GREEN CLIMATE FUND

AND THE PRIVATE SECTOR

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The private sector – in particular, the role of transnational corporations and financiers – has featured prominently in discussions on the Green Climate Fund (GCF). As in other areas of climate finance, this partly reflects the lack of public money that developed countries provide to help developing countries to take climate action.

» *DOES THE GCF RECEIVE MONEY FROM THE PRIVATE SECTOR?*

The GCF may receive contributions from the private sector – including individuals, corporations and philanthropic foundations. To date, however, all contributions have come from governments.

» *HOW DOES THE GCF DISTRIBUTE MONEY TO THE PRIVATE SECTOR?*

The GCF channels its funds through partner institutions, known as “accredited entities”, rather than managing projects directly. Accredited entities may be public or private, and may be from developed or developing countries. These companies undergo a review process that is meant to ensure their ability to manage funds, implement projects and apply environmental, social and gender safeguards. Currently, five of the 33 accredited entities are private entities. These include three large commercial banks (Deutsche Bank, HSBC and Crédit Agricole), Acumen, a US-based social impact investment fund, and Conservation International, a US-based non-profit environmental organization.

The accreditation of Deutsche Bank and HSBC proved particularly controversial because they are two of the world’s largest private financiers of coal, have a poor record on human rights and have been riddled with financial scandal.

» *WHO ARE THE END RECIPIENTS OF GCF MONEY?*

Accredited entities may directly manage GCF programmes and projects, or they can act as intermediaries for funding that is passed on (minus an administration fee) to other companies. These other companies are “executing entities,” so-called because they are responsible for the actual work on the ground. In practice, there may be several layers of companies handling GCF money between it leaving the Fund and arriving for use as part of a project in a developing country.

The potential advantage of this funding structure is that it can deliver money in small enough measures to actually reach local communities and small businesses. But funding via several layers of intermediaries can make it difficult to ensure that GCF funds are being used accountably. Investment funds and other intermediaries that aggregate small scale private financing often pass through secrecy jurisdictions, which deprive developing countries of vital tax revenue.

» *WHAT TYPE OF PRIVATE SECTOR ACTIVITY WILL THE GCF SUPPORT?*

There are no firm restrictions as to what type of private sector activities the GCF can support in developing countries. The Fund’s investment framework offers some guidance, encompassing a broad range of activities from industrial energy efficiency to improving the climate resilience of water and sanitation systems. In the absence of any formal “exclusion list”, GCF funding could also go to fossil fuel projects. There is no floor or ceiling on the proportion of total GCF money that could go to private - as opposed to public - endeavours.

The types of GCF financing that the private sector can receive are flexible. Grants and concessional loans can be provided directly to private companies or passed on by intermediaries as grants, loans, or in the form of other financial products such as "green bonds". The GCF can encourage private investment by providing risk guarantees or setting aside money to repay creditors if a supported company cannot meet its loan repayments. It can also take an ownership stake in private companies, an arrangement that might typically be structured through equity funds invested in several new or growing businesses.

Two of the eight projects approved for GCF funding thus far involve the private sector. Additionally, two pilot private sector programmes to "mobilize resources at scale" and to target micro-, small and medium-sized enterprises (MSMEs) have been allocated up to US$500 million and US$200 million respectively.

» *WHAT SUPPORT WILL THE GCF PROVIDE FOR SMALL COMPANIES?*

GCF staff and consultants have repeatedly approached the task of setting up the Fund by asking "what would MDBs do", and what would most appeal to the private sector, rather than seeking more innovative solutions. For example, the Fund adopted on an interim basis the environmental and social safeguards of the International Finance Corporation, the private sector arm of the World Bank, instead of writing its own from the outset.

Concerns have also been raised about the Fund's willingness to turn a new leaf in meaningfully engaging communities in advance of approving funding. For example, the very first GCF project to be approved was criticised for failing to attain the Free, Prior and Informed Consent of affected Indigenous Peoples.

» *WHAT IS THE GCF PRIVATE SECTOR FACILITY?*

The GCF has a Private Sector Facility (PSF) that is currently one of four divisions in its Secretariat (the staff responsible for the Fund's day-to-day operations). In practice, it remains unclear how the PSF's role differs from a broader mitigation/adaptation unit. The Secretariat and Board are currently discussing restructuring options.

» *HOW DOES THE PRIVATE SECTOR ENGAGE WITH THE GCF?*

The GCF Board receives advice from a Private Sector Advisory Group, which includes eight representatives of the private sector, two civil society experts and up to four Board members.

Private companies can also attend Board meetings as observers, where they are represented by two "active observers" who can intervene in meetings (but not take decisions).

With the GCF still in its infancy, it is difficult to gauge the level of engagement local developing country private sector actors will ultimately have with the GCF. However, the impression of many observers is that to date such engagement remains quite limited.

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MAY 2016