



GREEN
CLIMATE
FUND

Recommendations from the Private Sector Advisory Group: Private Sector Facility: Engaging Local Private Sector Actors, including Small-and Medium Sized Enterprises¹

GCF/B.08/40

9 October 2014

Meeting of the Board

14-17 October 2014

Bridgetown, Barbados

Agenda item 13 (b)

¹ On document GCF/B.08/14 *Working with local private entities, including small and medium-sized enterprises.*

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.08/40 *Recommendations from the Private Sector Advisory Group: Private Sector Facility: Engaging Local Private Sector Actors, including Small-and Medium Sized Enterprises*; and
- (b) Consider these recommendations in its deliberations on the Agenda Item on Private Sector Facility: Working with local private entities, including small and medium-sized enterprises.

Recommendations from the Private Sector Advisory Group: Private Sector Facility: Engaging Local Private Sector Actors, including Small-and Medium Sized Enterprises

Introduction

The Annex of this document contains recommendations from the Private Sector Advisory Group (PSAG) on document GCF/B.08/14 *Working with local private entities, including small and medium-sized enterprises*. 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: Engaging Local Private Sector Actors, including Small-and Medium Sized Enterprises

I. Introduction

1. The Governing Instrument of the Fund states that the Private Sector Facility will have a private sector facility that enables it to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels. The operation of the facility will be consistent with a country-driven approach. The Governing Instrument further states that the private sector facility will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries. The facility will also support activities to enable private sector involvement in SIDS and LDCs. The Governing Instruments notes that the Board will develop the necessary arrangements, including access modalities, to operationalize the facility.
2. At its fourth meeting, the Board decided (B.04/05 (I)) that the private sector facility, in accordance with the non-objection procedure and in order to ensure consistency with national climate strategies and plans and country driven approach: will commence its operations through accredited national, regional and international implementing entities and intermediaries ((I) (i)); and may over time work directly with private sector adaptation and mitigation actors at the national, regional and international levels, subject to consideration by the Board of a phased approach. ((I) (ii))
3. At its fifth meeting, the Board adopted the Terms of Reference for the Private Sector Advisory Group (Decision B.05/13), in which it specifically mandated the Group to make recommendations to the Board regarding:
 - (a) How the Fund, including its Private Sector Facility (PSF), should engage the private sector in order to catalyse, mobilize and leverage flows of private climate finance in developing countries and make best use of the knowledge on best available technologies;
 - (b) The design and application of the Fund's policies, procedures and financial instruments as they relate to engagement with the private sector;
 - (c) Engaging the private sector in climate-resilient development, particularly in Africa, and in adaptation activities at national, regional and international levels;
 - (d) Promoting the participation of private sector actors in low-emission and climate resilient development in developing countries, in particular local actors, including small-and medium-sized enterprises and local financial intermediaries; and
 - (e) Activities to enable private sector engagement in low-emission and climate-resilient development in small island developing States and least developed countries
4. At its seventh meeting, the Board requested the Private Sector Advisory Group to make recommendations on modalities to promote participation of private sector actors in developing countries, in particular local actors, including small and medium-sized enterprises and local financial intermediaries in small island developing States, least developed countries and Africa, and with a special emphasis on adaptation (Decision B.07/08 paragraph (f) (i)).
5. 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 emerged from the deliberations held by the PSAG at its second meeting, which took place from 10-12 September 2014 in Cape Town, South Africa.

Recommendations from the Private Sector Advisory Group: Private Sector Facility: Engaging Local Private Sector Actors, including Small- and Medium Sized Enterprises

I. Overall Modalities for Engaging Local Private Sector Actors

1. In accordance with the Governing Instrument and Board decisions, the PSAG took note of the Fund's two approaches for engaging with the private sector, namely: the indirect approach, where the Fund works via accredited national, regional and international implementing entities and intermediaries; and the direct approach, which is subject to consideration by the Board and should be undertaken through a phased approach.
2. The PSAG views that the success of both the approaches are directly correlated to the Fund's capacity to efficiently allocate resources, make decisions and conclude contractual arrangements in a timely manner with private sector entities.
3. Some PSAG members are of the view that in order to maximize the GCF's investments in local private sector actors, and to leverage additional private sector resources, the Board may wish to consider phasing in the direct approach as soon as possible. Some members' view that the direct approach will lead to a significant reduction of transaction costs while increasing the Fund's ability to leverage additional resources. The direct approach will also ensure higher level of direct accountability. Some members were of the view that the Fund would need to assess its staffing model to accommodate the expertise to maximize the potential from working directly with local private sector actors.
4. The Board may wish to consider options for harnessing local knowledge and expertise and how local actors can support the Fund's objectives of country ownership.
5. Some PSAG members suggested that harnessing the private sector will be maximized once the Board has provided a level of certainty regarding the Fund's investment strategies in its initial results areas, its risk philosophy and risk appetite, as well as the scale and allocation of resources for local private sector actors.
6. In order to operationalize the direct approach, the Board may wish to consider an effective and open procurement processes aligned with the Board approach in determining proposals that meet the Fund's objective. An open procurement process, targeting the Fund's investment strategy across the initial results areas for mitigation and adaptation at a regional level, would result in local private sector actors presenting proposals for investment pipelines in line with countries national plans and strategies. The risk assessment, and due diligence, including assessment of the ability of local actors to meet the Fund's fiduciary principles, environmental and social safeguards (FESS), would be conducted at the proposal assessment phased to ensure compliance with the Fund's FESS.

II. Engagement with Small and Medium Sized Enterprises

7. The PSAG noted that small and medium sized enterprises are a core local private sector actor, accounting for over 60% of GDP and over 70% of total employment in developing countries. As such these local actors present a high strategic partner for the GCF.
8. PSAG members recommend that the Board consider the establishment of a dedicated SME Investment Strategy to target investments by providing access to finance for small-scale local private sector actors. The PSAG also recommends that the Board consider a minimum allocation of resources specifically targeting the SME sector. The most appropriate financial

instruments for SMEs are grants and highly concessional loans, which will vary depending on the nature and scope of activities proposed by SMEs.

9. The PSAG also recommends that a component of the Fund's SME Investment Strategy address an appropriate accreditation process via the fit for purpose approach to allow SMEs to access the GCF's resources. Consideration should also be given to an allocation of resources for technical assistance and capacity building.

10. Finally, the PSAG members recommended that the Fund's SME Investment Strategy be implemented through accredited local and national intermediaries.
