The Business Council for Sustainable Energy®

Energy Efficiency · Natural Gas · Renewable Energy

Date: April 29, 2019

To: Green Climate Fund Secretariat

From: Business Council for Sustainable Energy, Washington, DC, USA

Re: Update of Green Climate Fund (GCF)'s Strategic Plan

The Business Council for Sustainable Energy (BCSE or the Council) welcomes the opportunity to share its views on the update of the Green Climate Fund (GCF)'s strategic plan. As the GCF matures its Strategic Plan should be iterative and inclusive of the views of active observers and organizations, as well as Board members. This memo will share the Council's views on the GCF's strategic direction, maximizing impact, and improving overall operations.

The Business Council for Sustainable Energy (BCSE)

The BCSE is a multi-sector coalition of companies and trade associations from the energy efficiency, natural gas and renewable energy sectors; and is an accredited business observer to the GCF and to the United Nations Framework Convention on Climate Change (UNFCCC). The BCSE advocates for and supports policies and institutions that advance the deployment and finance of existing clean energy technologies, expertise and systems.

The Council recognizes that clean energy has a critical role to play in reducing emissions and enhancing the resilience and adaptation in a changing climate. The Council views the GCF as an important international financial institution that can impact the alignment of the deployment of clean energy technologies, country demand for mitigation and adaptation solutions and financial flows through its funding decisions.

Note: As a broad-business coalition, not all views expressed in this submission reflect the views of each individual member of the BCSE.

GCF's Strategic Direction

The BCSE believes that the GCF's strategic direction should remain focused on "transformational investments" at a scope, scale and pace needed to meet the global crisis of climate change, as informed by the latest science such as the findings of the Inter-governmental Panel on Climate Change (IPCC)'s Special Report on Global Warming of 1.5˚C (2018). The Council also supports efforts to ensure a geographical and topical diversity of GCF projects. The GCF should continue to focus on the desired paradigm shift needed to achieve a low and zero-carbon economy and allow a broad portfolio of project types to be considered.

Maximizing the Impact of the GCF

The GCF has already made progress to approve finance to sectors in areas where BCSE members have technology solutions and expertise, including energy sector access and power generation, and buildings, cities, industries and appliances. The Council commends progress made in this area and offers the following recommendations to help maximize the future impact of the GCF.

On Private Sector Engagement

The Council recommends expansion of outreach efforts to the diversity of sectors within the "private sector," both in size (from small and medium-sized to multi-national companies) and expertise (technology providers, project developers, financial institutions) and geography. This outreach could range from raising basic awareness of the GCF and its mandate to specific campaigns to highlight opportunities with the Private Sector Facility (PSF) or special recruitment efforts to broaden the base of private sector involvement and to create champions of the GCF.

Types of actions toward this goal of scaling-up private sector engagement with the GCF include:

- Continue to streamline and approve application process to move a project more quickly through the pipeline, which will incentivize and attract private sector project developers and institutions.
- Encourage the use of innovative financing tools (by accredited entities) that help small- to medium-sized companies receive GCF funding, especially for renewable energy projects in developing countries.

On the dedicated institutions currently in place within the GCF, the Council supports:

- Incorporation of recommendations of the Private Sector Advisory Group (PSAG) on how to improve GCF engagement with the private sector.
- The Private Sector Facility (PSF)'s efforts to improve efficiencies, attract new private sector involvement and to develop a private sector strategy.

On Project Performance and Evaluation

Financial intermediation efforts can fail for many reasons and should be an accepted risk of GCF operations. In some cases, market assessments fail to fully consider or effectively reconcile the interests of investors, developers, local governments or beneficiaries, resulting in limited uptake of financial products and programs. In other cases, market conditions or governments can change, making projects impractical or ineffective.

BCSE members, through experience at the Global Environment Facility and other international financing mechanisms, have also witnessed instances where a project fails to achieve its intended result and/or operates at a sub-optimal level, and financing is then dormant because it is already committed and/or assets are stranded.

Given the unique nature and innovative mandate of the GCF risk mitigation measures for project failure or sub-optimal performance should be considered and included in project designs. The Council suggests the following measures to enhance the ultimate impact and performance of GCF projects.

First, GCF grant agreements should contain specific mitigation actions if projects fail to produce promised results over a certain period or the intended life of the project.

In cases where project underperformance is due to government inaction or failure to take promised measures, remedies should not include transfer of the remaining funds to host governments.

In cases where market conditions have changed or financial program designs have failed to produce intended results, program redesign efforts should be considered. This may involve introduction of new players or modifications to co-financing agreements or risk mitigation facilities.

Second, the GCF should withhold a small percentage (5-10%) of project funding for redesign or modifications if necessary. A Project Performance Reserve Accounts (PPRAs) should be establish for each approved project for redesign of projects that failed to reach funding mobilization objectives. This would also reduce over promising by GCF project proponents. If a GCF project achieves intended results, the PPRA would be released to the project for expansion or continued operations.

Third, mid-term evaluations should assess current and projected utilization of a financial mechanism, and if necessary, suggest project revisions. Implementation of these revisions may be beyond the scope and budget of mid-term evaluations, but these reports should identify where revisions would be most helpful. The GCF could then utilize the PPRA to engage experts to modify project design or implementation to improve project performance.

On the Accredited Entities (AE) Process

Members of the Council have considered accessing the GCF for financing but have encountered the AE process as a barrier to access for independent proposals. The large AEs (regional development banks, multilateral financial institutions and U.N. agencies) have their own self-generated projects and the current process allows AEs to reject independent proposals, especially if it could be viewed as potential competition to their own work. Smaller AEs are either very limited in their focus or lack the resources to help prepare an independent project for GCF review.

The Council suggests along with the update of the Strategic Plan a review of the rational for AE management of GCF project intake and the consideration of creating a more open project approval process.

The Council applauds the decision to require AEs to submit annual work programs. These work plans should be made public and include the nature and timing of any planned procurements.

On Innovative Financing Tools

The Council also notes that one of the strategic objectives is for the GCF to “take on risks that other funds/institutions are not able or willing to take, including risks associated with deploying innovative climate technologies.” Performance guarantee contracts can be an effective means of mitigating new technology risk and should be explored for GCF projects. For example, energy savings performance contracts (ESPCs) are extensively utilized in the U.S., and this financing tool effectively transfers all technology and performance risk of energy efficiency projects to the project implementer or energy service company (ESCOs).

Improving the GCF’s Overall Operations

The Council supports efforts to improve governance mechanisms of the GCF to align it with the best practice for governing bodies of financial institutions. These recommendations include the ability of the Board to take decisions in the absence of consensus, to take decisions between meetings and to designate advisors or subject matter experts to participate in Committees on behalf of Board members. Also, setting Board meeting schedules 1-2 years in advance would permit observer organizations to better plan and prepare staff resources and schedules.

Conclusion

The next iteration of the Strategic Plan should build upon the GCF’s existing strengths, including the foundation it has set to directly and better engage the private sector, to improve its efficiencies and move projects and leverage finance to deploy clean energy at an even faster pace. Thank you for the opportunity to share the views of our clean energy business coalition.