What can the GCF Private Sector Facility do faster, better, smarter?

Findings from the IEU's Forward-looking Performance Review (3 of 4)

June 2019

I. Background

As of 28 February 2019, the Private Sector Facility (PSF) portfolio consisted of 23 GCF Board-approved projects (23% of GCF projects), totaling USD 2.074 billion in funds (41% of total GCF-approved funding). This topical note summarizes key recommendations from the FPR for the GCF's PSF. It specifically looks at the PSF's ability to directly and indirectly finance private sector mitigation and adaptation activities at the national, regional and international levels.

II. Key Findings Regarding the Private Sector Facility

The IEU submitted the Forward-Looking Performance Review (FPR) of the Green Climate Fund (GCF) to the GCF Board at its twenty-third meeting.

- **The GCF has the strongest private sector focus** of the multilateral climate funds and the best ability to scale projects through its flexible suite of financial instruments.
- In practice, **several factors constrain GCF private sector engagement**, including a) a reactive business model, b) a lack of engagement with Direct Access Entities (DAEs), c) the length of project approval and legal assessment timelines, and d) a perceived lack of predictability by private sector actors.
- GCF Accredited Entities (AEs) **predominantly consist of publicly owned** and/or funded (international) development banks. So far, only one GCF project engages a commercial AE.
- Despite a high-risk appetite, the PSF faces challenges in getting private sector adaptation projects through GCF AEs. Consequently, **only 2 per cent of PSF funding is provided for adaptation**, despite a large need for investments.

III. Key Recommendations for the Private Sector Facility

The FPR encourages the PSF to consider the following:

- **Take greater risk and focus more on innovation and replication.** The PSF should optimize its high-risk mandate appetite to finance pioneering and replicable projects. Its portfolio could include start-up technologies, climate-focused venture capital, early-stage funds, blended finance, or adaptation activities such as micro-finance or (micro) climate insurance.
- **Increase awareness and focus on innovation in sectors.** The PSF needs to be structured less according to financial instruments and more according to sectors searching for solutions. PSF experts can advise on private sector initiatives that support the achievement of Division of Mitigation and Adaptation project objectives. The knowledge of DMA's sector experts is a potentially rich source of inspiration for innovative sectoral initiatives.
- **Increase its financing in local currencies, through guarantees and reimbursable grants.** Recognizing that currency risk constrains private sector investment in many developing countries, a GCF local currency facility could help manage unhedged currency risk and/or guarantee financial credit lines.
- **Establish an internal innovation hub focused on early-stage climate innovations.** GCF could consider fostering high-risk investments in small, untested and innovative climate actions with the potential to scale up or be transformational. It could be a specialized internal fund that allows direct financing in game-changing activities by academic, corporate and other partners.
- **Increase its focus on adaptation projects.** The PSF can develop a better balance between mitigation and adaptation by designing a request for proposal for private sector adaptation projects that signals to the market GCF is serious about attracting commercial funding to adaptation. Achieving this may require GCF working with incubators, research entities and small- and medium-sized entrepreneurs.
- **Reform accreditation for private sector actors.** Simplify accreditation generally for private sector actors, and especially for national DAEs; for example, by better assessing the relevance of policies for actors and allowing "grace periods" for policy development. Also, allow for project-specific accreditation for proponents that win requests for proposals or direct investment in these projects.
- **Increase focus on engaging with private sector actors**. Invest in more active engagement with national and international commercial banks and institutional investors such as pension funds, insurance companies and sovereign wealth funds to unlock their capital and encourage private (co)-investment at scale in low-carbon, climate-resilient development.

List of FPR Notes:

1. 15 quick key take aways from the FPR
2. Overview of the Review
3. What can the GCF Private Sector Facility do faster, better, smarter?
4. What are we learning about GCF's accreditation process?

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