

# Climate Finance Advisory Service

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Daily Briefing

8th GCF Board Meeting

16 October 2014

This is the Climate Finance Advisory Service (CFAS) Daily Briefing. Produced at key meetings and negotiations by the CFAS expert team, the Daily Briefings try to provide a concise, informative update on key discussions that have taken place at each day of the meeting and give an overview of substantive points of action or progress. Please note that this is an independent summary by CFAS and not officially mandated by the GCF Board or Secretariat.

## Summary from 16 October 2014

On the third day of its eight meeting, the Green Climate Fund Board considered a number of important agenda items. After a first round of discussion, they were usually sent to the Secretariat or groups of Board members for revisions. No decisions were made yet, increasing the pressure for the last day of the meeting on Friday.

### **Revised programme of work on readiness and preparatory support**

The secretariat presented the revised readiness work programme, as requested by the Board at its sixth meeting. The suggested programme would support the establishment and strengthening of national designated authorities (NDAs), the development of country-wide strategic frameworks, the selection and accreditation of implementing entities and the development of a pipeline of funding proposals.

Several Board members stressed the importance of putting countries in the driver seat. Some questioned whether international consultants should play a large role in delivering readiness support. Other Board members sought clarifications on the suggested direct financial support for NDAs, in particular how it would be ensured that fiduciary standards would be respected and results measured. Several Board members stressed that all developing countries should be eligible for readiness support and some questioned the proposed allocation of 75% of the readiness support to least-developed countries (LDCs), small-island developing states (SIDS) and Africa. The Co-Chair nominated two Board members to lead the revision of the draft together with the secretariat and submit a new decision before the end of the meeting.

### **Financial terms and conditions of grants and concessional loans**

The secretariat introduced the document on terms and conditions of grants and concessional loans. Several Board members from both developed and developing countries stressed that the terms and

conditions should support a paradigm shift. Some criticized the rates and conditions for being too close to market conditions available through commercial banks. There were also requests to further diversify the suggested two types of loans, in line with the diversity of needs and country conditions. The Co-chair requested the Secretariat to revise the paper for the next meeting, based on Board members' comments.

### **Use of other financial instruments**

This agenda item began with a presentation from the GCF's Private Sector Advisory Group (PSAG) with its recommendations on the use of other financial instruments, followed by a presentation by the Secretariat. The suggested decision would allow the use of grants to provide guarantees and equity. Many Board members supported this suggestion, but some requests for clarification were also made. A few Board members also suggested considering additional innovative instruments. The Co-Chair requested the secretariat to revise the draft decision based on Board member's comments and present it to the Board for consideration the next day.

### **Private Sector Facility: Potential approaches to mobilizing funding at scale**

The PSAG representative made another presentation with recommendations, followed by the introduction of the document by the secretariat. The document analyzed available sources of private finance and the conditions they would need to invest in activities supported by the GCF. The suggestion was that the Fund's intermediaries would use bonds, commercial paper, syndications and club deals, and private placements to attract such funds. It was also suggested to use the ability to attract third party funds as a criterion when selecting intermediaries. Several Board members supported the paper, considering that shifting additional investments would be an important aspect of the intended paradigm shift. Some Board members questioned whether the suggested approach would reach the intended beneficiaries, particularly in the poorest countries. Similarly, clarification was sought on how the potentially significant risks would be managed. Furthermore, it was suggested that an overarching business model for the PSF needed to be spelled out. The Co-Chair requested the Secretariat to revise the document based on Board members' input for decision the next day.

### **Private Sector Facility: Working with local private entities, including small and medium-sized enterprises**

PSAG recommendations on this item were presented, followed by a presentation from the Secretariat. The suggested decision would create a Micro, Small and Medium-Sized Enterprises (MSME) Programme to provide grants and concessional loans, along with a Private Sector Project Development/Capacity-Building Programme to provide support to local private sector actors. Generally, Board members were supportive of the document, but asked for some clarifications, for instance on the broader context of the MSMEs in developing countries, the intended beneficiaries and terms of reference for the suggested programmes. The Secretariat was requested to revise the draft based on Board members' input for consideration the next day.

## **Outcome of the first and second meeting of interested contributors to the Initial Resource Mobilization Process of the Green Climate Fund**

Lennart Bage, the facilitator of the Initial Resource Mobilization (IRM) process provided a report to the Board. Two IRM meetings took place in June and September and a pledging meeting is planned for November. USD 2.4 billion have been pledged already and more countries are planning to pledge at the November meeting.

### **Policies for contributions**

Through the IRM process, interested contributors had developed policies and recommendations, which the Board was asked to endorse. There was agreement on the policies outlining the IRM process, including: The formal pledging meeting will take place in November 2014, but late pledges are possible; the IRM period will run from 2015 to 2018; the Fund will be considered effective once contribution agreements have been signed for 50% of the contributions pledged in November, but no later than April 30, 2015; the formal replenishment process will be triggered once total approvals exceed 60% of committed resources, likely around 2017.

However, there was disagreement on other recommendations contained in the document. This concerned the recommendation to develop rules for decision making in the absence of consensus that would, among other factors, have a link to contributions, the recommendation to extend the current interim Trustee agreements with the World Bank and the recommendation to allow donors to target some of their contribution to the Fund's windows or PSF. While these concerns were shared by most developing country Board members, developed country Board members pointed out that the document was a carefully crafted set of recommendations necessary to secure significant contributions and that changes to the document might put the contributions in jeopardy. While consensus seemed be possible to remove the recommendations on decision-making and trusteeship, which would be addressed under other agenda items, no consensus was reached on the issue of targeting and the meeting was suspended until the next morning.

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