Discussion Paper

Taking care of business: the role of National Designated Authorities in engaging the private sector in the Green Climate Fund

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Executive Summary

The importance of private sector engagement

It is now widely accepted that the climate change challenge - that of building low emission, climate resilient economies and societies - cannot be addressed by the public sector alone. The private sector has a vital role to play: it will provide the technologies, products and services that are needed; and it will provide the majority of the funding necessary to finance the transition to a low emission, climate resilient future. Moreover, private sector organisations are important actors in the transition, participating by taking actions to reduce their emissions and increase their resilience.

Public climate finance, from a range of sources, including the Green Climate Fund (GCF) can be used to fund interventions that will encourage and enable the private sector to play these key roles by addressing barriers, reducing risks, and increasing returns. Those responsible for designing projects and programmes need to work out what the desired low emission or climate resilient (or both) outcomes are, and then work out what the role of the private sector is in achieving those outcomes, and how they can be engaged to play that role. Depending on the outcome that is sought, the role of the private sector will be quite different from project to project.

Successful development and delivery of climate change projects or programmes, whether mitigation, adaptation or a combination of both, requires a number of different activities to take place, with different actors playing different roles at different times, including from the private sector. A range of different groups of private sector actors will be involved, including: project managers and other organisations closely involved in implementation; consultants and advisors; sector representatives and associations; investors; and the wider group of private sector actors who will participate in and benefit from a project's activities. All play different but important roles in making climate change projects successful.

The GCF and the role of the NDA

The Green Climate Fund (GCF) has been established to channel climate finance from developed to developing countries, mobilising funds at scale, including investment from the private sector. Developing countries around the world are busy getting ready to receive GCF funding to support their climate change goals, and are putting in place the processes and arrangements necessary to access funding and implement projects. This includes nominating a National Designated Authority (NDA), the core interface between a country and the GCF.

The GCF has identified a number of functions that it suggests NDAs should undertake. Two of these are: the NDA must nominate organisations for accreditation as national Accredited Entities (GCF funds can only be disbursed through Accredited Entities, either national or international); and NDAs must provide a no-objection letter to accompany any project proposals submitted to the GCF. These functions are relevant for both public and private sector institutions and projects. Beyond these two tasks, the NDA does not have a critical role to play in engaging with the private sector, though of course it should keep the private sector in mind when undertaking its activities, because of the key role the private sector will play in most mitigation and adaptation activities.

Instead, it is the Accredited Entities (AEs) (and the organisations that work closely with them in delivering projects and programmes) who are the key actors when it comes to private sector engagement in the context of GCF interventions. AEs can be from the public sector or the private sector. The AEs lead the detailed design of projects, and they are responsible for their delivery. Once the desired outcomes for a specific project have been agreed, with input from the NDA and other stakeholders, it is the AE that needs to work out how the private sector needs to be involved in the project, and then to develop a project design that will achieve that involvement. Doing so will involve engagement and consultation with private sector actors – to gather insight in what will work and what will not work – but most of this activity does not need to involve the NDA, as it would be impractical for it to participate in all the consultation activities that are going on to develop project concepts and proposals, or to engage widely with large numbers of private sector organisations on the subject of the GCF. Thus it is the AEs that play the key role in private sector engagement.

Therefore, one of the most important things an NDA can do is to cultivate, over time, a pool of international and national AEs operating in its country that have a mix of capabilities and resources that is aligned with the mitigation and adaptation priorities of the country. In all countries, achievement of most if not all of those priorities will require engagement and participation from the private sector. Thus having private sector AEs, or AEs with a good understanding of how to work with and influence the private sector, will enhance their ability to generate and implement GCF projects that work with and through the private sector, and which mobilise private sector investment, to achieve the country's climate goals.

NDAs have realised this and many are actively nominating organisations for accreditation by the GCF, including thinking about which private sector organisations might make good candidates for accreditation. The majority of AEs accredited so far have been public sector organisations, while all the private AEs are from the financial services sector. Both these trends seem likely to continue. The financial services sector thus constitutes a particularly important private sector group for the NDA to engage with.

Bangladesh and Morocco

Bangladesh and Morocco are highly vulnerable to climate change and are both very active on the topic. The two countries have had success in accessing international climate finance so far, and both are working to develop the institutions and processes necessary to continue this track record with the GCF. One of the initial eight GCF projects approved will be implemented in Bangladesh. Both countries understand the importance of the private sector in achieving their climate change goals and have begun to take actions to engage the private sector. They thus make interesting case studies for the question of private sector engagement and the role of the NDA.

Recommendations

While private sector engagement is not a core function of the NDA, there are a small number of activities that NDAs can undertake in order to support effective private sector engagement in GCF activities. This report identifies activities that NDAs can usefully undertake relating to: preparation and strategy; creating a community of Accredited Entities; raising awareness of the GCF among key groups; and support for the development of a pipeline of GCF projects. Given the central role of the AEs in engaging the private sector, the recommendations about creating a community of AEs should be a particular priority, including the following actions:

- Encouraging national entities to get accredited, especially those from the private sector or well suited to working with them;
- Engaging strategically with regional and international AEs operating locally, as they can develop and deliver projects to complement national AE efforts;
- Targeting the financial services sector to encourage participation in GCF projects and accreditation by the GCF, as the financial sector is likely to be important in many projects and is relatively manageable to engage with.

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Introduction

The World Economic Forum (WEF) projects that around US$ 5 trillion of annual investment in green infrastructure is required by 2020 to stabilise the global climate at 2 degrees Celsius[1]. The Climate Policy Initiative (CPI) estimates that climate finance flows in 2014 reached US$ 391 billion, US$ 148 billion coming from public and US$ 243 billion from private sources[2]. Although the numbers from CPI show an annual increase of 18% compared to 2013, they represent a small portion of the total finance needed for low-carbon, climate resilient infrastructure when compared to the WEF estimate.

The United Nations Framework Convention on Climate Change (UNFCCC) has created the Green Climate Fund (GCF) to channel climate finance from developed to developing countries. The Fund outlines ambitious goals in terms of transformational impact and mobilising funds at scale, including boosting investment from the private sector. The GCF aims to mobilise financial flows from businesses and capital markets towards low-carbon, climate-resilient investments. Using innovative tools and approaches, including its Private Sector Facility (see Box 1), the GCF aims to unlock private sector investment into mitigation and adaptation, taking into consideration the specific needs of recipient countries.

The main communication channel between the GCF and countries is the nationally appointed National Designated Authority (NDA). The NDA is the core interface between a country and the GCF, and has strategic oversight of all GCF related activities in a country. Despite an existing body of knowledge and guidance, the roles and responsibilities of NDAs and other key actors are still evolving alongside the GCF itself, and in particular there is a lack of clarity as to how they should be engaging and enabling the private sector to get involved in the GCF.

The definition of an NDA, as well as other key GCF terms, is provided in Box 1.

1 WEF Green Investment Report 2013: http://www3.weforum.org/docs/WEF_GreenInvestment_Report_2013.pdf

2 CPI Global Landscape of Climate Finance report 2015: http://climatepolicyinitiative.org/wp-content/uploads/2015/11/Global-Landscape-of-Climate-Finance-2015.pdf

Box 1: Definitions of key GCF terms

National Designated Authority (NDA) / Focal Point: The core interface and main point of communication between a country and the GCF. According to the GCF the NDA 'seeks to ensure that activities supported by the Fund align with strategic national objectives and priorities, and help advance ambitious action on adaptation and mitigation in line with national needs'[3]. A key role of an NDA is to provide letters of nomination for potential National Implementing Entities (NIEs) and no-objection letters to accompany proposals for GCF funds. A Focal Point is the same as an NDA in terms of its roles and responsibilities, and is put in place as an interim solution by countries while an NDA is being established. Section 3 provides more detail on the role of NDAs and the current status of NDAs around the world.

Accredited Entity (AE): The GCF will work with a wide range of institutions in distributing its financial resources for projects and programmes. Among the most important are the Accredited Entities, because GCF funds have to be channelled through them. These institutions have to go through a process of accreditation with the GCF during which they must prove that they meet the fiduciary standards for the type and scale of funding they wish to apply for, can manage environmental and social risks, and adhere to the gender policy of the GCF. Activities of an AE might include developing and submitting project proposals, managing and operating projects or programmes, and channelling funds through a wide range of instruments such as grants or concessional lending.[4] An AE can be an international organisation (such as the World Bank), a regional organisation, or a national one (operating just in one country), selected by the country's NDA to apply for accreditation at the GCF. As well as managing GCF projects and programmes themselves, AEs can play an intermediary role where they pass GCF funds on to other (non-accredited) entities to implement the project. A number of the international AEs may choose to play this intermediation role in their projects, with national AEs more likely to manage projects themselves.

National AEs were originally referred to by the GCF as 'National Implementing Entities' (NIEs), but this term is no longer in use and is thus not used in this report. Instead, a distinction is made between 'international' and 'national' AEs where useful and relevant.

Executing Entity (EE): the GCF defines an EE as 'an entity through which GCF proceeds are channelled or used for the purposes of a funded activity or part thereof, and/or any entity that executes, carries out or implements a funded activity, or any part thereof'[5]. Essentially, EEs are the organisations that undertake the range of tasks necessary to achieve project objectives, but do not receive funds directly from the GCF. EEs undertake a wide spectrum of potential activities, depending on the project context and objectives. The role of EEs is considered in more detail in Section 2.

[3] GCF NDA guidance document: https://www.greenclimate.fund/documents/20182/104167/2.10_-_NDA_FP_FAQ.pdf/47b8acca-9826-408e-85a5-f1acbdeb80ab

[4] For further information on the GCF accreditation process see http://www.greenclimate.fund/ventures/accreditation

[5] Taken from the GCF concept note guidance document: http://www.greenclimate.fund/documents/20182/46529/GCF_Concept_Note_User_s_Guide.pdf/64866eea-3437-4007-a0e4-01b60e6e463b

Private Sector Facility (PSF): The GCF has established a Private Sector Facility (PSF) to engage private sector investors, developers, entrepreneurs, corporations, and small and medium sized enterprises in mitigation and adaptation projects in developing countries. At present, many aspects of the PSF are still to be determined and it is not yet fully clear how the modalities of the PSF will be different to the rest of the GCF (which also supports private sector projects). The PSF has been exploring ways to work more flexibly with the private sector and recently issued the first of two planned Request for Proposals (RfPs) for projects working with the private sector in innovative ways. The first RfP was open from July to end August 2016 and invited existing and potential AEs and "qualified financial institutions" to "propose approaches that deploy financial solutions for MSMEs (micro, small and medium sized enterprises) in support of mitigation and adaptation activities in developing countries"[6]. A second RfP is expected for proposals to mobilise private sector funding at scale.

The PSF is expected to become increasingly relevant to the question of private sector engagement within the GCF, but is not discussed further in this report, because of the current lack of detail about how it will operate and what it will focus on, beyond these initial RfPs.

The overall objective of this study is to enhance NDAs' understanding of how they should focus their efforts to maximise private sector engagement in the GCF.

Chapter 2 of this report examines the role that the private sector plays in climate change projects. The chapter describes what is meant by the term private sector engagement, and identifies the range of actors that are involved in projects and the different roles they might play.

Chapter 3 considers the role of an NDA, in particular looking at what the NDA could or should do to enable and encourage private sector engagement in GCF projects.

Chapters 4 and 5 are short case studies on climate change and the private sector in Bangladesh and Morocco respectively. The case studies provide an overview of the climate change priorities and climate finance activity in the two countries, and describe the level of engagement of the private sector in climate change. The case studies also provide an overview of the current status of activities directly related to the GCF in the two countries.

Chapter 6 provides some general recommendations to NDAs on what they can do to engage the private sector in the GCF.

6 GCF RfP document: http://www.greenclimate.fund/documents/20182/24891/FP_2016_PSF_001_MSME_Pilot_Program.pdf/47c13bcb-1d84-406e-b4fa-ebe24f92f17b

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Understanding the role of the private sector

2.1 The importance of the private sector in climate finance

It is now widely accepted that the climate change challenge - that of building low emission, climate resilient economies and societies - cannot be addressed by the public sector alone. While the public sector may provide the overall frameworks, and use incentives, taxes and regulations to steer economies and societies in the desired direction, in most countries it is the private sector that is the engine of economic development and which has the tools and the resources to get the job done. The private sector thus has a vital role to play in achieving the climate outcomes the world has agreed to work towards. Understanding how to mobilise and leverage the vast array of assets and capabilities that the private sector has at its disposal is therefore increasingly a focus of projects and programmes around the globe. As noted in the introduction, the purpose of this report is to take a closer look at how countries can use support from the GCF to achieve this, with a particular focus on the role of the NDA.

The remainder of this section considers the nature of private sector involvement in climate change projects, to better understand what NDAs can do to encourage and enable that involvement, in support of their overarching aim to create and oversee a portfolio of impactful GCF supported interventions in their country.

2.2 Understanding private sector engagement

In considering what an NDA could do to most effectively engage the private sector in achieving desired climate outcomes in their country, it is helpful to think about what 'private sector engagement' really means in practice, and how it can vary from project to project, between types of private sector actor, and over time. This includes defining both the terms 'private sector' and 'engagement'.

Several development organisations, including the United Nations Development Programme (UNDP), use a definition of the private sector from the OECD. This defines the private sector as:

> *"A basic organising principle of economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion."*[7]

This broad definition includes, in addition to firms of all sizes, individuals and households, and covers both the formal and informal (i.e. unregulated and untaxed) economy. For the purposes of this study, however, the activities of individuals and households that are not intended to generate commercial income are excluded. In its private sector strategy, UNDP lists the types of actors that are included: multinational companies; large domestic companies; MSMEs; intermediaries such as business associations; social enterprises; mutual and cooperative organisations (which are mainly in the financial services sector); and state owned enterprises (because many engage in commercial activities in open markets)[8]. All of these are included in the scope of this study. Thus a smallholder farmer, a hairdressing salon, a bank, and a large industrial company would all be included.

This varied range of private sector actors has a crucial role to play in the transition towards low emission, climate resilient societies in three distinct ways:

- They provide the technologies, products and services that are needed to make the transition possible;
- They provide the funding necessary to finance the transition, filling the large gap between what the public sector can provide and what is needed;
- They themselves are important actors in the transition, as organisations responsible for emissions, and as organisations that are vulnerable to climate change.

While, at least initially, only a relatively small proportion of businesses will fall into the first two role categories, ultimately all businesses will fall into the third category, due to the degree of change needed and the central role of the private sector in modern society. For this study, 'engagement' of the private sector means taking action to encourage the relevant private sectors to play one or more of these three roles, within

7 This definition is used in, for example, the OECD's 2004 publication 'Accelerating Pro-Poor Growth through Support for Private Sector Development' https://www.oecd.org/dac/povertyreduction/34055384.pdf

8 Strategy for Working with the Private Sector, UNDP, July 2012: http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP-Private-Sector-Strategy-final-draft-2012.pdf

the context of GCF project and programme development and delivery. Typical activities to achieve this would include providing information, convening events, creating networks and connections, facilitating public-private partnerships, and supporting the development of an overall policy and regulatory framework that is conducive to private sector participation.

As noted above, the 'private sector' is made up of many different kinds of organisation. Organisations vary in what they offer, in which sectors they operate, in how narrow or broad a range of goods and services they offer, in where they operate, in how large or small they are, and in many other ways. The key determinant of their role in achieving climate outcomes is likely to be their 'function': what do they offer to the market? Whether they are a technology provider, an energy project developer, or a provider of finance, to name just three examples, will have a significant bearing on the role they play in climate projects. Thus, identifying the main categories of organisational 'function', at a level that is both relevant and practical, is likely to be helpful in working out engagement approaches that can be implemented by NDAs and their partners.

Engagement of any particular group of private sector organisations is however the means, not the end objective. In any given sector or priority area, the NDA, along with other stakeholders and partners, needs to work out what the desired low emission or climate resilient (or both) outcomes are, and then work out what the role of the private sector could be in achieving those outcomes, and how they can be engaged to play that role. Depending on the outcome that is sought, the role of the private sector will be quite different: a project seeking to reduce emissions from urban transport will likely involve a different set of private sector actors, doing different things, to one seeking to improve the resilience of an agricultural sub-sector to climate change impacts. NDAs and other stakeholders must recognise that the nature of 'private sector engagement', and the tools to achieve it, will vary depending upon the context and the outcome sought.

One further aspect is particularly important in thinking about how to engage the private sector in the context of climate funds such as the GCF. Funding from the GCF is principally disbursed to countries via specific interventions - projects or programmes - each with planned activities and a set of implementing entities and stakeholders. Each intervention will go through a number of stages in its lifecycle, beginning with the early concept development stages, and moving to implementation and then evaluation. Along the different stages of this lifecycle, different kinds of private sector actors will be involved at different times, and in different ways. Understanding which actors are involved during which stages will help NDAs identify who they should be engaging with and when, and how their own role may vary over the lifecycle of interventions. In the remainder of the report, the term 'project' is used to refer to GCF funded interventions, whether they are projects or programmes, as the role of the private sector is the same in both.

The following two sub-sections explore these two important dimensions in more detail.

2.3 Making GCF projects happen: different actors, different roles

Successful development and delivery of GCF projects, whether mitigation, adaptation or a combination of both[9], requires a number of different activities to take place in a sequence, with different actors playing different roles at different times. It is in the NDA's interest to have a clear vision for how this process should work, and to be clear on the different roles that need to be played to implement all the crucial steps. The NDA can then engage with the different groups of actors at the right times, and in the most effective ways. Ultimately the NDA may wish to cultivate an 'ecosystem' of the relevant private (and public sector) actors who all come together to create and deliver impactful GCF projects.

In order to identify the different roles that must be played, a simple project lifecycle is presented below, breaking the process down into the major stages, to show which actors need to be involved at which points, based principally on the project's needs at that moment. The stages are described below and summarised in Figure 1 at the end of this sub-section. There are many ways to break down the project lifecycle, with more or less stages depending upon what best suits the objective of the exercise. The purpose of this breakdown is not to provide a thorough guide to the project development process, but to highlight the different actors involved at different stages. Five separate stages are described below; three relating to the project development process, and two relating to actual delivery of the project following the award of funding from the GCF[10].

1. Idea Gathering and Prioritisation

The first stage in the process is to gather ideas for potential projects, and to begin to prioritise them. This exercise may most easily be conducted at the sector level, so that relevant stakeholders can be gathered and their time used effectively. The NDA has a key role in convening such events, and in providing inputs such as information on government priorities, as may be detailed in the country's (I)NDC or other climate change strategies and plans. A range of private sector actors should be involved, including sector representatives (in the form of actual businesses, sector associations, or trade bodies), consultants and other experts, and potential project managers. The output of this first stage should be a list of priority project concepts that has the support of the NDA and other key stakeholders. At this stage it is not necessary for the NDA to select which ideas will be submitted, as the focus should be on two-way sharing of information between the relevant parties. Idea gathering exercises (which do not necessarily require physical meetings) also have the benefit of helping ensure that the organisations involved are aware of who else is considering work in similar areas or topics, thus improving co-ordination and avoiding duplication.

9 Projects targeting both mitigation and adaptation outcomes are referred to as 'cross-cutting' by the GCF

10 The GCF outlines a 6 step 'proposal approval' process: proposal generation; concept note development and submission (voluntary); proposal submission; analysis and recommendation; GCF board decision; legal arrangements. The first three are led by the NDA and accredited entities and correspond broadly to the first 3 stages mapped for this study. http://www.greenclimate.fund/documents/20182/239759/4.2_-_Proposal_Approval_Process.pdf/53357eae-1a4d-48da-99c5-e11c5ef7761c

2. Concept Development

Idea prioritisation is followed by concept development. The key objective in this stage is to turn a high-level project idea into a clearly articulated project concept, supported by evidence and analysis and with stakeholder buy-in. The set of tasks could be led by an organisation which could eventually be the project manager should the project proceed to delivery (potentially an 'Accredited Entity' in GCF terminology, which may also be a public sector body), or it could be led by a consultancy contracted specifically for the concept development phase. Additional organisations may also be contracted to undertake supporting analyses such as market assessments or feasibility studies. As evidence is gathered to identify the particular set of interventions that will make up the project, a range of stakeholders from both public and private sectors should be consulted. Who these are will vary according to the sector, the interventions under consideration, and the desired outcomes sought, but in each case it is likely to involve organisations that could play a direct role in delivering the project (e.g. commercial banks which might disburse green loans; or construction firms that might build new climate resilient infrastructure), organisations that might benefit from the measures put in place by the project (e.g. industrial sector companies; or farmers), or private investors that could contribute additional capital to the project. At least the first two categories, and possibly the third, will be necessary for most projects to succeed and should be engaged at this stage, as a minimum to gather information on the feasibility of the arrangements and measures under consideration.

3. Funding & Resource Mobilisation

Following development of a high-quality project concept that has the support of the NDA and other key stakeholders, the next stage is to mobilise funding and resources for the project. For a GCF project the critical set of tasks in this step relate to the production and submission of the documents required for the GCF to make a funding decision. Private sector involvement in this step is likely to be relatively limited compared to the first two steps, as most of the work in this step will be undertaken by the Accredited Entity (who must submit the proposal to the GCF, and who may be either from the public or private sector). The AE may contract private sector advisors or consultancies to help with the tasks required or to provide specific inputs (such as a detailed feasibility study or financial model). In projects where private sector investors will provide capital directly into funds or other investment vehicles set up by the project, alongside public funders such as the GCF, further engagement with these investors will be necessary in this step, to clarify the terms of their participation.

These first three stages constitute the proposal development phase, and for good projects will hopefully lead to a positive funding decision from the GCF Board. The project lifecycle then continues into the final two stages. In some cases the GCF may request that the proposal be re-submitted with modifications, in which case some activities in the second and third stages will need to be repeated.

4. Project Set-Up

Once the GCF has approved a project, and once the legal and contractual arrangements between the GCF and the relevant entities from the project are in place, the key stage before actual implementation is to set up the project. This involves final design and putting in place of the project's organisational structure, including a project management unit (or equivalent), and contractual and operational arrangements between the AE and any Executing Entities (EEs) who it will work with to implement the project, and its governance structures including government (and NDA) participation in steering committees (or equivalent fora). As with the previous step, private sector involvement in this step of the project lifecycle is likely to be relatively limited, as much of the work will be undertaken by the AE and a few select EEs (and both the AE and EEs could well be from the public sector).

5. Project Delivery and Monitoring & Evaluation

The final, longest, most complex and most important stage of any project is that of project delivery or implementation. The activities undertaken and the range of actors involved in this stage will vary more from project to project than in the other stages, because of the large potential difference in the nature of the core activities being implemented by the project. These could range from providing adaptation services to vulnerable forest communities to introducing new financial instruments to encourage energy efficiency in the industrial sector, to give just two very different examples, which are briefly described in Box 2 below. The key actors involved from the private sector will of course encompass the key project entities, including the AE if they are a private sector organisation, and also those directly involved in implementing the project, who could be, as noted earlier organisations such as commercial banks, construction and engineering firms, energy project developers, technical consultancies, and additional private investors. Where investors will contribute capital directly to vehicles set up by the project, they will also be closely involved.

The crucial difference, in terms of private sector involvement, between this stage and the stages that precede it, is that in many projects, the delivery phase may feature hundreds or even thousands of private sector organisations who are participating in and benefitting from the project. These could include farmers receiving training in new and climate-resilient agricultural techniques, small-scale renewable energy companies receiving grants to grow their business, commercial companies receiving loans for energy efficiency projects, and a host of other interactions in which private sector organisations might engage directly or indirectly with services or funds provided by GCF projects. Projects that include awareness raising or large-scale information dissemination activity could easily engage with tens of thousands of private sector beneficiaries.

It is through these direct and indirect participants that many projects will ultimately achieve their impact, measured in tonnes of CO_2 avoided and beneficiaries whose resilience has been improved. They are the ones who will make use of the information, services and funds provided by a project and use them to make changes to their practices that will reduce their emissions and increase their resilience. It is also likely to be the case that the better designed a project is, and the more effectively it is implemented (including effective oversight and co-ordination by the NDA and other government stakeholders), the greater the number of private sector organisations that will engage with it. Realistically and practically, the role of the NDA in maximising the engagement of this wider audience of direct and indirect private sector participants is likely to be relatively limited, and is addressed in Section 3.

Box 2: Private sector involvement in GCF projects approved in November 2015

Wetland Resilience in Peru
This 5 year project seeks to enhance the resilience of indigenous communities living in the wetland ecosystem in the Datem del Marañón province of Peru, improving their livelihoods and reducing GHG emissions from deforestation. Its activities aim to entrust management of local natural resources to indigenous communities and improve preparation and ownership of land use plans for the region. The private sector has a key role in the project: by supporting the creation and effective operation of private sector businesses focussed on sustainable exploitation of local resources (e.g. producing and selling non-timber forest products such as food products), the project will help local communities to create economic value by preserving the forest environment. The total project budget is USD 9m of which the GCF will provide USD 6m.

Energy Efficiency Green Bonds in Latin America and the Caribbean
This project aims to provide an alternative financing mechanism for energy efficiency projects through the issuance of asset-backed green bonds[11] to support the development of private sector initiatives in energy efficiency. The programme hopes to stimulate broader support from institutional investors from the private sector for the development of green bond markets, which will enable private sector organisations in the industrial and commercial sectors to invest in energy efficiency projects. The total project financing is USD 780 m of which USD 215 m will come from the GCF.

This final stage in the project lifecycle should also include monitoring and evaluation of the project, which should take place throughout project delivery and also after the completion of the project. External evaluators should be used for at least some of this activity, and these are likely to be private sector evaluation specialists. The ongoing and final evaluation will require some direct involvement with private sector organisations who were involved in the project as implementers or beneficiaries, and where appropriate, with private sector organisations who were not involved in the project (to understand why they did not participate).

Figure 1: shows the 5 stages described above, and summarises the key tasks, and the private sector organisations normally involved in each stage.

[11] "Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Green Projects" (Green Bond Principles 2016: http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/)

	Project Development			Project Delivery	
	Idea gathering and prioritsation	Concept development and detailed design	Funding & resource mobilisation	**Project Set up**	**Delivery and M&E**
Key Tasks	• Identify potential projects in each priority area • Prioritise and select ones to take forward	• Identify barriers • Identify solutions • Evaluate options • Design intervention • Estimate impacts • Work out plan & cost	• Develop concept notes and proposals • Develop supporting evidence • Submit to GCF • Respond to queries	• Create project org structure • Finalise delivery plans • Contract implementing partners	• Implement project activities • Refine and adapt plans • Monitor and evaluate impact
Private sector actors involved	• Sector representatives • Consultants & advisors • Potential project managers (AEs)	• Project manager (AE) • Supporting consultants • Potential project implementers (EEs) • Stakeholders & experts • Investors	• Project manager (AE) • Supporting consultants • Investors	• Project manager (AE) • Project implementers (EEs)	• Project manager (AE) • Project implementers (EEs) • Other service providers • Investors • Beneficiaries • External evaluator

Figure 1: Key stages in the project lifecycle and private sector actors involved

2.4 A range of actors

The previous sub-sections presented a very high-level categorisation of the main roles played by the private sector in mitigation and adaptation projects, identifying three distinct roles: provision of technologies, products and services; provision of finance; and participation in the transition, often fairly indirectly, as all organisations steadily become low-emission and climate-resilient.

To understand the different roles played in specific projects that might be funded by the GCF, a more subtle breakdown is needed, one that is derived from the observation that it is the core 'function' of an organisation that determines the role it will play in a GCF project and therefore will inform how and when a GCF project should seek to engage them.

The previous sub-section identified at a high-level the main tasks necessary to turn an initial concept into a GCF funded project and then to implement it, and the kinds of private sector involvement that is necessary at each stage. This gives a sense of the range of private sector actors that will normally need to be involved and how. Understanding the kind (and number) of organisations that fall into each of these categories will help the NDA plan its engagement strategy.

The following groups of private sector actors were identified:

- Project managers;
- Executing Entities;
- Consultants and advisors, including evaluators;
- Sector associations;
- Investors;
- Wider private sector beneficiaries.

The remainder of this sub-section takes each of these groups in turn, describing the organisations that may comprise them.

Project managers

The project manager is the organisation responsible for receiving the funding from the funder and for delivering the project. In GCF projects this organisation must be an Accredited Entity (AE) and it is also the AE that must submit the proposal to the GCF. The AE should be involved in all stages of the project lifecycle but in certain cases, an initial idea may have been elaborated into a relatively detailed concept by other parties (e.g. consultants), before the AE becomes formally involved.

As discussed in the Introduction (see Box 1), some AEs may choose to play an intermediating role in project delivery, rather than take on the full range of project management responsibilities. In such cases the AE will pass on the GCF funds to one or more Executing Entities who will perform some aspects of the project manager role. It is unclear at this time how often AEs will play an intermediating role, or what split of responsibilities between AEs and EEs will be most common in these situations. In the remainder of this report, the role of the AE (and EEs) is described assuming the AE is acting as the project manager, and not playing an intermediating role. In situations where the EEs take on some of the project management tasks under an intermediating AE, then those EEs will consequently become more important actors as far as private sector engagement in GCF projects is concerned.

In many cases the AE will be a public sector organisation, whether national or international. As of October 2016, 33 entities have been accredited by the GCF and only 5 are from the private sector (Deutsche Bank, HSBC, Crédit Agricole, Africa Finance Corporation, and Acumen Fund). A further 82 entities have submitted applications, of which 18 are from the private sector[12]. Figure 2: below shows these numbers. If this ratio persists, as seems likely at least in the short term due to the nature of the projects and the relatively limited availability of eligible private sector organisations in developing countries, only a minority of AEs will be from the private sector.

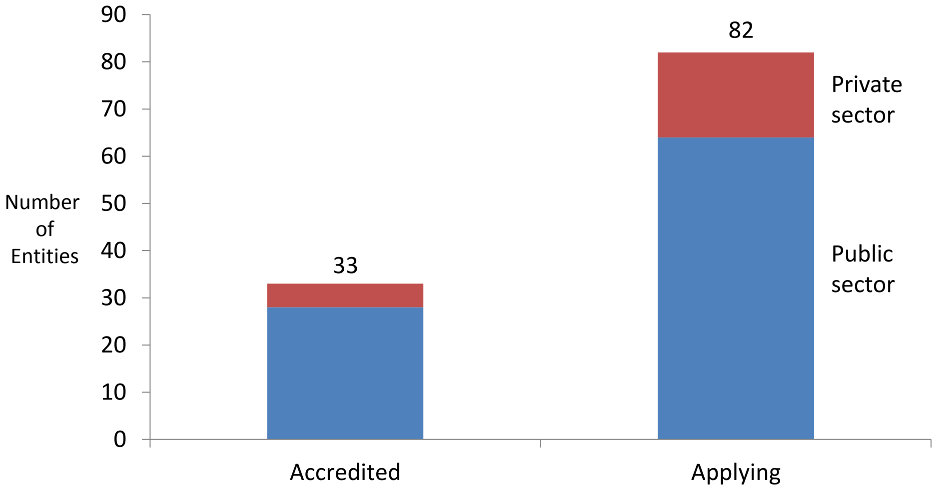

Figure 2: Status of entities accredited or applying for accreditation (as at end September 2016)

Following the example of the five private sector organisations that have been accredited so far, the financial sector is well placed to provide a significant proportion of the AEs from the private sector. Financial sector organisations, especially investment banks, fund managers and impact investors, are experienced in handling large sums of money (as many GCF projects will require), generally will have the fiduciary standards required for accreditation, and also will be familiar with the range of financial instruments through which GCF funds can be deployed. The potential importance of this group to NDAs is discussed further in Section 3.3. The environmental and social safeguards (ESS) that are also part of GCF accreditation may be more of a challenge for potential AEs from both the financial services sector and more generally, depending on how active entities have been in developing and using ESS previously.

12 Data from the GCF website Accreditation pages: http://www.greenclimate.fund/partners/accredited-entities/ae-composition

It is not clear at this point what other kinds of private sector organisation, from outside the financial sector, are likely to seek accreditation in meaningful numbers. Private sector organisations that currently manage large development projects have a suitable business model as well as relevant capabilities and a track record, though they are primarily international organisations based in the developed world and as a result may be less appealing partners for NDAs and governments looking to create a more country-owned and country-delivered portfolio of projects.

Executing Entities

In most GCF projects the AE will not have the capabilities, resources or geographical reach to implement all the various activities that make up the project and which are necessary to achieve its objectives. Across the range of project types and sectors these could include such things as management of specific financial instruments, investment in new ventures or projects, provision of extension services to farmers or rural communities, capacity building with a range of private and public sector actors, and actual design and construction of new or upgraded infrastructure. Projects which incorporate several different activities that require specific capabilities will therefore need to assemble a group of partner organisations who will deliver project services and who will receive project funds to do so. In GCF terminology these are the 'Executing Entities' (see definition in Box 1). These organisations can come from either the public or private sector, depending on which is more appropriate for the project.

In some cases these organisations will be identified during the concept design stage (stage 2 in the previous section), where for example there is only one organisation that has the specific capabilities or networks, and will be involved in the further design of the concept and named in the GCF proposal. Normally, this will only be true of public sector agencies, which were established for a particular purpose and which often have no competition (e.g. because they deliver a public service[13]). In cases where the EE(s) will come from the private sector (because that is what best suits the project's needs), these partners may be selected during the project set up or even delivery stages. In most if not all cases a competitive process will need to be used to ensure the project makes use of the best partners, and obtains value for money (and to ensure that GCF procurement rules are adhered to). In these cases it is important that during the design stage, it is confirmed that there exists in the local market sufficient capability among potential EEs to deliver the project services. This should form part of the feasibility assessment that is required by the GCF.

Private sector EEs may come from a range of sectors and organisation types, depending on the needs of the project to implement its activities effectively. Examples of different kinds of private sector EE who could be involved in projects include:

- Commercial banks, who may disburse loans or other forms of finance using GCF project funds, for example lending to industrial and commercial businesses for energy efficiency projects;

[13] An example arrangement from an approved GCF project is the structure of the ecosystem resilience project in Senegal, in which the AE (Centre de Suivi Ecologique, a Senegalese non-profit organisation) will work with three other public agencies listed in the proposal as Executing Entities, including two local public agencies: Reseau Africain pour le Developpement Integre (RADI), and Institut National de Pedologie (INP).

- Specialist consultants, who may provide capacity building or outsourced services to public sector organisations (government ministries and agencies) or provide services to the private sector;
- Project developers, who may develop renewable energy projects financed by GCF project funds;
- Engineering and construction firms, who may design and build new or upgraded low-emission or climate-resilient infrastructure;
- Not-for-profit organisations, which may provide awareness raising, advisory and extension services to vulnerable individuals and communities.

As noted above, in some cases where the AE chooses to play an intermediating role, then one or more EEs may take on more of a project management role, and those EEs will become a more relevant group for NDAs when thinking about private sector engagement.

Consultants and advisors (especially those focused on project design and development)

The project development process, incorporating the idea generation, concept design, and funding mobilisation stages, can be lengthy and resource-intensive, and will need to draw upon a range of capabilities to generate a compelling proposal. In a recent survey of GCF project development practices, GCF proposal development was found to take 21 person months over a period of 5 months[14]. Few NDAs or national AEs will have the resources to staff this process entirely with their own staff. As a result, the survey also found that 82% of respondents had used consultants to develop their proposals.

In addition to providing flexible manpower to undertake time-consuming tasks such as research and completion of required documents, consultants bring specialist skills that can be critical to developing a high-quality proposal. This includes technical knowledge, economic and financial expertise, and stakeholder engagement skills. Funder requirements for proposals normally include evidence for and articulation of several relatively complex concepts such as additionality, paradigm shift, embeddedness, and long-term sustainability. This is also the case with the GCF. Many consultancies active in the climate and development space have experience in how to meet these funder requirements, developed from previous assignments.

While the majority of consultancies with the relevant skills and experience are typically based in the developed world, many of these have a local presence through local offices and associates, and increasingly in developing countries locally owned and staffed consultancies are emerging who have relevant skills, and the advantage of local networks and knowledge of in-country conditions and issues. As a result NDAs and AEs in most countries should be able to draw on appropriate consultant support.

Consultants and others providing advice are likely to be most heavily involved during the concept design and resource mobilisation / proposal development stages (2 and 3), and less involved during project set up and delivery, though as noted above, certain consultants, especially those with technical capabilities, may also be involved as EEs during the delivery stage. The final project delivery stage will also include monitoring

[14] GCF Insight survey undertaken by Eco Ltd in February 2016. 282 respondents from all regions, including 37 NDAs. http://www.ecoltdgroup.com/GCFinsight-key-findings/

and evaluation activities, and some of these will need to be undertaken by external evaluators. There is a pool of very experienced private sector evaluation specialist consultancies which may be drawn upon at specific points to evaluate GCF projects.

Sector associations (and other representatives)

Identifying project ideas and developing concepts requires input from a range of stakeholders to ensure that the right issues and barriers have been identified, and that the solutions being considered are feasible and likely to be effective. Where projects aim to deploy interventions that target the private sector, it is necessary to gain input from representative private sector actors to check that the proposed solutions are likely to work. For example a financial instrument may need to be designed in a particular way to ensure the widest uptake and impact. In many sectors however, the number of active private sector organisations could easily number in the tens of thousands, and engaging with a meaningful sample of these is not realistic for most projects during their development stages. A way to gain a representative picture of the issues and needs of the sector is to engage with sector associations or trade bodies, organisations whose purpose is to understand and represent their sector. As well as sector based organisations, there may be other useful associations for example those representing the MSME community.

Sector associations may also play a role as EEs where a project requires access and dissemination channels to reach private sector organisations.

Investors

Some projects will seek to attract private investors to contribute capital directly into the project, which will then be used to achieve the project outcomes, for example via a fund investing in companies providing low-carbon solutions in their local market (e.g. the approved GCF project to be implemented by Acumen Fund, the “KawiSafi Ventures Fund in Eastern Africa”). Such projects will often create investment vehicles or funds in which private investment can be blended with public funds from sources such as the GCF. The private investors contributing capital in this way are distinct from those investors who may invest in activities that have been enabled or stimulated by a GCF project (for example an investor investing in a renewable energy project that was facilitated or made possible in some way by a GCF project), because they are investing their capital directly into the project, to be managed in some way by the accredited entity or its EEs. As such they need to be engaged with directly by the project entities.

Wider private sector beneficiaries

The wider private sector beneficiaries are companies or smallholders that benefit from services provided by projects. As was observed in the description of the project delivery stage in the previous section, many projects will achieve their results only through the actions of a large number of private sector organisations who are not formally or directly involved in the project, but who take actions to reduce their emissions or improve their resilience (or who invest in those activities), as a consequence of the services provided by the project.

For the vast majority of private sector organisations in any country or sector, their engagement with climate projects or the GCF will not extend beyond this indirect and distant relationship. A business can benefit from a green loan from a bank, or from improved low carbon transport options, or from increased availability of climate resilient seed types, without knowing that the funding that enabled this comes from the GCF. Similarly, companies installing solar panels may benefit from an increase in business due to GCF-funded energy projects. The important thing is that the project has been well designed and executed, in a way that aligns with the private sector's interests and which creates value and opportunity for them.

3

The role of the NDA

This section explores the role the NDA plays, in particular looking at what the NDA could or should do to enable and encourage private sector engagement in, and through, GCF projects. First, it briefly considers the status of NDAs around the world, looks at the overall role of the NDA, and then considers in more detail the role of the NDA with regard to private sector engagement, drawing upon the observations made in the previous section about the project lifecycle and the different groups of private sector actors that are involved.

3.1 Status of NDAs around the world

Since the GCF became operational, countries have been preparing themselves and getting ready to receive and deploy GCF funds. Over 130 countries have nominated NDAs, though many of these are rather nascent institutions at present. The GCF reports that all NDAs have been saying that they lack resources[15]. A large number of countries have requested financial support from the GCF's readiness program, with 125 countries submitting readiness requests, and 75 proposals submitted of which 49 have been approved[16]. Funding is available for a range of preparatory activities including strengthening the NDA, and developing a country programme for the GCF. As a result in 1-2 years the majority of NDAs should have significantly augmented their resources and developed plans and processes appropriate to their country situation.

It is likely though that there will always be a large variance between countries in the amount of resource that NDAs have at their disposal, and how well connected they are to other climate and development activities in their country. The way in which the NDA approaches its role, and the degree of influence it wields, will also be affected by the host organisation in which it sits. In some countries the NDA is part of the Ministry of

15 Interview with GCF Country Programming division

16 Data is from the GCF 'Readiness Support State of Play' update as of 31 May 2016 http://www.greenclimate.fund/documents/20182/46516/20160601_-_Readiness_Support_State_of_Play.pdf/60519d7a-e334-40d5-a0ab-86f79b60e36d

Finance (which is always a powerful ministry), and in some part of the Ministry of Environment or equivalent climate change focal point ministry (which is often a less powerful ministry). An analysis of the 141 NDAs that had been nominated by June 2016 shows that around half (48%) of NDAs are part of the Ministry of Environment (or equivalent ministry), while only 20% are part of the Ministry of Finance[17]. This is shown in Figure 3:. The remaining NDAs are part of other ministries or environment, climate, or other agencies. What kind of entity the NDA is will not only influence how they operate (e.g. because of the depth of their experience with climate finance) but will determine how familiar they are with dealing with the private sector, and thus how easy it is for them to engage with them.

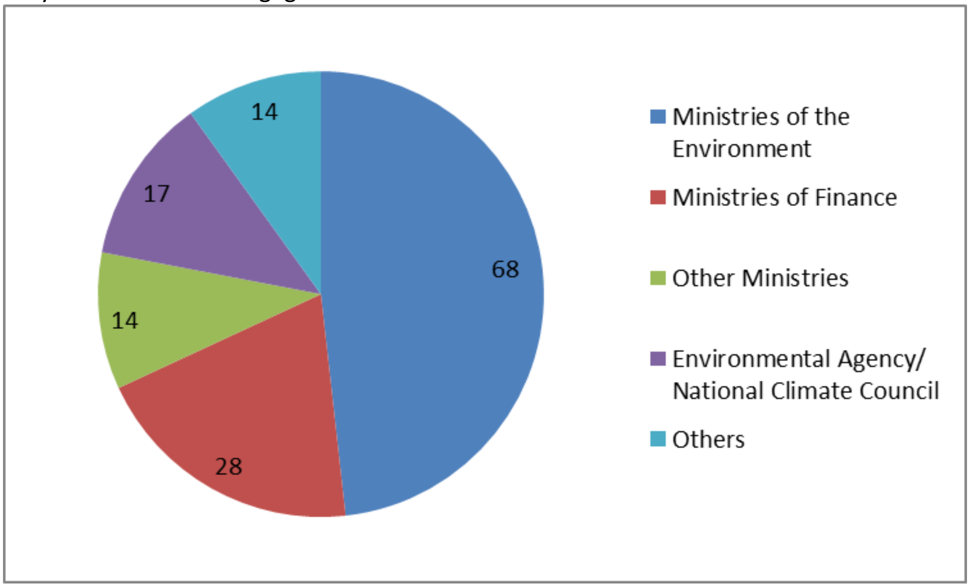

Figure 3: Type of entity nominated as GCF NDA or Focal Point

3.2 General role of the NDA

The NDA is the core interface between a developing country and the GCF. The GCF has identified a number of functions that it suggests the NDA should undertake, but how many of these an NDA chooses to perform, or is able to perform will depend on a number of factors including the resources that are available to the NDA, the 'maturity' of the country in receiving and managing climate and development finance, and how the NDA and its partner ministries wish the NDA to approach its role. It is likely that a range of models will emerge as countries decide what their NDA should do, ranging from a minimum number of functions (for example basic co-ordination, nomination of national AEs, and issuance of the no-objection letter) up to a more comprehensive strategic oversight and co-ordination role, where the NDA undertakes a range of activities to develop and deliver a GCF plan that is well aligned with other climate and

[17] Analysis based on *"Green Climate Fund National Designated Authority (NDA) and focal point designations"* available at: https://www.greenclimate.fund/documents/20182/318991/NDA_and_Focal_Point_nominations_for_the_Green_Climate_Fund.pdf/eeace75b-aa59-489c-8914-c0940debe01f, as of June 2016.

development finance strategies and linked to wider climate-relevant policy-making and programme activity.

This is relevant for the issue of the GCF and engagement of the private sector, because engaging the private sector does not seem to be a critical function for an NDA, and so may be something that less well-resourced NDAs can leave to other actors in the GCF ecosystem in their country, without any particular negative consequences for the development of a portfolio of GCF projects that involves the private sector in various ways. The NDA should of course keep the private sector in mind when undertaking the different aspects of their role, given the central role the private sector will play in most mitigation and adaptation activity. How crucial a focus on private sector engagement is, or is not, for NDAs is explored in the next sub-section.

Some of the other functions identified by the GCF, which are equally relevant to public or private sector focused projects, are[18]:

- Awareness raising and dissemination of information about the GCF;
- Maintaining an overview of all GCF proposals under development;
- Coordinating between proposal development activities to ensure overlap and duplication are avoided;
- Developing and implementing a GCF Country Programme;
- Coordination with focal points of other funds.

3.3 The NDA and the private sector

Section 2.2 observed that private sector engagement itself is not the objective of GCF or any other climate funded projects. The objective is to achieve outcomes that lower emissions, or increase climate resilience (or both). In many, if not all cases, it will be necessary to involve the private sector to achieve these objectives. In some cases the private sector involvement may be quite limited, whereas in others the project will involve a private sector entity receiving the GCF funds, and disbursing it to other private sector partners who work to deliver outcomes wholly within the private sector. The important point is that the project is designed to involve the set of actors and activities that are necessary and sufficient to achieve its objectives, whether those actors are from the private sector or not. This includes those actors who are directly involved in implementation of the project, and the (normally) larger group of actors who must participate in the project directly or indirectly in order to achieve its ultimate objectives and impact (the beneficiaries).

On this basis, it is the AE which leads the detailed design of the project, and which is responsible for delivery of the project, which has the key role in private sector engagement in the context of GCF projects. Once the desired outcomes have been agreed, with input from the NDA and other stakeholders, it is the AE (and if required, its supporting consultants) who needs to work out how the private sector needs to be

18 See e.g. 'Initial best-practice guidelines for the selection and establishment of national designated authorities and focal points', available at: http://www.greenclimate.fund/funding/readiness-support/fine-print

involved in the project, and then to develop a project design that will achieve that involvement. Similarly during the set up and delivery phase, they need to assemble and manage a range of EEs (many of whom are likely to be from the private sector) and deliver the services in an effective manner to the project's private sector beneficiaries (if that is what the project requires).

Direct engagement with a large number of private sector actors, on a regular basis, is simply impractical for most NDAs, as they will not have the resources to undertake this alongside the other responsibilities they have. Furthermore it is not necessary, as stated above. The remainder of this section considers some of the things an NDA can do to support greater private sector engagement in GCF projects (repeating the caveat that this is the means, not the end).

Getting Ready

Section 2.3 described the project lifecycle and the different private sector actors involved. But before the work of generating project concepts and developing them for GCF funding (and subsequent delivery) can happen, there is a set of preparatory activities which need to be undertaken that require some private sector participation, and in which the NDA plays a key role. As mentioned above, funding is available from the GCF to support this, though many countries may have started the less intensive aspects of preparatory work before receiving dedicated GCF funding.

It is worth bearing in mind that while the GCF is a new institution with new processes and requirements that interested parties will need to become familiar with, it is by no means the first large climate fund, and many countries have already secured substantial sums from other funds, for which they will have established their own processes and coordination channels. Many of these countries will likely adopt similar arrangements for the GCF, to the extent that they are suitable, which may include approaches for engaging the private sector. Whether the GCF NDA is also the focal point for other major funds (as is the case in some but not all countries) will also have a bearing on how they approach their preparation activities.

One of the preparation activities that the GCF recommends as part of the establishment of a country programme is for the NDA to convene 1-2 workshops to assemble stakeholders, to share information on planned approaches and to gather their input on their needs and issues when considering GCF activities. This process should include the private sector, both in the form of businesses and investors. Sector associations may also be useful participants because of their representative role. Workshops such as this will allow the NDA to gauge the level of understanding about the GCF among private sector representatives and their appetite to be involved.

Once again it is worth being realistic about what level of understanding about the GCF is reasonable to expect from the private sector, and indeed what is necessary and should therefore be aimed for. There will be a relatively small number of private sector organisations who operate in the environment and development space (mainly consultants) who are very aware of the range of public funds focussed on climate and development outcomes (whether bilateral or multilateral) and who are experienced in developing and delivering projects and providing related advisory services, and there are other organisations in, for example, the financial sectors or engineering, construction and energy sectors that have dedicated teams and for whom this kind of public money is an interesting opportunity for funding their work on a profitable basis. It is in these firms' commercial interest to remain well informed about developments at the GCF, and to make themselves known to potential customers or intermediaries such as NDAs and AEs in countries in which they have an interest in operating. Indeed some of these organisations may be interested in becoming AEs themselves, as discussed in the previous section.

Beyond these select organisations there is the remainder of the private sector, the vast majority of whom will have essentially no awareness of the GCF (or other climate funds) at all. For most of these organisations this is to be expected, because their day to day business does not require them to know anything about the availability of climate finance. Most businesses spend their time focussed on their immediate priorities – providing goods and services to their customers – and, so far, for many of them the existence or otherwise of climate funds has not been very relevant.

Actors involved in developing and delivering climate change projects, whether they are the NDA or an AE or an EE or advisor, need to understand this and to design projects that deploy relevant services and financial instruments to private sector organisations through channels they are accustomed to dealing with and in ways that align with the interests and business models. Doing so will involve engagement and consultation with private sector actors – to gather insight in what will work and what will not work – but much of this activity does not need to involve the NDA, as it would be impractical for them to participate in all the consultation activities that are going on to develop project concepts and proposals.

There are still useful preparatory activities that the NDA can undertake, principally targeting the groups of private sector actors for whom the GCF and other funds are a relevant and meaningful business opportunity – the pool of project managers, financial sector organisations, and consultants and advisors who are likely to be directly involved in project design and delivery. In addition to workshops to convene these organisations, discuss and share ideas, and formulate plans, the NDA can issue information about GCF processes that are specific to their country, and issue invitations to participate. This could easily be done through the NDA's website or by emails and newsletters to a mailing list of relevant organisations. If the NDA is the focal point for other funds then it should already be in contact with most of the relevant organisations, if it is not, it could obtain these details from the focal points for other funds.

Working with Accredited Entities

The Accredited Entity, as stated above, is the key actor when it comes to private sector engagement in the GCF project development and delivery process. Indeed, a proportion, though likely the minority, of AEs, will be private sector organisations. One of the most important things an NDA can do then is to cultivate, over time, a pool of international and national AEs operating in its country who have a mix of capabilities and resources that is aligned with the mitigation and adaptation priorities of the country. In all countries, achievement of most if not all of those priorities will require engagement and participation from the private sector, and so having private sector AEs, or AEs with a good understanding of how to work with and influence the private sector, will enhance their ability to generate and implement GCF projects that work with and through the private sector, and which mobilise private sector investment, to achieve the country's climate goals.

NDAs have realised this and many are actively nominating organisations for accreditation by the GCF. It is not clear at this point how many AEs an NDA will want to have working in their country (and indeed this is likely to vary considerably from country to country depending on their size, the complexity of their economy and the range of adaptation challenges they face), but over time NDAs can take a strategic approach to cultivate a pool of AEs that has the relevant capabilities to develop and implement projects in all their key priority areas. For example, if improving the resilience of agricultural activity in specific vulnerable regions is a priority then it will be in the country and the NDA's interests to have an AE operating that has experience in such projects. And in most cases, because the GCF is by no means the first funder of such activities in developing countries, it is likely that there already will be organisations who fit the profile required and who can be nominated. Some organisations will not wait to be asked by the NDA and will approach them seeking nomination.

Having relevant expertise and project experience is one thing, meeting the fiduciary, environmental and social standards required for GCF accreditation and project implementation is another. NDAs may also want to help prospective national AEs to strengthen their internal process and fiduciary capabilities to the level required, for example by dedicating some of the readiness funds they can receive from the GCF to supporting applicants for accreditation, or by working with a development partner to provide such support to entities.

These actions, which contribute to the creation of an active community of public and private sector organisations who are aware of the opportunities presented by the GCF, are motivated to get involved, and who possess capabilities that align with country climate priorities, are among the most important and valuable that the NDA can undertake, especially when it comes to private sector engagement. In addition to these tasks, there are several other functions the NDA can perform, of which one, the issuing of a no-objection letter to accompany proposals submitted to the GCF, is an essential part of the project lifecycle. These are discussed in the remainder of this sub-section.

NDA actions during the project lifecycle

The first stage of the project lifecycle is about gathering ideas and working out which have the potential to make compelling GCF projects. The activities undertaken to achieve this, and the outputs produced, are similar to the activities and outputs of the initial stages of developing a country programme for the GCF, and similar to activities that the NDA may wish to undertake to engage the community of actors and stakeholders who it hopes will play a role in GCF activities. In some cases it may be possible to integrate these various strands of work such that the same activities can contribute to all three goals. For example a sector-focussed workshop convened by the NDA and attended by a mix of relevant public and private sector organisations could raise awareness about the GCF and encourage organisations to get involved, provide inputs for the country plan, and also generate project ideas for later prioritisation and development as GCF project concepts.

Once ideas have been prioritised and selected for development into concepts for submission to the GCF, various steps follow that require contributions from a range of actors and stakeholders. Most of this process will be led and managed by the AE, who as discussed in previous sections, may augment their own resources and capabilities by contracting consultants and advisors. Ideally the NDA will know about all the GCF concepts and proposals under development at any one time, and will be aware of what stages they are at. It is also advantageous if they are involved in the development process at key points, so they can provide input and co-ordinate consultations. It is in the interests of the AE to ensure this happens, so that the NDA and other government stakeholders remain supportive of the concept and feel they have been consulted at key points about important design decisions, delivery structures, and alignment with other projects, programmes and policies. This is the case for all projects, regardless of whether they are implemented by or target the public or private sectors. The GCF proposal form requires evidence of country ownership and of the consultative process that supported the concept development, and in both cases the proposal should describe how the NDA (and other key stakeholders) have been involved from the beginning.

Issuing the no-objection letter is probably the only function that an NDA absolutely has to perform during the project lifecycle, as the GCF requires an accompanying no-objection letter from the relevant NDA. By issuing the letter, the NDA is implying that the proposal is "in conformity" with the country's priorities and plans and with relevant laws and regulations. The NDA should therefore be in a position to confirm this is the case, though a completed proposal form should contain most of the information to help them do this. In some countries, where government is typically not well resourced and may be less effective at co-ordination of project development processes, the NDA may in reality not do much more than issue the letter. While this is unlikely to be the optimal situation, it need not prevent the development and delivery of effective GCF projects, if there exists enough capability in the form of an AE and a few EEs (which could be either international or domestic). The GCF will only fund projects that demonstrate country ownership, and alignment with national priorities, among other important criteria, so its approval processes encourage the development of projects with the necessary attributes to be effective.

Private sector AEs may be less used to dealing with government, especially in developing countries, than public sector AEs. For example an international private sector financial organisation may see commercial opportunity in managing GCF projects with large budgets, and may apply for accreditation. When developing projects that will operate in specific developing countries, they may find it harder to engage with the NDA and other government stakeholders, and as a result involve them later in the process than might be optimal. In extreme cases they might only approach the NDA when they need the no-objection letter. Whether such an approach is likely to yield a positive outcome is less certain. Either way, it is ultimately in the interests of all the key actors – GCF, NDA and AE – to encourage meaningful engagement between the AE and the NDA during the early stages of project preparation**.** When thinking about private sector engagement in the GCF, this may be an area for further consideration.

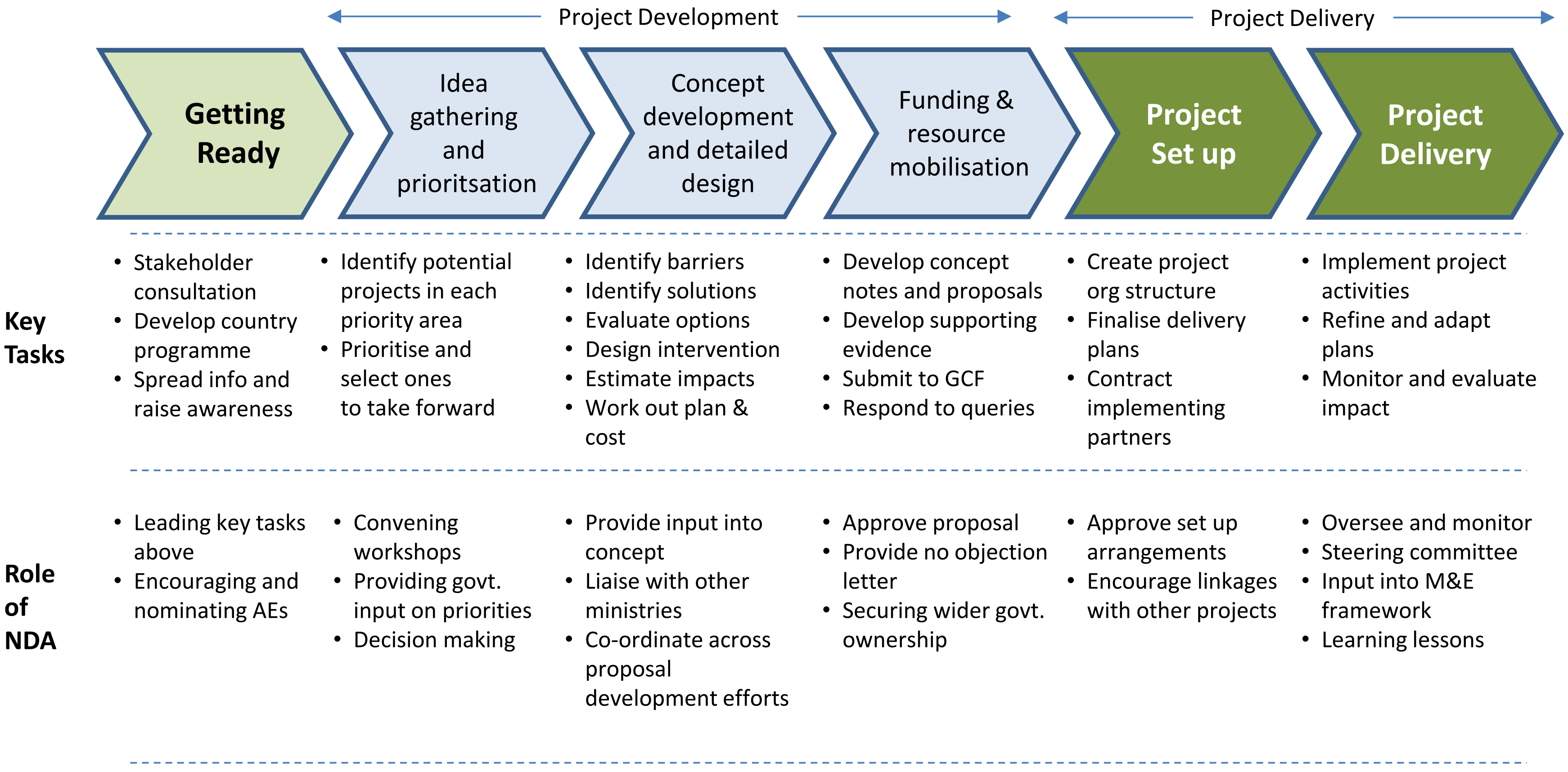

Figure 4: Activities of the NDA across the project lifecycle

Key private sector stakeholder groups for the NDA

As noted above, over the longer term, the most important group for the NDA to be engaging with is the group of current and prospective Accredited Entities. Most private sector engagement will happen as a result of what the AE does to develop projects, and then in delivering them. The NDA does not need to play a central role in most of those processes.

Two broad sectors seem likely to produce the lion's share of prospective AEs from the private sector and therefore may merit special attention and engagement from the NDA. The first is the financial sector (from which the 5 private sector AEs so far have come), and the second is the consultancies and professional services firms who currently deliver large-budget development programmes for international donors and other climate funds. This second group is already well aware of the opportunities presented by the GCF as this kind of activity is their core business. They are likely to approach the NDA in countries where they wish to operate, so the NDA should not have to exert too much effort engaging with this group and stimulating them to get involved.

The financial sector is quite different. For most relevant financial sector organisations (e.g. investment banks and fund managers), the GCF, along with other climate funds, is not their core business and they may only have a superficial awareness of the opportunities for involvement**.** This may be more the case with domestic private financial institutions in developing countries, as they are likely to be less well resourced (especially in the climate and sustainability areas) and less up-to-date with the status of international climate and development funds. It may therefore be worth the NDA seeking to engage directly with this group to make sure they are aware of the opportunities on offer, and that they understand the ways in which they can get involved**.** Generally this group will not be so large (there will seldom be many more than 10 domestic commercial banks operating at scale in a developing country)[19], so this should not be too onerous, especially when compared to trying to engage meaningfully with other sectors which may have many hundreds or thousands of active firms. Some may be good candidates to be AEs, and the NDA should devote extra attention to ensuring those firms have investigated this opportunity and are able to make an informed decision on whether to pursue it.

Finally, the NDA should consider the importance of the wider policy environment and its potential influence on private sector engagement in climate change and in GCF projects. It will be much easier to engage the private sector in GCF projects if sector specific or general policies also provide encouragement and incentives to take positive actions on adaptation or mitigation. While consideration of the relevant policy environment is an important task for AEs (and other involved parties) during GCF proposal development (and for which evidence is required in the proposal document) it will also be helpful for NDAs to be aware of important policy developments in priority sectors or which have a bearing on desired GCF project outcomes, and to engage with the relevant government ministries**.** In certain country cases some of the key ministries may be formally involved in the NDA's governance structure (as described for Morocco

[19] See e.g. 'Banking the Poor' (World Bank, 2009; http://documents.worldbank.org/curated/en/608761468157765351/Banking-the-poor-measuring-banking-access-in-54-economies). In 34 of 53 developing countries analysed the top 5 banks had at least an 80% share of total bank assets, and in 20 countries had a greater than 95% share.

in Section 5) but in others they will not be and this will require dedicated communication and coordination efforts. Depending on the country context finance and planning ministries but also ministries of climate-relevant sectors seem likely to be especially relevant for broader private sector policymaking.

4

Country example: Bangladesh

Bangladesh and climate change

Bangladesh is one of the most vulnerable countries in the world to hazards caused by climate change. The country has one of the world's largest river deltas, sits at the centre of the Asian monsoon region, and has an average elevation of between 4 and 5 metres above mean sea level leaving the country prone to flooding, with almost a third of Bangladesh susceptible to tidal inundation and nearly 70% of the country flooded during heavy monsoons.

Agriculture supports a large number of people with around 48% of the population employed in the sector, and many other sectors and activities in Bangladesh are economically dependent upon it. Storm surges and floods in low-lying coastal areas damage crops, which has severe economic consequences, and can devastate livelihoods of the rural poor. Furthermore, in north-west Bangladesh seasonal droughts limit crop cultivation. The country has one of the highest population densities in the world of over 1,000 people per square kilometer and around 31.5% of the population of about 150 million live below the poverty line, meaning that large numbers of people are particularly exposed and vulnerable to these risks.

Adaptation to climate change is highlighted as a priority in the INDC which Bangladesh submitted in September 2015[20]. The INDC also contains a commitment to cutting the country's GHG emissions by 2030 by up to 15% compared to business as usual, conditional upon international financial and technical support. These reductions will be achieved primarily from three key sectors in terms of GHG mitigation potential: power, transport and industry.

Climate finance

In total over the last 3 to 4 decades, the Government of Bangladesh (GoB) has invested more than US$10 billion towards reducing the vulnerability of the country to natural disasters. The country has established two main funds to channel investment toward

[20] See Bangladesh´s INDC at http://www4.unfccc.int/ndcregistry/PublishedDocuments/Bangladesh%20First/INDC_2015_of_Bangladesh.pdf

climate change activities, the Bangladesh Climate Change Trust Fund (BCCTF) and the Bangladesh Climate Change Resilience Fund (BCCRF). The latter was set up in May 2010 and is one of the channels through which bilateral climate finance flows to projects and programmes that are designed to strengthen the country's resilience to climate change. The fund was set up with initial capital of around US$110 million which has since increased to US$188.2 million.

Bangladesh has also attracted funds from multilateral donors such as the Global Environmental Facility (GEF) through its Least Developed Countries Fund for adaptation and climate resilience activities and its Trust Fund; and the Climate Investment Fund's Pilot Programme for Climate Resilience (PPCR), implemented by the World Bank group and the Asian Development Bank (ADB).

Bangladesh's private sector

Since the 1980's private sector-led growth has moved Bangladesh closer to middle-income country status. The private sector accounts for 93% of Gross Domestic Product (GDP), 81% of total investment, 94% of consumption expenditure, and 80% of domestic credit. Through consistent growth in production and export of textiles, garments, knitwear and frozen foods such as shrimp, the private sector has driven economic and employment growth. Total investment as a proportion of GDP was 25% by FY2011 and the private sector accounted for 20% of this total.[21]

The agriculture and industry (including manufacturing) sectors employ 45% and 30% of the country's labour force, and account for approximately 16% and 28% of the country's GDP, respectively. Within the manufacturing sector, the textiles sub-sector plays an integral role in the Bangladesh economy with exports of clothing accounting for 80% of total exports and 15% of GDP annually. The services sector accounts for approximately 56% of GDP and employed 35% of the country's labour force.[22]

According to the World Bank's Doing Business Survey of 2016 the business environment is not favorable in Bangladesh, which is ranked 174th among 189 countries. The cost of getting electricity supply (3,230% of income per capita), time required to register property (244 days) and time required to enforce a contract (1,442 days) are all well above the averages in South Asia and the Organisation for Economic Cooperation and Development (OECD) in 2010.[23]

Interest in climate change as a private sector opportunity

In the banking sector in Bangladesh, environmental and social issues are becoming increasingly relevant and the role that banks can play in improving environmental performance of the private sector is being recognised. The Sustainable Energy Finance (SEF) initiative of the South Asia Enterprise Development Fund (SEDF, managed by IFC) has been working with the central bank of Bangladesh (Bangladesh Bank) and other Financial Institutions (FIs) to help combat climate change and enhance the market for sustainable energy finance by encouraging FIs to actively consider environmental risk in their investment decisions, and stimulating financing in renewable energy and energy

21 Asian Development Bank Country Partnership Strategy for Bangladesh 2011-2015: http://www.adb.org/sites/default/files/institutional-document/33002/files/cps-ban-2011-2015-0.pdf

22 Percentage shares of GDP and employment of the agriculture, industry and services sectors taken from the World Bank Indicators, unless otherwise stated: http://data.worldbank.org/indicator/

23 World Bank Group 'Ease of Doing Business in Bangladesh': http://www.doingbusiness.org/data/exploreeconomies/bangladesh/

efficiency. The SEDF has also helped to develop an Environmental Risk Management Guideline for FIs to use when incorporating environmental risk into their credit risk assessments in order to address poor environmental due diligence in projects leading to non-performing loans. In the last quarter of 2015, 47 out of 56 banks and 25 out of 31 FIs conducted environmental risk rating in projects.

The Bangladesh Bank has developed 50 green products since it established its green revolving loan scheme totaling 2 billion Taka (USD 25 million) in 2009. 40 banks and 16 FIs have so far signed participation agreements with Bangladesh Bank, and disbursement to date has amounted to 284.4 million Taka (USD 3.56 million).

Bangladesh and the GCF

In June 2014, the GCF secretariat invited the GoB to select and establish the NDA. The Finance Minister nominated the Senior Secretary of the Economic Relations Division (ERD), and on the 24th of November 2014 this selection was formally endorsed by the GCF Secretariat. The NDA has since appointed two additional Secretaries and a Deputy Secretary to support the NDA in his roles and responsibilities with regards to the GCF. There is also a proposal to set up an Advisory committee, consisting of a variety of experts from both the public and private sectors, to support the NDA in its activities.

As of March 2016 there were no national AEs in Bangladesh. However, there are a number of international AEs that have a physical presence in Bangladesh (i.e. an office). These are: Agence Française de Developpement (AFD), Asian Development Bank (ADB), International Bank for Reconstruction and Development and International Development Association (World Bank), International Finance Corporation (IFC), KfW (German Development Bank), United Nations Development Programme (UNDP), World Food Programme (WFP), and HSBC holdings and its subsidiaries (HSBC).

An Inter-Ministerial review of GCF Funding Proposals took place in May 2015, and the Accredited Entity KfW subsequently submitted a proposal to the GCF for the “Climate Resilient Infrastructure Mainstreaming (CRIM)” project in August 2015 in advance of the 11th GCF Board Meeting. The CRIM project has since been approved by the board of the GCF.

Implementation of the CRIM project will be led by Local Government Engineering Division (LGED), which is the Executing Entity. The project has been developed as a public sector project, thus engagement with the private sector has been limited and will be confined to procurement of consultants and contractors during the implementation phase. At the time of writing KfW is yet to sign an Accreditation Master Agreement (AMA) with the GCF, which is a prerequisite to disbursement of funds by the GCF and subsequent implementation of the project. Once the AMA has been signed, KfW and the CRIM project partners will be able to undertake procurement which will be done according to KfW procurement guidelines approved by the GCF during the accreditation process, as is indicated in the funding proposal. Bangladesh has several international AEs with a physical presence in the country, and national organisations that are considering or already in the process of pursuing accreditation. The international AEs are all experienced in engaging with the private sector on climate issues, and could thus be well-suited to developing and managing private sector focused GCF projects in Bangladesh. It remains to be seen how successful national organisations will be in becoming accredited at the GCF, and subsequently how well they are able to develop and manage private sector focused GCF projects.

5

Country example: Morocco

Morocco and climate change

In late 2016, Morocco will host the 22nd UNFCCC Conference of Parties (COP22), greatly raising the prominence of the issue of climate change and focussing the attention of the world on the country. Morocco however needs little encouragement to take climate change seriously: with large areas of desert, a long coastline and an economy that remains quite dependent on agriculture, it is highly vulnerable to climate change. Morocco also has a very strong incentive to transform its energy sector. With no domestic fossil fuel energy industry, it imports in excess of 95% of its energy, making it extremely vulnerable to energy price volatility and energy security shocks. Fortunately the country is blessed with enormous renewable energy resources, especially solar and wind, and is making great strides to exploit these sources while also improving energy efficiency.

Morocco’s INDC was submitted in June 2015[24]. The headline commitment of the INDC is to reduce GHG emissions by 32% by 2030 versus business as usual, contingent on access to international support. This will be achieved primarily through a transformation of the energy sector.

The INDC also lists a range of adaptation priorities for 2020 and 2030, including increased use of drip irrigation, reforestation, desalination of drinking water supply, improved efficiency of water use, and crop switching. Morocco’s INDC has been rated as ‘Sufficient’ (i.e. fully consistent with the below 2°C limit) by Climate Action Tracker, and it is one of only 5 countries to achieve that rating[25]. By contrast, the EU, USA and China are all only rated as ‘Medium’.

Climate Finance

Morocco has been extremely successful in securing international climate finance in recent years. As a result, a range of key stakeholders, including government ministries and agencies, and project developers and implementers, have gained valuable

[24] See Morocco´s INDC at http://www4.unfccc.int/submissions/INDC/Published%20Documents/Morocco/1/Morocco%20INDC%20submitted%20to%20UNFCCC%20-%205%20june%202015.pdf

[25] See www.climateactiontracker.org for further details.

experience in accessing funds, experience that will stand Morocco in good stead as it prepares for the GCF.

A December 2014 report from ODI reviewing global climate finance ranked Morocco as the top recipient of climate finance over the preceding decade, with a total of 607m USD approved. The vast majority of this was for mitigation (over 95%), and took the form of concessional loans (96%)[26]. The biggest source of climate finance to Morocco by far is the Clean Technology Fund, which has provided 590m USD in concessional loans to four renewable energy projects.

A range of implementers are involved in Morocco's portfolio of internationally funded projects, both international and national. The international organisations include the World Bank, the African Development Bank, EBRD, UNEP and UNDP. Among the national organisations are Morocco's one accredited entity to the Adaptation Fund (and also now to the GCF), the Agricultural Development Agency (ADA), and also the Moroccan Agency for Solar Energy (MASEN), and the National Agency for the Development of Renewable Energy and Energy Efficiency (ADEREE).

Morocco´s private sector

Morocco's open, market based economy is the sixth largest in Africa. The services sector accounts for more than half of GDP (57%), with agriculture accounting for around 15% and industry around 30%. Agriculture is a major contributor to employment, providing jobs for around 40% of the workforce, with the service sector employing a similar proportion, and industry the remaining 20%[27]. MSMEs make up almost 90% of all businesses, and generate up to 80% of employment.

Morocco has one of the most developed banking sectors in Africa, and several of its domestic banks are among the largest in the continent. Given the potential importance of the financial sector in climate projects involving the private sector, having a well-developed banking sector is a positive attribute for accessing the GCF. In total there are 19 banks operating in Morocco, and 34 non-bank financial institutions, including consumer credit specialists and micro-credit lenders. The banking sector is dominated by locally owned banks, who accounted for more than 80% of banking assets. It is also a heavily concentrated market, with the largest three banks (Attijarawafa Bank, Banque Populaire, and BMCE) accounting for 66% of total assets[28].

Interest in climate change as a private sector opportunity

The steady reduction in fossil fuel subsidies over the last few years has greatly strengthened the business case for renewable energy and energy efficiency, and this, coupled with the large reductions in cost in renewable technologies such as solar PV, has encouraged some Moroccan businesses to implement renewable energy projects. According to ADEREE, Moroccan private sector industries have already installed about 500MW of wind energy. Some of the very largest businesses (both international and Moroccan) have also made use of the Clean Development Mechanism (CDM) to finance

[26] ODI (2014) - Climate finance: is it making a difference? A review of the effectiveness of Multilateral Climate Funds, ODI, December 2014 https://www.odi.org/publications/8518-climate-finance-making-difference-review-effectiveness-multilateral-climate-funds

[27] Data from CIA World Factbook: https://www.cia.gov/library/publications/the-world-factbook/geos/mo.html

[28] Oxford Business Group, 2016 – Morocco Country Report, Financial Services Sector http://www.oxfordbusinessgroup.com/overview/moroccos-banking-sector-sees-asset-growth-expanded-lending-and-greater-penetration

wind and biomass projects, for example Renault (automotive); Lafarge (cement); Lesieur-Cristal (cooking oils); Cosumar (sugar).

Morocco's domestic banks are increasingly interested in and active in climate change issues, principally by providing finance for energy efficiency and renewable energy. As with banks in other countries, they see it as an opportunity to extend their relationships with customers and offer additional products. However the level of understanding across the banking sector of the opportunities presented by the GCF and other such funds is still relatively low.

BMCE started offering energy efficiency finance around 10 years ago, making use of a credit line from the IFC. BMCE has also been certified as a sustainable bank by IFC. Along with two other banks, Banque Populaire and Maghrebail, it is participating in the EBRD funded MorSEFF energy efficiency finance project to provide finance for sustainable energy projects to Moroccan industrial companies.

Morocco and the GCF

Morocco has identified its preferred structure and governance arrangements for the NDA, and is in the process of putting these in place. The Focal Point for the GCF is the Ministry of Environment. The two other key elements are a Steering Committee, composed of five ministries, and a Support Structure, made up of a Consultative Committee, (comprising the Steering Committee ministries, additional sector ministries, agencies, financial institutions, private sector and civil society representatives) and the 4C Maroc (Climate Change Competence Centre), which is providing support to the Ministry of Environment on GCF matters.

The Agricultural Development Agency (ADA) Morocco's first, and currently only, national accredited entity was accredited in March 2016. ADA have been accredited for 'small' projects (10-50m USD) and their fiduciary accreditation covers 'basic' and 'project management' but not grant award or on-lending.

Eight of the public sector international organisations who have been accredited to the GCF so far have a physical presence (i.e. an office) in Morocco. These include African Development Bank (AfDB), Agence Française de Developpement (AFD), European Bank for Reconstruction and Development (EBRD), World Bank and UNDP. Two of the private sector international accredited entities also have some presence in Morocco: Crédit Agricole, which has a Moroccan subsidiary, Crédit du Maroc[29], and HSBC, which has a representative office in Morocco (though is not a major actor in the Moroccan financial services sector).

Thus, including its national AE, ADA, Morocco is well supplied with AEs with a physical presence in the country, and several Moroccan organisations are considering or actively pursuing accreditation. The international AEs, while public sector bodies themselves, all have very strong experience of working with the private sector on climate issues, and could thus all be well-suited to developing and managing private sector focused GCF projects in Morocco, and to continuing its successful track record of securing international climate finance to support its national climate change objectives.

[29] It is not clear from the GCF guidance available or from the information published about the March 2016 accreditations whether Crédit Agricole's subsidiary in Morocco would be covered by Crédit Agricole's accreditation.

6

Recommendations

This Section summarises the key findings of the study and recommends actions that NDAs can undertake to support private sector engagement with the GCF.

General observations about private sector engagement and the role of the NDA

Sections 2 and 3 of this report explore the role of the private sector and of the NDA. The key general observations include:

- Private sector engagement is not the end objective of climate change projects or programmes, but often necessary to achieve it;
- The role of the private sector in climate projects will vary greatly depending on the context and the outcomes sought, and different types of private sector actor will play very different roles within projects;
- By far the largest group of private sector actors engaged in GCF projects will be the wider project beneficiaries (e.g. companies or smallholders that benefit from services provided by projects), who are only indirectly involved;
- This wider group of beneficiaries generally does not need to know what the GCF is, or who the NDA is;
- Engaging the wider private sector is not a core task for the NDA: AEs are key to stimulating broader private sector engagement, and some – though the minority – may be private sector organisations themselves; however
- The NDA does have a responsibility to keep the private sector in mind as it raises the awareness of and consults with stakeholders on GCF issues, due to the important experience of the sector and the vital role they will play in implementing most mitigation and adaptation activities. This will help to anticipate and circumvent possible implementation barriers.

Recommendations for NDAs

As above, this report argues that engagement of the wider private sector is not a core function of the NDA. However there are a small number of activities that the NDA can undertake in order to support effective private sector engagement in GCF activities. The recommendations can be divided into four categories:

- Preparation & strategy;
- Creating a community of AEs;
- Raising awareness;
- Supporting the project pipeline.

Preparation & strategy
The first three recommendations relate to NDA resourcing, identification of priority areas, and mapping of stakeholders and key actors. These tasks will help the NDA to lay a basis for private sector engagement.

1. **Determine level of resources for NDA and overall approach**

   The NDAs can undertake a range of activities to co-ordinate and support the country's work with the GCF (as described in Section 3.3). However, few NDAs will have the resources necessary to undertake all of these comprehensively. NDAs need to work out what level of staff and financial resource will be available to them (be it within their own entity or through dedicated support structures) and then decide what approach is appropriate and a priority for them, and how involved they wish to be in the GCF relevant activities that will take place in the country, including those that focus on the private sector. Determining the level of resources, and the preferred approach, will influence how many of the following recommendations the NDA is able to pursue, as well as the depth and extent to which they may be implemented.

   Through its Readiness and Preparatory Support Programme the GCF makes available resources to applicant countries, which can be used, amongst other things, to help strengthen the NDA, or to develop a country's GCF Programme.

2. **Identify priority results areas for climate change and the GCF**

   GCF projects should be aligned with a country's climate change priorities. These are typically defined in national climate policies and strategies as well as international commitments, such as the recently published (I)NDCs, for the development of which typically the private sector should have been consulted. Specifically for the GCF the Country Programme provides a format for this process and also here the private sector should be consulted during its development. NDAs should identify and communicate the thematic areas that are not only priorities for their country, but are also aligned with the performance result areas of the GCF. This will allow relevant organisations to align their project development activities with country priorities, and consider how the private sector features in these priority areas.

3. **Map landscape of key actors relevant to private sector engagement**

   Section 2 of the report identifies the main groups of private sector actors who are involved in GCF projects, and considers the different roles they play. It will be helpful for the NDA to have a good understanding of what this landscape of different group's looks like in the country, and for those groups directly involved in project implementation (e.g. Executing Entities) to have a sense of the number, type and capabilities of the actors in each group, and their experience with climate-related projects. This will help the NDA to assess the feasibility of project ideas at an early stage, and identify actors well suited to play particular roles in specific projects. Any awareness raising and consultation activities towards the most relevant private sector audiences can thus be targeted.

Creating a community of accredited entities

The most important group of GCF actors when it comes to private sector engagement is the group of (current and prospective) Accredited Entities. Most private sector engagement will happen as a result of what the AEs do to develop and deliver projects, so it is in the NDA's interests to encourage, over the longer term, the creation of a vibrant AE community, and do what it can to support coordination and knowledge sharing.

4. **Encourage national entities to get accredited**

   To support the creation of a group of national AEs that has the appropriate skills and experience to develop and deliver GCF projects in the country's climate change priority areas, the NDA should identify and engage with a range of potential accredited entities, and encourage those with good potential to consider accreditation. Among the criteria for assessing which are good candidates could be their experience in working with the private sector (whether the organisation itself is public or private), to help ensure that the pool of AEs not only includes private sector organizations but also that it can effectively work with the private sector. However, the NDA should be transparent and clear with potential AEs about the costs of accreditation, and about their prospects for managing GCF projects. At current rates, it is not likely that any one country will have more than 2-3 GCF projects in the medium term, and NDAs should be open about this fact. Until the GCF is operating at greater scale (or until accreditation becomes easier and less costly), organisations may decide that the business case for accreditation is not strong enough to proceed. In this case, countries continue to have the option to work with international AEs.

   To foster a community of national AEs, with the involvement of the private sector, the NDAs should:

   - Initially focus support on organisations that are best prepared for accreditation and best fulfill the respective requirements. When recommending (a limited number of) AEs, NDAs should ensure that these are institutions with the experience of engaging the private sector where needed for achieving a paradigm shift to low-carbon climate resilient development.

   - Ensure country priorities, expertise and experience of AE candidates is aligned. If for example the waste sector is a priority mitigation sector for a country, it makes sense to encourage candidates for accreditation who have strong experience in that sector.

5. **Engage with regional and international AEs operating locally**

   Furthermore, strategic engagement with regional and international AEs, including on private sector participation, is key. As only nine of the 33 accredited entities (as of October 2016) are national AEs, most countries will not have a national AE at present. To access the GCF in the short term, they thus rely on regional or international AEs that operate in their countries. NDAs should encourage international AEs to develop and submit projects in their country, both by welcoming them to do so, and also by engaging with them proactively. Effective communication processes and procedures between the institutions are therefore important. Throughout this process the NDA should be mindful of the engagement of the private sector in potential projects. In addition, the international AEs may also contribute their experience on private sector engagement in the process.

6. **Target the financial services sector for participation and accreditation**

   The financial services sector is likely to provide the majority of private sector national accredited entities, and whether accredited or not, financial services companies will be important EEs or participants in many GCF projects because of their key role in managing and disbursing project financing. For example, around 100 local banks across 24 countries participate in the European Bank for Reconstruction and Development's (EBRD) Sustainable Energy Finance Facility (SEFF), on-lending the funds they receive from EBRD to finance energy efficiency and renewable energy projects[30]. They are therefore an important private sector group and should be targeted specifically by the NDA to maximise their awareness and engagement in GCF activities. As the number of major banks in any country is not large, it should be possible to engage directly with the majority of key actors. As with other stakeholder groups from the private sector, it will be important to provide them with a clear articulation of the nature of the opportunity and of the benefits to them of engagement in GCF activities, as well as being clear about the eligibility requirements and limitations[31].

Raising awareness

While it is not necessary for the NDA to raise awareness of the GCF among the wider private sector, it does have a responsibility to raise awareness of its plans and processes among the community of key stakeholders and actors, including those from the private sector, who play a direct role in GCF projects or who themselves influence how the private sector engages with climate issues.

7. **Develop GCF knowledge hub within NDA or its support structure to raise awareness**

[30] For further detail see http://seff.ebrd.com/about-seff.html

[31] E.g., In some cases, multi-lateral development banks may have limitations on what kinds of financial institutions they are able to channel funds through

The GCF is a new institution, and it is not well understood by many organisations, especially potential AEs or EEs in the private sector, that are unfamiliar with or new to the world of climate finance. To address this, additional awareness raising by the NDA is required. The NDA, or some other part of the NDA's support structure, should be in a position to clearly explain the key GCF processes, requirements, access and funding modalities, as well as the most relevant restrictions and limitations (e.g. procurement requirements), particularly with a private sector audience in mind. At least basic in-house capacities on these topics should be established to allow the NDA to advise stakeholders or refer them to appropriate resources. Furthermore, basic information materials for the national context and in the national language should be in place.

Support the project pipeline

Finally, there are activities the NDA can undertake to engage the private sector during the development of GCF projects, including by coordinating idea generation and encouraging international AEs to develop projects with national actors in their country.

8. Gather project ideas including information on private sector needs and interests

The initial step of the project development process is to gather ideas and concepts. In line with the spirit of "country ownership" these ideas and concepts should originate from integrated national planning procedures. In addition to the traditional national planning procedures, climate-related processes such as the development of the (I)NDCs can form the basis for project ideas. The NDA has a key role to play in this, as the core interface between the country and the GCF, for example by convening workshops at which ideas can be discussed and private sector perspectives gathered. It is important to involve the private sector in this process, both to gather its input and to increase its understanding of the opportunities to get involved. Sector and business associations may be a useful channel for gaining a representative perspective.

9. Request progress updates and align project development

Even with only a small number of AEs working or considering GCF activity in a country, it will be advisable for the NDA to track who is working on what concepts, so it can help to avoid duplication, reduce inefficiency, and avoid any surprises about when NDA inputs are needed. NDAs can ask AEs to provide updates on the status of specific proposals, and to share information on which concepts they are considering. Private sector AEs may well be less used to working closely with government ministries or agencies, so are potentially less likely to keep the NDA well informed. NDAs should put in place communication processes (which could be as simple as a quarterly telephone conference or email) to encourage information sharing between them and the AEs.

10. Engage consultancies and encourage participation

Consultants from the private sector are another relevant group in project development and delivery due to their role in supporting and complementing AEs during project development. Most GCF proposals so far have been developed with input from consultants. Where the AEs lack the in-house capacity and staff resources to develop GCF proposals, and could benefit from consultant support, it will help them to identify who the firms are with relevant skills and sector knowledge and to establish a corresponding network. Most relevant consultants should already be aware of the GCF and probably already have working relationships with the relevant stakeholders (whether AEs or ministries), and as the GCF represents a commercial opportunity for consultancies active in the climate and environment sector, they should be easy to engage.

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