

Annex IX: Proposed interim risk and investment guidelines for the private sector

1. The private sector may involve more complex structures of projects/programmes than those of public sector. Considering that the Secretariat's control and monitoring capabilities and infrastructure are not yet fully developed, the GCF will set the following interim guidelines as a stopgap measure.
2. To bridge the Secretariat's temporary capacity gap in terms of risk management, the Secretariat shall seek an independent and reputable third party's opinion on a case-by-case basis.
3. The Board can approve exceptions to the guidelines with review by the Risk Management Committee on a case-by-case basis and the Secretariat is encouraged to take such high-impact/transformational projects forward.

Consideration for the private sector		
Instrument	Parameters	Comment
Grant with repayment contingency, or without repayment contingency ^a	<p>Component of the Private Sector Facility (PSF) project/programme consisting of 100% grants should be limited to 5% of total project cost and should benefit the end beneficiaries such as through providing technical assistance and capacity building.</p> <p>Notwithstanding the above, in some instances the 5% limit may not be appropriate in such cases as small size projects or transformational private sector projects which have large non-revenue generating components, particularly in SID's/LDC's/Africa.</p> <p>Similarly, innovative high impact use of grants beyond technical assistance and capacity building on a case-by-case basis is encouraged, but must always be properly justified and focused on mobilizing additional private sector investment.</p>	<p>In line with the spirit of prior Board decisions that the GCF will work through minimal concessionality with the private sector. Grants needs to minimize market distortion and should not to give the wrong signal to the market that the GCF is grant focused in its PSF funding grant, therefore grants need to be restricted (annex III to decision B.05/07 (annex III to document GCF/B.05/23) and the need to employ them must be justified on a case-by-case basis. In addition to technical assistance and capacity building, innovative financing structures might require grants to address certain barriers. Such use of grants however must address specific barriers hindering the mobilization of private investments, which can't be addressed otherwise.</p>
Loan, equity, guarantee	<p>At this early stage, where GCF is building up its Risk Management capacity, GCF's participation in a tranche will be subject to an independent third party advice on risk, except when GCF's participation in a tranche is aligned with all terms and conditions of the AE other than pricing.</p>	<p>It is understood and recognized that the GCF needs to take on the requisite risk to make a transformational impact, provide added value and will have the necessary in house risk assessment capacity to ensure appropriate due diligence.</p> <p>While developing in house risk assessment capacity, the GCF will temporarily need to rely on the expertise and experience of AEs and independent and reputable third party experts, selected by the</p>

		<p>Secretariat in line with the GCF's procurement policy.</p> <p>Where the GCF participates in a tranche aligned with the AE on all terms and conditions other than pricing, the interests of the AE and the GCF are fully aligned and as the GCF is not exposed to more risk than the AE it can fully rely on the AE's risk analysis.</p>
	<p>At this early stage, where GCF is building up its Risk Management capacity, in case the GCF takes the position of the largest contributor (e.g. is the largest debt holder) or the largest financier in its tranche, the Secretariat shall seek an expert opinion from an independent and reputable third party on the risks of the investment decision. This advice will also include an assessment of the capacity that will be needed to manage such a position.</p> <p>In the exceptional case that an investment decision leads to a default situation and the GCF is the largest contributor/financier in its tranche, the Secretariat shall seek service from an independent and reputable third party in order to handle the workout situation.</p>	<p>The GCF does not currently have the workout team to handle a workout situation, being the single largest financier creates the risk of the GCF being the lead in the event of a workout. Before investing into a situation where this sort of capability might be needed, it must be clear how such an event will be handled.</p>

^a 'Grant with repayment contingency' expects repayment based on predefined milestones and targets which are to be negotiated for each case. Grant without repayment contingency does not expect repayment.