GCF insight #19

How can the private sector boost engagement with the Green Climate Fund?

E CO.
DEEPER THINKING

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Insights from the private sector & other stakeholders

An independent E Co. study

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GCF insight #19

GCF insight seeks to understand what's working – and what's not working – in Green Climate Fund (GCF) project development. This report, and the surveys and interviews that have informed it, highlight the most topical GCF issues. This nineteenth edition discusses the challenges faced by the private sector when working with the GCF and how they can be avoided, or at least reduced, in future project design and development. It also presents suggestions for streamlining the process for the private sector and potential recommendations highlighted by relevant stakeholders.

About E Co.

We specialise in designing low-carbon, climate-resilient projects and programmes. For over 21 years, we've been providing technical expertise to help our clients solve climate adaptation and mitigation challenges and access project funding. We assess markets, develop strategies and formulate projects to provide long-lasting solutions for vulnerable populations worldwide.

Spotlight on the private sector

Objective of this study and report

The private sector represents over USD 210 trillion in financial resources yet only a small portion of that focuses on climate investments. The enormous scale of the climate crisis requires significantly greater engagement and financial flows, including from the private sector. However, the sector often struggles to engage effectively with the issue and Fund climate change projects. Private sector projects are underrepresented in the current GCF portfolio, making up only around 20% of the number of total projects and representing a third of total Fund investments. Understanding why this is the case and what can be done to increase the share of private sector projects is paramount to mobilising finance at the necessary scale.

The objective of this report is to uncover the struggles that the private sector faces in navigating the project design and approval processes of the GCF. By better understanding where the biggest hurdles lie for the private sector, we hope to identify areas of frequent difficulty and possible ways to address them. This will, hopefully, enable private sector stakeholders to avoid, or at least successfully navigate, common pitfalls. The GCF hopes to increase the number of private sector projects so that the overall portfolio is more balanced.

The GCF's Private Sector Facility

To help combat the gap between current financial flows from the private sector and what would be required to adequately tackle climate change, the GCF established the Private Sector Facility (PSF). This is a division within the Fund designed to mobilise finance for private sector projects. This can be done via enhancing cooperation, participation and encouraging engagement with institutional investors and other private sector actors. The GCF also aims to "leverage GCF's funds to encourage corporates to co-invest."[1] Scaling climate-related activities and solutions to the level needed to achieve the targets of global climate policy is an enormous challenge but one that presents significant opportunities for the private sector.

GCF has stated that the PSF works to engage the private sector to support mitigation and adaptation efforts that also yield beneficial financial returns. The Facility actively engages with accredited entities to deliver funding for projects that are innovative and have a high impact. The goal of the PSF is to de-risk the delivery of private capital and scale up private sector investment flows for low-carbon development and climate resilience, with a specific focus on developing countries.[2]

1 Green Climate Fund. 2019. Private Sector Facility brochure. Available at: https://www.greenclimate.fund/document/green-climate-fund-private-sector-facility

2 ibid.

Currently the GCF's private sector portfolio consists of 35 projects accounting for USD 3 billion with a total value of 12.5 billion. While these figures are growing, they pale in comparison to the overall portfolio where 80% of projects (142 of 177 in total currently) are public sector representing USD 5.9 billion in GCF funding (67% of total investments).[3] To encourage transformative change, it is imperative that the GCF focuses on mobilising the vast resources that the private sector can bring to bear on the subject.

In brief, here's what we found from our study:

Respondents struggle to fully understand what the GCF is looking for from the private sector. Overly complicated jargon and processes make the Fund difficult to navigate for those without climate change expertise.

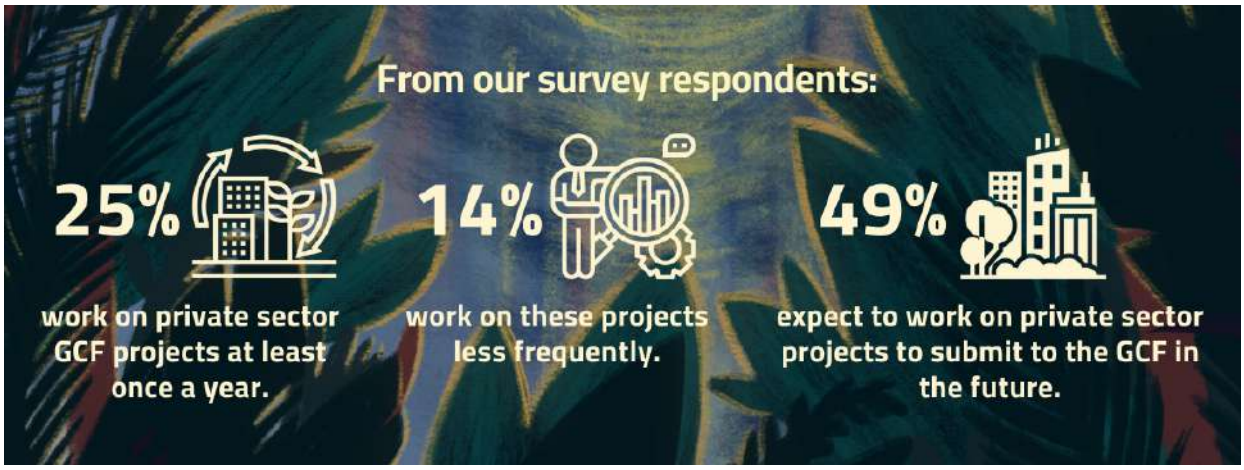
Limited access to the Fund, especially for smaller and medium companies, makes private sector actors seek opportunities other than the GCF.

Current processes are far too long to be attractive to the private sector. In the words of one respondent they are 'unwilling and unable to act as patient capital'. This humorous play on words emphasises a serious wish for GCF to be much quicker.

3 Green Climate Fund. 2021. GCF in brief: Private Sector Financing. Available at: https://www.greenclimate.fund/sites/default/files/document/gcf-brief-private-sector_4.pdf

Methodology

This study was carried out in September 2021 and has been produced using primary data collection (a survey and semi-structured interviews) and desk-based research.



We received 39 survey responses and conducted two interviews of representatives from the private sector. Of our survey respondents, 57% represented the private sector, 39% were public sector representatives with an interest in private sector projects, and the remaining 4% represented Non-Governmental Organisations (NGOs). Of these respondents, 25% work on private sector GCF projects at least once a year with an additional 14% working on these projects less frequently. Moreover, 49% of respondents expect to work on private sector projects to submit to the GCF in the future.

We asked relevant stakeholders engaged in GCF project development about the challenges they face when designing and submitting private sector projects. Questions included identifying the challenges faced when engaging with the GCF, their thoughts and opinions on the PSF, and how the GCF could enhance their engagement.

1 Uncertainty about what the Fund is looking for

A major challenge identified by the survey was difficulties and uncertainty surrounding what exactly the GCF is looking for in private sector projects. 54% of respondents cited this as a stumbling block in their project design.

One interviewee mentioned that the largest challenge they see is understanding the Fund itself and how best to work with it. They pointed to the fact that there are "too many moving parts" and stages within the project approval process. They believe that this leads to overcomplication which, ultimately, causes the private sector to lose interest.

> [Interviewees] believe it has "gotten harder instead of easier" for the private sector to design fundable projects.

Another interviewee made the same point but aimed at the project design process, especially during the funding proposal stage. They believe it has "gotten harder instead of easier" for the private sector to design fundable projects. A lack of prescriptive guidance was highlighted as a reason for this, with overly technical terminology, especially in relation to the climate rationale and paradigm-shift, cited as a stumbling block.

They said that semantics and the abundance of specialist terms are not aligned with private sector goals. Moreover, they felt that the GCF expects entities preparing proposals to be experts in climate change, which is unrealistic for most private sector companies. "It feels like every single thing has to be covered in the funding proposal, but we have no idea which one moves the needle" an interviewee said and suggested additional guidance or an updated rationale to understand which elements are most important could be beneficial.

A lack of climate change knowledge was also backed up by survey responses. One respondent said that "it's a difficult process because unlike government, private sector does not willingly divulge information. There are glaring information gaps on private sector ability to disburse climate finance and a lack of knowledge." Another said that the best way for the GCF to become more successful in engaging the private sector would be to "simplify the PSF because most of the private sector companies do not have sufficient environmental and climate change knowledge." While another noted that "a lack of technical know-how on crafting successful project proposals" exists throughout the sector.

> "[...] it's a difficult process because unlike government, private sector does not willingly divulge information. There are glaring information gaps on private sector ability to disburse climate finance and a lack of knowledge."

It is important to understand that private sector companies are seeking favourable investment opportunities that can also yield climate benefits. However, to expect them to have the necessary knowledge to design fundable projects, without hiring external experts, is unrealistic and a situation that one interviewee felt puts these companies "continuously on the back foot."

2 Limited access

Multiple respondents and one interviewee highlighted access to the GCF and its resources being challenging, which leads to private sector companies struggling to get their foot in the door. An interviewee said that due to the length and difficulty of the process, "very few private sector companies will ever want to become an accredited entity (AE)." This then requires said companies to engage with existing AEs to take forward their projects, which itself can be a long and stressful process. To overcome this, they suggested the GCF could trial innovations such as, for example, a project specific accreditation framework. This could be a significantly simpler process that would allow private sector actors to gain accreditation for a single project. They believe the GCF could use the Private Sector Facility as an opportunity for a new, flagship approach that could significantly boost sector engagement.

Multiple respondents noted that accessing GCF resources for micro, small and medium enterprises (MSMEs) is near impossible. This is especially frustrating for some in the private sector because the Fund places a focus on Small Island Developing States (SIDS) and Least Developed Countries (LDCs) which have few large companies, yet MSMEs in these regions cannot access valuable resources. One respondent stated that the "Private Sector Facility is largely useless for MSMEs, especially those in SIDS." Another said that the private sector would benefit significantly from ideas to help MSMEs present projects, noting a "need for the GCF to take into account the unique challenges faced by MSMEs in accessing climate finance, and what business opportunities exist in climate change mitigation and adaptation that the private sector in LDCs can invest in."

One respondent suggested a way to overcome this was to "create a separate pathway, modality or window for smaller businesses with a greater focus on inclusion throughout the entire project lifecycle." By providing enhanced opportunities for different sized private sector actors, the GCF can continue to foster relationships and consistently engage and fund ambitious climate projects. In turn, success stories in the use by the private sector of the GCF will help boost the overall project portfolio and ultimately help the Fund deliver on its mandate.

3 Length of processes

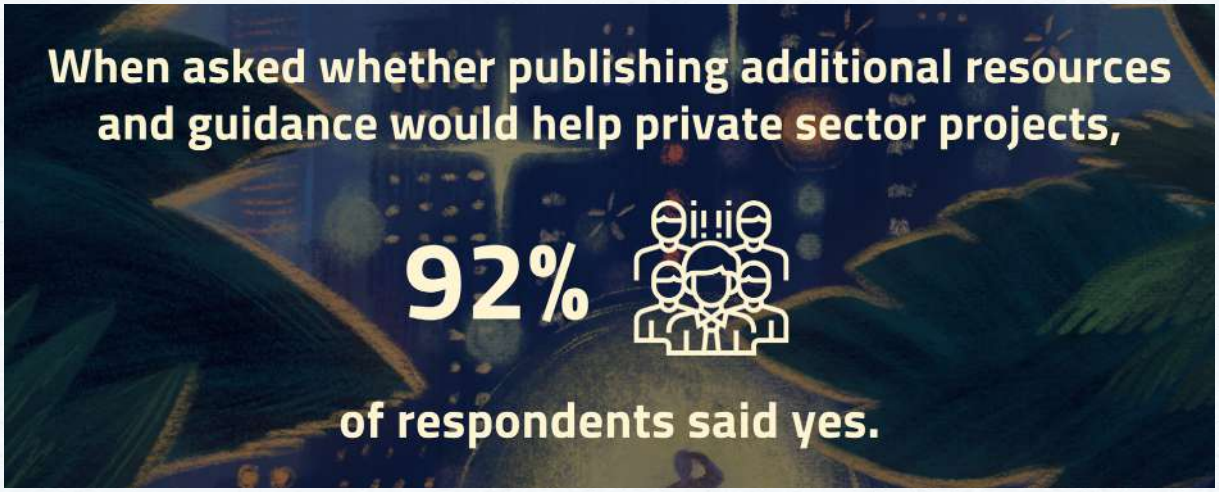
As in previous editions of this report, respondents and interviewees expressed frustration with the length of time it takes to move through the project approval process. Regarding the lack of understanding of the GCF, 54% of respondents said facing long, slow processes is a major challenge. This is an especially important point when engaging the private sector. Our respondents noted that private sector investors want to use their capital to generate returns as soon as possible rather than wait for many months or years while moving from step to step in the approval process.

An interviewee mentioned that the GCF "assumes the private sector has infinite patience and capital which is incorrect and makes it a painful process." They also pointed to 'patient capital' being far less available in the private sector than the public sector which therefore requires the Fund to take a much more streamlined approach when engaging private sector stakeholders. Respondents made it very clear that they cannot and certainly do not wish to wait for years for projects to be approved.

Interviewees stated that while they understand the GCF has a mandate to disburse large sums of money to climate projects and needs to undertake significant due diligence to ensure that approved projects conform to this mandate, they feel that the waiting period to obtain resources is unreasonably long. Both survey respondents and interviewees suggested that these slow processes are a major reason why fewer private sector projects are being presented to the board. They explain that this could well be the reason capital from the private sector is often directed to other promising opportunities that have significantly faster turnaround times even though the GCF has significant resources that could be leveraged.

> "It takes too long and requires a lot of upfront investment in staffing costs and GCF fees to even begin to approach the stage where some funding may be forthcoming."

4 Recommendations



We asked survey respondents and interviewees what the GCF could do to improve the PSF and engage the private sector more effectively. Multiple people pointed to simplification of processes. One interviewee mentioned that they would like the Simplified Approval Process (SAP) to "actually be simplified" – a point that has been made in previous editions of GCF Insight. The SAP was introduced to streamline and shorten the process but people seeking to use it often feel that there is very little benefit compared to the standard submission process.

Moreover, an interviewee pointed to discussions around a potential new private sector strategy, about which they were very optimistic. They believe this would provide new opportunities for the GCF to talk directly with the private sector to better understand their needs. They noted that they "were hopeful that creative solutions exist that serve both counterparties."

Additionally, the provision of guidance on a number of topics was repeatedly suggested. For example, one respondent said "the GCF should increase trainings on climate finance and its advantages for the private sector. An assessment of less advanced countries could be a good start." Another mentioned that the GCF should "promote outreach initiatives specifically targeted for the private sector".

> "[...] the GCF should increase trainings on climate finance and its advantages for the private sector. An assessment of less advanced countries could be a good start."

Further, several respondents suggested that the role of the GCF in relation to the private sector remains relatively unknown in the sector and, therefore, it would be fruitful to raise awareness of opportunities available for the private sector in climate finance projects. Such a participatory approach would help engage the private sector to better understand the benefits of the Fund. Highlighting success stories from the private sector could be a simple way of doing this, said one respondent.

As mentioned previously, respondents feel that they do not understand what it is that the GCF is looking for. This uncertainty can lead to hesitation about even attempting to engage with the Fund as they worry it could be a waste of their time.

When asked whether publishing additional resources and guidance would help private sector projects, 92% of respondents said "yes". The topics suggested ranged broadly, including:

- Sector specific guidance on concept note and funding proposal development
- Opportunities for blended finance
- Guidance on preferred pathways for incorporating for-profit firms in project design
- Technical aspects of successful project proposals

3 Looking ahead

This report has identified several sticking points that hinder progress towards the approval of more projects that include the private sector. The Fund plays a central role in helping address climate change globally and, therefore, it is in the interest of all relevant stakeholders that high-potential submissions can move from concept to funded project as quickly as possible. One interviewee noted that the extremely high level of interest in the GCF provides significant opportunities for private sector projects, but the relationship must be symbiotic.

While this report has highlighted challenges and potential areas for improvement, respondents were positive about the opportunities the GCF provides for the private sector. One interviewee stated that every communication that they have had with the PSF has been constructive and that the GCF, as a flagship fund, has every chance of delivering on its mandate if it can make its processes easier and its engagement more effective, especially with the private sector.

When asked about their hopes for the coming GCF board meetings, interviewees said they would like to see more private sector projects up for approval, significantly more capacity built within the PSF to help it along and a greater degree of flexibility to allow deals to made with greater ease between the private sector and GCF. They were confident this could be achieved.

The GCF has set ambitious plans to step up its private sector investment in 2021, which is set to be a crucial year for progress on climate change with the 26th UN Climate Change Conference of the Parties (COP 26) just a month away. To achieve this ambition, the "GCF will continue to work with the financial sector to absorb the risks of the climate investments needed now to turn these risks into future profits."[4]

Part of how the GCF can help build the knowledge of the private sector, boost engagement and make the Fund a more attractive option is through continued relationship building and publication of resources. The Fund hosts an annual GCF Private Investment for Climate Conference (GPIC) which convenes global leaders from business, governments and financial institutions with the goal of accelerating private sector-driven climate action. This conference, this year's edition of which is due to be hosted later this year, is an opportunity for key players to engage with the GCF and learn more about the benefit the Fund can bring.

Nonetheless, the necessary changes identified above need to come sooner rather than later. As noted by the Climate Markets and Investment Association (CMIA), "the world is watching, and the private sector is ready to walk out."[5]

4 Green Climate Fund. 2020. GCF means business – How the world's largest climate fund works with the financial sector to drive global change.

5 Climate Markets and Investment Association (CMIA). 2021. Private sector report from GCF B.28: The good, the bad and the ugly. Available at: https://www.cmia.net/news/press-releases/private-sector-report-from-gcf-b-28-the-good-the-bad-and-the-ugly/

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Climate finance expertise

Our 99% success rate in unlocking climate finance has led to the mobilisation of over USD $1 billion of climate finance from global climate funds, including: GCF, GEF, Adaptation Fund and NAMA Facility. We are proud members of the GCF Communities of Practice network.

Funders, project developers and local beneficiaries alike trust us to work on their projects and programmes. This spans public and private sector organisations, from National Designated Authorities (NDAs), multilateral development banks, Accredited Entities, to NGOs.

Clients include: AfDB, BOAD, Carbon Trust, EBRD, FAO, GCF, GEF, GIZ, NAMA Facility, UNDP, UNHCR, UNIDO, World Bank, WRI and WWF.

WORKED IN 160+ countries
MOBILISED USD $1.2 billion+
SPEAK 15+ languages
DEVELOPED 300+ projects

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This survey and report is an initiative of E Co., emerging from work we are doing to develop low-carbon, climate resilient projects. E Co.'s team of consultants designed and administered the survey and prepared this report. E Co. has conducted this research independently and is not affiliated with the GCF, the GCF Secretariat or donors. The views expressed in this report are those of the authors and do not represent those of the GCF. Nothing in the interviews or any information or material relating thereto shall be construed as implying any official endorsement of or responsibility on the part of the Green Climate Fund.

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