

PUTTING PEOPLE AND PLANET AT THE HEART OF GREEN EQUITY

Putting people and planet at the heart of green equity

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TABLE OF CONTENTS

LIST OF ACRONYMS/ABBREVIATIONS	6
INTRODUCTION	8
WHAT IS NEEDED FOR GREEN EQUITY TO SUCCEED IN TACKLING THE CLIMATE CRISIS?	14
The experience of greening equity at the IFC	.....	14
The development of the Green Equity Approach	.....	17
The IFC’s first three green equity bank clients	.....	19
How the IFC must act to strengthen the GEA	.....	23
The green equity approach of the GCF	.....	25
Inflated and unverifiable leverage promises for GCF private equity investments	.....	27
Concerning transparency and public accountability shortcomings	.....	30
How green and climate compatible are GCF equity investments and the portfolios of its private sector partners?	.....	33
Can the GCF support the portfolio shift away from fossil fuels through its accreditation procedures?	.....	38
WHY GREENING EQUITY MUST INCLUDE EQUITY FOR PEOPLE AND PLANET	.....	43
Green’ equity? Some examples from IFC	.....	44
Greenwashing GCF private sector equity investments? The case of the Arbaro Fund	.....	49

RECOMMENDATIONS FOR TRULY GREEN EQUITY INVESTMENTS	56
No support for fossil fuels or other climate damaging activities	56
Recommendations specific to IFC's Approach to Greening Equity	57
Recommendations specific to the GCF's Approach to Green Equity	58
Do no harm by preventing human rights abuses and negative social and environmental impacts in equity investing	59
Improving monitoring and supervision of high-risk clients and sub-projects	59
Recommendations for DFIs to improve management of high-risk clients and sub-projects	59
Recommendations for the GCF to improve management of high-risk investments and sub-projects	61
Transparency	62
Access to remedy	64
Do good by addressing inequalities and generating broader benefits for affected people and communities, creating accountability for sustained climate impacts and contributing to larger transformational shifts in the financial system	67
CONCLUSION: ENSURING EQUITY FOR PEOPLE AND PLANET IN EQUITY INVESTING	71

List of Boxes

Box 1: The scale of equity investments globally and why DFIs and climate funds make them	11
Box 2: What is IFC’s Approach to Greening Equity?	15
Box 3: What are IFC’s largest equity investments in banks?	16
Box 4: Java 9 & 10 coal plants, Indonesia	22
Box 5: How green is the GCF-FMO supported Green Growth Equity Fund for India? A first look and critical assessment	33
Box 6: The GCF Accreditation of SMBC in July 2021	39

List of Figures

Figure 1: IFC’s Approach to Greening Equity: coal and climate criteria for existing and new equity investments	16
Figure 2: IFC investments in Hana Bank Indonesia and its connections to the Java 9 & 10 coal plants	22
Figure 3: Coal financing provided by GCF-accredited major commercial banks from October 2018 to October 2020, in US\$ million	37
Figure 4: Fossil-fuel financing provided by GCF-accredited major commercial banks since the Paris Agreement, in US\$ billion	41
Figure 5: Finance intermediation and input flows in the Arbaro Fund	51

LIST OF ACRONYMS/ABBREVIATIONS

ADB	Asian Development Bank
AE	Accredited entities to the Green Climate Fund
AIIB	Asian Infrastructure Investment Bank
AMA	Accreditation Master Agreement of accredited entities to the Green Climate Fund
APR	Annual Performance Report of accredited entities to the Green Climate Fund
ARAF	Acumen Resilient Agriculture Fund
CAO	Compliance Advisor Ombudsman of the International Finance Corporation
CCS	Carbon capture and storage
CIFI	Corporación Interamericana para el Financiamiento de Infraestructura
CRAFT	Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries (funding proposal for the Green Climate Fund)
CO ₂	Carbon dioxide
COP26	Conference of the Parties - the 26th climate summit of the United Nations Framework Convention on Climate Change
CSOs	Civil society organisations
DFI(s)	Development finance institution(s)
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESP	Environmental and social policy of the Green Climate Fund
ESS	Environmental and social safeguards
FAA	Funded Activity Agreement under the Green Climate Fund
FCDO	Foreign, Commonwealth & Development Office of the UK Government
FI	Financial intermediary
FPIC	Free, prior and informed consent
FSC	Forest Stewardship Council
GEA	Approach to Greening Equity (Green Equity Approach) of the International Finance Corporation
GCEL	Global coal exit list, database by Urgewald
GCF	Green Climate Fund
GFCR	Global Fund for Coral Reef Investment Window (funding proposal for the Green Climate Fund)
GGEF	Green Growth Equity Fund, India

GHG	Greenhouse gas
GRM	Grievance redress mechanism
IDFC	International Development Finance Club
IDP	Information Disclosure Policy of the Green Climate Fund
IEA	International Energy Agency
IEU	Independent Evaluation Unit of the Green Climate Fund
IFC	International Finance Corporation, private sector arm of the World Bank
iTAP	Independent Technical Advisory Panel of the Green Climate Fund
MDB(s)	Multilateral development bank(s)
MFS	Mobilising Funds at Scale pilot programme of the Green Climate Fund
MIGA	Multilateral Investment Guarantee Agency of the World Bank
MUFG	Mitsubishi UFJ Financial Group, Japan
NGO	Non governmental organisations
NIIF	National Infrastructure Investment Fund of India
PCA	Pegasus Capital Advisors
PE	Private equity
PSAA	Project specific assessment approach under the Green Climate Fund
PSBC	Postal Savings Bank of China
PSF	Private Sector Facility of the Green Climate Fund
SII	Summary of Investment Information
SMBC	Sumitomo Mitsui Banking Corporation, Japan
SnCF-Global	Global Sub-national Climate Fund
TCFD	Task Force on Climate Related Financial Disclosure
UNFCCC	United Nations Framework Convention on Climate Change

INTRODUCTION

With the world facing a climate crisis, urgent action is required on many fronts, not least in ensuring adequate levels of climate finance to support mitigation and adaptation in the Global South. Campaigns to [shift public finance](#), provided through instruments such as development banks, out of fossil fuels and towards greener and cleaner investments have sparked a debate about how best public finance can support this needed transition. What matters is not only the quantity but also the quality of climate finance. This paper will examine one particular type of finance, which is rapidly gaining popularity among publicly-backed financial institutions: ‘green equity’. Put simply, ‘green equity’ means

using equity investments – or shares in a client – to promote environmental sustainability, and as used in this paper, to ensure climate-compatibility of projects and programmes, especially with the mandates under the Paris Agreement. An example of ‘green equity’ is investments by public development banks or dedicated climate funds into private equity funds that support renewable energy projects, for instance, or investments by climate finance providers as anchor investors in specific mitigation or adaptation actions in order to provide a signal to leverage additional financial inputs. Another approach is [‘greening equity’](#) – a new strategy adopted by the International Finance Corporation, the private sector arm of the World Bank, where IFC uses

its equity stake in commercial bank clients and other financial institutions to require that they [reduce and eliminate coal exposure](#) (although not their exposure to oil and gas or other drivers of climate change, such as deforestation).

As countries embark on the first global stocktake kicked off at the climate negotiations in the UK in November 2021 – known as [COP26](#) – and to be concluded in 2023 at COP28 with the expected ratcheting up of climate ambition targets, a key focus of the discussions is how development finance can align with 2015’s [Paris Agreement](#) on Climate Change. The [Multilateral Development Bank \(MDB\) Paris Alignment Working Group](#) aims to align financial flows with the goals of the Paris Agreement, including indirect finance channelled through equity investments. In an age of shrinking development assistance budgets and unfulfilled climate finance promises, governments are also increasingly keen to mobilise funding for climate investments at scale through limited public finance provision, frequently invoking a bigger role for the private sector. Mobilising private climate finance was one of the [11 top priorities for public finance](#) identified by the UK government COP26 hosts in 2021, which noted: “From now to 2030, we must optimise public policy and finance so that it effectively leverages private investment, helping to develop new markets by de-risking investment wherever possible.” Green equity investments

by publicly-backed financial institutions, both development finance institutions (DFIs) and dedicated multilateral climate funds, are a key part of this effort to mobilise private finance, whether from commercial banks or private equity funds.

Partly in response to the build-up to COP26, many multi- and bilateral financial institutions worked at revising their policies or positions on financial intermediary (FI) investing. FI financing involves debt or equity investments mainly into private equity funds or commercial banks and includes green equity. The European Investment Bank [consulted publicly](#) on a [new Standard 11](#) on Intermediated Finance; the UK’s CDC carried out a review of its [Code of Responsible Investing](#) in late 2021; the Dutch [FMO](#) is about to release a draft position paper on FI lending; the Asian Development Bank (ADB) reviewed and updated its [Energy Policy](#), which addresses FI investing; and the [Asian Infrastructure Investment Bank](#) (AIIB) began a review of its [Energy Sector Strategy](#) in December 2021. These policy reviews present an important opportunity: to ensure that equity investments made by these institutions are truly green.

Green equity is also gaining popularity at the [Green Climate Fund](#) (GCF), the biggest multilateral climate fund and at the core of the UNFCCC financial mechanism to support developing countries in implementing mandates of the Paris

Agreement. Thus, its signalling function in the overall climate finance architecture is significant, not least due to its [growing implementing partner network](#). The GCF views its ability to use the full range of financial instruments, including equity, as a differentiating feature and unique value added compared to other climate funds. Though [equity investments](#) currently comprise only a fraction of the US\$10.2 billion the GCF invests overall, at just over US\$0.75 billion or 7% in April 2022, GCF management intends to grow its share of approved equity funding. Over the past few years, it has accelerated its support for equity investments, primarily through its [Private Sector Facility \(PSF\)](#). Equity investments make up 22% of GCF private sector investments and focus on de-risking private sector climate infrastructure projects and programmes and structuring anchor investments in climate equity/debt funds. Providing and increasing equity investments is a core part of important ongoing GCF policy review processes, with the GCF updating its accreditation approach to bring in more private sector equity partners as well as preparing a new private sector strategy later in 2022, including by considering and integrating the results and recommendations from an evaluation of the [GCF's private sector approach](#) by its Independent Evaluation Unit (IEU) published in October 2021.

The rise of self-defined green private equity (PE) funds, especially those

focusing on renewable energy, has been stratospheric. For example, just six years ago, investments in fossil fuel-based PE funds were twice those in funds backing renewables. But the year 2021 saw a dramatic reversal at its mid-point – with investments in renewables funds (at over US\$30 billion) outstripping fossil fuel funds by a [factor of 25](#). This can be explained by both a drive to invest in more climate-compatible projects and assets (to avoid the risk of stranded assets) and by the healthier returns generated by green equity.

[Bloomberg](#) quotes data analyst Prequin, “The median net internal rate of return for conventional energy funds that started investing in 2010 was a loss of 5.6% since inception through March 2021, while renewable-focused funds from the same period gained 8%.” Investors in PE, such as pension funds, “are moving away from investing in oil and gas no matter the returns in pursuit of their carbon neutral goals. Though this is small right now, it is growing—and many of these first movers are large,” according to Kelly DePonte of Probitas Partners, which raises money for PE funds.

Is all of this good news for people and the planet? The shift away from fossil fuels towards greener solutions is indeed welcome if very belated and still incomplete. But before the bandwagon goes careening off into the sunset, now is a good time to ask fundamental questions. First, is green equity effective on its own

terms, that is: does it contribute to tackling the climate crisis? Second, being green is not solely a question of supporting climate-compatible investments, such as reducing emissions, but about equity at a deeper level: benefitting people and the planet at the same time, by also being transparent and inclusive, promoting gender equity, doing no harm and respecting human rights.

This is the true meaning of Paris alignment. The preamble to the [Paris Agreement](#) includes an acknowledgement “that climate change is a common concern of humankind” and that “Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights.” The Paris Agreement also [adopted measures](#) to promote gender equality and participation,

sustainable development, and poverty eradication. In other words, as UN special rapporteur on human rights and the environment [John Knox](#) has said, “Governments do not check their human rights obligations at the door when they respond to climate change.”

As the amount of public finance channelled into green equity grows, this paper will look at possible loopholes and pitfalls in examples and practices of green equity investments so far, and put forward a set of building blocks to ensure that green equity and efforts to green equity do not come at the cost of equity for people and planet. Given their broader signalling function to a wide range of public and commercial investment partners, the analysis will focus primarily on the IFC and the GCF respectively.

Box 1: The scale of equity investments globally and why DFIs and climate funds make them

The total value of global equity investments – of all shares held in listed companies around the world – has been estimated at around US\$105 trillion in 2020.¹ The Global Sustainable Investment Alliance estimates that around one third of this sum – US\$35.3 trillion – is invested “sustainably”.² However this uses a rather broad definition of “sustainable” which allows for even investments in fossil fuel companies to be included under certain circumstances. The true scale of green equity investments depends very much on your definition of “green”. Public financial institutions, including development banks and multilateral climate funds, are among those making equity investments, and also among those creating their own definitions and strategies for “greening” them, some of which are explored in this paper in some detail. The ways in which these equity investments are made and the institution’s reasons for making them can vary considerably.

For development finance institutions (DFIs), equity investments are often made in private sector funds or commercial banks who act as Financial Intermediaries (FIs), as they in turn finance activities which aim to have positive development impacts.

DFIs may make such equity investments by purchasing shares in companies that are already publicly listed, buying from existing shareholders (on “secondary markets”) to gain an ownership stake in, and a level of influence over, the company or bank. They can also buy shares from governments, including to support privatisation, as for example in the case of the IFC’s investment in Tanzania’s National Bank of Commerce. (The IFC has the expansion of private enterprise as a key part of its mission.)

Alternatively, DFIs can buy newly issued shares (as in the case of the IFC’s investment in Hana Bank Indonesia), helping the investee company raise new capital to invest however it sees fit. Here the DFI will often seek assurances that the capital will be spent in ways that advance its development objectives, such as to support new loans to small businesses. They can also use equity investments to help start new companies, where they see an unmet need, for example providing capital to support the creation of a new microfinance lender.

The question of how much influence these equity investments afford the DFI is difficult to answer. The IFC, for example, typically takes ownership stakes of between 5 and 20% in its investee companies (or “equity clients”, as it terms them), which is likely to give it a substantial degree of influence, sometimes including the right to nominate board members. In the case of the IFC’s largest equity investment, in the Postal Savings Bank of China (PSBC), the IFC also entered into a Strategic Cooperation Agreement with PSBC under which the IFC provides advisory services to the bank in certain areas. However, the evidence from the two years of the IFC’s implementation of the Green Equity Approach, during which the IFC was able to sign up only three of its 65 equity clients to the new Approach, shows clearly the limits of this influence. In response to this report, IFC noted, “IFC has a number of things we want to achieve with a bank when we make an equity investment, besides green equity – strengthening systemic stability, improving corporate governance, risk management, help with digital strategies etc. All of these are highly developmental, and the reality is that we have to balance multiple developmental objectives while working with a relatively minor stake – which is difficult.”³

Among multilateral climate funds, the GCF so far is the only one taking an ambitious direct equity investment approach. It provides its own financing in the form of equity for a growing number of public and private sector activities in developing countries by working through DFIs as well as commercial banks and private equity funds accredited as implementing partners, which intermediate and blend GCF equity funding. In several instances, such as in the case of the Espejo de Tarapacá project, the GCF makes the anchor investments as subordinate shareholder, providing risk coverage for incoming other (public and private) equity investors with privileged shares. In other cases, it provides its equity funding as a risk mitigation tool to help scale up ongoing early stage operations that it vets for close alignment with its climate protection mandate, such as in the case of the Arbaro Fund or a new Green Growth Equity Fund in India. With many of these investments still in the earliest stages of implementation, it is unclear how much influence the GCF as a minority shareholder can or is willing to yield in its funded activities, especially since its own participation and the participation of its partners are usually time-limited, although exit strategies are not always clearly elaborated. In contrast, the Climate Investment Funds (CIF), a set of several thematic multilateral climate funds, which are implementing exclusively through the multilateral development banks (MDBs), are currently not providing equity financing directly, although a new CIF Climate Ventures Windows planned under its 2020 strategic programming update could do so in the future. At the moment, the CIF use their concessional finance (performance payments, interest rate subsidies, capital grants and other instruments) in place of, or alongside, other financial instruments (including senior and subordinated loans and equity) provided by the MDBs for public and private sector climate projects and programmes.

WHAT IS NEEDED FOR GREEN EQUITY TO SUCCEED IN TACKLING THE CLIMATE CRISIS?

The experience of greening equity at the IFC

One of the world's leading international financial institutions (IFIs), the IFC, has recently developed an [Approach to Greening Equity](#) (GEA), which aims to support IFC's equity financial intermediary clients – largely commercial banks – to exit coal and boost green investments. Looking at what IFC does is important, since what IFC does, others follow. IFC is the standard setter for both the

private sector and those who lend to it: IFC's Performance Standards are the blueprint for the world's 32 export credit agencies, for other development finance institutions (DFIs), and for the [Equator Principles](#) – the risk management framework for project finance followed by over 110 financial institutions including most of the world's largest commercial banks. They are also the [interim environmental and social safeguards \(ESS\)](#) for the GCF and thus currently applicable to all its public and private investments implemented through [the growing network of GCF accredited entities](#), at 113 and counting. IFC itself estimates that around US\$4.5 trillion in investments across emerging markets adhere to IFC's Performance Standards on Environmental and Social Sustainability.

Climate analyst Dr Helena Wright [concludes](#) that if IFC shows true leadership in greening its equity investments,⁴ “The implications could be huge. The total value of companies that IFC invests in could be between US\$55 to US\$220 billion, since IFC has a disbursed equity portfolio of more than US\$11 billion, and generally invests in

between 5-20% of a company’s equity.” However, as discussed below, to date only three of its 65 commercial bank clients have adopted its GEA approach, as well as two insurance companies. It will have to move much further and faster if this promise is to become a reality.

Box 2: What is IFC’s Approach to Greening Equity?

IFC’s ‘Approach to Greening Equity in Financial Institutions’ (Green Equity Approach or GEA), which IFC piloted in 2019 and published in September 2020, commits the IFC to end equity investments in financial institutions that do not have a plan to phase out investments in coal-related activities. As such, this is a welcome first step of a long road ahead to full climate-compatibility of IFC’s equity investment portfolio, as for example investment in non-coal fossil fuel activities is still permissible. The GEA requires IFC’s equity partners to increase climate-related lending to 30% and reduce exposure to coal related projects to 5% by 2025 and to zero (or near zero) by 2030 (see Table 1 below). This new approach applies to IFC’s equity clients, which [comprised 15% of IFC’s FI portfolio](#) as of June 2020.

For new equity banking clients, IFC is crystal clear: “IFC no longer makes equity investments in financial institutions that do not have a plan to phase out investments in coal-related activities.” The plan is the key here: the point is not to exclude clients who have any exposure to coal, but rather to work with them to decrease and then exit coal: “Equity investees may have portfolio exposure to coal projects until 2030 in line with the respective limits set by this approach.” Positively, the approach does not only apply to project finance loans – banks’ “long-term corporate finance” to companies with significant involvement in coal, including utilities, also counts towards the IFC’s exposure limits. These respective limits are set out as follows and apply respectively to existing clients with no new business, existing clients with new business, and new equity clients.

Figure 1: IFC’s Approach to Greening Equity: coal and climate criteria for existing and new equity investments

Table 1: IFC’s coal and climate criteria for existing and new equity investments

Criteria	Existing equity clients (no new business)	Existing equity clients (with new business)	New equity clients
Maximum threshold of coal exposure at investment	No maximum threshold requirement	No maximum threshold requirement	<15% exposure to coal-related activities
Coal exposure by 2025	Reduced to or kept at 5% of total loan portfolio	Reduced by 50% or no more than 5% of total loan portfolio (whatever is stricter)	Reduced by 50% or no more than 5% of total loan portfolio (whatever is stricter)
Coal exposure by 2030	Zero or near zero	Zero or near zero	Zero or near zero
Climate target by 2030	30% or country-specific target	30% or country-specific target	30% or country-specific target

Source: IFC. 2019

Box 3: What are IFC’s largest equity investments in banks?

According to the [database](#) of the IFC’s active equity investments in financial intermediaries, published by Recourse in March 2021, the IFC has active equity investments in 65 commercial banks around the world, with an average stake of around US\$43 million per bank. Its investments span the globe, with the largest amount invested in East Asia and the Pacific (35% of total investments by value), followed by the Middle East and North Africa (20%) and Europe and Central Asia (15%). The largest single country for IFC’s commercial bank exposure is China, which accounts for 14% of the total, or US\$490 million, followed by Greece (12%), and Pakistan, Vietnam, the Philippines and Lebanon (7% each).

Some of the IFC’s largest equity investments shown on this database are in Vietnam’s majority state-owned Vietinbank, in which the IFC had a US\$185 million stake; Greece’s Eurobank and Alpha Bank (US\$165 million each); Sri Lanka’s Commercial Bank of Ceylon, the largest IFC equity client to sign up to the GEA to date, in which the IFC invested US\$150 million; and Chile’s Itau Corpbanca, in which the IFC also has US\$150 million invested.⁵ The latter is part of Brazil’s Itau Unibanco, the largest bank in Latin America and a key financier of some of Brazil’s

largest meat and paper companies. As such it is a bank with significant exposure to deforestation risks – an area that the IFC’s Greening Equity approach does not cover, despite the clear role of deforestation as a major driver of the climate crisis.

However, the IFC’s largest single investment by some margin is also one of its most controversial: the IFC holds a US\$300 million equity investment in the Postal Savings Bank of China, approved in 2015.⁶ PSBC is China’s sixth largest bank by assets, and one of the largest banks in the world. It is also, according to Banking on Climate Chaos 2021, a major financier of fossil fuels, having provided US\$7.9 billion to the sector since 2016. This includes US\$2.9 billion to coal power and US\$973 million to coal mining.

The IFC argues that its investment in PSBC “can play a critical and strategic role in expanding financial inclusion in China” and “is a unique opportunity for IFC to reinforce and significantly expand its mandate of financial inclusion and poverty alleviation” in the country. Yet data from Banking on Climate Chaos show that both PSBC’s fossil fuel financing in general, and its financing of the coal sector specifically, are on an upward trend, and the same report’s coal policy scorecard gives the bank’s a score of just 1/80 for its coal policies, in line with its peers in the Chinese banking sector.

If the IFC were successful in signing PSBC up to its Green Equity Approach and helping the bank move out of lending to coal by 2030, this would be a major win for the climate and could be influential for China’s banking sector more widely, although it would still not address the bank’s substantial coal underwriting. However, while the great majority of IFC equity clients have not adopted the GEA, the IFC remains in a position where its finance is supporting banks that are still backing the expansion of coal mining and power.

The development of the Green Equity Approach

While investing in financial intermediaries (FIs) can help to mobilise funds and attract private capital for economic development, this form of third-party or ‘hands-off’ lending also comes with significant risks - in particular around clients’ adher-

ence to environmental and social (E&S) safeguards. In recent years, IFC - over 50% of whose investment portfolio is to FIs - has been forced to acknowledge these risks and has taken some steps to address them. This includes its GEA, which was developed in response to intense civil society pressure over IFC’s links to coal plants and mines, via

its indirect lending through FIs. [Research](#) had shown IFC was exposed to over 40 coal plants and mines throughout Asia, including [several in the Philippines](#) financed through IFC equity in national commercial banks. An [investigation](#) by Inclusive Development International exposed the IFC's US\$253 million investment in the Philippines' Rizal Commercial Banking Corporation, which went on to provide and arrange billions of dollars in financing for new coal power plants and the companies developing them. These projects were the subject of a [mass climate complaint](#) filed by affected communities in the Philippines to the IFC's accountability mechanism, the Compliance Advisor Ombudsman.

Philippe le Houérou, former CEO of IFC and architect of the GEA, [acknowledged](#) civil society's role in pressuring IFC to change. Writing in October 2018, Le Houérou said, "Over the past few years, civil society groups have been critical of IFC for supporting financial intermediaries that have coal exposures. We do not lend for the purpose of financing coal-related activities. In the past, we have made equity investments in banks that may have exposures to such coal projects, and we have given general purpose loans to banks and those funds may have inadvertently been invested in coal projects. In response, we have changed our policy in the past two years to vastly reduce our direct and indirect exposure to coal in new financial intermediaries projects."

Reducing IFC's exposure to coal was not le Houérou's only ambition, however. He set out a plan to change commercial banks' portfolios by using IFC's equity stake as a lever for change, describing the intention of the GEA to "proactively seek financial intermediaries that would like our help in greening their portfolios and reducing their exposure to coal projects, which are not only bad for the environment but could also become stranded assets in the future. I want to develop a green equity investment approach to working with financial intermediaries that formally commit upfront to reduce or, in some cases, exit all coal investments over a defined period."

IFC began to pilot the GEA in July 2019 and following consultations on its content with civil society organizations (CSOs), [published it in September 2020](#). Praising the GEA as an important step forward, CSOs nonetheless warned of remaining loopholes. Ian Rivera of the Philippines Movement for Climate Justice [commented](#), "IFC's Green Equity Approach is a critical shift towards total decarbonization of its investments and heralds the end of coal. Though while we laud this bold move, climate vulnerable countries like the Philippines want to see this policy extended to cut off all development financing of climate-busting projects, which will be necessary to keep the global temperature rise below 1.5 degrees Celsius."

Though the GEA commits IFC to engage with both new and existing equity clients - of which it has around 65 - IFC has to date only succeeded in signing up three bank clients to the GEA.

The IFC's first three green equity bank clients

Certainly, IFC's ambition with the GEA is a welcome first, if narrow step: using its equity stakes in commercial banks, predominantly in developing countries, to leverage change. This is sorely needed, since national level banks in countries such as [India](#), the [Philippines](#) and [Indonesia](#) are important sources of fossil fuel finance. It is perhaps too early to judge the success of the GEA; however, early signs are not promising. Recourse has published two research reports, [Coming Clean](#) and [Closing Loopholes](#), looking into the implementation of the GEA, and concluded that it is not on track to deliver neither the scope of change required, nor the impact it promises. Though the GEA commits IFC to engage with both new and existing equity clients - of which it has around 65 - IFC has to date only succeeded in signing up three bank clients⁷ to the GEA. These are Hana Bank in Indonesia; Commercial Bank of Ceylon (CBC) in Sri Lanka, in which [IFC invested](#) US\$15 million equity and US\$50 million debt in September 2020; and Federal Bank in India. As IFC's first GEA clients, they merit scrutiny.

According to project documents for IFC's investments in CBC, Sri Lanka's largest commercial bank, "IFC funds will not be used to support any coal-related activities." Given lack of transparency in commercial banking investments, it is unclear how much coal exposure CBC currently has - which is why it is vital for third parties like NGOs to be able to verify IFC's claims. IFC [describes](#) its role in supporting CBC to be "Implementing IFC's green equity principles and maintaining Bank's no-coal exposure status during the life of IFC equity investment." If CBC indeed has no exposure to coal, then it is difficult to see the added value of the GEA - whose primary aim is to support banks in exiting coal.

IFC's latest GEA bank client is Federal Bank of India - the country's seventh largest private sector bank. IFC's [US\\$43 million equity investment](#) in Federal Bank in July 2021 was the latest in nearly US\$200 million worth of loans and equity IFC has given the bank since 2006. During this period, Federal Bank financed a wealth of coal plants, including three in 2011: the 1,320MW [Kawai](#) coal plant in Rajasthan, the 1,400MW [Rajpura](#) coal plant in Punjab and the 1,980MW [Lalitpur](#) coal plant

in Uttar Pradesh; and two in 2010: the 3,600MW [KSK Mahanadi](#) coal plant in Chhattisgarh and the 1,040 [Vizag](#) coal plant in Andhra Pradesh. According to the [Global Coal Exit List](#), in the last three years, Federal Bank has provided US\$14 million in loans to [JSW Energy](#), which runs coal plants, imports coal from Indonesia and South Africa, and has shares in coal and lignite mines in India and South Africa. In response to this report, IFC stressed that “the loans IFC made earlier were earmarked for SME lending, not for funding the coal projects they supported” and that the GEA requirements only applied from its July 2021 equity investment.⁸

IFC’s 4.99 share in Federal Bank is “significant” [according](#) to the bank’s CEO, and makes Federal Bank IFC’s first GEA client in India, aiming to support the bank in reducing its coal exposure and increasing its climate lending. IFC acknowledges Federal Bank’s coal exposure in its project documents and spells out the bank’s obligations to reduce it: “The Bank has exposure to coal-related projects and activities (3.5 percent of its portfolio as of March 31, 2021). This exposure will be required to be reduced by 50 percent of the current exposure percentage by 2025 and to be zero by 2030.” Importantly, Federal Bank will not finance new coal: it has committed to “terminate financing of development of any new coal-related assets, including coal-fired power plants once IFC becomes a shareholder in the Bank.” In Federal

Bank’s current [Environmental and Social Management System Policy](#), it sets out an exclusion list which covers financing new thermal coal mines or significant expansion of existing mines, new coal-fired power plants or expansion of existing plants. Though it is promising that Federal Bank has this exclusion, the proof of its commitment will be in implementation - so it will be vital to improve transparency to be able to track this. Nevertheless, this is a truly significant step from such a large Indian bank. But unfortunately it is not the case with all GEA clients.

IFC’s first GEA client, PT Bank KEB Hana Indonesia (Hana Indonesia⁹), did not make any such commitment. IFC has a long history with the Hana Financial Group¹⁰ - of which Hana Indonesia is a part - going back nearly half a century to 1971.¹¹ Publicly-disclosed investments – those following IFC disclosure policy reforms - include: US\$21.86 million equity and US\$50 million loan in KEB Hana Bank Korea (Hana Korea) in [1998](#); US\$50 million equity in [2002](#); US\$5 million equity in [2007](#) to support Hana Korea to establish Hana Indonesia; a US\$15 million short-term loan in [2009](#) to Hana Indonesia; followed by a US\$30 million loan for the bank’s SME business in [2013](#). In 2018, IFC invested in [KEB Hana Microfinance Myanmar](#) with a US\$10 million loan and US\$3 million equity. In [2019](#), IFC invested US\$15.36 million equity in Hana Indonesia and with this investment began a pilot of the GEA.

IFC applying the GEA to an Indonesian bank is important, since Indonesia is one of the countries in the world whose coal-related emissions are rising most rapidly. At the same, as an archipelago, Indonesia is highly vulnerable to the impacts of climate change.

There is very little public information available about Hana Bank Indonesia's exposure to coal, so on the face of it, it is extremely difficult to assess the impact of its engagement with IFC's GEA. But information available behind paywalls – through Bloomberg or Thomson Reuters commercial databases, for example – reveals the bank's significant coal footprint. In November 2018, Hana Indonesia [participated](#) in a syndicated loan of US\$120 million to PT Toba Bara Sejahtera Tbk (TBS). The loan is set to mature in June 2022. TBS operates three massive coal mines in East Kalimantan, Indonesia, which cover approximately 7,087 hectares, with total estimated coal resources of 236 million tons. TBS is also involved in two coal plants currently under construction in Indonesia: the 100MW [Sulut 3](#), and the 100MW [Sulbagut 1](#).

Hana Indonesia also invested in PT Kereta Api Indonesia (KAI), the main operator of public railways in Indonesia - infrastructure that is vital to the expansion of coal mining and power. The head of the government-owned coal company PTBA [states](#) that the company now relies on trains to transport coal from the mining site to the processing plant: "If KAI [is] able to transport more coal, the production realization will be higher than the target."

Given its existing exposure to these coal mines, power plants and railways, Hana Bank Indonesia would seem an ideal candidate for the GEA. IFC could play a role, as an equity holder owning around 9% of the bank, in supporting Hana to kick its coal habit.

But less than a year after signing up to the GEA, Hana Bank Indonesia, alongside its parent company KEB Hana Korea, signed up to provide project finance to one of the most egregious coal plant complexes in the world: Java 9 and 10 in Indonesia.¹²

Figure 2: IFC investments in Hana Bank Indonesia and its connections to the Java 9 & 10 coal plants



Box 4 : Java 9 & 10 coal plants, Indonesia

The US\$3.5 billion 2,000MW Java 9 & 10 coal plants will be constructed in Banten Province, Indonesia by owner/operator PT Indo Raya Tenaga, and are due for completion in 2023 and 2024 respectively. Lenders to the project, beside Hana Indonesia, include DBS, Export Import Bank of Korea (KEXIM), K-sure, Korea Development Bank, Hana Bank of South Korea, Bank Mandiri, Bank Negara Indonesia, Exim Bank of Indonesia, Maybank, CIMB, and Bank of China.

Java 9 and 10 are planned as an extension to the existing Banten Suralaya power station, a 4,025-megawatt (MW) coal-fired power complex. Greenpeace has predicted that the expansion will adversely impact the health of the local community, causing a cumulative 2,400 to 7,300 additional premature deaths over 30 years – the typical lifetime of coal-fired power plants.

Air and water pollution levels from the existing Banten power plants already pose a serious threat to people’s livelihoods. The local population worries about the expansion of the complex, locking the area into even more pollution. Already fishing, a source of income and livelihood for many in the area, has been badly affected.

In a September 2021 court ruling, Indonesian President Joko Widodo and his health and environment ministers were ordered to improve the hazardous air quality in the capital, Jakarta. According to the Center on Energy and Clean Air, rapid urbanisation and chronic traffic in Jakarta,

along with nearby coal-fired power plants, have contributed to the poor air quality.

“There is so much less fish around the power plant and there is a long line at the hospital because people have skin and respiratory diseases. We really need to stop these new power plants.” Local resident, [Wayhudin](#).

In addition to local impacts, Java 9 & 10 will add to Indonesia’s rising CO₂ emissions: according to the [Asian Peoples’ Movement on Debt and Development](#), the expansion is predicted to produce on average 10 million tonnes of carbon dioxide per year and 250 million tonnes of CO₂ over 25 years, which would be “equivalent to the annual emissions of Thailand or Spain”.

Yuyun Indradi, Executive Director of the Indonesian environmental group Trend Asia, [said](#), “it is obvious that the new Java 9 & 10 plants will bring more disaster in terms of environmental, social and health issues, in an area already covered with coal fired power plants and industries. It does not need to be burdened with more. The Java and Bali grid is already suffering from 40% oversupply of electricity. Funding such projects will not help our peoples, our country and our planet. Withdrawing that funding and redirecting it for renewable energy is urgently needed.”

How the IFC must act to strengthen the GEA

It is vitally important that IFC’s GEA fulfils its ambition and promise. Though it is clearly falling short at present, the GEA model could both deliver results and be worth replicating by other public development banks. To do this, **IFC must implement needed reforms when it reviews the GEA this year**. As a crucial first step, **IFC must insist that any client engaging with the GEA not finance new coal** (including power plants and mining projects and associated infrastructure). The reason lies in a simple paradox: the GEA promises to help clients exit coal by 2030; yet project finance

loan terms for large infrastructure such as coal power plants can range from 8 to 25 years. Hana Indonesia’s exposure to Java 9 & 10 will last until 2035 – the end of its loan term. How then can Hana Indonesia reduce its coal exposure to zero by 2030? IFC has shown it is possible to rule out new coal, in its agreement with Federal Bank of India. But the issue will not be solved on a case by case basis; it must be guaranteed as part of the overall GEA requirements.

IFC must also succeed in attracting more clients to sign up to the GEA. At present IFC argues, “the limited application of the GEA to date reflects IFC’s

recent history of equity transactions in financial institutions, which are subject to market conditions and other factors, and IFC's selectivity in its equity investments." These are extraordinary times, but the climate crisis calls for bold and radical action as much as the Covid 19 crisis, and IFC must find ways to engage equity clients who are willing to make the transition away from coal. In meetings with civil society, IFC does point to the fact that it has 12 existing equity clients with coal exposure – engaging with these clients would be a good start. One example is the Turkish bank Fibabanka, whose entry into coal investing is very recent. Over the last decade, IFC has provided [Fibabanka](#) with US\$120 million in [loans](#) and [US\\$50 million in equity](#) – giving IFC a 9% stake in the bank. Such generosity should provide IFC with leverage surely? Leverage which could help persuade Fibabanka to pull out of [backing](#) the proposed [Kinik coal plant](#) in Izmir province, which faces strong local opposition. **IFC should set a timescale for equity clients to either sign up to the GEA or face IFC divesting, informed by the requirements of the Paris Agreement.**

In May 2021, the International Energy Agency's [latest analysis](#) concluded that "there is no need for investments in new fossil fuel supply". IEA not only calls for no more investments in coal, but also "no new oil and natural gas", in order for the world to achieve the Paris Climate Agreement's ambition

to limit the long-term increase in average global temperatures to below 1.5 degrees Celsius. Given this imperative, there is no more excuse for public development banks such as IFC to continue to support oil and gas. When it reviews the GEA this year, **IFC must extend its provisions beyond coal and require its clients to exit oil and gas**, if it is sincere in its commitment to align with Paris. These [provisions](#) should include insisting GEA clients cease financing new oil and gas projects and commitment to reduce their climate impact to zero by 2050 at the latest, with an interim target to halve their impact by 2030.

There is another, more complex, problem at the heart of the IFC's GEA. In defining what it means by '**exposure**' to coal projects, IFC states: "Coal-related projects refer to long term (more than 36 months) project finance and/or corporate finance for the development of new coal-related projects..." Here, the devil really is in the details. The IFC's definition of "coal exposure" leaves out financial services such as underwriting of bonds or share issues, which can be a vital source of funding for coal projects. This results in some IFC equity clients, which are heavily exposed to coal via their underwriting activities, not being covered by the GEA.

This matters. In 2020, 65% of bank financing for fossil fuels was through the underwriting of bond and equity issuances rather than through project or corporate lending.¹³

All equity investments by the GCF as a climate fund should be fully climate-compatible or “green equity” investments by default.

And, as anyone campaigning on coal knows, while Japanese, US, and European banks are the biggest source of lending for coal, [Chinese banks lead the world in providing underwriting](#) to companies developing coal power.

As already discussed, the IFC has an active [US\\$300 million equity stake](#) in Postal Savings Bank of China, China’s fifth largest commercial bank, and equity also in Bank of Beijing. IFC’s equity investments in these Chinese banks exposes it, through underwriting, to at least 34 companies that are fuelling China’s coal boom, including¹⁴ Beijing Energy Holding Co Ltd, China Huadian Corp Ltd, State Power Investment Corporation and Datong Coal Mine Group Co Ltd.¹⁵ However, despite BankTrack and others urging IFC to include underwriting in its definition of coal exposure, it has refused to do so – which means its heavily-exposed Chinese clients can continue with business as usual despite the GEA. Again, until gaps such as these are addressed in IFC’s review of its GEA, **by extending the definition of coal exposure to include underwriting**, IFC cannot hope to close the gap between its equity investments and alignment with the Paris Agreement.

The green equity approach of the GCF

As the largest public multilateral climate fund, and as a core financial mechanism to help developing countries with their implementation efforts under the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC), financing through the GCF aims to “promote the paradigm shift towards low-emission and climate-resilient development pathways” in its recipient countries.¹⁶ All developing countries under the UNFCCC are eligible to receive GCF funding support for public and private sector climate actions. The GCF’s mandate to “directly and indirectly finance private sector mitigation and adaptation activities at the national, regional, and international level” through its Private Sector Facility (PSF) by addressing barriers faced by private sector actors in climate investments serves as a key differentiating feature of the GCF compared to other public climate finance actors, as does its ability to provide a full suite of financial instruments including equity and guarantee financing in addition to the grants and concessional loans other climate funds routinely utilise. The GCF’s intention to leverage substantial private sector climate

investments – including through equity investments – is supported by the [GCF's risk appetite statement](#). It proclaims the GCF's willingness to “accept considerable uncertainties around investment risks in return for impact potential,” and thus investment risks other public climate funds might be unable or unwilling to take, all while claiming its intention to maintain compliance with rigorous standards and safeguards.¹⁷

While [equity investments](#) comprise only 7% or just over US\$0.75 billion of the US\$10.2 billion the GCF has invested in 192 projects and programmes approved since its full operationalisation in November 2015, they make up 22% of GCF private sector investments currently, and their share is likely to grow further.¹⁸ Of 39 approved private sector project/programmes in the GCF portfolio as of April 2022, 24 include equity investment components, with the GCF providing equity in 12 of these and 23 projects/programmes promising to leverage additional equity co-financing worth US\$4.7 billion. By contrast, the GCF does only provide equity investments in one of its 153 approved public sector projects/programmes as of April 2022, although nine of these expect varying levels of public equity co-financing provided through MDBs and DFIs for a total of US\$1.71 billion. Accordingly, less than a quarter, or US\$6.41 billion of co-financing provided to

the GCF portfolio of 192 approved projects/programmes as of April 2022, comes in the form of promised public or private equity inputs by GCF implementation partners.¹⁹

All except one of the GCF's 12 private sector equity investments by April 2022 are anchor and first loss financing for newly established funds, financing facilities or programmes, with planned investment decisions on multiple future climate projects to be made under those funding frameworks and removed from GCF decision-making. Only in the case of the [Espejo de Tarapacá project](#) in Chile, intermediated by the Japanese Mitsubishi UFJ Financial Group (MUFG) Bank, is GCF equity finance provided for direct project finance. As categorized by the GCF, the majority of these investments support mitigation, mostly through investments in renewable energy. Three investments support adaptation, with two approved just in October 2021, namely the [Global Fund for Coral Reef Investment Window](#) and the [Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries \(CRAFT\)](#) and thus marking targeted efforts by the GCF to strengthen private equity investing in adaptation. Three further private sector equity investments support activities that combine elements of both mitigation and adaptation.

Inflated and unverifiable leverage promises for GCF private equity investments

Equity investments are a core part of the GCF’s strategic focus to leverage substantial amounts of additional private sector finance; under a [US\\$500 million GCF private sector pilot programme](#) for “mobilising funds at scale” (MFS), three of five approved projects/programmes so far have the GCF providing anchor equity and first loss funding, including a GCF US\$150 million equity anchor investment in the [Global Subnational Climate Fund](#), the largest single equity investment made by the GCF so far, which aims to bring in another US\$600 million in equity co-financing. The promise of high leverage ratios, in which one dollar of GCF private sector investments leads to several dollars worth of additional private sector investments in climate activities, is the driving force behind several other GCF equity investments approved over the past years. This leveraging role of GCF as an anchor equity investor is supposed to signal the ‘investment worthiness’ of the endeavour by providing the GCF’s seal of approval – and the willingness to take first losses – to other investors who might also like being affiliated with GCF-supported ‘true’ climate investment efforts. This was certainly the motivation for the GCF’s US\$60 million in equity funding support for the [Espejo de Tarapacá](#) project in Chile, which aims to help stimulate another US\$1 billion in co-financing, including

US\$387 million in additional equity (an expected 1:17 leverage ratio); the [Arbaro Sustainable Forestry Fund](#), where US\$25 million in GCF anchor equity investment is expected to raise another US\$175 million of equity in co-investments (leverage ratio 1:7); or the [Green Growth Equity Fund](#) for India, where US\$132.5 million in GCF equity and US\$4.5 million in GCF grants are promising to generate a further US\$807.5 million equity co-financing (leverage ratio almost 1:6). However, whether this will result in an increase in GCF private sector co-financing can be doubted, especially as in a number of approved GCF equity investments (notably the Chile project, the India programme and in the case of the [Global Subnational Climate Fund](#) (SnCF - Global)), the claimed co-financing remained “to be determined” at the time of Board approval. It is far from clear whether this undetermined co-financing will ever materialize.

Interestingly, in none of these highlighted cases did the GCF Board’s approval of those proposals stipulate public accountability for meeting those leveraging claims, at least in publicly available documents. While such requirements could very well be included in contractual agreements between the GCF and funding recipient detailing implementation requirements and expectations, such as the Funded Activity Agreement (FAA) or financial term sheets, those are not made public. However, there is some [emerging evidence](#) that co-financing

claimed in funding proposals is far higher than what accredited entities are legally obliged to deliver on once they sign FAAs.²⁰

For the supposed “super-leveraged” Espejo de Tarapacá project, for example, the only condition publicly disclosed that applied at approval is a stipulation that MUFG should submit to the Secretariat a draft communication plan “to enhance dissemination of the project’s benefits, knowledge and lessons learned in development, construction and operation of the project in the context of climate change technology transfer among public sector including government agencies and regulators, and private sector investors and financiers.”²¹

Only in the case of the [Acumen Resilient Agriculture Fund \(ARAF\)](#) was a proven level of co-financing included in the FAA, as part of the publicly disclosed conditions for the Board’s approval of ARAF. This project aims to invest in innovative and early-stage agribusinesses focused on providing finance to smallholder farmers to shift to more climate resilient agricultural operations in several East African states, which the GCF supports with US\$23 million in equity and US\$3 million in grant for a technical assistance facility. Specifically, the GCF committed US\$13 million for the first closing of the ARAF “subject to receiving written confirmation from the Accredited Entity that it has received final commitments from other investors, including the

Accredited Entity, for that closing for a minimum amount of USD 12,000,000 (twelve million US Dollars)” and indicated that for each subsequent closing of the ARAF it would only commit a maximum of 40% of the total commitments for that closing, “with a maximum of USD 10,000,000 (ten million US Dollars) for all subsequent closings”.²² On June 30, 2021, social impact investor [Acumen reported](#) that it closed [ARAF](#) at US\$58 million, slightly above its promised goal of US\$56 million listed on the GCF website, with investment support in addition to the GCF’s provided by the Dutch development bank (FMO), the Soros Economic Development Fund, the French private sector development institution PROPARCO (through FISEA+, the AFD Fund advised by PROPARCO), the Children’s Investment Fund Foundation, IKEA Foundation, Global Social Impact, and other unnamed “respected investors and funders,” thus indicating more philanthropic and public than commercial investment support.

This is in line with findings from the [thorough assessment of the GCF’s performance](#) up to 2019 by the GCF’s Independent Evaluation Unit (IEU) that more than two thirds of the GCF private sector co-financing recorded by then was provided by public actors such as MDBs and DFIs rather than the private sector (although this proportion is likely to shrink with further private investments confirmed). A recent analysis of GCF private sector

leverage claims also casts further doubt on whether leverage promises are ever going to be fulfilled, as in many cases investors for expected co-financing are still “to be determined” at the time the funding proposal was approved. This is a potential obfuscation in cases like the Espejo de Tarapacá equity investment project, intermediated by the Japanese private sector MUFG Bank on behalf of the Chilean holding company Valhalla, which had reported financial difficulties before the GCF came in. None of the [US\\$1 billion in promised co-financing under this project](#) has so far been confirmed including a yet to be determined US\$361 million equity stake from an unspecified “strategic private investor” and a further US\$647 million in senior loans. Since a first GCF equity injection in April 2020 was provided, no further financing has been reported and the project is said to be delayed.²³

The amount of leveraged GCF private sector finance might be additionally exaggerated by the way the GCF reports on private co-financing in the form of equity investments, which is claimed in 23 of the GCF’s current 39 approved private sector projects/programmes. In several cases²⁴ existing shareholdings or equity investments by the project/programme proponents are reported as co-financing, thus simply accounting for the fact that the implementing companies already have private owners or shareholders rather than restricting such reporting only to demonstrable new injections

of equity finance raised in response to the GCF’s investment.

All equity investments by the GCF as a climate fund should be fully climate-compatible or “green equity” investments by default in order to comply with its objectives “to make a significant and ambitious contribution” to combat climate change by promoting “the paradigm shift to low-emission and climate-resilient development pathways” in developing countries it supports as detailed in its [Governing Instrument](#).²⁵ However, the GCF does not have a formal exclusion list of projects/programmes it will not fund, and theoretically could provide fossil-fuel related funding support, such as for carbon capture and storage technology (CCS), which its Governing Instrument explicitly mentions as eligible for GCF financing,²⁶ or blend its GCF funding support with private sector funding in investment vehicles that could end up supporting supposedly ‘cleaner’, less carbon intensive fossil fuel based energy approaches, such as a shift away from coal to natural gas. In fact, given already observed problems with the accountability and transparency of GCF intermediated private sector investments, it is difficult to assess with certainty and confidence how ‘green’ GCF green equity investments in private sector activities are, or to what extent they contribute to ‘greening’ equity investments by its implementing partners such as commercial banks and equity funds beyond the direct investment affiliation. It is possible

It is possible that GCF’s support and involvement might be ending up ‘greenwashing’ the record of entities otherwise continuing with climate destructive investments.

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Concerning transparency and public accountability shortcomings

Three GCF programmes brought forward by private equity fund manager [Pegasus Capital Advisors \(PCA\)](#), accredited since 2018 to the GCF, are particularly concerning for their lack of transparency and accountability. These are the [SnCF - Global](#), with US\$150 million in approved financing support so far the GCF’s largest single equity investment, as well as a further two adaptation programmes approved by the GCF Board in October 2021: the [Global Fund for Coral Reefs Investment Window](#) (GFCR), which is to receive US\$125 million in GCF equity financing, and the [Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries](#) (CRAFT), which the GCF is supporting with US\$100 million in equity financing.

All three Pegasus programmes are built around a “blind pool” investment structure which, by definition, lacks clearly stated investment goals. The *Cambridge Business English Dictionary* [defines a blind pool](#) as “an investment fund in which the investors do not know what type of business activity or companies they are investing in.” This structure is antithetical to the goals of the GCF, and incompatible with its investment rules, which require investments to demonstrate adaptation and mitigation benefits, as well as environmental, social and gender co-benefits, in order to qualify for funding.

In squaring this circle, Pegasus has ticked the boxes of estimating climate and social impacts, but the results do not stand up to even a minimum of scrutiny. The already approved Sub-national Global Fund claims that it will reduce 77 million tonnes in CO₂ equivalent emissions over its lifetime, and create 20,000 jobs, despite being unable to state how many countries the programme will ultimately operate in (it could be any number of the [42 countries listed](#) on the GCF programme page), how many companies it

would invest in, or what balance it was targeting between the very broad list of sectors covered by the programme (water and sanitation; restorative agriculture/aquaculture; urban development solutions; waste optimization; renewable energy generation; and energy efficiency, including energy efficiency retrofits). Pegasus’s two recently approved adaptation programmes make similarly implausible claims, specifying a precise estimate of how many beneficiaries are likely (as they are required to do by GCF rules) while being unable to state how many countries are included in the programme, what balance they will seek between the different (and ill-defined) sectors to be incorporated, or what the eligibility criteria for investee companies would be.

The independent Technical Advisory Panel (iTAP), which is charged with assessing GCF funding requests against the [GCF Investment Framework’s core criteria](#), has responded to these proposals with concern and bemusement.²⁷ The iTAP initially took the rare step of rejecting the SnCF-Global altogether, and even when a revised proposal was put before the GCF Board it [noted](#) that it was “not in a position to assess and confirm the final impact of the programme.” It also stated that the programme “could not be assessed against all six investment criteria” that the GCF uses.

The [iTAP reviewer of the GFCR](#) noted that the lack of an identifiable

project portfolio meant that it was too early to “assess the real impact potential of the project” – although, confusingly, the programme was then awarded a “high” impact potential rating. The [iTAP reviewer of the \(similarly structured\) CRAFT](#) was far more critical, highlighting a lack of legal certainty that any of the programme’s claimed benefits would be realized. In the case of CRAFT, iTAP noted that the eligibility criteria were vague and that technology categories had “excessive ranges of coverage and could include high greenhouse gas-emitting technologies (e.g. cold chains based on fossil fuels) and/or support maladaptive approaches (utilizing geospatial technology for more aggressive water resource exploitation)”, while it remained unclear “what safeguards would be in place to prevent these risks from being realized.” The iTAP instead proposed its own system of investment screening as a condition for approving the programme, without which it could not be “confident in the project’s adaptation impact potential to the degree routinely expected by the GCF Board.” The GCF Board in approving the programme followed the iTAP recommendation and required the submission of a comprehensive ex-ante adaptation impact assessment tool (with details on intended investments, technologies used and detailed climate variability parameters) as [a prerequisite for signing an FAA](#), although neither the assessment tool nor the FAA are publicly available.

This level of confusion will persist unless a clear policy is put in place that outlines minimum standards in eligibility criteria, project pipeline development, sectoral balance and country ownership – all of which are incompatible with the continued push to approve private equity funds using a “blind pool” investment structure under the GCF.

While the Pegasus approved programmes are extreme cases (although ones that the GCF Private Sector Facility seems to want to replicate quickly), there are broad transparency and public accountability issues raised by all of the GCF’s green equity and other private sector investments. As it stands, under its [proactive Information Disclosure Policy \(IDP\)](#), the GCF’s theoretical “presumption in favour of disclosure” of all information and documents related to GCF funding activities has largely been turned on its head in practice with respect to private sector activities. It does this by applying the policy’s exemption for “Financial, business or proprietary and non-public information in possession of the GCF and belonging to a party outside the GCF” with a broad stroke rather than surgical precision to limit non-disclosure to only truly commercially sensitive language. In practice this means that private sector project/programme proposals published on the GCF website prior to Board decisions are redacted, with important annexes, which are now routinely published for public sector activities, withheld. This is

problematic as most private sector activities are structured as multi-country programmes, investment funds, or financing facilities, with sectoral eligibility criteria or listings of indicative sub-projects, as well as pertinent information such as stakeholder engagement or resettlement plans, often only elaborated in non-disclosed annexes.

This absence of granular information, crucial to evaluating environmental and social impacts, for intermediated private sector investments in the GCF is compounded by the refusal of the GCF Secretariat, citing the legal requirement to protect proprietary information, to release its own due diligence compliance assessment of private sector funding proposals against the GCF’s [environmental and social safeguards \(ESS\)](#) framework, the GCF’s [investment framework](#), and its [gender](#) and [indigenous peoples \(IP\)](#) policies. In contrast, the equivalent assessments of public sector proposals are publicly available. The only technical assessments of GCF private sector proposals made public before the Board’s consideration are those by the GCF’s independent Technical Advisory Panel, which is tasked with assessing all proposals only against the criteria of the GCF investment framework, but not its ESS, gender or IP policies.²⁸ Public accountability of private sector intermediation is further reduced by the lack of a standard requirement for GCF-supported private sector programmes or financing facilities

or supported funds to routinely disclose information about individual sub-projects on the GCF website.²⁹ While some ESS information related to sub-projects must at minimum be disclosed on the website of the accredited entity,³⁰ the release of other sub-project information (such as a detailed description of the investment supported with GCF funding) is not.

Likewise, the private sector Annual Performance Reports (APRs),³¹ in which all AEs have to self-report on implementation progress and challenges of funded activities, have widely differing levels of detail and are made public only in redacted form or, in a majority of cases, are not published at all.³² In the future, all APRs of private sector activities for all years of implementation must be published, with redaction kept to a minimum and in particular detailed sub-project information included in

the case of programmatic or fund-of-fund approaches.

How green and climate compatible are GCF equity investments and the portfolios of its private sector partners?

A dedicated climate fund should of course set best practice standards for truly green equity, especially in its direct investment partnership with private sector actors such as commercial banks and equity funds. The jury is still out – with many of the GCF supported equity investments only in the early stages of implementation – whether the GCF can fulfill this expectation as a standard setter for green equity finance for the broader set of players in global climate financing, although this is clearly part of the GCF’s ambition and self-proclaimed mission.

Box 5: GCF-FMO supported Green Growth Equity Fund for India? A first look and critical assessment

At its 28th meeting in March 2021, the GCF Board approved a US\$137 million investment, including US\$132.5 million in equity funding, intermediated by the Dutch development bank FMO for a Green Growth Equity Fund (GGEF) in India. It is the GCF’s second largest equity investment. The GGEF, claiming to be India’s “first of its kind climate focused fund,” is supposed to invest in “low-carbon and climate-resilient platforms across the energy value chain” in order to “accelerate the uptake of Indian green infrastructure projects.”³³

The mitigation-focused fund expects to reduce 166 million tonnes of CO₂ by investing in platforms for 12 to 20 projects with an average funding ticket size of US\$50-80 million in the renewable energy, e-mobility, energy efficiency, and waste-to-energy sectors. However, civil society

experts in their first assessment have pointed out that the claimed emissions reduction potential of the GGEF is highly speculative *ex ante*, while most of the claimed reductions will not be subject to an *ex post* assessment. The typical investment duration by the GGEF in individual projects is expected to only be four to six years, while the greenhouse gas (GHG) emission reductions claims are based on the assumed productive life of the assets and extending far beyond the GGEF period of ownership, after which the GCF will have no legal means to monitor fulfillment of emissions reduction promises. Additionally, the GGEF does not explicitly exclude possible investments in energy sub-projects that could hinder the transformational energy shift it should support, such as carbon capture and usage and waste incineration with energy recovery. Not only do waste-to-energy operations have very high direct CO₂ emissions exceeding those of conventional gas power generation, but such investment also locks in such waste-to-energy infrastructure for a 20-30 year operational life-cycle and thus undermines broader waste reduction efforts that prioritise reusing, recycling, and composting while providing toxic air pollution and leaving highly toxic residues. Lastly, with the short investment period in individual sub-projects, it is necessary to define the criteria well – but such well defined criteria are missing from GGEF proposal documents, despite its intent to take a majority stake in companies – the first time this is proposed under GCF equity investment support. For a truly green equity approach deserving of the name, an optimised exit strategy would not simply be based on profit maximisation, but on ensuring that environmental, social, and good governance and implementation goals have also been reached or exceeded.

The GGEF, under implementation and with US\$ 71 million GCF funding disbursed as of April 2022, is also another prime example of dubious private sector leverage expectations as well as showcasing the core role of public funding support in private equity funds in the name of climate actions, but purposefully structured in a way that limits public accountability for climate impacts achieved. It is managed by EverSource Capital, a first time fund manager, with an offshore fund based in Singapore pooling international investment to flow to the domestic GGEF in India. This overly complex fund and finance flow structure, as well as GCF's concessional commitment to hold subordinated class B shares in the GGEF, are meant to reduce risk for private sector class A shareholders, such as potential international institutional investors the GGEF pursues. However, some public sector investors such as FMO, which likewise holds class A shares, would also benefit from the de-risking offered by the GCF equity investment.

The GGEF, initiated with US\$310 million public sector anchor investments by India's National Infrastructure Investment Fund (NIIF) and the UK government's Foreign, Commonwealth & Development Office (FCDO) and only US\$30 million in equity by EverSource, is supposed to leverage additional US\$467.5 million in public and private sector equity investment for a total equity fund size of US\$944.5 million. The funding proposal lists mostly DFIs as investors in the pipeline, leaving it unclear whether private sector leverage promises can be fulfilled. According to the [GGEF funding proposal](#) (p. 17), at a project level, the equity provided by GGEF is expected to mobilize an additional US\$3.8 billion in the form of co-investments and debt during the programme lifetime of 10 years; this optimistic calculation is translated into an expected 1:34.5 leverage ratio.

Beyond its direct green equity investments, the GCF also plays a role as a signal provider, given the expectations it sets for and the influence it has on broader shifts in investment approaches and practices within its wider network of implementation partners of international, regional, national, and sub-national public and private accredited entities. Thus, it is fair to ask the question to what extent the GCF actually contributes to the broader greening of partners' investment portfolios, including their equity investments. It would be in this context that the GCF, which has received over the course of its life-time so far only [confirmed commitments for US\\$17.99 billion](#)³⁴ for direct climate finance support it can provide through accredited partners for climate actions in developing countries, can punch significantly above its own financial weight. The GCF accreditation process is supposed to play a major role in contributing to that larger investment shift.

As of April 2022, the GCF has 113 accredited entities, 26 of which are categorized by the GCF as from the private sector.³⁵ The [list of GCF accreditation partners](#) reads like a who's who of globally significant climate finance actors. It includes all MDBs and at least 12 members of the International Development Finance Club (IDFC) of regional and national development banks. Both the [MDBs](#) and [IDFC](#) claim significant yearly green and climate finance investing, vastly exceeding the sums the GCF can provide. Some [43 GCF accredited entities](#), including 19 private sector ones, are accredited to intermediate GCF equity investments. While the public entities able to receive GCF equity funding are MDBs, regional and national DFIs, the private ones include globally operating commercial banks such as HSBC, Crédit Agricole, Deutsche Bank, MUFG; regional and national commercial banks such as the Africa Finance Corporation, Morocco's Attijariwafa Bank, Pakistan's JS Bank Limited, India's Yes Bank

Limited, or Mongolia’s XacBank LLC; as well as equity funds and investment management companies such as the US-based Acumen Fund and Pegasus Capital Advisors or Australia’s Macquarie Alternative Assets Management Limited.

Several of these private sector banks and investment management companies are still significantly exposed to coal investments, both as lenders and underwriters. This puts a spotlight on whether an affiliation, and potential co-investing with the GCF, can actually help push these financial actors towards the substantial investment shift away from coal, gas, and oil needed. If successful, this would indeed be a transformational change – and thoroughly needed turnaround – of systemically significant commercial banks and investors for the global climate finance architecture. According to the [latest data](#) (January 2019 to November 2021) from Urgewald’s Global Coal Exit List (GCEL),³⁶ Mitsubishi UFJ Financial (the holding company for MUFG Bank) alone committed US\$45.4 billion (US\$23.2 billion in coal lending and US\$22.3 billion in coal underwriting) during that time – a multiple of the GCF’s total resource mobilization since its inception in 2011. Over the same two year period, BNP Paribas booked US\$19.4 billion in coal exposure (US\$7.8 billion in coal lending and US\$11.6 billion in coal underwriting); HSBC added a total of US\$16.1 billion in coal investments (US\$3.7 billion in coal lending and US\$12.4

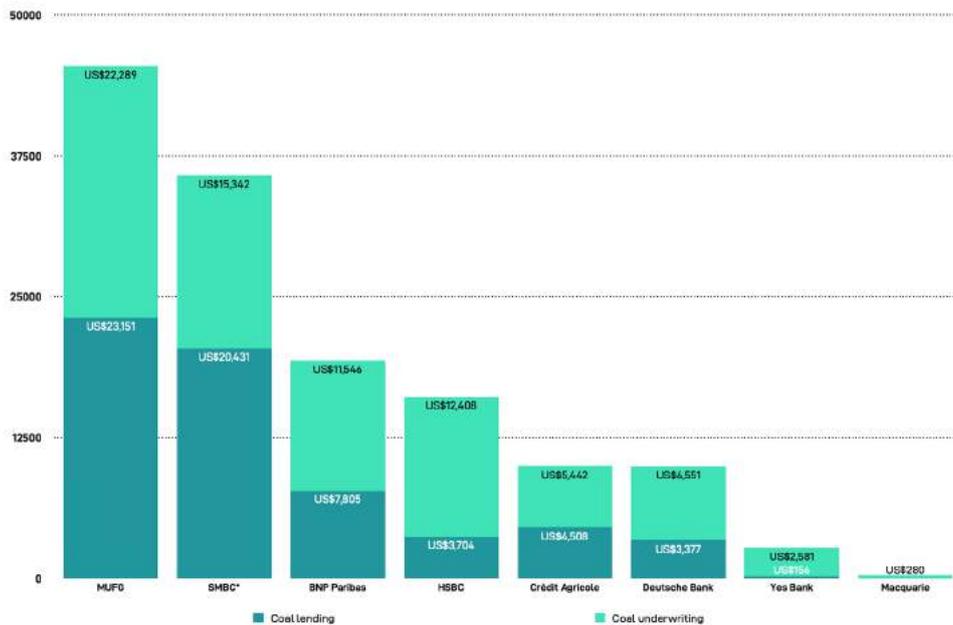
A dedicated climate fund should of course set best practice standards for truly green equity, especially in its direct investment partnership with private sector actors such as commercial banks and equity funds.

The jury is still out – with many of the GCF supported equity investments only in the early stages of implementation – whether the GCF can fulfill this expectation as a standard setter for green equity finance.

billion in coal underwriting); Crédit Agricole committed US\$9.9 billion new to coal (with US\$4.5 billion in coal lending and US\$5.4 billion in coal underwriting); Deutsche Bank added US\$9.9 billion in coal assets to its portfolio (with US\$3.4 billion in coal lending and US\$6.6 billion in coal underwriting); and the Indian Yes Bank committed an additional US\$2.7 billion to coal (US\$156 million in lending and US\$2.6 billion

in underwriting), while Macquarie committed still US\$280 million in coal underwriting. One of the worst global commercial banks financing coal, SMBC, only accredited to the GCF in July 2021 after hefty civil society protests (see Box 5), invested US\$35.8 billion in coal (US\$20.4 billion in coal lending and US\$15.3 billion in coal underwriting) over two years while pursuing its GCF accreditation.

Figure 3: Coal financing provided by GCF-accredited major commercial banks from January 2019 to November 2021, in US\$ million



Source: Global Coal Exit List (GCEL), <https://coalexit.org/finance-data>* SMBC was only a credited to the GCF in July 2021, but has applied for GCF accreditation already in 2016

However, the cooperation between the GCF and many of its private sector accredited partners has been slow, with in some cases multi-year delays between their accreditation by the GCF Board and their legal confirmation through signed Accreditation Master Agreements (AMAs). Multinational commercial

banks have proved to be particular laggards: six years since its initial accreditation, HSBC has not signed an AMA, while no such agreement has been signed with BNP Paribas more than three years after the GCF Board approved it as an accredited entity. Crédit Agricole signed its AMA only in April 2021, five years after

Board approval, while Deutsche Bank signed its AMA in 2017 two years after Board approval. So far, only six accredited private sector entities have any funded activities,³⁷ including ten of the 12 GCF private sector equity investments, although the FAA for the Deutsche Bank's equity investment programme, which was approved in October 2016, only became effective in March.³⁸ In fact, the majority of GCF private sector activities overall are intermediated by MDBs and DFIs.³⁹

Can the GCF support the portfolio shift away from fossil fuels through its accreditation procedures?

When some of the first global commercial banks with a track record in human rights violations and a history of massive fossil fuel financing sought accreditation to the GCF in 2015 and 2016, a [large number of civil society organisations \(CSOs\)](#) objected with open letters to the GCF Board to their inclusion in the GCF partner spectrum, such as in the case of [Deutsche Bank, HSBC and Crédit Agricole](#). The argument by the GCF Board and Secretariat was then that the direct partnership of those commercial actors with the GCF is important as an encouragement and incentive

to help change those commercial actors' business model by accelerating divestment from fossil fuels and other harmful practices towards greener activities to benefit people and the planet. To counter CSO criticism that an affiliation with the GCF could be used by commercial banks to 'greenwash' their broader, overwhelmingly non-climate-compatible investment portfolio while largely continuing fossil-fuel driven business-as-usual, the GCF Board already in late 2015 approved a [monitoring and accountability framework](#) meant to track compliance by the accredited entities with the overall mission and ambition of the GCF. It includes in paragraph 35 a clause that ties a GCF decision in favour of the required re-accreditation of a GCF accredited entity after five years to an assessment of the extent to which the "overall portfolio of activities beyond those funded by the GCF has evolved [...] during the accreditation period" toward full climate compatibility.⁴⁰

What was meant as a reassurance to placate criticism and concerns and as a forward-looking accountability tool to ensure that the GCF stays true to its overarching goal and mission, in reality has so far fallen short of expectations.

BOX 6: The GCF Accreditation of SMBC in July 2021

Sumitomo Mitsui Banking Corporation (SMBC), Japan's largest trust company and fifth-largest bank by assets, applied for GCF accreditation in October 2016, and its application was assessed by the GCF Secretariat initially and then the GCF's Accreditation Panel and forwarded to the GCF Board for consideration at its meeting in July 2020.⁴¹ SMBC's efforts to join the GCF as accredited entity was heavily opposed by CSOs as out of line with the GCF's mission, citing SMBC's record as the world's third largest lender to coal developers with particularly devastating effects in Asia. A CSO protest letter to the GCF Board in advance of their July 2020 26th Board meeting (B.26) drew 289 organisational and network signatories from 69 countries. At the Board meeting, several developed country Board members also spoke out against the accreditation due to the bank's fossil fuel funding support. In response, the Board, at the request of SMBC, decided to defer a decision on the application to a future Board meeting in 2021. The accreditation of SMBC was then again on the agenda for the GCF's March 2021 Board meeting (B.28). While the Board ended up not discussing accreditation at all, and thus SMBC's accreditation was further deferred, it became clear that intensive backroom discussions were taking place that would allow opposing Board member to approve SMBC's application with a number of conditions. Those were first laid out in a non-public document at B.26 and summarized in a public document for B.28 as a statement of commitment and action plan. It set out overall milestones to demonstrate efforts to bring the bank's overall portfolio into compliance with Paris Agreement objectives and specifically plans to cease funding new unabated coal-fired power plants and any other relevant activities to reduce their carbon-intensive project finance portfolio. This was decried by CSOs as insufficient.

In May 2021, and thus in advance of the GCF's July 2021 Board meeting (B.29), SMBC released a multi-page statement on "Reinforcing Efforts against Climate Change". In it, the bank said it "will establish and publicly announce a detailed action plan that can gain the endorsement of its stakeholders as a financial institution", declared that "SMBC Group will become net zero in its group wide operations by 2030", increased its target to "Execute green finance and finance that contribute to realizing sustainability equivalent to JPY 30 trillion between FY2020 to FY2029 (of which JPY 20 trillion is green finance)" and announced a revision of "its policy regarding coal-fired power plants. This policy will be introduced in SMBC Group companies (SMBC, SMBC Trust Bank Ltd, SMBC Finance and Leasing Ltd, SMBC Nikko Securities Inc). While this policy becomes effective on June 1st, 2021, SMBC Group will conduct its reassessment

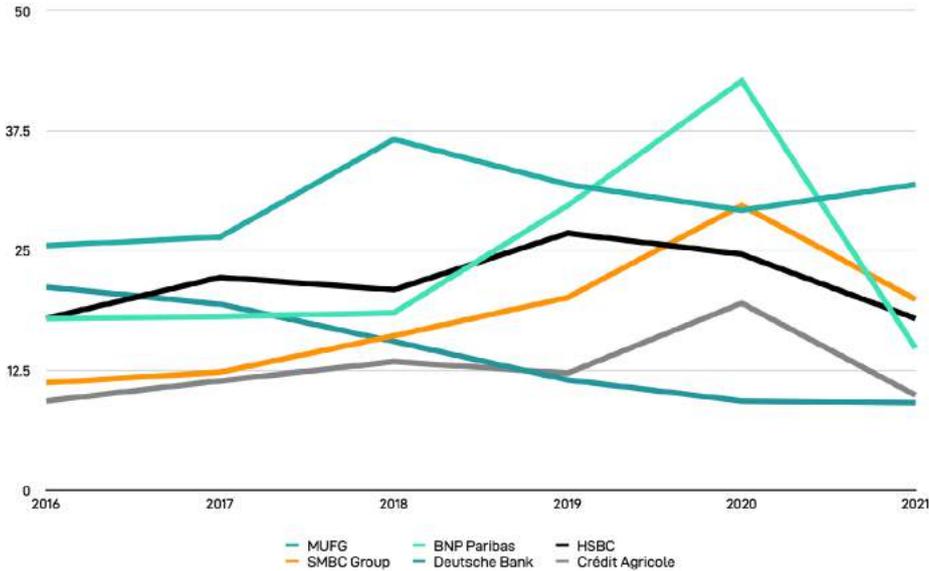
proactively in consideration of the external environment. [...] Support for newly planned coal-fired power plants and the expansion of existing plants are not provided.”

These announcements were judged by CSOs as still allowing for too many loopholes, especially as support for CCS and mixed combustion technologies seem to be understood by SMBC as exceptions to its new goal. While CSO objections to the GCF accreditation of SMBC continued despite the new policy announcements, including with a new letter with more than 450 signatories in advance of B.29, when SMBC’s accreditation was again on the agenda, SMBC’s new policy statement provided enough of a cover and reassurance to the GCF Board. It approved SMBC as GCF accredited entity, noting “with appreciation” its new climate policy and action plan, which was also added as a Board document addendum formally to the record of this decision.

For one, the existence of the clause has seemingly given the GCF the fig leaf coverage to continue with the highly criticized accreditation of several of the globally most destructive fossil fuel funding commercial banks, such as the former Bank of Tokyo-Mitsubishi UFJ (now MUFG) in 2017, BNP Paribas in 2018, and more recently – after a spirited opposition by CSOs and several delays (see Box 6) – Sumitomo Mitsui Banking Corporation (SMBC) in July 2021. The GCF can now proudly claim to have six of the top 24 commercial banks investing in fossil fuel among its ranks, including with MUFG and BNP Paribas two commercial banks in the top ‘dirty dozen’ of continued fossil fuel financing since

the Paris Agreement was approved. According to the recently released report Banking on Climate Chaos 2022, Japan’s MUFG is Asia’s worst funder of fracking, tar sands and continued fossil fuels expansion since the Paris Agreement, while BNP Paribas continued large deals with major oil companies despite a green ad campaign and some restrictions on unconventional oil and gas financing until 2020. In fact, for all of these GCF-accredited large commercial banks, with Deutsche Bank being the exception, the yearly volume of their fossil fuel financing grew up to 2020, and correspondingly since their GCF accreditation. It remains to be seen if the drop in fossil fuel investments for 2021 is a blip or a trend.

Figure 4: Fossil-fuel financing provided by GCF-accredited major commercial banks since the Paris Agreement, in US\$ billion



Source: Rainforest Action Network et al. (2022). *Banking on Climate Chaos*.

Second, the GCF counts as the start of the five-year accreditation period before required re-accreditation not the date of the entity’s Board accreditation, but when its AMA - the contract it signs with the GCF - becomes effective. This means BNP and Crédit Agricole, which only signed their AMAs in 2021, and HSBC, which has not signed its AMA at all, as well as SMBC, which got accredited in 2021, can claim at least until 2026 to have a relationship with the GCF without facing any accountability for a required portfolio shift as a result of this affiliation. Deutsche Bank and MUFG will have to seek GCF re-accreditation in 2023 – or they might choose to forego it, and with it the required check and the commensurate public GCF Board discussion and decision on the extent to which their overall portfolio of activities beyond those

funded by the GCF has evolved towards climate-compatibility and is thus in line with the mission and the mandate of the GCF.

Lastly, not only were efforts by the GCF’s Accreditation Panel, tasked with developing a methodology to assess the overall portfolio shift of accredited entities seeking re-accreditation, delayed for several years. The [proposed approach](#) on how to measure the portfolio shift of GCF accredited entities toward more low-emission and climate resilient development pathways lacks rigour, does not establish a baseline against which to measure, and has yet to be approved by the GCF Board . It is currently applied in a pilot version, with voluntary participation, but none of the commercial banks nor the MDBs coming up for re-accreditation over the next year have

chosen to participate. By basing the established baseline narrowly on accounting for carbon emissions or beneficiaries, and largely focused on project finance, it fails to account for the vast majority of the finance portfolios of large public and private financial institutions, which is not project-based, such as bonds, policy loans and equity investments. The GCF pilot approach has also revealed the difficulty of applying the methodology to blended finance approaches such as those the GCF increasingly pursues, especially in its equity investments. As presented, the approach fails to incorporate science-based targets such as implementing the [recommendations of the Task Force on Climate Related Financial Disclosure \(TCFD\)](#) or the [Paris Agreement Capital Transition Assessment](#) developed by the [2 Degree Investing Initiative](#) specifically for the banking sector.

Adding to these shortcomings, as a way to entice more private sector investments, the GCF is now implementing a pilot framework for a project-specific assessment approach (PSAA) as part of a broader [reconsideration of its existing accreditation approach](#) and future partner strategy.⁴² This move further

undermines the GCF's chance to influence the overall portfolio development of its implementation partners, especially of private sector actors. In the PSAA, an entity interested in seeking funding for a GCF project or programme, would no longer need to submit to a rigorous broad accreditation review by the expert Adaptation Panel of its fiduciary standards, environmental and social safeguards framework and management capabilities as well as its ability to comply with the GCF gender policy with Board confirmation of its accreditation as a prerequisite for requesting funding. Instead it could have its ability to comply with GCF policies, standards and safeguards reviewed only to the extent Secretariat staff considers them relevant for the specific proposal the entity seeks funding for. While presumably any entity would only be allowed to use the PSAA once, this cap could be easily circumvented, for example by private sector entities setting up special purpose vehicles or submitting proposals through subsidiaries. Civil society observers are therefore critical of the proposed approach and push to strictly limit its application to small-scale low-risk activities during a pilot phase.

For all of these GCF-accredited large commercial banks, with Deutsche Bank being the exception, the yearly volume of their fossil fuel financing grew up to 2020, and correspondingly since their GCF accreditation.

WHY GREENING EQUITY MUST INCLUDE EQUITY FOR PEOPLE AND PLANET

It is clear that to be genuinely ‘green’, green equity must not include support for fossil fuels and other climate-disruptive industries, as we have shown when examining loopholes in IFC’s greening equity approach. Likewise, approaches to persuade clients and implementing partners to green their own portfolios and equity stakes must be comprehensive to cover all fossil fuel exposure and transparent to ensure accountability for compliance with such greening-equity-through-affiliation/commercial relationship-promises. But what about when public development banks and the

GCF use equity to try to do good, and to fund projects and programmes targeting concrete climate outcomes and promising full climate-compatibility? Phasing out fossil fuels in equity investments to tackle climate change, and promoting clean energy or climate solutions, such as for example promised carbon-sequestration efforts, instead, is only one half of the battle. Equity investments will never be truly ‘green’ if they don’t also ensure they do no harm, avoiding damage to people’s lands and livelihoods, and protecting human rights, including for Indigenous Peoples and gender equality. To be ‘green’ projects and programmes should also aim proactively to do good and provide positive benefits to local communities as well as change frameworks and behaviours in a lasting way – for

example, prioritising energy access to address persistent and gender-unequal energy poverty, promoting and advancing core human rights, or addressing underlying norms and structures and systemic root causes of exclusion and discrimination. This can be done by ensuring gender-equitable benefit-sharing and giving voice and agency to the needs of and contributions by frequently marginalised groups, such as women or Indigenous Peoples, to tackling climate change in a way that is transformative.

‘Green’ equity? Some examples from IFC

Again, given its leading position as a standard-setter for other financial institutions, IFC’s track-record in financing ‘green’ projects with equity bears scrutiny. The following examples date from around 10 years ago – before IFC introduced reforms to decrease its higher risk lending and improve environmental and social supervision. However, the examples are of value in showing how ostensibly ‘green’ projects – in this case, small hydropower dams – can be anything but green in terms of their impacts on local communities.

Both examples involve multiple other DFIs including Dutch, German, Swiss, Norwegian and Finnish, so lessons learned are applicable across the DFI landscape.

In 2008, the IFC provided US\$20m in loans and US\$10m in equity to the Corporación Interamericana para el Financiamiento de Infraestructura (CIFI), a financial institution that funds small and mid-sized infrastructure projects in Latin America. CIFI prides itself on its green initiatives: [claiming](#) that one of the “fundamental pillars” of CIFI is “our commitment with the environment and sustainability.” CIFI, in turn, provided Hidro Santa Cruz (HSC) with a US\$8.2 million loan and up to US\$2.5 million for a mezzanine facility. In 2009, HSC began buying land in Santa Cruz Barillas, a relatively calm and isolated region of Huehuetenango, Guatemala, to prepare for construction of a small hydropower dam on the Barillas River. The local population there is predominantly indigenous, many living in poverty or extreme poverty. Huehuetenango experienced significant violence during the Guatemalan civil war from 1960 to 1996, with more than

The 52-page CAO investigation catalogued a series of failures by the IFC to uphold its own policies and to ensure no harm befell the communities of Santa Cruz Barillas, despite the high-risk post-conflict context and the presence of vulnerable indigenous communities.

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10,000 people killed, a majority of them indigenous.

When local communities began to organise to oppose the imposition of the project, the developer began to work in tandem with the government to silence opposition, with state courts issuing dozens of arrest warrants against community leaders who, by virtue of their poverty, were unable to defend themselves. The Barillas conflict has devolved into a cycle of community protests, violent crackdowns from state and company authorities, an accompanying crackdown and arrest of local activists and ever-increasing community dissent.

The dispute between HSC and local residents became so intense that in 2012, the Guatemalan government declared a state of emergency in Barillas for the first time since the end of Guatemala’s civil war. A variety of civil and political rights were suspended in the area. Local people reported house raids, warrantless arrests, sexual violence,

theft, intimidation, destruction of property and other forms of abuse of authority.

In June 2020, the independent accountability mechanism for the IFC [published an investigation](#) into this small dam project, cataloguing IFC’s dereliction of its duties and obligations to prevent harm to the local indigenous communities. The investigation, by the Compliance Advisor Ombudsman (CAO), was prompted by affected communities filing [a case in 2015](#), alleging significant social and human rights impacts, including project-related conflict, resulting in the death, serious injury and imprisonment of community members linked to the project.

CAO concluded, “*Though aware of project impacts during the period of financing, IFC did not engage with its client to ensure that residual impacts of the project were assessed, reduced, mitigated, or compensated for, as appropriate, including at project closure, as required by the*

Performance Standards and the Sustainability Policy.... In these circumstances, contrary to the intent of IFC's Sustainability Policy, adverse impacts have been left to fall on the community."

IFC has [protections in place](#) to ensure its investments "do no harm" and ensure "that the costs of economic development do not fall disproportionately on those who are poor and vulnerable." But the 52-page CAO investigation catalogued a series of failures by the IFC to uphold its own policies and to ensure no harm befell the communities of Santa Cruz Barillas, despite the high-risk post-conflict context and the presence of vulnerable indigenous communities.

It is worth considering how such failures occurred in some detail, to shine a light on how such problems could be avoided in the future.

CAO found that IFC failed to uphold its own policies and procedures in relation to due diligence, monitoring and supervision, breaching its Sustainability Policy and its Performance Standards, especially as regards indigenous peoples, consultation, and use of security guards:

1. When CIFI filed a serious incident report to IFC, following the fatal shooting of local peasant farmer Andrés Pedro Miguel, IFC failed to respond or follow through. The first time CIFI communicated

with the IFC about the impacts of the Canbalam project was in its serious incident report of June 2012. CAO notes, "There is no record of IFC following up with the client in relation to the incident report," despite the fact that, "Once the client informed IFC in June 2012 of the violent incidents of May 2012, IFC had a duty to respond." Specifically, IFC's obligations included ensuring an analysis of the root causes of the problem and plans to prevent it happening again. CAO concludes: "**IFC did not take measures ... to ensure that the client was properly applying the Performance Standards to the project, following the violent incidents of May 2012.**" CAO notes, "Specifically, IFC did not: (a) schedule a site visit to the client or the project; (b) document a review of the client-commissioned Social Monitoring Report; (c) review the client's ESMS [Environmental and Social Monitoring System] implementation in relation to the project; (d) ensure the client had in place an adequate remedial action plan for the project; and (e) remain informed of ongoing implementation of project-level remedial actions.

2. Because IFC did not engage with CIFI at this stage, IFC failed to ensure the project could meet its Performance Standards, specifically regarding the use of security forces (PS4), and assessment

on impacts on indigenous peoples (PS1 and PS7). In particular, CAO notes that IFC failed to “*address project impacts throughout the project cycle including at project closure (PS1 para. 6)*”.

3. **Despite being informed about significant violence and problems at the project site, IFC only engaged with CIFI once about social and environmental issues.** IFC’s only recorded engagement with CIFI about the Canbalam project was in March 2013, in relation to concerns around the quality of the project’s environmental and social review.
4. **Despite being aware that CIFI repeatedly failed to meet IFC’s standards and lacked the capacity to ensure social and environmental protections were applied at project level, IFC did not take effective action to address these shortcomings.** As a result, the CAO concludes, “*Nine years after making its investment, IFC has yet to assure itself that the client is operating the ESMS as envisaged at the time of appraisal or that its client has applied the applicable performance requirements to their sub-projects.*”

Unfortunately, this case is not an isolated one. Another FI case in Guatemala bears striking similarities: the Santa Rita Hydroelectric project.

In 2012, the IFC invested US\$15 million in a New York City-based private equity fund named [Latin Renewables Infrastructure Fund](#) (LRIF), and as late as October 2014 [claimed](#) that there were ‘no high-risk projects’ funded by their client. Such an assessment entirely ignored or downplayed the fact that the project was situated in an indigenous area, and that severe conflicts had occurred at a similar project (Cambalam) including the declaration of a state of emergency in the same year LRIF investment went ahead. The WBG’s appalling history in Guatemala was also apparently not considered: in the 1980s several hundred indigenous people were massacred during construction of the [Bank-supported Chixoy dam](#).

The Santa Rita project was only disclosed as high risk on the IFC’s website after the case was brought to light by CSOs and following a public meeting of senior IFC officials with an indigenous leader in [October 2014](#). The Santa Rita case became the subject of a [CAO complaint](#), brought by local organizations, *Colectivo Madre Selva* and the *Consejo de Pueblos de Tezulutlan* in 2014 on behalf of several communities downstream and upstream of the Santa Rita project. The complainants raised concerns regarding a range of environmental and social impacts, alleging among other issues that the project did not meet IFC’s consultation requirements for free, prior, and informed consent and

claiming that their opposition to the project has been met with violence, repression, and criminalisation of community leaders.

Again, when it released its investigation report, CAO found fundamental failings on the part of IFC. “CAO finds that IFC did not sufficiently engage with the Fund to address the rising tensions, violent incidents, and serious allegations of E&S impacts raised by local community members and their representatives. CAO also finds that the prevalence of community opposition was sufficient for IFC to require a re-evaluation of the applicability of its Indigenous Peoples standards to the project”.

“More broadly, CAO’s findings raise questions as to the effectiveness of IFC’s control over compliance when it comes to the application of its E&S standards to high risk financial Intermediary investments.”

Again, it must be noted that IFC has taken significant steps to reform its equity business in recent years so that – in theory at least – such egregious projects, which devastated local communities, should not be repeated. [CAO recognises this progress](#), stating in its latest monitoring report into the Santa Rita project in 2019, “IFC has strengthened their internal procedures for appraising and supervising FI investments. In response to CAO’s investigation report, IFC noted improvements it has made regarding **fund**

selection, disclosure and supervision of fund subprojects, legal requirements for E&S non-compliance, and contextual risk analysis.” [emphasis added]

Other public development banks investing equity in funds for similar projects would do well to learn these lessons and at least match IFC’s reforms in these crucial protections. However, at least one bilateral development finance institution, the Dutch FMO, appears not to be willing to take these necessary changes on board, despite having co-funded both [Canbalam](#) and [Santa Rita](#) alongside IFC. For example, in its latest Position Paper on Financial Intermediaries, FMO continues to refuse to disclose information about its funds’ subprojects: a bare minimum requirement for accountability.

The attraction such ‘green’ funds hold for DFIs is clear: FMO’s website still boasts its connection with LRIF: “The Latin Renewables Infrastructure Fund will invest in utility-scale, renewable resource power generation - principally wind and hydro power - in Latin America, with an immediate focus on Central America. Market conditions for renewable energy in Latin America are highly favorable with assets being price competitive with fossil-fuel based generation (e.g., oil, gas, coal) with little to no subsidies required.” Similarly, while LRIF attracted development finance from FMO, IFC, the German DEG as well as the Swiss Investment Fund for

Emerging Markets, CIFI also seemed like a good bet for numerous DFIs, keen to support renewable energy in Latin America, with investments flowing in from [IFC](#), [FMO](#), [Norfund](#) and [Finnfund](#).

Greenwashing GCF private sector equity investments? The case of the Arbaro Fund

As the leading multilateral climate fund tasked with supporting developing countries with implementing their ambitions and obligations under the Paris Agreement, and thus as a standard-setter and signal provider for green, fully climate-compatible investments, the GCF's first forays in private sector equity investments deserve critical assessment. They set the precedent for what the GCF sees as exemplary green equity investments to be replicated, by the fund itself, by the public and private investors it partners with, and in the broader climate finance landscape it provides investment signals to. This is in particular also relevant for the sign of approval it conveys to other DFIs providing scarce public financing as private sector project and programme enablers in blended finance approaches. The GCF only started to approve investments in November 2015 and so far has only a short history of private equity investments, several of which are only in the early stages of multi-year implementation periods or are not yet under implementation following

more recent GCF Board approvals. Nevertheless, some follow equity investment approaches that have a chequered if not downright bad track-record of causing severe and lasting harm to people and the environment.

This is certainly the case with past private sector investments in industrial plantation forestry, where greenwashing of expected carbon sequestration and adaptation outcomes of tree plantations with unfulfilled promises to local communities, and devastating impacts due to corporate land grab and resulting land conflicts, threats to food security and local livelihoods, biodiversity and equitable access to and sustainability of water resources have been well documented. A series of reports analysing industrial tree plantations in the [global south](#) primarily in Latin America and [Africa](#), for example by the [Oakland Institute](#), the [World Rainforest Movement](#),⁴³ [Global Forest Coalition](#) or [GRAIN](#), have showcased the serious social upheaval, ecological destruction and failure to sustain climate mitigation impacts of these investments.

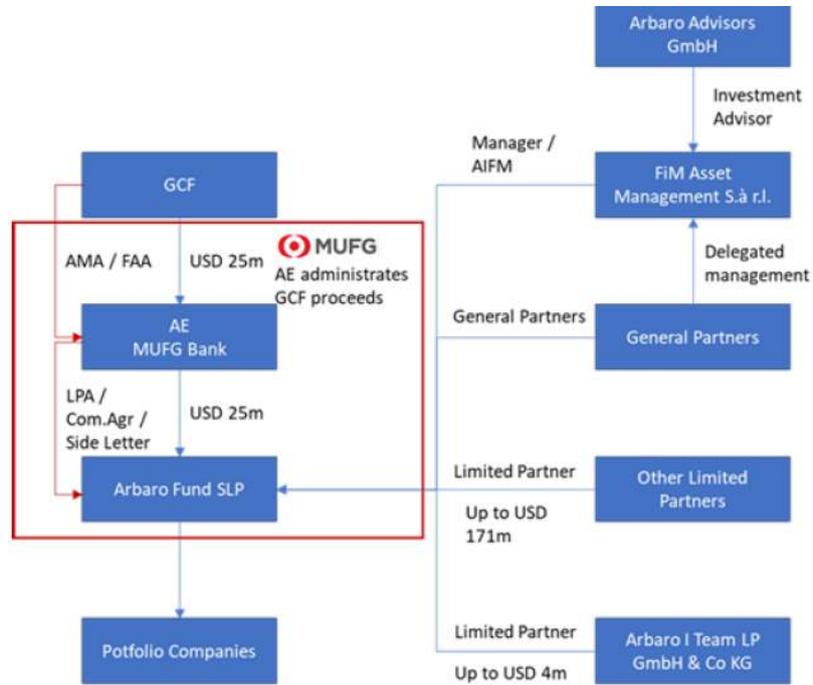
Thus, the GCF's first private sector equity investment into a so-called "sustainable forestry" equity investment vehicle, the [Arbaro Fund](#) deserves a closer, critical look. The label implies the promised compatibility of industrial tree plantations with providing lasting climate outcomes and community benefits, while the investment is billed as setting new best practice

sector markers for sustainable forest plantation investments with carbon sequestration and carbon offsetting as an asset class for widespread replication.

In March 2020, the GCF Board approved US\$25 million in equity for the Arbaro Fund, a planned US\$200 million private equity fund based in tax haven Luxembourg and established by German-based asset management company [Finance in Motion](#) and [UNIQUE](#), a German forest consulting and management firm with [large-scale investments in Paraguay](#) through PAYCO Forestry.⁴⁴ The Arbaro Fund, which the [GCF on its website](#) touts as providing “developing countries and their rural communities with a solution to increase carbon sinks by producing wood in a sustainable manner and conserving natural forests, whilst contributing to reduction of illegal logging” and “also bringing adaptation co-benefits,” plans to establish 75,000 hectares of commercial tree plantations in Ecuador,

Ethiopia, Ghana, Paraguay, Peru, Sierra Leone and Uganda over its expected 15 year lifetime. According to the [GCF funding proposal](#), the Arbaro Fund promises to secure Forest Stewardship Council (FSC) certification for its plantation operations and to set aside an average of 20% of its total land area for conservation purposes (p.5). As a GCF mitigation investment – and as justification to receive its climate finance support – the Arbaro Fund claims that during its lifetime through its activities, it will sequester up to estimated 20 million tonnes of CO₂. The GCF funding is intermediated through [MUFG](#), which will transfer the money to the Arbaro Fund, which will then invest in companies operating industrial tree plantations on the ground. This two-step intermediation complicates effective oversight by MUFG, let alone by the GCF, and limits overall transparency and public accountability of Arbaro Fund operations, including access to redress and compensation for potential harm to affected populations.

Figure 5: Finance intermediation and input flows in the Arbaro Fund



Source: GCF Funding Proposal [FP128: Arbaro Fund – Sustainable Forestry Fund](#), Figure 5, p.17.

The GCF Board approval came despite heavy criticisms and [detailed concerns raised](#) by [civil society groups](#) and forestry experts, including in [an open letter](#) to the GCF Board and the broader public signed by 245 groups and individuals, who felt that funding support for large monoculture industrial tree plantations was incompatible with the GCF’s mandate and constituted bad precedent and huge reputational risk for the fund. They pointed out a series of shortcomings in what they described as a fundamentally flawed investment approach by the GCF, including:

- 1. Inflated and unrealistic carbon sequestration assumptions:**
Arbaro’s investment scenarios

project high levels of tree harvests in years 12-15 of the investments, based on unrealistic rates of tree growth projections, shortly before the fund plans to sell its equity shares in the invested companies. Its carbon accounting numbers are based on a flawed zero carbon baseline (for the conversion of land to plantations) and on maintaining “a long-term average” forest carbon stock to be continued after its financial exit which estimates that most of the carbon sequestration will occur in the years 15-25 of the plantations’ growth/harvest cycle. However, there are no guarantees or safeguards in place to prevent future new

owners from clearcutting the trees. Thus, the sequestered carbon could be entirely lost in 15 years. Even if this could be avoided, industrial tree plantations are [vastly inferior](#) to carbon sequestration benefits of natural ecosystems, especially natural regeneration of forests, pointing to the opportunity costs of not using scarce GCF funding to secure carbon benefits through [such approaches](#) instead

2. Unsustainable use of wood from Arbaro Fund projects could erase climate benefits:

Besides vague promises to build sawmills and wood treatment facilities, there is no clear plan for ensuring that offtake from the plantations goes exclusively into high-value timber products like veneers and plywoods, thereby guaranteeing sustained carbon sequestration. CSOs pointed out the promised FSC certification of tree plantations would not prevent use for biomass energy. When Arbaro invested in Miro Forestry & Timber Products in November 2018, it was operating a charcoal production facility in Ghana which Arbaro claims has since been abandoned.⁴⁵

3. Arbaro operations pose risks to landscapes and ecosystems on which local communities depend:

Proposed plantations rely heavily on fast-growing and for some investment regions non-native tree species such as pine, teak and especially

eucalyptus. This can result in high demands and constant stress on local water tables and dangers to local communities' ability to access sufficient water to grow food. The intended use of chemical fertilizers and agrotoxins to control weeds and insects risks contaminating soils and water and threatens the health of plantation workers and local communities. Monoculture tree plantations, especially of eucalyptus, are also very fire-prone, increasing the risk of spreading wildfires beyond plantation boundaries. They also threaten and reduce biodiversity and thus ecosystem functionality, thereby decreasing resiliency to climate change impacts.

4. Arbaro Fund operations will likely stoke conflicts over land and threaten communities' land rights:

While the Arbaro Fund proposal to the GCF claims that "the programme will seek to afforest or reforested degraded landscapes for the commercial, yet sustainable production of timber resources" (p.35), experts have pointed out that for industrial plantations to produce quality timber in the time-frame envisioned by the Arbaro Fund good fertile soil with sufficient rainfall is needed – which is in direct competition with the land local communities rely on for their food sovereignty and livelihoods. Indeed, the environmental and social safeguards disclosure information submitted by MUFG

for publication on the GCF website for investments in two companies created by Arbaro in Paraguay, [Forestal Apepu SA](#) in 2019 and [San Pedro Forestal in 2020](#), explicitly state that in both cases eucalyptus plantations will be expanded on leased land that was previously used for agriculture. Increasing the risk of land conflicts and social upheaval further, the Arbaro Fund proposal did not outline a credible approach of how to ensure free, prior and informed consent (FPIC) and secure the support for its ventures by local communities, and how to address land legacy issues.

5. **Promised benefits for the communities from Arbaro Fund operations are likely to be overstated, not sustained and insufficiently gender-responsive:** The Arbaro Fund proposal promises that “up to” 5000 jobs will be created through its plantation investments, although similar plantation projects show that many of those jobs are shorter-term temporary positions, and Arbaro fails to detail how the job creation is distributed and sustained over the lifespan of the fund. Presumably the 1700+ local employees from the existing [Miro Forestry & Timber Products](#) operations, that the Arbaro Fund invested in, would be included in that number (thus not creating additional new jobs). Although the Arbaro Fund has a

[gender action plan](#) mandatory under GCF guidelines, its female employment and female trainee targets of 20% and 15% respectively are uninspired and its stated claim to ensure that “at least one community development programme of each investee company is implemented in a gender-responsive manner”, which is insufficient given that women in all Arbaro Fund investment target countries are more likely to be denied legal land rights, despite working on the land at a higher rate than men and [gender-differentiated higher impacts on women](#) from industrial tree plantations documented in detail.

As of early 2022, the Arbaro Fund had [made investments in three companies](#) managing a total of 20,000 hectares of forest plantations in Ghana, Sierra Leone and [Paraguay](#).⁴⁶ [Miro Forestry & Timber Products](#), in which it invested in 2018, manages 16,500 hectares of eucalyptus plantations in Ghana and Sierra Leone (in addition to 7,000 hectares of claimed conservation areas), hoping to expand at a rate of 2,000 to 3,000 hectares per year. [Forestal San Pedro in Paraguay](#), established in 2020 and wholly owned by Arbaro, aims to manage a total of 8,000 ha of forest plantations with a plan to acquire 6,270 hectares of stands of pure and silvopastoral (i.e. allowing for cattle grazing) eucalyptus plantations planted between 2014

and 2020 in the departments of San Pedro and Canindeyú and to establish an additional 1,730 hectares. Lastly, [Forestal Apepu SA](#), established by the Arbaro Fund in 2019 in Paraguay, plans to expand its current land holdings and operations in the department of San Pedro from 2,658 hectares (with 1,855 hectares of tree plantations) to a target production area of 6,059 hectares (and land holdings of 9,148 hectares) in 2021. The Arbaro Fund in January 2022 disclosed information about a [fourth planned investment](#) with private landowners in the Cajamarca region of northern Peru to harvest 3,000 hectares of existing pine forests and to establish 750 hectares of new plantations as well as the installation of an industrial plant in the outskirts of the city of Cajamarca for sawmilling and processing of the timber produced.

While approved under the GCF's [Mobilising Funds at Scale \(MFS\)](#) private sector leverage programme, Arbaro's seed funding in its first US\$60.2 million closing in 2018 came from two publicly owned banks, the European Investment Bank and the Finnish Fund for Industrial Cooperation. The financing details in the funding proposals submitted to the GCF show that of the expected US\$85 million to be raised in its second closing, a further US\$60 million (including the GCF's equity investment) are public with only a minority share to come from private financiers. The proposal nebulously promises that "[f]urther private sector investors / DFIs with commitments

amounting to ca USD 60 million are expected to commit following GCF's commitment" to get to the promised US\$200 fund size, providing de-risking for the little private money coming in. By mid-2021, the GCF had already disbursed US\$17.6 million through MUFG to the Arbaro Fund without corresponding proof of additional private investments secured.⁴⁷ Notably, with just US\$4 million (2% of expected fund size), Arbaro's own equity "skin in the game" is minuscule, while the financial rewards for the Arbaro Fund managers, guaranteed fund management fees of US\$26.7 million alone, will be substantial, irrespective of the profitability (or the lasting climate impact) of the enterprises and projects they invest in.⁴⁸ This contrasts unfavourably with uncertain or less generous expected financial and job benefits for local communities, showing for example in the case of one investment by Miro Forestry & Timber Products, now under Arbaro management, that original leases of land to establish tree plantations in Sierra Leone in 2011 for the first seven years only paid US\$2 per hectare per year to local landowners in the Yoni Chiefdom.⁴⁹

The case of GCF's equity investment in the Arbaro Fund highlights that "green" climate credentials of similar projects and programmes might be purposefully over-exaggerated. At the same time uncertainties and possible overstatements of expected climate outcomes (such as sustained carbon sequestration, emissions

reductions or adaptation benefits) are willfully disregarded in the interest of claiming leveraged private sector engagement as a success criterion for the effectiveness of GCF climate investments. It is thus even more important to demand that existing oversight, accountability

and redress procedures and mechanisms at both the GCF fund level and at the level of the GCF's accredited financial intermediaries are effectively and comprehensively utilised to prevent "greenwashing" and poor investment of scarce public climate funds.

RECOMMENDATIONS FOR TRULY GREEN EQUITY INVESTMENTS

Put simply, for equity to be truly green, it must fulfil three fundamental tests:

- ▶ **It must not support fossil fuels or other climate damaging activities;**
- ▶ **It must do no harm** by preventing human rights abuses and negative social and environmental impacts;
- ▶ **It should aim to do good** by addressing inequalities and generating broader benefits for affected people and communities, creating accountability for sustained climate impacts and contributing

to larger paradigm shifts in the financial system.

Below, we list the ‘building blocks’ necessary to ensure that the equity investments of publicly-backed financial institutions put people and the planet at their heart.

No support for fossil fuels or other climate damaging activities

A fundamental step is to ensure DFIs are transparent about which of their FI investments could be exposed to fossil fuel projects. For climate funds like the GCF this means ruling out, through an exclusion list, any financial support for technologies and infrastructures that would perpetuate fossil fuel use or increase emissions (including carbon capture

storage and usage technologies or waste-to-energy incineration). DFIs can also use an exclusion list approach. Enhanced transparency – including at minimum the name, sector and location of high-risk projects and programmes, all related sub-projects and second and third level intermediations, such as through equity investments in other equity funds – is required (see more detailed recommendation below – Transparency). DFIs should clarify how commitments such as fossil fuel exclusions will be implemented, to enable shareholders and civil society more accurately to measure their contribution to climate action, since mitigation efforts would be more effectively assured. Recent research from Oxfam showed that, with the current information disclosure, it is impossible to verify climate finance numbers claimed by MDBs.⁵⁰ Climate funds like the GCF, as well as DFIs, need to disclose emissions accounting and climate impact measurement methodologies, for example for beneficiaries with increased resilience to climate adaptation impacts, *ex ante* implementation and transparently report on *ex post* implementation climate outcomes accomplished, as well as holding FIs to account for unmet targets and unfulfilled promises.

DFIs must spell out how they will deliver their Paris alignment and climate roadmap commitments. Both DFIs and the GCF must clarify how FI equity investing in particular

will be addressed. To do this, DFIs and the GCF should:

- ▶ Adopt a requirement for all existing equity clients to **track and disclose any fossil fuel, or fossil fuel-related infrastructure investments**;
- ▶ Ensure that none of their new equity investments results in an **increase in fossil fuel use, or in the case of the GCF, in an increase of other non-fossil fuel CO₂ emissions either directly or indirectly**: whether for power generation or industrial uses, or for associated facilities such as transmission lines and railways or ports primarily meant for the transportation of coal or for continued deforestation and expansion of industrial agriculture, such as for soybean cultivation or cattle ranching;
- ▶ **Explicitly exclude coal, oil and gas** from private equity fund investments up-front;
- ▶ Invest only in FI clients who commit to develop a **portfolio decarbonisation plan** and publicly disclose it, to achieve emissions reductions in line with targets set under the Paris Climate Agreement.

Recommendations specific to IFC’s Approach to Greening Equity

In order for IFC’s bold commitment to use its equity in commercial banks to exit coal and increase climate finance to meet its potential

in helping align IFC’s indirect equity investments with the Paris Agreement, IFC must enact the following reforms:

- ▶ Hold an evidence-based, public **review of the GEA**, to examine barriers to its efficacy and wider engagement of equity clients;
- ▶ **Close loopholes** that allow GEA clients to invest in new coal plants;
- ▶ **Expand the GEA to cover all fossil fuels**, given the threats posed by oil and gas expansion to global temperature increase;
- ▶ **Set a timescale for equity clients to either sign up to the GEA or face IFC divesting**, informed by the requirements of the Paris Agreement;
- ▶ **Exclude oil and gas** up front in private equity fund investments, as IFC has with coal;
- ▶ Bring pressure to bear on Hana Bank Indonesia to **stop financing Java 9 & 10** and ensure these devastating coal plants do not go ahead.

Recommendations specific to the GCF’s Approach to Green Equity

In order for the GCF’s use of equity funding in climate investments to contribute to its mandate to support the wider paradigm shift toward low-emission and climate-resilient development pathways in developing countries, the GCF must take the following steps:

- ▶ Rather than treating equity investments as just “another financial instrument” at its disposal, before further expanding the scale of its FI equity support, the GCF should first develop a detailed **equity investment guidance** through inclusive public consultation; such a clearly elaborated guidance document is necessary to examine specific challenges posed by equity investment approaches to ensuring full compliance with GCF mandates, safeguards and principles and for guaranteeing sustained climate impacts of GCF equity investments, including after the GCF’s own equity participation has ended;
- ▶ Instead of a case-by-case approach, set Board approved rules and limits for the **role of the GCF as an equity shareholder**;
- ▶ **Track and publicly disclose fulfilment of GCF equity leverage promises** and disclose the names of additional investors and the amount of all leveraged co-financing and including equity provided;
- ▶ **Hold all GCF accredited entities (AEs), including DFIs, commercial banks and equity funds, publicly accountable** for their broader portfolio shift away from fossil fuels as a requirement for long-term engagement with the GCF; **expand the existing pilot approach for assessing AE’s portfolio shift** from the current narrow focus on project

finance to also include bonds, policy loans, underwriting and equity investments;

▶ **Exclude equity investments** from eligibility for the GCF’s planned project-specific-assessment approach (PSAA)

Do no harm by preventing human rights abuses and negative social and environmental impacts in equity investing

Improving monitoring and supervision of high-risk clients and sub-projects

In the DFI context, given the documented problems with mis-categorisation of projects (the incentive is for clients to categorise the projects at a lower risk level to avoid costly due diligence), some DFIs have developed measures to spot, identify and provide extra capacity and attention to higher risk sub-projects funded via equity in FIs.

The European Bank for Reconstruction and Development (EBRD) has developed a ‘referral list’⁵¹ for higher risk projects, to ensure it both assesses risk categorisation and monitors E&S standards implementation itself in higher risk sub-projects. The China-led Asian Infrastructure Investment Bank has recently revised its [Environmental and Social Framework](#) to include increased AIIB staff responsibility

for monitoring and supervision of what it calls ‘Higher Risk Activities’ funded via FIs. There is also a new requirement for AIIB to have prior approval of high-risk sub-projects: “For all Higher Risk Activities proposed for Bank financing, the Bank requires the FI to furnish its detailed environmental and social due diligence assessment and instruments for the Bank’s prior review and approval.”

The AIIB defines Higher Risk Activities as “a) all Category A activities; and (b) selected Category B activities, as determined by the Bank, that may potentially result in: (i) Land Acquisition or Involuntary Resettlement, (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups, (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and cultural resources, (iv) significant retrenchment of more than 20% of direct employees and recurrent contractors, and/or (iv) significant occupational health and safety risks.”

Recommendations for DFIs to improve management of high-risk clients and sub-projects:

▶ Adopt a ‘referral list’ approach, where higher risk sub-projects are clearly defined, and therefore automatically flagged and given higher attention, including by DFI staff. This should include sub-projects which may have human rights

implications, affect indigenous or vulnerable communities, involve displacement of affected communities, support fossil fuels, or impact protected areas, especially informal or traditionally held conserved areas. Standards should specify what this enhanced attention means and should include the DFI being required to carry out site visits, to engage with affected communities and arrange third party audits to ensure compliance. This could include a strong ‘no go’ policy for investments in specific areas such as biodiversity hotspots or intact primary forests.⁵²

- ▶ EBRD and AIIB language **requires bank staff responsibility** for high-risk projects, rather than delegating that responsibility to the FI client as some DFIs currently do. DFIs should adopt similar language to the following: “EBRD will assist FIs with the appraisal of these [referral list] subprojects. EBRD environmental/social specialists will review the due diligence information collected by the FI, determine any additional information needed, assist with determining appropriate mitigation measures and, if necessary, specify conditions under which the subprojects may proceed.”
- ▶ **Support clients to adopt Environmental and Social Management Systems** that match the DFI’s own standards, and support them

in implementation of those standards, especially in high and medium risk sub-projects.

In the case of the GCF, the capacity and existence of necessary policies, frameworks and due diligence procedures of FIs directly receiving funding from the GCF for comprehensive risk assessment and management and their ability to implement high risk projects and programmes is assessed in their [accreditation process](#) under the [GCF’s fit-for-purpose accreditation approach](#), currently under review. Only entities accredited for high-risk intermediation (level I-1) and cleared for equity investments under the GCF’s specialized fiduciary standards can request GCF equity funding support for such high risk investments. However, this could change in the future through the [update of the GCF’s accreditation framework](#) approved in March 2022 to allow for the PSAA, which would reduce this assessment from one done by external technical experts in the GCF’s Accreditation Panel by one done exclusively by Secretariat programming staff much more narrowly focused only on the context of the specific planned investment.

Once accredited, the GCF’s [Environmental and Social Policy \(ESP\)](#) and [its Monitoring and Accountability Framework](#) detail the existing GCF standards that accredited FIs cleared for high-risk equity investments have to fulfil, including the requirements for FIs to “to ensure that the executing entities

fulfil the activity-level monitoring and reporting requirements [...]and will, in turn, provide the requisite monitoring and reporting information to GCF.” FIs self-categorisation of project/programme proposals’ risks undergoes mandatory due diligence, including possible re-categorisation by the GCF Secretariat. The GCF’s Monitoring and Accountability Framework relies primarily on the self-assessment of FIs, including in the Annual Performance Reports (APRs) they have to submit to document implementation progress,⁵³ although Secretariat staff can do additional ad hoc checks to follow up on mandatory reporting, including site visits, following a “risk-based monitoring approach” and early warning system. This is based on “risk flags” reflecting the Secretariat’s assessment of a) risks to the project/programme itself, and b) risks related to the overall performance of the AE; determined flagged risks are reported to the GCF Board as part of the quarterly updated GCF risk dashboard (a redacted version of which is publicly available on the GCF website).⁵⁴ GCF staff responsibility for monitoring and supervision of high risk activities is thus primarily reactive and focused on the assessment of mandatory reporting such as the APRs, and too little proactive, such as automatic increased scrutiny for all high risk investments. Likewise, funding decisions for high-risk sub-projects under GCF supported equity investments are made by the FIs (or in the case of FIs intermediating GCF funding to an equity fund such as the

Arbaro Fund as the executing entity, by those fund managers) without additional approval or scrutiny by the GCF. While in some, but not yet all cases environmental and social due diligence assessments for sub-projects are publicly shared on the GCF website, these are not for GCF review and approval, but only furnished to fulfil disclosure requirements under the GCF’s information disclosure policy (for more details and recommendations below – Transparency).

Recommendations for the GCF to improve management of high-risk investments and sub-projects:

- ▶ The GCF Secretariat should **undertake ad hoc checks for all high-risk programmes with sub-projects**, and automatically undertake checks in the case of equity investments, where subsequent investments are not yet identified and specified at the time of GCF Board approval, in order to complement the mandatory but insufficient self-assessment and related reporting by FIs under the GCF Monitoring and Accountability Framework;
- ▶ **Additional comprehensive checks and oversight measures by the GCF Secretariat and independent third parties should be mandatory for all “risk flagged” GCF project/programme activities and accredited entities**, with reporting to the

GCF Board via the quarterly updated risk dashboard.

- ▶ Such **additional checks on higher risk programmes** should be based on new standards and minimum requirements, which **should include site visits by GCF staff and third party audits**. The GCF should **update its Monitoring and Accountability Framework** accordingly.
- ▶ As a condition for approval of high risk programmes with sub-projects and equity investment approaches, **the GCF Board should require GCF Secretariat and Board review (including, in some instances additional Board approval) of all Category A/ Intermediation-1 (highest risk) sub-projects and investments** under such programmes.

Transparency

Transparency has been a particular challenge in financial intermediary lending, given the longer chain from investor to project; conversely, transparency is all the more important in this type of lending given its higher risk profile. When risks are spotted early on, they are more easily avoided or mitigated, leading to better project outcomes and lower reputational risk. DFIs and climate funds like the GCF recognise the importance of increasing transparency not only in improving accountability to shareholders and citizens, but in helping to avoid

and manage risk and account for the outcomes and impacts the investments are to generate.

IFC already discloses the names of sub-projects funded via private equity (PE) funds. [In 2017](#), the IFC finally fulfilled its 2012 commitment, after pressure from NGOs, retrospectively applying it to all PE fund clients since 2012: “We publish the name, sector and location of every investment of our funds’ portfolio companies. In 2017, IFC fulfilled 100 percent of this requirement for the 63 fund investments initiated since 2012, and published information on more than 387 funds’ portfolio companies.” IFC has also recently committed to start improving disclosure of investments in commercial banks, which poses more challenges. In a [letter](#) from Bank President David Malpass in March 2020, IFC committed that high-risk and selected medium-risk IFC financial intermediary clients must now annually “report the name, sector, location by city, and sector for sub-projects funded by the proceeds from IFC’s [investments].”

DFIs should commit to principles of disclosure and transparency and enshrine best practice in equity investing, including:

- ▶ Requiring **time-bound disclosure** of comprehensive sub-project information in advance of approval, in line with good practice, for example the provision of related sub-project ESS information at the GCF;
- ▶ Disclosure of the **name**,

sector(s) and location of higher risk lending and underwriting clients financed via FIs both on the DFI's website and on the FI client's website;⁵⁵

- ▶ Disclosure of the DFI's involvement in sub-projects at the **project sites**, ensuring that it is clearly visible and understandable to affected communities, to enable anyone harmed by projects to access grievance and redress mechanisms.

In the GCF, all AEs, including FIs, are required to include financial management reports [in their annual self-reporting](#) with “dates and amounts disbursed for each funded activity and compliance with financial covenants” These reports, as part of APRs, include information on investments made in sub-projects. In principle, APRs are supposed to be published on the GCF website, including at individual project or programme sub-sites for each approved funding proposal, although not all APRs are (yet) available this way and no private sector reporting currently includes this type of information. Most private sector APRs are not published, and those that have been made are redacted, based on an excessively broad interpretation of what is considered proprietary or confidential information by the AE, for which the [pro-active GCF information disclosure policy](#) grants exemptions. The GCF Secretariat interprets the disclosure policy's carve out for selected private sector

information unnecessarily broadly in other instances as well, such as by failing to publish the Secretariat's own due diligence assessment of private sector proposals submitted for Board consideration and relevant and comprehensive annexes to the proposal document itself. Those are routinely disclosed for public sector funding proposals, allowing stakeholders, included affected communities, to gain a better understanding of the proposed activities.

In contrast to the IFC, the GCF does not publish the name, sector and location of sub-projects and sub-investments under supported programmes, including financing facilities and funds. While there is no uniform standard or requirements, the GCF Board in individual cases has imposed additional disclosure requirements as conditions to its approval decision of some programmes and funding facilities, reflecting both public pressure at the time of Board consideration as well as its own concerns about the transparency of future FI investment activities supported by GCF funding.⁵⁶ These conditions have been fulfilled unevenly, and in some instances ignored, with patchy oversight and enforcement by the GCF Secretariat. Where these are complied with, they represent good practice to emulate. In response to related Board conditions, the private sector Climate Investor One programme intermediated by FMO now discloses ESS assessments for Category A (high risk) and Category

B (medium risk) sub-projects to the GCF Secretariat for further distribution to the Board, Active Observers (the representatives of CSOs and the private sector in Board proceedings) and for posting on the GCF website; the relevant ESS sub-project disclosures by FMO can now be found on the [ESS information page](#) displaying all ESS reports as well as on the [programme's GCF webpage](#).

The GCF should commit to comprehensive proactive information disclosure and transparency and improve its existing practice, including creating best practice in equity investing, by:

- ▶ Publishing the **Secretariat's due diligence assessment of all private sector funding proposals** and all annexes to private sector funding proposals in advance of GCF Board funding decisions;
- ▶ Requiring **time-bound disclosure** (120 days prior to decision-making for high risk; 30 days prior for medium-risk) of relevant sub-project or sub-investment information, such as ESS assessments and ESS risk management plans, in advance of approval by the FI, to be published on the GCF website (on the funding proposal's webpage), on the FI's website and on the website of the executing entity receiving funding from the FI;
- ▶ Mandating the disclosure of a **Summary of Investment**

Information (SII) for sub-projects and sub-investments containing the following minimum information: 1) the total sub-project or sub-investment cost; 2) the amount and nature of the FI's funding; 3) the location of the sub-project or sub-investment; 4) a brief description of the investment; and 5) potential environmental and social impacts with relevant assessments and management plans via the GCF, FI and executing entity websites;

- ▶ Annual Performance Reviews **for private sector activities** should include sub-project details (including those listed as part of the SII), with redactions due to proprietary or confidential information kept to the absolute minimum;
- ▶ Disclosing the GCF's funding support, in addition to the FI's, in sub-projects and sub-investments at the **project sites**, including information sharing to ensure that the connection of the funded activity to the GCF and the FI is understandable to affected communities, and that they are adequately informed on how to access grievance and redress mechanisms.

Access to remedy

Most DFIs and the GCF have established accountability mechanisms, whose purpose is to facilitate access to remedy for any people who feel they have been harmed by their investments.

However, without transparency about which sub-projects and sub-investments are supported by the DFIs and the GCF via its FI clients, DFIs as well as the GCF are effectively denying complainants their right to be heard and to access redress. In order for civil society to hold both DFIs and the GCF accountable and to ensure any affected communities know who is financing the project affecting them and therefore have the ability to file a complaint, it is vital that DFIs and the GCF improve transparency around FI lending to both debt and equity clients. This is especially relevant for private sector investment activities where exemptions from existing information disclosure requirements and transparency standards are made based on FIs claim of proprietary and confidential business information. This commitment to access to remedy should be spelled out in DFIs' environmental and social standards.

The [GCF's Environmental and Social Policy \(ESP\)](#) highlights a broader commitment to remedy and redress. The remedy approach of the GCF is to provide for grievance and redress at GCF, accredited entity, and activity levels. It requires AEs, as well as financial intermediaries executing activities on their behalf, to inform the communities affected, or likely to be affected, by the GCF-financed activities "and component subprojects" about the grievance and redress mechanisms "at all three levels, at the earliest opportunity of the stakeholder engagement process

and in an understandable format and in all relevant languages". The GCF assesses an AE's procedural ability and track record to set up successful grievances procedures as part of the accreditation process, where weaknesses are often highlighted and conditions are imposed requiring improvements before access to GCF financing is possible. Such was the case for [Pegasus Capital Advisors \(PCA\)](#), the first private equity investment fund manager accredited to the GCF and the recipient of the GCF's largest single private equity investment of US\$150 million in PCA's [Global Subnational Climate Fund](#).⁵⁷ While the GCF encourages the use of local or project level grievance mechanisms whenever possible, under the GCF's approach this does not limit in any way the ability of complainants to access the [GCF Independent Redress Mechanism \(IRM\)](#) directly and to do this instead of or in addition to complaints filed under grievance mechanisms at the FI or activity levels.⁵⁸ The GCF's IRM also provides capacity support for GCF AEs to improve their own grievance redress function and procedures, including through an [online course](#).

The development of effective accountability mechanisms among commercial banks is unfortunately still in its infancy, although the UN Guiding Principles on Business and Human Rights require all business enterprises including commercial banks to establish or participate in such mechanisms.⁵⁹ Only a handful

of commercial banks have begun establishing such mechanisms. DFIs in general and the GCF specifically through its accreditation process and targeted capacity building support can also help facilitate wider access to remedy by supporting their financial sector intermediaries and equity clients to ensure they are meeting their responsibility to respect human rights, including by providing for or cooperating in remediation of harms which they may cause or to which they may contribute.

The [2020 External Review of IFC/MIGA Accountability](#) recommended enhanced disclosure to promote accountability. The review recommended that IFC/MIGA should ensure its client “provide information to affected communities both about the client’s grievance mechanism and about the CAO” including for “FI sub-projects.” The review recommends that, “IFC/MIGA supervision should ensure that clients are meeting this responsibility, in part by surveying diverse community members regarding their awareness of the client’s grievance mechanism and the existence and work of the CAO.” **In order to improve access to remedy in case of equity investments causing harm, DFIs and the GCF should:**

- ▶ Disclose DFI and GCF financing involvement in sub-projects and sub-investments at the **project sites**, ensuring that it is clearly visible and understandable to affected communities.
- ▶ Ensure **information about the relevant accountability mechanisms** is disclosed at project sites, including **how affected communities can contact such mechanisms**, which in the case of the GCF have to be established and be accessible (without hierarchy) at different levels (GCF, AE and activity levels);
- ▶ Require financial sector equity clients including commercial banks to **develop their own effective accountability mechanisms**; in the GCF the ability of FIs to comply with such a requirement as well as their capacity to oversee the establishment and functioning of activity-level grievance mechanisms by executing entities is assessed as part of the accreditation and re-accreditation processes;
 - ▶ Supervise FI clients’ adherence to this requirement and support their capacity improvement

Do good by addressing inequalities and generating broader benefits for affected people and communities, creating accountability for sustained climate impacts and contributing to larger transformational shifts in the financial system

What would a truly green equity approach look like that puts people and the planet at its heart? The short answer: very different from what is currently labelled green equity investments in the GCF or what is the goal of current, often too limited, approaches like the IFC's GEA to greening private equity investments. The focus of many advocacy groups and industry observers pushing for green and sustainable investment shifts, such as Ceres or the Task Force on Climate-related Financial Disclosures, is primarily on what is needed to *engage* the private sector, including private equity, in those discussions in the first place. They correctly point out that financial markets, including private equity, must focus on [addressing and disclosing climate risk](#) as a systemic risk for the industry. They encourage, for example, [divestment from fossil fuels](#), now grown to a US\$14.5 trillion global movement, addressing the expected growth in stranded assets,⁶⁰ as well as aiming to increase private equity's ["awareness of investment returns and opportunities related to climate change."](#) This approach is aimed first

at increasing the share of the global private equity pie that is engaging with climate change and the risks, challenges and opportunities it poses for the industry. It sees private equity firms essentially as an "untapped source" for clean energy investment that could help the world reach net-zero goals by mid-century. It is a financial argument mostly, if not in many cases exclusively. This effort is an important starting point, but it is not enough. Prioritising finance in this way may in many instances end up endangering communities and failing to result in the promised climate impacts.

This is why, as the analysis and recommendations in this paper highlight, discussions on how to green private equity and on encouraging private equity support for climate-compatible investments must centre on the broader principles of responsibility, accountability and transparency that must frame such investments and move beyond the financial argument (elaborated in the section on preventing investment harms). This is even more important when public funding support is utilized for green(ing) private equity investments, a responsibility that both the public institutions making those investments and the private entities receiving the equity support must live up to. Given the limited scale of public investment resources for sustainable development and climate finance, it is a matter of efficiency, effectiveness and equity – and thus both a moral and economic imperative – that public funding

for greening private equity and for green private equity is used in support of a broader transformation of the entire industry and of broader policy and societal shifts in the countries where those investments occur. Public investment support for greening private equity and in private equity climate investments needs to set the highest bar with respect to good governance; applying, safeguarding and advancing environmental and social standards; and actively promoting social inclusion and poverty reduction, gender-responsiveness and human rights. Only then can we hope to see examples of good practice PE investments that set expectations for how the private sector should act even without public financial support, and that establish the standards and accountability frameworks to ensure that private equity and private finance more broadly measure up for people and the planet.

In order to move decisively towards such truly green private equity investments with public financing support, at the minimum the following actions must be taken:

- ▶ The **protection and promotion of human rights**, including with a focus on the inclusion and benefits for especially marginalized communities and population groups such as people of color, Indigenous Peoples, women, people with disabilities, must become **an intentional priority and mandatory investment criterion** to be

fulfilled for public support for green(ing) private equity investments. Public investors need to provide **regular human rights compliance checks on private equity investees**, with the payment of **PE management or performance fees contractually tied to a clean human rights track-record** in implementation.

- ▶ **Public investors must leverage their financial contribution, including in many cases as anchor/first investors**, with active shareholder engagement and **oversight over individual project investments under PE funds to ensure the public interest is served, standards are complied with and claimed climate impacts are realized**. The financial role of public investors in green(ing) private equity as limited partners (LPs) is no excuse for abdicating public responsibility and accountability for what happens with their investment support. Public support for [blind pool PE investment vehicles](#), even if they claim to be climate-oriented (such as several examples considered and supported by the GCF), is incompatible with that responsibility.
- ▶ The rationale for public support for green(ing) private equity investments must **shift from maximizing leveraged private sector co-financing to maximizing impacts for people and the planet**, especially since many of the co-

financing expectations, given as justification to move ahead with risky PE investments, might never materialize. The ratio of leveraged private sector finance to public investment (**leverage ratio**) **should be considered only as part of a much broader, comprehensive set of indicators of success** of a green(ing) PE investment approach. Financial benefits such as leverage must not be weighed as more important than social and environmental contributions.

- ▶ Instead of focusing on narrowly defined climate impacts (such as often inflated estimates of GHG emissions reductions to be realized at a future date after normally short-term PE funds exit and for which no long-term accountability is provided), public support for green(ing) PE must **mandate climate-compatible investments for actions that provide multiple benefits addressing the intersection of climate change impacts with those of other crises (biodiversity, health, poverty and social exclusion) and that can be sustained post-investment.** Results management systems and monitoring, reporting and accountability structures must measure and report those broader impacts. Such benefits include biodiversity and ecosystem protection through support of traditional and Indigenous knowledge and

approaches, strengthening and expansion of social support systems (health, education and social safety net), securing land tenure of indigenous and local communities, providing fair and safe jobs and economic opportunities for all people with a focus on the most marginalized and efforts to overcome intersectional societal and systemic discriminations.

- ▶ Such an understanding would by default lead to the **exclusion of a number of PE investment approaches** currently often claimed as “green” from public finance support. Those would include monoculture plantation forestry, many activities under the heading of ‘nature-based solutions’ that support a [financialization of nature](#) (by prioritizing the generation and sale of carbon credits as offsets over addressing root causes of biodiversity and ecosystem loss), continued support for expansion and intensification of industrial agriculture (with use of GMOs, pesticide and fossil fuel inputs and resulting in land grabbing and human rights violations) in the name of addressing food insecurity worsened by climate change, or support for large scale waste-to-energy, biofuel or hydropower infrastructure, to name but a few.
- ▶ To **ensure affected people and communities directly benefit from public support for green(ing) PE investments**, such investments should be

mandated to set aside a finance share equal to the typical PE management fees of at minimum 2% of assets under management (which is paid out irrespective of overall impact and success of the investment) as **benefit-sharing mechanism, with proceeds directly accessible to and controlled by investment-impacted people and communities** and used for needs and priorities that they determine climate-relevant. Models for such benefit-sharing schemes, already in use in some public sector investments, for example for forest conservation, should be further developed and integrated in green(ing) PE investments.

- ▶ Public investors in green(ing) PE must demand that the **investments they support are implemented in a gender-responsive way**. This not only means that supported investments must avoid reinforcing existing gendered exclusions and stereotypes (for example the gender-segregated

division of labor and access to employment) but contribute to addressing underlying inequality structures and power imbalances. In order to achieve this, **gender assessments and gender action plans at PE fund and individual investment levels must be mandatory and provided with adequate human and financial resources and oversight**. It is unacceptable, for example, for public finance for a PE fund to spend several times as much on the incorporation of limited liability partners and their financial exit at the end of the investment period than is budgeted for the implementation of a gender action plan, as is the case in CRAFT equity investment recently proposed under the GCF.⁶¹ To prevent tokenism in set-up and implementation, **gender equality results must be part of the required monitoring, reporting and accountability frameworks for managing results** and tied to results-based performance fees for PE management.

CONCLUSION: ENSURING EQUITY FOR PEOPLE AND PLANET IN EQUITY INVESTING

Much of what is currently labelled green in equity investing, is anything but - and could even be termed green-washing. Instead of creating truly green outcomes, for local communities and their environment, so-called green equity investments can perpetuate an extractive and exploitative development model.

There are, however, some hopeful signs that public funding used as equity can leverage change for the good: for example, IFC's greening

equity investment in India's 7th largest private bank, Federal Bank - previously one of India's leading coal backers that from now on will exclude coal mines and power plants from its portfolio. But such positive steps are too few and far between, and are not holistic in their approach.

There is tremendous potential for public funds to be used in a transformative way to shift financial flows out of harmful, dirty development towards green, inclusive and pro-poor investments. Equity can be a powerful instrument to effect that change.

We hope this paper will prompt a renewed debate on how development banks and climate funds can use equity investments to

avoid exacerbating climate change, to do no harm by preventing human rights abuses and negative social and environmental impacts, and to instead do good by signalling how business engagement can serve people and the planet better. The recommendations we have set out

in some detail above can begin to steer financial flows in the right direction. Excuses that these steps are too difficult or that the market is not yet ready for such reforms will no longer wash - we are faced with a climate crisis that demands urgent and radical action. Public money

ENDNOTES

- 1 Securities Industry and Financial Markets Association (Sifma), “Capital Markets Factbook, 2021” accessed 28th September 2021 <https://www.sifma.org/resources/research/fact-book/>
- 2 See Natixis, “Latest edition of the Global Sustainable Investment Review confirms strong growth of ESG assets all over the world”, 29th July 2021 <https://gsh.cib.natixis.com/our-center-of-expertise/articles/latest-edition-of-the-global-sustainable-investment-review-confirms-strong-growth-of-esg-assets-all-over-the-world>
- 3 Email from Aaron Rosenberg, IFC to Kate Geary, Recourse, 20 September 2021
- 4 Here referring to both direct and indirect IFC equity investments.
- 5 The IFC noted in response to a draft version of this paper that it has since exited from Vietinbank, Eurobank and Alpha Bank.
- 6 IFC’s ownership stake in the PSBC is under 1%.
- 7 IFC has also engaged two insurance companies with its GEA in 2021. These are: [PVI Holdings](#) of Vietnam, in August 2021. “PVI has exposure to coal-related projects. This exposure is mainly to support coal-fired power plants (3.7 percent of its total Gross Written Premium as of December 31, 2020). This project is subject to the IFC FI Green Equity Approach;” and [Holmarcom](#) Insurance in Morocco and Sub-saharan Africa - though it must be noted that public documents do not currently confirm Holmarcom as a GEA client.
- 8 Email from Aaron Rosenberg, IFC to Kate Geary, Recourse, 20 September 2021.
- 9 Hana Indonesia is a simplified name, since the bank has changed its name several times in the past 20 years. IFC’s current equity investment is in PT KEB Hana Bank Indonesia (PT Bank Hana Indonesia merged with PT Bank KEB Indonesia to form PT Bank KEB Hana in 2013. In 2014, PT Bank KEB Hana changed its name and officially became PT Bank KEB Hana Indonesia).
- 10 <https://www.hanafn.com:8002/eng/main.do>. Hana Financial Group (HFG) was established in 1971 in South Korea, and in 1991 it was converted into a commercial bank as Hana Bank. Korean Exchange Bank (KEB) was acquired by HFG in 2012. And then Hana Bank and KEB merged into KEB Hana Bank. KEB Hana Bank is 100% owned by HFG.
- 11 IFC’s relationship with Hana Bank dates back to 1971, but information regarding the early years of this relationship is not publicly available. IFC explains this as follows: “IFC introduced its first disclosure policy in 1994, revised it in 1996, 1998 and 2006; and in 2011 we introduced the current Access to Information Policy. This means that information about projects committed before 1994 was not disclosed.” Email from Ilona Morar, IFC, to Kate Geary, Recourse, 7 October 2020
- 12 Bloomberg terminal, accessed 8 October 2020
- 13 Banking on Climate Chaos, 2021, page 21 -see <https://www.ran.org/wp-content/uploads/2021/03/Banking-on-Climate-Chaos-2021.pdf>.
- 14 According to information in Urgewald’s Global Coal Exit List database, which IFC has endorsed in its GEA, the three Chinese banks have provided underwriting to: Beijing Jingneng Power Co Ltd, Beijing Energy Holding Co Ltd, China Datang Corp, China Huadian Corp Ltd, China Petrochemical Corp, China Southern Power Grid Co Ltd, CPI Ronghe Financial Leasing Co Ltd, Datang International Power Generation Co Ltd, Datong Coal Mine Group Co Ltd, Gansu Province Electric Power Investment Group Co Ltd, GD Power Development Co Ltd, Guangdong Datang International Chaozhou Power Generation Co Ltd, Guodian Shandong Electric Power Co Ltd, Harbin Investment Group Co Ltd, [Hbcoal.com](#) Inc, Henan Investment Group Co Ltd, Huadian Fuxin Energy Corp Ltd, Huainan Mining Industry (Group) Co Ltd, Huaneng Power International Inc, Hubei Energy Group Co Ltd, Inner Mongolia Mengdian Huaneng Thermal Power Co Ltd, Jiangsu Guoxin Investment Group Ltd, Jinneng Group Co Ltd, Jiuquan Iron & Steel (Group) Co Ltd, Jizhong Energy Group Co Ltd, Kailuan (Group) Ltd Liability Corp, North United Power Corp, Shaanxi Investment Group, Shandong Chenming Paper Holdings Ltd, State Power Investment Corpora-

tion (SPIC), Shanxi Coking Coal Group, Shanxi Jincheng Anthracite Mining Group, Shanxi Lu'an Mining Industry, Shandong Chenming Paper.

15 Although China announced in September 2021 that it will stop financing coal overseas, its domestic coal boom still continues. <https://www.scmp.com/news/china/politics/article/3150108/bank-china-pledges-end-funding-foreign-coal-mining-and-power>

16 <https://www.greenclimate.fund/sites/default/files/document/governing-instrument.pdf>, paragraphs 41 and 2 respectively.

17 <https://www.greenclimate.fund/sites/default/files/document/risk-appetite-statement-component-ii.pdf>

18 While the GCF's project/programme pipeline is not fully transparent, the GCF publishes for each Board meeting indicative pipeline information. See for the latest pipeline update, indicating several private sector proposals seeking equity support from the GCF, Annex I of Board document GCF/B.31/Inf10, available at https://www.greenclimate.fund/sites/default/files/document/gcf-b31-inf10_0.pdf.

19 GCF Portfolio Dashboard accessed on April 10, 2022. According to the dashboard data, 192 GCF projects and programmes with a combined US\$10.2 billion in GCF funding support had a total value (GCF inputs and co-financing provided and expected) of US\$37.4 billion. Of US\$27.2 billion in co-financing, according to calculations by the authors, US\$6.41 billion were in the form of equity (with US\$4.7 billion for private sector and US\$1.71 billion for public sector projects/programmes). GCF Portfolio Dashboard at <https://www.greenclimate.fund/projects/dashboard>.

20 A [recently published hbs Washington, DC analysis](#) details that in the cases of five of the eight GCF private sector activities whose mandated annual performance reports (which track implementation process) have been made publicly available, co-financing levels written into FAAs are significantly below the figures that were claimed when seeking funding approval. These higher figures still are reported on project and programme pages of the GCF's website. In the case of [FP098](#), implemented by the Development Bank of Southern Africa (DBSA), the approved funding proposal and programme web page report that US\$55.6 million in GCF funding will generate US\$114 million in co-financing, but only US\$55.6 million of this is written into the FAA. The contrast is even starker in the case of [FP095](#), implemented by Agence Française de Développement (AFD), where the [funding proposal](#) claimed that €240 million in GCF funding would attract €413 million in co-financing, but only €211 million is written into the FAA.

21 See Annex XI of GCF document GCF/B.23/23 available at <https://www.greenclimate.fund/sites/default/files/document/gcf-b23-23.pdf>.

22 See Annex XII of GCF document GCF/B.19/43 available at <https://www.greenclimate.fund/sites/default/files/document/gcf-b19-43.pdf>.

23 <https://www.df.cl/noticias/empresas/energia/valhalla-ajusta-fechas-de-sus-proyectos-electricos-y-continua-en/2021-04-01/191634.html>; on the earlier difficulties see <https://www.elmostrador.cl/mercados/2018/07/25/valhalla-la-promesa-incumplida-del-paraiso-energetico-por-falta-de-capital/>.

24 At a minimum [FP017](#), [FP039](#), [FP046](#), [FP047](#), [FP080](#), [FP081](#), [FP096](#), [FP106](#), [FP115](#), and [FP168](#).

25 Paragraphs 1 and 2 of the GCF Governing Instrument detailing the fund's objectives read: "1 Given the urgency and seriousness of climate change, the purpose of the Fund is to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change. 2 The Fund will contribute to the achievement of the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC). In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient develop-

ment pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change.”

26 Paragraph 35 of the GCF Governing Instrument on funding eligibility reads: “All developing country Parties to the Convention are eligible to receive resources from the Fund. The Fund will finance agreed full and agreed incremental costs for activities to enable and support enhanced action on adaptation, mitigation (including REDDplus), technology development and transfer (including carbon capture and storage), capacity-building and the preparation of national reports by developing countries.”

27 Assessments by the iTAP of all public and private sector GCF proposals are routinely published as part of the respective funding proposal package. A detailed due diligence assessment of proposals by the GCF Secretariat, including on performance against investment criteria, is only released for public, but not for private, sector proposals submitted to the GCF Board for consideration.

28 The initial terms of reference (ToR) of the GCF iTAP are available at <https://www.greenclimate.fund/sites/default/files/document/gcf-b09-09.pdf>; they have since been revised and upgraded, such as to expand the number of technical experts serving under the iTAP and to allow for their assessment of funding proposals on a rolling basis. For the most recent update, as approved by the GCF Board in March 2021, see <https://www.greenclimate.fund/sites/default/files/document/gcf-b28-15.pdf>.

29 In some rare cases (such as for FP099 implemented by FMO, and FP128 implemented by MUFG), the GCF Board made the disclosure on the GCF website of some limited information on sub-project environmental and social safeguards prior to sub-project approval a condition; however, there is currently not a single GCF private sector activity providing detailed sub-project information on the GCF website.

30 This is a requirement under the Environmental and Social Policy (ESP) of the GCF, mandating ESS disclosure of sub-projects on the AE’s own website in compliance with the IDP in the case of Category B (medium risk for environmental and social impacts) activities 30 days and in the case of Category A (high risk for environmental and social impacts) 120 days prior to a funding decision by the AE. The ESP, recently revised, is available at <https://www.greenclimate.fund/sites/default/files/document/revised-environmental-and-social-policy.pdf>.

31 As part of the GCF’s monitoring and accountability framework, implementing entities (public or private) have to provide an annual performance report (APR) for each GCF project/programme under implementation. Those should all be made public, but are currently only partially disclosed (and redacted in the case of private sector ones) and available on the GCF website. The GCF Secretariat then aggregates the information received from the APRs into an annual portfolio performance report (APPR), which however only provides broad overviews and no granular information.

32 As of early April 2022, of 39 GCF funded private sector activities, APRs were only available for the year 2019 (but not for prior years) for [FP005](#), [FP026](#), [FP048](#), [FP081](#), [FP095](#), [FP097](#), [FP098](#), and [FP099](#); and for the year 2020 for [FP005](#), [FP026](#), [FP048](#), [FP078](#), [FP081](#), [FP095](#), and [FP105](#).

33 So the fund description on the GCF’s FP webpage at <https://www.greenclimate.fund/project/fp164>.

34 During its Initial Resource Mobilization (IRM) period, which lasted until the end of 2019, the GCF received confirmed pledges of the equivalent of US\$8,310.3 million (in different currencies); for its ongoing first replenishment phase (GCF-1) until the end of 2023, the GCF has received confirmed pledges for the equivalent of US\$9,677.6 million. For the details of the data, see GCF document GCF/B.31/Inf.11, Annexes I and II, available at

<https://www.greenclimate.fund/sites/default/files/document/gcf-b31-inf11.pdf>.

35 As of April 2022 after the 31th Board meeting, the GCF's 26 private sector accredited entities are (in alphabetical order): Acumen Fund, Inc.; Africa Finance Corporation (AFC); Attijariwafa Bank (AWB); BNP Paribas S.A.; Camco Management Limited; CDG Capital S.A.; Crédit Agricole Corporate and Investment Bank; CRDB Bank Public Limited Company (CRDB); Deutsche Bank Aktiengesellschaft; Ecobank Ghana Limited; Finanzas Y Negocios Servicios Financieros Limitada (FYNSA); HSBC Holdings plc and its subsidiaries; IDFC Bank Limited; IL&FS Environmental Infrastructure and Services Limited (IEISL); JS Bank Limited; KCB Bank Kenya Limited; La Banque Agricole (formerly CNCAS); Macquarie Alternative Assets Management Limited (MAAML); MUFG Bank, Ltd. (formerly Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU)); Nordic Environment Finance Corporation (NEFCO); Pegasus Capital Advisors, L.P. (PCA); Sumitomo Mitsui Banking Corporation (SMBC); TBC Bank JSC Georgia; Trade and Development Bank of Mongolia (TBD Mongolia); XacBank LLC; Yes Bank Limited.

36 The summary of core findings of the 2021 GCEL data update for January 2019 to November 2021 can be found at https://www.coalexit.org/sites/default/files/download_public/GCEL.Finance.Research.urgewald.Media.Briefing.20220209%20%281%29.pdf.

37 XacBank (4), Acumen (3), MUFG (2), Deutsche Bank (1), NEFCO (1) and Pegasus (3).

38 (FP024, Universal Green Energy Access Programme). The FAA was only signed on the sidelines of COP26 in November 2021, and thus more than five years after the programme was first approved by the GCF Board. See <https://www.db.com/news/detail/20211103-deutsche-bank-and-the-green-climate-fund-sign-agreement-at-cop26-to-invest-in-de-carbonization-solutions-for-sub-saharan-africa>.

39 As of April 2022, private sector activities account for one third (US\$3.44 billion) of approved GCF funding across roughly a fifth (39 of the 192) of approved projects and programmes. Close to half (US\$1.56 billion) of GCF approved private sector lending is channelled via multilateral and regional development banks, with just under one third (US\$1.06 billion) distributed via other development finance institutions, and only 23% (US\$786 million) via private sector entities.

40 Paragraph 35 of the GCF's Monitoring and Accountability Framework reads in full: "35. In accordance with decision B.10/06, paragraph (j), to advance the goal of the GCF to promote the paradigm shift towards low-emission and climate-resilient development pathways in the context of sustainable development, the re-accreditation decision by the Board will take into account the Secretariat and Accreditation Panel's assessment of the extent to which the AE's overall portfolio of activities beyond those funded by the GCF has evolved in this direction during the accreditation period." Available at <https://www.greenclimate.fund/sites/default/files/document/monitoring-accountability-framework-ae.pdf>.

41 The assessment by the GCF's Accreditation Panel does not include an evaluation of the climate-compatibility of its existing portfolio, but focuses instead on the ability of an applicant entity to comply with fiduciary standards as well as the ESS framework and other specialized GCF policies, including its gender policy. For the accreditation assessment of SMBC (applicant APL100) against the GCF's accreditation framework, see Annex IV of GCF Board document GCF/B.26/03, available at <https://www.greenclimate.fund/sites/default/files/document/gcf-b26-03.pdf>.

42 The GCF Board already gave a general mandate for the development of a PSAA as part of the GCF's updated strategic plan in the context of the fund's ongoing first replenishment (until end of 2023). A detailed process to implement the approach as a pilot was adopted by the GCF Board at its 31st Board meeting. For further details see <https://www.greenclimate.fund/sites/default/files/document/gcf-b31-12.pdf>.

43 Relevant here are chapters 10 to 14 of this publication looking at four examples of

tree plantation projects with a focus on carbon sequestration.

44 According to CSO observer groups monitoring plantation investments and also highlighted in [a new GFC case study of the Arbaro Fund](#), PAYCO Forestry through its eucalyptus plantations supports the intensification of sustainable livestock and foodstock (genetically modified soybeans) production. PAYCO, supported by German development finance, also has been [implicated in land grabbing](#) with violent land conflicts with Indigenous Peoples and local communities and resulting [human rights abuses](#).

45 See the environmental and social safeguards disclosure for the Arbaro Fund's investment into Miro Forestry & Timber Products, published on the GCF website at https://www.bk.mufg.jp/global/productsandservices/corpandinvest/gcf/af/pdf/Miro_ESIA_Information_package.pdf.

46 CSOs actively monitoring the GCF had [provided extensive comments on ESS disclosures](#) made public for these three investments on the GCF website and shared those with the Arbaro Fund and the GCF Secretariat.

47 See for details on the implementation status of the Arbaro Fund as GCF investment, the project sub-side at <https://www.greenclimate.fund/project/fp128>. The GCF released a first payment of US\$ 10,182,111 in November 2020, followed by a second disbursement of US\$ 7,444,000 in June 2021.

48 See section C.2, p.31, of the Arbaro Fund GCF funding proposal detailing funding by proposal component. In addition to the fund management fee, the proposal details a further US\$5.4 million in costs to run the fund; available at <https://www.greenclimate.fund/sites/default/files/document/funding-proposal-fp128.pdf>.

49 Information contained in a copy of a 2011 land lease contract between Miro and representatives of the Yoni Chiefdom in the Tonkolili District in the Northern Province of Sierra Leone made available to the authors.

50 Oxfam (2020) Climate Finance Shadow Report: "Reviewing a sample of World Bank projects in 2018, Oxfam was unable to independently verify the amount of climate finance reported. Additionally, projects financed by the World Bank Group's private sector lending arm, the IFC, were absent from the World Bank's project list."

51 The EBRD referral list is as follows: PR9 Annex 2 The FI Referral List

The financing by FIs of the following environmentally or socially sensitive business activities financed with EBRD funds is subject to referral to EBRD:

The principal Performance Requirement that proposed transactions will be expected to meet is indicated in italics.

(i) Activities involving involuntary resettlement - EBRD Performance Requirement 5

(ii) Activities that occur within or have the potential to adversely affect an area that is protected through legal or other effective means, and/or is internationally recognised, or proposed for such status by national governments, sites of scientific interest, habitats of rare/endangered species, fisheries of economic importance, and primary/old growth forests of ecological significance - EBRD Performance Requirement 6

(iii) Activities within, adjacent to, or upstream of land occupied by indigenous peoples and/or vulnerable groups including lands and watercourses used for subsistence activities such as livestock grazing, hunting, or fishing - EBRD Performance Requirement 7

(iv) Activities which may affect adversely sites of cultural or archaeological significance - EBRD Performance Requirement 8

(v) Activities in the nuclear fuel production cycle (uranium mining, production, enrichment, storage or transport of nuclear fuels)¹⁰¹

(vi) Energy generation using nuclear fuels (excluding electricity import/export)¹⁰²

(vii) Activities involving the release of GMOs into the natural environment – EBRD Performance Requirement 6

(viii) Any micro, small or medium-sized HPPs that do not trigger Category A requirements – EBRD Eligibility Criteria for Small Hydropower Plant Projects

(ix) Any Category A projects included as Appendix 2 to the EBRD Environmental and Social Policy

52 See the proposal by the banks and biodiversity campaign for such a “no go” policy and the areas to which it should apply at <https://banksandbiodiversity.org/the-banks-and-biodiversity-no-go-policy/>.

53 The GCF Monitoring and Accountability framework stipulates the following regarding the monitoring of funded activities: 10. AEs are primarily responsible for the monitoring and evaluation of their funded activities, and will report accordingly to the GCF. 11. During the project/programme implementation period, reporting requirements may include the following to the GCF: (a) Annual performance reports (APRs), including financial management reports. Among other things, the financial management reports will include dates and amounts disbursed for each funded activity and compliance with financial covenants; and (b) An interim evaluation report and a final evaluation report for each funded activity. These project-/programme-level evaluations should also assess the performance of the funded activity against the GCF investment framework criteria, including financial/economic performances as part of the project/programme efficiency and effectiveness criterion. 12. During the post-implementation period, the submission of APRs might be required. In some cases, it will not be cost-effective to contract the AE to provide post-implementation monitoring. In these cases, the GCF would develop alternative arrangements.

54 See for example the GCF risk dashboard document for the fourth quarter of 2021, the latest one posted on the GCF website as of April 2022at: <https://www.greenclimate.fund/sites/default/files/document/gcf-risk-dashboard-q4-2021.pdf>.

55 “FIs may require client consent in order to disclose this information and overcome the duty of client confidentiality. Client consent for such disclosures can be required as a condition of new lending, and the process for securing such consent can be standardised through the inclusion of provisions in the standard language of loan covenants.” See box 1.1 p21 <http://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.pdf>

56 The Board imposed additional information disclosure requirements as part of conditions for the approval of several high risk, large scale public and private sector programmes, including [FP086](#), [FP095](#), [FP099](#) or most recently [FP168](#). To give an example for wide-ranging additional disclosure provision, those for FP095, a large private sector programme intermediated by the French development Bank AFD and its private sector arm PROPARCO, which foresees loan investments in local financial partners (LFP) for onlending for individual climate sub-projects, the conditions imposed by the Board read: “Conditions from the Board: (a) As per the Programme Environmental and Social Framework (ESF), the Accredited Entity will review and approve environmental and social (E&S) safeguards for Category A sub-projects in accordance with its policies and procedures. This review will include adequacy of public disclosure and consultations. Public disclosure and consultations should be done by the sub-project owner and the relevant LFP following the provisions of the ESF. When the LFP sends the draft, as well as final, Summary of Investment Information (SII) to the Accredited Entity, the Accredited Entity will forward the SII to the Fund no less than 60 calendar days before the Accredited Entity approval of the sub-project for further dissemination to the GCF Board and active observers in compliance with the GCF’s and the Accredited Entity’s information disclosure policies. (b) The SII will include the following information in accordance with the GCF’s and Accredited Entity’s Information Disclosure Policies: (i) the total sub-project cost; (ii) the amount and nature of the Accredited Entity’s funding; (iii) the location of the sub-project; (iv) a brief description of

the sub-project; (v) the expected development impact of the sub-project; (vi) E&S potential impacts and, the Environmental and Social Impact Assessment (ESIA) of the sub-project and the related Environmental and Social Action Plan (ESAP), and, as appropriate, inclusive of the Resettlement Policy Framework (RPF) and/or Land Acquisition and/or Resettlement Action Plan (LARAP or RAP), and Indigenous Peoples Plan (IPP) and/or Indigenous Peoples Planning Framework (IPPF); and (vii) any other associated information required to be disclosed in accordance with the Accredited Entity's Information Disclosure Policy. (c) Confidential information under the Accredited Entity's Information Disclosure Policy and GCF's Information Disclosure Policy shall not be disclosed. (d) Within 180 days of the GCF Board approval of the Programme, the Accredited Entity and GCF Secretariat shall agree on a process to enable communication of any comments on Category A sub-projects relating to the SII to the Accredited Entity, and for such comments to be taken into account in the decision on the sub-projects."

57 Pegasus Capital Advisors was accredited to the GCF in October 2018 with the following conditions to be met prior to the submission of its first funding proposal to the Board: "1. Establishment of the applicant's grievance redress mechanism and procedures to be applied at the institutional-level, together with a register for recording environmental and social-related complaints; 2. Approval by the applicant of a consultation and information disclosure policy consistent with requirements of the GCF IDP for Category B/1-2 projects/ programmes; 3. Revision of the applicant's Diversity and Inclusion policy (or the development of a stand-alone gender policy) consistent with the GCF Gender Policy; and 4. Development of a procurement policy (including procurement requirements at the executing entity level) that meets the relevant principles in the GCF basic fiduciary standards." Those conditions were closed as fulfilled by the GCF's Adaptation Panel, allowing Pegasus Capital Advisors to have its first programme, [FP152 - the Global Subnational Climate Fund](#) (currently the GCF's largest private sector equity investment) approved by the Board in November 2020..

58 For details of the GCF IRM procedures and guidelines, see https://irm.greenclimate.fund/sites/default/files/document/procedures-and-guidelines-irm-final-july-2021_0.pdf.

59 Following Principle 29 of the UN Guiding Principles. For more details, see Oxfam and BankTrack, "[Developing Effective Grievance Mechanisms in the Banking Sector](#)", 2018

60 The IEA in its [Net Zero by 2050](#) report estimated that up to US\$ 90 billion of existing coal- and gas-fired capacity could be stranded in 2030 and up to US\$ 400 billion by 2050.

61 The GCF financing support for [funding proposal FP181](#), the Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries (CRAFT), currently foresees that of the US\$100 million in GCF equity investment support for a fund supposed to reach US\$ 400 million, once additional co-financing can be secured based on the strength of the GCF commitment, US\$750,00 would be used for the "Formation of GCF CRAFT Holdings LP and Related Entities" and a further US\$967,000 for "Exit Assets, Return Capital Plus Profit to Limited Partners, Close out Fund", both listed as relevant activities to be financed under the proposal's financing plan. The finance plan foresees a total of US\$19 million in management fees to "Manage and Report on Portfolio of Investments for Impact, including monitoring compliance with gender safeguards, reporting improvements in gender equity within the portfolio companies and all KPIs with a gender component", which would include an allocation of US\$5.4 million under the GCF's equity share (p.30f). In contrast, the proposal's gender action plan states "The planned total budget for the implementation of activities outlined in the gender action plan amounts to USD 300'000 (excl. travel and logistics costs or the ESG and Impact Manager salary) for all projects throughout the entire fund life" (p.101) and, noteworthy, describes its plan for gender-responsive impact measurement as "Provide dedicated advisory support to portfolio companies to systematically contribute to shrinking gender gaps across each sector (contingent upon securing funding for CRAFT's technical assistance facility)" (p.97).

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