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Enhancing Access to Concessional Climate Finance

Perspectives from the IDB's Experience with Major Climate Funds—CIF, GCF, and GEF

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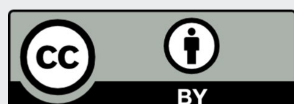

ENHANCING ACCESS TO CONCESSIONAL CLIMATE FINANCE

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Acronyms

AE	Accredited Entity
AMA	Accreditation Master Agreement
CAPEX	Capital expenditure
CCMM	CIF Capital Market Mechanism
CF	The three climate funds analysed in this note: the CIF, the GCF and the GEF.
CIF	Climate Investment Funds
CTF	Clean Technology Fund
DAE	Direct access entities
DPSP	Dedicated Private Sector Program
DFNC	Debt-for-Nature Conversion
FAA	Funded Activity Agreement
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG ERs	Greenhouse gas emission reductions
IDB	Inter-American Development Bank
LAC	Latin America and the Caribbean
LULUCF	Land use, land use change and forestry
MDB	Multilateral development banks
MoF	Ministry of Finance
MSME	Micro, small and medium enterprises
NAP	National Adaptation Plans
NDC	Nationally Determined Contributions
PA	Paris Agreement
PDB	Public development banks
PES	Payments for ecosystem services
RDB	Regional development banks
SME	Small and medium enterprises
STAR	GEF's System for Transparent Allocation of Resources
TA	Technical assistance
TC	Technical cooperation

Executive Summary

Meeting the climate change challenge requires the climate funds and multilateral development banks like the IDB to work synergistically, building on the comparative advantages of each. The IDB Group and other multilateral development banks are key partners, materially leveraging climate fund financing (5x leverage factor in the case of the IDB) and delivering measurable impact. To speed progress, this note presents a set of recommendations for enhancing access to the concessional finance that these funds can provide. These recommendations are mainly focused on streamlining climate funds approval processes, further developing their product offer, and enhancing their coordination and complementarity.

This note was prepared by the Inter-American Development Bank (IDB) as an input to the work of the G20's Sustainable Finance Working Group on enhancing access to concessional climate finance. Stemming from the IDB's own experience working in Latin America and the Caribbean (LAC) with some of the major global concessional climate funds, it intends to provide its perspectives and lessons learned on aspects affecting access to funding from the Climate Investment Funds (CIF), the Global Environment Facility (GEF), and the Green Climate Fund (GCF), hereafter jointly referred to as "CF".

It is widely acknowledged that to effectively tackle the challenges posed by climate change, as per the targets established through the Paris Agreement, neither public finance nor the current rate of private investment in mitigation and adaptation projects will be sufficient. Climate finance at the global level, currently about US$1.3 trillion for the period 2021/2022, needs to increase significantly to reach an estimated level of US$9 trillion annually by 2030 (and over US$10 trillion each year thereafter until 2050).[1] Concessional climate finance—that is, public or philanthropic funding capable of offering finance for climate investments under terms and conditions more favorable than regular market standards—is thus critical to accelerate the rate of investment, based on its capacity to enhance the financial profile and/or de-risk such investments and thus catalyze financial flows toward them. Concessional climate finance resources have allowed the IDB to support and enable climate projects that required enhanced financial conditions (in terms of interest rates, tenor, grace periods, amortization profiles, collateral requirements, among others). They have also provided much-needed tools and room for testing and innovation to push the frontier and accelerate penetration of low-carbon, resilient technologies and associated business models. The price concessionality and higher risk tolerance that these sources

[1] Climate Policy Initiative. 2023. Global Landscape of Climate Finance 2023. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf.

	CIF	GCF	GEF	Total
# Projects / Programs	81	8	40	**129**
CF funding (millions of US$)	$838	$762	$176	**$1,776**
Expected co-financing (millions of US$)	$6,150	$964	$1,706	**$8,820**
Leverage factor				**5x**
IDB's share of CF funding	11.4%	5.5%	2.4%	—
LAC's share of CF funding	18%	24%	24%	—
IDB's share of CF funding to LAC	**62%**	**23%**	**10%**	—
No. of accredited entities/agencies	6	95+	18	

can provide have been essential for this purpose. They have enabled the IDB to deploy new financial instruments and support innovative financing modalities and risk levels it could have not fully supported based on its own capital alone.

Given the relevance of CF to LAC countries' capacity to deliver on their Paris Agreement commitments, the IDB[2] has actively engaged with these three climate funds[3] to become a significant implementing partner for them in LAC, reaching approximately 11.4 percent of total CIF approvals[4] (62 percent[5] of approvals for LAC), 5.5 percent of GCF approvals[6] (23 percent[7] of LAC), and 2.4 percent of GEF approvals[8] (10 percent of LAC), respectively. As of April 2024, the IDB was responsible for the highest share of funding approvals for LAC for both the CIF and the GCF. Moreover, the IDB has channeled about 30 percent of the concessional climate finance that these three funds have provided to the region. Its portfolio comprises about 129 projects and programs approved by the CF, amounting to about US$1.8 billion in concessional climate resources, through which IDB expects to mobilize approximately US$9 billion in co-financing to achieve a 5x leverage factor. Of this CF funding, approximately 37 percent has been provided in the form of grants (either for technical assistance, investment, payments for ecosystem services, or result-based payments) and 63 percent as reimbursable financial instruments (mainly in the form of loans, guarantees, and equity).

The following table summarizes this information, highlighting the significant role played by the IDB in enabling access to CF funding for LAC countries.

[2] In the case of the CIF, and partially the GEF, IDB Invest has implemented funds resources and contributed to leveraging additional ones.

[3] Unlike the GCF and the CIF, which focus exclusively on climate change mitigation and adaptation investments (even if supported programs may have other environmental, social, and economic co-benefits), the GEF targets a broader set of environmental issues, including climate change, biodiversity, chemicals and waste, international waters, and land degradation. It should therefore be characterized as an environmental fund rather than a climate fund.

[4] CIF Dashboard – Data as of June 2023.

[5] This percentage (and the subsequent ones for the other CF) represents the IDB's share of the corresponding CF approvals or funding commitments for LAC countries. Authors' calculation based on sources of funding cited in each case.

[6] Data as of December 31, 2023. Source: GCF. 2024. Status of the Green Climate Fund Resources. https://www.greenclimate.fund/sites/default/files/document/09-status-green-climate-fund-resources-gcf-b38-inf07.pdf

[7] Authors' calculation based on data on GCF Open Data Library as of May 6, 2024. https://data.greenclimate.fund/public/data/countries.

[8] Share based on overall GEF funding to projects/programs (not just for climate change) between GEF-5 and 1st GEF-8 Work Program, as of March 2023. Source: GEF. 2023. Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies. https://www.thegef.org/sites/default/files/2023-06/EN_GEF_C.64_10_Assessing%20the%20Strength%20of%20the%20GEF%20Partnership%20-%20Coverage%20by%20Agencies.pdf.

The IDB has provided access to concessional funding to a broad range of public and private entities in LAC, helping countries deliver on their sustainable development and climate change-related needs, opportunities, and commitments. To do so, it has designed and implemented projects across all types of activities relevant to climate change mitigation and adaptation in the energy, transport, water, waste, agriculture and forestry sectors, among others. It has deployed concessional finance through a variety of instruments (senior and subordinated loans, guarantees, equity, contingent investment grants, payments for ecosystem services, and technical assistance grants). Its aim is to provide financial and nonfinancial additionality, which in turn could support—in alignment with CF investment frameworks—innovation, paradigm-shift, and transformational processes that could advance the transition toward low-carbon, resilient economies.

In this process it has forged valuable partnerships with the CF, which have been critical to enable the IDB to foster innovation, support first movers, and mobilize additional public and private finance toward climate investments. The high rate of mobilization of concessional climate finance that the IDB has achieved (which has ranged between US$200 million and US$600 million per year, including CF and other concessional climate partners) has been instrumental for the IDB to pursue the incremental climate finance targets if has set for itself in recent years.[9]

As a regional multilateral development bank (MDB), the IDB is in a unique position to contribute to the accelerated scale-up of climate investments needed to achieve the Paris Agreement objectives, based on the following main pillars:

- its capacity to deploy complex programs on a national or regional scale, based on its local presence (i.e., country offices) throughout the region and its track record working with both national and regional entities.
- its convening power to leverage bilateral and multilateral resources, in addition to those of the private sector (mostly through IDB Invest, IDB Lab, and its public-private partnership-related work) and its own capital (OC), under programs large enough to achieve transformational change.
- its track record contributing to the development of the capacities of national entities and partners through their engagement as executing entities, accelerating their readiness to act as direct access entities (DAE) and supporting their Paris Agreement alignment processes.

Accordingly, as a key provider and intermediary of climate finance for LAC countries to help them deliver on their increasingly ambitious NDC, NAP, and other development strategies, the IDB has been taking significant steps towards its own Paris Agreement alignment, including strengthening its policy support for the transition to climate-resilient and low-carbon pathways and increasing its targets for climate finance mobilization. Among its current commitments, it aims to (i) triple direct and mobilized climate financing for LAC to US$150 billion over the next decade, (ii) provide up to US$5 billion in additional financing for the Amazon over the next 10 years for sustainable development projects, (iii) invest in ambitious regional programs such as *America en el Centro* and *One Caribbean,* (iv) strengthen MDB coordination for climate transition finance through country platforms, and (v) stimulate institutional capacity for NDC implementation through financial instruments such as BID CLIMA.

Critical to the chances of achieving these targets is securing continued, efficient, and

[9] E.g., Annual floor of 30 percent of climate finance approved, as a percentage of total amount approved for 2020-2023 for IDB and IDB Lab operations. In the case of IDB Invest, the 30 percent target is in terms of climate finance committed as a percentage of total amount committed.

accelerated access, in terms of both speed and scale, to funding from the CF. The robust track record and partnership jointly achieved with the CF create a good basis to continue to build from. That said, the likelihood that the IDB's access to CF funding will significantly accelerate to match the ambition of these targets is uncertain at this point. This is due to a combination of:

i. Mixed trends and unclear prospects for climate change funding across CF.
ii. Unclear prospects for the IDB (or MDBs in general) maintaining significant rates of participation in CF funding, given the marked decline in MDBs' share of GEF funding between GEF-5 to GEF-7 rounds, comparative advantages of direct access entities, MDBs, and other international accredited entities for design and execution of projects and programs, among other reasons.
iii. CF funding allocation modalities that do not always align well with MDB engagement processes, and funding approval processes in general not yet optimally suited for speed and scale.

Against this backdrop, this note analyzes a set of aspects affecting access to CF funding, along with some ways in which they can be addressed. Some of the proposed measures connect with points (ii) and (iii) above and aim at improving prospects that CF can more effectively capitalize on MDBs' capacities to help deliver developing countries' increasingly ambitious climate change mitigation and adaptation impact objectives.

Some of the aspects discussed in this paper are concurrently identified in recent assessments and strategic documents, such as the GCF Strategic Plan 2024-2027[10] and the GEF-8 Programming Directions.[11] The IDB therefore understands that there is a fair degree of awareness and common ground with respect to many of them. This note highlights those aspects, and some additional ones, that are most significant in relation to the IDB's potential to maximize its contribution to the urgent shared climate change agenda of LAC countries and the CF.

The main opportunities identified to help enhance access center on the following points:

I. Streamlining project appraisal, approval and effectiveness processes

This first sub-section focuses primarily on the GCF, which is where some of these aspects and related opportunities become more significant.

1. *Reduce overall appraisal, approval, and effectiveness timeline*

Access to GCF and GEF[12] funding implies lengthy preparation, appraisal, approval, and effectiveness processes that hinder the timeliness of access to required concessional funding. This in turn can result in missed opportunities for relevant climate investments (particularly in the case of private sector projects, where speed to market is fundamental).

The most significant case is that of the GCF, where on average (as per IDB's experience with the eight GCF projects in its portfolio) it took more than two years from the time projects entered the GCF's pipeline to the time GCF funding agreements became effective. The significant length of this timeline has a couple of major implications.

[10] GCF. Strategic Plan 2024-2027. https://www.greenclimate.fund/sites/default/files/decision/b36/decision-b36-13-annex-iii.pdf.

[11] GEF. 2022. GEF-8 Programming Directions. https://www.thegef.org/sites/default/files/documents/2022-04/GEF_R.08_29_Rev.01_GEF8_Programming_Directions.pdf

[12] In the case of the GEF, in a sample analyzed covering about 25 percent of IDB GEF projects, average time required from initial submission to CEO endorsement was 1.2 years. This compares somewhat favorably relative to the GFC timeline for similar milestones (1.5 years), but also entails opportunities for improvement. This average value should be considered with care and evaluated further, however, as the real average of the full portfolio could vary significantly relative to this sample.

First, it creates a significant risk that by the time GCF funding is available, market, political or other relevant conditions (e.g., availability of co-financing) might have changed in a way that renders the initial theory of change or the enabling conditions (and therefore the proposed interventions and GCF support) no longer suitable. Second, the combination of this risk with the significant upfront cost associated with project preparation requirements requires IDB to be very selective with the type and number of projects it can bring forward. As a result, it occasionally needs to leave aside projects that could otherwise fit well (objectives, additionality, impact) with GCF priorities.

This lengthy timeline is due to a combination of factors that relate to both GCF and AE processes. Some of those that are under GCF's direct control[13] include:

i. the **structure of the appraisal process**, with a number and scope of review instances presenting—from the IDB's point of view—some degree of overlap and duplication. This has implications for the overall appraisal and approval timeline; moreover, it increases the chances of having differing views along subsequent reviews, which may reopen previously agreed points, identify new issues, and/or require further adjustments or restrictions. When this occurs at advanced stages of the approval process, and particularly if they are material, they are difficult to accommodate without affecting the essence of the projects and the coherence of their design (which in turn can increase subsequent execution risk).

ii. the **breadth and depth of appraisal**, with the level of analysis required significantly impacting the overall preparation timeline, especially for program proposals, where requirements scale up with the number of countries. A good part of such upfront work required for GCF Board approval could be avoided at that early stage by delegating and relying instead on AEs' internal appraisal processes (at least in the case of AEs with robust appraisal capacity, as is generally the case for MDBs).

iii. **capacity constraints**, as GCF's staff bandwidth to review concept and funding proposals might be challenged by the number of applications it receives.[14] Capacity constraints along with GCF's own pipeline prioritization criteria can impact the overall appraisal and approval timeline.

The other major aspect that significantly affects the overall timeline for accessing GCF funding is a particularity of the GCF process: the **need to sign a project/program-specific funding agreement, the FAA**. This requirement contributes significantly to the average 12 months required (as per the experience with IDB's GCF portfolio) after GCF Board approval to reach effectiveness and thus be able to start accessing GCF resources. This GCF FAA requirement contrasts significantly with the CIF and the GEF, which do not require the establishment of project/program-specific agreements after their funding approval and rely instead on subsequent MDB/GEF agency processes to make funding available for targeted activities.

A review and streamlining of the appraisal, approval, and effectiveness process seeking opportunities to reduce the number and/or scope of review instances is thus encouraged to capitalize on potential for efficiencies. We welcome the ongoing effort by the GCF Secretariat to

[13] Another factor with impact on the overall timeline, but which GCF doesn't directly control, is the time it takes AEs to prepare or adjust documents between submissions (e.g. from concept to funding proposal; or any additional annexes required by the GCF following a certain review instance, e.g. the interdivisional team technical review). The incidence of some of these factors, however, is to some extent correlated with the depth and breadth of the analysis required in the proposals, as determined by the GCF (so not under its direct, full control but certainly influenced by GCF requirements).

[14] As of February 2023, there were 431 projects in the GCF pipeline. Source: GCF. 2023. GCF Monthly Report–Pipeline Update–February 2023. https://www.greenclimate.fund/sites/default/files/document/pipeline-feb2023.pdf.

increase efficiency throughout the appraisal process promoted by the new fund's management.

Expanding GCF geographical presence (i.e., decentralized offices) might also contribute to enhancing engagement with AEs during the project preparation and appraisal phase. This is particularly true when working with LAC countries, as LAC is the most remote region relative to GCF headquarters and the 12-15 hours of time difference negatively affect the chances for more fluid interaction.

2. *Enhance predictability of funding*

An important challenge to developing projects that critically require CF concessional finance to become viable is the uncertainty with respect to ***if***, ***how,*** and ***when*** such funding could be effectively accessed. This, combined with an overall perception that access might take too long and require significant upfront investment of preparation resources, often discourages valuable initiatives and projects from seeking CF support.

The issue around the "how" (which is more significant in the case of the GCF, given the various levels of internal and external review involved in the appraisal) relates to the limited clarity that AEs may have at the outset (and even coming out of the initial review process) with respect to the GCF's ultimate position and/or the conditions it might establish in relation to certain project aspects (technical, financial, legal, etc.) that might be material to the effectiveness and efficiency of the projects.

To some extent, these uncertainties (and the associated risks) could be mitigated by enhancing the extent of the feedback provided to concept notes. More comprehensive initial reviews by senior staff with significant internal experience and a deep understanding of GCF's required standards and internal preferences (e.g., on credit and technical aspects) could help further anticipate issues that might otherwise emerge at more advanced stages in the appraisal/approval process. This could go a long way in both (i) discarding early on projects with poor prospects of delivering impact under terms acceptable to the GCF, and (ii) allowing proponents to assess viability of adjusting aspects with material implications for the projects (e.g., intervention strategy, sub-project/technology eligibility criteria, financial conditions CF could support, and others). Such stronger initial reviews need to comprehensively identify fatal flaws and suggest clear alternatives and/or restrictions that would make the project acceptable (if they could be accommodated). This would not only enhance predictability on ***whether*** and ***how*** projects could be supported, but also likely reduce the overall appraisal timeline, as it would avoid missteps and multiple review iterations later on, when adjustments are more difficult to make.

3. *Reconceptualize approach and appraisal requirements for Programs*

In light of GCF's long appraisal and approval timelines, the Program modality makes it possible to better manage some associated challenges by providing larger funding envelopes that can support multiple countries, thus enhancing the efficiency of AEs' investment in program preparation while mitigating subsequent uptake risk through diversification. This is important given the significant changes in political and market conditions that can occur in the long period required between the first submission to the GCF and the first disbursement (almost three years on average in the IDB's experience). Another benefit of Programs is their possibility of supporting thematic approaches (around sectors, activities, technologies, business, or financing models) across a broader geographic expanse, with the possibility of achieving programmatic synergies and economies of scale and generating further knowledge sharing opportunities.

GCF appraisal requirements for multi-country programs, however, can end up being

onerous, as they generally scale up proportionally with the number of countries. From this perspective, the IDB strongly recommends considering a rationalization of requirements for Program proposals, through a **reconceptualization of the focus and scope of the GCF appraisal process**, adjusting the balance between the level of analysis and appraisal required upfront and what can be delegated to AEs' own appraisal and approval process further down the road. Instead of requiring detailed technical, economic, financial, and other types of analysis on a per country and per sector/activity basis, a revised Program approach would focus on assessing:

- the business case (including theory of change) of the proposed program.
- the fit with GCF investment criteria (including impact potential, justification, and additionality of a GCF contribution)
- the capacity of the AE to deliver on such Program of investments and its impact targets (based on track record and preparatory work already undertaken, among others).
- the soundness of the risk analysis performed and the proposed risk mitigation strategy.

This would be complemented by the determination and contractual establishment of critical aspects that the AE would need to appraise, as part of such delegation, during its own origination and approval process to confirm eligibility and terms of support for sub-projects (as per framework parameters previously agreed with the GCF).

II. Enhancing Product Offer

4. *Enhance availability of local currency financing and alternative foreign exchange risk management solutions*

As the funding of CF is still mostly extended in hard currency, implied foreign exchange risk can be quite significant. This has the potential to make CF funding not suitable or appealing for a broad spectrum of projects, either because they cannot efficiently manage the risk or because doing so would jeopardize any concessionality (given the additional cost of hedging solutions).

This problem is limited in the case of the GEF, as most of the funding it provides is in the form of grants. Even in the context of the Blended Finance Global Program, where reimbursable products are prioritized, the GEF can generally absorb this risk (upon due analysis and justification). The GCF and the CIF (in particular the CTF) have been developing alternatives to allow borrowers to better manage this risk, but comprehensive solutions are not yet in place. In the case of the CTF, its offer incorporated the possibility of subsidizing (up to a certain cap) the cost of currency hedges, but the support was limited and it would not work in countries where adequate hedges are not available. In addition, it is still not clear what additional solutions might be available when the CTF funding modality evolves into the CIF Capital Market Mechanism[15] (CCMM). In the case of the GCF, a number of supplemental alternatives (which combined could result in a more comprehensive offer that might better cover the needs of different markets) have been identified and are expected to be developed as part of a pilot program, likely in a phased manner. It is not clear, however, how rapidly and broadly the full set of solutions can be put in place.

[15] The CIF Capital Market Mechanism (CCMM) is a new financial mechanism currently under advanced structuring stage, and which will enhance the CTFs capacity to attract private sector capital and expedite the availability of climate funding through the issuance of bonds in the capital market. The CCMM will effectively frontload reflows from existing CTF loans, at an expected rate of about US$500 million per year. The mechanism is expected to become operational before the end of 2024. The proceeds from CCMM bonds will flow into the CTF Trust Fund and be deployed as concessional finance across a new pipeline of low-carbon technologies to help eligible developing countries meet their climate mitigation goals. Source: AFDB. 2023. https://www.afdb.org/sites/default/files/2024/03/22/afdb_cif_annual_report_2023_-_cif_capital_markets_mechanism.pdf.

Continued and expedited work on this is encouraged for both the GCF and the CIF in order to be able to enhance their offer vis-à-vis this risk, to enable them to deliver effective concessionality across the countries they serve.

5. *Ensure adequate risk appetite to enable further additionality, innovation, and leverage*

CF have been taking steps to increase the level of credit and investment risk they are willing to take on, recognizing the relevance of higher risk tolerance to their comparative chance to drive innovation and impact. This is a welcome trend that can significantly contribute to expanding CF's capacity to address investment barriers. There are still, however, some limitations that CF should continue to consider.

The GEF has been significantly expanding the types of financial instruments it can provide under its Blended Finance Global Program, incorporating convertible instruments, contingent instruments linked to environmental performance, political risk insurance, and liquidity facilities. This is opening up additional ways to support projects that can in turn enhance innovation (both financial and in terms of business models). In addition, the budget allocated through this window has increased over successive GEF rounds, and for GEF-8 it is currently around US$195 million. This is a positive trend; however, the overall budget allocated, at just about 3.7 percent of overall GEF-8 funding (and to some extent the indicative cap per project at about US$15 million) remains relatively limited vis-à-vis the global reach and the type and scope of opportunities the Blended Finance program can support. This is particularly relevant considering that this GEF engagement modality is the most (when not the only) suitable in the overall GEF allocation system for some types of MDB projects. Other programming modalities are more difficult to navigate, particularly when targeting innovative private sector projects. A more significant allocation in subsequent rounds could drive further interest, including for programs and initiatives requiring a higher level of support.

The GCF has been increasingly emphasizing (including in its Strategic Plan 2024-2027) its intention to take on incrementally greater levels of risk. The IDB has already recognized this to some extent[16] and welcomes it. The IDB has also seen instances, for example, when the GCF did not deem it feasible to take a junior/subordinated position relative to IDB capital. The IDB has further perceived that there might not yet be a full understanding of how MDBs operate from the perspective of risk-taking and pricing for private sector operations. With respect to pricing, IDB Invest follows market references; it generally does not pursue a concessional approach with its own capital. With respect to risk-taking, while its development mission and technical and financial structuring expertise allow it to go somewhat further than what commercial entities may sometimes be capable or willing to, as a credit-rated entity that needs to maintain a certain financial performance, there are limits to the type and level of risk it can take. A critical part of CFs' additionality when working with MDBs resides in their ability to take risks that MDBs might be more constrained from taking. Thus, continued consideration and joint work around this aspect would be welcomed to enhance de-risking additionality from the GCF, in ways where incentives can still be aligned.

Significant risk-taking has been supported across the CIF portfolio, particularly in the context of projects financed against allocations of CIF capital and grant contributions. In this context, significant support for risk-prone instruments such as equity, first-loss guarantees, mezzanine capital, and contingent recovery

[16] For example, through the use of Contingent Recovery Investment Grants (CRIGs) in the Amazon Bioeconomy Fund program to support early-stage companies not yet fully ready to raise traditional equity from commercial sources.

grants—with the possibility of MDBs having a senior position relative to the CIF—has been provided. That said, it is not clear to what degree similar possibilities will continue to exist as the CTF funding model evolves into the CCMM, where the need to ensure more predictable cash flows might reduce risk appetite (or even the depth of price concessionality it can offer). It will be important for the CIF to strike an appropriate balance between the benefits of implementing the CCMM and the need to safeguard the significant risk appetite and financial instrument flexibility the CTF has initially had. This has been one of its main assets in its mission of driving transformation and financial mobilization at scale.

On a similar note, the CCMM will need to carefully define its origination strategy in order to be able to deliver adequate concessionality (i.e., sufficiently deep where needed to ensure additionality) across projects. For this, the CCMM will need to balance projects with high concessionality needs with others that can offer healthier risk-adjusted returns, such as private sector projects in middle-income countries.[17] Ensuring that the CTF continues to have, in the CCMM phase, project origination modalities that are adequate and efficient to originate private sector projects would be essential to achieve this balance.

Another strategy that would help manage this challenge (i.e., balancing financial sustainability with significant concessionality and risk-taking) would be to continue to pursue some limited level of periodic grant and/or capital contributions from CIF contributing countries.

6. *Expand the use of financial instruments not based on traditional use-of-proceeds approaches*

By and large, and with notable exceptions such as in REDD+ and other performance-based models, most CF projects tend to deploy funding based on use-of-proceeds approaches against well-defined inputs to be supported. While this approach can normally deliver significant additionality and mitigation/adaptation value, in some cases there is the risk that their impact does not significantly exceed the climate investments and assets that are specifically funded, falling short of achieving a more systemic impact. This risk can exist even if input-type support is provided for activities with significant potential to contribute to transformation and paradigm shift, such as the development of relevant policies and regulations. This is because such support does not necessarily guarantee their subsequent implementation (e.g. legislative approval); or because a set of supplemental developments (e.g. other connected regulations) required for them to generate the effects they pursue effectively may not materialize. Thus, expanding traditional use-of-proceeds, input-oriented instruments to alternative approaches that might, in certain circumstances, be more efficient or effective in addressing systemic barriers, catalysing critical developments, achieving specific results, or increasing leverage merit additional consideration. Some types of instruments for which CF support may be worth exploring further include:

- **Policy-based instruments.** The feasibility of achieving Paris Agreement objectives depends, to a large extent, on countries' willingness and capacity to implement comprehensive policy and regulatory reforms. Policy-based instruments aligned with such objective could prove useful and efficient to expedite such policy processes, with a potential catalytic effect more significant than direct funding of specific investments.
- **Sustainability-linked instruments.** Similarly, these instruments, where funding and associated pricing incentives are linked to achievement of pre-defined sustainability objectives, can in certain cases be more viable or efficient than traditional

[17] Internal IDB Invest note.

use-of-proceeds alternatives (e.g., green/climate bonds), particularly where specific circumstances of the issuer/borrower or the underlying market make it challenging to follow the latter approach.

The IDB has been developing or replicating significant innovations in this regard. Examples of operations that incorporate performance-based structures and in which funding can be only partially restricted by use-of-proceeds requirements include: (i) the use of policy-based guarantees under debt-for-nature conversion (DFNC) models (including as part of a recent concept proposal approved by the GEF for a biodiversity program[18]), and (ii) IDB's own IDB CLIMA program, which provides performance-based loan principal discounts against achievement of pre-defined climate-relevant milestones aimed at helping countries enhance their capacity to access green capital markets.[19] CF support is the cornerstone to the IDB's ability to continue to develop and replicate these and other innovative models.

III. Enhancing Complementarity, Coherence, and Collaboration

7. *Country Investment Plans and Country Platforms as vehicles to support a coordinated and coherent engagement with CF*

Strategic investment planning processes led by beneficiary national governments are key to supplement coordination efforts underway between the CF secretariats. This approach has been piloted in the CIF and has been useful to promote country leadership and enhanced coordination with multiple partners, including MDBs. As national governments lead these processes, they can offer a better chance to ensure alignment with NDCs, NAPs, and other relevant national/sector development strategies, while also serving as a platform for coordination with and between CF. This enables them to identify on a country-specific level how best to allocate (use/focus, volume, instruments, etc.) the support that each of them can provide. This maximizes the chances for adequate alignment, coordination, collaboration and complementarity, which in turn can maximize efficiency and effectiveness and leverage potential.

Such a process could also **help translate NDC, NAP and other strategies into more concrete investment plans**. This element is often missing, which can lead to implementation of projects that duplicate efforts, do not capitalize synergies and fall short of delivering a more comprehensive transformational approach.

Current initiatives promoting the development of **Country Platforms** can contribute similar benefits and are therefore equally encouraged and supported by the IDB. A key aspect required for them to gain momentum is further clarity on funding that can be committed (source, volume, timing) and countries' demand for them.

In addition to supporting the development of country-driven investment planning processes, such an approach should be complemented by enhanced opportunities for development of **regional/multi-country (theme-based, where appropriate) programs and facilities** that can create efficiencies in design, approval, and execution processes, while making it possible to capitalize on opportunities for learning and experience sharing. These types of programs and facilities are significantly enhancing access efficiency and execution performance for both public and private sector operations of the IDB, particularly when speed is required to support first movers and innovative business models where there may not yet be a government program (and thus an investment plan and public support framework) in place.

[18] Details available at https://www.thegef.org/projects-operations/projects/11324.
[19] https://www.iadb.org/en/news/idbs-innovative-financing-tool-rewards-results-nature-and-climate.

8. *Further engage ministries of finance in CF funding, strategic planning, and allocation processes*

Key to achieving global climate goals (and related NDC and NAP objectives) is the capacity of countries to mobilize public and private finance at scale. The scarce concessional finance (relative to global needs) that CF can provide thus needs to be used strategically to maximize mobilization. It is therefore crucial that government officers tasked with looking at strategies to promote investment participate—along with technical experts from other relevant sectors and ministries—in strategizing the use of limited concessional resources. Ministries of finance have an important role to play, based on their financial expertise, engagement with other actors in the finance community (private, public, local and international), and capacity to shape policy and regulations. It is thus recommended that CF seek to ensure the active engagement of ministries of finance in the strategic process leading to decisions on allocation of CF resources and subsequent project design.

From an MDB perspective, participation of ministries of finance could also help ensure that maximum value and leverage can be obtained from MDBs, given (i) the better understanding that ministries of finance tend to have about the vast range of financial and non-financial support MDBs can provide in order to mobilize finance at scale, and (ii) their influence over the prioritization of MDBs' financial resources to sectors and programs. Thus, consistent involvement of ministries of finance in the strategic allocation of CF funding might also contribute to ensuring complementary and synergistic use of the resources with those contributed and/or mobilized by MDBs.

Concluding Remarks

The IDB has developed a valuable partnership with the CF analyzed in this note, by helping LAC countries access a significant share of the resources allocated to the region while helping CF deliver on their global mission. Each CF presents different characteristics, resulting in comparative advantages or challenges in the engagement with them. The following sections summarize the main aspects, for each CF, from the IDB's perspective as a regional development bank.

CIF. Having been designed to work exclusively through MDBs, and fundamentally relying on MDB capacities and processes for origination, appraisal, and implementation, the CIF remains the most efficiently structured CF model for leveraging MDB capacities and mobilization potential to deploy climate finance to beneficiary countries. Among other features, it streamlines the approval process by relying heavily on MDB appraisal and credit processes, including in the definition of terms and conditions for private sector operations (which are not pre-defined at a standardized level). Its governance also allows further MDB input (without vote, but as a technical and implementation partner) into strategic decisions, often actively seeking MDBs' perspectives and capacities to support advancement in CIF strategic development processes. The CIFs' architecture is also conducive to increased collaboration (and competition, inevitably too) and knowledge sharing between MDBs. Prospects for alignment with country priorities and strategies are also enhanced through its programmatic approach, mostly centered around the development of country investment plans.

Some of the most salient access limitations, challenges, and aspects to consider in the CIF' further development include:

- Country eligibility. As of now, access is not open to all developing countries; it is limited to those that have been selected as beneficiaries of at least one of its programs.
- Predictability of funding. In the context of the then-emerging GCF, one key limitation

for the CIF to obtain new funding pledges until recently was its sunset clause. With such clause now indefinitely postponed, some significant new pledges have been made (e.g., over US$2 billion for ACT). The CCMM under preparation is also expected to offer a supplemental and more continuous stream of capital for new CTF projects (at about US$500 million per year), thus allowing MDBs to continue project origination and commitments under these program on a more regular basis. As such, the IDB views it as a very promising initiative, with great potential to mobilize private capital into climate finance. However, there are two related outstanding challenges:

i. CIF non-CTF programs do not have a similarly predictable and continuous endogenous funding source (as the CCMM for the CTF) and will thus need to continue to rely on new capital injections. As a result, continued significant new funding commitments for these programs in a manner that can support origination on a sustained basis will be critical to consolidate new non-CTF offers and MDB work in support of them.
ii. The CCMM's need to maintain a certain financial performance to attract (and serve debt with) bond investors will likely limit its concessionality and/or risk-taking capacity. Measures to safeguard it (e.g., balancing the portfolio between high concessionality projects and those with healthier risk-adjusted returns; seeking continued, albeit more limited, grant/capital contributions) will be key for it to maintain its capacity to deliver financial additionality. Further development of local currency financing and alternative foreign currency risk management solutions is also important to ensure effective financial additionality across beneficiary countries.

GCF. Based on the volume of funding it can provide (with about US$32 billion pledged to it over its three resource mobilization rounds so far, and about US$14 billion already committed to climate change mitigation and adaptation projects and programs) and its broad country eligibility across developing regions, the GCF has established itself in the last few years as the largest concessional climate funding source for non-Annex 1 countries. Besides its volume, one additional distinctive feature of the GCF is its capacity to consider—through a unique platform—mitigation and adaptation projects across sectors and project/program sizes, with its project funding window being open on a rolling basis (i.e., proposals can generally be submitted on a continual basis, without the need to wait for specific cycles, openings, or calls for proposals). With less than a decade in operation, its funding deployment modalities and offer continue to evolve, aiming to enhance access and efficiency. Examples are its significant push to further incorporate direct access entities, and the development of expedited access mechanisms, such as the Simplified Approval Process (SAP), among others.

On the challenges and opportunities for improvement, continued work on streamlining the appraisal and approval process for projects and programs is fundamental to enhance speed to market and predictability of funding. An important part of this would be rebalancing appraisal requirements between what fundamentally needs to be assessed upfront (for GCF Board approval and FAA signing) and what can be delegated to AEs' own appraisal and approval processes. In addition, there are significant opportunities for enhancing product offer. Local currency financing (or alternative, efficient foreign currency risk management solutions) is key to ensuring GCF financial additionality in countries where currency mismatches pose a significant barrier. Continued work on increasing GCF's risk-taking capacity (including when MDB co-financing is involved) is also fundamental. And

further consideration of financing instruments that can go beyond traditional use-of-proceed approaches would also be important to diversify the set of tools to deliver impact efficiently and effectively across the various stages and challenges in countries' paths towards Paris Agreement alignment.

GEF. Based on the fact that the funding provided comes predominantly in the form of grants, the GEF is well suited to support technical cooperation activities critical to transformation processes (e.g., policy/regulatory development, institutional strengthening, capacity building) as well as early stages of innovative climate-relevant business and investment models where significant risk tolerance is required. This capacity is a fundamental asset of the GEF, and the IDB encourages continued strategy and implementation work to take full advantage of it. Another positive aspect of the GEF is that broad developing country eligibility and funding predictability (through the System for Transparent Allocation of Resources, or STAR) facilitate access and country planning.

One of the challenges identified is the declining share of the overall GEF funding allocated to climate change. This means that such funding must be used ever more strategically, building on the comparative advantages of GEF funding and enhancing coordination and complementarity with other sources, to support the higher ambition and impact required to achieve Paris Agreement goals. Another challenge that the IDB and other regional development banks have faced is related to the engagement and allocation modalities of country STAR resources. They are not well positioned to be engaged for project implementation relative to other types of GEF agencies that work more closely with operational focal points in their regular course of business. This partly explains the sharp decline (56 percent) in the participation of the IDB and other 1st expansion regional development banks[20] in the implementation of GEF projects to a **combined 4.3 percent only** in GEF-7. Any measures that can facilitate further MDB engagement might help the GEF capitalize on MDBs' distinctive investment expertise and capacity to mobilize co-financing, which could potentially expand its leverage and impact in the context of the decreasing GEF allocation to climate change. Some measures that can help maximize mobilization of MDB capital and expertise are (i) expansion of the allocation to the Blended Finance Global Program (which has been increasing in absolute value throughout GEF rounds, but at just 3.7 percent of overall GEF-8 funding it remains still quite limited), and (ii) further engagement of ministries of finance in defining the strategic use and allocation of GEF financing.

Finally, the joint efforts underway by the CF secretariats to enhance coordination, harmonization, and complementarity are welcomed and encouraged. Country-led investment planning processes (e.g. through the development of country platforms) are likely a critical supplement to those CF-level efforts and can help materially optimize coordination and alignment along Paris Agreement goals and related country commitments. Further reliance on capacities and processes already in place in existing organizations (such as MDBs, public development banks [PDBs], and other AE/GEF agencies) that avoid or reduce the need for new institutions, expanded structures, and potentially duplicative processes, can also contribute to enhanced coordination and efficiency.

[20] These are the four regional development banks incorporated in the first cycle of expansion of GEF agencies. They include the Asian Development Bank (ADB), the African Development Bank (AFDB), the European Bank for Reconstruction and Development (EBRD), and IDB.

Introduction – The IDB's Access and Participation in the Climate Fund Portfolio

1

This note was prepared by the Inter-American Development Bank (IDB) as an input to the work of the G20's Sustainable Finance Working Group on enhancing access to concessional climate finance. Stemming from IDB's own experience working in Latin America and the Caribbean (LAC) with some of the major global concessional climate funds, it intends to provide its perspectives and lessons learned on aspects affecting access to funding from the Climate Investment Funds (CIF), the Global Environmental Facility (GEF) and the Green Climate Fund (GCF).

The IDB has been a significant implementation partner to these three climate funds (CF). Its portfolio comprises about 129 projects and programs approved by the CF, amounting to about US$1.8 billion in concessional climate resources. As of the date of this report (April 2024), the IDB was responsible for the highest share of funding approvals for LAC for both the CIF and the GCF. Specifically:

- In the case of the **CIF,**[21] the IDB is one of the six entities, all of which are multilateral development banks (MDBs), eligible to implement projects funded by this source. As of mid-2023, the IDB had received CIF approval for **81 projects and programs**, amounting to over **US$838 million**. This represented about **11.4 percent of the total funding approved** by the CIFs, and about **62 percent of the approvals specific to LAC.**[22]
- In the case of the **GCF**, IDB is one of over 95 entities accredited to the GCF[23,24] and has originated **eight projects/programs**, amounting to **US$762 million**, all of which are currently under implementation. As of April 2024, the IDB accounted for about **5.5 percent** of the GCF project funding commitments and about **23 percent** of those for LAC.[25]

[21] One major access limitation of the CIF is that its funding is not available to all developing countries. As of April 2024, LAC countries eligible for CIF investment funding were 18: Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Peru, St. Lucia and St. Vincent & Grenadines. Some additional countries have been supported on a more limited basis through the Technical Assistance Facility (TAF). Source: CIF webpage. https://www.cif.org/country/latin-america-caribbean.

[22] CIF Dashboard – data as of June 2023.

[23] The IDB and IDB Invest (private sector arm of the IDB) both, and separately, were accredited to the GCF. IDB was originally accredited in July 2015 (with AMA effectiveness in March 2018), while IDB Invest was accredited in October 2018 (with AMA effectiveness in August 2021). As of April 2024, IDB Invest had not yet accessed GCF resources, but was advanced in the appraisal and approval process towards its first GCF funding program.

[24] As of October 2023, 95 entities had completed the GCF accreditation process and were able to fully operationalize their engagement with GCF. Source: https://unfccc.int/sites/default/files/resource/cp2023_08a01.pdf.

[25] As of end of April 2024, funding commitments to LAC (US$3.35 billion) represented 24 percent of overall GCF funding commitments (US$13.9 billion). Source: authors' calculation based on data on GCF Open Data Library as of April 30, 2024.

- In the case of the **GEF**, the IDB is one of 18 agencies eligible to implement GEF funding. As of April 2024, it had received approval for **40 climate change projects or programs**[26] for about **US$176 million.**[27,28] The IDB has been allocated about **2.4 percent of overall GEF funding approved**[29] between GEF-5 and the 1st GEF-8 Work Program as of March 31, 2023, representing **10 percent of the funding allocated to LAC.**[30]

The following table summarizes this information, highlighting the significant role played by the IDB in enabling access to CF funding for LAC countries.

Of this CF funding, approximately 37 percent has been provided in the form of grants (either for technical assistance, investment, payments for ecosystem services or result-based payments) and 63 percent as reimbursable financial instruments (mainly in the form of loans, guarantees, and equity).

Given the high level of development of IDB policies, procedures, systems, capabilities, and its track record, along with its significant presence on the ground across LAC, the IDB has been able to deploy all types and sizes of projects, ranging from relatively small technical assistance (TA) projects to support policy and regulatory development or to strengthen capacities at the community and small-holder level, to helping structure and mobilize financing for public or private infrastructure projects in the billion-dollar range. In doing so, it has had the versatility and expertise to deploy—along with technical assistance grants and advisory services—all sorts of financial instruments, including senior and subordinated debt, equity, guarantees, payments for ecosystems services, and various types of non-traditional products (e.g., contingent recovery grants) and models to support innovation, de-risking, and demonstration of climate change mitigation and adaptation investments.

To do this, it has deployed financing through public entities (encompassing ministries, secto-

[26] This figure does not include seven projects that were cancelled. Source: GEF Project Database as of April 30, 2024.
[27] GEF Factsheet for IDB, as of February 29, 2024. https://publicpartnershipdata.azureedge.net/gef/GEFFactSheets/AgencyFactSheets/GEF%20Agency%20Factsheets-IADB.pdf.
[28] Funding for GEF climate change projects in IDB's database appears to be higher (US$209 million); the difference is because some of those projects also contain funding from other GEF focal areas.
[29] This share is related to all GEF funding approved (not just for climate change).
[30] GEF. 2023. Assessing the Strength of the GEF Partnership: Coverage by GEF Agencies. https://www.thegef.org/sites/default/files/2023-06/EN_GEF_C.64_10_Assessing%20the%20Strength%20of%20the%20GEF%20Partnership%20-%20Coverage%20by%20Agencies.pdf.

	CIF	GCF	GEF	Total
# Projects / Programs	81	8	40	**129**
CF funding (millions of US$)	$838	$762	$176	**$1,776**
Expected co-financing (millions of US$)	$6,150	$964	$1,706	**$8,820**
Leverage factor				**5x**
IDB's share of CF funding	11.4%	5.5%	2.4%	—
LAC's share of CF funding	18%	24%	24%	—
IDB's share of CF funding to LAC	**62%**	**23%**	**10%**	—
No. of accredited entities/agencies	6	95+	18	

rial agencies, public development banks, municipalities, state-owned companies, among other) as well as through private ones (large corporates, micro, small, and medium sized enterprises and start-up companies, and financial intermediaries such as commercial banks, investment funds, and micro-finance institutions). In this endeavor, it has structured concessional climate funding to deliver additionality in various ways that support transformation processes, including through **non-financial measures** (such as supporting adequate policy and regulatory environments and developing required capacities of multiple stakeholders) and **financial ones** (such as ensuring lending terms that match the financial profile of target climate investments, guarantees that can soundly mitigate investment risks and enhance project bankability, and patient capital that can bridge equity gaps for start-ups and growing SMEs).

The IDB has supported innovative financing mechanisms. Examples include development or funding support for financial instruments such as energy savings insurance policies and performance guarantees to promote energy efficiency investments, contingent grants to address geothermal drilling risk, and debt-for-nature conversion (DFNC) instruments and performance-based grants to support broader environmental objectives. It has also provided scarcely available risk capital to investment funds targeting early-stage investments in highly innovative start-up companies in segments such as agtech.

In this process, it has forged valuable partnerships with the CF, which have been critical to allow IDB to foster innovation, support first movers and mobilize additional public and private finance towards climate investments. The high rate of mobilization of concessional climate finance IDB has achieved (which has ranged between US$200 million to US$600 million per year, including CF and other concessional climate partners) has been instrumental for the IDB to pursue the incremental climate finance targets if has set for itself over the last few years.[31] These concessional finance resources have not only allowed the IDB to support and enable climate projects that required enhanced financial terms and conditions (in terms of interest rates, tenor, grace periods, amortization profiles, collateral requirements, among others); they also provided much-needed tools and room for testing and innovation to push the frontier and accelerate penetration of low-carbon, resilient technologies and associated business models. From this perspective, both the price concessionality and the higher risk tolerance that these sources can provide have been essential for this purpose. They have made it possible to deploy new financial instruments, support innovative financing modalities, and take on risk levels that IDB could have not fully supported with its own capital alone.

Critical to delivering all this work with CF has been the IDB's technical expertise across the various sectors mentioned, its local presence across the region, and its extensive regional and global network in the financial community. The latter is fundamental for its contribution to the mobilization of private co-financing, one of the distinctive assets that MDBs bring to the table. In addition, key to IDB's capacity to mobilize and properly manage CF funding are a set of specialized teams put in place for this purpose, encompassing expertise in climate change, blended finance, resource mobilization, and grant/co-financing management. This, combined with other more general areas of expertise and operational functions within development finance institutions (legal, finance, credit, procurement, environmental and social risk management, and others) represents a minimum set of

[31] For example, annual floor of 30 percent of climate finance approved, as a percentage of total amount approved for 2020–2023 for IDB and IDB Lab operations. In the case of IDB Invest, the 30 percent target is in terms of climate finance committed, as a percentage of the total amount committed.

core capacities required to properly manage CF portfolios.

Based on its track record, and as a regional MDB, the IDB is in a unique position to contribute to the accelerated scale-up of climate investments needed to achieve the Paris Agreement objectives, through its capacity to deploy complex programs at national and regional scale, leverage significant volumes of additional finance (including its own), and contribute to the development of the capacities of national entities and partners through their engagement as executing entities. This will accelerate their readiness to act as direct access entities and support their Paris Agreement alignment processes.

As a key provider and intermediary on climate finance for LAC countries to help them deliver on their increasingly ambitious NDC, NAP, and other development strategies, the IDB has been taking significant steps towards its own Paris Agreement alignment. These include strengthening its policy support for the transition to climate-resilient and low-carbon pathways and increasing targets for climate finance mobilization. Its current commitments include (i) tripling direct and mobilized climate financing for LAC to US$150 billion over the next decade, (ii) providing up to US$5 billion in additional financing for the Amazon over the next 10 years for sustainable development projects; (iii) investing in ambitious regional programs such as *America en el Centro* and *One Caribbean,* (iv) strengthening coordination among MDBs for climate transition finance through country platforms, and (v) stimulating institutional capacity for NDC implementation through financial instruments such as IDB CLIMA.

Critical to the chances of achieving these targets is securing continued, efficient, and accelerated access (in terms of both speed and scale) to funding from the CF. The robust track record and partnership jointly achieved with the CF creates a good foundation on which to build. However, the prospects for IDB's level of access to CF funding significantly accelerating to match the ambition of these targets are uncertain at this point. This is due to a combination of:

i. mixed trends and unclear prospects for climate change funding across CF.
ii. unclear prospects for the IDB (or MDBs in general) maintaining significant rates of participation in CF funding, in view of certain developments and trends (e.g., marked decline in MDB share of GEF funding between GEF-5 to GEF-7 rounds; comparative advantages of direct access entities, MDBs and other international accredited entities for design and execution of projects and programs).
iii. CF funding allocation modalities that in some cases do not align well with MDB engagement processes, and some funding approval processes not yet optimally suited for speed and scale.

On the first point, while climate change funding pledges have notably increased in the last few years for some of the CF (mainly in the context of the GCF-2 replenishment and renewed momentum in the CIF, following the indefinite postponement of the sunset clause), climate change funding pledges to the CF have shown varying trends over the last decade, making it difficult to predict its expected evolution and rate of growth in the medium term. Specifically:

- In the case of the GCF, pledges were at about the same level (US$10 billion)[32] in the first two mobilization periods (Initial Resource Mobilization [IRM] and first replenishment [GCF-1]). Pledges in the second replenishment (GCF-2) increased to US$12.7 billion, with confirmed pledges as of January 2024

[32] IRM overall pledges were for US$10.32 billion, of which US$9.31 billion were subsequently confirmed. GCF-1 had approx. US$9.87 billion in overall pledges, all of which were confirmed.

amounting to US$3.9 billion.[33] It is difficult, however, to discern a definite trend in this regard. First, there was no significant change between the first two periods and then a significant increase in the third one (so not a steady trend). Second, a large share of GCF-2 was still to be confirmed as of January 2024 (with a precedent in IRM of a 10 percent decline relative to initial pledges). Third, the increase in GCF-2 is to a large extent explained by the United States' US$3 billion pledge, and it is hard to predict the extent to which similarly large individual pledges can be expected in future rounds.

- In the case of the CIF, a new set of programs was created in recent years. One of them, the "Accelerating Coal Transition" (ACT) program, received significant new pledges (US$2.26 billion as of December 2022). This additional funding has been instrumental in reigniting the CIF. CIF cumulative pledges, however, at US$12.1 billion as of December 2023, only grew by 60 percent in the last 15 years relative to its initial US$7.6 billion capitalization in 2008. This is mostly explained by the emergence of the GCF and the related CIF sunset clause. Looking forward, it is not clear how quickly CIF funding (or its commitment capacity) can be expected to grow. Given the unsteady evolution of new commitments, it is hard to predict the volume of new pledges that might be made in the medium term. Moreover, a significant volume of new commitment capacity is expected to come from the CIF Capital Market Mechanism (CCMM), at an estimated US$500 million per year. Such a mechanism could provide some degree of continued and more predictable new commitment capacity to the CTF (albeit not to other CIF programs), which would be a positive development. However, it is not yet operational, and its actual commitment capacity will be subject to portfolio performance and market risk.
- In the case of the GEF, the funding for climate change mitigation has declined substantially in the last decade, from US$1.36 billion in GEF 5 to US$0.85 billion in GEF 8.[34,35]

Thus, with these uncertainties and mixed trends, **it is difficult to assess how much the individual and combined funding from CF can be expected to grow in the medium term, and even more so whether such growth rate will be in line with the rate of acceleration in climate investments required in countries served by the CF to help them effectively deliver on their contributions toward Paris Agreement goals**.

Moreover, and connected to point (ii) above, based on some trends and developments, the IDB's (and more broadly, MDBs') **comparative share of access to some of these funds has decreased or may decrease over time.** More specifically:

- In the case of the GEF, the IDB's share of total GEF funding has declined from about 5 percent in GEF-5 to 1 percent in GEF-7.[36] Overall participation from 1st expansion regional development banks (RDBs) has also declined, from about 9.8 percent in GEF-5 to 4.3 percent in GEF-7 (a 56 percent decrease).

[33] As of December 31, 2023. Source: GCF. 2024. Status of the Green Climate Fund Resources. https://www.greenclimate.fund/sites/default/files/document/09-status-green-climate-fund-resources-gcf-b38-inf07.pdf.

[34] These figures correspond to the specific allocations to the Climate Change Focal Area; it does not include any additional resources approved for climate change projects funded from other non-climate change specific windows/programs, such as the Non-Grant Instrument/Blended Finance program.

[35] GEF, 2022. "GEF-8 Programming Directions". https://www.thegef.org/sites/default/files/documents/2022-04/GEF_R.08_29_Rev.01_GEF8_Programming_Directions.pdf

[36] Data as of March 2023. Source: GEF, 2023. "Assessing the strength of the GEF Partnership: Coverage by GEF Agencies" https://www.thegef.org/sites/default/files/2023-06/EN_GEF_C.64_10_Assessing%20the%20Strength%20of%20the%20GEF%20Partnership%20-%20Coverage%20by%20Agencies.pdf.

- In the case of the GCF, the notable incorporation of a considerable number of accredited entities[37] (especially direct access ones) has the potential to significantly increase demand for GCF funding, without assurance that the offer of this funding will grow proportionally. This will impact the extent and ways in which funding can be accessed by local entities in the future. One potential course for this evolution might be to rely on MDBs or other international accredited entities for complex, multi-country programs that present higher risks or can benefit from programmatic synergies. This would avoid, in most cases, overlapping with national accredited entities which are often times accredited for smaller, less complex projects and limited in geographic scope to their corresponding countries.

Finally, with respect to point (iii) above, some of the CF funding allocation modalities do not connect well with MDBs' engagement processes at the national level. For example, GEF operational focal points, which play a pivotal role in the GEF funding planning and allocation process at the country level, are normally located (at least in LAC) in ministries of environment, which are not always well acquainted with MDB capacities and potential value add, and are not comprehensively involved in the process of planning financial and non-financial support from the MDBs to the countries (a process normally led by ministries of finance). As a result, there is a disconnect between the engagement interphase and process normally followed by national governments with MDBs and how GEF funding is allocated to programs and agencies. The result is that the IDB and other RDBs are not strongly positioned relative to other types of GEF agencies for being selected to implement GEF programs (at least those funded with the STAR allocation).

Against this backdrop, the next section analyzes some of the main aspects (and opportunities for improvement) affecting access to CF's concessional climate finance. Sub-section (I) describes some of the challenges posed by the requirements and length of appraisal, approval, and effectiveness processes and timelines, which hinder speed to market and can result in missed opportunities. This sub-section focuses mostly on the GCF, where some of these aspects and related opportunities are more relevant. Sub-section (II) discusses some opportunities for improving CF product offer, while sub-section (III) outlines some considerations for the process of enhancing complementarity and coordination between CF and in the process of countries making strategic CF allocation choices.

Some of the aspects discussed below are concurrently identified in recent assessments and strategic documents of CF, such as the GCF Strategic Plan 2024[38] and the GEF-8 Programming Directions.[39] The IDB therefore understands that there is a fair level of awareness and common ground with respect to many of them. This note highlights which of these aspects, as well as some others, are more significant in relation to IDB's potential to maximize its contribution to the urgent shared climate change agenda of LAC countries and the CF.

[37] As of October 2023, 95 entities had completed the GCF accreditation process and were able to fully operationalize their engagement with GCF, including 58 direct access entities (DAE). Source: https://unfccc.int/sites/default/files/resource/cp2023_08a01.pdf.

[38] GCF Strategic Plan 2024–2027. https://www.greenclimate.fund/sites/default/files/decision/b36/decision-b36-13-annex-iii.pdf.

[39] GEF, 2022. "GEF-8 Programming Directions". https://www.thegef.org/sites/default/files/documents/2022-04/GEF_R.08_29_Rev.01_GEF8_Programming_Directions.pdf.

2

Main Opportunities and Recommendations

I. Streamline project appraisal, approval, and effectiveness process

1. *Reduce proposal appraisal and approval time*

Access to GCF and GEF funding implies lengthy preparation, appraisal, approval, and effectiveness processes that hinder timeliness of access to required concessional funding. This, in turn, can result in missed opportunities for relevant climate investments.

The most significant case is the GCF, where on average (as per IDB's experience with the eight GCF projects in its US$762 million portfolio) it took more than two years[40] from the time projects entered the GCF's pipeline to the time their Funded Activity Agreements (FAA) became effective. Within that timeframe, the time required for proposal review and GCF Board approval averaged 1.5 years (with some proposals taking between two and three years). After this, another 12 months on average were required for projects to become effective. This entails getting internal approval at AE, preparing, negotiating, and executing the FAA, and meeting the effectiveness conditions. And an additional three to four months were required after effectiveness to receive the first disbursement.

The considerable length of this timeline has several major implications. First, it creates a significant risk that by the time GCF funding is available, market, political, or other relevant conditions (e.g., availability of co-financing) may have changed, rendering the initial theory of change or enabling conditions—and therefore the proposed interventions and GCF support—no longer suitable. In other words, it creates significant execution risk. Second, adding to this risk is the considerable upfront cost associated with project preparation requirements, which requires the IDB to be very selective with the type and number of projects it can bring forward, occasionally having to leave aside projects that could otherwise fit well (objectives, additionality, impact) with GCF priorities.

This lengthy timeline is due to a combination of factors that relate to both GCF and AE processes. Some of those that are under GCF's

[40] The actual average timeframe required by IDB projects was longer, as a result of the time required to structure and negotiate the AMA, which delayed the signing and effectiveness of the FAA of the three initial projects. To avoid distorting the average timeline based on this initial circumstance, the real average timeline between GCF Board approval and effectiveness (which was 1.4 years) was adjusted downward accordingly by not considering the corresponding GCF Board-to-effectiveness timeline of those three initial projects.

direct control (and which might therefore be suitable for its consideration) include the following:

i. the **structure of the appraisal process**, with a number and scope of reviews[41] that, from the IDB's standpoint, present some level of overlap and duplication. This has implications for the overall appraisal and approval timeline; it also increases the chances of having differing views at subsequent reviews, which may reopen previously agreed points, identify new issues, and/or require further adjustments or restrictions. When this occurs at advanced stages of the approval process, and particularly if the issues are material, they are difficult to accommodate without affecting the essence of projects and the coherence of their design (which in turn can increase subsequent execution risk).
ii. the **breadth and depth of appraisal**, with the level of analysis required at the project preparation stage significantly impacting the overall preparation and appraisal timeline, particularly for program proposals where such analysis is generally required for each and all participating countries. Much of the upfront work required for GCF Board approval could be avoided by delegating it to AEs' own appraisal and approval processes (at least in the case of AEs with robust appraisal processes, as is generally the case of MDBs).
iii. **capacity constraints**, as GCF's staff bandwidth to review concept and funding proposals is likely challenged by the number of applications it receives.[42] These capacity constraints and/or GCF's pipeline prioritization criteria can further impact the overall appraisal and approval timeline.

The other major aspect that significantly affects the timeline for accessing GCF funding is a particularity of the GCF process: **a project/program-specific funding agreement, the FAA**. This process contributes significantly to the average 12 months required (in IDB's experience) from GCF Board approval to reach effectiveness and thus be able to start accessing GCF resources. The CIF and GEF, by contrast, do not require the establishment of a project/program-specific agreement after their funding approval and rely instead on subsequent MDB and GEF agency processes to make funding available to targeted activities.

The IDB is encouraged by GCF's Strategic Plan 2024–2027, which identifies and aims to work on some of these aspects, including on streamlining the appraisal and approval processes. This would improve speed to market and avoid missed opportunities.

In the case of the GEF, in a sample covering about 25 percent of IDB GEF projects, the average timeline required from initial submission to CEO endorsement was 1.2 years. This compares somewhat favorably to the GFC timeline for similar milestones (1.5 years), but it is still a lengthy process and may also offer opportunities for improvement. This average value should be considered with care and evaluated further, however, as the real average of the full portfolio could vary relative to the sample.

2. *Enhance predictability of funding*

An important challenge to develop projects that require CF concessional support to become viable is the uncertainty with respect to ***if***, ***how,*** and ***when*** such funding could be effectively accessed.

The ***if*** and ***how*** issue mostly relates to the uncertainty (not just before initial concept submission but also at more advanced stages of the

[41] Reviews include at least: 1. Initial/concept review (which leads to CIC2); 2. Interdivisional team Technical Review; 3. ORMC (which leads to CIC3); 4. Independent Technical Advisory Panel (iTAP); and 5. Board review.

[42] As of February 2023, there were 431 projects in the GCF pipeline. Source: GCF. 2023. GCF Monthly Report – Pipeline Update- February 2023. https://www.greenclimate.fund/sites/default/files/document/pipeline-feb2023.pdf.

applications process) around whether a project can be approved under the terms and design originally envisioned by the proponent, many of which are critical for its effectiveness. This uncertainty can be more significant in cases where there is a limited track record of similar projects having been approved that could provide insight on whether different criteria or preferences (e.g. on risk-taking) of a certain CF were found to be acceptably met. This risk is greater when projects are innovative, which CF normally seek to promote.

The issue around the **how** (which is more significant in the case of the GCF, given the various internal and external reviews that could result in differing views along the appraisal and approval process) relates to the limited clarity that AEs may have at the initial stages of the appraisal process with respect to GCF's ultimate position and/or the conditions it might establish in relation to certain project aspects (technical, financial, legal, etc.) that might be material to the effectiveness and efficiency of the projects. These uncertainties are particularly challenging when CF requirements for project preparation demand a large upfront investment (e.g. feasibility assessments, cost-benefit analysis, stakeholder consultations, etc.), as the risk of incurring considerable preparation costs that eventually do not result in GCF funding support as well as the reputational risk with government and private clients become more significant.

The ***when*** uncertainty relates mainly to the lack of reliable expectations on timelines for approval and disbursement. In the case of the GCF and the GEF, it is difficult to predict the number and length of review iterations, considering the multiple rounds of comments and answers that might be required. In addition, in the case of the GCF, this might also be impacted by eventual limitations in the number of proposals that can be brought forward to each Board meeting, due to capacity or other constraints. In other cases (e.g. in some instances in the CIF), the uncertainty around the **when** might be related to expected contributions from funding partners not having yet fully materialized, and a reliable timeline for them not yet being available. Finally, the timing for consideration of proposals is also affected (negatively or positively) based on the extent to which the GCF might find them of priority interest, given the high number of proposals in the appraisal and approval pipeline. Time between request for disbursement to actual disbursement is also a critical factor that can affect execution.

To enhance predictability (particularly in terms of **if** and **how** projects can be supported), the GCF is encouraged to consider further measures it can implement to enhance the outcome of the first stage of review (normally at the concept level) to ensure it significantly de-risk endorsed concepts from the chances of subsequently not getting the required financial support under acceptable terms and in a workable timeframe. Further clarity early on regarding the acceptability of critical aspects of the concept[43] and funding proposals presented to it would be key. This could be achieved by enhancing the comprehensiveness and depth of the initial review, so that GCF staff from all relevant areas (technical, financial, credit, impact, safeguards, legal, etc.) can identify any critical issues and suggest alternatives and/or restrictions based on which the project would be deemed acceptable, if they can be accommodated. For this, it is important that officers involved in this early stage have deep experience within the institution, to ensure their sound understanding of internal standards and preferences (including on risk appetite) enable them to anticipate issues that might otherwise emerge further along in the appraisal/approval process.

[43] GCF's Climate Investment Committee 2 (CIC2), which is already in place, pursues this objective. So, the recommendation is to consider how to strengthen this stage of review to further identify and anticipate issues, and measures/restrictions that might be required to properly address them.

Having this feedback in a clear and reliable manner early in the process should contribute to reducing approval uncertainty and to enhancing efficiency in the preparation process (for both preparers and reviewers). Getting it right the first time reduces the number of iterations between teams and the total review time.

3. *Rebalance up-front appraisal requirements and delegation to AEs for Program modalities*

In light of the relatively high transaction cost and lengthy timeline required to prepare and approve CF projects, the IDB has been increasingly resorting to Program[44] modalities, where the efficiency of the initial upfront investment is enhanced based on the subsequent possibility of supporting multiple projects. Program approaches have the additional benefits of mitigating uptake risk by diversifying the set of countries/markets they can support and being able to support thematic approaches across a broader geography, with the possibility of achieving programmatic synergies, taking advantage of economies of scale, and generating knowledge-sharing opportunities. Another value of Programs is that, in incorporating various markets as eligible demand, they increase the market size for investment origination and deployment, and thus the absorption capacity of funding envelopes that need to be of a certain size to justify the transaction cost. This can be particularly enabling for small countries and some mid-size countries. In addition, aggregation of eligible demand also becomes appropriate when economies of scale play an important role in the theory of change to contribute to medium- to long-term viability of a certain technology (e.g., green hydrogen) or business model.

While Program approaches can help address some of these challenges and opportunities, they still face significant hurdles. In the case of the GCF, for example, the main challenge relates to GCF requirements for funding proposals, as some of them that are generally more manageable for individual project proposals (where specific investments are more limited geographically, technology-wise or in terms of quantity or already identified at the time of preparing the proposal) are not suitable for Program proposals. Conducting comprehensive, in-depth analysis on climate, technical, financial, market and legal conditions, and other feasibility dimensions for a large number of participating countries amounts to a volume of analysis with significant implications on timelines for project preparation (for the AE) and review (for the GCF). It also frequently fails to provide the level of definition and certainty the GCF might normally expect based on standards applied to individual project proposals.

From this perspective, the IDB sees the need to readjust the balance between the level of analysis (i.e., feasibility studies, economic and financial modelling/analysis, identification of investment pipeline, etc.) and the definition on certain parameters required upfront for GCF Board approval versus the aspects that can be assessed and further defined during IDB's (or AEs', in general) origination, appraisal, and approval of specific sub-projects. Rationalizing the upfront requirements for Program proposals would make it possible to overcome some of the difficulties previously highlighted while also delivering on other benefits identified (e.g., aggregation of demand, etc.).

For this, the IDB strongly recommends ***reconceptualizing the focus and scope of the GCF appraisal for Program proposals.*** Rather than requiring detailed technical, economic, financial, and other types of analyses on a per country and per sector/activity level, a revised Program approach would focus on assessing:

[44] Given the different ways in which the term "program" is used across funds, by Program we refer here to the meaning provided under the GCF, where it refers to proposals aiming to support multiple sub-projects under a defined framework.

- the business case (including theory of change) of the proposed program.
- the fit with GCF investment criteria (including impact potential, justification, and additionality of the GCF contribution).
- the AE's capacity to deliver on such a program of investments and its impact targets (based on track record and preparatory work already undertaken, among others).
- the soundness of the risk analysis performed and of the proposed risk mitigation strategy.

This would be complemented by a clear determination of appraisal elements that the AE would be contractually responsible for conducting and assessing during its own origination and approval process to confirm eligibility and terms of support for sub-projects (as per framework parameters previously agreed with the GCF).

Deferring to AEs (when properly equipped for that) to conduct more detailed technical analysis as part of their follow-on appraisal and approval of sub-projects has benefits related to improved timeliness. First, when these types of assessments are conducted for specific sub-projects closer in time to their detailed structuring and implementation stage, much more information on critical elements is available, including on executing entities (not always available at Program approval stage), the specific location/sub-region in a given country where it will be implemented, the specific sub-investments that will likely be supported (particularly in Programs that seek support for multiple activities and technologies), the level of concessionality that might be effectively required (in particular for private sector projects, where pricing terms might not need to be set at Program approval time at a pre-determined fixed level, but can be defined following minimum concessionality considerations), the additionality of counting with GCF support, and others. In short, the closer this type of analysis is conducted to the time of approval of specific sub-projects, the more reliable these analyses can be to ensure alignment with GCF's criteria. Second, given the significant time lapse between the moment these assessments are made (early in the preparation process) and the time when resources are made available (a few years after the initial assessments) there is a significant risk that such assessments are no longer valid, as various parameters (CAPEX costs, interest rates, exchange rates, etc.) might have changed materially, eventually leading to unnecessary concessionality (with its opportunity cost) or insufficient support, which hinders impact.

Other aspects worth considering to reduce both transaction cost and timeline required for Program approval, and the need to restructure projects/programs during execution stage, include the following:

1. **Co-financing ratio covenants.** In the context of Programs involving many countries and expected sub-projects (most of which may be at an early stage of development at the time of submission of the Program proposal), co-financing values can often be only roughly estimated. Setting co-financing covenants requiring those ratios to be met as a condition precedent for disbursement thus poses a significant restriction and execution risk, increasing the chances of requiring a restructure.

   Further to this, the overall expected co-financing for a Program is often the result of assumptions on average co-financing expectations. As a result, some sub-projects will naturally have lower levels of co-financing, and some others will have higher levels. Setting a standard level required for all sub-projects is therefore likely to result (unless a very conservative value is assumed) in a few of them not meeting that target.
2. **Incorporation of additional countries.** One way to mitigate the risk that changes in market or political conditions in one or more participating countries no longer allow a

Program to fully deliver pre-defined mitigation and adaptation impact targets would be to allow Programs to incorporate ex-post (i.e., after the FAA has been executed) new countries for which the Program's theory of change and support model fit well with country needs and conditions.

The proposed revised approach to program proposals, with stronger emphasis on framework elements and further reliance on AEs to conduct the detailed assessment of sub-project alignment and eligibility, would facilitate incorporation of new countries in the circumstances described above. Assessment and confirmation of the fit of new countries could be delegated to AEs (subject to such country meeting any conditions pre-defined in the Program document), thus avoiding the need for Board re-engagement.

The proposed reconceptualization of program appraisal and approval could also enhance the efficiency of scaling up such programs when additional countries are identified as suitable for incorporation. Approval of subsequent phases of the same program for additional countries, with additional funding, would be streamlined. A requirement in approving subsequent phases could be to ensure that they document and capture any learning emerging from the implementation of the initial phases, to enhance the efficiency, effectiveness, and impact of new rounds.

3. **Allocation per financial instrument.** In Program proposals deploying multiple financial instruments (e.g. loans, guarantees, equity) it is generally not possible to determine upfront with sufficient accuracy how much will be required of each instrument (to avoid mismatches that hinder effectiveness during execution). While the IDB understands the need for the GCF to have allocations per instrument at the outset (among other things for risk management purposes), alternatives to make such initial allocations more flexible could avoid the eventual need to restructure a Program. One possibility is to determine ranges of allocation per instrument (e.g. loans: 30–50 percent; guarantees: 20–40 percent; equity: 10–25 percent) instead of less flexible fixed values at the time of program approval. A better possibility would be to establish caps for the riskier instruments (e.g. equity, first loss guarantees), with flexibility for less riskier ones to eventually increase their participation.

In the case of the GEF, the Blended Finance window and its connected predecessors (such as the Public-Private Partnership program and the Non-Grant Instruments window) have experimented significantly with different levels of delegation for Program approaches throughout GEF rounds. Guidelines in the latest call for proposals[45] provide two alternatives in this regard, with the aim of tailoring the approach to the characteristics of each project. These alternatives are the following:

i. Projects or programs where subsequent investments have a "specific investment focus, parameters, and financial terms and conditions" that can be defined in advanced can follow the regular process and obtain final approval through CEO endorsement.
ii. For projects or programs with a "portfolio of diverse investments, different non-grant instruments, and different technologies or approaches," the project/program document to be submitted may include only a general description of the use of proceeds and financial instruments at the time of CEO Endorsement. GEF agencies will need to

[45] GEF, 2024. "Third Call for Proposals under the GEF-8 Blended Finance Global Program". https://www.thegef.org/sites/default/files/documents/2024-02/GEF8_Blended_Finance_Third_Call_Proposals.pdf.

obtain expedited concurrence from the GEF Secretariat for each investment prior to GEF agency and/or executing agency investment approval.

This flexibility is welcomed as it recognizes the difficulties some projects and programs may have in generating full information (e.g. pipeline) and pre-defining terms and provides some level of flexibility through the second option listed above. This option comes with the trade-off of the risk associated with the need to obtain concurrence from the GEF Secretariat at a more advance stage, as this concurrence cannot be guaranteed. From that perspective, to enhance predictability and reduce risk perception associated with the final concurrence step, it would be helpful if the GEF Secretariat could define a relatively limited set of aspects that would be subject to evaluation at that point. This would give agencies further insight into the aspects that need to be carefully considered at the time of originating investments in order to mitigate the risk of not obtaining subsequent concurrence.

In the case of CIF, which relies more heavily on MDB processes, the balance between upfront CIF appraisal and delegation to MDBs for program proposals is generally found to be adequate and enabling already.

4. *Expand geographical presence to enhance origination engagement*

One additional challenge facing LAC countries with the GCF is their geographical distance. It is the most remote developing region in relation to the Secretariat's location in South Korea, with time differences ranging between 12 and 15 hours. This makes interaction with the Secretariat more difficult and less fluid than ideal, particularly if multiple parties need to connect and coordinate their schedules. The challenge is even greater when participants from multiple regions need to connect. The possibility of having a GCF presence in or closer to the region would help reduce the impact of this distance and may also enhance the GCF's capacity to appraise projects from LAC, because it would facilitate a richer understanding of regional issues affecting projects.

For this measure to be effective, the decentralized team should be staffed and equipped to have a **certain degree of self-sufficiency**, so that it can manage a meaningful part of the engagement and feedback required by AEs' project teams. If, instead, it continued to rely heavily on inputs from headquarters for most tasks, the benefit of closer proximity would be lost, as interactions would still require daily involvement from Songdo.

II. Enhance product offer

5. *Expand availability of local currency financing and alternative foreign exchange risk management solutions*

As CF funding is still mostly extended in hard currency, implied foreign exchange risk can be significant. It has the potential to render CF reimbursable funding unsuitable for a broad range of projects, either because they cannot efficiently manage it or because in doing so, they would lose most of the net concessionality (given the additional cost of hedging solutions). Foreign exchange risk can be even greater in countries where investment and financing conditions are already more challenging (poor credit ratings and/or insufficiently deep financial markets), as access to adequate hedging solutions (cost, coverage) might be more limited as well.

The GEF does not have this problem, as most of the funding it provides is in the form of grants. Even in the context of the Blended Finance window, where reimbursable products are prioritized, the GEF can generally absorb this risk (given adequate analysis and justification).

The GCF and the CIF have been developing alternatives to enable borrowers to better manage this risk, but comprehensive solutions

are not yet in place. In the case of the CTF, the offer incorporated the possibility of subsidizing (up to a certain cap) the cost of currency hedges, but the support was limited, and it would not work in countries where adequate hedges are not available. In addition, it is still unclear if the approaches foreseen for this under CCMM can sufficiently address the problem.

With respect to the GCF, a number of supplemental alternatives, which combined could result in a more comprehensive offer that might better cover the needs of different markets, have been identified and are expected to be developed as part of a pilot program, likely in a phased manner. It is unclear, however, how rapidly and broadly the full set of solutions will be in place. Continued and expedited work on this is encouraged for both the GCF and the CIF, so that they can enhance their offer vis-à-vis this risk, to enable them to deliver effective concessionality in all settings.

6. *Ensure adequate risk appetite to enable further additionality, innovation, and leverage*

CF have been taking steps to increase the type and level of risk they can assume, recognizing the importance of a higher risk tolerance for their capacity and comparative advantage to drive innovation and impact. This trend is welcome and contributes to expanding capacity to address investment barriers.

Connected to this, the **GEF** has been expanding the types of financial instruments it can provide under its Blended Finance Global Program. It has been incorporating convertible instruments, contingent instruments linked to environmental performance, political risk insurance, and liquidity facilities, thus offering additional ways to support projects that can in turn enhance financial and business model innovation. In addition, the budget allocated through this window has increased over successive GEF rounds and is currently (for GEF 8) at around US$195 million. This is a positive trend; however, the overall budget allocated, at just about 3.7 percent of overall GEF-8 funding (and the indicative cap per project at about US$15 million[46]) remains limited vis-à-vis the global reach and the type and scope of opportunities the Blended Finance program can support. This is particularly relevant considering that this GEF engagement modality is the most, or sometimes the only, suitable modality in the overall GEF allocation system for some types of MDB projects. Other programming modalities are more difficult to navigate, particularly when targeting innovative private sector projects. The Blended Finance program engagement model helps overcome some of the constraints that the IDB and possibly other RDBs face relative to the regular engagement process for projects funded with the STAR allocation. Thus, it is more likely to enable further MDB participation, particularly with the recent expansion of eligible financial instruments.[47] A larger funding allocation in subsequent rounds could drive interest further, including from programs and initiatives requiring more support (i.e., larger ticket sizes).

The **GCF** has been increasingly emphasizing (including in its Strategic Plan 2024–2027[48]) its intention to take incrementally greater risks.

[46] For instance, this cap may be too limited relative to the size of blended finance programs that IDB Invest normally pursues, seeking to ensure efficiency in the mobilization and deployment of resources.

[47] The IDB provides solutions, such as technical cooperation for policy-based work, capacity building, institutional strengthening, and others, that match funding opportunities under the STAR window. Given the constraints in accessing them, more focus should be devoted to the Blended Finance program. Measures to facilitate MDB access to the STAR window are encouraged.

[48] The GCF's Strategic Plan 2024–2027 states that "it will also exercise a distinctive risk appetite to accept considerable uncertainties around funding and investment risks in return for impact potential." GCF decisions even go as far as indicating its willingness to provide "early-stage financing to new, pre-commercially viable technologies."

The IDB has seen this trend[49] and very much welcomes it. The IDB has also encountered occasions when the GCF did not deem it feasible to take a junior/subordinated position relative to IDB capital. The IDB has further perceived that there might not yet be a full understanding of how MDBs operate from the standpoint of risk-taking and pricing for private sector operations. With respect to pricing, IDB Invest follows market references; it generally does not pursue a concessional approach with its own capital. With respect to risk-taking, while its development mission and technical and financial structuring expertise allow it to go farther than where commercial entities may sometimes be capable or willing to go, as a credit-rated entity that needs to maintain a certain financial performance, there are limits to the type and level of risk it can take. A critical part of CF's additionality when working with MDBs resides in their willingness to take risks that MDBs cannot take entirely on their own. Thus, continued consideration and joint work in this area would be welcome to maximize de-risking additionality from the GCF, while keeping incentives aligned.

With respect to the CIF, significant risk-taking has been supported across the CIF portfolio, particularly in the context of projects financed against allocations of CIF capital and grant contributions. Significant support has been approved for risk-prone instruments such as equity, first-loss guarantees, mezzanine capital, and contingent recovery grants, including the possibility of MDBs having a senior position relative to CIF capital. Nevertheless, it is unclear whether similar possibilities will continue to exist as the CTF funding model evolves into the CCMM, where the need to ensure more predictable cash flows might reduce the appetite for risk. It is important for the CIF to strike an appropriate balance between the benefits of implementing the CCMM and the need to safeguard the significant risk appetite and financial instrument flexibility of the CTF, which was one of its main assets in its mission to drive transformation and financial mobilization at scale.

On a similar note, the CCMM will need to carefully define its origination strategy in order to be able to deliver adequate concessionality (i.e., sufficiently deep where needed to ensure additionality) across projects. Given the need for a sustainable asset-liability management, and that market funding costs will likely significantly exceed the interest rates provided to countries with high concessionality needs for the same credit risk level, the CIF will need to balance such projects with others that can ensure a healthier risk-adjusted return (e.g., private sector projects in middle-income countries).[50] This should be envisioned from the outset to ensure that subsequent origination aligns with it. On this note, ensuring that the CTF continues to have, in the CCMM phase, project origination modalities that are adequate and efficient to originate private sector projects is essential to achieve this balance.

Another strategy that would help manage the challenge of balancing financial sustainability with the possibility of continuing to provide significant concessionality and risk-taking is to continue to pursue some degree, albeit more limited, of periodic grant and/or capital contributions from CIF contributing countries.

7. *Expand use of financial instruments not based on traditional use-of-proceeds approaches*

With notable exceptions such as in REDD+ and other performance-based models, most CF projects tend to deploy their funding based on use-of-proceeds approaches against well-defined inputs to be supported. While this approach,

[49] For example, through the use of CRIGs in the Amazon Bioeconomy Fund program to support early-stage companies not yet fully ready to raise traditional equity from commercial sources.

[50] IDB Invest internal note.

when properly structured, can deliver significant additionality and mitigation/adaptation value, in some cases there is the risk that their impact does not go significantly beyond the climate investments and assets that are specifically funded, falling short of achieving a more systemic impact. This risk can exist even if input-type support is provided for activities with significant potential to contribute to transformation and paradigm shift, such as the development of relevant policies and regulations. This is because such support does not necessarily guarantee that the policies and regulations will be implemented, or that a set of supplemental developments (e.g., other connected regulations) required for them to generate the effects they pursue effectively are put in place.

Thus, it may be worth exploring an expansion of the use of traditional use-of-proceeds, input-oriented instruments to alternative approaches that in certain circumstances may be more efficient or effective in addressing systemic barriers, catalysing critical developments, achieving specific results, or increasing leverage. Some types of instruments for which CF support may be worth exploring further include:

- **Policy-based instruments.** The feasibility of achieving Paris Agreement objectives largely depends on countries' willingness and capacity to enact and implement comprehensive and sector-specific policies and regulations that create obligations, provide incentives, and/or facilitate climate investments.[51] Policy-based instruments (including loans and guarantees) aligned with this objective could prove useful and efficient to expedite such policy processes, with a potential catalytic effect in some cases more significant than direct funding of specific investments.
- **Sustainability-linked instruments.** Similarly, where funding and associated pricing incentives are linked to achievement of pre-defined sustainability objectives (which in this case could be focused on climate-relevant milestones), these instruments can sometimes be more viable or efficient than traditional use-of-proceeds alternatives (e.g. green/climate bonds), particularly where specific circumstances of the issuer/borrower or the underlying market make it challenging to follow the latter approach.

The IDB has been developing or replicating significant innovations in this regard. Examples of operations that incorporate performance-based approaches and in which funding is only partially restricted by use-of-proceeds requirements include: (i) the use of policy-based guarantees under debt-for-nature conversion (DFNC) models (including as part of a recent concept proposal approved by the GEF for a biodiversity program[52]) and (ii) IDB's own IDB CLIMA program, which provides performance-based loan principal discounts against achievement of pre-defined climate-relevant milestones aimed at helping countries enhance their capacity to

[51] According to Valverde et al., "As of January 2022, more than 130 countries have adopted net zero mid-century targets, covering three-quarters of global carbon emissions. However, only a few countries have a policy framework in place that would lead to zero emissions. A comprehensive climate change policy framework is a crucial driver for the transformational change towards a net zero and climate-resilient economy; it sets the target and guides the formulation of more specific policies and the development of policy instruments to achieve the desired outcomes. Effective policies alter the behaviour of public and private sector agents to address risks and return simultaneously, and in turn, risk and return affect investor decisions (Polzin et al. 2019). The objective of a net zero, climate-resilient economy needs fair, rigorous and transparent plans (Rogelj et al. 2021), with aligned policies and regulatory frameworks across countries to foster a coherent transformational change." Source: Valverde, M.J., et al. 2022. Tackling climate change through policy-based finance: options for the Green Climate Fund. Frankfurt School. UNEP Centre, Frankfurt am Main. https://www.fs-unep-centre.org/wp-content/uploads/2022/03/Tackling-CC-with-PBF-GCF-1.pdf.

[52] Details available at https://www.thegef.org/projects-operations/projects/11324.

access green capital markets.[53] CF support is fundamental for the IDB's ability to continue to develop and replicate these and other innovative models.

III. Enhance complementarity, coherence, and collaboration

Over the last decade there has been significant discussion of the need to enhance complementarity, coherence, and collaboration of the CF. The CF have been taking steps in this direction, and they expect to present and endorse a workplan later this year. Some considerations that IDB can offer on this include:

8. *Expand the use of Country Investment Plans or Country Platforms as vehicles to organize engagement with CF*

While some important coordination gains can be achieved through the dialogue and joint work underway between the CF secretariats, other coordination and complementarity aspects can be more effectively pursued through strategic investment planning processes led by beneficiary national governments. This approach is one of the key features of the CIF's programmatic approach. It has been useful in promoting country leadership and enhanced coordination with and between multiple partners (including MDBs). Because national governments lead these processes, they can offer a better chance to ensure alignment with NDCs, NAPs, and other relevant national and sector development strategies. These processes not only enhance coordination of development partners' support in the context of planning allocation of resources of a given CF. More importantly, if more openly conceived, they could offer a platform to coordinate support from the various CF, identifying on a country-specific level how best to allocate the support that each of them can provide. This would maximize the chances of adequate alignment, coordination, collaboration and complementarity, which in turn can maximize efficiency, effectiveness, and leverage potential. Thus, the CIF investment planning process could offer a platform for coordination with the other CF. It could also serve as a basis for development of further-reaching **Country Platforms**.

This approach can also help **translate NDCs, NAPs and other relevant strategies into more concrete investment plans**. This tool is often missing, leading in cases to implementation of projects that duplicate efforts, do not capitalize synergies, and/or fall short of delivering a more comprehensive transformational process.

The IDB encourages and supports current initiatives promoting the development of Country Platforms that can contribute some of these benefits. Some key aspects required for them to gain momentum would be to further clarify funding that can be committed (source, volume, timing) and countries' demand for them.

Finally, in addition to supporting the development of country-driven investment planning processes, it is strongly recommended that the approach be complemented by continued and expanded support for development of **regional/multi-country (theme-based, where appropriate) funding programs and facilities** (akin to the GCF Program modality discussed in an earlier section, or to those that can be developed under the CTF's DPSP). These can create efficiencies in design, approval, and execution processes, while making it possible to capitalize on opportunities for learning and sharing experiences. These types of programs and facilities can enhance access efficiency and execution performance for both public and private sector operations. This is particularly critical for private sector operations, given the speed to market required for private sector investments. This is

[53] https://www.iadb.org/en/news/idbs-innovative-financing-tool-rewards-results-nature-and-climate.

especially true when supporting first movers and innovative business models where there may not be a government program (and thus an investment plan and public support framework) still in place.

9. *Further engage Ministries of Finance in CF funding strategic planning and allocation processes*

Key to achieving global climate goals (and of related NDC and NAP objectives) is the **capacity of countries to mobilize public and private finance at scale**. The relatively scarce concessional finance that CF can provide thus needs to be used to maximize mobilization. It is therefore crucial that government officials tasked with looking at strategies for attracting and mobilizing investment from domestic and foreign sources participate, along with technical experts from other sectors and ministries, in the process of strategizing about the use of limited concessional resources. Ministries of finance have an important role to play because of their financial expertise, engagement with other actors in the finance community (private, public, local and international), and capacity to shape financial policy and regulation to catalyse it. CF should seek to actively engage in the strategic process leading to decisions on allocation of CF resources and subsequent project design.

From an MDB perspective, involvement of ministries of finance could also help obtain maximum value and leverage from MDBs, given the better understanding that ministries of finance have about the vast range of financial and non-financial support MDBs can provide to mobilize finance at scale. Their participation is also important given the influence of ministries of finance in determining how MDB funding is prioritized across sectors and programs in their country. Thus, consistent involvement of ministries of finance in the strategic allocation process of CF funding might also help ensure its complementary and synergistic use with resources contributed and/or mobilized by MDBs.

10. *Make advances in the harmonization of standards, processes, and requirements across CF*

The IDB understands the need for each CF to determine its own standards, processes, results framework, reporting requirements, and other operational parameters to deliver on their mission and objectives and on the requirements of their funding partners and stakeholders. It is widely acknowledged in the concessional climate finance community that harmonization of certain aspects across CFs could enhance efficiency and effectiveness in the deployment of their resources. Harmonization is also key to the enhancing complementarity and coordination of funds. Ways to achieve it may include having them support subsequent phases in the transformation process associated with certain technologies/activities/markets by providing a continuum of climate finance support (with each fund focusing on the phase or aspect best suited to it). The feasibility of such a continuum of support could be hindered if each CF required beneficiaries, project sponsors, executing entities, and MDBs to observe different standards (safeguards, technology eligibility, stakeholder engagement requirements, etc.), thus potentially creating differences in whether and how certain sectors and activities can be supported in going from one stage of market development to the next.

Given its significant operational experience with the GCF, CIF and GEF, which subjects it to the differences in standards, requirements and processes of each of the CF, the IDB welcomes the efforts and commitments made by these funds to pursue opportunities (e.g., with the workplan expected to be endorsed later this year). The IDB declares its willingness to support harmonization by participating in working

sessions aimed at identifying or validating harmonization measures that can drive efficiencies in its operations with CF.

IV. Other Considerations

11. *Reduce the frequency of re-accreditation*

The GCF reaccreditation process—currently required every five years—demands a significant investment of resources and diverts the focus of usually small climate teams in AEs from their main priority of delivering on climate projects and institutional climate targets. MDBs are prompted by their Boards of Directors to stay abreast and incorporate emerging best practices in fiduciary aspects, including environmental and social safeguards, procurement, and financial management. As a result, since one of the main objectives of the reaccreditation process is to ensure that high standards are maintained in alignment with evolving best practice, this process would normally result in limited value added to MDBs and CF.

Therefore, the IDB recommends that the frequency of the reaccreditation requirement be reconsidered, at least in consideration of processes that AEs already have to ensure ongoing updates and enhancements of any relevant standards. For MDBs, extending reaccreditation to 10 years or more might offer a better balance between the effort required on both sides for reaccreditation and the benefits accruing from it. Moreover, doing so might free up capacity within the GCF accreditation team to accredit new AEs.

Finally, harmonizing accreditation requirements across CF and with other climate funds could go a long way toward streamlining these processes and expediting access, particularly for new entities. IDB acknowledges that each fund might have certain additional requirements relevant to their operation, but there is a core set of functions (procurement, financial management, safeguards, etc.) common to all where standardization could result in significant efficiency gains.

3

Concluding Remarks

The IDB has developed a valuable partnership with the CF analyzed in this note, helping LAC countries access a significant share of the resources allocated to the region while helping CF deliver on their global mission. Each CF presents different characteristics, resulting in comparative advantages or challenges in the engagement with them. The following sections summarize the main such aspects, for each CF, from the IDB's perspective as a regional development bank.

CIF. Having been designed to work exclusively through MDBs, and fundamentally relying on MDB capacities and processes for origination, appraisal, and implementation, the CIF remain the CF model most efficiently structured for leveraging MDB capacities and mobilization potential to deploy climate finance to beneficiary countries. Among other features, it streamlines the approval process by relying much more significantly on MDB appraisal and credit processes, including in the definition of terms and conditions for private sector operations (which, unlike for public sector operations, are not predefined at a standardized level). Its governance also allows further MDB input (without a vote, but as a technical and implementation partner) into strategic decisions, often actively seeking MDBs' perspectives and capacities to support advancement in CIF strategic development processes. The CIFs' architecture is also conducive to increased collaboration (and competition, inevitably too) and knowledge sharing between MDBs. Prospects for alignment with country priorities and strategies are also enhanced through its programmatic approach, mostly centered around the development of country Investment Plans.

The following are some of the most salient access limitations, challenges, and aspects to continue to consider in the CIF' further development:

- Country eligibility. As of now, access is limited to those developing countries that have been selected as beneficiaries of at least one of its programs.
- Predictability of funding. In the context of the then-emerging GCF, one key limitation for the CIF to get new funding pledges was, until a few years ago, its sunset clause. With this clause now indefinitely postponed, some significant new pledges have been received (e.g., over US$2 billion for ACT). The CCMM under preparation is also expected to offer a supplemental and more continuous stream of capital for new CTF projects (at about US$500 million per year), thus allowing MDBs to continue project origination and commitments under this program on a more regular basis. As such, the IDB views it as a very promising initiative, with great

potential to mobilize private capital for climate finance. Nevertheless, there are two related outstanding challenges:

i. CIF non-CTF programs do not have a similarly predictable and continuous endogenous funding source (as the CCMM for the CTF) and will thus need to continue to rely on new capital injections. As a result, continued, significant new funding commitments for these programs in a manner that can support origination on a sustained basis will be critical to consolidate new non-CTF offers and MDB work in support of them.
ii. The CCMM's need to maintain a certain financial performance to attract (and serve debt with) bond investors will likely limit its concessionality and/or risk-taking capacity. Measures to safeguard it (e.g., balancing the portfolio between high concessionality projects and those with healthier risk-adjusted returns; seeking continued, albeit more limited, grant/capital contributions) will be key for it to maintain its capacity to deliver financial additionality. Further development of local currency financing and alternative foreign currency risk management solutions is also important to ensure effective financial additionality across beneficiary countries.

GCF. Based on the volume of funding it can provide and its broad country eligibility across developing regions, the GCF has established itself in the last few years as the largest concessional climate funding source for non-Annex 1 countries. About US$32 billion has been pledged to it over its three resource mobilization rounds so far, and about US$14 billion has already been committed to climate change mitigation and adaptation projects and programs. Besides its volume, another distinctive feature of the GCF is its capacity to consider mitigation and adaptation projects across sectors and project/program sizes through a unique platform, with its project funding window being open on a rolling-basis. That is, proposals can generally be submitted on a continued basis, without the need to wait for specific cycles, openings, or calls for proposals. With less than a decade in operation, its funding deployment modalities and offer continue to evolve, with the aim of enhancing access and efficiency. Some examples are its significant push to further incorporate direct access entities, and the development of expedited access mechanisms, such as the Simplified Approval Process, among others.

On the challenges and opportunities for improvement, continued work on streamlining the appraisal and approval process for projects and programs is fundamental to enhance speed to market and predictability of funding. An important part of this would be rebalancing appraisal requirements between what fundamentally needs to be assessed upfront (for GCF Board approval and FAA signing) and what can be delegated to AEs' own appraisal and approval processes. In addition, there are significant opportunities for enhancing product offer. Local currency financing or alternative, efficient foreign currency risk management solutions are key to ensuring GCF financial additionality in countries where currency mismatches pose a significant barrier. Continued work on increasing GCF's risk-taking capacity, including when MDB co-financing is involved, is also fundamental. Further consideration of financing instruments that can go beyond traditional use-of-proceed approaches would also be important to diversify the set of tools to deliver impact efficiently and effectively across the various stages and challenges in countries' paths towards Paris Agreement alignment.

GEF. Since the funding it can provide comes predominantly in the form of grants, the GEF is well

suited to support technical cooperation activities critical to transformation processes, such as policy/regulatory development, institutional strengthening, and capacity building. It can also support early stages of innovative climate-relevant business and investment models where significant risk tolerance is required. This capacity is one of the GEF's fundamental assets, and continued strategy and implementation work to ensure full advantage is taken of it is encouraged. Also on the positive side, broad developing country eligibility and funding predictability (through the STAR) facilitate access and country planning.

A major challenge is the declining share of overall GEF funding allocated to climate change. This means that GEF funding should be used ever more strategically (building on its comparative advantages and enhancing coordination and complementarity with other sources) to support the higher ambition and impact required to achieve Paris Agreement goals. Another challenge that IDB and other RDBs have faced is related to the engagement and allocation modalities of country STAR resources. They are not well positioned to be engaged for project implementation relative to other types of GEF agencies that work more closely with operational focal points in their regular course of business. This partly explains the sharp (56 percent) decline in the participation of the IDB and other 1st expansion RDBs in the implementation of GEF projects to a **combined 4.3 percent only** in GEF-7. Any measures that can facilitate further MDB engagement might help the GEF capitalize on MDBs' distinctive investment expertise and capacity to mobilize co-financing, thus potentially expanding its leverage and impact in the context of the decreasing GEF allocation to climate change. Some measures that can help maximize mobilization of MDB capital (and expertise) are: (i) further expansion of the allocation to the Blended Finance Global Program (which has been increasing in absolute value throughout GEF rounds, but at just 3.7 percent of overall GEF-8 funding, it is still quite limited) and (ii) further engagement of ministries of finance in defining the strategic use and allocation of GEF financing.

Finally, the joint efforts underway by the CF secretariats to enhance coordination, harmonization, and complementarity are strongly welcomed and encouraged. Country-led investment planning processes, such as the development of country platforms, are likely a critical supplement to those CF-level efforts and can help materially optimize coordination and alignment along Paris Agreement goals and related country commitments. Greater reliance on capacities and processes already in place in MDBs, PDBs, and other AE/GEF agencies that avoid or reduce the need for new institutions, expanded structures, and potentially duplicative processes can also contribute to enhanced coordination and efficiency.

Annex I
Characteristics of a Sample IDB CF Portfolio

The study conducted a review of a sample of GCF, CIF, and GEF projects implemented by IDB to draw insights on various dimensions of how the IDB has used CF funding. The main dimensions analyzed include project size, themes, and sectors, main counterparts and beneficiaries, financial and nonfinancial instruments deployed, and ways in which CF provided additionality. The analysis is based on **ex-ante** indications in project documents at the approval stage, including estimations where specific indications (e.g., on the expected split of investments by type of final borrower or financing instrument) were not provided in the documents. An ex-post analysis and evaluation should be performed if more accuracy is required.

Sample composition

The sample encompassed 8 GCF projects[54] (which represents IDB's full GCF portfolio at the time of the analysis, in April 2024), 11 CIF projects, and 10 GEF climate change projects.[55]

Of this combined sample of 29 projects:

- 66 percent were individual **projects**, and 34 percent were **programs**[56]
- 62 percent were **public sector** projects[57] and 38 percent **private sector** ones.

The overall volume of concessional funding in this sample amounted to **US$1.106 billion**, of which:

- GCF has US$762 million (69 percent), CIF had US$262 million (24 percent), and GEF had US$82 million (6 percent).

[54] The term "project" used across this document—except in sections where explicit differentiations are made—refers to either individual projects or broader programs/facilities submitted to and approved by the CF.

[55] Some of the GEF projects analyzed also contained funding to support other GEF focal areas. Thus, the net size of the climate change allocation may be smaller in some cases.

[56] "Programs" refers to overall funding facilities approved by CFs that have the capacity to subsequently support various individual projects. They are more broadly defined than individual projects at the time of approval, mostly specifying a theme and sector, type of financing modality, and other eligibility criteria. They are the basis on which individual projects aligned with those definitions and addressing the objectives of the approved program can subsequently be originated and funded by the implementing agency (in this case the IDB). As a result, facilities tend to be larger in size (as they are expected to support various individual projects) and are generally meant to cover various countries.

[57] Public sector projects are operations mostly led or managed by IDB Public Sector departments, while private sector projects refer to operations led by IDB Lab or IDB Invest. But even those that might be categorized as public sector may in some cases be mostly aimed at providing concessional support to the private sector (notably in the case of operations with PDBs that in turn provide financing or risk sharing support to private companies or banks). In addition, some projects categorized as public sector allocate limited funding to be implemented by private sector windows of the IDB Group (e.g., GCF Amazon Bioeconomy Fund project).

- 63 percent was allocated to multi-country **programs**, and 37 percent to individual **projects**.
- 60 percent was allocated to **public sector** programs, and 40 percent to **private** ones.

This initial set of values provides some valuable comparative characteristics of these operations.

Based on average ticket size in the sample, GCF operations are the largest (US$95 million per operation), followed by CIF (US$24 million) and the GEF (US$8.2 million; or only US$5.1 million if a US$31.5 million outlier is not considered). Thus, in this sample, the average ticket for the GCF is 4 and 11 times larger than for the CIF and GEF, respectively.

These differences are mainly attributed to two factors:

- the funding available and business/allocation model of each fund;
- the GCF operations that IDB has brought forward have a higher share of **program proposals**, which encompass multiple countries and therefore have larger average ticket sizes. About 50 percent of IDB GCF operations have been programs, compared to 36 percent in the case of CIFs and only 20 percent in the case of the GEF.

The lower share of program proposals in CIF and GEF operations in the sample is likely due to the business and allocation models of funding of these two funds, where most of their resources are allocated on a country-specific basis (through STAR in GEF, and through Country Investment Plan model in the CIF).

Another explanation for this is that the higher transaction cost (both in terms of preparation requirement such as market and technical assessments and the time required for appraisal and approval) associated with GCF operations results in IDB prioritizing larger, program-type proposals for this fund. Thus, more individual projects can later be supported based on this initial mobilization effort.

Themes and Sectors

In terms of number of operations, the sample analyzed has a much greater focus on **mitigation (59 percent)** than **adaptation (10 percent)**, with the balance **(31 percent)** having a **cross-cutting** nature (support both mitigation and adaptation). This relative size of this difference generally holds when considering the volume of funding involved (rather than the number of operations). **Forty-two** percent is allocated to mitigation, **6 percent** to adaptation, and **52 percent** to cross-cutting activities. The share of pure mitigation operations thus holds at about **6–7x** relative to pure adaptation operations. The significant change when volume of funding is considered is on the share of cross-cutting activities, scaling from 31 to 52 percent. This is explained by the GCF's strong push toward increasing the share of adaptation, which has resulted on the two largest IDB GCF proposals (Amazon Bioeconomy Fund -US$279 million and E-mobility, US$200 million) incorporating significant additional focus on adaptation and resilience relative to their original main orientation toward mitigation. In fact, the last three IDB proposals to the GCF have been cross-cutting ones.

All in all, the sample portfolio still leans heavily toward mitigation. This is mostly explained by the lower complexity of originating large mitigation investments (energy, transport). GEF's main focus on mitigation also contributes to this, at least in terms of the number of projects. And while this is likely to continue in the future (at least from a volume of funding perspective, given the higher complexity of driving large investment towards adaptation/resilience), the GCF's continued push toward adaptation is likely to reduce the size of the gap.

With respect to **specific sectors**, **44 percent** of the operations in the sample have targeted the **energy sector**, primarily renewable energy (both large-scale and distributed, self-supply solutions) and energy efficiency. This is followed by the **land use, land-use change, and forestry (LULUCF) sector** (**31 percent**) focusing mostly on low-carbon agriculture and land/forest restoration and conservation. The **transport** and **water** sectors follow, with about **7–8 percent of the projects each.** The balance (10 percent) goes to relatively minor operations covering **mitigation and adaptation investments across various sectors.**

As volume of funding is considered, some changes in the ranking and shares are found: LULUCF ranks first (39 percent), followed by energy (34 percent), transport (19 percent) and water (4 percent). This is mostly the result of the same two large GCF programs mentioned before, one focused on LULUCF (Amazon Bioeconomy Fund—US$279 million) and the other one on transport (E-Mobility—US$200 million), which explains the relative increase in shares of these two sectors to the detriment of the energy sector.

NOTE: This categorization needs to be interpreted with care, however, as some programs that have been categorized based on the main focus of the intervention (e.g., Amazon program as LULUCF) also support investments in other sectors (e.g., renewable energy/energy efficiency for ecotourism businesses). Some of the most significant mitigation activities in transport programs also come from energy measures (e.g., energy efficiency, electrification).

Counterparts and beneficiaries

As pointed out in the introduction, almost two thirds (62 percent) of projects have public entities as main direct counterparts: PDBs, 24 percent; state-owned enterprises (SOEs), 7 percent; other government entities (ministries, sector agencies, etc.), 31 percent. There is also one project where IDB's main counterpart is the Caribbean Development Bank, an RDB.

For the 38 percent of projects whose main direct counterparts are private entities, these include: private companies (including large, MSMEs, and start-ups), 31 percent; private investments funds, 21 percent; and commercial banks, 7 percent.

NOTE: the shares across sub-types of entities add up to more than 100 percent, as some projects work with more than one sub-type of main direct counterparts (e.g., programs that can provide concessional funding to both investments funds and SMEs directly).

As volume of funding is considered, the shares of public and private main direct counterparts remain almost unchanged, at 60 percent and 40 percent, respectively. The main difference appears, however, when allocation per sub-type of entity is analyzed, where PDBs concentrate over 40 percent of the funding. This significant share for PDBs is the result of the combination of a very active participation of the Connectivity, Markets and Finance (CMF) division in the mobilization of concessional climate funding for PDB clients and the very large volume of some of the associated GCF programs (e.g., Amazon Bioeconomy Fund, EE/RE Program in Argentina) in the sample.

In turn, as end recipients/beneficiaries are considered (rather than main direct counterparts), **SMEs** rank first, with **55 percent**. This does not represent the share of funding they are expected to receive,[58] but rather the share of projects in which they are a (non-exclusive) ultimate targeted beneficiary. This finding makes

[58] It is not possible to determine in this review -which looks at ex-ante project design, and not at ex-post results of implementation—the share of funding effectively deployed to SMEs. Many of these projects (particularly those operated by financial intermediaries and those structured as programs, as opposed to more narrowly-defined individual projects) provide flexibility to finance different types and sizes of private companies, thus not allowing to determine ex-ante how much of the funding will end up directed to SMEs.

sense vis-à-vis: (i) the high share of projects implemented through financial intermediaries (e.g., PDBs and commercial banks, investment funds) with capacity to target small projects; (ii) the significant financial access barriers that SMEs normally face (risk profile, lack of collateral, available debt with only limited tenor/grace, etc.) and for which CFs can provide suitable solutions.

The second category of ultimate beneficiaries encompasses **households and communities** (**31 percent** of all projects). This category combines programs where communities are targeted for grants or payments for ecosystem services support (e.g., in forestry or adaptation projects) or where concessional lines of credit or grants target households to promote investments in low-carbon, resilient technologies and activities.

The third funding destination in the sample is **large infrastructure projects (24 percent)**, which in turn benefit (i) their public or private owners and suppliers, and (ii) communities, indirectly, through the services they provide rather than by providing cash or credit to them. These projects are normally funded by the IDB or government entities, either directly or through financial intermediaries.

Another important distinct type of end beneficiary targeted is start-up companies, particularly those aiming to drive innovation in climate investments.

Financial instruments

Investment grants (IGs) are the financial instrument most frequently solicited by CF in the project sample. They are present in almost **70 percent** of the projects in a variety of forms, including IGs to:

- subsidize CAPEX cost (28 percent),
- provide contingent recovery grants (17 percent)
- provide payments for ecosystem services or performance-based payments (10 percent)
- subsidize project structuring costs (10 percent)
- subsidize guarantee fees (3 percent)

IGs are followed by **concessional loans** (**52 percent** of projects), **equity (28 percent)** and **guarantees (10 percent).**

As the volume of funding[59] for each instrument is considered, **concessional loans rank first (53 percent)**, followed by IGs (22 percent, half of which is in the form of CAPEX grants), equity (7 percent), and guarantees (2 percent).

NOTE: **Technical assistance** resources are also requested **in the large majority of projects (76 percent),** representing 15 percent of all funding.

It is worth noting that:

- While CF-funded loans and IGs have been utilized in both public and private projects, in this project sample **equity and guarantees have only been requested for private sector projects**. While equity is not an instrument that the IDB can implement in public projects, guarantees are.
- All three CF analyzed in this paper are able to provide all of the above-mentioned financing instruments.

Overall, the statistics described above are explained based on the following considerations:

- **Loans** are the most commonly used instrument by the IDB and/or IDB Invest (better known, easier to structure).
- In order to support comprehensive theories of change, as normally required by CF, technical cooperation (TC) grant funding is required to support **non-financial** interventions, such as support for policy and regulatory development and capacity building.

[59] These shares per instrument are estimated ex-ante allocations, based on often times indicative allocations made at proposal stage or expert assumptions during the analysis, in the context of multi-instrument programs.

- The use of **equity** as a financial instrument is limited to IDB Lab (which has been quite active in this area but with ticket sizes that are generally smaller than the size of usual IDB investment projects) and IDB Invest.
- The limited use of **guarantees** is due to the following:
  - It is generally a product that IDB clients request less frequently.
  - CF do not have their own credit rating. Thus, entities not familiar with them might not be able to easily assess the value of guarantees directly supported by them. This obstacle can be overcome through a full, upfront collateralization of the obligation.
  - Guarantee products in sovereign-guaranteed operations have limited applications through which they can deliver real value. One valuable use of them is to credit-enhance a financial obligation (e.g., a bond) of a sovereign issuer with a weak credit rating. They are not useful as a risk-sharing solution for the IDB or CF to effectively absorb part of the risk when CF require a sovereign counter-guarantee as the IDB does (as is the case in public sector operations of the GCF) because the risk ultimately remains with the government by virtue of the counter-guarantee.
- **Performance-based payment/incentive instruments** have been used less by the IDB than by other (non-bank) institutions, such as NGOs UN agencies, which rely more on them given restrictions to deploy other financial instruments. However, the IDB may use them more based on IDB recent precedents and developments, including the following programs and approaches**:**
  - IDB CLIMA, which provides a 5 percent discount on loan principal upon attainment of certain pre-defined climate-relevant results;
  - IKI's Greening the Banks program, offering performance-based payments against PDB's implementation of Paris Agreement alignment measures.
  - IDB Invest's use to provide incentives to companies when they implement gender equity measures;
  - the GEF Blended Finance Global Program now deeming this type of instrument eligible.[60]

Additionality

The IDB has structured concessional funding from CF IDB to provide additionality in a variety of ways that support transformation processes. Nonfinancial measures include supporting the development of adequate policy and regulatory environments and building capacities of stakeholders. Financial measures include ensuring the provision of lending terms that match the financial profile of target climate investments, guarantees that can soundly mitigate investment risks and enhance project bankability, and patient capital that can bridge equity gaps for start-ups and growing SMEs.

In 40–50 percent of the projects in the sample, concessional funding has been provided to enhance the financial performance of—and thus enable and accelerate—private investment, normally through concessional loans and CAPEX grants. Other types of support provided with a similar objective includes de-risking solutions (30 percent of projects) and scarcely available risk capital (30 percent), normally in the form of equity investments directly into companies or through investment funds.[61]

[60] IDB has indeed recently got concept approval under the Blended Finance Global Program for a combined Debt-for-Nature Conversion (DFNC) and performance-based payment instrument to support biodiversity investments.

[61] As pointed in a previous section, shares per category can add up to more than 100 percent, as most projects create additionality through a combination of the types of interventions hereby analysed.

In about 25 percent of the projects, concessional funding was used for economic enhancement of public investments in projects with remote or uncertain financial returns (e.g., adaptation investments) and core enabling infrastructure (e.g., transmission lines).

Consistent with the widespread use of TA grants (76 percent of the projects) across the sample, nonfinancial additionality was provided through support for the development of policy and regulation (28 percent), capacity building and institutional development (48 percent), and de-risking and facilitation of private investments (48 percent), among the most common uses.

The table below shows specific breakdowns.

In general, the capacity of CF to provide financial additionality through debt products varies significantly—particularly for CF that have standard, pre-defined interest rates—depending on country- and project-specific conditions such as (i) the prevailing market interest rates, (ii) the extent to which foreign exchange risk can be efficiently managed, and (iii) the level and efficiency of intermediation between the CF and the ultimate investment, among others. As a result, CF concessional debt offers can translate into very appealing and enabling financing conditions reaching borrowers capable of generating significant additionality and impact or, at the other extreme, very poor financial additionality prospects. In the case of projects where the most critical barriers relate to credit or investment risk, a key determinant of CF potential additionality will be the CF's capacity and flexibility to tailor financial products to effectively mitigate risks for lenders and investors, which entails, among other things, having a high tolerance for risk.

Main vehicles of additionality	
Through concessional/risk-tolerant financial instruments	**%**
Enhance project economics—for ultimate private investments	**41**
Enhance project economics—public investments with no immediate financial return	**14**
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