

Feedback on GCF's Updated Strategic Plan

PSAG Member: Rodrigo Violic

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Documents reviewed:

- The Initial Strategic Plan of the GCF
- Report on the implementation of the initial Strategic Plan of the GCF: 2015-2018 (GCF/B.22/Inf.13)

Input / Comments:

A few key actions identified as potentially beneficial to maximize the engagement of the Private Sector with climate finance and the GCF:

1. Increase awareness of climate risks at private sector level in developing countries with a focus on adaptation and contribute to the greening of the financial system:

According to GCF's portfolio as of April 1st, 2019, only 23% of funding amount has been directed to adaptation projects, which seem low. This is perhaps due to the fact that while mitigation projects can immediately generate returns either through cash flows or energy efficiency improvements, in the case of adaptation projects these can only generate a return if and when an extreme climate event occurs. Most private sector companies, especially MSMEs, lack the capacity and internal knowledge to evaluate such climate risks and this is where the GCF can make a difference. On the other hand, MSMEs and other private companies doing business in developing countries need the support of the local financial system to finance their activities.

Recently, a group of Central Banks led by the Bank of England and Banque de France, as well as a group of supervisors of developed countries financial systems have created the so called Network for Greening of the Financial System (NGFS), with the aim to "exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. Its purpose is to define and promote best practices to be implemented within and outside of the Membership of the NGFS and to conduct or commission analytical work on green finance."

In the October 2018 progress report, NGFS members acknowledged that "climate-related risks are a source of financial risk. It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks".

Interestingly, one of the several institutions that have joined the NGFS as observer is the Bank for International Settlement (BIS), which is the main forum for discussion and a platform for cooperation among central banks and other financial authorities in the pursuit of monetary and financial stability. This international cooperation is known as the Basel Process, which is the origin of the bulk of banking rules that have been adopted by banking institutions in several jurisdictions worldwide known as Basel I, Basel II and Basel III.

It is very likely that the next piece of banking legislation coming from the Basel Process (Basel IV?) will engage with climate-related risks, which once approved and implemented at the national level will be binding to most of the global financial system. This means that from that moment onwards, local banks would need to implement actions and measures to reduce their loan portfolio exposure to climate-related risks and therefore, private sector companies that have not prepared and developed a detailed assessment of the current and potential impacts of climate change in their business might be severely affected in their capacity to access the local banking community to finance their operations.

In anticipation to this scenario, the GCF can play an important role in preparing private sector companies for this scenario, increasing their awareness about the significance of climate change and how extreme climate-related events can impact their business.

As an initial step, GCF might join the NGFS as observer and join the BIS, OECD, the World Bank and the IFC (see Information on application for membership in <https://www.banque-france.fr/en/financial-stability/international-role/network-greening-financial-system>).

2. Increase Regional Presence and enhanced communications activities:

To become more effective in pursuing and communicating its mandate to its stakeholders and as a medium-term goal, the GCF should start deploying regional offices much in the same way that other climate financing institutions have done in the past, with staff continuously visiting countries within the regional office's area of influence.

Although the GCF is a well-known and well-regarded institution at NDA/FP and AE levels in most developing countries, its mandate, ambitions and operational modalities are less known within the private sector in such countries. As part of the efforts to engage the private sector into climate-related action, it would be advisable for the GCF to organize conferences and seminars at the regional or local level so as to have direct contact with its stakeholders, including MSMEs and other private sector companies. This effort could be supported by the GCF's Division of External Affairs through targeted communications and marketing material.

3. Strengthening of GCF's Environmental and Social Management System:

A final comment and concern not directly related to the topics discussed above but relevant to the Fund's Environmental and Social Management System.

According to the Governance Instrument for the GCF, "the Fund will enjoy such privileges and immunities as are necessary for the fulfilment of its purposes."

However, on February 27, 2019 the U.S. Supreme Court ruled that the International Finance Corporation (IFC) is not absolutely immune for suit in US courts under the case labelled *Jam et al. v. International Finance Corp.* In this case, Indian fishing communities sued the IFC for harms resulting from the Tata Mundra Ultra Mega coal-fired power plant in Gujarat, India, which received a US\$ 450m IFC loan in 2008.

It would be advisable that in light of this historic ruling by the U.S. Supreme Court, the Fund take the opportunity to learn from this experience and review for potential areas of improvement its own set of management processes and procedures regarding the analysis of environmental and social risks as part of its Environmental and Social Management System.