Business model framework of the Green Climate Fund (GCF)

IDFC Concept Paper, in association with UNDP

Context : IDFC Climate Finance Work Program and the Green Climate Fund (GCF)

The International Development Finance Club (IDFC) is a network of 20 leading national, regional and international development finance institutions. The members of IDFC play a key role in bridging critical funding gaps of sustainable development projects and programs, in catalyzing investment in new economic, social and environmental sectors, and in co-developing with governments, the private sector and civil society enabling regulatory and policy environments, including by building technical competencies and strengthening institutions. In particular, IDFC members have a successful and measurable track record of integrating climate change issues and related risks into their development mandates. IDFC members committed more than USD 80 billion in 2011 to mitigation and adaptation projects, programs and activities around the world.

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The Climate Conference in Durban (COP17) agreed on the Durban Platform which gave the mandate to negotiate a new global climate agreement for the period beyond 2020 and to identify and to explore options for a range of actions that can close the pre-2020 ambition gap. The latter entails a number of initiatives, voluntary partnerships and collaborations outside the formal climate negotiations, which contribute to mitigation efforts on global, regional or national level. Additionally, the Durban Conference agreed on the creation of the Governing Instrument of the Green Climate Fund (GCF), enabling its progressive establishment and operationalization. The GCF process calls for a close collaboration with stakeholders of the climate finance architecture like those represented within IDFC.

In this context, IDFC established a Climate Finance Work Program, to offer support to the UNFCCC and Green Climate Fund processes and initiatives. Among others, the IDFC Climate Finance Work Program explores concrete and innovative developmental responses consistent with the objectives and operating modalities of the GCF, and the overall efforts of the international community to close the mitigation gap and adapt to the changing climate. This includes promoting partnerships to leverage local and international private capital towards climate activities.

The present document has been elaborated in collaboration with other partners including :
UNDP

UNDP generally subscribes to the strategic considerations and suggested ways forward proposed in this paper, while recognising that other scenarios are also possible and should be considered by the GCF Board.

Executive Summary

At its third meeting, the Green Climate Fund board started to address several strategic issues around how the Fund will operate. Building on the provisions of the Governing Instrument as adopted by COP17 in Durban and on accumulated analytical and field experience in the area of climate financing, the present document explores different options and proposals regarding key features of the business model of the GCF, and their development over time.

These comprise, among others:

§ considerations on ways and means of promoting a paradigm shift towards low emission and climate-resilient development pathways in the context of sustainable development ;
§ structural options for development of the fund, allowing for the GCF to become over time the main global fund for climate finance ;
§ implications in terms of delivery of resources, access modalities (including eligibility criteria), financing instruments, and the results management framework ;
§ complementarity of the GCF with other channels of climate finance, including relevant national, regional, bilateral and global funding mechanisms and institutions, to better mobilize the full range of financial and technical capacities ;
§ reflections and proposals regarding the operationalization of the private sector facility.

Structuring the GCF as a complementary, catalytic and transformational financing facility, without banking functions, seems to be the most practical option to ensure its rapid and efficient operationalization. Under such an option, the GCF would keep ambition and generate enthusiasm for climate finance by : (i) working with the full range of relevant financial stakeholders, including and particularly national, regional and international development finance institutions that can intermediate and blend GCF resources with their own, therefore complementing and enhancing existing efforts towards the fight against climate change; (ii) ensuring a strong focus on the setting up of enabling environments to promote a paradigm shift towards low emission and climate-resilient development pathways in the context of sustainable development.

The proposal also seems the best suited to a balanced approach between mitigation and adaptation, and to a strong focus on particularly vulnerable developing countries, for which programs will need to be financed on a grant or very concessional basis. The option further ensures that recipient countries will be in the driving seat to decide if they wish to intermediate or restructure GCF finance, and who they wish to perform this service as implementing entity, particularly through direct access modalities. Recipient countries should have as many choices as possible in terms of channelling GCF resources.

Keeping in mind that the GCF should be a continuously learning and flexible institution and that its operations shall be designed so that they evolve with the fund's scale and maturity, the GCF's operating modalities should allow for the accreditation of a wide range of financial implementing entities to channel and intermediate its resources, while promoting best practice fiduciary standards and social and environmental safeguards. As such, the GCF would become the major global fund for climate finance, operating under strong principles of complementary and coherence with other existing financial institutions.

1- The issues at stake

Keeping atmospheric greenhouse gas concentrations at a level that will prevent dangerous anthropogenic interference with the climate system, while contributing to sustainable development and poverty eradication, means (i) first and foremost, ensuring that decision-makers at all levels are provided with the capacities and the technological, policy, regulatory and institutional choices and processes to enable the sustainable transformation of economies and societies that is required; (ii) redirecting trillions of public and private financing towards less carbon intensive sustainable and innovative activities, and through efficient delivery modalities; (iii) establishing the monitoring, verification and reporting structures to make the global balance sheet work, i.e. ensuring that GHG emission reductions or adaptation objectives achieved through one set of activities are not annihilated by lack of action in another area/location.

The ambition of the GCF, as an operating entity of the financial mechanism of the Convention, guided and accountable to the COP, is to play a prominent, coordinating and catalytic role within the international climate finance architecture to drive the needed paradigm shift towards sustainable low carbon and climate resilient development. To that end, the Governing Instrument of the GCF already addresses a number of issues, many of which need further consideration in order to define the Fund's structure, business model and evolution over time, and to ensure its operationalization. These issues include:

a) ensuring **national ownership** and supporting countries' own sustainable development objectives and priorities. This implies operating in the context of, promoting coherence of and supporting country-led, holistic, iterative, coherent, economy-wide low emission climate resilient development strategies and related sector and sub-national policies and actions plans, and making sure that the GCF's interventions generate not only climate change but also development benefits and a risk taking appetite, as climate change is a full-fledged aspect of development[1]. National ownership also implies that recipient countries should have as many choices as possible in terms of channelling GCF resources.

b) allowing the **rapid and massive mobilization** of public and private finance at scale, and ensuring their efficient management, in line with the magnitude of the challenges. The resources the GCF will receive from the international community will not be able to drive this transition alone. The Fund therefore needs to play a catalytic role to put in place enabling policy, regulatory and institutional environments at the regional, national and sub-national levels and to redirect major public and private financing flows towards low emission, climate resilient, sustainable activities.

c) making **effective use** of GCF resources, which implies answering the various needs and wide range of investment situations of the countries, while taking into account and addressing their differentiated capabilities to use these resources, and ensuring a balanced allocation between mitigation and adaptation. All of this implies setting up allocation criteria going beyond project level interventions, which i) efficiently promote paradigm shifts towards low emission, climate resilient development pathways, by supporting relevant activities like the design and implementation or the

[1] Of course the GCF is only expected to fund a small part of these development strategies (NAMAs, NAPAs or NAPs stemming from the overall strategy), plus national resource mobilization efforts.

reinforcement of adequate policies, investment plans, institutions and/or governance systems, as well as consultation processes, innovation and research, learning, experience-sharing and/or collaborative approaches; and ii) support the transitional cost of such changes, which require considerable capacity development efforts as well as mechanisms to ensure that GCF resources will not crowd out other public or commercial sources of funding for such costs, but rather crowd in international and local private capital. All of this shall ideally rely on independent technical assessments for the different proposals submitted to the GCF Board, in order to maximize impact.

d) making **efficient** use of GCF resources, including for investment-related financing. As indicated in the Governing Instrument of the GCF , "financing will be tailored to cover the identifiable additional costs of the investment necessary to make a project viable". This implies adjusting concessionality levels of each and every investment financing differently. By this, the Fund will seek to avoid any crowding-out of other climate financing but rather catalyse additional public and private finance through its activities at the national and international levels.

e) working in **complementarity and coherence** with the increasingly diversified sources of climate and development financing, including at the national, sub-national and regional levels, by building on, mobilizing and reinforcing the full range of existing technical and financial capacities.

f) working towards **direct access** by all countries to GCF resources and country-driven coordination of all sources of climate finance (international, regional, national, public and private), in coherence with national development policies and priorities.

g) being **impact-driven** and establishing innovative and holistic result frameworks to monitor the Fund's contribution to the paradigm shifts. Such frameworks should recognize the efforts and risks taken by countries to design and implement more sustainable development pathways. They should also in some cases overcome the difficulties to measure value for money, and emphasize issues of policy and regulatory reform, transparency, inclusiveness, accountability and institutional capacity, which are all key to sustainably enable transformative impacts.

2- Structural options for the GCF

In order to meet its objective of supporting holistic low-emissions, climate-resilient development in the context of sustainable development, and at the scale required, the GCF will require a specific structure and model for doing business. The GCF shall be a 'continuously learning institution', adopting a model that is both scalable and flexible. Whichever the model, GCF operations shall be driven by the priorities of developing countries, in the context of their climate and sustainable development policies.

The reflections presented below build on the accumulated experience in the area of sustainable development finance as well as from other vertical funds such as, among others, the GEF, the Adaptation Fund, the Montreal Protocol Fund (MPF), the CIFs or the Global Fund to Fight AIDS, Tuberculosis and Malaria, while exploring ideas going beyond grant-based approaches. Indeed, most of these existing vertical funds[2], mainly operate with grants as financial inputs, that are delivered as grants to end-recipients.

The following paragraphs highlight the type of financial tools that the GCF could offer to developing countries, and the methods for delivering this finance effectively, including through financial intermediation (i.e. transformation and/or blending of GCF resources with other resources to generate a wide range of financial instruments), particularly at the national level.

Preferred Option: GCF as a complementary, catalytic and transformational grant financing facility

The GCF could operate from its initial stage of development as a financing facility. As such, it would not be structured as a financial institution capable of performing banking functions directly – something that would require time, equity, considerable staffing and adherence to complex regulatory issues.

Key features of this preferred option of structuring of the GCF would be the following :

§ The GCF's **financial inputs would consist of grants** from budgetary or innovative resources, including private sources.

§ The GCF would **provide financing mainly in the form of grants** to accredited national, sub-national, regional and international implementing entities, under direct or international access modalities, as determined by recipient countries. Because it would not exhibit internal banking functions, the GCF would have limited capacity to provide non-grant financing and to directly take the corresponding financial risks[3].

§ Depending on the needs and types of activities considered, GCF grant resources could be further intermediated via implementing entities that also are financial institutions endowed with banking functions, such as MDBs, IFIs (international, regional[4] and bilateral development finance institutions), and national development banks or other national financial entities including funding entities. These financial institutions would **intermediate the GCF resources by transforming or blending them** with other resources and mechanisms, in order to provide a wide range of financial instruments beyond grants (soft loans, equity, guarantee schemes, other modalities and facilities, in hard or local currency), tailored to the specific requirements of end recipients. The respective implementation and intermediation entities would be chosen by the recipient country.

§ In the case of financial intermediation, **the GCF would not take on the financial risks** associated with financial instruments resulting from the intermediation process, as such risks would be the responsibility of the financial intermediaries.

§ For investment financing, such an approach via intermediating implementing entities would contribute to the **mobilization, or 'crowding in' of international and national**

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[2] with the exception of the CTF under the CIFs, although the CTF does not have legal personality nor banking functions. Also see footnote 5 hereafter.

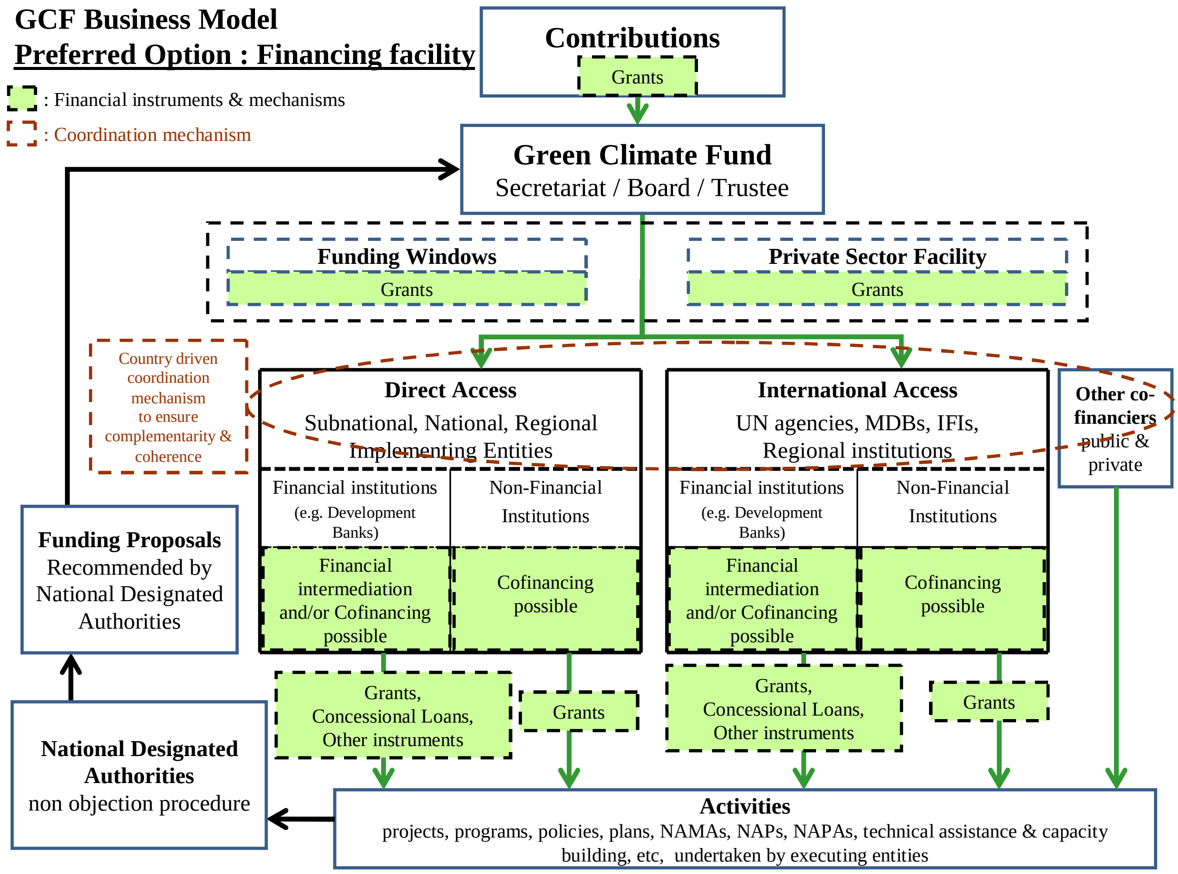
[3] The GCF could provide non-grant financial instruments only if this is done through mechanisms whereby the associated financial risks are fully covered.

[4] In this paper, regional development finance institutions mainly refer to institutions owned by a majority of developing countries and working in specific developing regions of the world, like the West African Development Bank (BOAD) or Corporación Andina de Fomento (CAF).

capital – including capital provided by the intermediating institutions, and would help avoid the crowding out of existing public commercial sources of financing.

- When intervening **without financial intermediation**, a grant provided by the GCF would result in a grant received by the end beneficiary via the implementing entity. This case is relevant e.g. for readiness activities, capacity building technical assistance, project preparation, and the majority of adaptation investments.
- During the initial stage of the GCF operations, a share of such grant financing could indeed be devoted to **readiness and capacity building** activities that would enable catalytic impacts. This could include facilitating the setting up or reinforcement of environments (policies, regulations, institutions, technology research and development and transfer, etc.) at the national level to redirect major public and private investment flows. It could target low emission and climate resilient sustainable investments, help strengthen institutions and governance systems and provide alternative choices for investments that lead to sustainable transformations of societies and economies. In relevant countries, readiness activities of the GCF should also include capacity building support to national and regional entities and financial institutions leading to their accreditation as implementing entities, applying fiduciary standards and environmental and social safeguards as required by the GCF. This would help promote and develop direct access and, at a later stage, enhanced direct access modalities through funding entities.
- In all cases, depending on needs and as determined by recipient countries, implementing entities and other interested entities will have the possibility to **co-finance** GCF activities.
- Last but not least, under this business model option, **the GCF would not require an equity base** to operate. Regular replenishments would of course still be necessary for the GCF to provide the necessary grant element for its operations.

By structuring on this basis the operations of the GCF, the Fund would be able to quickly start its activities, while working in a complementary, coordinated and coherent manner with other financing channels, including some with which few international funds have been able to work so far, such as national or regional development banks. Country-driven coordination mechanisms could be promoted as a method to facilitate and enhance complementarity between the activities of the Fund and of other relevant national, regional, bilateral and international funding mechanisms and institutions. Such country-driven coordination mechanisms would also reinforce coherence, and avoid situations where financing by others could offset the carbon reductions or adaptation impacts achieved through financing from GCF. The coordinated mobilisation of the full range of financial and technical capacities available will be key driver of catalytic impact.



The implementation of this preferred option for the business model of the GCF would require to address a **set of critical issues**, all of which seem manageable, regarding :

§ The design of **accreditation criteria**. These should make it possible for multiple implementing entities (including financial institutions) to implement (and in the case of financial institutions, intermediate) GCF resources. Issues relating to the need to align and/or harmonize such criteria depending on categories of implementing entities will need to be discussed: shall there be differentiated and/or dynamic and evolving accreditation criteria according to categories of implementing and intermediating entities and layers and their specific context and situation? Reinforcing the fiduciary, transparency and accountability standards and environmental and social safeguards of certain stakeholders, and ensuring they implement adequate Measurement, Reporting and Verification (MRV) of mitigation projects as well as vulnerability assessments relating to adaptation, for them to obtain accreditation from the GCF, will take time, particularly in Least Developed Countries (LDCs) and Small Island Developing States (SIDS). The GCF should address this issue by providing grants and prioritizing relevant readiness and capacity building efforts so as to develop direct access modalities, including through innovative ways of channelling funds mobilizing local financial systems.

§ The **availability of sufficient equity** (and if not, increase of equity levels) **within financial institutions** that, as accredited implementing entities, would intermediate GCF resources. In many developing countries, local financial systems and institutions do have spare equity that is not being mobilized. Recent evidence suggests that this also is the case among several IFIs. The GCF could unlock this potential by offering new intermediation opportunities to these financial institutions, and by supporting as needed the development of their technical and financial capacities, so they can seize such opportunities, to the benefit of climate change and development activities. In doing so, the GCF would also contribute to mainstreaming climate change issues in the overall activities of such institutions, and it would help build the capacity of countries themselves to raise resources from domestic and international, private and public financial markets. This would be a key job for the Fund, particularly during the first stages of its operationalization.

§ Ensuring **visibility of the GCF**, in a context where its resources would be ultimately delivered by a wide range of implementing entities, including at the national and regional levels. On the other hand, by being innovative in the way of delivering funds, and transformative in impact, the GCF's credibility would be very high.

§ The **need to enhance coordination** between this wide range of potential implementing entities, for instance through the setting up of country-driven coordination mechanisms as suggested above.

§ **Lack of financial capacity at the GCF level** to take or provide loans or other non-grant financial instruments, unless the GCF provisions 100% of the associated financial risks or sets up innovative pass-through mechanisms that would transfer such risks to others (e.g. contributors). This is embedded in the proposal to design the GCF as a grant financing facility, thus avoiding a complex and heavy banking structure for the Fund. Nevertheless, the GCF would still be able to indirectly provide a wide range of financial instruments, through intermediation by financial implementing entities.

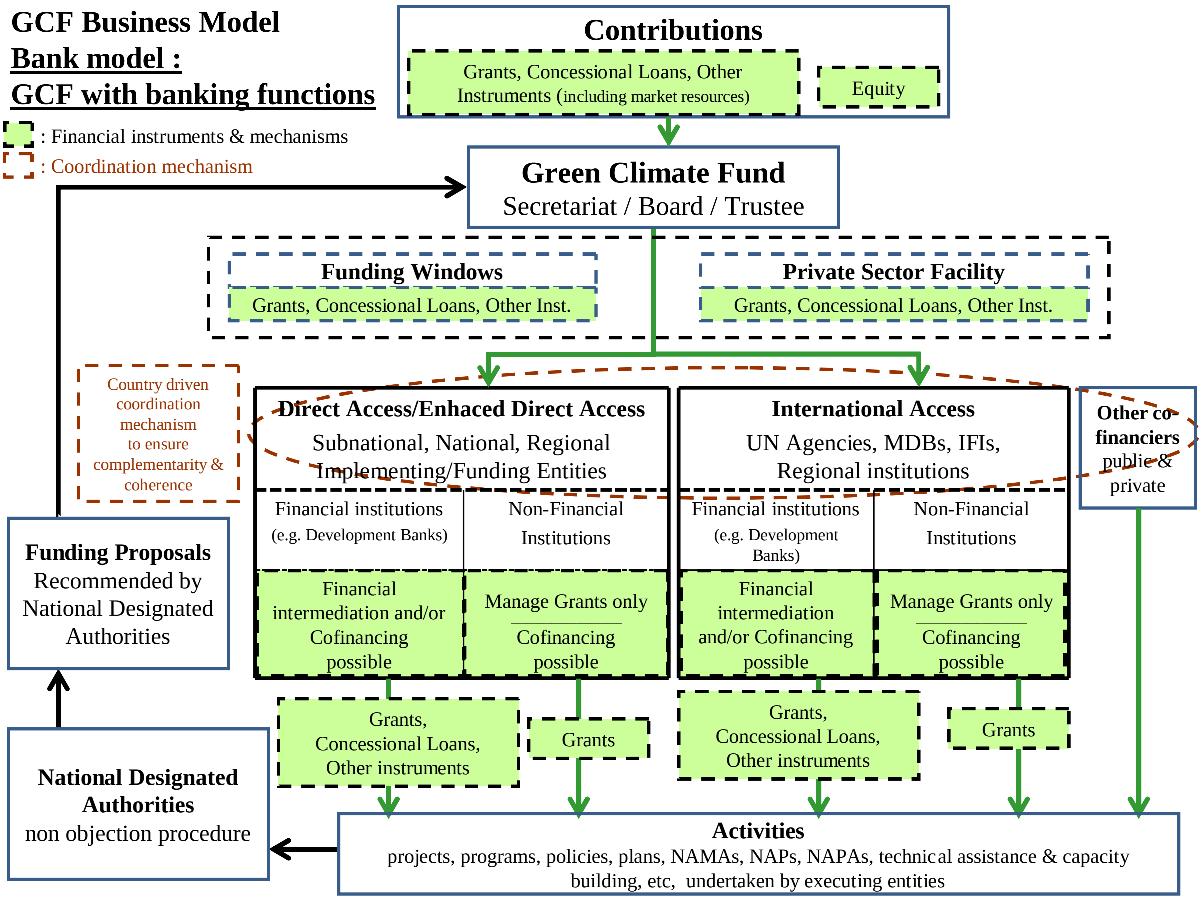
Bank model : GCF with banking functions

A different approach to the preferred option described above could be to progressively structure the GCF as an institution capable of providing a set of banking capacities and functions, including financial risk-taking ability. Such an evolution would require the establishment of a banking structure for the Fund and the progressive mobilization of the corresponding equity for it to be able to operate. This would enable the GCF to :

§ Take an increasing amount of **financial risks** over time, and therefore progressively draw on a broader range of financial inputs beyond grants coming from budgetary contributions or other alternative sources. Additional inputs could take the form of soft loans from donor countries and/or other instruments derived from the financial markets (bonds for instance). With its banking functions, the GCF would also have the capacity to manage, intermediate and/or restructure internally the financial inputs it receives, and therefore be able to directly provide financing via a full range of instruments (grants, loans, equity, guarantee schemes, other modalities and facilities…) to accredited implementing entities.

§ Depending on needs and types of activities considered, and as chosen by recipient countries, and when the implementing entities are financial institutions, these could **further intermediate** the GCF financial instruments by transforming or blending them with other resources, instruments, mechanisms and/or tools, in order to broaden the range of financial instruments that could be provided (soft loans, equity, guarantee schemes, other modalities and facilities, in hard or local currency) to match the specific requirements of end recipients.

§ Ultimately become **the main global banking institution for climate finance**, if it succeeds in attracting considerable financial inputs, which are required to both build up the necessary equity base to enable its banking functions, and replenish on a regular basis its needs for concessional financing instruments. Also, at this level of scaling up and maturity of the GCF structure, many of the other smaller and even major existing international funding mechanisms working on climate change such as the Adaptation Fund, the LDCF or the CIFs, could fold inside the Fund.



However, the development of banking functions within the GCF would need to address many compelling **challenges and risks**, several of which have already been highlighted during the Transitional Committee process in 2011. **For this reason, this bank model for the GCF is not recommended**.

Such challenges and risks relate to :

§ **Complementarity**. In becoming a global banking institution, the GCF would potentially be in a position to use its own banking capacity to directly provide a wide range of financial instruments to implementing entities and end-beneficiaries, without requiring any additional financial intermediation. This carries the risk of crowding out the financial and technical capacities of other public and private financial institutions, in a context where an increasing number of national, regional and international development banks and other stakeholders in the financial systems, including and particularly at the local level, could do the job and/or whose climate finance activities could be further encouraged, catalyzed and leveraged. Structuring the GCF as a new bank alongside these financial institutions, without ensuring strong links between the two, would miss a major opportunity to draw on their complementary services.

The GCF should therefore primarily rely on the technical and financial capacities of such financial institutions to further intermediate and implement its resources as required. It should also keep promoting coordination, complementarity and coherence between the numerous development financiers in a given country, for instance through country-driven coordination mechanisms. In doing so, the GCF would maximize its catalytic impact by crowding in instead of crowding out other financial players. It would also **avoid the risk of de-linking climate change and development**, by contributing to mainstream climate change issues across the financial systems.

§ The creation of a large banking institution carries the risk of having it primarily **focus on project lending** rather than supporting the design and implementation of the necessary enabling policy, regulatory, institutional, technological frameworks through broad consultation processes, to promote the transformational change in production and consumption processes needed to fight climate change. Likewise, its banking structure would not necessarily be tailored to the financing needs regarding adaptation. A substantial grant-based activity would still be needed.

§ Another risk relates to the somewhat inevitable **top-down nature** of large international financial institutions. As it grows bigger, the GCF might face difficulties in aligning its financial operations at the national level, and ensuring country ownership and leadership by local stake-holders to integrate climate change concerns in countries' own sustainable development strategies, programs and projects. To avoid dependency by countries on external institutes, expertise and decision making, the Fund should promote and facilitate and the implementation and intermediation of its resources by local financial systems and stakeholders.

§ The constitution, over time, of a **considerable equity base** would be needed for the GCF to be able to ultimately provide financing at scale[5], on top of regular replenishments to cover the grant element requirements of the GCF operations (e.g. when providing grants or soft loans).

§ **Costs and delays** in terms of **staffing** and building up the technical capacities, operational procedures and regulatory framework of such a large institution, that could potentially become larger than the World Bank.

§ **Regulatory constraints**: banks in general, but also development banks, are operating under increasing regulatory requirements. At least in a mid-term perspective, some of the following regulatory minimum standards might be imposed even on development banks, which could infringe on the mission and operational modus of the GCF if the Fund is structured with own banking capacities: (1) restriction to banking products (like loans) and impossibility (for a bank) to issue grants - and hence the necessity to create a legal sub-vehicle for GCF grant operations; (2) minimum standards as concerns banking qualification of managers and supervisors (Board) of the GCF; (3) strict know your customer (KYC), anti money-laundering (AML) and reporting requirements that would pose additional administrative burdens on GCF operations.

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[5] for instance, the order of magnitude would be of about USD 100 to 150 bn of equity to be able to leverage about USD 60 bn of market resources per year and generate an outstanding balance of about USD 500 to 600 bn, with a solvency ratio of 20-25%, similar to that of development finance institutions. In addition, this would require regulatory and supervision mechanisms to ensure that prudential risk ratios are respected. By comparison, international development finance institutions (multilateral, regional and bilateral development banks) represent a cumulated equity of USD 150 bn. The figure is considerably higher when considering also national development finance institutions and private financiers.

Additional considerations for access modalities and financial intermediation

To a significant extent, access modalities are related to the different business model options for the GCF as described above, depending among others on the capacity of the fund to directly provide a variety of financing tools, or the need for the GCF to rely for some of its activities on implementing entities to perform the required financial intermediation and to be able to deliver a wide range of financial tools tailored to country and end-beneficiaries needs.

As indicated in the Governing Instrument of the GCF, and in line with recipient country needs and choices, the GCF will work with accredited international, regional, national and sub-national implementing entities. Among such implementing entities, those having own banking capacities would be able to perform financial intermediation functions to further blend GCF's financial instruments with other tools and mechanisms as needed. In particular, and beyond the international development finance institutions and agencies (multilateral, regional and bilateral) that could implement and, for some of these, also intermediate GCF resources, national and regional development finance institutions should play a key role. Indeed, these are institutions that:

- are strongly integrated with national, sub-national and also regional policies, thus ensuring a strong link between climate and development finance, and can in this context foster new investments in sectors of strategic importance;
- enjoy acceptance and trust from both the donor countries and recipient countries;
- have been historically involved in accomplishing infrastructure and industrial development;
- hold significant field expertise across a broad range of development disciplines;
- can implement climate programmes in a timely and efficient manner, by leveraging, intermediating and delivering resources with a variety of instruments, through established and trusted implementation channels, including in local currency;
- are able to engage with and leverage resources from the private sector, including at the domestic and regional levels, to catalyse and increase the pool of funding available, something that is widely recognized as critical to address the resources gap[6].

By implementing and intermediating GCF resources at the local level, national and regional development finance institutions can therefore be vital for the GCF to scale up its impact and play a catalytic role to redirect major public and private financing flows towards low emission, climate resilience, and sustainable activities. As such, these institutions represent a very interesting direct access option for countries to efficiently implement GCF resources.

To that end, the GCF could, as part of its readiness activities, and in close coordination with existing entities and relevant mechanisms working on similar issues, help strengthen local financial institutions so that they can be accredited as implementing entities and have the capacity to further intermediate GCF's financial instruments. Such an approach would be consistent with the vision that implementation of GCF resources by international entities should be gradually replaced wherever and whenever relevant and possible by direct access and enhanced direct access modalities. This would lead to full ownership and decision making by the recipient countries themselves on which investments to fund and how to blend and leverage resources, in an accountable and transparent manner, including in terms of fiduciary standards, environmental and social safeguards, and monitoring and evaluation and impact assessment.

[6] See for instance : "The Green Investment Report: The ways and means to unlock private finance for green growth – A report of the Green Growth Action Alliance" (2013).

Additional considerations for the Private Sector Facility

The required scale of climate investment globally is far in excess of what can be provided from public budgets. Investment scale-up has already begun in some countries, but all stakeholders involved have yet to succeed in establishing instruments that can leverage significant volumes of private capital towards low-carbon and climate-resilient investments. With a few exceptions, most efforts have remained centered on processes developed largely for the public sector. These have not been able to transform business-as-usual market behaviour both at the national and international levels. The Private Sector Facility (PSF) of the GCF needs to be designed to help address such issues.

Private sector engagement should not be a specificity of the PSF, but be considered as a routine activity across all thematic windows of the GCF. A clear delineation of responsibilities, but also clear links between the PSF and non-facility interventions are therefore needed, similar to the treatment of other cross-cutting issues (e.g., technology development and transfer, capacity building).

The PSF should enhance the GCF's ability to mobilize private sector investment at scale. To achieve this, and at least during the initial stages of its operationalization, the PSF resources should be used in the first place to assist and support recipient countries to create the enabling and legislative environment to redirect major private sector flows towards less carbon intensive and clime-resilient investments, and to identify and act upon private sector engagement opportunities. In doing so, proper attention should be given to LDCs and SIDS, and on creating and/or reinforcing local entrepreneurship and local wealth, including regarding endogenous technologies and capacities, which would generate additional development benefits for developing countries. In that respect, it will be crucial to determine and address the needs of developing countries' private sector to support development while addressing climate change.

More specifically, the PSF could start focusing on a series of public policies and public sector interventions to foster private sector engagement, which could include, depending on sector and country situations:

§ support to countries in designing and implementing private sector strategies, including policy and regulatory work and the development of procedures tailored to private sector engagement, to strengthen the overall enabling environment for private sector interventions in the area of climate change;

§ public sector market interventions, such as public-private partnerships, concessionary work, feed-in tariffs, etc.;

§ participation in public-private investment funds or aggregated project level initiatives, such as early stage catalytic market investments; and/or

§ technical assistance and capacity building, focusing on project development support (e.g. technology/knowledge transfer) , or relevant support to governments or to other partners such as universities, technical institutions and associations that engage with the private sector in the area of climate change.

With the evolution of the GCF and the scaling up of the PSF, direct financing of private sector entities could be progressively envisaged. This would need to be done in a highly targeted and effective manner, for instance by focusing primarily on the local private sector in developing countries. In all cases, direct transfers from the GCF/PSF to the private sector would require aligning as much as possible the PSF structure, governance and approval processes with those of the private sector, including expedited project cycles, procedures for assessing the appropriate concessionality required, and safeguards for ensuring appropriate environmental and social standards. Also, for reasons of efficiency, effectiveness and accountability, and to avoid undesirable crowing out effects, direct grant or highly concessional financing to private or commercial project sponsors should be avoided wherever possible, by making instead the full use of financial intermediation possibilities via established development finance institutions focusing on private sector activities.

At the governance level, the setting up of a specialized committee or structure comprising private sector financing experts to assist the GCF Board and Independent Secretariat in the implementation of the facility would help promote the quality and the transformative impact of the interventions of the PSF. This committee/structure could also have a review and recommendation capacity across all thematic windows, projects and programmes of the GCF, beyond those specifically supported by the PSF. In doing so, the PSF would be integrated right from the beginning within the overall business model of the GCF, rather than being a distinct process.

In the short term, proposals could originate from either national or international public implementing entities with proven capacity to work with the private sector (e.g. national development banks), in coherence with country programmes. This coherence would be ensured among others by the non-objection procedure agreed upon during COP17, to be conducted through national designated authorities. In the longer run, as the facility develops, the Board may consider implementation through selected private sector entities.