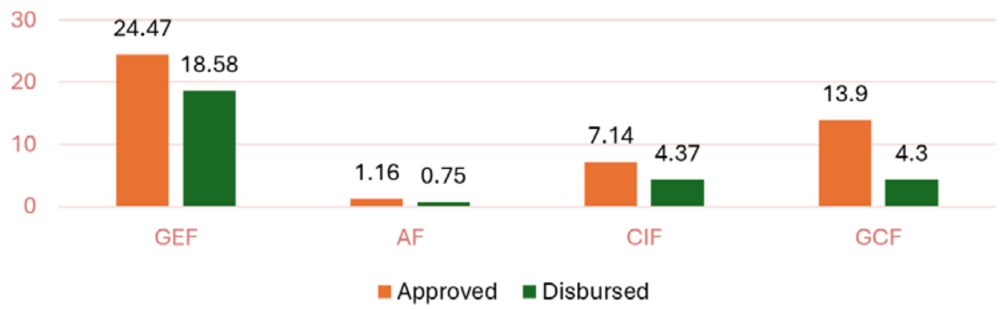


Table A1.3 presents an overview of the use of financial instruments by VCEFs, disbursement rates and average project sizes across a set of compositional parameters.

186 GCF Website (March 2024), Funding | GEF (thegef.org), AF website, CIF website

Table A1.3: VCEF portfolios

Indicators	GEF[187]	AF	CIF[188]	GCF
Share of instrument	Grant (98%) Other (2%)[189]	Grant 100%	Grant n/a Loan n/a Other n/a	Grant (42%)[190] Loan (40%) Equity (12%) Guarantees (3%) RBF (3%)
Approvals mitigation	/	n/a	CTF: USD5.032b SREP: USD544m FIP: USD580m	USD4.9b[191]
Approvals adaptation	/	USD1.1b	PPCR: USD980m	USD3.7b[192]
Aver disburse/ yr	USD556m	USD50m	USD312m	USD286m
Disbursements ratios				
Ratio disbursements/ approvals	76%	61%	55%	31%
Ratio disbursements/ approvals mitigation	/	n/a	56%	23%[193]
Ratio disbursements/ approvals adaptation	/	61%	88%	21%[194]
Disbursements/ approvals LDCs	/	66%	57%	17%[195]
Disbursements/ approvals SIDS	/	64%	64%	38%[196]
Project sizes				
Aver project size	USD5m	USD7.25m	USD15.7m[197]	USD55m
Average project size by financial instrument	/	Grant USD7.25m		*GCF combines instruments in the same projects.*
Average project size by type AE/IE	/	MIE: USD6.5m NIE: USD8.1m	MDBs: USD15.7m	nDAE: USD33m rDAE: USD64m IAE: USD58m
Average project size by type of country	/	SIDS: USD7.5m LDCs: USD7.5m	LDC: USD13.96m SIDS: USD6.62m	LDC: USD53m SIDS: USD51m
Average project size by region			Africa/MENA: USD24m APAC: USD18.4m ECA: USD9.6m Global: USD15.54m LAC USD7.65m	Global/Regional: USD108m Africa: USD35m Asia Pacific: USD41m Europe: USD16m LAC: USD44m

187 GEF TF, incl. SCCF and LDCF.
188 Unless otherwise indicated, CIF data pertains to public sector projects only.
189 GEF, Blended finance global program and non-grant instruments policy update, 2022.
190 GEF, Non-grant instruments, 2014.
191 USD 5.3 billion approved as cross-cutting funding is not taken into account here.
192 Ibid.
193 Data as of October 2021. At the time overall disbursement rate (vs approved funding was at 21%); GCF IEU, 2022, Independent evaluation of the relevance and effectiveness of the Green Climate Fund's investments in the Least Developed Countries.
194 Ibid.
195 Ibid
196 Ibid.
197 Including private sector

A1.2.3 INDIVIDUAL FUND PORTFOLIO OVERVIEW

A1.2.3.1 GLOBAL ENVIRONMENT FACILITY

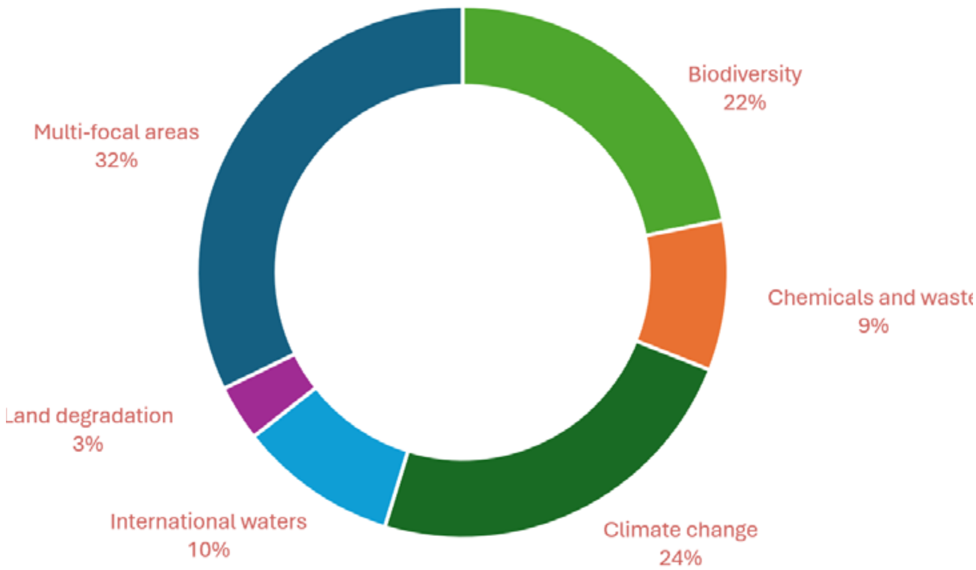
The GEF, established at the 1992 Rio Earth Summit, was the international entity originally entrusted with the operation of the Financial Mechanism. The GEF Trust Fund is a financial mechanism for several multilateral environmental agreements,[198] to which it contributes through five focal areas.

FUNDING SIZE AND MECHANISMS

The GEF provides funding through four modalities: (i) Full-sized Project (FSP) or projects more than USD 5 million; (ii) MSPs or projects of less than or equivalent to USD 5 million; (iii) Enabling Activity (EA), for the preparation of a plan, strategy, or report; and (iv) Programs, including Integrated Approaches, longer-term and strategic arrangement of individual yet interlinked projects that aim at achieving large-scale impacts on the global environment. Until February 2024, the ceiling for MSPs was USD 2 million. This ceiling was increased as part of the Council's decision to streamline the project cycle. [199] All portfolio data presented in this report considers MSPs with a ceiling of USD 2 million. Of the projects currently under implementation, 91% are FSP, 6% MSP and the remaining 3% are EA.[200] Looking at all approved GEF projects for the past three replenishment cycles (GEF-5, GEF-6 and GEF-7), more than half of the projects in terms of funding have been FSP, respectively 77%, 58% and 63%, while the share of MSP has varied between 5% and 9% and the share of EAs between 2% and 4%.[201] The rest of GEF projects during those cycles were part of the programmatic approach, varying from 12% (GEF-5) to 30% (GEF-6) and 28% (GEF-7).

THEMATIC COVERAGE

Figure A1.4: GEF total approved funding[202] per focal area



198 UNFCCC, UNCBD, UNCCD, Stockholm Convention on Persistent Organic Pollutants, Minamata Convention on Mercury.
199 GEF (2024). Streamlining the GEF Project Cycle. Data on portfolio still considers MSPs to be up to USD 2 million.
200 GEF portfolio of 'projects under implementation' (USD 5,1 billion); See GEF (2023). GEF Monitoring report 2023.
201 GEF IEO (2020). Seventh Comprehensive Evaluation of the GEF (OPS 7): Non-Grant Instruments
202 GEF Trustee report December 2023; The chemicals and waste focal area has evolved, covering only ozone-depleting substances (ODS) during the pilot phase until GEF-2. Persistent organic pollutants (POPs) were added between GEF-3 and GEF-5. In GEF-6, the chemicals and waste focal area was formally created to include ODS, POPs, and mercury.

Biodiversity and Climate Change account for almost half of GEF approvals. The Multi-Focal Area projects refer to investments from early GEF periods with no breakdown by contributing focal area.

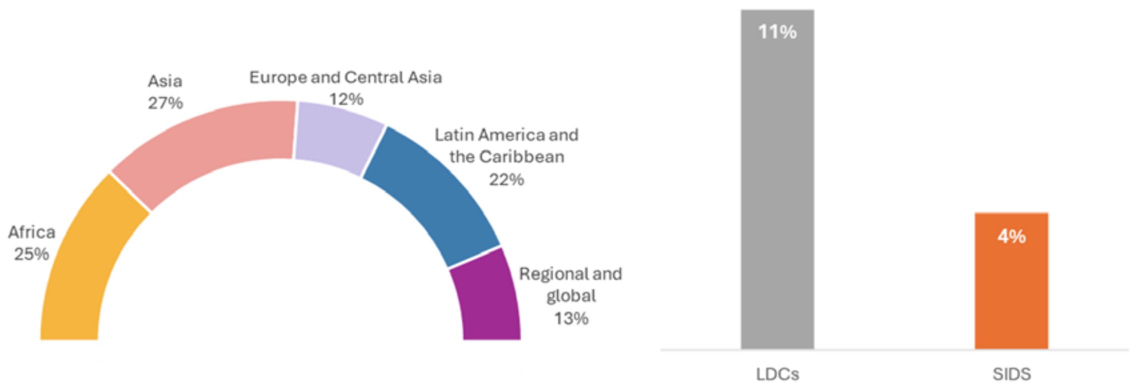
GEF-8 (2022-2026) allocations are: Biodiversity: USD 1,919 million (36%), Climate Change Mitigation: USD 852 million (16%), Land Degradation: USD 618 million (11.6%), Chemical and Waste: USD 800 million (15%), International Waters: USD 565 million (10.6%), Other (e.g. non-grant instruments, country engagement): USD 382 million (7.3%).

The composition by focal area of the GEF portfolio currently under implementation is: Biodiversity (29%), Climate change (26%), Land degradation (11%), International waters (10%), Chemicals and waste (9%) and a Multi-focal area of 15%.[203]

For the GEF completed portfolio, Biodiversity (35%) and Climate change (29%) are the largest focal areas.[204]

GEOGRAPHIC COVERAGE

Figure A1.5: GEF funding by region and country group[205] (cumulative to GEF-6)



- The regional composition of GEF-7 funding is: Asia (26%), Africa (24%), Latin America and the Caribbean (23%), Regional/global (21%) and Europe and Central Asia (7%). LDCs have a share of 16% in GEF-7's total funding and SIDS 6%.
- For funds invested in climate mitigation, Asia has been the predominant region (33%), with Africa receiving 22% and Latin America and the Caribbean 18%.[206]
- For biodiversity funds across most GEF replenishment periods, Africa, Asia, and Latin America and the Caribbean have each received 20-30%, while the Europe and Central Asia region has featured substantially less.[207]
- When looking at the GEF portfolio currently under implementation, the share of projects in LDCs and SIDS is currently at 21% and 11% respectively across regions.[208] The regional division for that

203 GEF (2023). GEF Monitoring Report 2023.
204 GEF (2021) Annual Performance Report 2021
205 Including utilized GEF fund from its pilot phase up to GEF-6; GEF IEO, see: GEF (2017) OPS6 Report: The GEF in the changing environmental finance landscape
206 GEF IEO (2022). Seventh Comprehensive Evaluation of the GEF: Working Toward a Greener Global Recovery
207 Ibid.
208 GEF Monitoring report 2023.

portfolio is Africa (28%), Asia (27%), Latin America and the Caribbean (23%), Global projects (14%), Europe and Central Asia (7%) and 1% for regional projects.

- GBFF target: 36%+3% to be allocated to LDCs and SIDS.
- In the GEF-5 cycle, respectively 9% and 8% of approved funds went to landlocked and fragile countries. By GEF-7, those shares increased to 11% for landlocked countries and 12% for fragile countries.

A1.2.3.2 ADAPTATION FUND

The AF was established in 2001 under the Kyoto Protocol. Originally, the purpose of AF was to finance concrete adaptation projects and programs in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. The Fund has its own legal personality and is domiciled in Germany.

The AF currently funds projects through a grant system. It is funded through a 2% share of proceeds from CERs under the Kyoto Protocol's Clean Development Mechanism, voluntary pledges from contributing governments, contributions from governments and private donors and direct donations from individuals and organizations.

Since 2019 the AF serves both the Kyoto Protocol and the Paris Agreement and will transition to exclusively serve the Paris Agreement once the share of proceeds under Article 6, paragraph 4, of the Paris Agreement becomes available (Decision 13/CMA.1). This will comprise:

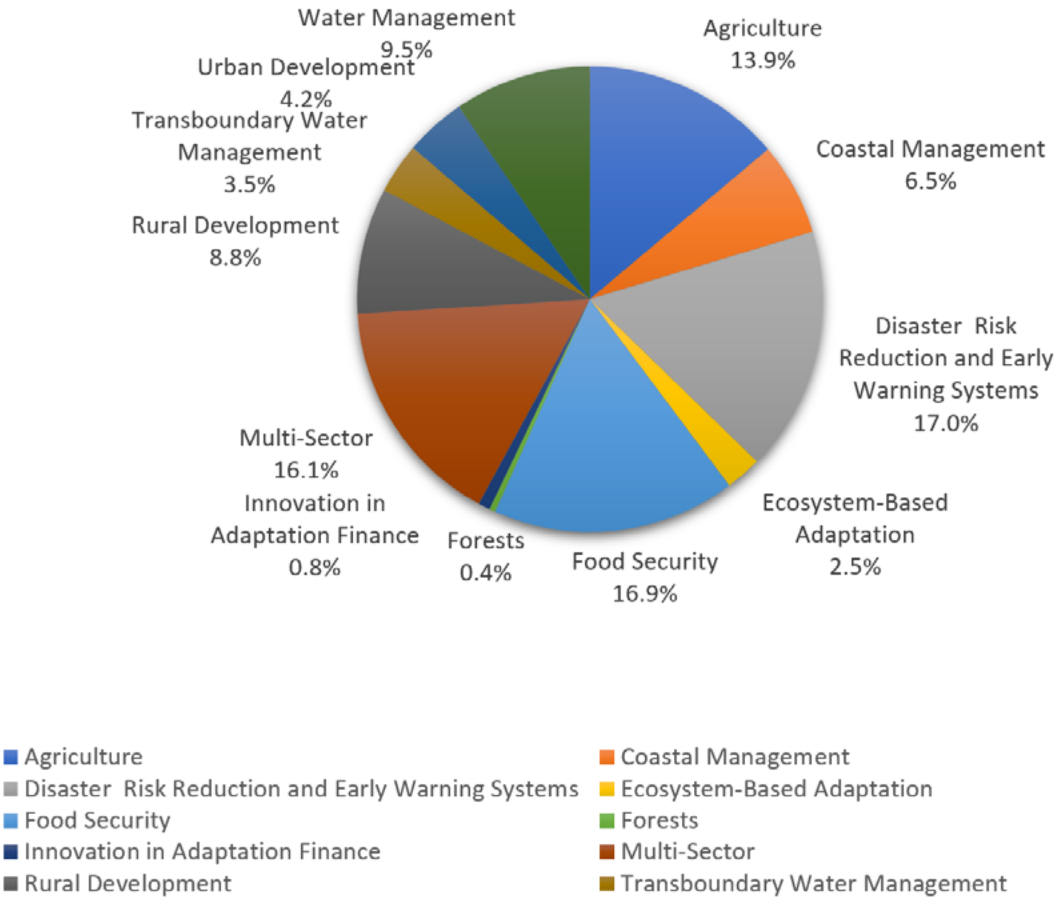
- A levy of 5% Article 6, paragraph 4, emission reduction (A6.4ERs) at issuance;
- A monetary contribution to be set by the Supervisory Body of the Article 6.4 mechanism related to the scale of the Article 6, paragraph 4 activity or to the number of A6.4ERs issued;
- A periodic monetary contribution from the remaining funds received from administrative expenses after the Article 6.4 mechanism becomes self-financing.

Only accredited institutions such as NIEs, Regional Implementing Entities (RIEs), and Multilateral Implementing Entities (MIEs) are eligible to access the Fund for projects and programs. Each country can access up to USD 20 million for single-country projects and programs. The single-country project ceiling is USD 10 million.[209] The Board has requested the secretariat to develop options for potential revision of these caps.

Additionally, a country can participate in one or more regional projects or programs, with a maximum of USD 14 million per project. Regional funding does not count against the country cap. Other funding opportunities, such as innovation grants, project scale-up grants, learning grants, and locally-led adaptation grants, also do not count against the country cap.

209 AF (2024). Governance

Figure A1.6: Share of AF approved funding per sector

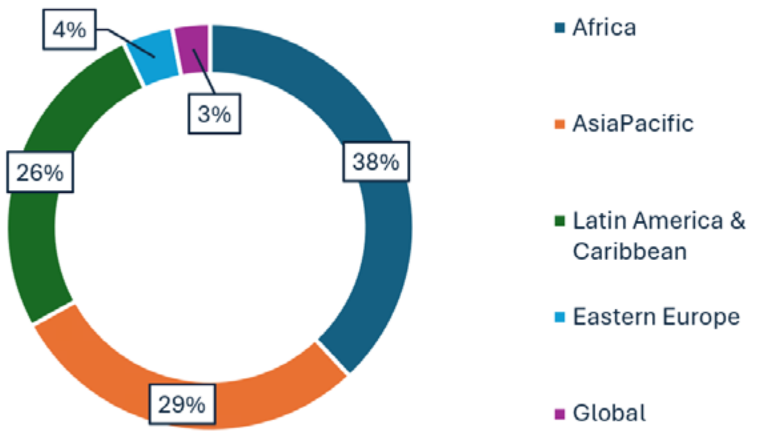


Non-Annex I countries under the UNFCCC are eligible to receive AF funds. The AF has accredited 56 Implementing Entities comprising of 32 NIEs, 9 RIEs, and 15 MIEs. Of the nine RIEs, 1 is in an LDC and 4 are in SIDS. Of the 32 NIEs, 8 are in LDCs, and 5 are in SIDS. Of the 15 MIEs, 5 are MDBs and the others are UN agencies.

Total fund size is USD 1.68 billion and 1.18 million AAUs (monetization potential is being explored), comprising USD1.46 billion in donor support and USD215 million in revenue from CER sales. The AF does not have a replenishment cycle, instead carries annual fundraising efforts, which have been allocated to the AF. The AF can receive donations from the private sector and individuals.

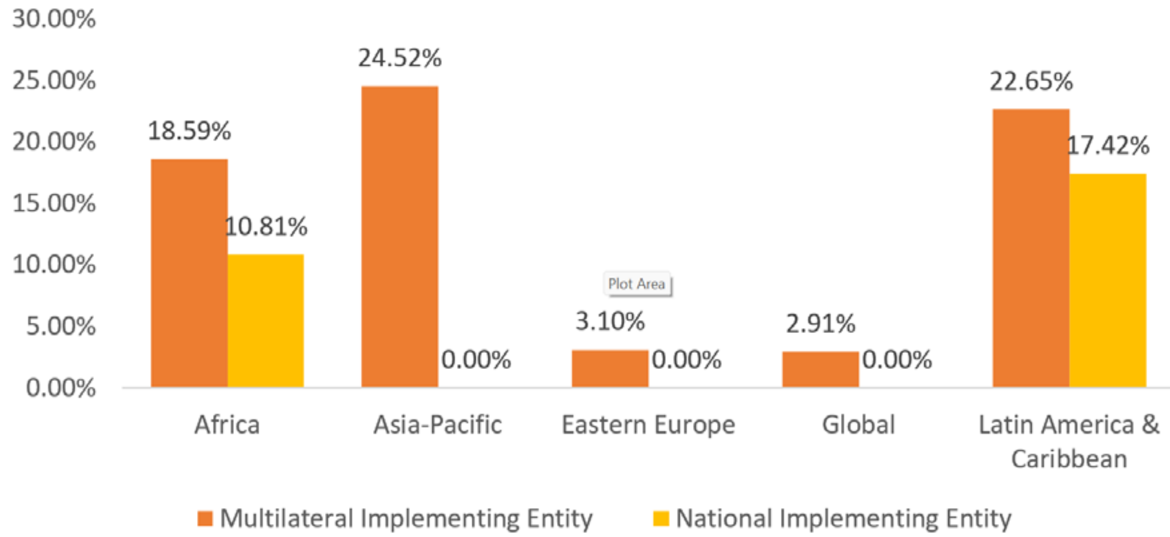
Most projects are focused on Disaster Risk Reduction and Early Warning Systems, with USD 206.3 million approved (17.0%), followed by Food Security with USD 205.6 million (16.9%), and Multi-Sector projects with USD 195.5 million (16.1%). Projects for SIDS account for 14.8% of funding and projects for LDCs account for 25.9% of funding.

Figure A1.7: AF-approved funding by region and country group



- The regional share of approved funding for MIEs was 18.6% in Africa, 24.5% in the Asia Pacific, 3.1% in Eastern Europe, 22.6% in Latin America and the Caribbean, and 2.9% was global.
- Funds for NIEs were in Africa (10.8% of approved funding) and Latin America and the Caribbean (17.4%).
- There are 21 approved RIE projects.

Figure A1.8: AF approved funding by accredited entity type and region



- Total approvals (as of March 2024[210]):
  - USD1,060 million for projects in the form of grants (no other financial instrument)
  - USD95 million (other – TA, administration)
- Total disbursements:
  - USD 665 million to IEs
  - USD 82 million other
- Technical assistance support is available:
  - Readiness grants are available to support accreditation
  - Project formulation grants support project development
- 175 project approved (up to 2024) of which (up to 2021) 27 in SIDS and 38 in LDCs
- AF Results (as of 2023)
  - 43 million beneficiaries (direct and indirect)
  - 636,000 ha of nature restored
  - 164 km coastline protected

A1.2.3.3 CLIMATE INVESTMENT FUNDS

The CIF, established in 2008, is not an instrument of the UNFCCC. It is implemented exclusively through six MDBs.[211] The CIF does not have its own legal persona and is hosted by the World Bank. It does not have a replenishment cycle and relies on its initial capitalization and subsequent *ad-hoc* fundraising efforts.

Funding Size and Mechanism. The CIF supports the MDBs as a system to develop a country-led programmatic model to accelerate and scale innovative climate technologies and solutions in developing countries. The CIF operate through two sub-funds, the CTF and the SCF, each having several programs under implementation with a thematic focus. The capitalization of the CTF reached USD 8.6 billion, and USD 2.6 billion for the SCF, making the CIF one of the largest climate funds. The CIF is pioneering the securitization of its portfolio, which is expected to generate additional climate finance. Reflecting MDB operations, the CIF includes a wide range of financial instruments. CIF has not used local currency financing at scale. CIF access is based on ODA eligibility and not on UNFCCC annex or other criteria.

Thematic coverage. The CTF provides large-scale financial resources for investing in clean technology projects in low- and middle-income countries. These contribute to the demonstration, deployment, and transfer of low-carbon technologies with significant potential for reducing long-term GHG emissions. The fund uses a blend of financial instruments, including grants, contingent grants, concessional loans, equity, and guarantees to make investing in low-carbon technologies more attractive to both public- and private investors in low- and middle-income countries.

210 Excluding April Board 2024
211 African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Finance Corporation, International Bank for Reconstruction and Development

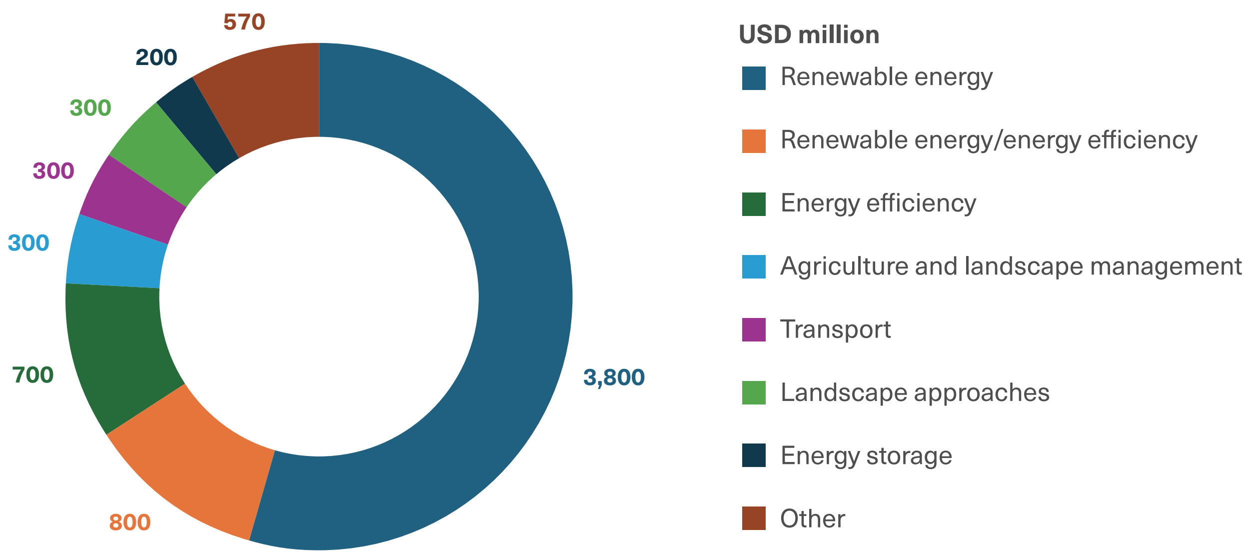
The CTF includes two dedicated thematic funding windows:

- The Accelerating Coal Transition Investment Program
- The Global Energy Storage Program (GESP)
- Multiple phases of the Dedicated Private Sector Program

The SCF provides financing for piloting innovative approaches or scaling up activities aimed at specific climate change challenges or sectoral responses. The SCF includes seven targeted programs:

- The Forest Investment Program (FIP) (USD 580 million)
- The Industry Decarbonization Program
- The Pilot Program for Climate Resilience (PPCR) (USD 980 million)
- The Renewable Energy Integration (REI) Program
- Scaling-Up Renewable Energy Program in Low-Income Countries (SREP) (USD 544 million)
- Nature, People, and Climate (NPC) Program
- The Smart Cities Program.[212]

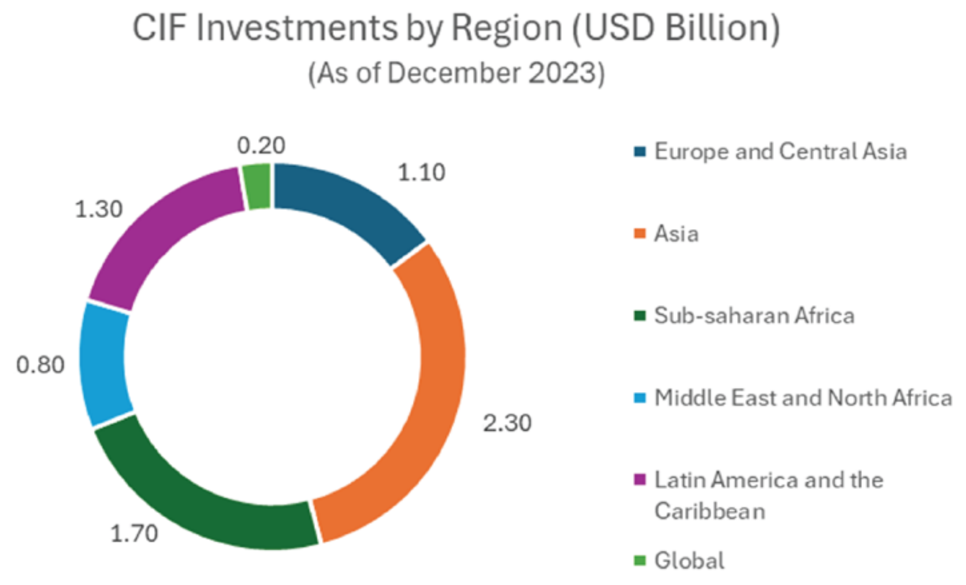
Figure A1.9: CIF investments sector composition



212 Evaluation of the Development Impacts from CIF's Investments (IEC, 2023)

The CIF have a Dedicated Private Sector Program as a funding window to provide risk-appropriate capital to finance high-impact, large-scale private sector projects. Under this window MDBs identify Dedicated Private Sector Program. funding opportunities that can be deployed rapidly and sufficiently at scale to move markets in low- and middle-income countries.

Figure A1.10: CIF investments regional composition



In total, the CIF have 451 projects approved, of which 73 are closed, 66 committee approved and 312 MDB approved. 44 of these are in LDCs and 37 in SIDS. By December 2022, this amounted to USD7.1 billion in approvals, out of which USD 4.4 billion had been disbursed by the MDBs.

A1.2.3.4 GREEN CLIMATE FUND

FUNDING SIZE AND MECHANISMS

The GCF currently funds projects through various modalities: (i) the project approval process for regular projects and programs; (ii) the SAP for projects under USD 25 million and with minimal to no environmental risks, in addition to (iii) the Readiness and Preparation Support Program and the PPF. The size of regular projects (under the project approval process) has no limit in theory, but size does depend on the accreditation of the accredited entity submitting the proposals, meaning that micro entities can submit projects up to USD 10 million, small entities up to USD 50 million and medium entities up to USD 250 million.

Large entities can go above the USD 250 million threshold. In terms of number of projects, most projects are of medium size (36%), followed by small projects (35%), large projects (18%) and micro projects (11%). Table A1.4 provides an overview in terms of approved funding.

213 GCF Open Data Library, as visited on 17 May 2024.

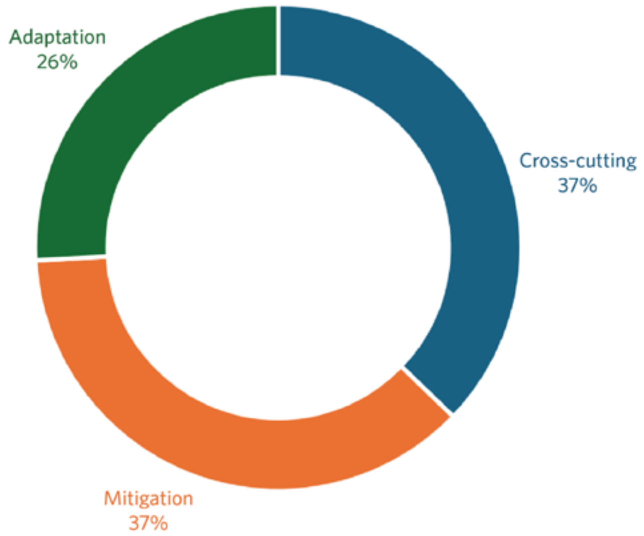
Thematic coverage. Mitigation projects include: Energy generation and access (USD 3,2 billion); Building, cities, industries and appliances (USD 1,7 billion); Forests and land use (USD 1,7 billion); and Transport (USD 1,1 billion). GCF has approved 67 mitigation projects, with an average size of USD 73.6 million.

Table A1.4: Share of GCF approved funding per funding modalities per theme[214]

	Adaptation	Crosscutting	Mitigation	Total
Micro	5%	1%	0%	2%
Small	29%	11%	8%	14%
Medium	23%	28%	35%	32%
Large	30%	59%	57%	50%
N/A	4%	1%	/	2%

Projects with an adaptation component invest in: Livelihoods of peoples and communities (USD 1,9 billion); Health, food and water security (USD 1,6 billion); Infrastructure and built environment (USD 1,6 billion); and Ecosystems and ecosystem services (USD 1,1 billion). GCF has approved 110 adaptation projects, with an average size of USD 33.4 million.

Figure A1.11: GCF approved funding resources by theme[214]



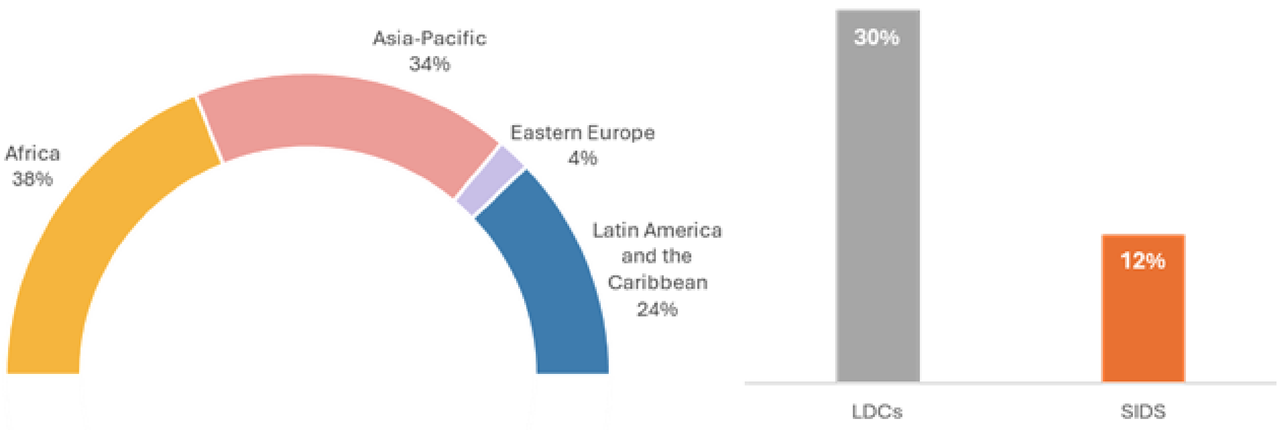
GCF has approved 76 crosscutting projects with an average size of USD 69.8 million. The public/private sector ratio is 64%/36%.

Geographic coverage. Climate change adaptation finance has been concentrated in Africa (44%) and the Asia Pacific (37%) with the remainder in Latin America and the Caribbean (18%) and Eastern Europe (1%).[215] Climate change mitigation funds have predominantly been allocated to the Asia

214 GCF website – Portfolio dashboard (17 May17, 2024)
215 GCF Open Data Library, as visited on 17 May 2024.

Pacific (39%) and Africa (32%) with Latin America and the Caribbean and Eastern Europe accounting for 26% and 3%, respectively.[216] Some 40% of crosscutting funds have been allocated to Africa with another 28% in the Asia Pacific, 26% in Latin America and the Caribbean, and 5% in Eastern Europe.[217] The GCF has 45 approved projects in LDCs, amounting to USD 4.1 billion and 40 approved projects in SIDS amounting to USD 1.6 billion.[218]

Figure A1.12: GCF approved funding by region and country group[220]

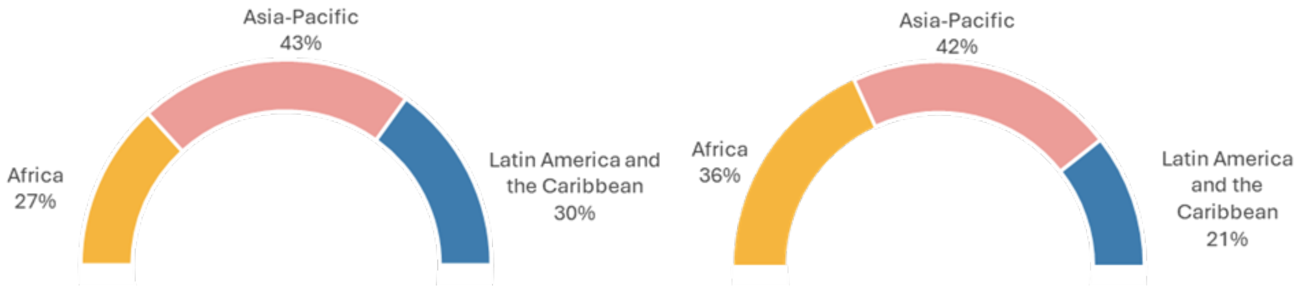


Direct access portfolio. The GCF currently has 48 IAEs and 83 DAEs. 80% of the GCFs approved funding was allocated to IAEs and 20% to the DAEs. The 83 DAEs can be divided into two subgroups, being national DAEs (68) and regional DAEs (15). Of the 83 DAEs, 16 are based in LDCs and 13 are based in SIDS. Out of the 83 DAEs, 33 DAEs or 40% (23 national, 10 regional) have received funding. For IAEs the rate of entities which received funding is higher (60%). In terms of funding approved to DAEs, 36% of the funding was allocated to Latin America and the Caribbean, 34% to Africa and 30% to the Asia Pacific region. Taking into account the number of DAEs which received funding, regional DAEs received on average more funding than national DAEs (USD 161 million vs USD 52 million) and DAEs in Latin America and the Caribbean received on average more funding than DAEs in Africa or the Asia Pacific (respectively, USD 142 million, USD 79 million and USD 61 million).[220]

Of the 33 DAEs that received funding, 9 are based in LDCs and 7 in SIDS accounting for 29% and 24% of financing approved to DAEs, respectively. Taking into account the number of DAEs which received funding, DAEs in SIDS received on average more funding (USD 94 million) than DAEs in LDCs (USD 88 million) while DAEs based neither in LDCs nor SIDS received the least funding on average (USD 79 million).

216 GCF Open Data Library, as visited on 17 May 2024.
217 GCF Open Data Library, as visited on 17 May 2024.
218 GCF Open Data Library and GCF website (6 May6, 2024).
219 GCF Open Data Library and GCF website (6 May6, 2024).
220 The differences between the regions are less pronounced when including IAEs that received funding: Africa (USD 137 million), Asia-Pacific (USD 142 million) and Latin America & the Caribbean (USD 142 million). As can be noted average funding per entity does not increase in Latin America and the Caribbean as there is no IAE in that region, while there are 3 in Africa and 5 in Asia-Pacific. For completeness it must also be noted that when including IAEs which received funding, two more regions are of importance, namely Europe (USD 324 million on average per entity) and North America (USD 495 million).

Figure A1.13: DAEs per region (left) and DAEs with approved projects per region (right)



A1.3 VCEF CAPACITY BUILDING

In the VCEF model, funds do not develop projects themselves, instead they are developed through a combination of efforts from entities and countries. Therefore, considering the importance of capacity building in terms of access, project approval, disbursements and overall effectiveness of the funds, this topic is covered in this section for each fund.

A1.3.1 GEF

For GEF-8, the GEF has rolled out the Country Engagement Strategy (CES) with the double purpose of enhancing the capacity of recipient countries to make informed and impactful strategic decisions on the use of GEF resources and sustaining the impact of GEF resources at the country level, towards globally relevant targets, outcomes, impact, and sustainability. To achieve its expected outcomes,[221] the CES has three interlinked components: (i) upstream programming support, which includes Technical and National Dialogues; (ii) the Country Support Program (active since 2010), which provides tailored capacity building and outreach activities, to improve inclusive collaboration at the country level, further increase country ownership and leadership by empowering focal points, and promote South-South knowledge sharing; and (iii) the Knowledge Exchange and Learning Strategy.[222] The CES is a corporate strategy administered and implemented by the GEF Secretariat, with a total allocation of USD 40.2 million for GEF-8.

The GEF also supports country capacity building and enabling environments to meet convention requirements through three funding windows:

- *Enabling Activities*: Under this modality, launched in 1995, GEF Agencies support country governments in the preparation of plans, strategies, or reports to fulfil commitments under the conventions served by the GEF. For GEF-8, this modality has an allocation of USD 145 million under the climate change mitigation focal area.[223]
- *Capacity-building Initiative for Transparency (CBIT)*: This initiative was established in 2016 to strengthen the institutional and technical capacities of developing countries to meet the enhanced

221 These are: enhanced country ownership and empowerment, improved strategic alignment of GEF priorities for higher overall impact, fulfilment of the GEF Visibility Policy, improved country portfolio development, improved national policy coherence, and increased coordination at the country level with other funds (GEF Secretariat, 2022a).
222 GEF (no date). Organization
223 GEF (2022). GEF-8 Replenishment Draft Summary Of Negotiations Annex 2: Resource allocation for the eighth replenishment of the GEF Trust Fund. In: GEF-8 Programming Directions. (GEF/R.8/18)

transparency requirements established in Article 13 of the Paris Agreement. For GEF-8, the CBIT has an allocation of USD 75 million under the climate change mitigation focal area.[224]

- *NAP support*: At its eighteenth session, the UNFCCC COP requested the GEF to meet the full cost of activities for the preparation of the NAP process in LDCs through the LDCF, and to support interested developing countries that are not LDCs through the SCCF.[225] Starting in GEF-7, the LDCF and the SCCF have focused on supporting NAP implementation to complement GCF support for NAP preparation through the RPSP, a division of work that is planned to continue in GEF-8.[226]

GEF Agencies may request a Project Preparation Grant (PPG) ranging between USD 50,000 and USD 300,000 for the preparation of a CEO Endorsement Request. The PPG grant size is determined by the size of the GEF investment, as per the GEF Guidelines on the Project and Program Cycle Policy[227]. The PPG is available for projects being developed for funding by the GEF TF, LDCF/SCCF, as well as the GBFF.

A1.3.2 AF

The AF Board has introduced small grants under its Readiness Programme to assist NIEs in providing peer support for accreditation and building capacity for climate finance readiness activities. Additionally, three new funding windows are available for accredited NIEs to access small grants for innovation, learning, and project scale-up. Proposals for these grants follow the regular review cycle of the AF. The AF only provides capacity-building support to NIEs.[228]

The **Readiness Package Grant** is available for accreditation of NIEs, up to a maximum of USD 150,000 per NIE. For this grant, the AF Designated Authority of an eligible developing country identifies an eligible accredited Implementing Entity (IE) of the Fund that can act as an intermediary to deliver support for accreditation through the Readiness Package Grant and initiates dialogue. Through continued dialogue and exchange, the country seeking NIE accreditation and the identified Intermediary jointly prepare a proposal for the Readiness Package Grant based on careful consideration of the requirements in the application form, an assessment of accreditation needs, gaps and required solutions to obtain accreditation with the Fund.

The **project formulation grants** (PFGs) are available to build the capacity of NIEs in project preparation and design. NIEs that are at the concept development stage of the Fund's project cycle process have the option to request a PFG up to a maximum of USD 50,000 per project together with their submission of the project concept to the Board. PFGs can support project formulation activities, including among others feasibility studies or consultations. The grants are meant to help NIEs tap into external (international or national) expertise in the form of short-term consultant assignments to undertake specific technical assessments such as an environmental impact assessment a vulnerability assessment, a risk assessment, a gender study, and other environmental and social assessments. It is expected that through these grants, NIEs will be able to capitalize on available external expertise to strengthen their capacity to undertake the necessary technical assessments

224 GEF (2022). Annex 2: Resource allocation for the eighth replenishment of the GEF Trust Fund. In: GEF-8 Programming Directions; GEF Project Database:
225 UNFCCC (2016). Decision 12/CP.18 (2012).
226 GEF (2022). GEF programming strategy on adaptation to climate change for the LDCF and the SCCF for the GEF-8 period of July 1, 2022, to June 30, 2026, and operational improvements (GEF/LDCF.SCCF/SM.03/01).
227 GEF (2018). Guidelines on the Project and Program Cycle Policy.
228 AF (no date). Call for Project Scale-up Grants

related to the design and development of adaptation projects and programs. Through this process, NIEs can also generate information in advance on the likely effects climate change will have on people and the environment and also information on the likely environmental, social as well as gender related effects of the project or program that should be avoided, remedied or minimized.

Project scale-up grants provide readiness funding to NIEs to support project/program planning, design and development for scaling up AF projects/programs currently under implementation. The overall goal of project scale-up grants is to increase the readiness of NIEs to expand or replicate quality projects that are based on country needs, views and priorities, in order to reach more people and/or broaden project/program effectiveness to help vulnerable communities in developing countries adapt to the adverse effects of climate change. It is expected that the implementation of project/program scale-up would then be funded by various sources, such as other climate funds but also by other finance channels (including private sector). Project scale-up grants are funded under the Readiness Programme for Climate Finance with NIEs able to use the grants to finance activities including, but not limited to: planning, assessment, capacity enhancement (individual, organization, and institutional) for designing and developing scaling-up pathways for project scale up; and public and private partnerships and collaborations to support project development for scale up. An accredited NIE can access a maximum of USD 100,000 in grants per project/program.

A1.3.3 CIF

The CIF offers two forms of technical assistance: (i) grant support for project development cost share and technical assistance and policy dialogue integrated within Investment Plans and projects; and (ii) its dedicated Technical Assistance Facility. Additionally, an amount of up to USD 1 million may be approved as an Investment Plan Preparation Grant based on the potential scope of activities submitted by the country for approval. Project-integrated technical assistance can be wide-ranging and is ultimately determined by the implementing MDB on the basis of its assessment of country/client needs. This can cover policy dialogue (e.g., renewable energy legislation), client technical assistance (e.g., energy audits), or technical assistance at the facility level to support MRV.

The **Technical Assistance Facility** (TAF)[229] aims to support and empower developing countries to create the enabling conditions for countries to accelerate investments and market development of clean energy in support of their low-carbon transformations. It helps mobilize resources and de-risks the sustainable energy sector by funding early-stage activities to create a strong foundation for renewable energy and energy efficient solutions. The TAF focuses on several areas including power generation, systems integration, and energy efficiency (in industry and buildings) in countries with the most significant mitigation potential. Non-lending activities are also supported, such as building technical and institutional capacities to help countries develop their climate-resilient pathways, alongside lending activities that invest in project preparation activities or project-specific assessments that are critical to getting clean energy projects off the ground, such as green jobs assessments, planning for just transitions, climate-risk vulnerability, adaptation and mitigation analyses. This is expected to incentivize long-term investors from the public and private sectors to invest in clean energy in developing regions. The scope of activities under the TAF includes developmental tasks such as strengthening a country’s regulatory and policy frameworks, building

229 CIF (no date). CIF Technical Assistance Facility

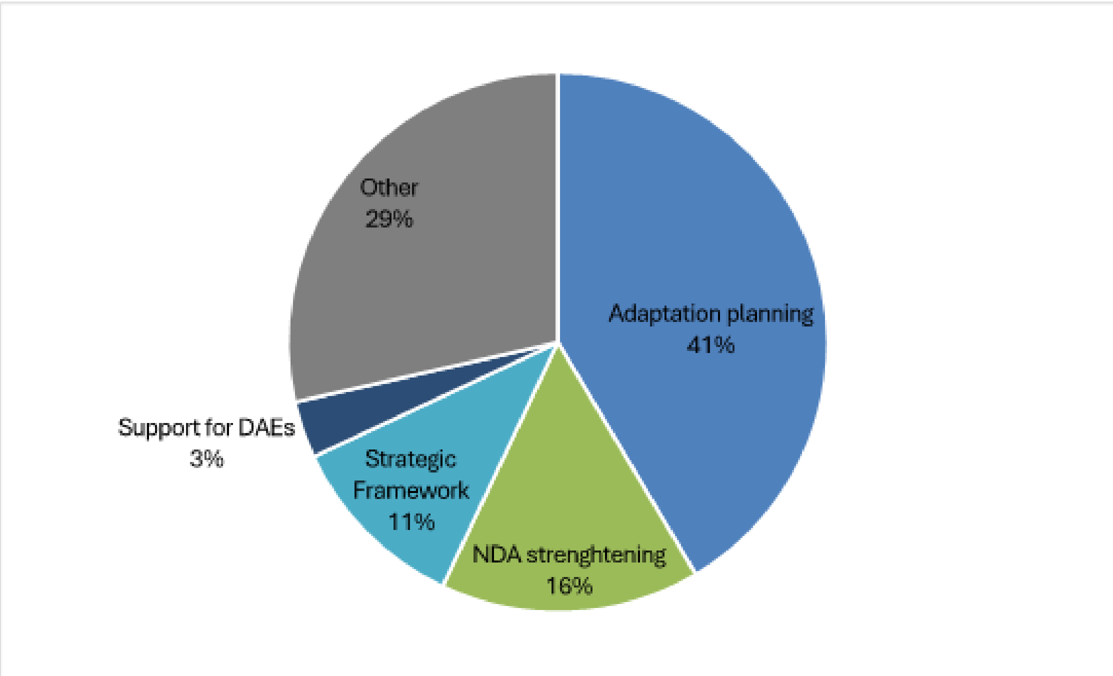
local institutional and human capacities, and designing innovative financing instruments and business models to enhance the investment environment.

During the COVID pandemic, a special second track for funding was developed focused on mobilizing funds to support developing countries make a green and resilient recovery. This led to the development of a portfolio of 40 projects to be implemented in over 50 countries. These projects covered multiple areas ranging from climate adaptation efforts, to just energy transitions, creation of green jobs and markets, clean cooking, green hydrogen, power system resilience, e-mobility, among others. The TAF is unique amongst technical assistance facilities in that it deploys a partnership-based delivery model. This Partner Network approach pools valuable and extensive practitioner knowledge and experience from a range of influential partners to overcome barriers in the preliminary stages of clean energy transitions.

A1.3.4 GCF

The **GCF Readiness Program** supports a wide range of activities to help NDAs (or focal points), DAEs and other country stakeholders engage in the planning and design of bankable climate investments that reflect national strategies and priorities and strengthen the broader enabling environments. Readiness support is provided in the form of grants or technical assistance.[230] As of March 2024, 753 readiness proposals have been approved, for a total of USD 577 million, 62% of which for SIDS, LDCs and African countries.[231] Over 40% of the total readiness funding approved was for adaptation planning (see Figure A1.14).

Figure A1.14: GCF approved Readiness funding by purpose[232]



230 GCF (2023). Readiness and Preparatory Support Programme Guidebook: A practical guide on how to prepare readiness proposals and how to implement readiness grants, Version 1

231 GCF Open Data Library, Readiness database (downloaded 2024/03/04).

232 GCF Open Data Library and GCF website (6 May6, 2024).

The GCF Readiness Program has a budget of USD 501.5 million for the 2024-2027 period, with a focus on three priorities: (i) effective climate finance coordination and sequencing for climate investment planning and execution, including strengthening the enabling environment; (ii) strong focus on paradigm-shifting pipeline; and (iii) better use of knowledge sharing and learning. Sixty percent of the budget is dedicated to the second objective of the program, which includes the development of country programs and pipelines of adaptation and mitigation measures. Each country can request up to USD 7 million for the 2024-2027 period and an additional USD 3 million to support the implementation of NAPs. LDCs and SIDS can also request up to USD 320 000 to support specific human and institutional capacity challenges within NDAs and focal points.[233]

The **PPF** was created in 2015 to support AEs in developing funding proposals, either through funding or through direct services, for up to USD 1.5 million. PPF funding can take the form of grants, repayable grants or equity (depending on whether the project has income generation potential) and the AEs are expected to undertake project preparation activities by themselves. PPF services are delivered directly by the GCF through a roster of consultancy firms. To date, the PPF has awarded 93 grants in 96 countries, among which 37 are LDCs, 32 are SIDS and 43 are African States. This corresponds to a total of USD 56.9 million, of which 61% (USD 34.9 million) has been disbursed.[234] PPF support has contributed to the development of 26 approved funding proposals and 16 proposals currently under review.[235]

The PPF supports the following activities, which must contribute directly to the development of a particular project:

- Pre-feasibility and feasibility studies as well as project design
- Environmental, social and gender studies
- Risk assessments
- Identification of program/project-level indicators
- Pre-contract services, including the revision of tender documents
- Advisory services and/or other services to financially structure a proposed activity
- Other project preparation activities (with justification).[236]

233 GCF (2023). Annex X: Readiness Strategy 2024-2027 (GCF/B.37/25).
234 GCF Open Data Library, Data Browser, PPF (downloaded 4 May, 2024/04/05).
235 GCF (2024). Status of the GCF portfolio: Approved projects and fulfilment of conditions, p.11.
236 GCF (2020). Project Preparation Facility (PPF) Guidelines

ANNEX 2: VCEF REVIEW ACTION PLAN

Based on the analysis and findings contained in the preceding sections of this report, this annex provides a summary list of actionable recommendations with a proposed timeline for implementation to optimize the operations of the VCEFs and to enhance their contribution to the mobilization of other sources of sustainable finance.

Recommendations are provided in terms of main and additional recommendations reflecting their respective scope of impact and feasibility[237]. The timeline is defined over a horizon of three years with annual milestones set in the second half of 2025, 2026 and 2027. This provides a practical and concrete basis for the formulation of a G20 Roadmap to enhance the performance and impact of the VCEFs and for tracking the implementation of measures contained in this report. Decisions at the level of individual Funds will be made by their respective governance body which will ultimately set the sequence and pace of implementation of recommendations.

The following table is structured according to the following five levels of action in the report listing recommended actions and setting a timeframe for implementation for each action:

- Level 1: Foster the scale, coherence, and effectiveness of global climate finance
- Level 2: Increase VCEF finance mobilization
- Level 3: Implement an integrated VCEF country-driven approach
- Level 4: Pursue harmonization across VCEFs
- Level 5: Maintain focus on enhancing individual fund access and efficiency.

237 “Main recommendations” are part of this report’s Executive Summary while “Additional Recommendations” can be found in the full detailed report.

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
LEVEL 1: FOSTER THE SCALE, COHERENCE, AND EFFECTIVENESS OF GLOBAL CLIMATE FINANCE					
MAIN RECOMMENDATIONS					
1.1	Incorporate new climate finance initiatives within well-functioning existing structures and organizations.	Policymakers/G20 countries			
1.2	Review the full range of concessional climate finance entities and streams within the global finance architecture to identify opportunities to enhance the effectiveness and efficiency of this system.	Policymakers/G20 countries			
	1.2.1. Ensure the availability and accessibility of high-quality, consistent climate and environmental finance data to better measure and, in turn, manage activities, outcomes, and impact.	All actors			
ADDITIONAL RECOMMENDATIONS					
1.3	Ensure the flexibility of existing funds, including the VCEFs, to adapt to evolving needs and challenges in terms of financial instruments, application of finance, risk-bearing capacity, and operational efficiencies.	G20 countries and Funds, shareholders and Financial Institutions			
1.4	Maximize the impact of the VCEFs' limited concessional finance with an emphasis on harnessing synergies to deliver on the Sustainable Development Goals.	All VCEFs			
1.5	Cater to the particular funding requirements, challenges, and opportunities of both EMDEs and LDCs, with an emphasis on providing concessional adaptation finance to the most vulnerable countries.	All VCEFs			

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
LEVEL 2: INCREASE VCEF FINANCE MOBILIZATION					
MAIN RECOMMENDATIONS					
2.1	**Leverage the full potential and impact of VCEF capital by taking the following actions, where appropriate.**				
	2.1.1 Deploy a full range of financial instruments (grants, concessional debt, guarantees, equity, and local currency products), and ensure flexibility in instrument terms, making full use of respective risk capacities to ensure additionality in the capital stack, thereby maximizing climate impact.	All VCEFs (GCF and CIF for mitigation instruments, multi-instruments structures, and local currency)			
	2.1.2 Dedicate grant resources to address upstream policy, institutional, and capacity gaps, including through capacity building and technical assistance, and particularly in countries where private capital is highly risk-averse.	All VCEFs			
	2.1.3. Foster the development of credible, verifiable, market-based approaches that support climate action and address market imperfections or barriers to private investment.	GCF/CIF			
	2.1.4 Actively pursue co-financing mechanisms with MDBs, DFIs, NDBs, PDBs and private actors to mobilize complementary funding from these sources and enhance coherence in the climate finance landscape.	All VCEFs			
2.2	**Set clear mobilization goals reflecting the VCEFs' mandate, priorities, and activity composition.**				
	2.2.1 Set and review mobilization goals periodically to adjust for evolving market conditions, Fund capital availability and strategies, and to ensure that limited VCEF resources are allocated efficiently. These should be based on a uniform approach to measure and report on mobilization and co-financing.	All VCEFs			
ADDITIONAL RECOMMENDATIONS					
2.3	Enhance project preparation support, particularly for early-stage infrastructure projects.	All VCEFs			
2.4	Consider increasing further support to green and climate bond issuance.	GEF,GEF,CIF			
2.5	**Expand the use of finance structures and blended instruments to increase the affordability of finance, particularly for LDCs.**				
	2.5.1 Expand the use of risk mitigation instruments and multi-instrument structures to attract additional and more risk-averse capital. In particular, issue guarantees to address specific risks.	GCF, CIF			

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
LEVEL 3: IMPLEMENT AN INTEGRATED VCEF COUNTRY-DRIVEN APPROACH					
MAIN RECOMMENDATIONS					
3 The VCEFs should enhance their transformational impact by working as a system to support country-driven platforms and their related investment pipelines. This integrated programmatic support of country platforms would be facilitated by the following actions.					
3.1	Improved country ownership				
	3.1.1 Strengthen the leadership of focal points and encourage the appointment of cross-fund country focal points.	All VCEFs			
	3.1.2 Help countries establish or strengthen national climate and environmental investment coordination platforms and support the development of country investment plans and access strategies.	All VCEFs			
3.2	VCEFs working as a system				
	3.2.1 Advance towards joint monitoring, evaluation, and reporting.	All VCEFs			
	3.2.2 Establish a cross-fund readiness facility as a one-stop shop to support the country-driven approach	All VCEFs			
3.3	Enhanced responsiveness				
	3.3.1 Establish stronger mechanisms to learn from and replicate innovative approaches that have proven effective.	All VCEFs			

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
LEVEL 4: PURSUE HARMONIZATION ACROSS VCEFs					
MAIN RECOMMENDATIONS					
4.1	**Develop common approaches to accreditation, pipeline development, and project approval processes.**				
	4.1.1 Adopt a phased accreditation approach supporting the gradual building of capacities for Direct Access Entities, align accreditation processes and templates across funds, and enable simultaneous accreditation across funds through a single online application portal.	GEF, AF, GCF			
	4.1.2 Support project pipeline sharing, project prioritization based on country needs and MRV systems for coordinated planning, establish incentives for developing joint/ parallel initiatives across funds, and enable the use of data and feasibility studies across projects to facilitate scaling.	All VCEFs			
	4.1.3 Harmonize standards and procedures required of all projects taking account of work on MDB reform, develop joint guidance on policy compliance, and increase alignment between project approval processes and templates to enable and incentivize the development of joint/parallel initiatives that leverage the comparative advantages of each Fund.	All VCEFs			
4.2	**Implement a coordinated approach to sharing data, consolidation of cross-fund knowledge exchange, and systematic exchanges, including on pipelines and impact metrics.**				
	4.2.1 Enable systematic exchanges across Funds at operational level and formalize joint working groups for regular progress updates on reform and performance, including on pipelines and impact metrics.	All VCEFs			
4.3	**Adopt a uniform approach to measurement and reporting requirements.**				
	4.3.1 Harmonize reporting requirements at the project and portfolio levels through common IT solutions for financial management and monitoring.	All VCEFs			

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
LEVEL 5: MAINTAIN FOCUS ON ENHANCING INDIVIDUAL FUND ACCESS AND EFFICIENCY					
MAIN RECOMMENDATIONS					
5.1	**Adopt a demand-driven, simplified, and fit-for-purpose accreditation approach, and provide support for Direct Access Entities' pre- and post-accreditation by taking the following actions.**				
	5.1.1 Allow Agencies greater flexibility in applying their own policies and procedures, expanding direct access by accrediting additional regional and national Agencies (LDCs and SIDS, especially in the Pacific), accredit more private sector entities or developing tailored partnership models, and, in future accreditation processes, considering entity capacity for engagement of indigenous peoples, local communities, and women.	GEF			
	5.1.2 Enable more than two NIEs per country and allow private sector nominations and increasing support to NIEs.	AF			
	5.1.3 Consider offering support in countries with no active MDB program.	CIF			
	5.1.4 Increase effectiveness and efficiency in accreditation by shifting to a demand-driven, value-added approach to direct access, rebalancing *ex-ante* compliance requirements with *ex-post* policy compliance and performance checks, eliminating reaccreditation, allowing AEs greater flexibility in applying their own policies, enhancing readiness support to national private sector entities, as well as by simplifying accreditation requirements and diversifying windows for direct access, especially in LDCs, SIDS, and African States.	GCF			
5.2	**Streamline project approval processes considering project size and risk level, building transparency and predictability.**				
	5.2.1 Expand the implementation of differentiated requirements reflecting project size and risk rating.	GEF			
	5.2.2 Consider more flexibility with country/regional ceilings.	AF			
	5.2.3 Continue broadening of program range.	CIF			
	5.2.4 Further decrease project processing times and enhance predictability on timelines and requirements. Move iTAP review and Board approval to the concept note stage. Enable higher risk taking through the SAP, especially to improve access to LDCs and SIDS, and delegate approval to the EDCEO. Ensure policy requirements and project prioritizing criteria are communicated and applied consistently by the Secretariat.	GCF			
	5.2.5 Adopt a programmatic approach to enable regional programs and devolution of decision-making at the subnational level (particularly to SIDS); development of impactful multi-country private sector initiatives.	GCF			

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
5.3	**Develop mechanisms for enhanced engagement with and access for the most vulnerable countries (LDCs, SIDS) and populations (local communities, indigenous peoples, and women) to VCEF resources by taking the following actions.**				
	5.3.1 Develop mechanisms for early-stage engagement with indigenous peoples, regional MDBs and local communities in project origination. Develop mechanisms for early-stage engagement with indigenous peoples and local communities in project origination, and with regional MDBs.	GEF			
	5.3.2 Diversify windows for direct access for smaller-size projects that indigenous peoples and local communities can implement directly. Develop tailored programming with dedicated resources and processes for SIDS and for fragile and conflict-affected states and communities.	GCF			
5.4	**Increase disbursement speed and efficiency of monitoring and reporting processes through the following actions.**				
	5.4.1 Strengthen knowledge management platforms to more effectively extract lessons learned and good practices. Strengthen agile and transparent monitoring and reporting with the use of information and communication technology/artificial intelligence.	GEF			
	5.4.2 Make more aggressive use of cancellation policy.	CIF			
	5.4.3 Further clarify the Secretariat oversight role to enable focus on project performance rather than fiduciary, ensuring consistent communication over the application of policies while permitting consideration of local context in their application. Maximize impact of monitoring and reporting approach through feedback loopsthat and adaptive management, simplifying and standardizing fiduciary controls and narrowing down Board interventions in project adjustments.	GCF			
	5.4.4 Increase regional presence and responsibilities to project monitoring and adaptive management.	GCF			

No.	Recommendations	VCEF/ other actors	by 2025	by 2026	by 2027
5.5	**Strengthen access to and effectiveness of capacity-building programs for countries and entities.**				
	5.5.1 Implement new Country Engagement Strategy evaluation recommendations. Consolidate capacity building support.	GEF			
	5.5.2 Provide higher funding volume per approval. Further strengthen the focus on NIEs.	AF			
	5.5.3 Continue investing in CIF-TAF .to support project preparation.	CIF			
	5.5.4 Increase access of LDCs and SIDS to Readiness grants (both number and size of grants) and decrease time required to access them. Support country capacity to access approved global projects.	GCF			
	5.5.5 Provide enhanced support to entities, particularly DAEs, and NDAs/focal points throughout the project cycle. Increase access of LDCs and SIDS to Readiness grants.	GCF			