HEINRICH BÖLL STIFTUNG
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Green Climate Fund

Private Sector Finance in Focus

Briefing 4: Programmatic approaches

Written by Oscar Reyes and Liane Schalatek

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Summary

- Most of the GCF's private sector activities (34 of 41) are programmatic in nature, accounting for US$3.4 billion in approved financing. Despite this, the GCF does not have a clear definition to distinguish programs from projects or provide specific guidance on how to ensure that its environmental and social standards are upheld at subproject level.
- Fifteen of the 21 private sector loan programs are on-lending activities implemented by multilateral development banks and regional development finance institutions. Ten programs involve equity funds, with GCF funding passing through two or more layers of intermediation before reaching recipients. Further guidance is needed to ensure transparency and accountability of this equity financing in particular.
- The "presumption in favour of disclosure" set out in the GCF's Information Disclosure Policy should be applied far more strictly, to ensure that information about sectoral eligibility, indicative subprojects, stakeholder engagement or resettlement plans is revealed in advance of the approval of private sector programs.
- Three equity funds (FP152, FP180, FP181) have been approved following a "blind pool" investment structure that minimizes transparency and makes it impossible to assess the potential adaptation and mitigation benefits, or environmental, social and gender impacts of these investments at the time of funding approval. This funding structure is antithetical to the goals of the GCF investment framework. Moving forward, additional guidelines are needed to set minimum standards in relation to eligibility criteria for subprojects, sectoral balance, per-country allocations and country ownership.
- In some existing cases of approved private sector funding programs (FP099, FP128), the notification and publication of ESS assessments in advance of approving subprojects, including with the possibility of GCF stakeholders to submit comments to the investment committee of the implementing entity, has been a condition of funding approval by the GCF Board. This should become a minimum requirement for all GCF programs.

Introduction

Thirty-four of the 41 the private sector activities funded by the GCF so far are programmatic in nature.[1] These programs offer support to a group of activities selected and overseen by a GCF Accredited Entity (AE, a partner organization). Programs typically take place across multiple regions or countries – and can even be spread across different continents. Often, GCF programs support activities within one or more sectors or thematic areas, such as energy or urban development. However, the GCF has not set specific rules regarding what constitutes a program. Policy guidance on programmatic approaches was drawn up by the GCF Secretariat in 2019 and revised in 2020, but it is not operative as it has never been discussed or approved by the Board of the Fund (GCF 2020). In the absence of a clear definition of what constitutes a programmatic approach, AEs self-categorize them as programs, but also often title them as 'facilities', 'investment frameworks' or 'funds' in submitting them to the GCF Board for consideration.

Although private sector programs are far more prevalent than public sector programs in the GCF portfolio, the proposed policy on programmatic approaches offers no specific guidance to address the specific challenges that private sector programs pose. In particular, several private sector programs have been approved with little to no clarity or transparency on the location of proposed subprojects, or the sectoral balance of the approved program, making it impossible to meaningfully check for their social and environmental implications at the time of Board approval. Many of these programs are approved via private sector AEs that have a limited track record of applying ESS standards or gender policies, or of interacting with Indigenous Peoples – areas that require increased oversight. This briefing will offer guidance to strengthen the proposed policy on programmatic approaches to take account of specific issues with GCF private sector financing and, in particular, issues that have arisen in the case of private equity financing programs.

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).

[1] The precise number of programs (rather than projects) depends on how these are counted. We have classified 34 of the existing 41 private sector activities based on our interpretation of the more comprehensive definition proposed (but not yet approved) as part of the GCF draft document on Policy on Programmatic Approaches (GCF 2020). Although the GCF currently lacks a formal definition to determine 'projects' and 'programs', it already draws a distinction in terms of what type of ESS categorization an activity is given: categories A, B or C apply to projects, and I-1, I-2 or I-3 apply to financial intermediation which is typical for programs. Under this very basic definition, 26 of the 41 existing private sector activities can be considered programmatic.

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, 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 just over a quarter of private funding also takes the form of equity investments (company ownership).

Overview

As the GCF lacks any formal definition of programmatic financing, we have sought to apply a definition that was proposed by the Secretariat in February 2020, but which remains to be approved. This defines a program as "a set of interlinked individual 'subprojects' unified by an overarching vision, common objectives and a contribution to strategic goals. GCF programs could be of various scopes, including 'thematic' or 'sectoral' as well as 'geographic' or 'regional/global', or a combination of these" (GCF 2020, 12). We have classified 34 of the 41 private sector funded activities as programmatic according to this definition, a full list of which can be found in the Annex to this briefing. These programs make up US$3.36 billion (92 percent) of the US$3.65 billion in approved private sector finance. Loan financing is predominant, accounting for 62 percent of the total share, with a further 27 percent taking the form of equity financing.

Fifteen of the 21 private sector loan programs are implemented by multilateral development banks and regional development finance institutions. These programs typically involve on-lending, with the accredited entity disbursing funds to end users through local banks, microfinance institutions or other local financiers. A further four programs involve national private banks, which then directly lend to end users. There are two programs with national-level development institutions, which provide credit lines and concessional lending.

The GCF has approved US$900 million in equity financing to 12 programs.[2] Most of this equity financing is invested via dedicated equity funds (ten programs), with two programs (FP048, FP153) offering equity financing as part of a broader risk-sharing facility alongside loans and grants. The

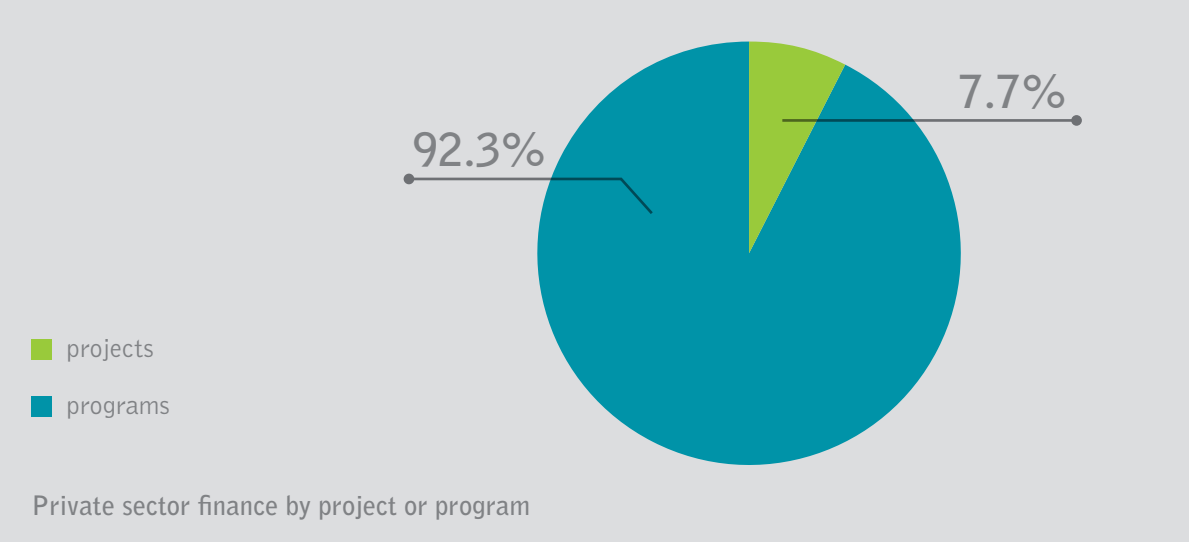
[2] In total, 13 private sector activities have equity financing components worth US$960 million. The overall value of approved financing for these activities is US$1 billion.

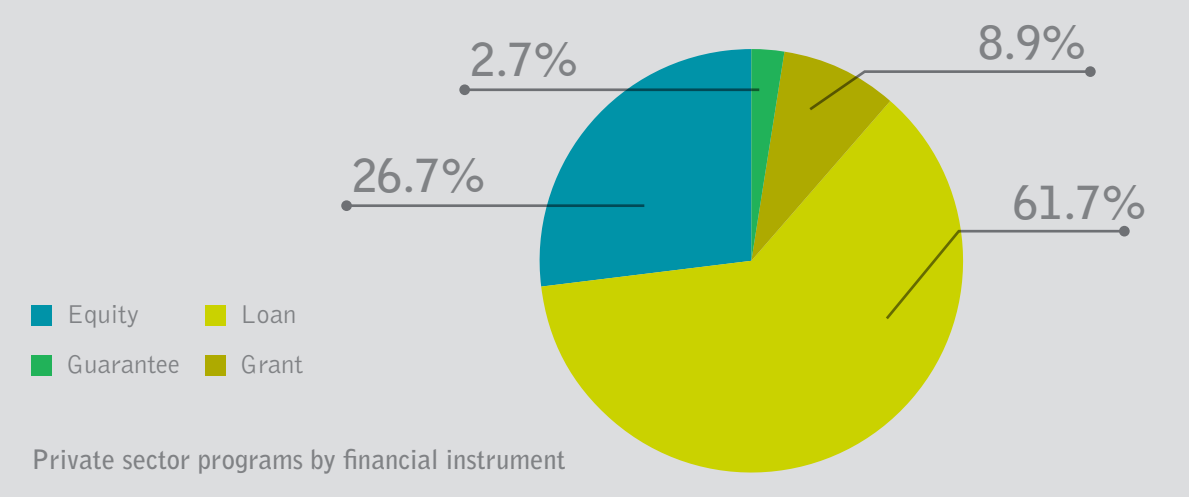
ten equity funds typically see the GCF passing funding to an Accredited Entity, which then invests in a separate company (or companies) established in a tax haven, which in turn invests in specific companies or other funds. As noted below, these layers of intermediation can make it more difficult to assess and account for GCF involvement in specific investments.

Most of the GCF's private sector loan and equity programs are accompanied by a relatively small grant element, which supports technical assistance and capacity building.[3]

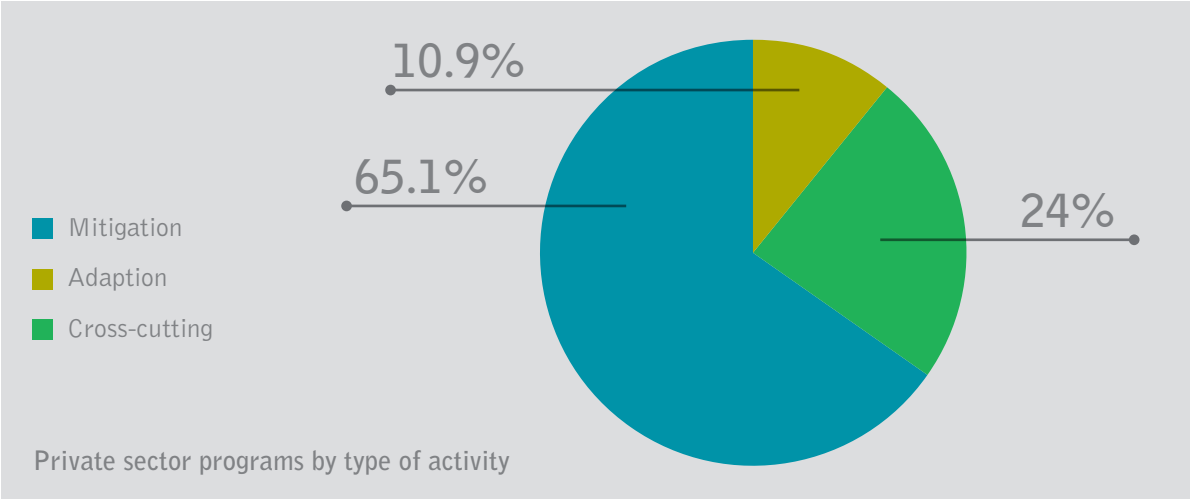
Sixty-five percent of private sector programs focus on mitigation, with a further 24 percent cross-cutting and just 11 percent directed towards adaptation.

Figure 1. Approved financing via private sector programs





[3] Although the "Climate Investor One" program (FP099) appears to be an exception for being entirely grant funded, the large FMO program of which it forms part is an equity financing fund.



Private sector programs by type of activity

Transparency and accountability

There are broad transparency and public accountability issues raised by all of the GCF's private sector activities, as discussed in Briefing 1 of this series. The GCF's Information Disclosure Policy's theoretical "presumption in favour of disclosure" of all information and documents related to GCF funding activities has largely been turned on its head in practice with respect to private sector activities (GCF 2016). This happens because of the very broad application of policy's exemption for "[f]inancial, business or proprietary and non-public information in possession of the GCF and belonging to a party outside the GCF," rather than applying these rules with surgical precision to limit non-disclosure to only truly commercially sensitive language. This is particularly problematic in the case of multi-country programs, investment funds or financing facilities, since sectoral eligibility criteria or listings of indicative subprojects, as well as pertinent information such as stakeholder engagement or resettlement plans, are often only elaborated in non-disclosed annexes that are not made publicly available.

The GCF's proposed policy guidelines on a programmatic approach could improve predictability and accountability in some respects. If approved, these guidelines would require greater clarity on per-country allocations, and the development of new guidance for the "identification, selection and approval of subprojects" (GCF 2020, 12-16). Significant gaps remain, however, most notably relating to the transparency and accountability of private sector subprojects.

At present, there is no standard requirement that GCF programs disclose information prior to the approval of subprojects. In a couple of cases (FP099, FP128), the notification and publication of ESS assessments in advance of approving subprojects has been a condition of funding approval, giving GCF stakeholders and observers the opportunity to share comments and concerns related to proposed subprojects before the investment committee of the AE makes the funding decision. This practice should be a minimum requirement for all such programs.

Likewise, the private sector Annual Performance Reports (APRs), in which all AEs have to self-report on implementation progress and challenges of funded activities, have widely differing levels of detail and are made public only in redacted form or, in most cases, are not published at all. In future, all APRs of private sector activities for all years of implementation must be published, with redaction kept to a minimum and detailed subproject information included in the case of programmatic or fund-of-fund approaches.

Most private sector programs are administered by international entities, especially development banks and equity funds. It is also worth noting that proposals to streamline the program approval process (e.g. by allowing additional countries to be added after approval) could further increase the concentration of the GCF portfolio in the hands of these international entities, setting back the Fund's stated commitment to encouraging more direct access financing. Specific guidance should be put forward to address this. Beyond offering readiness funding for direct access accredited entities (DAEs) to prepare programmatic approaches, this could include explicitly prioritizing (fast-tracking) proposals from DAEs in the approvals process. Another possibility would be to consider a cap (in dollar or percentage terms) on the funding received by any AE within a given replenishment period.[4]

CASE STUDY.
Pegasus Capital Advisors' private equity funds

Three GCF programs brought forward by private equity fund manager Pegasus Capital Advisors are particularly concerning for their lack of transparency and accountability. These are the Sub-National Climate Fund Global (FP152), which will receive US$150 million in approved GFC financing; the Global Fund for Coral Reefs Investment Window (GFCR) (FP180), with US$125 million in GCF financing, and the Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries (CRAFT) (FP181), with US$100 million in GCF financing.

All three of these Pegasus programs are built around a 'blind pool' investment structure which, by definition, lacks clearly stated investment goals. The Cambridge Business English Dictionary (2011) defines a blind pool as "an investment fund in which the investors do not know what type of business activity or companies they are investing in." This structure is antithetical to the goals of the GCF, and incompatible with its investment rules, which require investments to demonstrate adaptation and mitigation benefits, as well as environmental, social and gender co-benefits, in order to qualify for funding.

[4] While the GCF's risk management framework sets some concentration risk limits for the percentage of total approved GCF funding committed to one single funded activity (10 percent), it does currently not set a limit on the total funding received by a single AE.

In squaring this circle, Pegasus has ticked the boxes of estimating climate and social impacts, but the results do not stand up to even a minimum of scrutiny. The Sub-National Climate Fund Global claims that it will reduce 77 million metric tons in CO_2 equivalent emissions over its lifetime, and create 20,000 jobs, despite being unable to state how many countries the program will operate in, how many companies it would invest in, or what balance it was targeting between the very broad list of sectors covered by the program (water and sanitation; restorative agriculture/aquaculture; urban development solutions; waste optimization; renewable energy generation and energy efficiency, including energy efficiency retrofits). Pegasus's two adaptation programs make similarly implausible claims, specifying a precise estimate of how many beneficiaries are likely (as they are required to do by GCF rules) while being unable to state how many countries are included in the program, what balance they will seek between the different (and ill-defined) sectors to be incorporated, or what the eligibility criteria for investee companies would be.

The Independent Technical Advisory Panel (ITAP), which is charged with assessing GCF funding requests, has responded to these proposals with bemusement. The ITAP initially took the rare step of rejecting the Sub-National Climate Fund Global altogether, and even when a revised proposal was put before the GCF Board it noted that it was "not in a position to assess and confirm the final impact of the programme." It also stated that the program "could not be assessed against all six investment criteria" that the GCF uses.

The ITAP reviewer of the GFCR noted that the lack of an identifiable project portfolio meant that it was too early to "assess the real impact potential of the project" – although, confusingly, the program was then awarded a "high" impact potential rating. The ITAP reviewer of the (similarly structured) CRAFT was far more critical, highlighting a lack of legal certainty that any of the program's claimed benefits would be realized. In the case of CRAFT, ITAP noted that the eligibility criteria were vague and that technology categories had "excessive ranges of coverage and could include high greenhouse gas-emitting technologies (e.g. cold chains based on fossil fuels) and/or support maladaptive approaches (utilizing geospatial technology for more aggressive water resource exploitation)", while it remained unclear "what safeguards would be in place to prevent these risks from being realized." The ITAP instead proposed its own system of investment screening as a condition for approving the program, without which it could not be "confident in the project's adaptation impact potential to the degree routinely expected by the GCF Board."

This level of confusion will persist unless a clear policy on GCF programs is put in place that outlines minimum standards in transparently disclosed eligibility criteria, project pipeline development, sectoral balance and country ownership – all of which are incompatible with the continued push to approve private equity funds using a 'blind pool' investment structure.

Gender Policy

Transparency and accountability are also a key concern in relation to adherence to the GCF gender policy in private sector programs. It is often not clear at the time of GCF Board approval what is being financed at subproject level, so there is a lack of accountability on the extent to which this policy is complied with.

The application of the GCF gender policy in the case of programmatic financing is highly inconsistent. In some cases (such as FP152), the gender policy is met through its application to specific program areas without consideration of the gender impacts of the overall approach. In other cases, there is a gender assessment and (sometimes) a usually quite rudimentary gender action plan at the program level, with the stated promise, as in the case of FP128, that more specific individual subproject assessments and accompanying gender action plans will follow. However, if they are even undertaken, such individual subproject specific assessments action plans are not disclosed. For example, the Climate Investor One program (FP099), where two subproject ESS are disclosed, does not offer a subproject gender assessment or a subproject specific gender action plan. The Arbaro Fund (FP128) has disclosed six subproject ESS assessments since approval in March 2020, but without elaborating and disclosing subproject specific gender assessments and related gender action plans. It is not even that clear that programmatic approaches need to establish that the mandatory assessment and action plans at program level are transferred and expanded to include all subprojects. And even in cases such as FP128, where the program-level gender action plan[5] promises such transferred application at the subproject level, follow through – and accountability for such actions taken – is lacking.

In the future, there should be assurances that program requirements to conform with the GCF gender policy are applicable and fully complied with at subproject levels. Subproject level gender assessments and gender actions plans should be mandated and transparently disclosed, including to the GCF Board and observers, and published on the GCF website on the respective project page.[6] In addition, APRs should be subject to a minimum standard of detail and granularity in their gender reporting to ensure that the subproject level information and related documentation is published as part of these annual updates.

[5] The program-level gender action plan for FP128 reads: "During the investment process, and as part of the investment analysis, prior to investment decision, a high-level gender assessment of each project takes place. This assessment takes into account the local context and conditions of the country and area of operation of the portfolio company / project as well as Arbaro's gender action plan outputs and activities, As part of the investment execution a social and environmental action plan is agreed with the portfolio company, this plan includes the timelines and requirements for a more detailed gender assessment as a separate section, as well as timelines and responsibilities for a portfolio company / project level gender action plan. Each gender action plan, as a minimum, sets activity targets leading to outputs and following the timelines as based on Arbaro Fund's gender action plan. Local special conditions or specific operations, such as outgrower programmes, may lead to additional requirements."

[6] Documentation for approved GCF projects and programs, including on their implementation status, as well as related ESS disclosures and required gender documentation, can be found at https://www.greenclimate.fund/project/fpXXX (with XXX denoting a three-digit project number such as FP001, FP025, or FP128).

Financial instruments

Given the concerns identified with investments in equity funds, it is worrisome that the GCF's Private Sector Strategy, approved in May 2022, states that it will "continue to invest in pooled funds and complement that with equity to invest in new innovative financial structures to advance business models and technologies", as well as exploring "new modalities" to "scale up" equity financing (GCF 2022, 82). This adds even greater urgency to the case for adopting specific guidance on programmatic financing and equity funds, in particular regarding transparency and accountability and ensuring their full compliance with the GCF's ESS, gender and Indigenous Peoples' policies, the information disclosure policy and GCF requirements to ensure affected communities' access to both program and subproject level grievance procedures and redress mechanisms. Such financing approaches should be excluded during the pilot-phase of the recently approved project-specific assessment approach (PSAA), which would allow private sector entities not accredited to the GCF nevertheless gain access to its funding without the thorough due diligence that the standard accreditation provides (see also Briefing 3 of this series).

Despite concerns expressed by some GCF Board members and civil society, the Private Sector Strategy also leaves the door open for the Secretariat to advance the "design and deployment" of an unspecified list of "other innovative instruments." In particular, the Strategy suggests that the Secretariat will "scale up" the development of "co-investment platforms" (GCF 2022, 87). This raises the prospect that the GCF may increasingly behave more like an investment bank than a fund, which could compromise its ability to provide highly concessional climate finance that is responsive to the needs of the most vulnerable countries and communities. An ambition to create "new asset classes" for climate-resilient infrastructure is also concerning, since it has the potential to serve as greenwashing for grey (human-engineered) infrastructure with minimal regard for existing ecosystems.

Recommendations

- The GCF should approve programmatic guidance without further delay, which should include specific rules to address private sector financing. Additional guidance is needed to set minimum standards in relation to the transparency of project pipeline development, eligibility criteria for subprojects, and notification of the estimated allocations of the sectoral balance and per-country allocations in advance of program approval.
- The GCF should develop specific guidance on equity investments through a process of inclusive public consultation, exploring means to ensure that these programs achieve full compliance with GCF mandates, safeguards and principles and for guaranteeing sustained climate impacts, including after the GCF's own equity participation has ended.
- High risk programs (category I-1) should require all subprojects to be fully developed and appraised before being submitted to the GCF for approval, and there should be an option for the Board to approve a program while rejecting specific subprojects.
- The "presumption in favour of disclosure" set out in the GCF's Information Disclosure Policy should be applied more strictly to ensure that information about sectoral eligibility, indicative subprojects, stakeholder engagement or resettlement plans is revealed in advance of the approval of private sector programs.
- The GCF Secretariat should be adequately resourced to scale up due diligence checks, including spot checks on how AEs are applying ESS standards, gender and IP policies, especially in the case of higher risk subprojects. These aspects should be specifically addressed in new Secretariat guidance.
- Details of subprojects including location, scale, and environmental and social safeguard documentation should routinely be disclosed on both the GCF website and that of the AE in advance of their approval, following the same time limits as project disclosures (at least 120 days for Category A, 30 days for Category B).
- There should be guidelines on minimum reporting standards for APRs, specifying a minimum standard for reporting on subprojects. This should include reporting on the implementation of gender action plans and assessments at subproject level, as well as a requirement to disclose subproject specific gender assessments and gender action plans as well.
- Equity investments should not be eligible for financing under the pilot-phase of the recently approved project-specific-assessment approach (PSAA).

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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.
GCF Private Sector Programs

No.	Name	GCF funding (US$m)	Accredited Entity
FP005	KawiSafi Ventures Fund	25	Acumen
FP025	GCF-EBRD SEFF Co-financing Programme	378	EBRD
FP026	Sustainable Landscapes in Eastern Madagascar	19	CI
FP027	Universal Green Energy Access Programme (UGEAP)	80	Deutsche Bank
FP028	MSME Business Loan Program for GHG Emission Reduction	20	XacBank LLC
FP039	GCF-EBRD Egypt Renewable Energy Financing Framework	155	EBRD
FP047	GCF-EBRD Kazakhstan Renewables Framework	110	EBRD
FP048	Low Emissions and Climate Resilient Agriculture Risk Sharing Facility	20	IDB
FP078	Acumen Resilient Agriculture Fund (ARAF)	26	Acumen
FP080	Zambia Renewable Energy Financing Framework	53	AfDB
FP081	Line of Credit for Solar rooftop segment for commercial, industrial and residential housing sectors	100	NABARD
FP095	Transforming Financial Systems for Climate	291	AFD
FP096	DRC Green Mini-Grid Program	21	AfDB
FP097	Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)	16	CABEI
FP098	DBSA Climate Finance Facility	56	DBSA
FP099	Climate Investor One	100	FMO
FP105	BOAD Climate Finance Facility to Scale Up Solar Energy Investments in Francophone West Africa LDCs	74	BOAD
FP106	Embedded Generation Investment Programme (EGIP)	100	DBSA
FP114	Program on Affirmative Finance Action for Women in Africa (AFAWA): Financing Climate Resilient Agricultural Practices in Ghana	20	AfDB
FP128	Arbaro Fund – Sustainable Forestry Fund	25	MUFG Bank

No.	Name	GCF funding (US$m)	Accredited Entity
FP140	High Impact Programme for the Corporate Sector	258	EBRD
SAP004	Energy Efficient Consumption Loan Programme	10	XacBank LLC
FP148	Participation in Energy Access Relief Facility ("EARF")	30	Acumen
FP149	Green Climate Financing Facility for Local Financial Institutions in Latin-America	100	CAF
FP150	Promoting private sector investment through large scale adoption of energy saving technologies and equipment for Textile and Readymade Garment (RMG) sectors of Bangladesh	256	IDCOL
FP151	Global Subnational Climate Fund (SnCF Global) – Technical Assistance (TA) Facility	19	IUCN
FP152	Global Subnational Climate Fund (SnCF Global) – Equity	150	Pegasus
FP153	Mongolia Green Finance Corporation	27	XacBank LLC
FP164	Green Growth Equity Fund	137	FMO
FP168	Leveraging Energy Access Finance (LEAF) Framework	171	AfDB
FP179	Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP)	100	CRDB
FP180	Global Fund for Coral Reefs Investment Window	125	Pegasus
FP181	CRAFT - Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries	100	Pegasus
FP186	India E-mobility financing programme	200	MAAML