HEINRICH BÖLL STIFTUNG
WASHINGTON, DC

Green Climate Fund

Private Sector Finance in Focus

Briefing 2: Micro-, small- and medium-sized enterprises (MSMEs)

Written by Oscar Reyes and Liane Schalatek

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Written by Oscar Reyes and Liane Schalatek

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Summary

- The Green Climate Fund's Private Sector Facility (PSF) is falling substantively short of meeting its mandate to support micro-, small- and medium-sized enterprises (MSMEs).
- The GCF does not issue portfolio-wide data on MSME support. However, we have found 11 (of 190) funded activities that specifically target MSMEs, while an additional 52 funded activities offer at least some support to MSMEs.
- Most of the GCF projects/programs that include some MSME support are classified as "public" sector activities. A majority of the funding allocated to these activities is cross-cutting (support for both adaptation and mitigation). Most of these activities include a grant element, although the largest share of financing takes the form of concessional loans and credit lines.
- The COVID-19 pandemic has decreased demand for investment capital from MSMEs, with the focus shifting to working capital needs simply to make it through the current crisis. Delivery of some MSME activities has been delayed and adjusted accordingly. In one case (FP064), the Executing Entity and local financial institutions (LFIs) are no longer willing to assume the currency hedging risk for local currency lending, underscoring the need for the GCF to be more willing to assume such risks.
- Very few projects/programs set targets for women-led and women-owned MSMEs, and those that do (such as FP114 or FP149) are unambitious. They also largely fail to address persistent bias by finance providers through targeted capacity building efforts or financial incentives. More generally, activities that support MSMEs should do more to consider debt and poverty impacts on women in the design of loan financing.
- The GCF lacks a common definition as to what constitute MSMEs, which has particularly limited its focus on smaller and micro-scale companies.
- A greater share of GCF financing should be provided via Direct Access Entities, which are often best placed to promote the participation of MSMEs and local financial intermediaries. In particular, this should include greater support for local currency lending. These areas should be targeted through any relaunch of the GCF's Request for Proposals (RfP) for MSMEs.
- MSME financing is most effective when it is embedded in a broader regulatory and business environment that is supportive of green MSME investments. The GCF has already offered some projects of this nature (FP009, FP061), providing concessional financing through revolving funds that are administered by public banks, alongside capacity building at the level of public authorities and local financial institutions. However, these activities should be brought within the PSF and the GCF should seek to recruit more dedicated staff to support MSME lending.

What is GCF private sector finance?

The Green Climate Fund (GCF), established by and accountable to the United Nations Framework Convention on Climate Change (UNFCCC), is the world's largest multilateral climate fund. A core part of its remit is to encourage private sector investment in mitigation and adaptation measures that address climate change in developing countries. GCF private financing should be "consistent with a country-driven approach," with a particular focus on "local actors, including small- and medium-sized enterprises and local financial intermediaries" as detailed in the GCF's Governing Instrument (UNFCCC 2011). To date, the GCF's Private Sector Facility (PSF), a specialized organizational division of the GCF Secretariat, has mostly supported energy generation and energy efficiency, which account for 85 percent of its financing (IEU 2021a, 2). The vast majority of this finance is channeled through large international intermediaries, including multilateral development banks (MDBs), publicly-owned development finance institutions and private multinational banks.

Any GCF project or program can have a private sector component, while those that receive a majority of their financing from the private sector are administered by the PSF. These private sector-led activities account for a third of all GCF financing.

GCF private sector investment typically takes the form of concessional lending (i.e. below market-rate) accompanied by modest capacity building or technical assistance grants, although a fifth of private funding also takes the form of equity investments (company ownership).

Introduction

The Green Climate Fund's (GCF) Governing Instrument encourages a focus on private sector financing that includes and empowers "local actors, including small- and medium-sized enterprises and local financial intermediaries" (UNFCCC 2011). The GCF has so far failed to deliver on this mandate, however, according to a 2021 study by its Independent Evaluation Unit (IEU). This briefing aims to show how the GCF can better target resources towards micro-, small- and medium-sized enterprises (MSMEs).

Effective support to MSMEs is vital if the GCF is to deliver low-emission and climate-resilient sustainable development. MSMEs represent over 95 percent of the total number of registered

businesses worldwide, accounting for between 50 and 70 percent of jobs, and contributing over half of gross domestic product (GDP) in many developing countries (Montreal Group 2018; Alibhai et al. 2017). However, MSMEs often lack access to finance – and, crucially, a policy framework that helps such firms to grow (IEG 2019, 29; SEED 2020). With the right policy framework in place, MSMEs can also be "a powerful force for integrating women and youth into the economic mainstream" (Alibhai et al. 2017).[1]

MSME support is particularly acute in the context of the ongoing global pandemic, with the economic impacts of the health crisis and response measures having disproportionately affected micro- and small-scale firms, especially in Africa, Least Developed Countries (LDCs) and Small Island Developing States (SIDS) (ITC 2020, 9-11; ITC 2021, xiv; OECD 2020).

GCF support for MSMEs: scope of dedicated programs

The GCF does not publish portfolio-wide data on its MSME financing, so we have provided our own categorization of projects and programs according to three different support levels ("principal", "significant" and "some"). The methodology behind this is explained in the Annex to this briefing.

As of February 2022, there are 11 GCF projects/programs that are dedicated to supporting MSMEs ("principal"), with US$474.2 million in approved financing (4.7 percent of the GCF's total commitments). Eight of these 11 activities are classified as private sector, meaning those for which "all financial resources that are provided for its implementation from financing entities are more than 50 percent owned and/or controlled by private shareholders" (GCF 2020, 28).

Six of the GCF's MSME activities are focused on the Latin America and Caribbean region, with four in Africa, and one in Asia. In terms of approved financing, US$283 million is directed towards MSMEs in Latin America and the Caribbean, with a further US$171 million to Africa and $20 million to Asia. Most of this financing is directed towards mitigation (US$268 million, or 56 percent), with adaptation accounting for 30 percent (US$141 million) and a further 14 percent (US$65 million) for cross-cutting activities. The predominant focus is on renewable energy, energy efficiency and agriculture-related activities.

The majority of the GCF's dedicated MSME financing (US$361 million, or 76 percent) takes the form of loans, with a further US$54 million (11 percent) as equity, US$48 million (10 percent) as grants, and US$11.5 million (2 percent) as guarantees. The loan element sub-divides into four activities offering senior loans, and four extending concessional credit lines to MSMEs.[2]

[1] Although there are no definitive global statistics, it should be noted that the International Labour Organization (ILO) in 2017 found that female full-time permanent employees are more likely to work in MSMEs than in larger firms, and that SMEs are more often led by women than larger businesses (SEED 2020, 6).

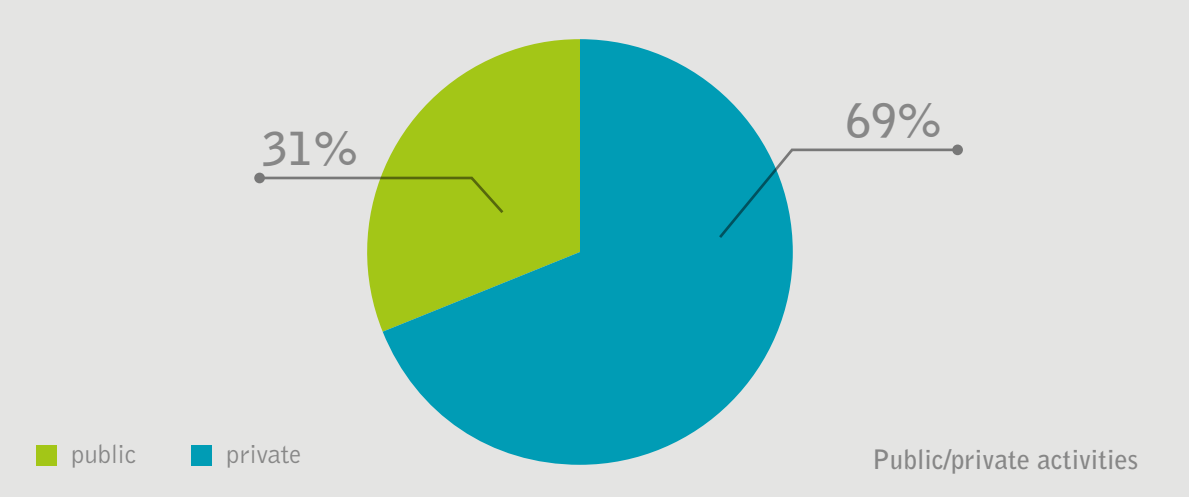
[2] Credit lines are offered by FP009, FP063, FP064 and FP079. Senior loans are offered by FP028, FP048, FP097 and FP114. The designation "FP" stands for "funding proposal" approved under the GCF's standard project/program approval process. The GCF maintains individual pages for each funded activity, which can be found at the hyperlinks included in this report, or via https://www.greenclimate.fund/projects

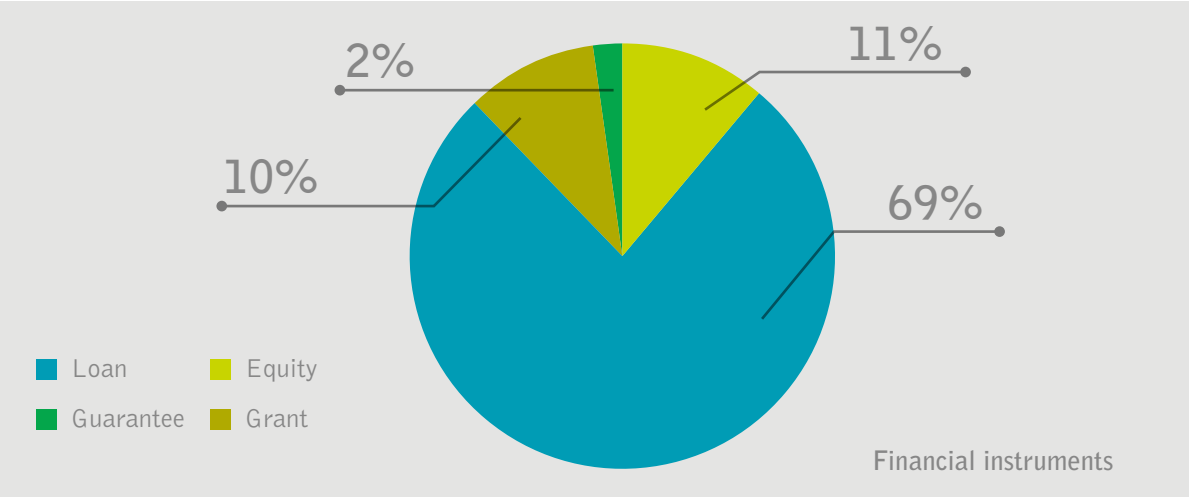
All 11 MSME projects/programs have a grant element to meet technical assistance and/or capacity building needs, but none of them use grants as their main financial instrument.

The 11 dedicated MSME activities are mostly channeled through regional or international development banks, with the remainder passing through direct access private sector accredited entities. The Inter-American Development Bank (IDB) accounts for four of these MSME activities, which is the largest share of any accredited entity.

These figures for projects/programs principal MSME support should be treated with some caution in terms of identifying trends, since they are based on a relatively small number of funded activities. However, the relative lack of support for MSMEs in the Asia-Pacific region is concerning, given the importance of this sector to the region's economies. It is also worth noting that these 11 activities include a higher proportion of support for adaptation than is achieved by the GCF's overall private sector portfolio (10.7 percent).[3]

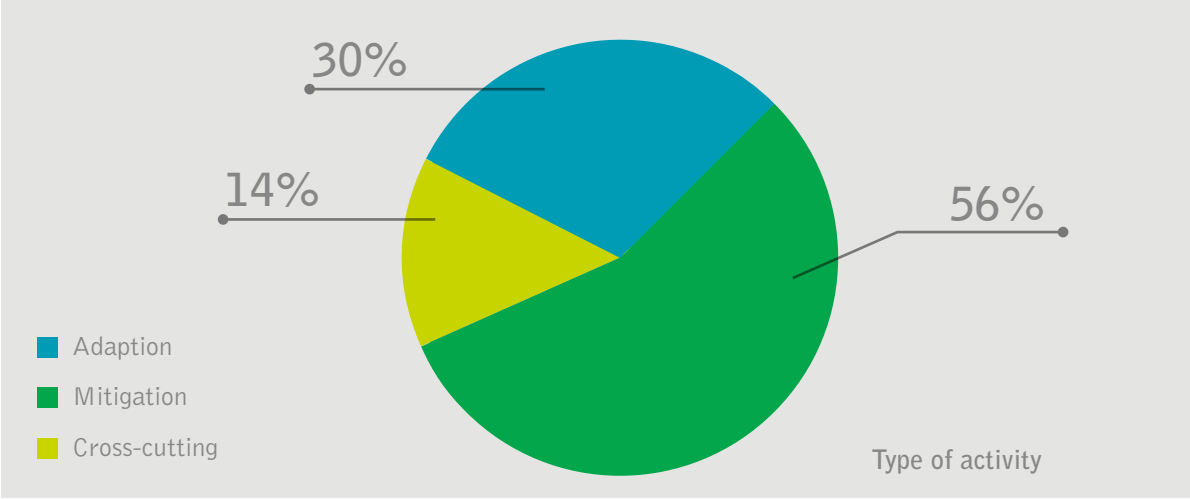
Figure 1. Principal MSME projects and programs[4]

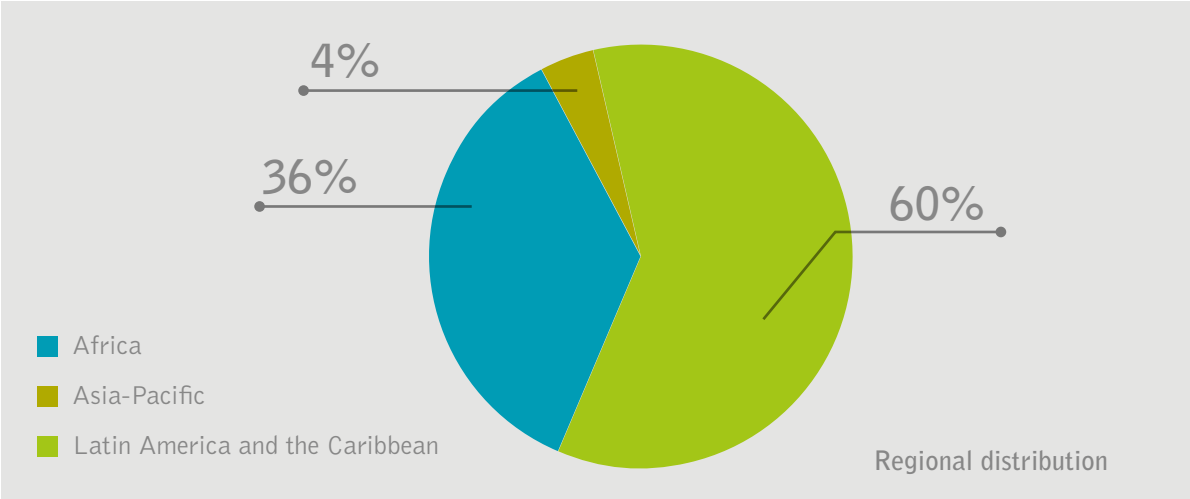




[3] The figure of 10.7 percent of private sector activities that support adaptation refers only to those that fall within the PSF. The distinction reflects the relatively higher prevalence of adaptation financing for MSMEs via public sector activities.

[4] The data in these figures is drawn from approved project/program documentation, which can be found at https://www.greenclimate.fund/projects. The figures and calculations are the authors' own, based on a classification set out in the Annex to this report.





GCF support for MSMEs: the broader ecosystem

GCF support for MSMEs is not restricted to dedicated projects and programs, however. One-third (63) of the GCF's 190 approved projects/programs include support for MSMEs amongst their objectives. In addition to the 11 "principal" activities, we have classified 24 activities as having "significant" elements of MSME support, and a further 28 as involving "some" support for MSMEs.

Over two-thirds (42) of these projects/programs are categorized as "public" rather than "private-sector" activities by the GCF, meaning that a majority of financial resources provided for their implementation is from entities not controlled by private shareholders (GCF 2020b, 28). The fact

that MSME support largely takes place outside of the GCF's dedicated Private Sector Facility raises some organizational questions that we address in section 4 below.

GCF activities that include "some," "significant" or "principal" levels of support for MSMEs are far more likely to support adaptation – either directly or, even more so, in the form of "cross-cutting" activities that combine adaptation and mitigation objectives – than the GCF's portfolio of private sector activities (see Figure 2).

Figure 2: Private Sector Facility and MSME support by activity type.[5]

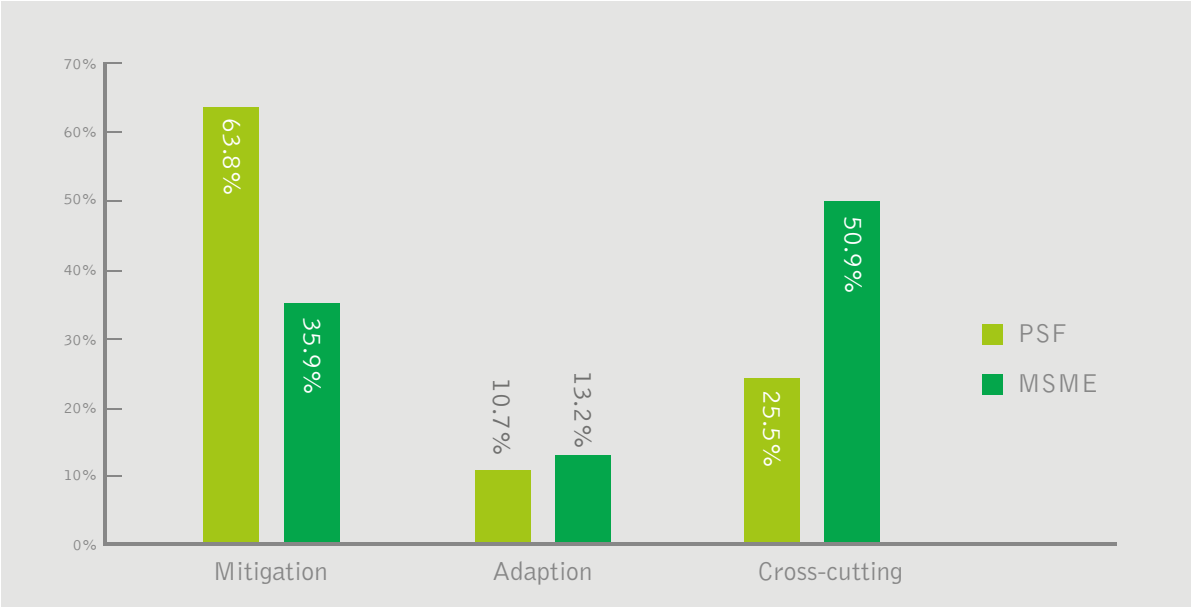
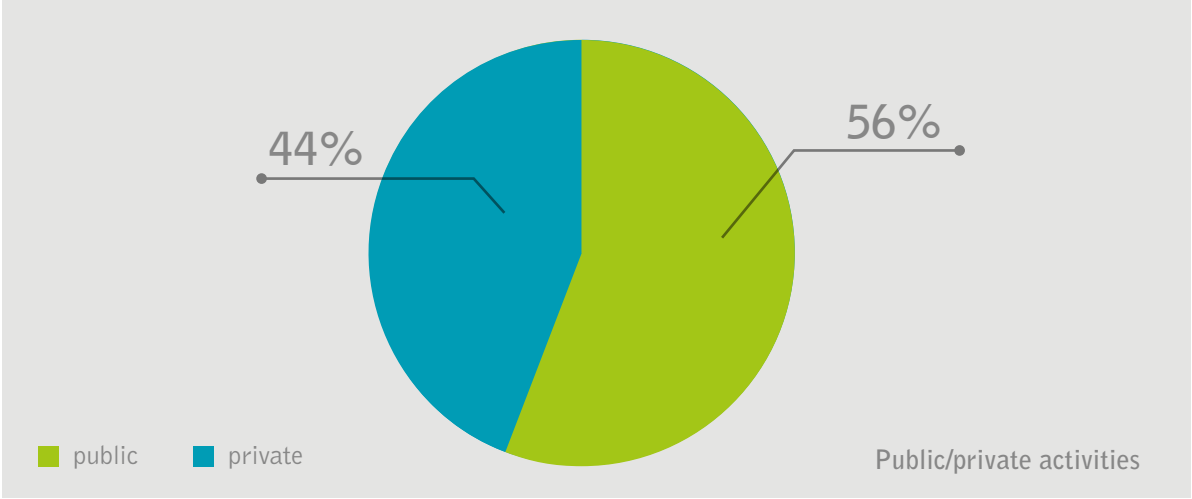
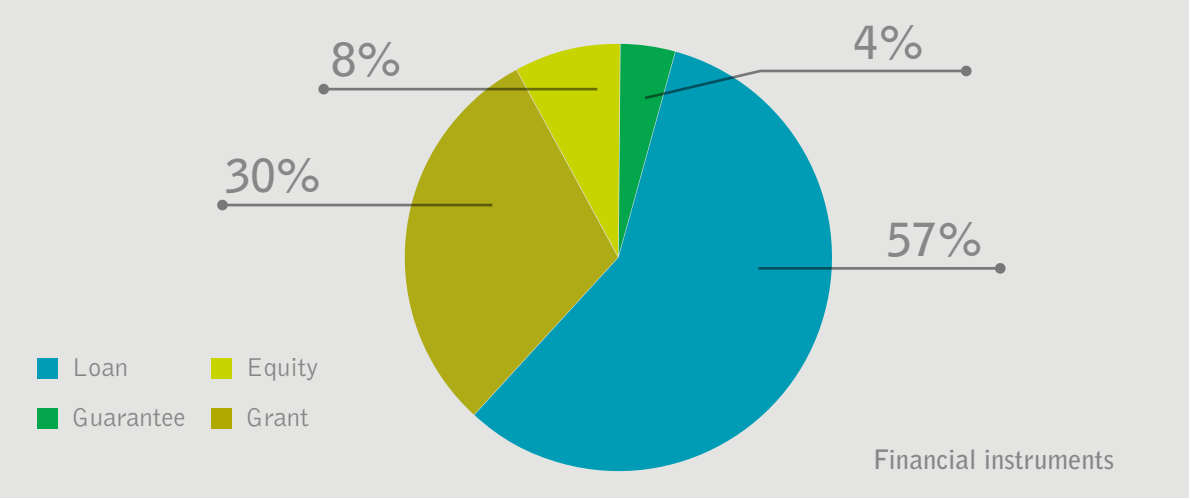
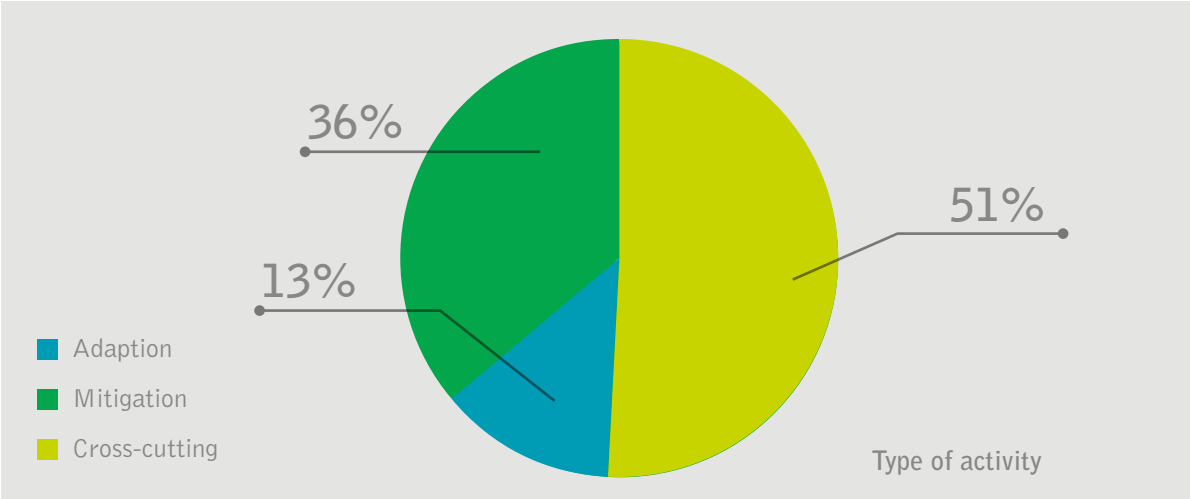


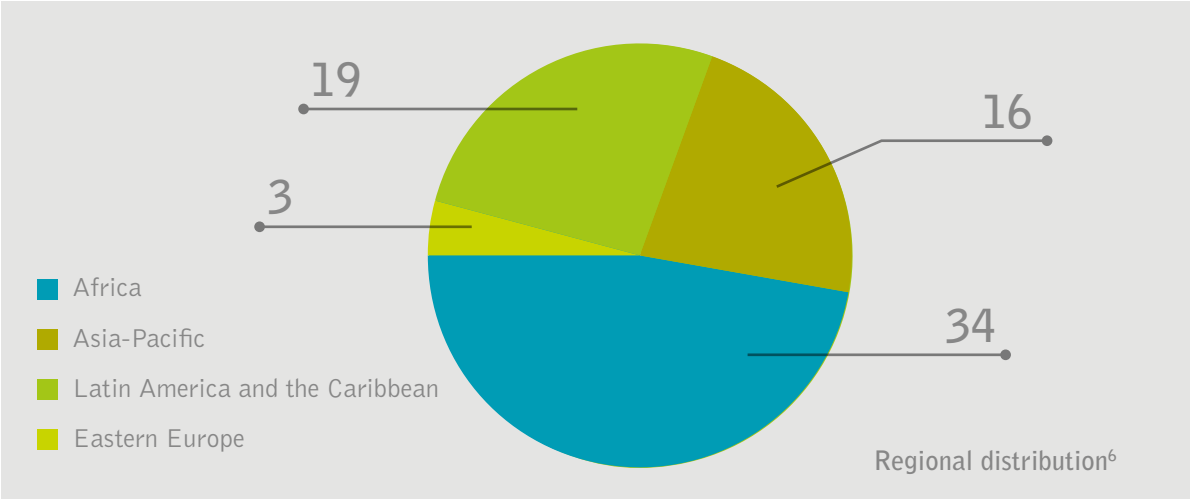
Figure 3: Main characteristics of GCF support for project/programs with a "principal", "significant", and "some" MSME focus



[5] Not all MSME financing falls within the PSF. The percentages shown here relate to gross financing and are not adjusted for grant equivalence. In grant equivalent terms, the difference would likely be starker, since more of the MSME financing (especially for cross-cutting and adaptation activities) takes the form of grants.







[6] The proportions here reflect the number of projects/programs rather than the amount of financing, since we do not have data on what proportion of financing is going to MSMEs from activities offering "significant" and "some" MSME engagement. Activities operating in multiple region are counted towards the total in each of the regions where they are active.

The largest share of financing for these MSME-supporting activities takes the form of loans (57 percent), followed by grants (30 percent), equity (8 percent) and guarantees (4 percent).

Fifty-six of the 63 projects/programs offering at least some support to MSMEs involve a grant component, while 26 of these (41 percent) are exclusively grant-based. By comparison, none of the GCF's private sector activities or activities that offer "principal" support for MSMEs rely solely on grants. These grant-only activities, which account for US$657 million in financing, are almost all channeled through UN agencies or direct access national-level public accredited entities, with a heavy proportion of adaptation (they include 14 adaptation and 9 cross-cutting activities). This subset of activities typically involves support for smallholder farmers – including business advice, setting up cooperatives and farmers' groups, and creating women-led MSMEs and community-based businesses.

Request for Proposals MSME pilot program

A US$200 million MSME pilot program was launched under the PSF with a request for proposals (RfP) in 2016. Thirty concept notes were initially received, with seven shortlisted for further development. Of these, four were submitted and approved as GCF projects/programs, but only three MSME projects (worth US$60 million) are being implemented (FP028, FP048, FP114), with one approved program (FP029) having lapsed.

The IEU assessed this RfP and found a number of shortcomings that contributed to the poor take up. The overarching failure is that "there was no value added or incentive to go through the RfP for proponents" (IEU 2021c, 51). In particular, the RfP process required that any shortlisted activity should be put forward by an Accredited Entity and should still go through the full Board approval process. The process and approval time was identical to any other activity seeking GCF financing. In addition, the RfP included criteria that erected a potential further barrier to bringing forward innovative projects/programs, notably in their insistence on "minimal concessionality" (IEU 2021c).

There remains merit to an RfP process that targets MSME financing, but any future call for expressions of interest would need to offer a more streamlined approval pathway if it were to prove attractive, without compromising environmental or social integrity checks. This could likely be achieved by treating the MSME RfP as a testing ground for the proposed project-specific accreditation approach (PSAA), which would allow for approval of activities put forward by entities that are not already GCF-accredited. Relevant activities should involve minimal environmental and social risk for small-scale activities of less than US$50 million in total financing (Category C or I3) and should aim to plug gaps in the MSME portfolio, notably through a focus on DAEs and local currency lending. A new RfP should also aim to bring forward activities that benefit a higher proportion of women-led and women-owned MSMEs.

GCF support for MSMEs: performance of portfolio

As part of their monitoring and reporting requirements, GCF-financed activities are required to submit Annual Performance Reports (APRs) to the Fund's Secretariat. Despite a formal commitment to make these reports public, a relatively small share of the private sector reports have been published, and what is published is generally redacted. It should also be noted that much of the GCF's MSME portfolio is at a relatively early phase of implementation. Some lessons can still be drawn from the APRs that are available, however.

Unsurprisingly, many projects/programs report that the economic slow-down following the COVID-19 pandemic has significantly impacted MSMEs. Faced with uncertain economic prospects, there has been decreased demand for investment capital from MSMEs, with the focus shifting to working capital needs simply to make it through the current crisis (APR 2020 FP009, APR 2020 FP061, APR 2020 FP063, APR 2020 FP064). The conservative approach taken by private lenders, especially in relation to long-term financing needs, underscores the need for GCF concessional financing in this sector, such as that provided by FP148, an Energy Access Relief Facility, in support of SMEs providing decentralized renewable energy solutions in Africa.

While the emergence of a global pandemic was not predictable, it does highlight the benefits of a project design that adequately addresses the risks of MSME financing. The KawiSafi Ventures Fund was able to cover "shortfalls in revenues" resulting from "customer liquidity restraints", exacerbated by the pandemic, because the equity financing is accompanied by a relatively large Technical Assistance Facility that included US$3 million for this purpose (FP005; APR 2020 FP005, 61).

Some co-financing has been reallocated for emergency health assistance. US$1.2 million (around one-third of total co-financing) for FP001 was reallocated to provide a river ambulance. In the case of FP063, Paraguay's Congress delayed ratifying the IDB-AFD US$20 million loan that would provide co-financing, because COVID-19 emergency funding meant that the country had breached its fiscal deficit ceiling (APR 2020 FP063, 6). This has resulted in delays to project implementation.

The most significant re-adjustment is reported in the 2020 APR of FP064:

> While the Project has always allowed, even expected, BICE [Banco de Inversión y Comercio Exterior (BICE), the Executing Entity] and LFIs to lend in local currency (ARS or pesos) as well as in USD, BICE is no longer willing to assume the hedging risk because it has increased significantly in the COVID-19 environment, in which Argentina has undergone serious macroeconomic impacts. This restricts demand to the universe of SMEs seeking financing in USD, which has shrunk considerably during the crisis. The interest of the LFIs and SMEs has always been to take financing mainly in ARS, and this interest has increased with the crisis. (APR FP064 2020, 2)

This highlights a broader reluctance on the part of the GCF to commit to significant local currency lending, despite its mandate to target high-risk investments, especially in SIDS and LDCs.

Projects and programs offering support to MSMEs, especially those that focus on engaging micro- and small-scale local businesses, offer a particularly important opportunity to expand gender-responsiveness in the sector, given that women-led and women-owned enterprises are heavily concentrated in this business sector. Thus, it is disappointing that projects/programs offering support to MSMEs were not particularly strong performers in a recent survey of gender integration in GCF-supported activities, which noted a consistent failure to consider common debt and poverty impacts on women in the design of MSME loan financing (Schalatek et al. 2021, 40).

Targets for support to women-led MSMEs are relatively unambitious, if they are set at all.[7] A review of the gender action plans (GAPs) of the 11 GCF projects/programs that are dedicated to supporting MSMEs ("principal"), and several others that have a significant MSME component, shows only three GAPs (for FP063, FP149, FP179) with finance targets to ensure that a substantive share (in the range between 20 and up to 50 percent) of the MSME credit volume supports women-led businesses directly. Several other GAPs (for FP028, FP048, FP097) only set the percentage of women-owned MSME as beneficiaries (ranging between 25 and 50 percent), but without targets for the financing volume involved. Only two projects/programs (in the GAPs for FP028 and FP097) provide a definition for women-led MSMEs[8]. Those projects and programs also overwhelmingly fail to address – through grant-supported capacity building and technical support efforts and through financial incentives through the concessionality provided by GCF – persistent bias and risk misperceptions of Development Finance Institutions (DFIs) preventing better financial access for women-led and women-owned MSMEs. Instead, most capacity-building and awareness raising efforts target potential female beneficiaries. Much of the gender progress reported in APRs so far is relatively preliminary, including initial trainings, gathering of baseline data and establishing systems to capture sex-disaggregated data (e.g APR 2020 FP009, APR 2020 FP061).

Defining MSMEs

The GCF lacks a common definition as to what constitute MSMEs, which has particularly limited its focus on smaller companies. For example, FP149 implemented by the Corporación Andina de Fomento (CAF), defines SMEs simply as companies "that sell up to US$100 million" (FP149, 32). This is at odds with the definitions used by the program's host countries, all of which use multiple criteria and a far lower sales/turnover threshold.[9] As a result, a program that claims to support

[7] Several of these projects/programs (FP005, FP009, FP061) provide some gender analysis or assessment, but no project/program-specific gender action plan (GAP) and thus no targets or commitments, while others in their GAP only commit to the sex-disaggregated quantitative listing of outcomes, but without setting minimum targets for achievement (such as in the GAPs for FP095 and FP102). Even where targets are set, they are unambitious. For example, the GAP for FP149 targets 25 percent of overall finance under the program to be accessed by women-owned SMEs, while indicating that even at the outset of the program already 22 percent of finance meets this criteria.

[8] Women-led MSMEs are defined in both cases as satisfying one of three criteria: 1) greater than 50 percent ownership by women; 2) at least 30 percent women on company board or in senior management positions; or 3) at least 40 percent of employees are women.

[9] Chile defines MSMEs as those that have up to 250 employees and a turnover of up to around US$4.1 million (or 100,000 UF, a Chilean accounting unit) (OECD/CAF 2019, 69). Peru defines MSMEs enterprises as having a turnover of up to around US$2.8 million (or 2,300 UIT, a Peruvian accounting unit) (OECD/CAF 2019). In Ecuadorian law, the Código Orgánico de la Producción defines MSMEs as having up to 199 employees and with an annual turnover of US$5 million, and assets of up to US$4million. In Panama, Law 72 of 2009 (Ley 72 de 9 de noviembre de 2009) defines MSMEs as having assets or annual turnover of up to 2.5 million balboas, which is US$2.5 million.

MSMEs could end up offering most of its resources to large companies, with few discernable benefits in terms of developing local MSMEs or their markets.

This issue is not unique to the GCF. Successive reviews of the World Bank's MSME lending by the Independent Evaluation Group (IEG) have found that it is "inconsistent in defining SMEs and in applying definitions to target its support… making it more difficult to learn from experience" (IEG 2019, 1).

Moving forward, the GCF should identify consistent criteria for defining MSMEs, including guidelines to improve the inclusion of micro-scale businesses. Although definitions can vary considerably according to widely varying national standards,[10] the best practice is to use multiple criteria – usually (1) the number of employees, (2) annual turnover or sales and (3) assets (balance sheet total). The IFC, for example defines MSMEs as having to meet at least two of three criteria: fewer than 10 (micro enterprises) or up to 300 employees (medium companies), with annual sales of up to US$100,000 (micro) or up to US$15 million (medium), and total assets of up US$100,000 (micro) or up to US$15 million (medium) (IEG 2019, 5).

In applying such criteria, GCF should look to national definitions (or, in their absence, regional norms) so that estimates of maximum turnover and asset criteria are calibrated to the relative wealth and economic structure of host countries.[11]

Improving MSME support through the Private Sector Facility

In its review of private sector financing, one of the IEU's major findings is that the PSF "has not delivered its mandate to promote the participation of local private sector actors and financial intermediaries" (IEU 2021b, xi). It further finds that the Updated Strategic Plan 2020-2023 is likely to exacerbate this problem (IEU 2021b, 17).

There are three main reasons put forward for these failings.[12] First, the GCF has so far failed to sufficiently mobilize financing through national-level Direct Access Entities (DAEs): "While several private DAEs have been accredited, almost no funding is flowing through them, and as a result, the PSF has not delivered its mandate to promote the participation of local private sector actors and financial intermediaries." (IEU 2021b, xi)

Research on MSMEs has shown that the transaction costs associated with accessing international climate finance are generally prohibitive, and that the most effective solution has been to deliver

[10] A World Bank Group survey found that national standards for defining SMEs varied considerably, with the upper limit for employment distinguishing SMEs from large enterprises ranging from a low of 19 employees to a high of 499 (IEG 2019, 41).

[11] It should, however, be noted that the IFC, as per the whole World Bank Group, is not consistent in this approach and offers an alternative definition in the form of an "MSME loan size proxy" – offering loans of up to US$10,000 to micro-enterprises, or up to US$1 million (or US$2 million in what it terms more "advanced" economies) to medium-sized enterprises (IEG 2019, 6).

finance through local private or public financial intermediaries (IEU2021b, 29; SEED 2020, 23-24; Dalberg 2015).

Second, and relatedly, the GCF has offered insufficient support for local currency lending, the deployment of which in relatively small increments is a vital plank of MSME support (IEU 2021b, 64). Local financial intermediaries tend to be best placed to deliver this type of financial product.

Third, the IEU identifies policy barriers and the lack of an "enabling environment" as a significant limit on climate-related MSME investments (IEU 2021b, 29). The precise nature of such support varies according to context, ranging from green lending policies such as China's Green Credit Guidelines, which promote climate-friendly investment by local financial institutions, through to specific policy support for MSMEs, such as India's Priority Sector Lending policy, which requires a fixed percentage of lending to underserved markets including the MSME sector (SEED 2020, 26; IEU 2021b, 29).

Brazil's ABC (Agricultura de Baixa Carbono) program offers a strong example of how this can work in practice. A sectoral plan was established as part of Brazil's National Climate Change Policy, with farmers and cooperatives provided a range of support options, including support to improve soil management and water conservation, engage in organic agriculture and agroforestry, amongst other activities with the aim of reducing greenhouse gas emissions and increasing the resilience of rural communities. The technical component was overseen by Embrapa (a state-owned agricultural research corporation), with financing offered via federal state-owned banks (Banco do Brasil, BNDES, Banco da Amazônia and Banco do Nordeste). The role of public banks is noteworthy for their ability to provide heavily concessional lending, which is then passed on to farmers and cooperatives via state public banks and public institutions.[13] This public banking model contrasts favorably with the role played by microfinance institutions, whose rates have been criticized as contributing to a "poverty trap" while doing little to circulate and grow wealth in local economies (UNCTAD 2018).

In fact, the GCF has backed a similar approach to some of its MSME support, although this is not considered within the scope of the IEU review because it falls outside of the PSF. In the case of project FP009 ("Energy savings insurance for private energy efficiency investments by Small and Medium-sized Enterprises") implemented by the IDB in El Salvador, concessional support is being provided via BANDESAL, El Salvador's national development bank. BANDESAL serves as an Executing Entity of the project, which is responsible for establishing a revolving fund that provides concessional lending via local financial institutions (FP009, 5). Alongside public financing, the project also contributes to an "enabling environment" by encouraging greater regulatory incentives for energy efficiency investments.

Project FP061 ("Integrated physical adaptation and community resilience through an enhanced direct access pilot in the public, private, and civil society sectors of three Eastern Caribbean small island developing states"), implemented by the DAE from Antigua and Barbuda, adopts a similar approach, combining concessional on-lending through a revolving fund administered by public banks with a component of institutional capacity building aimed at enhancing the "enabling environment" through capacity building at the level of both public authorities and local financial institutions (FP061, 8, 70). The project is structured under the GCF's Enhanced Direct Access (EDA) pilot

[12] In addition to the three factors set out here, the IEU highlights two further areas in need of improvement: (1) "reducing knowledge gaps and increasing awareness", where investors may be unaware of climate finance opportunities, and (2) "targeted financial products", where the range of financing possibilities is poorly suited to MSME needs, such as when they imply transaction costs that are prohibitive and/or establish the wrong financial incentives (IEU 2021b, 29).

program focused exclusively on DAEs, which aims to devolve financing decisions to a local and community-level through grant or loan facilities and is thus well-suited to also include local MSME support. With both the EDA and the MSME pilot programs currently underutilized, the GCF should increase targeted outreach to DAEs as well as consider opportunities for potential cross-fertilization between the two pilot approaches.

The fact that such targeted projects, like the majority of current MSME support, exist outside of the PSF raises questions about the organizational structure through which the GCF supports such activities. In its draft Private Sector Strategy (para 101), the Secretariat suggests that this division should be formalized by moving all MSME support away from the PSF and including it within the Division for Mitigation and Adaptation (DMA). However, this could be counter-productive in terms of achieving coordination between the GCF's organizational divisions, and runs contrary to the Governing Instrument mandate for the PSF to advance support for MSMEs and local financial intermediaries. It is important that the PSF itself increases its focus on local and MSME lending, which could better be dealt with by targeting increased recruitment in MSME financing, and with experience of local institutions. A dedicated MSME unit might also be created in order to foster greater experience and lending in this area, including through learning from the record of the GCF's existing public sector support for MSMEs.

[13] The program offered an interest rate of 5.5 percent. By comparison, the standard interest rate charged by BNDES is around 14 percent per year. Personal communication, Fernanda Feil, 27 January 2022.

Recommendations

The GCF is falling short on its mandate to support MSMEs. Improving this situation requires:

- Greater transparency and a clear analytic framework for reporting on MSME financing, in terms of both MSME-dedicated activities and those involving some component of MSME support. This reporting should include reporting on MSME-support as part of both "public" and "private" funded activities.
- A consistent, multi-criteria definition of MSMEs, with clearer targeting to ensure more funding for micro and small enterprises and/or a dedicated facility to support such enterprises.
- Increased support, including through the Readiness and Preparatory Support Programme, to ensure that public and private national DAEs are encouraged to bring forward more programs offering dedicated support for MSMEs, either as their "principal" focus or incorporating elements that embed MSME support within a broader package of public financing.
- A revised RfP for MSMEs that targets support through DAEs, including a focus on enabling the GCF to support local currency lending through appropriate concessional financial instruments, such as revolving funds and credit lines.
- Gender inclusion targets should provide more ambitious financial support as well as minimum financing volume targets for women-led and women-owned MSMEs and be accompanied by financial sector capacity building as well as financial incentives for more gender-responsive MSME financing, especially for the micro- and small-scale enterprise sector, where women-led and women-owned businesses are concentrated. Loan financing should be designed to avoid trapping more women in poverty, as some experiences of microfinance have been reported to do.
- MSME financing is often most effective when it is accompanied by support for capacity building of public authorities and local financial institutions. The GCF should seek to capture the lessons of public MSME support projects which include such mechanisms.

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Details on specific projects and programs are drawn from Approved Funding Proposals, Gender Action Plans, Gender Assessments and Annual Performance Reports which can be found at https://www.greenclimate.fund/projects.

ANNEX.
Classification of MSME financing

The GCF does not publish portfolio-wide data on its MSME financing, so we have provided our own categorization of projects and programs according to three different support levels:

Principal: MSME support is a central focus of the funded activity

Significant: There is a clearly defined MSME financing element but this is not the sole or majority focus of the funded activity.

Some: MSMEs are clearly defined as the direct or indirect beneficiaries of some element of the funded activity, but this does not constitute a significant component. This category includes activities where MSMEs are targeted by one or two sub-activities, or the benefits are largely indirect.

The full categorization is as follows.

Prinzipal	
FP005	KawiSafi Ventures Fund
FP009	Energy Savings Insurance (ESI) for private energy efficiency investments by Small and Medium-Sized Enterprises (SMEs)
FP028	MSME Business Loan Program for GHG Emission Reduction
FP048	Low Emissions and Climate Resilient Agriculture Risk Sharing Facility
FP063	Promoting private sector investments in energy efficiency in the industrial sector and in Paraguay
FP064	Promoting risk mitigation instruments and finance for renewable energy and energy efficiency investments
FP078	Acumen Resilient Agriculture Fund (ARAF)
FP097	Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)
FP114	Program on Affirmative Finance Action for Women in Africa (AFAWA): Financing Climate Resilient Agricultural Practices in Ghana
FP149	Green Climate Financing Facility for Local Financial Institutions in Latin-America
FP179	Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP)

Significant	
FP001	Building the Resilience of Wetlands in the Province of Datem del Marañón, Peru
FP011	Large-scale Ecosystem-based Adaptation in the Gambia river basin: Developing a climate resilient, natural resource based economy
FP022	Development of arganiculture orchards in degraded environment (DARED)
FP025	GCF-EBRD SEFF Co-financing Programme
FP061	Integrated physical adaptation and community resilience through an enhanced direct access pilot in the public, private, and civil society sectors of three Eastern Caribbean small island developing states
FP081	Line of Credit for Solar rooftop segment for commercial, industrial and residential housing sectors
FP095	Transforming Financial Systems for Climate
FP101	Resilient Rural Belize (Be-Resilient)
FP106	Embedded Generation Investment Programme (EGIP)
FP113	TWENDE: Towards Ending Drought Emergencies: Ecosystem Based Adaptation in Kenya's Arid and Semi-Arid Rangelands
FP117	Implementation of the Lao PDR Emission Reductions Programme through improved governance and sustainable forest landscape management
FP125	Strengthening the resilience of smallholder agriculture to climate change-induced water insecurity in the Central Highlands and South-Central Coast regions of Vietnam
FP128	Arbaro Fund – Sustainable Forestry Fund
FP129	Afghanistan Rural Energy Market Transformation Initiative – Strengthening Resilience of Livelihoods Through Sustainable Energy Access
FP143	Planting Climate Resilience in Rural Communities of the Northeast (PCRP)
FP148	Participation in Energy Access Relief Facility ("EARF")
FP167	Transforming Eastern Province through Adaptation
FP173	The Amazon Bioeconomy Fund: Unlocking private capital by valuing bioeconomy products and services with climate mitigation and adaptation results in the Amazon
FP176	Hydro-agricultural development with smart agriculture practices resilient to climate change in Niger
FP181	CRAFT - Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries
SAP001	Improving rangeland and ecosystem management practices of smallholder farmers under conditions of climate change in Sesfontein, Fransfontein, and Warmquelle areas of the Republic of Namibia
SAP012	Inclusive Green Financing for Climate Resilient and Low Emission Smallholder Agriculture
SAP013	Scaling Smart, Solar, Energy Access Microgrids in Haiti
FP110	Ecuador REDD-plus RBP for results period 2014

Some	
FP023	Climate Resilient Agriculture in three of the Vulnerable Extreme northern crop growing regions (CRAVE)
FP026	Sustainable Landscapes in Eastern Madagascar
FP027	Universal Green Energy Access Programme (UGEAP)
FP043	The Saïss Water Conservation Project
FP049	Building the climate resilience of food insecure smallholder farmers through integrated management of climate risk (R4)
FP070	Global Clean Cooking Program – Bangladesh
FP071	Scaling Up Energy Efficiency for Industrial Enterprises in Vietnam
FP072	Strengthening climate resilience of agricultural livelihoods in Agro-Ecological Regions I and II in Zambia
FP073	Strengthening Climate Resilience of Rural Communities in Northern Rwanda
FP076	Climate-Friendly Agribusiness Value Chains Sector Project
FP084	Enhancing climate resilience of India's coastal communities
FP089	Upscaling climate resilience measures in the dry corridor agroecosystems of El Salvador (RECLIMA)
FP093	Yeleen Rural Electrification Project in Burkina Faso
FP096	DRC Green Mini-Grid Program
FP098	DBSA Climate Finance Facility
FP116	Carbon Sequestration through Climate Investment in Forests and Rangelands in Kyrgyz Republic (CS-FOR)
FP132	Enabling Implementation of Forest Sector Reform in Georgia to Reduce GHG Emissions from Forest Degradation
FP138	ASER Solar Rural Electrification Project
FP141	Improving Adaptive Capacity and Risk Management of Rural communities in Mongolia
FP154	Mongolia: Aimags and Soums Green Regional Development Investment Program (ASDIP)
FP156	ASEAN Catalytic Green Finance Facility (ACGF): Green Recovery Program
FP162	The Africa Integrated Climate Risk Management Programme: Building the resilience of smallholder farmers to climate change impacts in 7 Sahelian Countries of the Great Green Wall (GGW)
FP168	Leveraging Energy Access Finance (LEAF) Framework
FP177	Cooling Facility
SAP005	Enhanced climate resilience of rural communities in central and north Benin through the implementation of ecosystem-based adaptation (EbA) in forest and agricultural landscapes
SAP007	Integrated Climate Risk Management for Food Security and Livelihoods in Zimbabwe focusing on Masvingo and Rushinga Districts
SAP011	Climate-resilient food security for women and men smallholders in Mozambique through integrated risk management
SAP020	Climate resilient food security for farming households across the Federated States of Micronesia (FSM)