CSO Comments on Private sector facility: Potential approaches to mobilizing funding at scale (BM9, March 2015)

- While the Fund will need to engage the private sector to accelerate the paradigm toward low-emissions and resilient development, this decision requires significant revisions to add clarity and details regarding the tools proposed.

- This paper seems to address increased financialization for the sake of mobilizing more money, rather than as a means to an end – for example, improved resilience in Mali, decreased emissions in Colombia, etc.

- It is not clear what is intended by the calls for mobilizing resources "at scale." For example, talking about reaching "scale" globally is very different from discussing it in the context of climate work in the Maldives or Malawi. This term should be more precisely defined.

- Discussions to-date on the role of the PSF have been quite abstract. The board needs a real debate so as to define the role of the PSF and concrete plans with regards to how it will be operationalized.

- In the balancing of selection criteria, it is important to ensure that investment decisions are driven first and foremost by the adaptation and mitigation needs of the people of a country, not merely the ability to "attract and crowd-in third-party funds." Such criteria are particularly troubling when it comes to adaptation.

- Much of what is in the decision text has already been decided upon by the board – for example, financial intermediaries have already been empowered by the Board to use varying financial instruments, and the GCF may already accredit a variety of private intermediaries. There is no need to decide on what's already been decided.

- The one significantly new element is in paragraph (e), which suggests auctioning out a proportion of concessional financing. There is no annex explaining what this would be, no specification on how much concessional funding would be put aside for auctioning out, and no mechanism is elaborated in the body of the paper, so it is not ready for decision. The Fund already has investment criteria on "efficiency and effectiveness" that include cost effectiveness and co-financing. These are important factors to consider, but are not the only factors and we can see no need for a facility that would seek to put one of the six criteria above the others.

- If the GCF is to use leverage ratios in any assessment, it must establish a methodology to calculate leverage ratios that avoids the problems that have plagued the leverage ratio calculations employed by other institutions. Such ratios are often inflated and based on methodologies that are inconsistent within and between institutions. Indeed, reported leverage ratios frequently bear little relation to the efficiency of projects in achieving their goals.

- The decision proposes a crowd-funding portal. While crowd-funding has its merits, it is premature for the Board to take this up. Similarly, we do not understand the need to discuss "non-binding letters of intent" at this point in the decision text.

- The section "Leveraging: Mobilizing funds at scale from institutional investors and private investors at the project or programme level" must be revised to consider the many potential risks of working through financial intermediaries, as documented in, for example, an audit of financial sector investment by the IFC done by the Compliance Advisor-Ombudsman (CAO). Extensive evidence demonstrates that a reliance on financial intermediaries can result in inadequate monitoring and transparency, poor development outcomes, compromised environmental and social standards, and serious deficiencies in accountability to affected communities and other stakeholders. Sub-projects financed by the GCF through financial intermediaries must be held to the same environmental, social, fiduciary, and transparency standards as investments that are directly financed by the GCF. The GCF must remain vigilant about these long-standing concerns as it approaches a likely high level of reliance on financial intermediaries.