Concept Note

Workshop on "Accessing Green Climate Fund: Opportunities, Options and Challenges for the Private Sectors& CSOs"

Background Information

At the UN Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP) in Copenhagen in 2009, developed countries agreed to mobilize from public and private sources a combined $100 billion annually by 2020 to help poor countries reduce emissions and cope with climate change. The Copenhagen Accord, the result of that conference, enshrined the $100 billion goal, stating that the funding would be raised from "a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance." Separately, the Copenhagen Accord also called for the formation of the Green Climate Fund (GCF) as a new channel for disbursement of climate finance. The GCF was formally established as part of the Cancun Agreements in 2010 and subsequently designed by an appointed Transitional Committee. A year later at the Durban climate negotiations, the governing instrument of the GCF was adopted, which includes a provision to establish a Private Sector Facility (PSF) that enables it to, directly and indirectly finance private sector mitigation and adaptation activities, as these are two broad areas of funding, at the national and international level and also highly encourage Private Sectors and Civil Society Organizations (CSOs) to get involved in Adaptation and Mitigation funds.PSF is widely regarded as one of the most innovative features of the GCF. While SMEs and CSOs can play a crucial role by joining hands with the public sector to combat climate change, accessing finance remains a challenge for most small and medium sized enterprises (SMEs). The PSF of the GCF aims to address these challenges by allocating a significant share of its resources to finance private sector activities and promoting participation of local private sector actors. There is a strong emphasis on promoting the participation of local private sector actors in developing countries and on tailoring financing instruments to cover the additional cost of the investment necessary to make projects viable. In other words, the GCF business model not only aims to raise money from institutional private investors, but also support local, small-scale businesses to invest in climate responsive technologies and ventures.

The GCF is to promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to the developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change. Naturally, procedures on how national, regional and international organisations will be accredited (qualified for sufficient fiduciary capacity and thereby being entrusted with donors' funding) to receive GCF fund for climate actions is the central concern for developing countries.

The GCF aims to provide simplified and improved access to climate finance including through direct access. In this regard, Governing Instrument of the GCF provides "simplified and improved access to funding, including direct access" through a "country-driven approach". To facilitate direct access to the Fund the GCF Board made a requirement for the recipient countries to appoint a National Designated Authority (NDA) or mandate a focal point to operate the Fund, and flexibly decide on its location, structure, operation and governance.

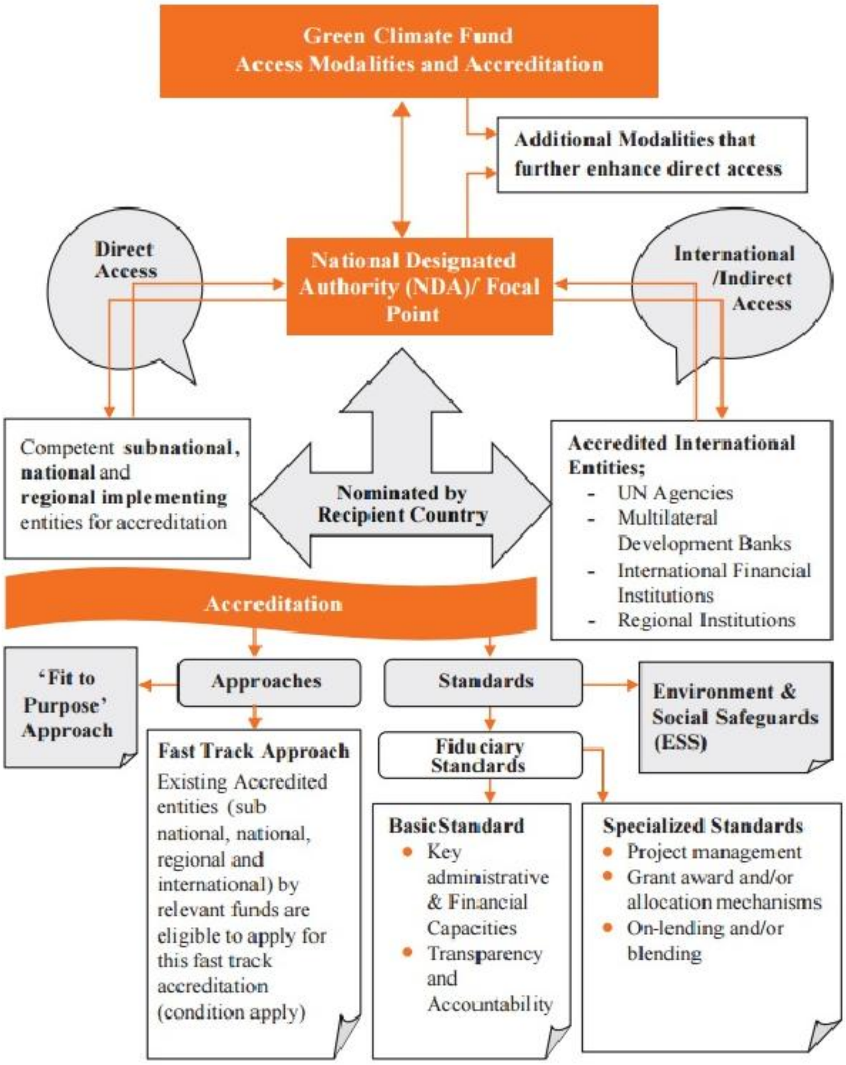

Figure: Accreditation and access modalities of the Green Climate Fund

In general, there are two different ways to access resources from the GCF. First one is 'Direct Access' which is through a National Implementing Entity (NIE) that includes any national institution accredited by the GCF. The second one is 'Indirect Access' which is through Multilateral Implementing Entity (MIE) that includes multilateral development banks and the United Nations agencies that are accredited by the GCF. The Board of the GCF has already accredited seven institutions to access resources from the GCF such as the Asian Development Bank (ADB), the German Development Bank (KfW), the United Nations Development Program (UNDP), the Secretariat of the Pacific Regional Environment (SPREP), Centre de Suivi Ecologique (CSE), Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE) and Acumen. These organisations, as MIEs and NIEs, have been accredited by showing a specific level of standards and criteria that are required by the GCF.

Direct access of resources from any international climate finance mechanism is of particular interest to all developing countries. However, due to lack of institutional capacity in climate finance governance, developing countries are unable to get accreditation of NIE to ensure direct access of resources from international climate finance mechanisms such as the GCF. Most of the developing countries are now relying on MIEs for accessing resources from any international climate finance mechanisms including the GCF.

Globally, private sector invested 62% of climate finance in 2012 (Climate Policy Initiative 2012)[1]and there is more private money out there, but to-date, holders of some of the largest pools of capital, such as institutional investors which together manage assets of over $70 trillion, have yet to invest at scale. The PSF of GCF offers potential to play a far-reaching role in catalysing the private sector, through supporting investments that range from increasing access to affordable finance for micro enterprises, to mobilising long-term institutional investors in support of countries' programmes and priority investments.GCF also aims to minimise the transaction costs of working with CSOs by having accredited entities originate, approve, administer, and manage financing on behalf of the GCF through a programmatic approach. CSO intermediaries can be accredited to deploy the Fund's resources. Such entities will have a choice of financial instruments that includes equity and guarantee instruments alongside grants and loans. This will increase the effectiveness of the GCF in partnering with CSOs and mobilising its capital.

While Bangladesh has been quite successful in using its public sector intermediaries to incentivise the private sectors, a lot more needs to be done to ensure CSOs utilize their full potential in combating the impacts of climate change, and CSOs engaged in SMEs have a particular niche in mitigation and adaptation under the GCF. Regarding climate change

[1]http://www.climatefinancelandscape.org/#who-are-the-actors

mitigation and adaptation related activities, some examples including opportunities in Bangladesh are following:

The Bangladesh Bank launched an initiative that gives incentives to the financial sector to lend to industries, SMEs and micro finance institutions (MFIs) aiming to invest in green technologies, such as solar home systems, solar irrigation pumps, energy efficient technologies, pollution control technologies, etc. The "policy guidelines for green banking," introduced by the central bank in 2011, requires every bank to allocate a specific budget to finance green projects. This includes direct or wholesale lending for renewable energy projects. The Infrastructure Development Company Limited (IDCOL) is another example of a government-owned financial intermediary that channels donor and government finance to decentralised climate-friendly energy projects. IDCOL has supported the setup of more than 3 million solar home systems in Bangladesh, and its business model is now being replicated in several countries in Africa. These existing institutions and policies provide evidence of tried and tested models of how local financial intermediaries can be instrumental in promoting the participation of private sector actors in Bangladesh. Such entities can also become accredited GCF intermediaries, fitting with the fund's ambition to ensure country ownership and direct access. Accessing GCF funds directly through Bangladeshi organisations is an opportunity for more SMEs to access finance.

It has been mentioned above that necessarily countries have to appoint a National Designated Authority (NDA) to operate the Fund and criteria based NIE/MIE to access to the Fund. Following through, as of February 6, 2015, the GCF has received 96 initial NDAs or Focal Point Designations, where Bangladesh has nominated its **Economic Relations Division (ERD)** of the **Ministry of Finance** as **NDA** or **Focal Point**. Meantime, the NDA in Bangladesh launched an inclusive consultation process and short-listed 14 national institutions considering them potential of being NIE/NIEs while meeting basic and specialized standards set by the GCF. The NDA also completed a 'self-assessment' process to identify strengths, gaps of the prioritized institutions .Following the self-assessment process, during 28-29 January 2015, country's NDA focal point, (Senior Secretary of Economic Relations Division of the Ministry of Finance) organized a consultation workshop titled "NIE Accreditation Process: Getting Bangladesh Ready for the Green Climate Fund". The workshop deliberately discussed the outcomes of the self-assessment process; discussed capacity/eligibility gaps of the positional institutions and explored required technical assistance to make Bangladesh ready for gaining access to GCF.

Based on the previous experience, this particular workshop will pose a strong inclination to raise awareness among the private sector actors and CSOs of the country to invest on projects that combat the adverse impacts of climate change stressors. Through this workshop, both the stakeholders will be sensitized about the opportunities from the GCF and the accreditation process of the Fund.

Purpose of the Workshop

Purpose of the workshop is to introduce the GCF to Bangladesh private sector and CSOs with a special focus on PSF (private sector facility) window of GCF and facilitate direct access of private sector/CSOs.

Specific Objectives

Specific objectives of this workshop are following:

- To sensitize and raise awareness among the private sector entities and CSOs on the opportunities from the GCF and inform them on the GCF accreditation process.
- To share and gather relevant knowledge about the role of private sectors in combating the impacts of climate change and how private sector and CSOs can get engaged in climate change adaptation and mitigation.
- To foster an open dialogue with the private sector actors and CSOs to understand their needs and challenges for investing in climate change mitigation and adaptation projects.
- To strike a balance between the profit driven goals (private goods) of private sector and climate goals (global pubic goods).

Expected Outcomes

- Enhanced understanding about the Green Climate Fund (GCF), the Private Sector Facility (PSF) of the GCF and potential opportunities for the private sector
- General understanding on the accreditation process of the GCF
- Developing a common understanding of the needs and challenges for the private sector actors and CSOs to invest or get involved in climate change projects.
- An initiation of discussions on innovative financial incentives for private sector in balancing public and private goods paradox.

Output

A report will be prepared to garner and accumulate the cross-country and in-country experiences highlighted in the workshop to take evidence based approach and to follow-up for determining the National Implementing Entity (NIE) for the PSF of GCF. The report will also include the information gathered through the open dialogue which will be beneficial for the NDA of Bangladesh to develop further plan of action on mobilizing the private sector in Bangladesh through the GCF's PSF. UNDP will coordinate with GIZ, ICCCAD and BRAC to develop the workshop proceedings and disseminate widely within December 2015.