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GCF/B.20/08/Rev.01

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Policies for contributions from philanthropic foundations and other alternative sources

Summary

This document presents the policies for contributions from alternative sources. It also provides background information on the possible approaches to various types of alternative sources for resource mobilization purposes.

A draft decision is presented in annex I for consideration by the Board.

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I. Introduction

1. The Governing Instrument for the GCF states that GCF will receive financial inputs from developed country Parties to the United Nations Framework Convention on Climate Change, and it may also receive financial inputs from other sources, public and private, including alternative sources.[1]

2. In decision B.05/04, the Board decided that GCF will "maintain the flexibility to receive financial inputs on an on-going basis," and "receive grants from public and private sources, and paid-in capital contributions and concessional loans from public sources, and may receive additional types of inputs at a later stage to be decided by the Board."[2]

3. In decision B.08/13, the Board endorsed the Policies for Contributions, which states that contributions from philanthropic foundations, other non-public and alternative resources will be accepted in accordance with the policies and procedures developed by the Secretariat and approved by the Board.[3]

4. In decision B.11/05, the Board requested the Secretariat to prepare "a document for understanding and defining alternative sources of financial inputs to GCF that would be additional to current contributions," and develop "policies and procedures for contributions from philanthropic foundations and other non-public and alternative sources to the Initial Resource Mobilization process".[4]

II. Possible action by the Board

5. Based on the information below, it is recommended that the Board approve the draft decision presented in annex I.

III. Alternative sources and approaches

6. Background information regarding the different types of alternative sources and possible approaches to receiving contributions from alternative sources are explained in annex III. This background information and the suggested approaches are based on the consideration of the findings of an external consultant hired to assist in the development of policies for contributions from alternative sources.

7. The alternative sources included in annex III are listed in the table below.

Table: Potential contributors and partners for resource mobilization

Civil society organizations	Philanthropic foundations
Endowment funds	Private individuals
Financial institutions	Public and private insurance companies
High net worth individuals, family offices	Public and private pension funds
Other funds including private-public funds	Retail investors (corporations, households)
Other private companies (project developers, private equity, venture capital)	Sovereign wealth funds

IV. Policies for contributions from alternative sources

[1] Governing Instrument, paragraphs 29 and 30.
[2] Decision B.05/04, paragraphs (c) and (d).
[3] Decision B.08/13, annex XIX, paragraphs 5, 6 and 7.
[4] Decision B.11/05, paragraphs (c) and (d).

8. Based on the background information in annex III and the possibility to receive financial inputs from other sources, public and private, including alternative sources, referred to in paragraphs 1–4 above, draft policies for contributions from alternative sources are set out in annex II. Owing to the complexity in accepting loans/debts, equities and co-financing, this policy is only for accepting grants from alternative sources.

9. The draft policies set out high-level overarching principles for accepting grants from alternative sources. The details of the implementation of accepting contributions from alternative sources, such as procedures, drafting of agreement templates and setting up necessary information systems, shall be considered and developed by the Secretariat with regular reporting on the progress to the Board meetings.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.20/08/Rev.01 titled "Policies for contributions from philanthropic foundations and other alternative sources":

(a) *Approves* the policies for contributions from alternative sources as set out in annex II;

(b) *Requests* the Secretariat to further develop the details of the implementation of accepting contributions in accordance with the policies set out in annex II and to report on progress by the twenty-second meeting of the Board; and

(c) *Also requests* the Secretariat to review the Policies for Contributions from initial resource mobilization in preparation for the formal replenishment process, especially in terms of developing policies for contributions for accepting loans/debts, issuing of green bonds, equities and co-financing from alternative sources.

Annex II: Draft policies for contributions from alternative sources

I. Introduction

1. The Governing Instrument for the GCF states that GCF will receive financial inputs from developed country Parties to the United Nations Framework Convention on Climate Change and may also receive financial inputs from other sources, public and private, including alternative sources.

2. The policies for contributions from alternative sources are set out below. Such sources include, but are not limited, to:

(a) Philanthropic foundations;

(b) Endowment funds;

(c) Sovereign wealth funds;

(d) Public and private pension funds;

(e) Other funds including private-public funds;

(f) Public and private insurance companies;

(g) Other private companies (project developers, private equity, venture capital);

(h) Financial institutions;

(i) High net worth individuals;

(j) Family offices;

(k) Retail investors (corporations, households);

(l) Private individuals; and

(m) Civil society organizations.

3. These policies are limited to grant contribution from alternative sources.

II. General contribution policies

2.1 Due diligence review process

4. The Secretariat will undertake a thorough screening and due diligence process for prospective contributors before accepting pledges. This process will enable GCF to:

(a) Fully understand the risks of associating with potential contributors prior to engaging;

(b) Ensure the vision and aims of potential contributors are aligned with the overall strategy of GCF;

(c) Prevent reputational or other damage to GCF; and

(d) Ensure that the source of funds and wealth are legitimate and free of adverse claims.

5. GCF will apply a risk-based approach to carrying out due diligence, depending on the type of contributor and the nature of the transaction. The risk assessment will determine the amount of information collected that will require independent verification. GCF checks will include, but need not be limited to, the following:

(a) Anti-money laundering checks;

(b) Anti-bribery and corruption checks;

(c) Sanctions checks;

(d) Fraud checks;

(e) Conflicts of interest checks;

(f) Governance checks;

(g) Financial strength checks;

(h) Data and cyber security checks; and

(i) Environmental, social and governance criteria screening

2.2 Detailed reporting of projects

6. Reports will be available on either an annual or a quarterly basis with a view to tracking the progress of specific projects and different windows. The reports will depend on the type of project or window and the information will be made available to contributors and the general public.

7. It is possible for some projects to have certain key performance indicators assigned to them; however, this will be agreed before the project begins and cannot be amended once the project is under way, unless signed off by the Secretariat.

8. Different windows will have a standard set of key performance indicators assigned to them, which will be decided by the Secretariat in consultation with contributors.

2.3 Advisory panel

9. Reflecting the best international practice of governance, an advisory panel will be set up for large contributors, as defined in Section III, from alternative sources as a vehicle to express views and provide guidance to the GCF.

2.4 Crowding out risk

10. All projects and windows will be subject to analysis of the impact of GCF using its resources to invest in the area, which will be carried out by the Secretariat. This is to ensure that GCF does not risk crowding out investment that would otherwise have occurred in the absence of funding from GCF.

2.5 Counterparty risk

11. GCF will assess counterparty risk on a contributor basis. All contracts will include clauses regarding counterparty risk.

III. Grants

12. GCF can receive grant contributions from non-sovereign contributors into the GCF Trust Fund, as approved by the Board. Grant contributions will be classified as either large or small

grants. Large grant contributions from alternative sources are defined as any sum, whether it is one-off or repeated, that amounts to USD 1million or more, in any given calendar year.

3.1 Large grants

3.1.1. Approaching GCF to give a grant contribution

13. Those wishing to make a large grant contribution, as defined above, are to approach the Secretariat. This can be done by contacting the Secretariat via email [email to be provided] or registering their interest on the GCF website [*link to be provided*], once this functionality becomes available.

14. Contributors have the option to make multi-tranche and/or multi-year commitments to GCF; the Secretariat will work with potential contributors to accommodate this.

3.1.2. Grant contributor approval

15. All non-sovereign contributors wishing to make a large grant contribution will be subject to the screening and due diligence checks as stated in paragraphs 4 and 5 above. The results of this process will be reported by the Secretariat to the Board at its meetings.

3.1.3. Contribution agreement for non-sovereign contributors

16. Agreements should be designed in a template format with a number of key terms that remain the same for all agreements. The Secretariat will consult with the Trustee or the Interim Trustee to finalize the agreements.

17. Provisions on the following shall be put in place:

(a) **Earmarking**: subject to approval by the Secretariat, grants can be earmarked for specific projects or windows. This will be agreed between GCF and potential contributors. New windows can be formed if there is demand for projects which are on a related theme. This can be proposed to the Secretariat by potential contributors, or by the Secretariat, but will need approval of the Board in both cases;

(b) **Reporting**: the contribution agreement will list the expected impact and results of each window for specific amounts of funds and lay out the reporting schedule. Once a project is under way, periodic reports will be made available as set out in paragraphs 6–8 above;

(c) **Preferential access**: provisions will be put in place that inform the contributor that contributions will not provide them with preferential access to the Board, membership, information or procurement opportunities other than those contained in the agreement;

(d) **GCF donor logo**: for large contributions, contributors will have the option to use GCF donor logo to advertise their donation in accordance with GCF`s communications strategy; and

(e) **Press briefings**: the approval of the Secretariat will be required for press briefings.

3.2 Small grants

18. GCF can receive contributions (less than USD 1 million) through a dedicated page on the GCF website, which links to the website of a partner foundation [such as the United Nations

Foundation]. Contributors could have the option to make multi-tranche and/or multi-year commitments to GCF once this functionality is developed and becomes available.

19. Non-sovereign contributors making small contributions will not need to complete the GCF full screening process. If contributors expect to exceed the small grants threshold in any given year, they should approach GCF directly.

20. The Fund will also provide a selection of projects/programmes and windows that can be crowdfunded when the total value of the project is small enough to make this feasible. This crowdfunding will also utilize the same dedicated page on the Fund`s website for small grants. The upper limit for these types of contributions is to be decided by the Secretariat.

Annex III: Information note on alternative sources

I. The landscape of contributors from alternative sources

1.1 The universe of contributors

1. In addition to Parties to the United Nations Framework Convention on Climate Change and other sovereign entities, there are further potential contributors which GCF may target to receive financial inputs, as listed in table 1.

Table 1: Potential contributors and partners for resource mobilization

Civil society organizations	Philanthropic foundations
Endowment funds	Private individuals
Financial institutions	Public and private insurance companies
High net worth individuals, family offices	Public and private pension funds
Other funds including private-public funds	Retail investors (corporations, households)
Other private companies (project developers, private equity, venture capital)	Sovereign wealth funds

2. Among the above potential contributors, some may provide direct contributions to GCF (especially philanthropic funds), while others may invest in GCF projects or otherwise participate in co-financing. They may also provide opportunities for partnerships that indirectly assist in generating resources for GCF.

1.2 The growing private climate finance landscape

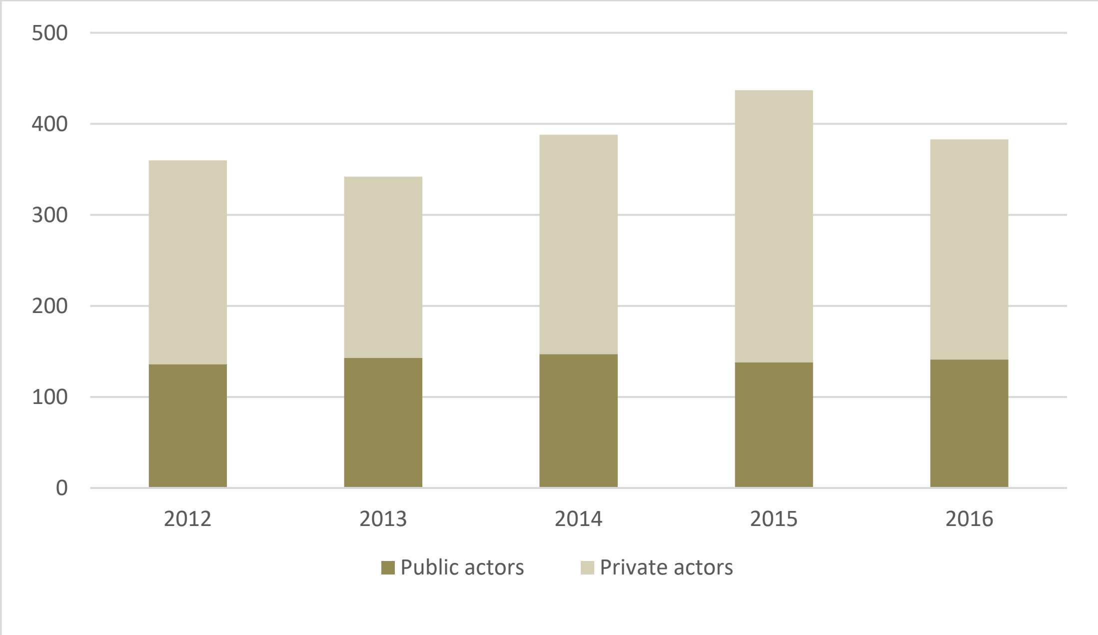
1.2.1. The existing landscape

3. Currently, private financial investment – defined as commitments made by institutional investors, financial institutions, corporations, project developers and households – accounts for over 60 per cent of total climate finance (see figure 1). The landscape of climate finance is dominated by commercially-oriented private sector entities, and averaged USD 270 billion annually during 2015 and 2016. Developers and banks are responsible for the bulk of this financing as sources and intermediaries and market rate debt is the most popular instrument for climate finance.[1]

4. More broadly, impact investing – investments made into companies, organizations, and funds that generate beneficial social and environmental impact, alongside a financial return – is a rapidly growing industry with investors who are determined to generate social and environmental impact, as well as financial returns. This is taking place globally and across all asset classes. Impact investors will still view financial returns first, with social or environmental impact as ancillary.

[1] Climate Policy Initiative. 2017. *Global Landscape of Climate Finance 2017*. Available at <https://climatepolicyinitiative.org/wp-content/uploads/2017/10/2017-Global-Landscape-of-Climate-Finance.pdf>.

Figure 1: Breakdown of global climate finance by public and private actors, 2012–2016 (USD billion)



Source: Climate Policy Initiative. 2017. *Global Landscape of Climate Finance 2017*.

1.2.2. Private climate finance potential

5. While institutional investors – such as sovereign wealth funds, pension funds, insurance and reinsurance companies – currently represent a small fraction of total private finance flows, these may provide the largest funding potential in the medium to long term. GCF could help to unlock this for climate change mitigation and adaptation. Total assets of high net worth individuals (HNWI), sovereign wealth funds (SWF), pension funds and insurers under management represent well over USD 100 trillion and are projected to continue growing. Compared with other investors, they also have a longer investment horizon. [2]

6. There is growing interest from these investors, particularly among SWF and pension funds, to look for opportunities to shift investments away from traditional commodities such as oil and gas towards sustainable and green investments. Norway's Government Pension Fund Global, for example, has removed investments in numerous oil, gas and other companies on environmental and climate change grounds.[3]

7. This new interest arises from financial reasons, including, for example, a recognition that sustainable companies outperform others over time and that assets from traditional energy sources may lose value or become stranded over the long term. Further reasons include pressure from interest groups, reputational concerns and changing legislation and regulation. Insurance and reinsurance companies may have added interests in investing in climate mitigation and adaptation to reduce their liabilities, such as through investments in weather-resilient infrastructure.

[2] PwC. 2014. *Asset Management 2020: A Brave New World*.
[3] The Guardian. 2015. *World's Biggest Sovereign Wealth Fund Dumps Dozens of Coal Companies*. Available at <https://www.theguardian.com/environment/2015/feb/05/worlds-biggest-sovereign-wealth-fund-dumps-dozens-of-coal-companies>.

II. Possible approaches to a broader base of contributors

8. To receive additional financial inputs in the short term, GCF could approve the acceptance of contributions from a wide pool of contributors. This would entail enabling a variety of contributor types (with sufficient screening and due diligence to protect GCF from reputational or other damage) to make large grants (above a minimum threshold amount).

9. GCF may also wish to enable small grants (below the minimum threshold that would necessitate screening), which may be facilitated through a user-friendly website, such as that of the United Nations Foundation, similar to the Adaptation Fund's "DONATE NOW" button on its website.[4]

10. The above would need to be coupled with effective communication, strong branding and widespread marketing to have the impact of raising awareness and reaching both small and large grants.

11. Partnerships could be sought with private corporations, allowing these to stand out in front of competitors by furthering social and environmental sustainability and demonstrating corporate social responsibility. For example, these could be incentivized to give to GCF in exchange for the use of a logo on products sold.

12. In order to receive grants from philanthropic foundations, greater flexibility around earmarking of funds and reporting would generally be expected in order to appeal to foundations, as their contributions would generally need to be aligned to their specific funding strategies and in order to report on their specific impact.

13. For loans, capital and co-financing from the private sector, GCF will need to work with potential contributors on providing more targeted types of investments, allowing for detailed reporting of projects. Above all, it will need to build relationships with these contributors to understand their mission and objective and ensure that they are aligned with that of GCF.

14. GCF could also take proposals to the private sector and begin to identify and map the types of projects that different private sector entities will be willing to co-finance. This will allow both parties to gain the most benefit from the relationship.

15. It is to be noted that these activities are complementary to, but should not shift, the main focus of GCF in its resource mobilization strategy of prioritizing and focusing on sovereign donors and subnational governments or the Private Sector Facility's efforts to engage private sector entities for co-financing arrangements.

16. Several factors will contribute to success in raising resources from any potential contributors, regardless of type. These can be grouped into five key areas as shown below.

2.1 Strategic positioning

17. Many organizations will want to ensure that partnerships will work on a strategic level as well as an operational level. A clear vision and position on the following issues is key:

(a) The amount of resources to raise, taking into consideration potential trade-offs with the ability to raise funds;

(b) Extent of commercial return orientation, including potentially seeking a credit rating and issuing securities, taking into consideration an organization's unique selling points and how it wishes to set itself apart from other organizations; and

[4] See <https://www.adaptation-fund.org/donate/>.

(c) Risk appetite, taking into consideration that building a positive track record is key over the next few years.

2.2 Effective communication

18. Clear external communication is key to bringing potential contributors on board. This includes communication around the following:

(a) The vision of GCF, the relevance of its mission to that of the targeted contributors, and how GCF sets itself apart from competing institutions in a crowded climate finance landscape;

(b) A strong narrative around GCF, building stories around approved projects in order to bring them to life, and strengthen the emotional appeal of GCF;

(c) Results achieved to date including non-project results which GCF can demonstrate and communicate, such as its achievements through the Readiness and Preparatory Support Programme; and

(d) Results that GCF aims to achieve, framed in concrete, achievable terms, enabling targeted contributors to visualize a positive change as a result of their contribution.

2.3 Sponsorship and partnerships

19. Promoting sponsorship and partnerships will allow GCF to build longer term relationships with large investors and to promote its vision and values. The GCF could achieve this by setting up a dedicated fundraising function, which can explore the following opportunities:

(a) Engaging celebrity champions: marketing endorsements from figures who have built up profiles on climate change.

(b) Publicity events and sponsorships: featuring at and sponsoring high profile events to help to make the GCF brand more visible.

(c) Engaging private sector entities to create strategic partnerships to reach win-win outcomes: partnerships with private sector corporations for creating awareness around climate change and assisting outreach, advocacy and visibility for GCF, such as though a "green logo" whereby a percentage of the profits gained from the sale of green logo products by each company is donated to the fund.

(d) Pushing a green logo through partnership with private corporations: forming partnerships to obtain contributions through sales. Companies could create a product under the GCF licence/logo and in return, a percentage of the profits gained by each company is donated to GCF. Box 1 shows an example of how this has been done by the Global Fund through the RED Logo. Box 2 shows how Ben and Jerry's went about being more socially responsible in relation to climate change and box 3 provides ideas on how GCF could potentially partner up with different organizations.

Box 1: (RED) logo use by private corporations to raise funds for the Global Fund

The Global Fund has been partnering with Apple for 11 years and they have recently released a number of (RED) products, including the (RED) iPhone. Each purchase of these red glass products contributes directly to the Global Fund to support HIV/AIDS programmes. It also raises global awareness of the fund and the work that it undertakes. As at late 2017, (RED) had generated over USD 500 million to support Global Fund HIV/AIDS grants.

Image source: apple.com

Box 2: Example of partnership with private corporations: "green" ice cream

Image source: benjerry.com

Ben & Jerry's, the American ice cream, frozen yogurt and sorbet manufacturer, donates a portion of its pre-tax profits to corporate philanthropy as part of its efforts to be more socially and environmentally responsible.

Among other activities to support the environment, Ben & Jerry's released a climate-change oriented ice cream in 2015 called "Save Our Swirled" to raise awareness of the then upcoming global climate talks in Paris.

GCF could work with such a company, for example, by creating a "green" food product to raise awareness of GCF. An agreement could be reached to donate a percentage of sales from certain products to GCF.

Box 3: Example of potential green logo partnerships with private corporations

Similar to the (RED) iPhones, GCF could look to partner with laptop manufacturers to create green laptops, potentially with added eco-friendly designs (Figure 1). Potential candidates for partners could be those that ensure their products are manufactured, used and disposed of in an energy efficient, eco-friendly manner.

Figure 1: Potential branded laptop example. (Source: Adapted from apple.com)

Figure 2: Potential branded water bottles and coffee cups example. (Source: Adapted from amazon.com)

Reusable and eco-friendly water bottles and coffee cups have increased in popularity in recent years. GCF could take advantage of these trending eco-friendly products and cooperate with companies (Figure 2). It could create GCF-branded products with a portion of the proceeds from sales going to GCF.

2.4 Institutional capacity

20. Another key factor for effective resource mobilization is demonstrating strong institutional capacity and internal capabilities. This implies:

(a) Low operational costs with streamlined workflows and processes, a lean approach to staffing with supporting tools and systems;

(b) High standards of integrity of operations. High standards of transparency, risk management, fiduciary standards and safeguards at all times; and

(c) A strong track record of successful implementation, demonstrating sound financial management and successful project implementation.

2.5 Criteria for contributors from alternative sources

21. Different potential contributors will have different objectives, and individual contributors may have multiple objectives, whether these are primarily philanthropic or financial returns-focused. While private corporations and impact investors are usually associated with the first, they may also be interested in providing contributions, as witnessed with the growth of corporate social responsibility programmes and cross-sector partnerships. Likewise, philanthropic foundations and endowment funds usually have two pools of assets: those that are managed to generate returns, and those that are distributed as grants.

22. Table 2 summarizes key criteria for contributors of alternative sources in determining their decisions to provide funding. The table divides priorities for contributors who are primarily commercial return-orientated and those who are philanthropic, although it is to be noted that these are not mutually exclusive. The bottom section of the table lists criteria of importance to both.

Table 2: Criteria for potential contributors from alternative sources

COMMERCIAL RETURN	PHILANTHROPIC
• Acceptable risk and return • Speed of processes during the transaction origination/due diligence phase • Speed of transaction execution • Low transaction costs • Clarity of governance arrangements during the exposure period • Confidence in the management team, decision-makers, implementing agency and the organization's capacity • Solid performance under different market conditions • Contingency plans for investments during the short, medium and long term • Limited contribution to overheads (operating costs/fees)	• Alignment to overall mission • Ability to have impact where others cannot and, ideally, crowd in other capital • Breakthrough and innovative ideas that address important issues • Targeting of contribution to themes and/or areas in line with funding strategy • Ability to contract fairly easily on account of typically small in-house teams • Clear governance and oversight arrangements during the exposure period • Provision of monitoring and evaluation data to demonstrate outputs/outcomes and to "tell a story" around impact • Discretion or control over how/when any announcements that name their involvement are made
REQUIREMENTS FOR BOTH	
• Clear vision and strategy	

- Ability to execute the strategy
- Choice in determining the destination of funds
- Solid reputation and brand
- Efficient operations offering value for money
- Transparency in decision making process and in use of funds
- Clear assessment of risks and risk management
- Information with sufficient detail to back up decision-making
- Reliability of processes with clarity from the outset
- Strong fiduciary standards and regulatory compliance
- Strong environmental and social safeguards

III. Approaches for philanthropic foundations

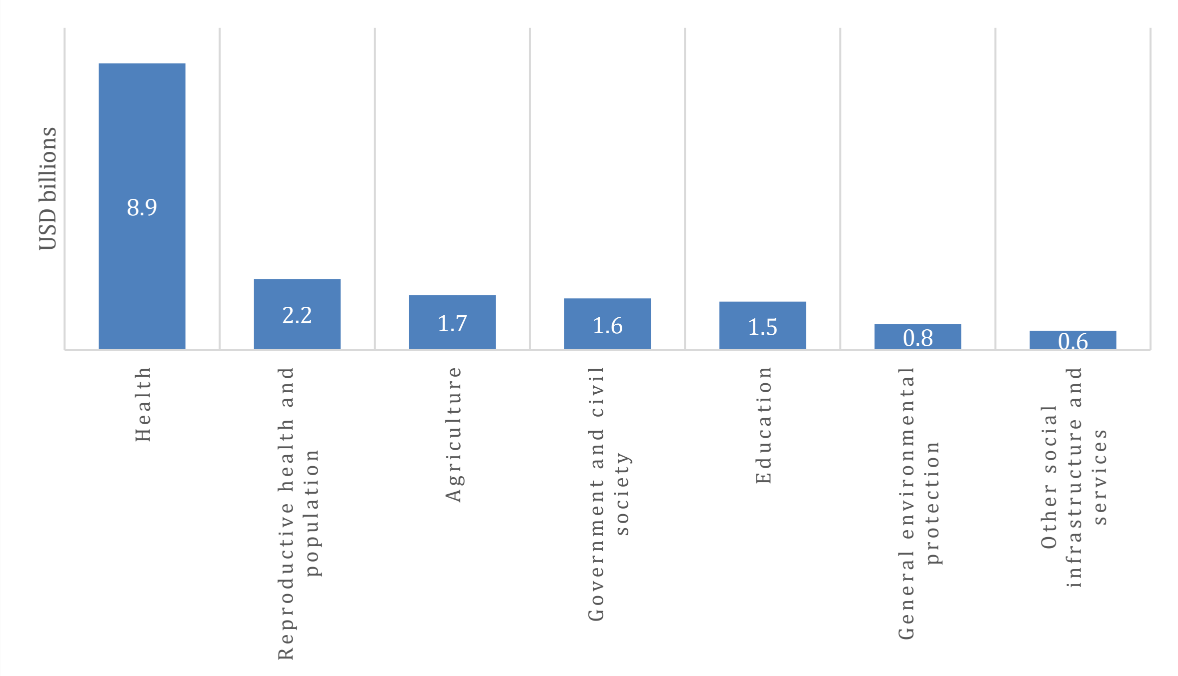
3.1 Overview of the sector

23. A philanthropic foundation is a non-governmental, not-for-profit organization with a principal fund of its own that is managed by its own trustees and directors; it promotes charitable, social or other activities serving the common welfare. Philanthropic foundations will typically invest part of their assets in order to obtain commercial returns and donate another proportion in the form of grants, to support other organizations or charitable purposes that align with their vision and values. Foundations may also provide further types of funding, such as interest-free or concessional loans. As a reference, there is a legal requirement in the United States of America for a philanthropic foundation to spend at least 5 per cent of its wealth each year on grants related to charitable activities

24. Philanthropic giving for development amounted to approximately USD 24 billion in the years 2013 to 2015. Only a small portion of these resources were destined for environmental protection, amounting to USD 0.8 billion during that time period, as shown in figure 2.[5]

[5] Organisation for Economic Co-operation and Development. 2018. *Private Philanthropy for Development*. Available at <http://www.oecd.org/dac/private-philanthropy-for-development-9789264085190-en.htm>.

Figure 2: Philanthropic giving by sector, 2013–2015



Source: Organisation for Economic Co-operation and Development, 2018.

25. The funding received from private donors by the Global Fund to fight AIDS, tuberculosis and malaria provides a reference point. It received approximately USD 300 million in 2016 (6 per cent of total contribution income) from international foundations.[6] In addition, Gavi, the vaccine alliance, has received USD 1.5 million from private donors from 2016, which relates to 19 per cent of total contribution income.[7]

3.2 What they are looking for

26. Philanthropic foundations are diverse in their funding objectives, the areas they focus on and the way they operate.

27. While their engagement in climate change is increasing, each foundation will have its own specific strategies and priorities and follow its own theories of change. For example, while the Bill & Melinda Gates Foundation operates globally with activities in over 100 countries, the MacArthur Foundation focuses on mitigating climate change in the United States, China and India.

28. In terms of the way they operate, some foundations allocate a specific sum of money to climate change projects each year, or over a certain time period, while others do not have a specific target and commit funds on a case by case basis. While some foundations expect bespoke agreements, others have standardized processes for applying for funding. Some foundations require reporting of very specific results and expect monitoring and evaluation to demonstrate the extent to which the foundation's contribution helped to reach its specific aims, while others note that they would have fewer monitoring and evaluation requirements than sovereign governments, particularly in areas where project metrics are more difficult to measure.

[6] The Global Fund. 2017. *2016 Annual Financial Report*. Available at <https://www.theglobalfund.org/media/6388/corporate_2016annualfinancial_report_en.pdf>.

[7] Gavi. 2018. *Annual Contributions and Proceeds 31 December 2017*. Available at <https://www.gavi.org/funding/donor-contributions-pledges/annual-contributions-and-proceeds/>.

29. There are, however, some key requirements that are common to most foundations. They tend to seek partnerships with other organizations that are aligned to their own vision and objects and where the impact they can make fits in with their specific funding strategy. There is a preference for breakthrough and innovative ideas and funding activities that would not otherwise receive funding from other types of contributors. This may also include funding pilot schemes that a government may not be willing or able to fund, but which the latter could subsequently scale up. There also tends to be greater willingness to provide funding where their contribution will crowd in other capital.

30. In order to be able to demonstrate an impact in line with their funding strategies, philanthropic foundations will prefer to earmark their funding to specific destinations, be this thematic, geographical or both. They will be interested in evidence of specific outputs and outcomes around their impact, enabling them to "tell a story" around their contribution, which may require additional monitoring and evaluation.

31. Foundations rely heavily on reputation, with some requiring several years of successful project delivery as a way of ensuring that their money will be used efficiently and with positive outcomes. Clear governance and oversight arrangements during the exposure period tend to be requested along with discretion and/or control over how and when any announcements that name their involvement are made.

3.3 Possible approaches

32. GCF could proactively seek contributions from philanthropic foundations by engaging with these foundations and ensuring that the institutional structures allow bringing philanthropic foundations on board. In addition to the suggestions made in section II regarding the overarching strategies for engaging with contributors, the following approach could be considered:

(a) **Proactive outreach to philanthropic foundations**. GCF could consider investing in building and growing relations with philanthropic foundations that are interested in climate funding;

(b) **Understanding the objectives of the foundation's charitable mission**. This can help the understanding of how both parties have aligned objectives as well as making it easy to comprehend what GCF will use the funds for. Foundations such as the ClimateWorks Foundation are results-driven and whenever possible use quantitative metrics to track progress towards goals;[8]

(c) **Allowing greater targeting of funds with respect to contributions from alternative sources**. This can be achieved by allowing earmarking of contributions to specific funding windows, result areas or projects or through the creation of new thematic windows;

(d) **Creating a sub-fund which is clearly defined as a charity**. GCF could create a separate arm to be legally registered as a charity (e.g. a GCF Foundation). This would clearly enable contributions to be classed as "for charitable purposes" and can be targeted towards specific areas that are in demand for funding by foundations;

(e) **Allowing the creation of windows** (or sub-funds) limited to, for example, USD 500 million for specific thematic areas and potential other special conditions;

(f) **Allowing for tailored and more extensive reporting**. The current resources dedicated to reporting on projects may need to be expanded to provide the greater flexibility that

[8] ClimateWorks. 2018. *Response*. Available at <https://www.climateworks.org/response/>.

new contributors may seek, allowing them to tell a story about the specific results their contribution achieved;

(g) **Leveraging existing pools of funds in other areas outside climate change**. Existing pools of funds in other thematic areas could be tapped, such as in health, gender and migration. This could be achieved through the creation of thematic windows (or special funds) that connect climate change with those themes (e.g. climate change and health or climate change and gender). Such funds or windows could be limited to a maximum amount (e.g. USD 500 million); and

(h) **Match contributions**. Offer to match a foundation's funding with funding from other sources in order to incentivize the foundation to contribute.

3.4 Major stakeholders to approach

33. Table 3 provides a list of foundations active in climate finance funding. Appendix B contains a further table of five foundations, illustrating the diversity of their size, thematic focus and preferences.

Table 3: Foundations active in climate action

Bill & Melinda Gates Foundation	Mott Foundation
Bloomberg Philanthropies	Oak Foundation
ClimateWorks Foundation	David and Lucile Packard Foundation
European Climate Foundation	Rockefeller Foundation
Generation Foundation	SeaChange Foundation
Grantham Foundation	Shell Foundation
IKEA Foundation	TomKat Foundation
KR Foundation	Wallace Global Foundation
MAVA Foundation	Wood Foundation
MacArthur Foundation	

IV. Approaches for private sector entities

4.1 Overview of the sector

34. Private sector entities have the potential to be important partners and contributors to GCF and its activities. The sector is very broad, covering entities such as property developers, private equity and venture capitalists, large institutional investors, family offices/HNWI, corporations and households.

35. The entities that have greatest potential for GCF are large institutional investors – such as sovereign wealth funds, pension funds, insurance and reinsurance companies – as well as impact investors and HNWI, especially as these take an increasing interest in green investments.

36. The total assets of insurers, pension funds, SWF and HNWI under management represent well over USD 100 trillion and are projected to grow consistently. Compared with other investors, they also have a longer time horizon, whereby long-term sustainability is more likely to enter their financial calculation.[9]

4.2 What they are looking for

37. The key priority for this group of contributors is attaining the appropriate commercial return on the investment. This is also a key priority for impact investors. A major criterion is the ability of GCF to manage certain categories of risk to make the investment financially viable for the investor.

38. While the sector covers many different entities, there are various common themes around what these investors look for. They expect to see low costs with regard to their investment alongside fast decision-making processes for projects and proposals, as well as minimal delays in approvals and sign-off. They also seek detailed reporting and contingency plans and a positive track record of typically no less than three years showing solid financial management and successful project implementation.

39. There tend to be limitations around the size of the investment given the investor's required due diligence and other transaction costs. For example, large institutional investors are unlikely to take an interest in investment below USD 60 million.

40. While different investors use different investment criteria, they typically follow the same general approach as in the example shown in box 4.

Box 4: Morningstar's five key areas for rating funds

Morningstar, the main global financial fund research house, has identified five key areas for rating funds: People, Process, Parent, Performance and Price. These provide a typical example of the approach used by investors to drive their funding decisions and are further elaborated below:

<u>People</u>: this refers to the quality of the fund's investment team. It looks at which individuals make the key decisions of the fund, their experience and ability; which resources directly support them, information and communication flows, manager workload, stability and how conflicts are resolved.

<u>Process</u>: this area involves ensuring that performance objectives and investment process are sensible, clearly defined and effectively implemented. Investors seek to understand the investment philosophy that underpins the fund, the appropriateness of the process given the resources backing the fund and the size of the asset base tied to the strategy. They also examine the risks entailed in the process, from a portfolio-bias point of view and from an ability-to-execute point of view; performance expectations in different market environments; and added value compared to a benchmark or peer group.

<u>Parent</u>: this refers to strong backing from the fund firm. Key areas of evaluation include recruitment and retention of talent; organizational structure; capacity management; organizational and business strategy; alignment of interests with fund investors; and regulatory compliance.

<u>Performance</u>: while only a small weighting is given to short-term past performance, the evaluation of long-term return and risk patterns is considered vital to determining if a fund is delivering to expectations. Performance expectations are checked against actual performance in different market environments. Many periods and performance aspects are considered to build as comprehensive a picture as possible about the fund's track record. Also, performance is viewed within the context of

[9] PwC. 2014. *Asset Management 2020: A Brave New World*.

risks taken and is usually viewed relative to the relevant benchmark or peer group for the fund. Performance is also reviewed in the context of notable changes in assets under management; that is, if performance tails off as assets grow, or if the bulk of outperformance came when the fund was very small, it is cause for concern.

Price: fund expenses are evaluated.

Source: Morningstar Analyst Rating for Funds Methodology Document. 2011

41. With regard to the growing industry of impact investors, these specifically examine social or environmental return in addition to financial return in investment decisions. When assessing environmental return, there is not yet a fixed, generally accepted framework with audited data. Thus, there is currently considerable flexibility around how impact is identified. However, a key determining factor for these investors is additionality, that is, evidence that the positive impact and the value to the community in question would not have accrued if the investments had not been undertaken.[10]

4.3 Possible approaches

42. GCF could, in the short term, proactively reach out to institutional investors to understand more about the requirements to bring them on board. Over the medium to long term, and once GCF has a clearer approach with respect to these organizations, it can proactively seek contributions from large institutional investors such as SWFs, pension funds, insurance and reinsurance companies. In addition to the suggestions made above, the following approach could be considered:

(a) **Building a solid track record**. In order to ensure that investors will be comfortable to invest in GCF (or its projects), they will expect to see a track record of solid financial management and successful project implementation. This could be a priority to focus on in the short term and subsequently build on;

(b) **Proactive outreach to potential investors**. Private entities need to be encouraged and incentivized to invest with an appealing offer. GCF could proactively reach out to large institutional investors in order to understand their specific preferences and what is required to crowd in their investments. They could then approach specific investors with a detailed offer package;

(c) **Allowing flexibility for tailored (more extensive) due diligence processes and reporting**. The current resources dedicated to due diligence and reporting on projects may need to be expanded to provide the greater flexibility that new contributors may seek; and

(d) **Allowing greater choice in destination of contribution**. GCF could allow investors to fund specific projects or create new windows towards which investors' funds could be destined.

[10] Bridges Fund Management. 2017. *Responsible Investment Policy*. Available at <http://dev.bridgesfundmanagement.com/wp-content/uploads/2017/03/Bridges-Responsible-Investment-Policy-2017.pdf>.

4.4 Major stakeholders to approach

43. The key stakeholders of interest to GCF for a sizeable and stable income source in the long term are SWFs, pension funds and insurers. These groups are discussed in turn below.

4.5 Sovereign wealth funds

44. As large investors, SWFs are well-placed to finance climate action projects. They are government-owned, typically with long-term investment strategies. They are also showing growing interest in green bonds and other financing tools that facilitate investment in climate action.

45. SWFs are set up and run with different objectives. The three main objectives are:[11]

(a) Capital maximization:

   (i) Balancing intergenerational wealth;

   (ii) Funding future liabilities; and

   (iii) Investing reserves;

(b) Economic development:

   (i) Investing in physical infrastructure;

   (ii) Investing in social infrastructure; and

   (iii) Pursuing industrial policy;

(c) Stabilization:

   (i) Facilitating fiscal stability; and

   (ii) Stabilizing the exchange rate.

46. SWFs with capital maximization and economic development as their goals are likely to be more attractive to the GCF compared with those with stabilization as their aim, especially as stabilization funds typically have higher liquidity requirements.

47. Capital maximization funds look to balance intergenerational wealth or to grow wealth for future liabilities such as pensions (e.g. Norway's Government Pension Fund Global, managed by Norges Bank Investment Management; New Zealand Super Fund). Their intergenerational nature, with a medium- to long-term time horizon, coupled with a relatively high tolerance for risk, make them suitable climate change investors.

48. Government Pension Fund Global is at the forefront of SWFs addressing climate change. Since 2016, it has enhanced its analysis of portfolio carbon emissions and funded research projects by requiring banks to disclose their lending contributions to greenhouse gas emissions. Subsequently, investments in firms that derive more than 30 per cent of their turnover from coal companies and electricity producers have been removed from investment portfolios.

49. Economic development funds often seek a neutral rate of return by diversifying away from oil and gas (Nigeria Infrastructure Fund; Abu Dhabi's Mubadala Development Company). These types of funds may also be of interest to GCF, as they may look to boost a country's long-term productivity through climate-related investment. The Mubadala Development Company, for example, invests in wind and solar projects both at home and abroad in developing countries.

[11] PwC. 2015. *Sovereign Investors 2020: A Growing Force*. Available at <https://www.pwc.com/gx/en/sovereign-wealth-investment-funds/publications/assets/sovereign-investors-2020.pdf>.

50. While it is becoming increasingly common for SWFs to invest in climate change, their primary concerns remain sustaining long-term prosperity through investing to achieve maximum financial returns. SWFs are also constrained by a set risk appetite, especially those that abide by the Santiago Principles. These are 24 generally accepted principles and practices including promoting transparency, good governance, accountability and prudent investment practice.

51. Appendix C contains an illustrative list of selected SWFs of potential interest to GCF with their strategy, maturity and return preferences.

4.6 Pension funds

52. Pension funds aim to build up member contributions in order to provide an income to those members later on in life. The main prerogative for pension fund trustees is to ensure that pension liabilities are paid out to members. They tend to be restricted by legislation and regulations which leads them to be more interested in investing into conservative assets that match their pension liabilities.

53. Typical investments comprise government gilts, corporate bonds and equity, with a significantly smaller amount going into other alternatives. With regard to the other alternatives, pension funds might look to invest in areas such as infrastructure with which they can grow and diversify their portfolio with assets of low correlation with traditional asset classes. These may include climate-related projects of interest to GCF.

54. Pension funds tend to have longer time horizons with regard to their investments. Therefore, they are more likely than other investors to take interest in long-dated loans or equity with a preference for a steady yield, inflation protection and low correlation to the rest of their portfolio.

55. In the past, a focus on environmental sustainability was seen to compromise investment performance. However, in recent years there has been greater interest in climate change risk and responsible investment:

(a) There is growing pressure on pension schemes and their advisors to take account of climate-related risks in any relevant decisions, calculations and advice;

(b) Pension member attitudes and expectations are shifting in this direction;

(c) Unlike other investors' assessments, which tend to have a short-term horizon aligned with three-year valuation cycles or business plans, pension funds are looking at longer-term risks, and risks from climate change are entering this calculation;

(d) The awareness is growing that some assets may lose value or become stranded if they can no longer be used to produce energy as the world transitions to a low-carbon economy; and

(e) Growing evidence that the performance of investments in sustainability has exceeded that of comparable traditional investments, on both an absolute and a risk-adjusted basis, across asset classes and over time.

56. Despite varying levels of contributions to limiting climate change, pension funds are becoming aware of the issues associated with climate change and are beginning to take action, such as Denmark's Arbejdsmarkedets Tillægspension (ATP), which has invested in climate-friendly infrastructure projects.

Box 5: Examples of pension schemes leading the way in climate considered investments

- United Kingdom's Environment Agency Pension Fund
  - Has set as an objective to ensure that the fund's investment portfolio and processes are compatible with keeping the global average temperature increase to below 2 °C
  - Includes specific targets for reducing the proportion of investments in fossil fuels and increasing the proportion in clean energy sources, within set time frames
  - Uses the Task Force on Climate-related Financial Disclosures framework for its own reporting and that of its investee companies
- United Kingdom's National Employment Savings Trust Corporation
  - Worked with UBS to develop a bespoke low-carbon index e.g. reduces exposure to investments in companies with large coal reserves and increases exposure to companies that are likely to do well in a low-carbon world e.g. manufacturers of green technology
  - Weights companies according to their emissions "glide path" and commitments to decarbonization
  - Index has outperformed its benchmark comparator group in its first seven months – seems to be generating promising returns in addition to safeguarding against climate risk
- Dutch pension fund managers PGGM and APG Asset Management
  - Led the way in developing a detailed process to identify classifications of sustainable development assets in order to align investments with the Sustainable Development Goals
- Norway's KLP pension fund
  - Support divesting from high emission-producing companies. KLP companies are required to disclose combined revenues from oil sands and coal extraction and are removed from investments if this is higher than 30 per cent

4.7 Insurers

57. Interest in climate change by insurance and reinsurance companies is driven by two main factors:

(a) Some firms look at how they can support cities and regions to make better infrastructure decisions, following increases in extreme weather event losses; and

(b) Others are proactively moving their business away from heavy polluters such as the coal industry, and instead focusing on providing insurance to renewable energy projects.

58. As a result, insurers have a dual long-term interest to mitigate and adapt to climate change by attempting to reduce the likelihood of these events, and encourage a move towards renewables.

59. Insurance firms have enacted a variety of measures to tackle climate change such as:

(a) Using their positions as insurers to develop new climate change focused projects;

(b) Divesting from coal and oil while moving to invest in renewable projects;

(c) Acting as investors in green bonds;

(d) Changing the behaviour of insured people and companies; and

(e) Working to reduce their own emissions.

60. XL Catlin, Hiscox, Swiss Re and Zurich are working with clients as well as public and private partners to enhance resilience and prevent or minimize damage and harm from weather and climate-related perils for their customers and communities. For example, XL Catlin has been developing new business streams such as New Energy Risk, which provides insurance solutions to renewable energy system manufacturers, developers, lenders and investors.

61. Insurers are also divesting from oil and coal, with policies designed to make it harder for polluting firms to buy insurance cover. For example, AXA divested from the oil sands industry and associated pipelines, corresponding to a total of EUR 700 million and Allianz has pledged to stop selling policies to coal companies and has committed to providing more policies to renewable energy projects.

62. In addition, insurance corporations such as Aviva, Allianz and Zurich are investing in green bonds. Zurich holds over USD 2 billion in green bonds and USD 303 million in social and sustainability bonds.

63. In aggregate, there is a significant amount of evidence suggesting that insurance firms are increasingly interested in climate change, in particular in investing in renewable sources and low-emission projects.

64. For more information on different insurance corporations and their climate change efforts, refer to appendix D.

V. Yield from other sources

5.1 Corporate social responsibility

65. Private companies may provide contributions to GCF and they may also be effective in securing funding indirectly through different partnership arrangements.

66. Providing grants to or otherwise working in partnership with GCF may be of interest to private firms as part of their corporate social responsibility programmes or general image and reputational considerations to make them attractive to their customers compared with their competitors.

67. Numerous private sector firms are now actively engaged in assisting the achievement of the United Nations Sustainable Development Goals and have made climate- and sustainability-related commitments. Some examples are shown in box 6. Also see box 1 for an example of a partnership between the Global Fund and private companies.

Box 6: Examples of large companies that have made sustainability commitments

Image source: ccep.com; hsbc.com; unilever.com

5.2 Small contributions

68. **Allow contributions to be made through the GCF website**. GCF can establish a partnership to allow it to accept contributions from the private sector and individuals. This would ideally be made easy through clicking a button on the website that links to a site with a registration page and choice of contribution amounts. See box 7 for an example from the Adaptation Fund.

Box 7: The Adaptation Fund's "Donate" button for small donations

The Adaptation Fund encourages anyone from schoolchildren to private corporations to donate, coinciding with a quotation from Timothy E. Wirth, President of the United Nations Foundation: "concerning climate: no one can do everything - but everyone can do something". The Adaptation Fund and the United Nations Foundation work together to allow donations from the private sector and individuals. Donations are easily accessible, with a "DONATE NOW" button clearly visible on the website. This leads to a United Nations Foundation page where the only requirements are choosing the amount you wish to donate (in dollars and capped at USD 999,999.99), ticking a box determining whether the donation will be made monthly, or contributing in honour or in memory of someone and finally there are boxes to fill out contact and payment information. [12]

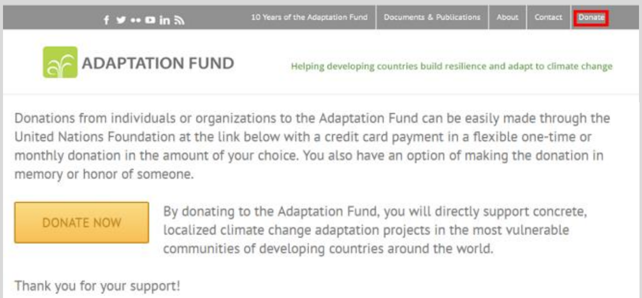


Image source: adaptation-fund.org

69. **Allow for specific projects or windows to be crowdfunded**. Crowdfunding – the practise of funding a project by raising relatively small amounts of money from a large number of people – is an alternative source of finance and one that has grown in popularity over the last

[12] See <https://www.adaptation-fund.org/donate/>.

few years. It was estimated that in 2015, over USD 34 billion was raised through crowdfunding.[13]

70. Donation-based crowdfunding is a popular type of crowdfunding, where the collective effort of individuals helps charitable causes. The Fund could establish itself in this area, either on its own website or through a partner, such as GlobalGiving, which has raised over USD 332 million and is the largest crowdfunding community in the world.[14] In addition to accepting small contributions for the GCF to use without restriction, the Fund may wish to set up its own crowdfunding function with funds earmarked for specific projects or windows, as contributors typically seek to provide contributions towards specific areas of work, rather than providing contributions towards to a general pot.

71. **Partner with organizations that promote charities**. GCF could establish partnerships with organizations that promote charities and charitable giving, if it decides to create a separate arm to be a legally registered charity (e.g. a GCF Foundation). An example of such an organization is the Charities Aid Foundation (CAF) in the United Kingdom of Great Britain and Northern Ireland. CAF provides services to United Kingdom and international charities and their donors and promotes contributions to charities. In the financial year of 2016/17, donations to CAF exceeded GBP 500 million.[15] In addition, GCF could partner with CAF-equivalent charities in other countries to benefit from similar organizations globally.

5.3 Green bonds

72. **Issuing green bonds**: green bonds – fixed-income financial instruments designated to fund projects that have positive environmental and/or climate benefits – are a relatively new asset class that has seen enormous growth in recent years. Green bond issuances grew from a volume of under USD 40 billion in 2014 to approximately USD 160 billion in 2017. Moody's Investors Service forecasts bond issuance to grow to USD 250 billion in 2018.[16]

73. Like normal bonds, climate bonds can be issued by governments, multinational banks or corporations. The issuing entity guarantees to repay the bond over a certain period of time, plus either a fixed or a variable rate of return.

74. The World Bank is a major player in the green bonds market, having issued over 200 green bonds since 2008. In March 2018, the World Bank Group's International Finance Corporation and Amundi, Europe’s largest asset manager, launched the world’s largest targeted green bond fund focused on emerging markets, the Amundi Planet Emerging Green One. The fund is expected to deploy USD 2 billion into emerging markets green bonds over its lifetime.

75. There is strong demand for green bonds from a range of investors, including mainstream institutional investors, impact investors, corporate treasury, sovereign and municipal governments and retail investors. Investment in renewable energy continues to be the most common use of proceeds.

76. GCF could consider acting as a facilitator for green bonds or exploring arrangements in which green bonds are issued on its behalf. As a long-term strategy, it may consider issuing green bonds where it could be structured through different channels, including but not limited

[13] Forbes. 2015. *Trends show crowdfunding to surpass VC in 2016.* Available at <https://www.forbes.com/sites/chancebarnett/2015/06/09/trends-show-crowdfunding-to-surpass-vc-in-2016/#24bf78d24547>.
[14] GlobalGiving. 2018. Available at <https://www.globalgiving.org/aboutus/>
[15] CAF. 2017. *Trustees’ Report and Financial Statements for the Year Ended 30 April 2017*. Available at <https://www.cafonline.org/docs/default-source/about-us-governance/caftrusteesreport_2140a_web_030817.pdf?sfvrsn=53b2aa40_10>.
[16] Moody’s. 2018, *Following a record year, green bond issuance is set to eclipse $250 billion in 2018*. Available through <https://www.moodys.com/research/Moodys-Following-a-record-year-green-bond-issuance-is-set--PR_378972>.

to, third party issuance on behalf of GCF special purpose vehicles, the GCF`s own issuance and others. International investors typically prefer investment-grade green bonds in hard currencies, given their perception of high risk in emerging economies.[17] Further challenges in the green bond market include the lack of authoritative or widely applied local green bond guidelines, costs of meeting green bond requirements (upfront and ongoing administration, labelling, certification, verification and monitoring requirements), difficulties for international investors to access local markets and lack of domestic green investors.[18]

5.4 Lottery

77. **Setting up a lottery as an alternative source of funding**: GCF could consider a lottery as an alternative source of funding and donate portions of the revenue earned from ticket sales to GCF projects. Various countries have used proceeds from lotteries to finance charitable projects. For example, since 1995, the United Kingdom National Lottery has raised more than GBP 37 billion, enabling 525,000 projects to be funded, including environmental projects such as a programme to transform waste in Scotland.[19] Other EuroMillions countries also donate to charitable projects, such as Switzerland's Loterie Romande, which disbursed CHF 2.4 million to environmental projects in 2016.[20] In addition, the United Kingdom's Big Lottery Fund is developing a new international fund from its lottery proceeds which will complement the post-2015 Sustainable Development Goals.[21]

5.5 Taxation

78. Over the longer term, GCF may consider obtaining revenue from taxation such as an aviation tax, a carbon tax or a financial transactions tax. These taxes lend themselves to being global taxes as they aim to internalize negative externalities such as fossil fuel emissions, which are not restricted to national borders. As a longer-term strategy, GCF may choose to work towards the imposition of such global taxes and a portion of the proceeds from these taxes could go towards GCF:

(a) **Air passenger duty**: there may be scope to introduce a global equivalent to the excise tax on passengers flying, similar to the Air Passenger Duty (APD) in the United Kingdom, the Air Travel Tax in Ireland and the Solidarity Tax on flight tickets in France. Taking APD as an example, it represents less than 1 per cent of the total average cost of a foreign holiday and has the potential to raise significant revenues as this area is currently undertaxed. Seventy-eight per cent of trips with APD are being taxed at the lowest rate and on average APD accounts for only 7.7 per cent of the total air fare.[22] Yet even at this rate, GBP 3 billion of revenue is raised in the United Kingdom each year.[23]

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[17] International Finance Corporation. 2018. *Guidance for Sovereign Green Bond Issuers*. Available at <https://www.ifc.org/wps/wcm/connect/4e657e50-a5f6-4ed8-87a0-68d3a55f0647/20180320_Guidance-for-Soverign-Green-Bond-Issuers_v1.pdf?MOD=AJPERES>.

[18] Organisation for Economic Co-operation and Development. 2017. *Mobilising Bond Markets for a Low-Carbon Transition*. See <https://read.oecd-ilibrary.org/environment/mobilising-bond-markets-for-a-low-carbon-transition_9789264272323-en#page55>.

[19] See <https://www.lotterygoodcauses.org.uk/good-causes/who-were-helping>.

[20] Loterie Romande. 2016. *Annual Report and Social Report 2016*.Available at <https://www.loro.ch/sites/default/files/documents/rapport_annuel_et_bilan_social_2016_anglais.pdf>.

[21] See <https://www.biglotteryfund.org.uk/about-big/our-approach/international-funding>.

[22] Aviation Environment Federation. 2016. *The Case for Keeping Air Passenger Duty*. Available at <http://www.aef.org.uk/uploads/AEF-Briefing-APD-in-Scotland-1.pdf>.

[23] Aviation Environment Federation. 2014. *Air Passenger Duty: Strengths and Limitations*. Available at <http://www.aef.org.uk/2014/11/06/air-passenger-duty-what-is-it-good-for/>

While APD is unlikely to reduce the emissions produced from aviation, it can be used to mitigate the implications of emissions by using revenues to fund projects;

(b) **Carbon tax**: carbon tax has the potential to raise considerable amounts of revenue for GCF while simultaneously reducing emissions. For example, Ireland introduced a carbon tax in 2010 which covers nearly all fossil fuels. The tax generates roughly EUR 400 million each year, and Ireland has seen a drop in its carbon emissions since the introduction of the tax, even as the economy grew.[24] From a government's perspective, the administrative costs of collecting the tax are low and similar taxes are already in place, with the tax working like an excise tax on fossil fuel consumption. The tax works to internalize the external cost of carbon, by quantifying the harm caused by every tonne of carbon dioxide emissions released into the atmosphere, thereby discouraging the purchase of fossil fuels, and making renewable energy or low-carbon emission alternatives more price competitive. Challenges to overcome are the regressive nature of the tax. Direct side payments from wealthier nations to poorer nations could be made, based on an agreed formula (this may be based on per capita income and/or historical emissions); and

(c) **Financial transactions tax**: a global (or regional) financial transaction tax could be put into place, whose revenue could be used to fund GCF. France introduced a 0.2 per cent tax on purchases of shares in French companies with a market capitalization of at least EUR 1 billion. This has since been raised to 0.3 per cent this year. The tax raised EUR 1.1 billion in 2016 and a large part of the revenue it generates has been put into the French development aid budget.[25] There are different estimates for the amount of revenue a financial tax could bring in: the International Monetary Fund estimated that a 1 basis point financial transactions tax charged at the global level on stock, bonds and derivative transactions could raise USD 200 billion per year. A financial transactions tax in the form of a "Tobin tax" on foreign exchange transactions of 0.5 basis point on spot and derivative transactions in the four main trading currencies has been estimated to generate USD 20–40 billion.[26] Opponents have argued that the tax makes sense only if it covers many countries, otherwise transactions will shift toward financial centres not covered by it. Furthermore, as with all transaction taxes, there would be concerns about market distortions and deeply entrenched national positions mean such an instrument is unlikely to be implemented on a global scale. Therefore, for a financial transactions tax to be an option, difficulties of persuading countries to take part in this tax would need to be overcome, such as ensuring the taxes are equitable and competitive positions are not lost.

79. This section has set out the overarching strategies for engaging with contributors, looking at the different ways GCF can approach alternative contributors outside national governments. While considering the universe of alternative contributors, this section focused on two in particular: philanthropic foundations and private sector entities, as well as looking at other sources of revenue that have been considered for GCF.

[24] *New York Times*. 2012. *Carbon Taxes Make Ireland Even Greener*. Available at <https://www.nytimes.com/2012/12/28/science/earth/in-ireland-carbon-taxes-pay-off.html>.
[25] Reuters. 2017. *France to Push for European Financial Transactions Tax*. Available at <https://www.reuters.com/article/us-france-tax-environment/france-to-push-for-european-financial-transactions-tax-idUSKBN1E40G1>
[26] International Monetary Fund. 2010. *Financial Sector Taxation: The IMF's Report to the G-20 and Background Material*. Available at <https://www.imf.org/external/np/seminars/eng/2010/paris/pdf/090110.pdf>.

Appendix A: Potential celebrity champions

Name	Area of focus
Leonardo DiCaprio	Has sat on the board of the World Wildlife Fund, Global Green USA, International Fund for Animal Welfare, and the Natural Resources Defense Council.[a] Production of the documentary *Before the Flood*[b]
Don Cheadle	Cheadle works with the United Nations on climate change concerns. He and Harrison Ford worked together on a documentary event series *Years of Living Dangerously*, which provides first-hand reports on those affected by, and seeking solutions to, climate change.[c] He is also on the Advisory Board of Citizens Climate Lobby.[d]
Mark Ruffalo	The Solutions Project is an organization founded by engineering professor Mark Z Jacobson (Stanford University), Marco Krapels, documentary filmmaker/activist Josh Fox and Mark Ruffalo, with the aim of moving the United States towards 100% renewable energy, including the use of wind power and solar power.[e]
Arnold Schwarzenegger	Signed the Global Warming Solutions Act of 2006, creating the nation's first cap on greenhouse gas emissions, plus another bill that prohibits large utilities and corporations in California from making long-term contracts with suppliers who do not meet the state's greenhouse gas emission standards.[f] Founded, in 2011, the R20 Regions of Climate Action to develop a sustainable, low-carbon economy.[g]
Akon	Akon Lighting Africa is a project started in 2014 by former music artist Akon with Samba Bathily and Thione Niang which aims to provide electricity by solar energy in Africa. Their initial technique is to install solar street lights and small energy systems. Since launching in 2014, Akon's group has operations in 14 nations, including Guinea, Senegal, Mali, Niger, Benin and Sierra Leone.[h]
Alec Baldwin	For the past several years, Baldwin has been an advocate for United Nations work on environment and sustainable development issues, with a notable focus on forests, climate change and indigenous peoples' rights. Through philanthropic efforts undertaken through the Hilaria and Alec

[a] Leonardo DiCaprio Foundation. 2018. *About Us*. Available at <https://www.leonardodicaprio.org/about/>.
[b] See https://www.beforetheflood.com/about/.
[c] Environmental Defense Fund. 2016. *Behind the Scenes with Don Cheadle: Climate Change is Real and we Must Act*. Available at <https://www.edf.org/blog/2016/08/15/behind-scenes-don-cheadle-climate-change-real-and-we-must-act>.
[d] Citizen's Climate Lobby. 2018. *Advisory Board Member: Don Cheadle*. Available at <https://citizensclimatelobby.org/about-ccl/advisory-board/don-cheadle/>.
[e] The Solutions Project. 2018. *Our Story: How we Turned an Impossible Idea into a Global Movement*. Available at <http://thesolutionsproject.org/our-story/>.
[f] NBC News. 2006. *Schwarzenegger takes Center Stage on Warming*. Available at <http://www.nbcnews.com/id/15029070/ns/us_news-environment/t/schwarzenegger-takes-center-stage-warming/#.Wv2I84gvzcs>.
[g] Regions of Climate Action. 2018. *About Us*. Available at <https://regions20.org/about-us-2/>.
[h] Akon Lighting Africa. 2018. Available at <http://akonlightingafrica.com/>.

	Baldwin Foundation, he supports initiatives involving, among the other matters, the environment.[i]

[i] DW. 2015. *Alec Baldwin, Actor and Activist, USA*. Available at <http://www.dw.com/en/alec-baldwin-at-cop21/a-18909375>.

Appendix B: Philanthropic foundations

Foundations	Size (USD)	Main focus	Preferences and limitations
Bill & Melinda Gates Foundation[a]	Endowment value: 40.3 billion Total development giving: 2.5 billion Total direct guarantee support: 4.5 billion	Globally, to enhance healthcare and reduce extreme poverty, and in the United States, to expand educational opportunities and access to information technology Pressing problems that receive too little attention	Spending on global agriculture is increasingly focused on climate change adaptation Funding the development of climate-smart crops For carbon emission issues, the Gates use their own funds, not those of the Foundation Active in over 100 countries
ClimateWorks Foundation **(formed by Hewlett Foundation, Packard Foundation and McKnight Foundation)**[b]	Total giving: 60 million	Clean power, energy efficiency, forest and land use. Projects with high potential to reduce greenhouse gas emissions and prevent the "lock-in" of long-lived, carbon-intensive infrastructure	Work with investors with a focus on blended finance Limitations on who can be provided with direct grants as tests on charitability apply
IKEA Foundation[c]	Total giving: 144 million (2017)	Fighting poverty Supporting communities in fighting climate change	Primarily offers grants, and exploring the option of concessional loans, but does not offer equity Works with investors with a focus on blended finance to reduce risk in capital markets Place emphasis on value add, low/no bureaucracy and the cost structure

[a] Bill and Melinda Gates Foundation. 2016. *Annual Report.*, Available at <https://www.gatesfoundation.org/Who-We-Are/Resources-and-Media/Annual-Reports/Annual-Report-2016>.
[b] ClimateWorks. 2016. *ClimateWorks Foundation 2016 Form 990 Public Disclosure*. Available at <http://www.climateworks.org/wp-content/uploads/2017/10/ClimateWorks-Foundation-2016-Form-990-Public-Disclosure-Copy.pdf>.
[c] IKEA Foundation. *Brighter Futures Annual Review 2017*. Available at <https://www.ikeafoundation.org/annualreview/2017/reflections/>.

Children's Investment Fund Foundation[d],[e]	Endowment value: 4.70 billion Giving value: 828.5 million	Focuses on improving the lives of children living in poverty in developing countries Reduced carbon emission energy systems and lower carbon emitting and higher resource efficient urbanization	Finances both small pilots and large projects (e.g. USD 8 million multi-year grant value assisting China Sustainable Cities Programme) Aims to play a catalytic role as a funder and influencer to deliver urgent and lasting change for children at scale
Bloomberg Philanthropies[f]	Endowment value: 4.24 billion Giving value: 600 million (2016)	Environment and local action on climate change Sustainable cities Vibrant oceans Clean energy Protecting coral reef	Does not shy away from controversy or failure if there is potential to make a difference Committed to harnessing the power of data to assess opportunities, measure progress, evaluate impact and improve performance
MacArthur Foundation[g]	Grants and impact investments: 500 million (2017)	Focused on mitigating climate change, reducing jail populations, decreasing nuclear threats, supporting non-profit journalism	Grants and impact investments Focuses climate activities on the United States, China and India

[d] Children's Investment Fund Foundation. 2018. *Grant Portfolio*. Available at <https://ciff.org/grant-portfolio/>.
[e] Children's Investment Fund Foundation. 2016. *Annual Report*. Available at <https://ciff.org/news/2016-annual-report/>.
[f] Bloomberg Philanthropies. 2017. *Annual Report May 2017*. <https://www.bbhub.io/dotorg/sites/26/2017/05/May_2017_Annual_Report.pdf>.
[g] MacArthur Foundation. 2018. *Impact Investments*. Available at <https://www.macfound.org/programs/program-related-investments/strategy/>.

Appendix C: Sovereign wealth funds

Fund	Size (USD)	Strategy	Maturity	Rate of return
Government Pension Fund Global, managed by Norges Bank Investment Management, Norway[a,b]	1.1 trillion	Norges Bank Investment Management has enhanced its analysis of portfolio carbon emissions and funded research projects, by requiring banks to disclose their lending contributes to greenhouse gas emissions since 2016. Subsequently it has removed investments in firms that derive more than 30% of their turnover from coal companies and electricity producers	Long-term investment horizon and limited liquidity needs. Asset allocation mix is tilted in favour of equities with 65.1%, fixed income at a little over 32.4% and 2.5% in real estate In 2017 the central bank proposed limiting the maturity of bonds it holds to 10 years to reduce uncertainty about the fund's volatility	6.48% return for first half of 2018
Abu Dhabi Investment Authority (ADIA)[c]	828 billion (end of 2015)	The mission of ADIA is to sustain the long-term prosperity of Abu Dhabi by prudently growing capital through a disciplined investment process and committed people who reflect ADIA cultural values	The decisions made by ADIA are based solely on its economic objectives of delivering sustained long-term financial returns The fund deploys 32–42% in developed equities, 10–20% in government bonds, 5–10% in real estate and holds about 10% of its assets in cash	20-year annualized rates of return – 6.1% 30-year annualized rates of return – 6.9% (2016 figures)

[a] Investopedia. 2017. *5 Largest Sovereign Wealth Funds*. Available at <https://www.investopedia.com/news/5-largest-sovereign-wealth-funds/>.
[b] Reuters. 2018. *Norway Wealth Fund to Assess Climate Risks in Power, Oil, Materials*. Available at <https://www.reuters.com/article/us-norway-swf/norway-wealth-fund-to-assess-climate-risks-in-power-oil-materials-idUSKCN1GB0Y7>.
[c] Abu Dhabi Investment Authority. 2018. *ADIA, 2017 Review, Prudent Global Growth*, Available at <http://www.adia.ae/En/pr/2017/ui/downloads/ADIA_Annual_report_2017.pdf>.

Mubadala, Abu Dhabi [d]	127.8 billion	Mubadala is a development fund that deploys capital in 30 countries to accelerate economic growth for the long-term benefit of Abu Dhabi. It is resolutely commercial in focus and aims to diversify revenue streams away from oil-related risk. It has supported wind and solar projects, including in developing countries	Directly invest in companies and thus look at the value of the company (deals, corporate finance)	Mubadala is considered by bond rating agencies to have the implicit backing of the government and shares its investment grade rating of AA/Aa2. The 7- and 12-year bonds carried annual interest rate coupons 3% and 3.7%, respectively
GIC, Singapore[e]	100 billion	GIC invests only for financial returns. Its mission is to preserve and enhance the international purchasing power of the reserves, with the aim to achieve good long-term returns above global inflation over the investment time horizon of 20 years	GIC implemented a new investment framework in 2013 to give it more flexibility to focus on "investments that may be riskier in the short term but would generate returns in the long-term”	20-year annualized real rate of return – 3.7%, nominal rate of 5.7% (March 2017)
China Investment Corporation (CIC), China[f]	813.5 billion (end of 2016)	CIC investment objectives include investing in a diversified portfolio of overseas financial instruments, and to recapitalize domestic financial institutions as a shareholder abiding by relevant laws CIC has pledged support for International Forum of Sovereign Wealth Funds` climate change working group, contributing as a responsible investor to addressing climate change	Public equity – 45.87% Fixed income – 15.01% Alternative assets – 37.24% Cash and others – 1.88%	CIC overseas investments generated a net return of 6.22% in 2016 and a net cumulative annualized return of 4.76% since its inception

[d] Mubadala. 2017. *Annual Review 2017*. Available at <https://www.mubadala.com/annual-review-2017/en/>.
[e] GIC. 2017. *2016/17 Report on The Management of the Government’s Portfolio*. Available at <https://www.gic.com.sg/wp-content/uploads/2017/07/GIC-Annual-Report-2016-2017.pdf>.
[f] China Investment Corporation. 2017. *2016 Annual Report*. Available at <http://www.china-inv.cn/china-invTheme/themes/html/ztnb/2016EN/index.html>.

Appendix D: Pension funds

Fund	Size (USD)	Strategy	Maturity	Interest Rates
Norway KLP[a]	72 billion	KLP guidelines for responsible investment already include severe environmental damage and KLP is in the process of updating the guidelines to include a specific climate criterion. Like Norway's sovereign wealth fund, KLP will remove companies that have a combined revenue exceeding 30% from oil sands and coal extraction from its investments.	Short-term, long-term and hold-to-maturity bonds and lending made up 20.7%, 27.1% and 11.2% of the common portfolio, respectively, at the end of September 2016	Return on investments for January to September 2016 was 4.4% Short-term bonds produced a 5.5% return, while long-term bonds generated 3.2%
Denmark ATP[b,c]	125.7 billion	Investment policy is based on the following four main criteria: 1) hedging the interest rate risk of pension liabilities; 2) efficient risk diversification; 3) insurance against very negative events; 4) appropriate risk level ATP is concerned with climate change, having launched a USD 1.35 billion fund to invest in climate-friendly infrastructure projects	Assets are invested in bonds, equities, real estate and infrastructure	Q1 2018 return of -1% and 2017 annual return of 29.5% The realized average investment portfolio returns over the past 5 years has been 3.9%/quarter
Finland VER[d,e]	22 billion	The Paris Agreement has been included in its investment guidelines. The fund also monitors its carbon footprint annually, although it has not excluded any firms for environmental reasons	VER has a long-term target return to earn a return that exceeds the cost of government debt Portfolio consists of 47.5% equities and 40.3% fixed income	Total return on investments in 2016 was 6.7% The average for the past five years is 7.4% and 4.5% for the past 10 years

[a] KLP. 2017. *Annual Report 2017*. Available at <http://english.klp.no/polopoly_fs/1.39998.1526025452!/menu/standard/file/KLP_%C3%A5rsrapport_2017_engelsk.pdf>.
[b] Institutional Investor. 2010. *ATP Sees Green in BRIC Investments*. Available at <https://www.institutionalinvestor.com/article/b150qcshz95bfp/atp-sees-green-in-bric-investments>.
[c] ATP. 2018. *Quarterly Announcement Q1 2018*. Available at <https://www.atp.dk/sites/default/files/quarterly-announcement-q1-2018.pdf>.
[d] Reuters. 2017. *FACTBOX – What Investors are Doing to Tackle Climate Change*. Available at <https://uk.reuters.com/article/climatechange-funds-investment-idUKL8N1JQ30H>.
[e] VER. 2017. *Annual Report of the State Pension Fund of Finland for 2016*. Available at <http://www.ver.fi/en-US/Publications/Annual_and_Interim_Reports/Annual_Report_of_the_State_Pension_Fund_(669)>.

UK USS[f,g]	82 billion, net assets	USS undertakes activities such as encouraging the disclosure of carbon emissions and information on how companies/assets are managing climate risks, and engages with policymakers to ensure appropriate climate change policies are established, encouraging the transition to a low-carbon economy	Equities – 62.5% Liability-hedging assets (gilts) – 25% Credit – 10% Property – 7.5%[h] USS also has in excess of USD 700 million in committed financing to United Kingdom renewables	Over the last five years (2012–2017), the investment fund generated an average return of 12.1%

[f] USS. 2018. *Climate Change*. Available at <https://www.uss.co.uk/how-uss-invests/responsible-investment/activities/climate-change>.
[g] USS. 2018. *Performance of the USS Retirement Income Builder or Defined Benefit (DB) Fund*. Available at <https://www.uss.co.uk/how-uss-invests/the-fund/performance>.
[h] USS. 2017.*Report & Accounts for the year ended 31 March 2017*, Available at <https://www.uss.co.uk/~/media/document-libraries/uss/how-uss-is-run/reports-and-accounts/2017-report-and-accounts-scheme.pdf>

Appendix E: Insurance corporations' climate change efforts

Insurer	Climate change efforts
Aviva	Became the first carbon neutral international insurer in 2006 and has committed to reducing its emissions generated to 50% of the 2010 level by 2030. As at summer 2016, it had achieved a 39% reduction. Aviva purchases 62% of its worldwide electricity consumption from renewable sources and generate electricity through solar onsite at three locations in the United Kingdom In 2015, as a part of Aviva's 5-year climate strategy it announced an investment target of EUR 500 million annually in low-carbon infrastructure and an associated carbon savings target for this investment of 100,000 t CO_2 annually In 2017, Aviva signed EUR 527.5 million of new investment in renewables and energy efficiency[a]
Allianz	Allianz is using its role as an insurer and investor to help manage risks arising from climate change and to promote the low-carbon economy. It has cut its own CO_2 emissions by 17% per employee since 2010 It has invested EUR 2.5 billion in green bonds and EUR 5.6 billion in total on renewable energy. It has also divested EUR 265 million from coal[b]
XL Catlin	XL Catlin has obtained a wealth of scientific data enabling scientists to come to more reliable conclusions about the potential impact of climate change on the environment. It is also working to help clients adapt to climate change, including expanding products and services to respond to its impacts XL Catlin has been developing new business streams such as New Energy Risk. New Energy Risk provides insurance solutions to renewable energy system manufacturers, developers, lenders and investors. The core focus has been the risk associated with new, relatively unproven technologies and the long-term performance of projects using those technologies[c]
AXA	In 2015, AXA pledged to triple its green investments to exceed EUR 3 billion by 2020. This had been met by December 2017. Its target now is to reach EUR 12 billion by 2020. It has also divested from the oil sands industry and associated pipelines, which totals EUR 700 million The AXA Research Fund has supported 184 scientific environmental projects. The AXA Research Fund is the scientific philanthropy initiative of AXA dedicated to boosting scientific discoveries that contribute to societal progress[d]
Swiss Re	The four pillars of Swiss Re's climate change strategy:

[a] Aviva. 2018. *Climate Risk and Environment Impact*. Available at <https://www.aviva.com/social-purpose/environment/>.
[b] Allianz. 2018. *Strategy and Governance: CEO's Perspective*. Available at <https://www.allianz.com/en/sustainability/strategy-and-governance/ceo-perspective/>.
[c] XL Catlin. 2017. *Climate Change Policy Statement*. Available at <http://xlgroup.com/-/media/xlgroup/pdfs/climate-change-policy-statement-160217-final-draft.pdf?la=en&hash=C5ABDA14556372312E4477F31C272DA6D45703F2>.
[d] AXA. 2018. *AXA Launches New Climate Change Actions*. Available at <https://www.axa.com/en/newsroom/news/axa-launches-new-climate-change-actions>.

	1. Advancing knowledge and understanding of climate change risks, quantifying and integrating them into risk management and underwriting frameworks where relevant 2. Developing products and services to mitigate or adapt to climate risk 3. Raise awareness about climate change risks through dialogue with clients, employees and the public, and advocating a worldwide policy framework for climate change 4. Tackle its own carbon footprint and ensure transparent, annual emissions reporting[e]
Zurich Insurance Group	Pillars of Zurich Insurance Group's climate change strategy include: 1. Working with clients as well as public and private partners to enhance resilience and prevent, or minimize, damage and harm from weather and climate-related perils 2. Develop insurance and risk management solutions for the new technologies, business models and approaches to assist with a transition to a low-carbon economy 3. Integrate assessments of both physical and transition risks into investment strategies and help avoid 5 Mt CO_2 emissions annually through impact investments 4. Disengage and divest from those whose activities are focused on thermal coal if these companies have no plan to realign their business towards a low-carbon future 5. Publicly advocate for policies that encourage the private sector to fully leverage capabilities and resources in support of the transition to a global low-carbon economy Furthermore, it holds USD 2.4 million in green bonds and USD 303 million in social and sustainability bonds[f]

[e] Swiss Re. 2018. *Our Climate Change Strategy*. Available at <http://www.swissre.com/eca/our_climate_change_strategy.html>.

[f] Zurich. 2018. *Climate Change: Zurich's Position*. Available at <https://www.zurich.com/en/corporate-responsibility/climate-change>.