Invitation to submit views on work stream III: Operational modalities

Suggested questions for the first technical workshop of the Transitional Committee on issues related to sub-workstream III.1: Finance entry points

Modalities for contributions to the Fund

1. In what form might funding sources be received and what systems, capabilities, governance and legal capacity does the fund require to receive these if the fund accepts contributions from: Governments; the Private sector; Private individuals and Foundations? What additional systems would be required if grants, loans, capital investments or other funding modalities are accepted?
2. What processes and sources might be used to raise funding? If there is a regular process for raising funds, how would such a process be managed? What would be the comparative benefits and costs of periodic compared to ongoing funding receipt? What systems would the Fund need to manage different processes that may be used for receipt of funding?

The energy sector is the key sector for the reduction of greenhouse gases. Hence the GCF should primarily focus on the deployment of renewable energy technologies as the primary means to reduce greenhouse gas emissions in a sustainable and affordable way, on a long-term as well as on a very large scale basis.

The funding sources of GCF should primarily be provided by public/governmental institutions. The GCF should be spent in a way to incentivise private investment and mobilizes private capital on a large scale.

The way in which the GCF spends its funds should be based on the effective and efficient support schemes for renewable energy, as proven at the national, regional and local level.

In order to reduce regulatory risks for investment in climate friendly renewable energy technologies, it will be of crucial importance that the GCF has a predictable budget, provided and guaranteed by governments, on a sound legal basis, like within the UNFCCC frameworks.

Governments mainly from the Annex I countries should contribute, in relation to the amount of emissions they produce/omit and economic strength they represent. The GCF should be governed under the UNFCCC framework.

Governance and administration of the fund should include the relevant international organizations, like the International Renewable Energy Agency IRENA, in order to make sure that the necessary knowledge of effective regulations will be applied.

Correspondingly, private sector should be involved in such bodies through the representative industry associations (like the International Renewable Energy Alliance).

Methods to mobilise and leverage private sector finance, both foreign and domestic:

3. How can the GCF best ‘crowd-in’ private finance at scale, including foreign and domestic sources? What incentives may be provided to engage stakeholders, especially the private sector both at the national and international levels?
4. Should GCF resources be deployed to raise funds from the capital markets, whether through bond issues or some other vehicle that could be considered to mobilize significant amounts of funding from institutional investors?
5. How can the modalities of public-private engagement be optimised, including timing of engagement, aligning project cycles, pre-investment activities, linkages to the carbon markets and other operational issues?
6. How can the delivery of private finance be improved in regions with poorly developed financial markets?

The GCF should primarily focus on public funds and incentivise indirectly the mobilisation of private finance by reducing the perceived and actual regulatory and financial risks of investment in renewable energy technologies. These technologies have usually high up-front investment costs. Hence the capital costs are decisive for the economic feasibility of investment in such projects. It is also important that funds are provided based on the output of the investment, in order to increase efficiency and effectiveness.

Typical renewable energy investments have a very broad range, from very small-scaled, household size (like solar home systems), up to large-scaled projects (like major hydropower schemes). It has to be made sure that the full range of investment will be supported from the GCF.

The International Renewable Energy Alliance has, for this purpose, proposed the implementation of a Global Feed-in Tariff Programme which would allow governments in developing (non-Annex I countries) to set up national feed-in tariff legislation. The additional cost would be covered by the GCF, which would also reduce the regulatory risks for private investors. Built on such a model, it can be expected that a big amount of private capital can be mobilized to be invested in the developing countries. A number of organizations have been supportive of this proposal and some of them have developed detailed proposals, such as: Deutsche Bank, Greenpeace,

In parallel with the Global Feed-in Tariff Programme, micro-credit programmes should be implemented, following the successful model of Grameen Shakti et al, which has already lead to the electrification of hundreds of thousands of families and communities. The basic concept of microcredit could thus be transferred to new areas. The GCF contribution should be to subsidise the microcredit schemes and thus to reduce the regular payments that the consumers have to make.

For other non-grid connected technologies as biomass for heating/cooling and liquid biofuels for the transport sector, additional mechanisms should be implemented that incentivise investment in renewable energy installations on basis of their actual output.