CSO COMMENTS ON PRIVATE SECTOR FACILITY
BM4 (JUNE 2013, SONGDO)

Private Sector Facility – Tuesday/June 25

The PSF should not have a separate governance structure but should adopt the same standards, safeguards and results indicators as the rest of the Fund and should be fully integrated within the Fund's governance, along the lines of option 2. As many Board members have pointed out, private sector and financial expertise can be effectively integrated into the PSF in advisory capacities rather than decision-making ones. The relationship with the UNFCCC should also be more clearly articulated.

The establishment of the PSF should not be outsourced. The proposal of outsourcing to the IFC is unacceptable – it has a very poor record on effective development outcomes, and limited experience with domestic, MSME financing.

The PSF paper is overly biased towards international capital markets. It doesn't adequately emphasize options that respond to the guidance set out in the Governing Instrument (country-drivenness; focus on small-and-medium sized enterprises; LDCs and SIDS).

We need an exploration of what private sector interventions can support the efforts of MSMEs in developing country, taking into account the gender differences in the current access to financing options.

In fact, we would like to see the PSF have as a primary objective supporting domestic MSMEs in developing countries. If the PSF emphasizes supporting indigenous private sectors rather than enabling international capital investments, this would have transformative potential in terms of both climate and development benefits.

Catalyzing private sector investment does not necessarily imply an emphasis on the Private Sector Facility. For example, policy shifts may often have the potential to leverage greater change than discrete investments. This is true, even if you think that leveraging the private sector is a critical priority.

Given all this, we don't believe this paper should be accepted as a basis for a decision here.

Private Sector Facility – Thursday/June 27

We support the concerns that this text lacks any assessment of risks. This decision would be quite premature and should not be taken without such assessments. As some Board members have mentioned, it is concerning that we are moving at a snail's pace on other aspects of the Fund but seem to be accelerating through detailed text on the PSF.

With that said, we have a number of serious concerns with this specific decision text – just to mention a few, the mention of innovative financial instruments and modalities in item G, the idea of directly financing private sector activities in item K, the mention of capital market instruments in D6, the mention of third party risks in item D7, etc.

We support the interventions by Tosi and David that local private sector actors in the formal and informal economy should be highlighted. To truly effect a paradigm shift in terms of both climate and development, micro, small and medium sized domestic enterprises must be the primary focus. To that end we suggest moving the relevant language from item f into item e as a core objective of the PSF.

Item H should not be cut down, and we suggest adding "including fiduciary standards and safeguards" to the end. The PSF needs to be integrated to ensure it is subject to, for example, the independent recourse mechanism and other accountability mechanisms of the Fund.

On the advisory group, before any decision on this we would need clarity on its relationship to the broader structure of the Fund, including how it relates to country ownership. For instance, clarification is needed that the Board must approve proposals coming from this body and would not simply be a rubber stamp. We are not sure what a "pre-review" entails – our over-arching concern is that this not become an attempt to create a de facto separate governance structure for the PSF.

If a private sector advisory group is formed, we support Alex on the importance of avoiding conflicts of interest. Finally, I imagine it comes as no surprise that we also strongly agree with Dipak that such a group should also include CSO representatives with private sector expertise, from both developed and developing countries.