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Flirting with the Private Sector: The GCF Private Sector Facility — achievements, challenges and constraints in engaging the private sector

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Abstract

The Green Climate Fund (GCF) is committed to include the private sector as both driver and beneficiary of climate action. It envisions in particular the inclusion of not only large enterprises, but puts much emphasis on the cooperation with micro, small and medium-sized enterprises (MSMEs) in developing countries. This paper evaluates the state of play of the GCF work with the private sector and its MSMEs. It finds that the fund's success in stimulating private sector engagement has been underwhelming and imbalanced. To begin with, only a minority of GCF projects are in fact private and a considerable amount of these projects operate through multilateral and other public institutions. GCF's private sector projects show on top of that a strong bias towards energy access and generation, while only little funding goes to adaptation. Attempts to include MSMEs in developing countries have moreover been largely unsuccessful, although MSMEs constitute an important pillar of developing countries' economies. It is suggested that there is a need for a bottom-up approach when dealing with the private sector in developing countries, including a more sustained and sustainable focus on MSMEs, including capacity building of MSME networks.

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Le Fonds vert pour le climat (GCF) est résolu à ce que le secteur privé joue un rôle moteur dans les actions menées en faveur du climat et puisse également en bénéficier. Son objectif est tout autant tourné vers les grandes entreprises que les micro, petites et moyennes entreprises des pays en développement, avec lesquelles il entend renforcer la coopération. Ce document dresse un état des lieux des actions entreprises par le FCM afin de mobiliser le secteur privé et les MPME. Il fait le constat que les actions mises en œuvre par le Fonds pour favoriser l'engagement du secteur privé ont abouti à des résultats décevants et déséquilibrés. En premier lieu, seule une minorité de projets du FCM sont soutenus par le secteur privé, une quantité considérable d'entre eux étant financés par des organisations multilatérales et d'autres institutions publiques. L'examen des projets du FCM qui bénéficient du soutien du secteur privé montre par ailleurs une forte préférence pour les questions liées à l'accès à l'énergie et la production d'énergie, peu de ressources étant consacrées à l'adaptation au changement climatique. De même, les tentatives visant à faciliter la participation des MPME des pays en développement, qui constituent un pilier important des économies de ces pays, se sont avérés largement infructueuses. Le document insiste sur la nécessité d'une approche ascendante dans les rapports avec le secteur privé des pays en développement, qui passe par une attention plus soutenue et constante aux MPME et, notamment, un renforcement de la capacité de leurs réseaux.

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El Fondo Verde del Clima (GCF por sus siglas en inglés) se ha comprometido a incluir al sector privado tanto como impulsor como beneficiario de la acción climática. Prevé, en particular, la inclusión no sólo de las grandes empresas, sino que hace gran hincapié en la cooperación con las micro, pequeñas y medianas empresas (MiPYMEs) de los países en desarrollo. El presente documento evalúa la situación actual de la labor del GCF con el sector privado y sus MiPYMEs. Observa que las medidas aplicadas por el GFC para fomentar la participación del sector privado han tenido resultados decepcionantes y desequilibrados. Para empezar, sólo una minoría de los proyectos del GCF son de hecho privados y una cantidad considerable de estos proyectos operan a través de instituciones multilaterales y de otras instituciones públicas. Los proyectos del sector privado del GCF muestran además un fuerte sesgo hacia el acceso y la generación de energía, mientras que sólo se destinan pocos fondos a la adaptación. Además, los intentos de facilitar la participación de las MiPYMEs de los países en desarrollo, que constituyen un pilar importante de sus economías, han sido en gran medida infructuosos. Se destaca la necesidad de adoptar un enfoque ascendente al tratar con el sector privado de los países en desarrollo, lo que requiere un enfoque más sostenido y constante sobre las MiPYMEs, incluido el fortalecimiento de la capacidad de sus redes.

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In 2010, the Green Climate Fund (GCF) was set up as an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC), an agreement by 194 countries.

The GCF received an initial pledged amount of $ 10.3 billion by 43 countries, three regions and a city[1]. The Fund, which is governed by a board of 24 members, is meant to enable developing countries to access new, additional, adequate and predictable financial resources (UNFCCC, 1992) that promote low-emission and climate-resilient development pathways. The board decides on the Fund's funding strategies and is also responsible for the secretariat (based in Songdo, Incheon, Republic of Korea). The board decides based on consensus except when 'all efforts at reaching consensus have been exhausted', in which case decision making can be facilitated with a voting procedure (GCF, 2019). On top of overseeing the Secretariat, various subcommittees of the board report directly to the board headed by two co-chairs, one each from among the two broad constituencies of the Fund, developed and developing countries.[2] These subcommittees include a risk management committee, an investment committee, ethics and audit committees as well as three independent units: the Independent Integrity Unit (IIU), the Independent Redress Mechanism (IRM) and the Independent Evaluation Unit (IEU).

The fund's governing instrument stipulated that the GCF focus its effort to ensure funding to developing countries, particularly those regions that are highly vulnerable to climate change effects as well as seek to remedy the pervasive imbalance between mitigation and adaptation funding that has dominated different channels of international climate finance. Thus, the Fund's board committed to balanced allocation of funding between adaptation and mitigation and further stipulated that Small Island Developing States (SIDS), Least Developed Countries (LDCs) and African countries would receive equitable access to the fund's resources. Since its inception, the Fund also committed to include the private sector in its network through the creation of a **Private Sector Facility (PSF)**.

Building on these commitments, the GCF has now been providing financial support for the mitigation and adaptation activities in developing countries. Since 2015, it has committed more than $ 5.2 billion to projects in various developing countries. The submission of funding proposals for projects is made by international, regional or national entities that are eligible to access GCF's funds through various financial instruments.

In order to streamline and simplify the approval of small scale projects, the GCF offers moreover a 'Simplified Approval Process' or SAP.[3] This new modality allows project proposals to be processed with less preparatory and approval time. A project proposal under the SAP requires, in particular, simpler forms with fewer pages and less questions to be addressed. There are three conditions that need to be fulfilled for the SAP. One, the project is ready to be scaled up and facilitates climate mitigation and adaption pathways. Two, GCF's resource input should be up to $ 10 million. And three, the project has minimal environmental and social risks. There are no restrictions with regards to GCF's eight results area (see below), financial instruments or public versus private sector engagement. As with GCF's regular project approval process, SAP funding proposals can only be submitted by accredited entities (GCF, 2019a).

The fund has also taken actions to stimulate private finance into climate-friendly investment, targeted to promote 'a paradigm shift to low-emission and climate-resilient development.' It has used innovative mechanisms that seek to ensure a diversity of private sector actors from developing countries. Such measures include a $ 200 million micro, small and medium-sized enterprises[4] (MSMEs) pilot programme, a call for proposal aimed at Mobilizing Funds at Scale (MFS) with up to $ 500 million as a pilot programme to support the private sector to address adaptation and mitigation, and since 2018 an annual conference on private investment for climate. Besides this, the GCF also funds public sector projects to support MSMEs. The GCF works for example with the Inter-American Development Bank (IDB) and provides $ 20 million in loans to support MSMEs on energy efficiency in El Salvador in the 'Energy Savings Insurance for Private Energy Efficiency Investments by Small and Medium-Sized Enterprises' project (Project ID: FP009). In the 'Promoting Private Sector Investments in Energy Efficiency in the Industrial Sector in Paraguay' project (FP063), the fund cooperates with the AFD (*Agencia Financiera de Desarrollo de Paraguay*) and IDB to improve energy efficiency in Small and Medium-sized Enterprises (SMEs). They also work with local governments on policy and regulation improvement to incentivise further energy efficiency investment. GCF further provides a $ 100 million loan to help SMEs in the 'Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments' project (FP064) in Argentina. This project works with IDB and the Investment and Foreign Trade Bank (BICE) to scale up the investment of Argentinian SMEs in renewable energy and energy efficiency.

This brief seeks to present more in depth the state of play of the GCF work with the private sector, including MSMEs. It will begin with a short overview of the GCF's overall portfolio by identifying the key project areas since the operationalisation of the Fund. Section II explores in detail the private sector participation and contribution to this portfolio between the period of 2015 and July 2019. Section III focuses in particular on GCF's engagement with MSMEs as agents of private sector involvement and ends with some comments and discussion around the way forward.

Section I. Snapshots of the GCF Project Portfolio, 2015 to July 2019

The GCF commenced its operationalisation as ostensibly the world's largest climate fund in 2015 with an initial resource mobilisation of $ 10.2 billion, growing to $ 10.3

Mitigation result areas	Adaptation result areas
• Energy access and power generation	• Most vulnerable people & communities
• Low-emission transport	• Health and well-being, and food & water security
• Buildings, cities, industries & appliances	• Infrastructure & built environment
• Forestry and land use	• Ecosystems & ecosystem services

billion by 2019.[5] Board decisions B.06/05 and B.07/06 of the GCF commit it to a portfolio development driven by five clear principles:

(1) Targeting to achieve a 1:1 proportion between adaptation and mitigation;

(2) The 50% maximized adaptation funding needs to be specifically focused on vulnerable countries, including the least developed countries (LDCs), small island developing States (SIDS) and African States;

(3) Target on a fair resource allocation across countries needs to achieve geographic balance on funding;

(4) Maximize the influence of Private Sector Facility;

(5) Consistent with a country-driven/country ownership approach.[6]

Gender and Environment and Social Safeguards (ESS) are furthermore incorporated in decision-making and in all operations, including in the fund's proposals/project pipeline and project assessment and evaluation. The GCF also classified eight result areas among which the projects are distributed. Four are for mitigation and four are for adaption (see table above).

As acknowledged by the GCF, project funding across these result areas is uneven. Energy access & power generation alone accounts for 40% of project funding, whereas all four adaptation result areas sum up to 37% (GCF, 2019m).

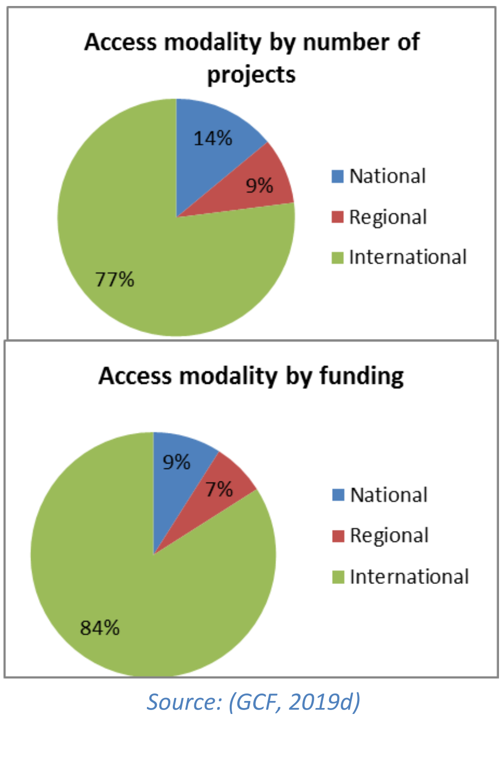
With its business plan and key operational documents in place, the Fund now has an extensive project portfolio. According to GCF's project portfolio dashboard published on their website, as of July 2019, 111 project proposals have been approved by the board of the GCF. 42% are mitigation, 24% are adaptation and 34% are cross-cutting. Funding has been approved for 46 African countries, 44 Asia Pacific countries, 24 Latin American and Caribbean countries and 6 Eastern European countries. Among these are 23 SIDS, 40 LDCs and 46 African states. The reported total value of these approved projects is $ 18.7 billion. This amount includes fund commitments by GCF of $ 5.2 billion with the remaining $ 13.5 billion sourced via co-financing. Thus far, about $ 2.4 billion of projects have entered the implementation phase. The public sector accounts for 59% of these projects and the private sector for 41%.

The instruments of GCF funding are almost evenly divided between loans (42%) and grants (45%) with the remaining 13% dispersed between equity (9%), guarantees (2%) and result based payments (2%) (GCF, 2019b).

It is important to point out that the proportion of grants in project funding is much lower when the co-financing part of $ 13.5 billion is also considered. While the grant equivalent is as stated before 42% in GCF funding, it only accounts for 25% of the total project portfolio, i.e. including both GCF and co-financing (GCF, 2019d).

GCF funding on projects are implemented through international access entities (IAEs) such as the World Bank Group, United Nations (UN) agencies and international non-governmental organization (NGO) entities, and direct access entities (DAEs), such as the Ministry of Water and Environment (Uganda), National Bank for Agriculture and Rural Development (NABARD, India) and Fondo Brasileiro para a Biodiversidade (Brazil). Currently, 77% of the amount of projects is allocated to IAEs and only 9% to regional and 14% to national entities (GCF, 2019b). When considering the effective funding, the imbalance is even bigger. 84% of funding has been approved to be channelled through IAEs and 7% and 9% through regional and national direct access entities, respectively. The top three IAEs that received funding as of April 2019 are the European Bank for Reconstruction and Development (EBRD), United Nations Development Programme (UNDP) and the World Bank, accounting for 16%, 14% and 11%, respectively, of total funding approval (GCF, 2019b).

Figure 1: GCF access modality by number of projects (above) and funding (below)



Source: (GCF, 2019d)

Figure 2: GCF projects and funding by stage (both public and private)

Pre-implementation			Under implementation	
Stage 1. Pending AMA execution or effectiveness (post-approval)	**Stage 2.** Pending FAA execution	**Stage 3.** Pending FAA effectiveness	**Stage 4.** Pending first disbursement	**Stage 5.** Disbursing
Funding proposals whose AMAs were not signed or effective at the time of Board approval	Funding proposals that are pending FAA execution, meaning under negotiation and/or preparation	Projects that have a signed FAA, but effectiveness is pending	Projects that have effective FAAs, but have not received first disbursement	Projects that have received first or subsequent disbursements
10 projects (595 M)	**31 projects (1.9 B)**	**10 projects (373 M)**	**6 projects (311 M)**	**45 projects (1.9 B)**

Abbreviations: AMA = accreditation master agreement, FAA = funded activity agreement, B = billion, M = million.

Source: (GCF, 2019m)

GCF Readiness and Preparatory Support Programme[7]

In order to strengthen country ownership and to ease access to the Fund, the GCF runs a Readiness and Preparatory Support Programme which provides up to $ 1 million per year for generic readiness activities approved by the Fund's secretariat and a one-time $ 3 million for adaptation planning. This programme targets capacity building of national agencies and entities that wish to engage with the fund by providing financial resources and technical assistance. The programme includes national adaptation planning and other activities such as capacity-building, support to direct access entities, and knowledge sharing and learning. In line with its core principles, the Fund has attributed 50% of the readiness support to the most vulnerable country groups, which include the LDCs, SIDS and African states (GCF, 2019c). As at April 2019, the fund has approved 259 readiness support projects with a budget of $ 147 million. The projects were submitted by 125 countries including 83 priority countries in LDCs, SIDS and African states (GCF, 2019m).

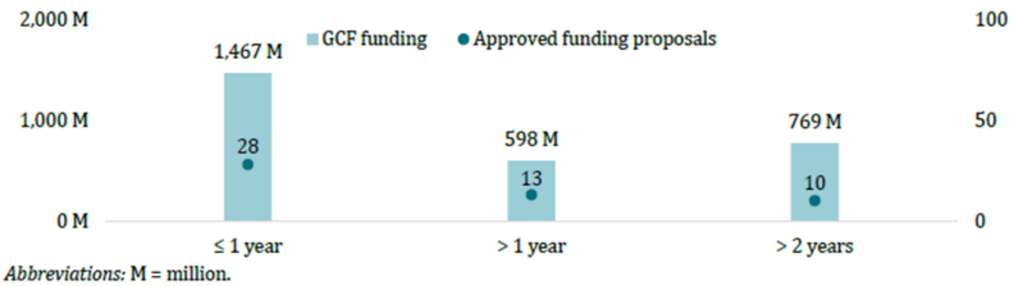
GCF project implementation

When a project proposal is approved by the GCF board, there are multiple stages with different requirements that the project needs to fulfil before it can move to the implementation phase. The first stage concerns the Accreditation Master Agreement (AMA), which has to be signed and effective. Then, the Funded Activity Agreement (FAA) will be put into negotiation and/or preparation. After signing the FAA, the third stage requires the project to ensure that the implementation of the FAA is effective. Only after this stage is completed can the GCF project progress to the implementation phase (GCF, 2019m). Figure 2 illustrates the different stages after board approval and the number of projects pending in each stage as of April 2019.

As a result of standardizing legal agreement forms and procedures, the fund has managed to reduce the time between board approval and project implementation. While the lead time was 590 days on average in 2015, the fund and its key stakeholders shortened this process to 316 days on average in 2018. Overall, according to the B23 information report 12, the total number of projects under implementation has increased from 1 in 2016 to 51 by April 2019. This means half of the GCF approved projects (102 projects including private and public financing as of April 2019) are still not under implementation. Within the 51 board-approved projects that are not under implementation, 13 projects have been approved over a year ago and 10 projects have been approved over 2 years ago (see also Figure 3).

A cursory examination of the project pipeline of the GCF reveals that the fund will continue to enlarge its project portfolio. As of July 2019, a total of 349 projects are in GCF's pipeline with an anticipated total value of $ 52 billion, including $ 15 billion of GCF funding. Of the total

Figure 3: Approved projects and funding that have not reached implementation phase



Source: (GCF, 2019m)

amount of projects, 80 have submitted a funding proposal and concept notes were drafted in the remaining 269 cases. 119 projects address climate resilience, while 59 target climate mitigation and 171 projects fall under the category of cross-cutting. 260 of the 349 projects in the pipeline are public sector projects and 89 are labelled private sector.

Despite envisioning strong private sector engagement in its principles, both the present project portfolio of the GCF and its project pipeline indicate that the private sector is and will continue to be underrepresented. The next section builds on this observation and examines in greater detail the private sector component of the GCF funding.

Section II: The GCF, the Private Sector Facility and the Involvement of the Private Sector

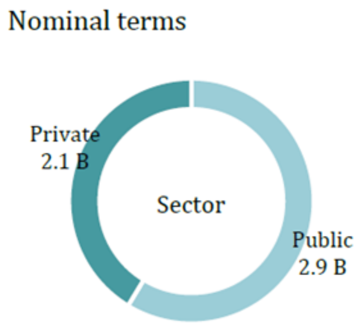
The private sector is the cluster of organizations which are not owned or controlled by the state and are usually engaged in for-profit activities in the economy. The private sector can also be involved in public-private partnerships that include investments involving governments, state-owned enterprises (SOEs) and private investors (Violic, 2015). From the perspective of the GCF, as expressed by its governing instrument and the various board decisions, the private sector is to be included in GCF's mitigation and adaptation initiatives and these activities shall not only include large, regional and international enterprises, but also small-and medium-sized enterprises and local financial intermediaries. The GCF engages with the private sector through the Private Sector Facility (PSF). The facility may work directly with private sector actors at national, regional and international levels.

In addition to the core principles that drive the fund's activities, the PSF operates on the following general principles: it crowds in, not crowds out other sources of funding and private sector activities; it leverages the private sector financing, not replaces it; it supports the private sector in taking high risk projects that are important for climate impacts; and it supports local actors, SMEs and local intermediaries and investors in SIDS and LDCs (Violic, 2015).

Given the substantial gap between the resources needed to prevent global warming beyond 2 degrees Celsius and how much is currently available, the inclusion of the private sector in climate mitigation and adaptation is regarded as imperative. GCF private sector funding equals $2.1 billion (41%) compared to $2.9 billion (59%) in public sector funding (GCF, 2019m). The PSF channels funds to private sector projects by making use of a variety of financial instruments, including debt, equity and guarantees.

The PSF is complemented by a Private Sector Advisory Group (PSAG[8]) and the private sector is also represented among observers who attend the GCF board meetings and related events[9]. Outreach to the private

Figure 4: GCF funding by sector

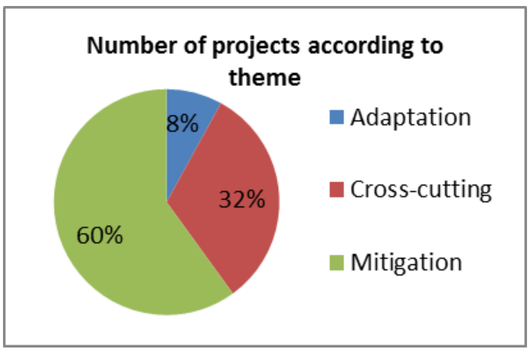


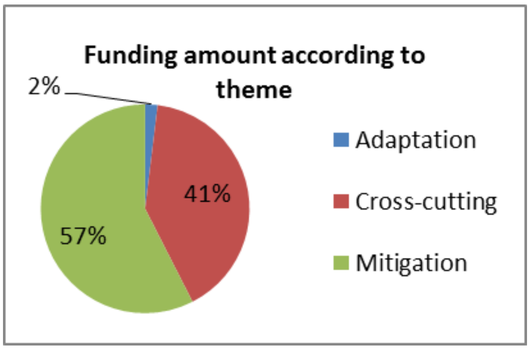
Source: (GCF, 2019m)

sector follows the implementation of the PSAG recommendations (outlined in B.19/30 and 31) which is incorporated into the strategic road map of the Secretariat for leveraging, mobilizing and engaging domestic and international private sector actors. Hence, the PSF's interventions span several GCF priority areas: investments, policy development, strategy formulation and other corporate-wide activities. According to GCF's private sector modalities, the PSF has the following distinct features: "direct access modality, high risk appetite, climate impact focus, market-making ability, as well as the unique investment approach to balance countries as represented by their national designated authorities (NDAs) and private sector perspectives, with the view to support country efforts in achieving paradigm shift toward low greenhouse gas emission and climate resilient development" (GCF, 2019k). As of July 2019, 28 private sector projects[10] have been approved for GCF resources amounting to $ 2.2 billion and taking up 41% of total project funding. These projects have been reported to mobilize an additional $ 7 billion in co-financing (GCF, 2019d).

In terms of thematic areas of projects, as of July 2019, the private sector project portfolio is disproportionately high in mitigation funding. Within the 25 active projects with private sector funding[11], 15 are designated mitigation projects (60%), 8 are cross-cutting projects (32%), and 2 are adaptation projects (8%). From a funding perspective, 57% of private funding goes to mitigation projects ($ 1.2 billion), followed by cross-cutting projects (41%, $ 87 million), and the other 2% goes to adaptation projects ($ 40 million).

Figure 5: GCF private sector funding by thematic area (above) and funding amount (below)



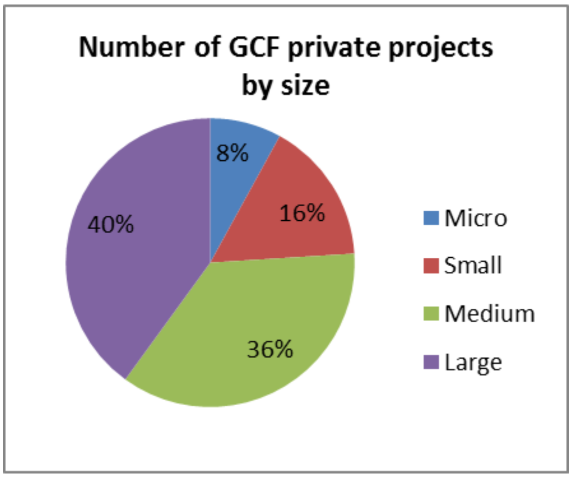


Source: (GCF, 2019d)

The fund provided further granularity of thematic areas by breaking funding down to the eight different results areas, in which mitigation and adaption are attributed four results areas each.[12] In its B23 information report 12, as of April 2019, 'Energy access & power generation' clearly stands out as a proportion of both overall project portfolio and of the thematic area of mitigation. With a total project volume of $ 1.6 billion, it is the result area with the largest funding. In contrast, as shown in figure 6, relatively little private sector funding (i.e. 11%) has been channelled to climate change adaption (the four categories from the right in figure 6). Within the four adaptation results areas, 'health and well-being, and food & water security' has received the largest portion of funding ($ 90 million) (GCF, 2019m).

According to the annex I of decision B.08/02, GCF's projects are categorized into four sizes depending on the amount of funding: Micro (< $ 10 million), small ($ 10–50 million), medium ($ 50–250 million) and large (> $ 250 million). Private financing projects are predominately large and medium sized (large = 40% of total number of private sector projects, 10 projects with $ 1.6 billion GCF funding; medium = 36%, 9 projects with a value of $ 0.4 billion GCF funding). There are further 4 projects in the small category (16%, $ 50 million GCF funding) and 2 micro projects[13] (8%, $ 50 million GCF funding) (GCF, 2019d).

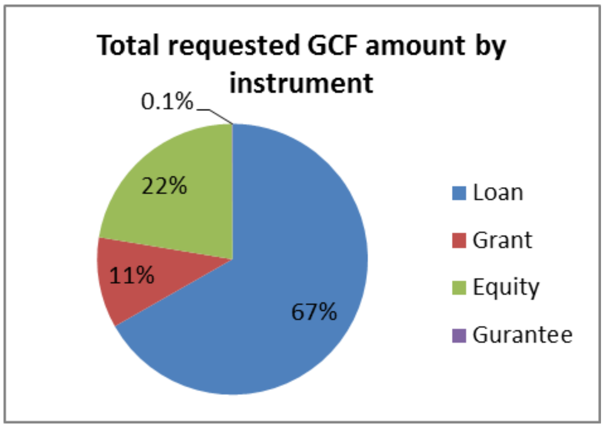
Figure 7: Approved number of private financing projects by size (see also Appendix 1)



Source: (GCF, 2019d)

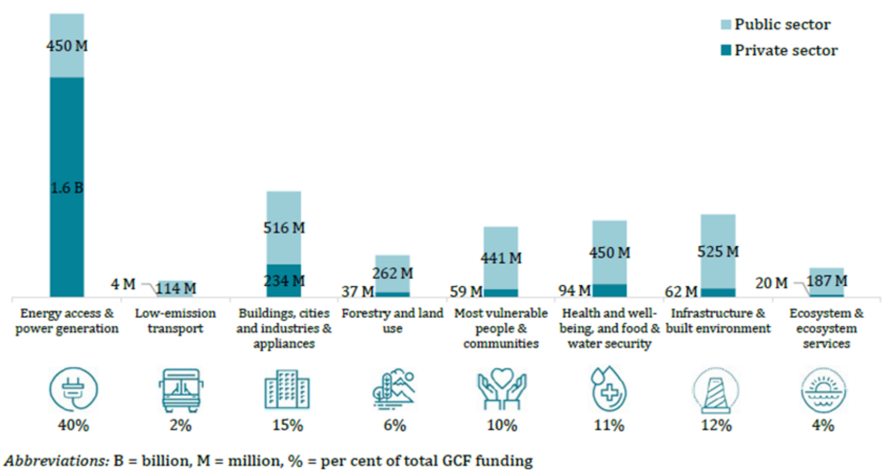
Within all the private financing projects, the largest portion of GCF funds is intended for disbursement through loans (67%, $ 1.44 billion)[14], followed by equity (22%, $ 48 million)[15], grants (11%, $ 24 million)[16], and guarantees (0.1%, $ 1 million)[17] (GCF, 2019d).

Figure 8: GCF private sector funding by instrument



Source: (GCF, 2019d)

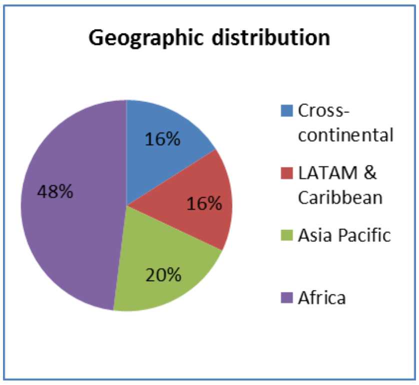
Figure 6: GCF funding amount on both public financed and private financed projects by results area, in $ million



Source: (GCF, 2019d)

The regional distribution of the private sector projects are as follows. 12 are located in Africa (48%), 4 projects cover the Latin America & Caribbean region (16%), 5 projects cover the Asia Pacific region (20%) and another 4 projects span across more than one region (16%) (see figure 9 below and also appendix 1) (GCF, 2019d).

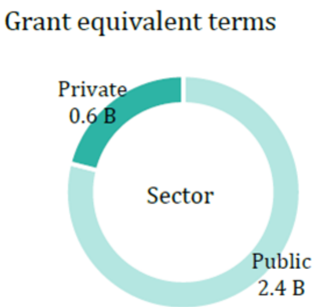
Figure 9: Geographic distribution of approved private sector projects (number of projects)



Source: (GCF, 2019d)

The grant equivalent funding of GCF's project portfolio is imbalanced in domains such as thematic funding, regional funding or between private and public financing. In the latter, the public sector receives 79% of grants, whereas the private sector accounts for 21% or $ 0.6 billion as illustrated in figure 10 (GCF, 2019m).

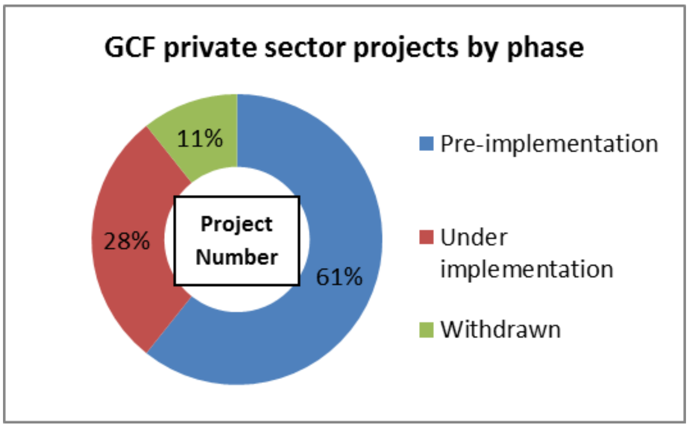
Figure 10: GCF funding amount by sector in grant equivalent terms



Source: (GCF, 2019m)

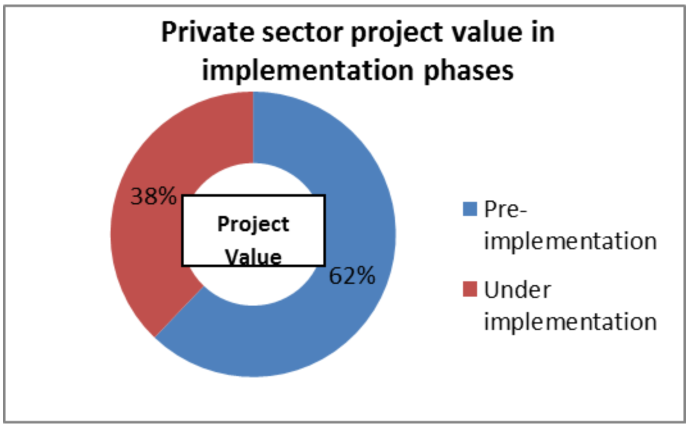
In the 28 private sector financing projects, 8 have received fund disbursements and are under implementation. All of these projects are in the area of mitigation and cross-cutting. 3 of the 28 projects were withdrawn (see footnote 11) and 17 are not implemented yet. Appendix 1 provides further a list of all private sector projects with a breakdown according to project phase. In terms of funding, of the 25 active projects with a total GCF funding volume of $ 2.2 billion, $ 0.8 billion or 38% have been disbursed thus far (GCF, 2019d).

Figure 11: GCF private sector projects according to project phase



Source: *(GCF, 2019d)*

Figure 12: GCF private sector funding according to project phase



Source: (GCF, 2019d)

Figure 13: Number and funding of private sector projects by stage

Pre-implementation			**Under implementation**	
Stage 1. Pending AMA execution or effectiveness (post-approval)	Stage 2[18]. Pending FAA execution	Stage 3. Pending FAA effectiveness	Stage 4. Pending first disbursement	Stage 5. Disbursing
6 Projects	**9 Projects**	**2 Projects**	**0 Projects**	**8 Projects**
USD 0.5 billion	**USD 0.8 billion**	**USD 0.04 billion**	**0**	**USD 0.8 billion**

Source: (GCF, 2019d)

This section has highlighted that while the private sector engagement is indeed facilitated by the GCF, it is still underrepresented and furthermore imbalanced in different areas. As discussed earlier, the GCF has not achieved an ideal balance between mitigation and adaptation. For all the private sector financed projects, 57% of its funding goes to mitigation while only 2% goes exclusively to adaptation. The GCF has proposed $ 1.9 billion for mitigation projects as part of the PSF. Within the four mitigation results areas, GCF private sector funding shows a strong bias towards energy access and power generation which represents $ 1.6 billion.

Despite envisioning a strong private sector inclusion, the GCF's engagement with the private sector is somewhat blurry. The fund has labelled 25 active projects as private without providing a clear definition as to which aspects in these projects constitute them as private.

From our understanding and initial review of the private sector engagement of the GCF, the following areas of interaction with the GCF and its projects seem to fulfil the criteria of private sector engagement and therefore qualify as private sector projects (see box below).

The collaboration with the private sector is more visible and straightforward in the first two definitions in the box below. The third aspect, on the other hand, is less tangible as the beneficiary side is not clearly identified in the project proposals. This will be looked at more closely in the next section, whereas this section continues to interrogate the role of the private sector as either (1.) co-financer or as implementing partner, i.e. (2a.) accredited entity or (2b.) executing entity.

To our surprise, it is found that many of the private sector projects involve multilateral and other non-private institutions. There are, for instance, only 7 of 25 private projects that have private sector organizations as accredited entity[19]. Overall, 14 private sector projects have private entities in at least one of the three categories (1.), (2a.) or (2b.) identified in the previous paragraph. The remaining 11 projects include 2 projects which have clearly not assigned any private institutions and 9 projects in which it is not understood if private entities are involved at all in the three categories.

The 2 projects include for instance project FP097, "Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)". The Central American Bank for Economic Integration (CABEI) acts as all three entities: co-financer, accredited entity and executing entity in this project. Similarly, in a recently approved project, FP105 "BOAD Climate Finance facility to scale up solar energy investments in Francophone West Africa LDCs", the West African Development Bank also fulfils the role of all three engagement criteria.

The 9 projects whose nature of the engaged entities and thus private sector involvement cannot be fully determined include, for instance, project FP095 "Transforming Financial Systems for Climate", a $ 728 million project that has assigned the French Development Agency, AFD, as both accredited and executing entity. AFD is furthermore the main co-financer, but there is also a minor grant contribution by unspecified donors, which could include private entities. Another example is project FP047, "GCF-EBRD Kazakhstan Renewables Framework", in which the European Bank for Reconstruction and Development (EBRD) also takes in the role of accredited and executing entity and moreover co-finances almost 40% of the project. This project has furthermore co-financing coming from unspecified sources that might or might not include the private sector. These unspecified sources are grouped and titled as "Other lenders loan" which bring in $ 93 million and "Sponsors Equity" with $ 137 million.

Appendix 2 of this document provides a list of all GCF private sector projects and further details on their engagement with the private sector based on the framework discussed above that questions the inclusion of private entities as (1.) co-financer, (2a.) accredited entity and/or (2b.) executing entity. Following this framework, it becomes evident that public institutions, including multilateral, regional, and bilateral development agencies, play an active role in projects that are labelled as private. This has also been highlighted by the Independent Evaluation Unit (IEU) of the GCF that pointed out that the fund's engagement of the private sector is insufficient and that in fact multilateral development agencies continue to be strongly involved (GCF, 2019l). The IEU pointed out that "*a significant part of the PSF portfolio is virtually indistinguishable from the (climate or energy) portfolios of (international) development banks*" (GCF, 2019l, p. 140).

Section III. Comments and Way Forward for the GCF and the Private Sector

Given the discussion in section I and II of this brief, a few pertinent questions come to the fore. What have been the achievements to date of the GCF private sector outreach efforts, both with regard to the specificity of the PSF framework and in its broader operational framework (i.e.,

1. Much of the GCF's aspiration to work with the private sector is premised upon leveraging GCF's resources with private capital, i.e. **mobilizing funds from the private sector**. This can also include international private entities that are not from developing countries.
2. The second option seems to be the **active engagement of the private sector in project implementation** activities, for instance by becoming an (2a.) accredited entity or by being the (2b.) executing entity.
3. The third way to interact with the private sector is by making them the beneficiaries of GCF projects by, for example, **funding private entities and investors** in developing countries.

the thematic lending under adaptation and mitigation, as well as the Fund's Preparatory and Readiness Support programme)? What lessons can be drawn from this approximately four-year process that could be distilled to help improve both the GCF's board decision-making, the UNFCCC's Conference of the Parties (COP)'s guidance as well as prove beneficial to developing countries' NDA actions with regard to upscaling and refining their approach to the private sector, especially Micro, Small and Medium-sized Enterprises (MSMEs)? And, what are the opportunities, challenges and constraints facing the GCF in this regard in the future?

These are big questions which will not be fully answered within the scope of this brief. We only hope to paint a schematic overview and provide some pointers for the future. Future policy briefs may explore these issues more fully.

Achievements of the Fund with regard to leveraging and catalysing the private sector

The GCF board and secretariat have successfully set in place the key framework policy that is important for enabling sustained outreach to the private sector. This includes as discussed above, the numerous board decisions addressing the finer points of this engagement[20], the creation of the PSAG, the launching of two pilot programmes, the Project Preparation Facility (PPF) and most recently the Simplified Approval Process (SAP).

On top of these programmes, the board approved a MSME pilot project initially for $ 200 million, which is to be implemented in two phases of $ 100 million each (phase I from July 8, 2016 to August 30, 2016 and phase II for 2020). This initiative is in in line with the PSF's ambition to include the private sector and MSMEs of developing countries as enshrined in the GCF's Governing Instrument which assures that "The facility will promote the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises.", (GCF, n.d.).

Phase I received 30 concept notes requesting $ 739 million financing from the GCF by international and national direct access entities, private equity firms, private companies and foundations, including 13 non accredited entities and 17 accredited entities.[21] It generated seven short listed concept notes from Africa (38%), Asia Pacific (34%) and Latin America and the Caribbean (28%). In terms of particularly vulnerable countries, 48% of concept ideas came from SIDS, Africa and LDCs. Instruments of funding requests included grant (7%), equity (28%) and guarantees (22%). 52% of these concept ideas were for mitigation action with 48% cross-cutting actions.

The status of the seven short listed concept notes, according to B.23/12. Add. 04, as of June 2019, is that two were approved (with one subsequently withdrawn) and one other approved at the 23rd Board meeting (B.23) (GCF, 2019i)[22]. Two concept notes are inactive as the accredited entities (AEs) were no longer interested in the project and another inactive due to fact that the AE was not approved for the financing scale of the project contemplated in the concept note.

Ultimately, the first round of the MSME pilot project generated commitment of $ 40 million dollars across two projects: $ 20 million business loan programme (FP028) by Xacbank that seeks to support women entrepreneurs (and for which the GCF has disbursed the full amount) and $ 20 million (FP048) by the Inter-American Development Bank program (for which GCF has to date disbursed $ 2.14 million)[23].

According to the PSF report B.23/12/Add.04, the reasons for the low number of project proposals received and approved under the MSME initiative, include difficulties with accreditation, challenges finding partners among existing AEs, as well as challenges with the lack of the diversity, innovation and quality of the proposals. Most proposals were energy related mitigation and agriculture for adaptation[24] (GCF, 2019i).

The report also suggests that the low result might also be due to limitations within the evaluation criteria that did not prioritise adaptation or targeted vulnerable communities and countries. Recommendations to address these issues include restricting the scope of proposal proponents to AEs only. But this does not seem to be a step in the right direction, given the acknowledged 'limited pool of AEs working with MSMEs' (GCF, 2019i, p. 4). Rather focus should be on building the capacities of MSME alliances, networks and platforms to serve that community in developing countries in order to enable submissions of viable projects.

It is clear that operationally, the interaction between the private sector and the Fund has been underwhelming, with only very few truly private sector driven projects. This is so despite the much touted acclaim of 'over subscription of concept notes and ideas' response to the GCF's *Pitch for the Planet* campaign to generate proposals for the $ 500 million *Mobilising Funds at Scale (MFS)*. The Request for Proposals (RFP) under this pilot was reported to be 'massively successful', with 350 total submissions. The RFP financing was oversubscribed by 36 times, with bids totaling more than $ 43 billion[25]. As of B.23 (June 2019), these short listed concept notes and ideas face multiple challenges in being transformed into proposals to be presented to the board. These challenges include a shortage of AEs to support the projects, difficulties in negotiating and executing master agreements and in securing no objections letters, NDA discomfort and lack of support for multi-country programmes and the use of non-grant instruments (GCF, 2019j).

There has been limited uptake of GCF funding directly by MSMEs in developing countries through the PSF. (There is limited capacity of the GCF to engage with the domestic private sector, including MSMEs in developing countries.) This in part is due to over reliance and possibly too much dependence on multilateral development banks (MDBs) and their overpowering and possibly ineffective role in reaching or targeting the business sector. (This is a topic deserving of its own analysis.)

There are also gaps in the delivery of private finance as between African States, LDCs and SIDs and emerging economies. This is linked to the above point, as well as to the challenges of the GCF's heavy reliance on hard currency debt instruments such as USD/EUR which limits GCF offered concessionality (GCF, 2019k). However, as noted by the Climate Action Network (CAN) (2013) such concessionalities are pivotal to reaching small scale entrepreneurs in these regions where there is lack of access to local financial markets. Additionally, the current PSF works through traditional AEs, who are mired in traditional development aid framework mentality and approach, and which seemingly resort to the resurgence of old and outdated 'out of the file-drawers' projects. These entities are not known for high risk tolerance or creativity in project implementation and financing such as local currency financing, endowment funds for working with vulnerable populations and communities such as women's and indigenous peoples' projects (possibly co-developed with local philanthropic organisations and civil society organisations (CSOs), or direct equity positioning).

Furthermore, there is limited uptake of the private sector into adaptation activities. The Fund has not managed in its own operations to shift the trend of imbalance between adaptation and mitigation funding.

As noted in this paper and in a review of the initial modalities for the PSF (GCF, 2019k, p. 10), 'the current PSF portfolio is skewed towards [energy related] mitigation.'

The private sector remains sequestered into a few energy sectors, particularly renewable energy with some investment in energy efficiency projects with not many activities into other important areas of both mitigation and adaptation in developing countries. These other areas are identified in NAPs, NAPAs and Intended Nationally Determined Contributions (INDCs) including adaptation areas such as water infrastructure and support for small-scale farming, non-energy related mitigation, most especially forest-related activities (GCF, 2019k).

It must be stated upfront, that the gaps in thematic and regional finance and the low private sector uptake are not restrictive to the domain of the GCF, though there are clearly areas within GCF purviews that can be modified to facilitate this better. Undoubtedly, there are rather troubling systematic issues with climate finance flows in general across other funds that have sought to engage with the private sector, such as the the Global Environment Facility (GEF), the Climate Investment Funds (CIFs) and bilateral funding mechanisms.

The instruments of the PSF are typically conventional and will not in and of themselves generate transformational change. As noted by CAN (2013), many of these instruments are better suited to big firms and may pose significant challenges for SMEs in developing countries, particularly those in LDCs and SIDs. For example, portfolio equity, direct investment, commercial bank lending and bond financing each are of a different quality of finance and have different implications for small business owners, especially female-owned and operated MSMEs and as well as for adaptation activities (CAN, 2013).

Additionally, the GCF/PSF has not fully adopted direct instruments (grants, de-risking instruments such as highly subsidized loans and investment guarantees) and indirect instruments (for example, adaptation market mechanisms, bonds) that could internalise awareness, information and actions on adaptation costs and benefits for MSMEs and the specificity of their needs at the local level[26].

Lessons learned from five years of outreach to the private sector

Overall, there is need for a bottom up approach when dealing with the MSMEs private sector in developing countries. Instruments also need to be made relevant to the needs of MSMEs in developing countries. There is also need for a greater focus on climate actions and needs identified in countries' NAPs, NAPAs, and INDCs.

Lastly, as the PSAG also noted, there is need for a wider programmatic push beyond renewable energy and more involvement in forestry and adaptation.

Agencies that work with MSMEs such as the United Nations Industrial Development Organization (UNIDO) should be encouraged to participate in GCF projects seeking to enroll MSMEs in climate resilient infrastructure, renewable energy and energy efficiency projects.

Considerations for the GCF Board

Though there is much emphasis of the GCF and other climate funds at investing at scale, the attention to micro, small and medium sized businesses in developing countries cannot be under emphasised. Scale is not the only indicator of or link to transformational activities. Transformation that is fair, equitable, sustained and impactful requires curated approaches that help to generate and support climate action and building of climate resilience from the bottom up. MSMEs are very much involved in production and consumption patterns that impact the environment and the response to climate change. MSMEs are locally grounded and rooted in their communities; they are also the largest providers of local livelihood opportunities in their communities. They often times are also in many countries reliant on natural resources (Benson, 2014). MSMEs can contribute significantly to reductions in greenhouse gas (GHG) emissions, adaptation, reforestation, sustainable agriculture, and to the circular economy (UNCRD, 2019). However, MSMEs in developing countries face significant funding gaps (Benson, 2014) (Kinch & Moore, 2016). Studies on greening SMEs argue that in order to promote green initiatives among businesses, green finance opportunities must be created (UNCRD, 2019).

This calls for climate finance entities such as the GCF to provide well targeted support to this sector of the business community for technology upgrading and acquisition of new clean technologies. The GCF board should hence consider expanding and extending readiness to include a more sustained and sustainable direct focus on MSMEs, including building the capacity of MSME alliances, networks and platforms. Similar approach could be developed within the PSF. This could include revising the MSME pilot to increase the funding beyond the current $ 100 million remaining for phase II. (The Board has approved $ 600 million to fund projects submitted in response to requests for proposals and pilot programmes. But this is to be spread over areas such as "REDD-plus results-based payments", mobilising funds at scale, enhanced direct access, and simplified approval process. Though it also includes MSMEs, the full amount is not specifically to target that sector.)

Working with national development banks in developing and implementing a process to upgrade and promote MSMEs through enabling climate risk sharing facilities and building the capacities of MSME financial service providers, including local intermediary banks, agricultural and development banks as accredited, executing/implementing and intermediary entities utilising the vehicles of enhanced direct access and the simplified approval processes.

The members of the PSF should include individuals with deep understanding and connections to the MSME sector in developing countries. At a minimum there should be advisors in technical working groups that are linked to MSME platforms or networks that are focused on developing countries and the particularities faced by micro and small business in these regions.

Ultimately, the board should consider a process for the Fund to work directly with MSME networks and platforms and move beyond the intermediary relationship of MDBs and traditional bilateral aid institutions and framework, possibly through a multi-country, multi-region fund for small enterprises driven principally through grant funding for capacity building around adaptation, energy efficiency and sustainable forestry activities.

Considerations for the NDAs

National Designated Authorities should feel empowered to use available readiness funding support to promote MSMEs' involvement in climate change mitigation and adaptation through readiness programmes that build awareness, provide advice and information and support for understanding and the development of local, national and regional green MSME networks. These would include capacity building for cluster groups of MSMEs on project/programme management, including project oversight and control, monitoring, evaluation and risk management.

Opportunities, challenges and constraints for the future

In document B.09/12, the GCF Secretariat identified five key barriers to climate related investment by MSMEs in developing countries of which it was argued that the PSF could have most directly tackled two of these effectively. The review document by the PSAG in which it made strong recommendations for enhancing the relationship between the PSF and the private sector, particularly MSMEs, builds on addressing these barriers as well as focused attention on reducing barriers to crowding-in local MSME engagement and participation (GCF, 2019k).

The four areas highlighted below in addition to the potential way forward discussed above constitute the landscape for enhancing the opportunities of the fund with regard to the private sector. They also outline some of the major challenges and constraints facing the GCF as it moves forward with its private sector outreach:

Weak or shallow financial markets to provide possibility for leasing finance, venture capital or secondary markets to support financing investment. In this case, the Fund, through its adaptation and mitigation window could seek to enable additional financial instruments such as grant and concessional loans, equity and guarantees through accredited intermediaries.

Information gaps leading to market failure such as lack of knowledge about available technologies and resources and financing opportunities. The Fund could through the provision of concessional resources help to overcome these gaps and capacity constraints. This includes support for enhancing audited financial reporting standards, small business plans, risk studies and feasibility studies, most possibly through a non-refundable grant component for capacity building. The MSME pilot was meant to advance this.

Capacity constraints such as lack of specialised skills to develop or appraise projects vis-a-vis the development of climate related investments. In this case, the Fund's PSF and the NDA through readiness programmes could help to build the capacities of MSMEs.

Market size and transaction costs which could be minimised by the Fund working with SMEs through accredited entities to originate, approve, administer and manage SME financing through a programmatic approach.

Conclusion

Since its operationalization, the GCF has strived to work with the private sector as either the provider of funding and/or implementer of GCF projects, or as the beneficiary of its financial and technical support. The GCF's project portfolio, however, shows that the fund has in fact struggled to increase its engagement of the private sector. The majority of projects are public projects and in the projects that are categorized as private, it is found that many involve multilateral and other public institutions. The fund has also underperformed in creating a balance between adaptation and mitigation financing, with the latter clearly dominating the fund's portfolio. This imbalance is even more prevalent in the private projects, in which energy related initiatives clearly shape the bulk of the private sector initiatives, while adaptation funding is marginalized.

Due to the important role MSMEs play in the economies of developing countries, the paper further looked into the fund's efforts and success in including MSMEs. It is found that there is limited capacity of the GCF to engage with the domestic private sector entities. Despite the fund making explicit reference to not only collaborating with large companies, but to also support MSMEs, our analysis suggests that there is still plenty of room for improving engagement in the future. MSMEs are large in quantity, but difficult to reach for a multilateral institution like the GCF. The instruments at hand seem not to be tailored for interaction with MSMEs and access to finance and the level of concessionality are fundamental issues that need to be addressed. In order to improve the status quo, it is also imperative to promote and collaborate with MSME networks and alliances that can act as an entry point to more effectively reach MSMEs in the Global South.

The Appendices are available online: https://www.southcentre.int/climate-policy-brief-23-march-2020/

Endnotes:

[1] Regions: Wallonia (Belgium) $10.9 million; Brussels Capital Region (Belgium) $4.82 million; Flanders (Belgium) $19.8 million and Paris as a city pledged $1.34 million.

[2] The GCF board has 24 members with equal representation of developed and developing countries. The two co-chairs of the board are elected by the board members from within their membership and they serve for a period of one calendar year. In 2019, the elected co-chair representing developing countries and also African States was Nagmeldin Goutbi Elhassan Mahmoud from Sudan. His counterpart, representing developed countries, was Josceline Wheatley from the United Kingdom. The previous co-chairs include: 2018: Paul Oquist (Nicaragua) & Lennar Båge (Sweden); 2017: Ayman M. Shashly (Saudi Arabia) & Ewen McDonald (Australia); 2016: Zaheer Fakir (South Africa) & Ewen McDonald (Australia); 2015: Gabriel Quijandria Acosta (Peru) & Henrik Harboe (Norway); 2014: Jose Maria Clemente Sarte Salceda (Philippines) & Manfred Konukiewitz (Germany) and 2013: Zaheer Fakir (South Africa) & Ewen McDonald (Australia).

[3] As of July 2019, there were 7 projects that have been approved through the Simplified Approval Process (Project Number: SAP001, SAP002, SAP003, SAP004, SAP005, SAP006, SAP007).

[4] The GCF for this purpose utilised the International Finance Corporation's definition of MSMEs as follows: Micro enterprises: Employees <10; Total assets <USD 100,000; Total annual sales <USD 100,000. Small enterprises: Employees <50; Total assets USD 100,000 <USD 300,000; Total annual sales USD 100,000 <USD 3 million. Medium enterprises: Employees <300; Total assets USD 3 million <USD 15 million; Total annual sales USD 3 million <USD 15 million.

[5] The initial resource mobilisation period was 2015-2018. It raised $ 10.2 billion primarily from developed countries' contributions at the high level pledging conference (GCF/BM 2015/Inf.01) and with ongoing contributions this amount totalled $ 10.3 billion as of April 2019 (well over 95% of this has been signed). As of January 2019, the following developing countries have so far announced pledges to the GCF: Chile $ 0.3 million (with $ 0.3 million signed), Colombia $ 6 million (with $ 0.3 million signed), Indonesia $ 0.25 million (with $ 0.25 million signed), Mexico $ 10 million (with $ 10 million signed), Mongolia $ 1 million (with less than $ 1 million signed), Panama $ 1 million (with $ 1 million signed), Republic of Korea $ 100 million (with $ 100 million signed) and Vietnam $ 1 million (no data on signed amount). And, in May 2018, the GCF received pledges and signed contributions from three regions in Belgium (Brussels capital region $ 4.8 million, Flanders $ 19.8 million and Wallonia $ 9.4 million) and one city (Paris, France, $ 1.3 million). Sources: (GCF, 2019f), (GCF, 2019g) and (GCF, 2019h)

It should be noted that for developing countries, pledging to the GCF is a politically sensitive issue having to do with holding firmly to the principle of Common But Differentiated Responsibility (CBDR) and the Convention's articles 4.3 and 4.4 that obligate developed countries to provide financial support to developing countries. Hence, countries such as China have elsewhere pledged climate finance support to developing countries through South-South cooperation initiatives. For example, in September 2016, China announced a total of $ 5.1 billion in climate finance to assist other developing countries: $ 3.1 billion for the China South-South Climate Cooperation Fund and $ 2 billion for South-South Cooperation to aid developing countries to implement the post-2015 Development Agenda. Please also see Khor (2016).

[6] Country ownership refers to alignment with national climate strategies such as Nationally Appropriate Mitigation Actions (NAMAs), National Adaptation Plans (NAPs), National Adaptation Programmes of Action (NAPAs), Nationally Determined Contributions (NDCs) as well as coherence with other existing climate policies.

[7] The South Centre acts as a Delivery Partner for GCF Readiness and Preparatory Support Projects and is eager to support developing countries in accessing GCF funds in line with the principle of country ownership. See also the South Centre's Climate Finance Readiness E-book here for more information.

[8] The PSAG will make recommendations to the Board on GCF-wide engagement with the private sector and its modalities. According to its terms of reference (TOR) for the PSAG its membership includes: (a) Up to four private sector representatives from developing countries; (b) Up to four private sector representatives from developed countries; and (c) Up to two civil society representatives from developed and developing countries.

[9] Around 82 private sector organisations (PSOs) are registered as observers to the GCF. These include on the developed countries' side: 12 PSOs from the UK, 5 from the US, 8 from Switzerland, 6 from Germany, 3 from the Netherlands and approximately one each from Austria, Australia, Belgium, Czech Republic (2), Denmark, Finland, France (2), Hungary, Italy, Japan, Norway and Spain (2). On the developing countries' side, India is the most represented with 7 PSOs, ROK has 4 PSOs, with at least one PSO each from Bahrain, Botswana, Cameroon, Chile, China, Gambia, Kenya, Nigeria (2), Pakistan, Philippines, Saudi Arabia, Singapore, Taiwan Province of China, Togo, the United Arab Emirates, Vietnam and Zambia. The GCF Governing Instrument stipulates 2 private sector representatives (one each from developing and developed countries) as 'active observers' to the board meetings. The active observer for developing country PSOs is the International Emissions Trading Association (IETA) and for developed country PSOs the Climate Marketing and Investment Association

(CMIA). (Among observers to the board there are over 218 civil society organisations - they too have one active observer each from developing and developed countries, and about 73 international entities such as the Adaptation Fund, the South Centre, the UN agencies, the World Meteorological Organization, the World Health Organization etc., which have no 'active observer representation' to the GCF.)

[10] This includes also three withdrawn private sector projects: 1. Energy Efficiency Green Bonds in Latin America and the Caribbean (FP006), project valued $ 184.5 million, and lapsed as of 26 September 2018; 2. SCF Capital Solutions (FP029), project valued $ 34.1 million, and lapsed as of 23 October 2017; 3. Catalysing private investment in sustainable energy in Argentina - Part 1 (FP030), project valued $ 653 million, and lapsed as of 28 July 2018.

[11] The three projects that have lapsed (detailed in previous footnote) are excluded.

[12] The difference to the methodology in the above paragraph is that there is no category for cross-cutting projects.

[13] The GCF has labelled FP005 "KawiSafi Ventures Fund in East Africa" and FP078 "Acumen Resilient Agriculture Fund (ARAF)" as micro, despite both projects having GCF funding of up to $26 million each.

[14] See for example project FP028 'Business loan programme for GHG emissions reduction'.

[15] See for example project FP038 'Geeref Next'.

[16] See for example project FP099 'Climate Investor One'.

[17] See for example project FP048 'Low-Emission Climate Resilient Agriculture Risk Sharing Facility for MSMEs'.

[18] Project FP026 here is considered as in stage 2 because the Conservation International (CI) part of the project is under implementation, while the European Investment Bank (EIB) part is pending the effectiveness of the accreditation master agreement. Once the implementation of the EIB part commences, this project will be added to the list of projects under implementation.

[19] These include FP005 Accredited Entity (AE) = Acumen Fund; FP027 AE = Deutsche Bank; FP028 AE = XacBank; FP047 AE = XacBank; FP078 AE = Acumen Fund; FP115 AE = MUFG Bank; SAP004 AE = XacBank.

[20] Key documents regarding the private sector facility and engagement are, for instance, B.04/07 'Business Model Framework: Private Sector Facility', B.04/08 'Business Model Framework: Structure and Organization', B.05/13 'Terms of Reference and Establishment of Committees and Panels', B.06/02 'Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility', B.06/12 'Structure of the Fund, including the Structure of the Private Sector Facility (Progress Report)', B.07/08 'Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility', B.09/12 'Private Sector Facility: Working with Local Private Entities, including Small and Medium-Sized Enterprises', B.19/30 'PSAG recommendations on the development of a private sector outreach plan' or B.19/31 'PSAG recommendations on the development of modalities to support activities enabling private sector involvement in LDCs and SIDS'.

[21] This includes seven executing entities, partnering with accredited entities (AEs), public sector entities (four, later shunted to public sector pipeline), withdrawn projects (two by AEs) and one revised and subsequently approved via PSF (B.21) for US $ 55.61 million (as the climate finance facility).

[22] The seven shortlisted concept notes are: #1. Business loan programme for GHG emissions reduction (FP028, $ 20 million Xacbank, Mongolia), approved at B.15; #2 SCF Capital Solutions (FP029, $ 12.2 million SCF Capital Solutions, Development Bank of Southern Africa), approved at B.15 but subsequently lapsed (due to challenges over extension of deadline with regard to the FAA); #3 Low-Emission Climate Resilient Agriculture Risk Sharing Facility for MSMEs (FP048, Inter-American Development Bank, for Guatemala and Mexico), approved at B.18; #4 Program on Affirmative Finance Action for Women in Africa (AFAWA): Financing Climate Resilient Agricultural Practices in Ghana to be presented for Board approval at B.23; #5 and #6 both shortlisted proposals inactive as AEs no longer interested in proceeding; #7 shortlisted proposal inactive due to the AE's limited accreditation scope. Adapted from Table 1: Status summary of the 7 shortlisted proposals B.23/12/Add.04 p. 3.

[23] FP028 promotes the use of energy-efficient and renewable energy solutions in the Mongolian MSME market. The programme aspires to foster gender-equal access to funding by ensuring that women-led MSMEs are a core focus of the loan activities. As such, by the end of the third year of the programme, the facility's portfolio is expected to be made up of at least 50 per cent women led MSMEs, who will also benefit from more concessional loan terms. It aims to achieve the following key objectives: (a) A reduction in annual greenhouse gas (GHG) emissions by 149,290 tonnes of carbon dioxide equivalent (tCO2eq); and
(b) Mainstreaming energy efficiency and renewable energy in the local MSME market. FP048 is structured as a risk-sharing facility that aims to unlock innovative and scalable financial instruments to support investments in low-emission and climate-resilient agriculture in the MSME market, targeting Guatemala and Mexico. The facility will target agricultural MSMEs that demonstrate environmentally sustainable practices and support them to engage lenders for the longer-term loans needed for climate investments. It aims to achieve the following key objectives: (a) A total reduction in GHG emissions of 9.2 million tCO2eq; (b) Approximately 802,980 beneficiaries from the adoption of diversified, climate-resilient livelihood options; and (c) An increase in productivity (yield/hectare) in the region of 10 per cent by enabling MSME producers to cope more efficiently with the adverse effects of climate change. GCF/B.23/12/Add.04, p. 4. (GCF, 2019i)

[24] It is not clear why MSMEs proposals are so judged and face restriction when the broader PSF proposals are also quite mitigation centric and very few focused on adaptation.

[25] MFS RFP ("Pitch for the Planet") was launched in May 2017 with a closing date of 30 August 2017. It attracted 350 submissions from more than 70 countries with estimated GCF-requested financing of over $ 18 billion (B.23/12.add.03, p.2.). The 30 best ideas were shortlisted for further development (but these have still not reached maturity as of April 2019). Of the 350 the resulting distribution are as follows: 91 did not pass the preliminary screen process due to issues of incompleteness etc.; 134 were evaluated to be outside the MFS scoring criteria; 95 reached the three-level evaluation process (but were not shortlisted) of which 20 were from existing accredited entities and 75 were from non-accredited entities; and 30 were shortlisted, of which 23 were from non-accredited entities and seven were from accredited entities. As of June 2019, according to document B.23/12.add.03, the 30 shortlisted concept notes are still undergoing the process transformation into a 'fully developed proposal' for board consideration (by the Secretariat and the Independent Technical Assessment Panel (ITAP)). Seven concept notes, as noted previ-

ously, have AEs at the time of submission and 14 have acquired AEs since submission but 16 remain without AE support. In the meantime, project size has decreased from 20 large-sized, 7 medium-sized and 3 small-sized (August 2017) to 17 large-sized, 11 medium-sized and 2 small-sized as of April 2019 and consequently, aggregate funding request for these proposals have decreased by 33% from $ 15 billion (GFC financing of $ 2.3 billion and potential co-financing of $ 12.3 billion) to $ 10.3 billion (GCF financing 1.6 billion and co-financing of $ 8.7 billion) (GCF, 2019j). The MFS RFP objectives were threefold: (a) To catalyse private capital for mitigation and adaptation projects and climate-related services in developing countries, requiring early-stage equity, concessional lending, grants and guarantees, creating positive demonstration effects; (b) To support climate project sponsors at the local level, regardless of their size, in removing market barriers to allow a flow of private financing; and (c) To spur new private-led services and innovation focusing on the eight GCF strategic results areas.

[26] The GEF in its engagement with the private sector, for example utilised a wider variety of non-grant instruments: loans, including hard loans, concessional loans, contingent loans, and revolving funds; guarantees and risk mitigation, such as credit, risk, or performance guarantees; and equity investment, either direct participation in a company, or through a fund, plus technical assistance and capacity building, provided on a grant basis (GEF, 2017).

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