CMIA
27th April 2019

Private Sector Submission on the Strategic Plan of the Green Climate Fund

This submission is made on behalf of the Climate Markets and Investment Association ("CMIA"), an independent trade association that has been providing leadership from the private sector in the delivery of climate investment policy and market mechanisms since 2008. CMIA is an accredited Private Sector Observer of the GCF and proposed the current Active Private Sector Observer representing developed countries, Alexandra Tracy.

We thank the GCF board for providing this opportunity to input to the development of an updated Strategic Plan for the GCF as part of the first replenishment process in 2019 and for consideration by the board at its 24th meeting in October 2019.

The Strategic Plan is an essential document, which, together with the Governing Instrument, guides the overall direction and focus of the operations of the GCF. As such, we would like to offer input in a number of key areas:

1. Strategic vision

GCF's strategic vision as laid out in the Strategic Plan (based on its mandate in the Governing Instrument) is "Promoting the paradigm shift towards low emission and climate resilient development pathways".

- Qualitative expressions such as "paradigm shift" are not part of the typical dialogue for most private sector institutions (neither financial institutions or corporations). As a consequence, many companies struggle to understand the GCF's strategic vision and some are deterred from attempting to engage with the fund.

- Some CMIA members have suggested that it may be helpful for the GCF to have a more tangible and practical mission statement to accompany the high level, aspirational strategic vision. This could provide greater clarity on the overall objectives and may resonate more successfully with a private sector audience.

2. Differentiation of the GCF in the climate finance landscape

The GCF has been trying to articulate its comparative advantages when compared with other climate finance institutions, in terms of size, flexibility of financial instruments, risk appetite and partnership with private sector.

- To the mainstream private sector audience (perhaps casual, but not well informed observers), this differentiation is not sufficiently clear. In developing countries, the GCF tends to be viewed as a mechanism that can solve NDC implementation challenges, but exactly how it will intervene, and on what basis, needs to be made plainer in order to avoid the risk that any failure to secure financing or implement NDCs will be blamed on the GCF.

- In particular, the GCF's aspiration to be a more aggressive "risk taker" needs to be defined and clearly communicated. This requires initial action at board level, where we have observed a lack of clarity on what it means in practice for the GCF to maintain a high risk appetite. Aspirational statements by board members tend not to be backed up by GCF policy on risk, which naturally inclines towards being cautious and conservative.

3. Partnership with private sector

The GCF's other differentiating factor is its aspiration to maximise private sector involvement, in part through its Private Sector Facility ("PSF"). However, this mission is not clearly understood by the mainstream private sector audience (casual, but not well informed observers).

- There tends to be some level of awareness of the PSF and the fact that some organisations have received funding through that mechanism, but little understanding of its mission, objectives and impacts. There can be confusion as to how the GCF defines "private sector" in terms of participants, activities and funders, as well as a lack of clarity about how public private partnership structures are viewed.

- While awareness of the workings of the GCF tends to be relatively low among the CMIA membership, a small number of member companies (specialists in climate finance and/or provision of readiness support and capacity building), have had extensive engagement with the GCF. They have reported both positive and negative experiences over a number of interactions.

- **Timeliness and decision making**

  - Concerns raised by respondents with experience of working with the GCF tend to be around timeliness of response and decision making. Project and programme funding proposals have to be brought to board meetings, which only take place three times a year, and where board members have at times been unable to make the relevant decisions due to delays and distractions created by other agenda items.

  - The Mobilising Funds at Scale Request for Proposals ("RFP") is a case in point. This was an initiative to appeal directly to private sector partners, and specifically to reach out more widely into the mainstream private sector community, by offering potential partners an opportunity to submit ambitious projects and access large scale funding from the GCF. Unfortunately, however, since the RFP was launched nearly two years ago, no proposals have yet been approved for funding by the GCF.

  - In the area of capacity building and readiness support, there is again strong potential for private companies to provide services to the GCF. However, a number of tenders in this field have been significantly delayed and even cancelled, which has caused some providers to make the decision not to pursue further opportunities with the GCF.

- **Direct access entities**

  - One of the overarching goals of the GCF is to maximise its interaction with direct access entities. Successful partnership with the private sector in developing countries is essential, not only for the GCF to mobilise institutional and corporate funding for mitigation and adaptation projects, but also to capitalise on the expertise of businesses which actually operate on the ground in challenging markets.

  - XacBank in Mongolia is an excellent example of successful engagement by the GCF with a direct access entity. XacBank was accredited by the GCF in 2016 and since then has received approval for two projects. This demonstrates that the GCF has been able to work successfully with a local privately run institution - however, this experience is yet to be replicated elsewhere. We would recommend the GCF focus on how the interaction with XacBank has been so successful and take lessons from this relationship to assist in working with other national and local AEs and potential partners.

- **Improved outreach**

  - There are opportunities for the GCF to work more closely with observer organisations such as CMIA, which are closely engaged with the GCF (as evidenced by our support for an Active Observer at the GCF), to disseminate information about the GCF vision, products and activities. In particular, successful case studies and precedent transactions could resonate well with our membership and the wider market. CMIA is already active in giving information on the GCF to our members, but this initiative could be greatly leveraged and expanded with support from the GCF communications team.

4. Potential barriers to private sector participation - Accreditation

As laid out in the Governing Instrument, delivery of GCF financing to developing countries is channelled through national, regional and international accredited entities ("AE"s), approved by the board. The process of accreditation has been slow, cumbersome and expensive for AEs, and there is currently a long backlog of entities seeking accreditation. The need to make changes to the process is well recognised, but no significant progress has been made to date.

- **RFPs to fast track accreditation**

  - The Mobilising Funds at Scale RFP was an effort to reach a wider private sector audience, and to begin to address increasing reluctance to go through a lengthy and uncertain accreditation process. However, but the main obstacle still remained - approval of any successful proposal would be conditional on its sponsor becoming accredited by the GCF. In order to attract meaningful support from the broader financial community, the GCF needs to show much greater flexibility. If the requirement for accreditation is going to be just as onerous as going through the traditional application route, any private sector response to future RFPs is likely to be less enthusiastic.

  - One approach, tested with a number of the shortlisted RFP contestants, was that the private institution should be responsible for identifying an existing GCF accredited entity with which to partner on its proposal. This is not particularly easy for a business that may not be part of the established climate finance networks. It is also unlikely that an accredited entity will be willing to allow another institution effectively to do projects under its own banner without significant negotiation. It may be that something along these lines could be workable perhaps at country level, with a greater role potentially for the GCF's National Designated Authority to assist with matching AEs and implementing or executing entities. In the short term, however, it would seem such a requirement of the private sector player risks deterring further engagement.

- **Project specific accreditation**

    - We have for some time been supportive of the concept of project linked accreditation. Under this framework, the accreditation process would focus only on the organisation's ability to implement the specific project or programme being presented to the GCF (in response to an RFP, for example) rather than the institution wide systems, policies and procedures and general track record that are assessed in the traditional accreditation exercise.

    - This more streamlined alternative could appeal to a broader range of private sector entities which do not exclusively focus on climate related projects, but which might have an interest to bring one or more specific proposals to the GCF for support. To avoid duplication, there would need to be an expedited process for subsequent project proposals brought by the same entity, which would focus solely on incremental assurance requirements.

- **Third party benchmarks**

    - We have consistently recommended that the GCF take into account in its review process the existing scrutiny of appropriate local regulators and rating agencies, which already verify a significant subset of the fiduciary standards that are required in the GCF's accreditation process. Use of their expertise would reduce duplication and could be applied to complement the GCF's due diligence work. Recognising the competencies and legitimacy of national and regional financial sector regulators would also be in line with the GCF's guiding principle of country ownership.

5. Potential barriers to private sector participation - Project Approval Process

A relatively small number of projects and programmes from private sector partners have been approved to date. Some are in the pipeline, while some AEs have not yet submitted any proposals.

- **Policy gaps**

    - While extensive work has been undertaken to address the policy gaps in the project design and approval process, significant work remains to be completed on assessment methodology and metrics. Lack of clarity is hindering private sector engagement, as highlighted also by the Private Sector Advisory Group.

    - There is particular concern about adequate consistency of approach in evaluating and approving project proposals. The board has established the principle that each proposal must be considered on its individual context and merits, and that there is a wide range of different national circumstances. However, there is a practical tension between this principle and the ability to consider a large number of projects going forward. If every indicator comes with a range of caveats, it becomes less useful in practice, and it becomes very difficult to look across the portfolio.

- **Project and programme design**

Board members have repeatedly called for more “ambitious” projects to be submitted for approval. While the level of additionality in some projects to date has probably not been particularly high, it is challenging for project proponents to design creative and “ambitious” projects without a clearer understanding of the risk appetite of the GCF (see above).

There can be a tension between “innovation”, which board members also look to see in project proposals, and the potential for scaling up and replication. To deploy funds rapidly and at scale, the GCF should look in the main to prioritise the latter, by deploying the tried and tested risk mitigation and credit support mechanisms with the necessary amendments to apply them to circumstances in least developed countries. The GCF so far has made little use of a broad range of established financial and risk taking instruments that could be catalytic for the private sector, including guarantees, insurance, or local currency hedging.

- **Prioritisation by result area**

  - Greater predictability as to the GCF’s priorities for its project pipeline would help companies to design projects that meet the needs of the GCF. Some upfront allocation of resources, together with more sophisticated country programming - which must include input from the local private sector - would help to improve engagement and potentially to attract new partners to the GCF.

  - A large percentage of the funding approved for private sector projects is allocated to the energy sector. The GCF should target greater diversification in private sector projects across the portfolio, especially in sectors such as agriculture and urban development. 60 percent of the area expected to be urban by 2030 has not yet been built, which creates considerable opportunities to leapfrog historical approaches to urbanisation and prioritise low carbon city development. The private sector can play a central role in supporting cities through a combination of innovation, expertise, financing and new service delivery models.

  - Use of targeted RFPs, which identify specific results areas, geographies or industry sectors, could be a tool to assist in diversification .. assuming that the process of evaluating and approving proposals is significantly improved.

- **Timeliness and decision making**

  - Lack of transparency about whether or when funding for a project will be available often makes it impossible for a developer or financial advisor to allocate resources to continue working on that project. Private sector opportunities sometimes arise quickly, but may also rapidly disappear if the turnaround time is too slow. Protracted approval processes (decisions being delayed from meeting to meeting) increase transaction costs and heighten the likelihood of the project being abandoned. (See also comments above).

6. Potential barriers to private sector participation - Governance

There are a number of challenges with the governance and decision making processes at the GCF. Suggestions for improvement have been under discussion for some time, and progress on this will be essential for a successful replenishment process.

- Issues around the governance of the GCF have been widely reported in the media, which means that mainstream private sector players may be more likely to be aware of these problems than of the considerable successful achievements of the GCF. This deters potential partners from engaging with the GCF and may also mean that existing AEs are cautious about bringing project proposals to the GCF.

- In order to move forward and, in particular, to regain the confidence of the private sector in the near term, the GCF needs to demonstrate that it can function according to norms of behaviour that are understandable to the business community.

- **Depoliticising board meetings**

  - The GCF is an operating entity of the financial mechanism under the UNFCCC. While it, therefore, does have an essential political aspect, there may be scope to introduce some practices from the business world. In particular, an effort to depoliticise some of the preparations for and operations of board meetings would be extremely positive. Corporate boards tend to work according to an agenda produced by management not negotiated by board members. More progress on devolving decision making away from the board and to the GCF secretariat would also be very welcome. A corporate board usually delegates operational decisions, such as staffing arrangements, to management.

- **Improving decision making**

  - As a priority, the GCF board must complete its efforts to establish a process for decision making in the absence of consensus. This is critical to its standing with the mainstream private sector community.

  - A focus on allocating decisions to those experts most capable to make them would greatly aid the efficiency of both the GCF secretariat and the board. A typical financial institution establishes a credit or investment committee, which scrutinises and approves funding proposals. The board of the institution has final oversight of the project portfolio and the funding pipeline, but does not usually take part in discussions of individual proposals.