



GREEN
CLIMATE
FUND

Private Sector Facility: Potential Approaches to Mobilizing Funding at Scale

GCF/B.09/11/Rev.01

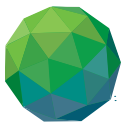
6 March 2015

Meeting of the Board

24-26 March 2015

Songdo, Republic of Korea

Agenda item 15



Recommended action by the Board

It is recommended that the Board:

- (a) Take note of the information presented in document GCF/B.09/11 *Private Sector Facility: Potential Approaches to Mobilizing Funding at Scale*; and
- (b) Adopt the draft decision presented in Annex I to this document.

Private Sector Facility: Potential Approaches to Mobilizing Funding at Scale

I. Introduction

1. At its fourth meeting, as part of its deliberations on the business model framework of the Green Climate 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)). It also decided that the Private Sector Facility (PSF) will operate efficiently and effectively under the guidance and authority of the Board as an integral component of the Fund, including in relation to the result areas and specific core performance indicators, where relevant (decision B.04/08, paragraph (a)). The Board further decided that the PSF will address barriers to private sector investment in adaptation and mitigation activities, such as market failures, insufficient capacity and lack of awareness, in order to mobilize private capital and expertise at scale in accordance with national plans and priorities. This will include facilitating and enhancing the participation of national, regional and international private sector actors in developing countries (decision B.04/08, paragraph (b)).

2. The Board also decided that the PSF 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 small island developing States (SIDS) and least developed countries (LDCs). Modalities will be developed for consideration by the Board (decision B.04/08, paragraph (c)). Finally, the Board agreed that the PSF needed to pay specific attention to Africa and to adaptation activities at the national, regional and international levels (decision B.04/08, paragraph (e)).

3. At its seventh meeting, the Board decided that it will consider further work on the modalities of the PSF, including modalities for mobilizing private sector resources at scale by the PSF at its eighth meeting (decision B.07/08).

4. Furthermore, the Board took note of the report of the Private Sector Advisory Group (PSAG), by its Co-Chair (document GCF/B.07/10). In this document, the PSAG provided high-level recommendations to the Board, including on mobilizing private sector financing. This document will take those recommendations into account.

5. At its eighth meeting, the Board considered document GCF/B.08/13 *Potential Approaches to Mobilizing Funding at Scale*. There was broad support for the approaches outlined in the document, but, due to time limitations, no decision was taken. The draft decision was revised based on guidance received from the Board and the PSAG, and is included in the Annex. The purpose of this document is to outline modalities for mobilizing private sector funds at scale. In particular, this document considers:

- (a) Modalities under which the Fund can mobilize funds at scale from institutional investors, outlining various products and structures that could be used, such as green bonds, commercial paper and syndicated products;
- (b) Modalities under which the Fund can mobilize funds at scale from institutional investors and the local and international private actors by leveraging participants in projects or programmes financed by the Fund;
- (c) The important role of different types of private sector actors and reliance on diversified pool of accredited entities, including international commercial banks, impacts investors and private equity funds; and

- (d) The potential of using crowd funding to mobilize funds from individual contributors that seek to make climate sensitive investments.
6. Additional modalities under which the PSF will promote the participation of local private sector actors in developing countries will be covered in document GCF/B.09/12 entitled *Private Sector Facility: Working with Local Private Entities, including Small and Medium-Sized Enterprises*.

II. Linkages with other documents

7. This document has linkages with the following documents:
- (a) *Financial Terms and Conditions of the Fund's Instruments* (GCF/B.09/08); and
- (b) *Working with Private Sector Facility: Local Private Entities, including Small and Medium-Sized Enterprises* (GCF/B.09/12).

III. Enhancing the Fund's core resources: Mobilizing funds at scale from institutional investors and the financial markets as contributors

8. The Governing Instrument for the Fund states that the Fund will receive financial inputs from developed country Parties to the Convention, and may also receive financial inputs from a variety of other sources, public and private, including alternative sources.¹ Other potential sources of financing could be institutional investors (e.g. pension funds) and financial markets.
9. The PSF will ensure that it mobilizes private sector funds in a way that is consistent with the operating modalities of the Fund as set out in the Governing Instrument. It will pursue a country-driven approach, promoting the participation of private sector actors in developing countries in particular local actors, including small- and medium-sized enterprises and local financial intermediaries, in SIDS and LDCs.² In particular, the PSF will ensure that mobilized private sector funds are complementary to, and coherent with those of other funds, entities, and channels of climate change financing outside the Fund.³ It will furthermore take into account the Fund's policies and procedures for the initial allocation of the Fund's resources (decision B.06/06), and the Fund's eight strategic goals towards which it will channel its resources (decision B.07/04). This will ensure that the PSF is maximizing its climate change impact and contributing to the Fund's objectives.

¹ Governing Instrument, paragraphs 29 and 30.

² Governing Instrument, paragraphs 42 and 43.

³ Governing Instrument, paragraph 33.

3.1 Sources of Private Sector Funding

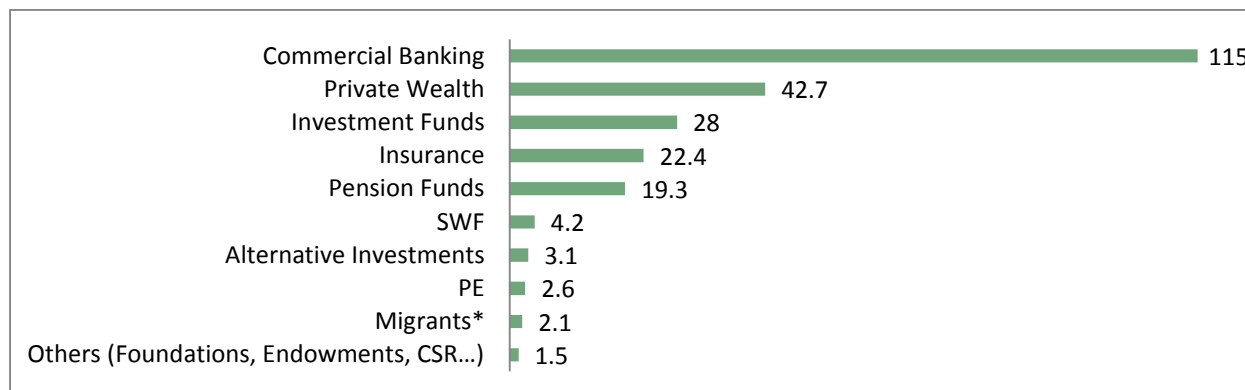


Figure 1: Global asset pools (US\$ trillions)⁴

10. The largest pools of private sector assets are mobilized by commercial banks, investment funds, insurance companies, pension funds and sovereign wealth funds. We can also add private wealth controlled by high net worth individuals to this list. Success in mobilizing funds at scale from the private sector is predicated on understanding how these players behave, so as to better understand how the Fund can capture their resources. An overview of these institutions’ ability to invest in climate change projects and programmes can be found in Table 1.

Table 1: Institutions’ ability to invest in climate change projects and programmes

	Propensity to invest in climate change in developing countries – including SIDS, LDCs and Africa	Special considerations
Commercial banks	<ul style="list-style-type: none"> • High tolerance for taking on unrated credit risk. • Will take on illiquidity risk. • Existing depth of funding in LDCs, SIDS and Africa. • Do not require inordinate return on their investments • Can invest in multiple types of financial products. Can accommodate multiple types of inter-investor and inter-creditor agreements • Particularly well-suited to a country-driven approach given their current role in local economies • Ability to mobilize funds in small and large projects 	<ul style="list-style-type: none"> • Will require ratings when investing outside their home country • Tenor/appetite is restricted to under 7 years (can be stretched to 10 years) • High requirement for local track records in excess of five years. Low appetite for new technologies and projects
Private wealth and “sophisticated” high net worth individuals	<ul style="list-style-type: none"> • High tolerance for taking on un-rated risk, both credit and equity • Will take on liquidity risk • Depth and knowledge of LDCs, SIDS and Africa. • Can invest in multiple types of financial products. • Over US\$ 5 trillion of new private wealth expected to be created over the next two years in developing countries. 	<ul style="list-style-type: none"> • Require an elevated return on investments.

⁴ KPMG, Ernst & Young, the Organization for Economic Co-operation and Development Environmental Papers No. 46, Bloomberg.

	Propensity to invest in climate change in developing countries – including SIDS, LDCs and Africa	Special considerations
Conventional investment funds	<ul style="list-style-type: none"> No propensity to invest in climate change projects and programmes 	<ul style="list-style-type: none"> Require high levels of liquidity. Subjected to elevated levels of return-on-investment (beat the benchmark) Tenor/appetite restricted to less than 5 years
Pension funds and insurance	<ul style="list-style-type: none"> Appetite for extra-long tenors (greater than ten years) in line with climate-sensitive project finance requirements Increasingly well-suited to a country-driven approach as governments ask that funds be invested domestically and place restrictions on cross-border placements 	<ul style="list-style-type: none"> Require investment grade-rated investments that are highly liquid. A minimal portion of their investment portfolio may be placed in illiquid and un-rated instruments
Sovereign wealth funds	<ul style="list-style-type: none"> Some tolerance for taking on un-rated credit risk. Some tolerance for taking on illiquidity. Existing depth of funding in LDCs, SIDS and Africa. Can invest in multiple types of financial products. 	<ul style="list-style-type: none"> Subject to tight confidential internal investment guidelines. Some behave like private wealth would; others behave like a pension fund.
Alternative investment funds, including private equity	<ul style="list-style-type: none"> High tolerance for risk. Will take on illiquidity. Appetite for exposure to LDCs, SIDS and Africa. Can invest in multiple types of financial products 	<ul style="list-style-type: none"> Tenor/appetite is restricted to under 7 years (can be stretched to 10 years) subject to elevated levels of return.

11. The Fund shall aim to mobilize funds at scale from local commercial banks, local pension funds, local insurance companies, sovereign wealth funds and high net worth individuals.

12. The Fund will ultimately seek to invite investors to place their funds at the Fund level. However, this is unlikely to happen in the short term, as the Fund needs time to establish a credit rating and/or a track record. The Fund would need to build up a portfolio of investments and a balance sheet before extending an invitation, at a scale of more than US\$ 500 million, to commercial banks and institutional investors.

13. The Fund would therefore look to the accredited entities through which it acts to structure investments in climate change in a way that will attract and accommodate the aforementioned targeted third-party investors, i.e. commercial banks and institutional investors. These are described in the following section.

3.2 Products and structures to mobilize funds at scale

14. Accredited entities can attract third party investors through bonds, commercial paper, syndications and club deals, and private placement programmes.

3.2.1 Bonds

15. Bond programmes present the single largest avenue through which the Fund can mobilize private sector funds at large scale. The costs associated with issuing a bond usually require an issue size of US\$ 300 million to 500 million to be justified.

16. Bonds, which tend to be long term in nature, require long term capital commitment by private sector investors. They expose investors to a relatively material level of credit and interest rate risk; in part due to their medium-term/long-term nature. They are, nonetheless, attractive to investors when they are investment grade and liquid. An investment grade risk rating provides investors with some assurance that the underlying exposure is credit worthy, transparent, and subscribes to a minimum degree of international best practices with respect to accounting policies and risk management practices. Liquidity affords a private sector investor the ability to easily sell a bond if the investor:

- (a) Anticipates a general downturn in the market and/or concerned industry;
- (b) Anticipates a deterioration in the credit; and/or
- (c) Desires to monetize the asset for internal reasons that may be related to liquidity needs or portfolio considerations.

17. Investment grade bonds that are liquid are particularly attractive to pension funds and insurance companies which require long term investments to match the maturity profile of their financial obligations.

18. The use of bonds is particularly well suited to attracting funds at scale from commercial banks, pension funds, insurance companies, sovereign wealth funds and private wealth. According to the Climate Bonds Initiative, the total issuance of climate bonds in 2014 was US\$ 36.9 billion, many of which were oversubscribed. It is projected that US\$ 100 billion of climate bonds will be issued in 2015.⁵

19. The Fund can work through international, national and regional accredited entities to issue, underwrite and/or make a market for project specific bonds. These entities would ring fence one or more assets/projects in a special purpose vehicle, against which bonds can be issued. These could be projects in which the Fund has already participated. The Fund could also add value by injecting credit and/or liquidity enhancing elements. For example, the Fund could propose a first or second loss mechanism or a pool of funds to one or more intermediaries so that they could inject liquidity into the bond by acting as market maker(s).

20. In the medium/long term, the Fund will be able to attract private sector investors directly onto its “balance sheet” through bonds, at a reasonable rate, once it obtains a risk rating from a qualified rating agency. This will occur once the Fund can either:

- (a) Evidence a sound risk portfolio supported by a sound risk architecture that includes strong liquidity and solvency attributes; or
- (b) Evidence sufficiently strong “parent” support from investment graded states via their commitments to provide funds.

21. Both scenarios will require time.

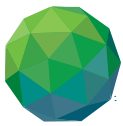
3.2.2 Commercial paper

22. Commercial paper (CP) programmes can also be used to attract private sector investments at scale. They may be the least suitable method of attracting private sector funds directly onto the Fund’s balance sheet. However, they present a short-term alternative to attracting local private sector funds into projects (or project clusters).

23. CPs provide investors with the option of placing funds with an entity for less than one year. Upon termination of the maturity period, investors will either:

- (a) Renew their investment; or

⁵ <http://www.climatebonds.net/>.



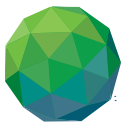
- (b) Be repaid by funds raised through the issue of a new CP; or
 - (c) Be repaid by the entity through the use of funds unrelated to the CP.
24. CP exposes investors to relatively high credit and liquidity risk. Investors will invest into a CP only if they are confident that the issuing entity is capable of:
- (a) Generating sufficient cash through operations to buy out the CP at maturity; or
 - (b) Maintaining sufficiently good credit quality to attract investors into the next CP issue/tranche.
25. Investors will be attracted to a CP if they are:
- (a) Very familiar with the risk of the underlying obligor; and
 - (b) Confident as to the CP's liquidity. The former requisite makes CPs a particularly attractive option for "crowding in" investments at scale by local investors.
26. CPs are particularly well suited to mobilizing funds at scale from banks and from high net worth individuals who are familiar with a local project and/or programme. CPs may, for example, present a great opportunity to crowd in private funds for small and medium-sized enterprise (SME) programmes/portfolios. This could best be achieved by financial intermediaries if they ring fence the SME portfolio into a special purpose vehicle against which the CP would be issued. The Fund could add value in the same manner as described above in the Bond section.
27. CPs are relatively ill-suited to helping the Fund mobilize funds at scale directly onto its balance sheet, in large part due to the fact that their short-term nature does not suit the long-term nature of the Fund's requirements.

3.2.3 **Syndications and club deals**

28. Syndications are illiquid in nature. They do not provide an easy way out for investors. As such, investors will tend to expect higher returns than on bonds and will limit their tenor exposure to five to seven years (10 years on rare occasions). They present two primary benefits, both emanating from the fact that syndicated loans are subject to a much lower regulatory/licensing hurdle than commercial paper and bonds – syndicated loans are not considered securities, and as such, fall under the same regulatory framework as loans. Therefore, they can be carried out with minimal transaction costs and thus be used to crowd in private sector funding on smaller scale projects. In addition, they are already used ubiquitously by banks to disseminate risk and do not require a mature financial market.
29. Syndications and club deals could be used to crowd in funds from local private sector banks for projects and programmes. The Fund can add material value by providing support to enhance credit (e.g. first or second loss guarantees) and/or tenor profile (e.g. bear the risk on the residual portion of a loan that extends beyond 10 years). The Fund can also add value by acting as the first mover/anchor investor on a deal; such an anchor is often required to catalyse the participation of banks.

3.2.4 **Private placement programmes**

30. Private placements are an intermediary step between syndications (loans) and bonds/commercial paper (securities). Their regulatory/licensing hurdle and transactional costs reflect this fact. Private placements are often used in the private sector when seeking three to seven year funds for a non-rated entity or project that does not meet the quantum volume requirement to justify seeking a rating and issuing a bond.



31. Private placements can be used to crowd in funding from high net worth individuals and sovereign wealth funds.
32. The aforementioned products and structures designed to mobilize funds at scale are outlined in Table 2.

Table 2: Products and structures designed to mobilize funds at scale

	Potential to mobilize at scale and other advantages	Challenges	Fund's value addition through the use of instruments	Targeted sources of funds	Examples of use
Bonds	<ul style="list-style-type: none"> • Highest potential for scale: lots of US\$ 500 million; range of US\$ 100 million-1 billion. • Can be used directly by the Fund or at project-specific level. • Replicable at scale and fosters an integrated approach that is complementary to and coherent with actions being taken by other channels of climate change finance. 	<ul style="list-style-type: none"> • High regulatory hurdles (time to market & transaction costs) • Investors prefer liquid & investment grade instruments (favours large issues and issuers). • Not conducive to SMEs or for use in SIDS and small LDCs, unless carried out using a regional-based portfolio approach – requiring an additional layer of complexity. 	<ul style="list-style-type: none"> • Credit enhancement • Market signaling • Liquidity enhancement • Information sharing capacity building 	Commercial banks, pension funds, insurance companies, sovereign wealth funds and private wealth.	<ul style="list-style-type: none"> • Short term: crowd in private sector funding for an IPP by providing partial guarantee on the offtake agreement. • Short term: provide intermediaries with the necessary funding and credit risk mitigation guarantee so that they can take on the role of market-maker and provide liquidity for an otherwise illiquid issue. • Long term: raise funds directly for the Fund.
Commercial Paper	<ul style="list-style-type: none"> • High potential for scale: lots of US\$ 50 million-500 million. • Replicable at scale and fosters an integrated approach that is complementary to and coherent with other providers of funds. • Very well suited for use by local financial institutions seeking exposure to obligors they already know; and as such well positioned to create climate awareness and the related “multiplier”/replicator effect amongst said institutions. 	<ul style="list-style-type: none"> • Medium/high regulatory hurdles (time to market & transaction costs). • Investors demand liquidity and/or credit quality. • Not well suited to use in large-scale and capital expenditure projects. 	Credit and liquidity enhancement support	Local banks and from high net worth individuals	Short term: provide intermediaries with the necessary funding to take on the role of market-maker for new CP issues and issuers that target supply chain financing.

	<ul style="list-style-type: none"> Well suited for supply chain financing – can address structural disadvantage faced by new players that offer climate-sensitive alternative products, but that do not have the means to offer supplier financing or to carry a sufficient stock of inventory to ensure after-sales servicing. 				
Syndications and club deals	<ul style="list-style-type: none"> Medium - high potential for scale. Lots of US\$ 300 million; with range of US\$ 25 million-US\$ 500 million. Very low regulatory hurdles – quickest time to market and lowest transaction costs. Well suited to use by a limited number of financial institutions ready to accept medium-term exposure to names they already know. 	<ul style="list-style-type: none"> Slow to create replicability and the associated multiplier effect amongst financial institutions and beneficiaries. Favours names that have an established credit track-record with financial institutions. 	<ul style="list-style-type: none"> Credit enhancement and market signaling Information sharing capacity building. 	Local banks	<ul style="list-style-type: none"> Syndication: crowd in private sector funding for an IPP. Club deal: crowd in private sector funding for sensitizing real estate development projects to climate issues.
Private placements	<ul style="list-style-type: none"> Medium potential for scale; lots of US\$ 50 million- US\$ 300 million. Ability to crowd in funds of high net worth individuals (HNWI) for syndications and club deals that would otherwise only be targeted at banks. Ability to crowd in private sector equity (including from HNWI), pre-IPO. 	<ul style="list-style-type: none"> No appetite from banks. Limited and very selective appetite from institutional investors. High returns sought by investors. 	<ul style="list-style-type: none"> Credit enhancement. Information sharing capacity building. 	High net worth individuals and sovereign wealth funds	Crowd in private sector funding for a pilot project that offers enhanced returns.

IV. Leveraging: mobilizing funds at scale from institutional investors and private investors at the project or programme level

4.1 Using approved instruments to attract third party funds at scale

33. Paragraph 54 of the Governing Instrument for the Fund states that:

“The Fund will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board.”

At its eighth meeting, the Board decided that the Fund will work through accredited implementing entities and intermediaries, who may deploy the resources in approved projects and programmes by using financial instruments, focusing on grants, concessional loans, equity and guarantees (decision B.08/12).

34. This section will outline how the PSF can deploy these instruments through accredited entities to provide the aforementioned enhancements required to attract third party funds at scale.

35. Through the provision of risk bearing capacity and concessional resources, the Fund can enhance risk or liquidity profiles to make it feasible for accredited entities to mobilize their own resources, and/or those of third parties, into climate projects and programmes that would not have otherwise achieved financing.

36. At its seventh meeting, the Board adopted initial fiduciary principles and standards for intermediation functions that allow accredited entities to blend and on-lend the Fund’s resources with their own, or with third party resources and/or to act as an agent of the Fund’s resources (decision B.07/02, Annex II), thereby structuring effective financial solutions. Examples of such support for accredited financial intermediaries are as follows:

- (a) The Fund could use its concessional resources to support issuance by financial intermediaries of debt securities in local capital markets for climate-related investments. Examples of such support could include offering concessional funding to provide credit and/or liquidity enhancement of the underlying bond (e.g. a first loss structure, liquidity/market-making for green securities provided by a local intermediary), and therefore make the investment more feasible for a wider group of financiers;
- (b) Extending grace and repayment periods beyond what would otherwise be available in the market. This could improve the creditworthiness and liquidity profiles of programmes and projects, making them feasible investments for a wider range of actors;
- (c) Enabling accredited entities to provide subordinate debt tranches that partially mitigate risks inherent in climate projects that may not be present in the use of fossil fuels (e.g. technology risk); this could make projects feasible for a wider range of financiers than would otherwise be the case;
- (d) To close a financing gap by providing early stage equity, thereby bringing a project to full bankability and enabling the crowding-in of other equity investors; and
- (e) To bear specific risk through the provision of guarantees and make possible the crowding in of financiers that would have otherwise not invested. In the case of guarantees, the crowding in factor is potentially transformative in its scale and reach, particularly as it would also leverage investment in equity and debt.

37. The Fund could take on accredited entity risk by extending lines of credit to accredited financial institutions in the form of a programme. Once a programme is duly approved, the

sub-projects would be subject to the approval processes and administrative management of the accredited entities, as guided by the Fund. This would be particularly useful for SME projects and activities.

38. The Fund could also work with and through accredited entities to take on beneficiary risk in a way that relies on the accredited entities' local expertise (legal/regulatory; economic; commercial, etc.) and resources (due diligence, structuring, etc.).

4.2 Using a competitive platform to select accredited entities most capable of attracting third party funding

39. In some instances, and as a complementary approach to the spontaneous submissions from accredited entities, the Fund could issue requests for proposals ("RFPs") to "auction out" a certain amount of concessional funding to implementing entities or intermediaries that present the most attractive alternative for using concessional resources to realize projects while attracting third-party funding at scale. Those entities would be subject to accreditation or would need to work through accredited entities. In so doing, the Fund expects private sector actors and intermediaries to create project- or programme-specific structures to crowd in third party investors.

4.3 Relying on a diversified pool of accredited entities

40. The Conference of the Parties (COP) in Lima requested the Board of the Fund to accelerate the operationalization of the PSF by aiming to ensure that private sector entities and public entities with relevant experience of working with the private sector are accredited in 2015.⁶

41. The Fund would best achieve its objective to engage with private sector entities in developing countries, and comply with the aforementioned COP 20 guidance, by accrediting a balanced portfolio of intermediaries. The private intermediaries that can best serve the objectives of the Fund – mainstreaming low-emission and climate-resilient investments in the real sectors of developing countries' economies – are, in order of importance: commercial banks (including multinational commercial banks with significant on-the-ground presence in the developing countries); private equity and investment firms; and impact/patient capital firms. This is in addition to working with public entities with relevant experience of working with the private sector.

42. Accredited entities serve a dual role. They are the vehicles through which the Fund invests its resources. They are also the vehicles that crowd in third party funds for projects and programmes financed by the Fund. In the latter context, commercial banks, investment firms and impact/patient capital firms could each bring a different and complementary set of third party investors to the Fund's projects and programmes.

4.3.1 Commercial banks

43. Commercial banks have the single largest ability to mobilize funds at scale for and on behalf of the Fund. Banks are the fulcrum through which global savings are mobilized into investments. They have access to institutional investors, high net worth individuals, asset and investment managers, and retail deposits.

⁶ COP Decision 7/CP.20 paragraph 9.

44. Local and regional commercial banks have the ability to crowd in local institutional investors. They also are able to mobilize national savings at scale. In addition, they have a good understanding of national and subnational priorities and trends.
45. Multinational banks with a strong global footprint, which extends across developing and developed markets, have a strong ability to structure innovative mechanisms that can be used to crowd in third party funds for projects and programmes. In addition, they may be well positioned to crowd cross-border institutional money into developing countries as well as to mobilize some national savings.
46. Multinational banks that operate in developing countries, under the guidance and supervision of local central banks and adequate supervisory structures, usually add value to the local banking sector, financial markets and the economy in ways that echo the Fund's guiding principles:
- (a) They can add depth to local financial markets through the injection of foreign capital and by addressing the unmet needs of domestic corporations;⁷
 - (b) They can bring about an increase in loans made by domestic banks, especially to the enterprise sector, thus offering them greater access to funding;⁸
 - (c) They can introduce better risk management practices and improve the financial sector's non-performing loans,⁹ which could eventually translate into enhanced overall stability and thus sustainable development;
 - (d) They can act as a vector for technology transfer into local financial systems;¹⁰
 - (e) They can enhance financial development by spurring domestic banks to improve the quality of their services and cut costs. And they can encourage the upgrading of ancillary institutions such as accounting, auditing and rating firms, thereby improving the quality and flow of information about firms and banks;¹¹

4.3.2 Impact investors

47. Impact/patient capital firms may be able to crowd in third party investors that may be willing to trade off economic return for making a positive environmental and/or social impact. Investing in impact businesses can increase access to basic services such as finance, healthcare, education, clean water, and energy.¹² This is particularly relevant to the Fund in the context of its Investment Criteria as agreed under the Initial Investment Framework (Decision B.07/06).
48. Impact investing is especially useful to local small and medium-sized enterprises (SMEs) in developing countries, where SMEs have limited access to financing. Impact investing in SMEs can leverage the beneficial effects of SMEs on economic growth and poverty reduction.¹³

⁷ Bruno V & Hauswald R. 2012. *The Real Effect of Foreign Banks*. American University. Available at <http://www.ebrd.com/downloads/news/hauswald.pdf>.

⁸ Weller C & Scher M. *The Impact of Multinational Banks on Development Finance*. Center for European Integration Studies University of Bonn & Department of Social and Economic Affairs United Nations. Available at http://people.umass.edu/econ721/weller_christian_Multinational_banks.pdf.

⁹ Haiss P, Steiner K & Eller M. 2005. *How do Foreign Banks Contribute to Economic Development in Transition Economies*. IMDA. Available at http://www.academia.edu/178583/How_do_foreign_banks_contribute_to_economic_development_in_transition_countries_how_much_do_we_know_about_challenges_and_opportunities.

¹⁰ Bhattacharya J. *The Role of Foreign Banks in Developing Countries: A Survey of the Evidence*. Department of Economics, Iowa State University. Available at <http://econ2.econ.iastate.edu/faculty/bhattacharya/foreignbankspaper.pdf>.

¹¹ Levine R. *Foreign Banks, Financial Development, and Economic Growth*. Available at http://faculty.haas.berkeley.edu/ross_levine/papers/1996_book_barfield_foreignbank%20&%20growth.pdf.

¹² UNDP. 2013. *Impact Investing in Africa: Trends, Constraints and Opportunities*.

¹³ SEAF (Small Enterprise Assistance Funds). 2007. *From Poverty to Prosperity: Understanding the Impact of Investing*

4.3.3 Investment funds

49. International, local and regional investment funds could serve to crowd in third party capital that is more tolerant to risk and illiquidity. These intermediaries are willing to invest in equity and subordinated debt, which are instruments that are not well supplied by the banking sector.

4.3.4 Working with private sector accredited entities

50. Private sector intermediaries tend to need to know early on whether their projects and programmes constitute a potential fit for financial participants, including the Fund. For example, private sector accredited or potentially accredited intermediaries will want a non-binding letter of intent from potential financial participants when structuring a financial syndicate as part of a project bid. Accredited or potentially accredited intermediaries, in building up their GCF pipeline, will accordingly request The Fund's Secretariat to provide such non-binding letters of intent. Non-binding letters of intent will be issued by the Secretariat subject to approval by the Secretariat's Senior Management Team (SMT), which is chaired by the Executive Director and includes the General Counsel, the Country Programming Director, the Mitigation and Adaptation Director, the Private Sector Facility Director the Chief Financial Officer, the Risk Manager and the Secretary to the Board or their respective delegates. Such non-binding letters of intent are different from expressions of commitment, which shall require due approvals before being issued by the Secretariat.

4.4 Using crowdfunding to mobilize individual contributions

51. The recent phenomenon of crowdfunding introduced the concept of raising additional funds from small private investors, in the form of debt, grants or equity.

52. This nascent industry has grown from having mobilized US\$ 1.5 billion of total funding in 2011 to an expected US\$ 10.9 billion in 2015. Solicitations per campaign can now give rise to sums ranging from US\$ 500,000 to more than US\$ 40 million.^{14, 15}

53. Through crowdfunding, companies seek investments from the general public (the "crowd") in addition or in lieu to approaching financial investors such as banks or venture capital funds. This investment type is particularly attractive to micro and small enterprises as well as to innovators; it enables them to seek small-scale, project-specific investments and to start up new ventures.¹⁶ This is in line with Paragraph 38 of the Governing Instrument, which emphasises the promotion of "innovative and replicable approaches".¹⁷

53. There is great potential in crowdfunding to complement traditional sources of finance and to channel and mobilize individual contributions into climate-sensitive investments. KIVA, an online lending platform, has demonstrated the power of mobilizing crowdfunding for social projects. KIVA has mobilized approximately US\$ 675 million worth of financing, from 1.2 million crowd members, for micro-finance projects throughout the world.¹⁸

in Small and Medium Enterprises.

¹⁴ Barnett C. 2014. *10 Top Equity Crowdfunding Campaigns from 2014*. Forbes. Available at <http://www.forbes.com/sites/chancebarnett/2014/12/17/top-10-equity-crowdfunding-campaigns-of-2014>.

¹⁵ Outlaw S. 2014. *Crowdfunding's New Self Service Options and Tools*. Entrepreneur. Available at <http://www.entrepreneur.com/article/235778>.

¹⁶ Schwiendbacher A and Larralde B. 2010. Crowdfunding of small entrepreneurial ventures. In: Cumming D. *The Oxford Handbook of Entrepreneurial Finance*. Oxford University Press.

¹⁷ Governing Instrument of the Fund, paragraph 38.

¹⁸ <http://www.kiva.org/about>.

54. The Fund could enable individual contributors to provide funds to their preferred local businesses, in particular to SMEs through the Fund's accredited entities, by providing an information-based website tool/platform or portal for participating in the financing of low-emission and climate-resilient projects in developing countries through the Fund's accredited entities.
55. The use of such a platform can mobilize resources from individuals and organisations that are looking for innovative investment opportunities.
56. What is possibly more important than the financial contribution is the number of supporters. This view is endorsed by Joana Breidenbach, co-founder of betterplace.org (Germany's largest crowdfunding platform for civic projects).¹⁹ A Fund crowdfunding portal would enable members to create a green community that can channel its energy in a positive manner through the portal. As described by Andrew Teacher, Policy Director at Spacehive (a funding platform for civic projects), "Crowdfunding is about bringing people together and getting buy-in to an idea as much as raising cash".²⁰
57. The Fund could launch its own crowdfunding platform by outsourcing the turnkey IT construction and IT management of a Green Climate Fund Platform to a major white label supplier. The supplier would be selected competitively. The initial design and construction fee is expected to be less than US\$ 50,000; and the monthly maintenance/management fees less than US\$ 5,000 per month and/or 1% of funds raised. One example of a white label supplier is CrowdEngine, which now manages 75 platforms.²¹ Any legal costs would be added on to the aforementioned costs.

V. Recommended action and next steps

58. The Board may wish to adopt the decision as contained in the Annex to this document.

¹⁹ Le Touzé-Schmitz A.2013. *Development Aid Through Crowdfunding*. Deutsche Welle. Available at <http://www.dw.de/development-aid-through-crowdfunding/a-16682501>.

²⁰ Milner J. 2013. *How Crowdfunding Drives Development*. The Guardian. Available at <http://www.theguardian.com/media-network/media-network-blog/2013/sep/03/crowdfunding-sites-development-fundraising-money>.

²¹ Briggman S. *Top 6 White Label Crowdfunding Platforms*. CrowdCrux. Available at <http://www.crowdcru.com/top-white-label-crowdfunding-platforms/>.

Annex: Draft decision of the Board

The Board, having reviewed document GCF/B.09/11 *Private Sector Facility: Potential Approaches to Mobilizing Funding at Scale*:

- (a) Notes that the Private Sector Facility should be open for business no later than the rest of the Green Climate Fund;
- (b) Notes the need to mobilize funding at scale in order to achieve the Fund's objectives of promoting a paradigm shift towards low-emission and climate-resilient development pathways;
- (c) Decides that accredited subnational, national, regional and international entities through which the Fund works may create structures and use the Fund's concessional resources to attract third-party funding for specific projects and programmes through, amongst others, such items as bonds, commercial paper, syndications, club deals and private placements;
- (d) Notes that accredited subnational, national, regional and international entities may target raising third-party funds from, amongst others, such parties as commercial banks, pension funds, insurance companies, investment funds and individuals;
- (e) Decides that, when using a request for proposals to auction out a certain concessional amount, the Fund will take into consideration the bidding parties' abilities to attract and crowd in third-party funds for projects and programmes;
- (f) Notes that such requests for proposals must support the objectives of the Fund as outlined in the Governing Instrument, in line with the Fund's allocation objectives, the allocation criteria as contained in the initial investment framework, and the country-driven approach, taking into consideration the climate impact and the objective of meeting the adaptation and mitigation needs of developing countries, and the Fund's status as an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change;
- (g) Decides to aim to accredit a variety of private intermediaries, including local commercial banks, multinational commercial banks that have a significant on-the-ground presence in developing countries, impact investment funds, and other investment funds. These entities would have to meet the Fund's accreditation requirements and demonstrate a track record of operating in developing countries;
- (h) Requests the Secretariat to launch a "crowdfunding" portal, using the services of an experienced white label supplier of crowdfunding sites, aimed at mobilizing individual contributions towards climate-sensitive investments undertaken through the Fund's accredited entities. The white label supplier is a firm that shall be competitively selected to provide turnkey IT construction and IT management of the portal for and on behalf of the Fund; and
- (i) Notes that the Secretariat shall issue non-binding letters of intent as requested by accredited or potentially accredited entities, subject to approval by the Secretariat's Senior Management Team (SMT), which is chaired by the Executive Director and includes the General Counsel, the Country Programming Director, the Mitigation and Adaptation Director, the Private Sector Facility Director, the Chief Financial Officer, the Risk Manager and the Secretary to the Board, or their respective delegates.