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30 April 2019

Mr. Yannick Glemarec
Executive Director
Green Climate Fund
175. Art Center-daero
Yeonsu-gu, Incheon, 22004
Republic of Korea

Dear Mr. Glemarec

Re: Request for Input to the Strategic Plan of the Green Climate Fund

Thank you for your letter of 28th March 2019, giving us an opportunity to provide input into the updated Strategic Plan for the Green Climate Fund (“**GCF**”).

We thank the Green Climate Fund for its work over the past years, channelling investment into mitigation and adaptation projects in developing countries. We continue to welcome the GCF's explicit mandate to catalyse private sector funding into these projects and markets. We see great potential for the GCF to build on its early work and to deliver greater levels of private investments into a broader range of sectors, markets and financial products.

Please find attached our input, guided by the documents you have provided us; in particular the 'Synthesis of Board submissions on the update of the Strategic Plan for the Green Climate Fund' ('Synthesis of Board Submissions') and the 'Strategic Programming for the Green Climate Fund First Replenishment' ('Strategic Programming').

Our overarching recommendation to the GCF is for the Secretariat and Board to continue to work with the private sector, building on existing and well-established global frameworks, to streamline, simplify and improve the predictability of its various decision-making processes, including funding proposal approvals, Requests for Proposals, Readiness Programmes, Project Preparation Facilities and project impact reporting.

Regards,

Benjamin Barry
Director

Input to the GCF Strategic Plan

We welcome the Synthesis of Board Submissions' emphasis on maximising the engagement of the private sector as a central theme to GCF replenishment, in particular focusing on improving the speed, predictability and efficiency of the private sector's interactions with the GCF. This is likely to provide the private sector with the certainty it needs in order to invest time and resources into developing proposals for the GCF.

The Strategic Programming paper reiterates that the GCF has the significant opportunity to mobilize wider finance flows and we believe that crowding in private capital should continue to be a key objective of the GCF. This should be an explicit aim in the GCF's new phase of work, and its subsequent Action Plan should clearly articulate the critical role the private sector must play. The GCF can play a leadership role with a more explicit policy of working with, crowding in and introducing private capital to new market opportunities. The GCF's involvement can provide the private sector more confidence to invest alongside the fund in projects that might otherwise have been challenging.

Maximising private sector engagement

The majority of GCF funding has been allocated, to date, to public sector and multilateral entities. These entities are critical actors in the climate finance ecosystem, however we believe they serve a different role to commercial banks, financial institutions and asset managers. By putting commercial, private sector organisations at the forefront of developing proposals and projects for the GCF, with support from multilateral and national actors, the GCF can achieve faster deployment of projects, greater levels of investment and financial innovation, and accelerate paradigm shift across the private sector.

Enhancing the predictability and accessibility of the GCF

Accreditation and project approval processes

We believe that the approval process timeline, often taking up to 12 months, does not match of the timeline private investors are accustomed to for their own projects which compete for capital and resources. Furthermore, the Board's current decision-making process, requiring unanimous approval from its 24 members, creates meaningful levels of risk and uncertainty. These issues often create additional costs for private sector entities submitting proposals, and more could be done to improve and streamline this process. We encourage the GCF Board to adopt a decision-making process in the absence of consensus and the delegation of certain decision-making to the Secretariat, for example approval of smaller funding proposals.

In order to continue accelerating capital flows from commercial lending or institutional investors, the Board should encourage programmatic strategies that utilise the capabilities of, and give more autonomy to, AEs. This approach would have the dual benefit of scaling up impact while crowding-in investors into catalytic projects.

Investment criteria and impact assessment

We agree with the Synthesis of Board Submissions that clarifying criteria for selecting investment proposals will be helpful, in particular for private sector partners. Clear, consistent decision-making processes will decrease uncertainty in the proposal development phase, which can restrict AEs' appetite to develop new proposals.

The GCF has outlined in several places its intention to better manage and evaluate the outcomes of its projects (paragraphs 28b and 29b of the Synthesis of Board Submissions). We agree with this ambition and strongly encourage the GCF to allow the adoption of existing investment frameworks, such as the International Finance Corporation's Performance Standards. These will provide valuable consistency for private sector players and minimise resource burdens.

On the question of impact measurement, Macquarie's Green Investment Group (GIG) has developed a robust set of principles and policies designed to ensure that each investment's green impact is assessed, monitored and reporting to the reported to the highest standard. The process is managed by the Green Investment Ratings team within GIG, who would be happy to work with the GCF to support development of their own impact assessment methodology.

Requests for proposals

As outlined pages 38-39 of the Strategic Programming paper, we agree that while RfPs have generated strong responses and encouraged greater interaction with the GCF, the conversion of proposals to funding remains low.

We believe that new strategic RfPs should have more targeted scope and objectives. If rapid implementation is required, we recommend that GCF should only seek response from existing AEs to help speed the funding process and avoid delays in implementation.

We encourage the GCF to consider ways to accelerate the funding approval process. This could include shifting reporting requirements away from qualitative and towards quantitative KPIs, in order to lighten the resource burden on private sector teams and providing more support to AEs to obtain non-objection letters.

Similarly, organisations that are successful in securing funding from the RfP process should receive priority access to GCF capital, ahead of other projects. While this should not be the sole method of allocating funding, we believe that this approach can be a catalytic way of incentivising existing AEs, driving proposal development to key sectors or countries, prioritising the resources of the Secretariat, and encouraging innovative proposals. In turn, a greater number of completed projects creates track record and confidence around delivery that can be factored into each new round of decision-making.

Responding to developing country needs

Country programming and needs could be communicated more broadly so that AEs can better identify countries' priorities and embed them in the projects they are developing. Equally, the Board should not restrict proposals being brought forward that are not explicitly stated in the country programming, if proposals are able to demonstrate alignment with country needs and have obtained a non-objection letter.

Capacity building and readiness

Capacity building activities have been a strong element of the GCF and we encourage the GCF to consider expanding the readiness program where possible, while streamlining its related approval process. Readiness programs can be distributed at scale, utilising bottom-up approaches, on programs which are driven by the countries' Nationally Determined Contributions ("**NDCs**"). We contend that this approach can plug the gaps which may exist in bi-lateral, top-down government programs. Similar to the RfP approval process, we would welcome further streamlining of the Readiness Proposal approval process.

Impact areas

The Strategic Programming paper highlights the need to integrate climate rationale into decision making, while also maximising immediate impact and longer-term paradigm shift. We urge the GCF to prioritise reducing carbon emissions at scale as an impact area. For example, an objective to increase energy generation and access creates the risk that countries which are increasing fossil fuel-based generation and receiving significant or increasing investments to achieve this goal are de-prioritised, without access to renewable alternatives. A focus on reducing carbon emissions would help encourage scaling-up investments in countries that need catalytic capital to transition to renewable generation, regardless of how developed its overall energy market is, in some cases bypassing new investment in traditional generation.

Uses of GCF capital

We believe that there are opportunities for GCF to expand the ways in which it utilises its capital.

GCF's risk appetite and use of innovative products

We note that the Synthesis of Board Submissions called for revising the GCF's risk appetite (paragraph 2.2.6). We believe that utilising financial structures where GCF take first loss or is present in a higher risk tranche of capital will further enable the GCF to mobilise capital and crowd in the private sector to create greater overall capacity. Structures where the GCF invests *pari passu* with private sector may not provide adequate risk mitigation to stimulate the market shift that the GCF is seeking.

We also encourage GCF to develop more efficient guarantee products and local currency facilities. These instruments can have significant impact on mobilising private sector capital, especially where projects are marginal and capital is available but is held back due to the specific risk profile. If managed efficiently, guarantees can align with the principle of minimum concessionality.

Streamlining GCF's unique value proposition

Paragraphs 15 and 16 of the Synthesis of Board Submissions outline a number of ways in which GCF is considering refining its unique value proposition. We encourage the GCF to take a succinct approach to defining this so that it retains a unique and specific role within the global climate finance sector and a strong focus within the organisation.

Baseline requirements

The Synthesis of Board Submissions makes a mention of '[requiring] AEs to shift their investment portfolios away from fossil fuels in order to be considered for reaccreditation' (paragraph 16f, also mentioned in 20g). There are other international platforms focusing on divestment and wider investment policies and we recommend that the GCF does not focus resources on this area. AEs will consider moving towards this goal within a framework appropriate to their own specific exposures and operating environment, such as the Task Force on Climate Related Financial Disclosures **(TCFD).** These mechanisms could be used as a reference to avoid the duplication of efforts.

Climate finance innovation

While developing new approaches to climate financing (paragraph 16a) is commendable, and we have suggested steps in this direction in the section above, we believe that developing debt for climate swaps and climate-related insurance mechanisms falls within the remit of expert private sector firms which have dedicated significant resources to their development. Where new climate-related innovations are developed it may be more appropriate for GCF to consider how to accelerate their deployment.

Green bond policy

Developing a policy for issuing bonds (paragraph 16b) risks duplicating the internationally-recognised work of organisations such as the International Capital Markets Associations' Green Bond Principles.