Recommendations from the Private Sector Advisory Group: Private Sector Facility: Mobilizing Funds at Scale[1]

GCF/B.08/37

6 October 2014

Meeting of the Board
14-17 October 2014
Bridgetown, Barbados
Agenda item 13 (a)

[1] On document GCF/B.08/13 *Potential Approaches to Mobilizing Funding at Scale*

Recommended action by the Board

The Private Sector Advisory Group recommends that the Board:

(a) Take note of the information contained in the report GCF/B.08/37 *Recommendations from the Private Sector Advisory Group: Private Sector Facility: Mobilizing Funds at Scale;* and

(b) Consider these recommendations in its deliberations on the Agenda Item on Private Sector Facility: Potential Approaches to Mobilizing Funding at Scale.

Recommendations from the Private Sector Advisory Group: Private Sector Facility: Mobilizing Funds at Scale

Introduction

The Annex of this document contains recommendations from the Private Sector Advisory Group (PSAG) on document GCF/B.08/13 *Potential Approaches to Mobilizing Funding at Scale*. These recommendations are included as received from the PSAG without changes or editing, including the title of the document.

Annex

Recommendations from the Private Sector Advisory Group: Private Sector Facility: Mobilizing Funds at Scale

I. Introduction

1. At its fourth meeting, as part of its deliberations on the business model framework of the Fund, the Board acknowledged the need to mobilize funds at scale from, inter alia, institutional investors such as pension funds and sovereign wealth funds, and to design modalities to that end (Decision B.04/08 paragraph (f)).

2. At its seventh meeting, the Board decided that it will consider further work on the modalities of the Private Sector Facility, including modalities for mobilizing private sector resources at scale by the Private Sector Facility at its eighth meeting (Decision B.07/08 paragraph (e) (i)). The Board requested the Private Sector Advisory Group to make recommendations on modalities and instruments to mobilize private resources at scale including through special financing vehicles or instruments, including risk mitigation instruments (Decision B.07/08 paragraph (f) (ii)).

3. This document contains the recommendations of the Private Sector Advisory Group to the Board in accordance with its mandate to make recommendations to the Board on Fund-wide engagement with the private sector and modalities to that end (Decision B.04/08 paragraph (i)). These recommendations were endorsed by the PSAG at its second meeting of the PSAG took place from 10-12 September 2014 in Cape Town, South Africa.

Annex I: Recommendations of the Private Sector Advisory Group: Private Sector Facility: Mobilizing funds at scale

It is possible to mobilize significant amounts of private sector finance with the right strategies. These strategies – that are set by the GCF Board – need to be commercial in orientation and predictable in outcomes. A number of key principles are important for mobilizing funds at scale.

I. Principles

1. Ensure that public finance is used for greatest catalytic impact and achieve appropriately ambitious leverage ratios, allowing funds mobilized to be channelled into public or private sector projects.

2. Policy and regulatory certainty is important to encourage private investors to invest. The GCF needs to assist developing countries with development of sustained policy and regulatory frameworks and pricing signals to attract scaled up private investment.

3. Early initiatives are important to demonstrate success of how the PSF can use public finance to mobilize private sector investment for scaled up and transformational investments. The PSF should catalyze innovation and learning to foster growth of new markets in developing countries. Prototyping the use of different financial instruments within various sector and sharing relevant knowledge and information will help facilitate new market entrants and crowd in local private capital.

4. Equity, credit and guarantee and insurance instruments and vehicles can all be effective in crowding in private sector finance for mitigation and adaptation activities, including through SME finance or projects. Flexibility in the use and terms of different instruments and vehicles should be maintained to allow for innovative approaches towards catalyzing investment as well as for ensuring the most appropriate measures can be utilized across differing contexts and in light of evolving circumstances.

5. The PSF must be able to take risks and go beyond existing public funds, e.g. the PSF must be able to provide concessional resource used in a subordinated or first loss position, whilst ensuring an appropriate return across the total portfolio. The PSF should have the flexibility to operate through equity and quasi equity and other instruments as appropriate to engage with the private sector.

6. Attracting investment on the basis of strong project pipelines that deliver on country priorities and programmes is important. The private sector will only invest in bankable projects where the underlying assets can be assessed or otherwise hedged and where the risk/return profiles are attractive.

7. Attracting long-term finance from institutional investors is critical for scaled up investment and will need to be on the basis of asset-backed strategies. The PSF can help match finance to pipelines of new projects as well as projects that can be refinanced to release capital for further scaled up low carbon and resilient investments.

8. Where is existing private sector intermediaries and vehicles exist they should be used to allocate funds for adaptation and mitigation projects such as:

(a) Caribbean Catastrophe Risk Insurance Facility;

(b) Africa Risk Capacity; and

(c) Africa Clean Energy Facility, created by OPIC.

9. The PSF activities will evolve. In the medium-to-long-term it could raise relatively low-cost funding, for example green bonds through:

(a) Developing a track record to obtain a credit rating and/or being underwritten by contributors;

(b) Creating a mechanism where contributors provide long-term funding, potentially at the first replenishment, to allow the GCF PSF to raise scaled up and predictable finance on the basis of commitments to long-term contributions. For example similar to the International Finance Facility for Immunization (IFFIM).

10. Governance of the PSF should follow best practices from existing long term capital investment entities. This will require the Board to decide strategy, allocation and program-level approvals with decisions on individual investments delegated to those with appropriate expertise, for example via accredited private sector intermediaries, or through dedicated funding entities or vehicles.

II. PSAG Recommendations for Fund Mobilization

2.1 Early initiatives for mobilizing scaled up investment at programmatic and project level:

(a) Extending a line of credit to commercial banks (which are accredited financial intermediaries) that mobilize co-finance for financing project pipelines that are not yet bankable;

(b) Matching Project Pipelines to leveraged finance, which will require a vehicle for mobilizing finance, which uses GCF concessional resources in a first loss position for attracting institutional investors, for investing in project pipelines that could for example meet specific needs of SMEs and micro-finance;

(c) Allocating of concessional funding for private sector adaptation solutions, e.g. for incentivizing insurance companies to come forward with climate risk initiatives;

(d) Allocating concessional funding to private sector intermediaries to deploy equity investments to companies or projects or fund vehicles to address climate issues and create capacity and crowd in risk capital.

(e) Ensuring relevant private sector expertise on the Accreditation panel.

2.2 Medium to long term opportunities at Fund or PSF-level

(a) As the Fund evolves it could develop an investment grade credit rating, which would allow it to raise capital in the form of green bonds;

(b) The PSF may provide scaled-up and predictable finance through an IFFIm-like facility e.g. at the GCF's first replenishment.

(c) Providing regular and direct support for equity and credit private sector funds to deploy scalable capital in climate finance.