

Climate Finance Advisory Service

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Daily Briefing

9th Green Climate Fund Board Meeting

(26 March 2015)

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 26 March 2015

On Thursday, March 26th, the Board of the Green Climate Fund (GCF) resumed its 9th meeting in Songdo, South Korea, addressing remaining items on its long agenda. The meeting closed at 4.20am in the early morning hours on Friday with some items being moved to the next meeting of the Board.

Modalities that Further Enhance Direct Access: ToRs for a Pilot Phase

The first agenda item of the day considered the issue of Enhanced Direct Access (EDA), with discussions around the Terms of Reference (ToRs) for an initial pilot phase. The respective background document proposes to allocate USD 100 million for 5 pilots to be selected and implemented for the duration of two years. At least two of these five pilots are envisaged to be in Least Developed Countries (LDCs), Small Island Developing States (SIDS) or Africa. Furthermore, the ToRs determine the objective of the pilot phase, types of entities to involve and types of activities to consider.

Board members from developing countries highlighted that in order to learn from the experience of the pilot phase on EDA the time period should be extended from two years, as this was perceived too short to generate sufficient lessons learned. In addition, it was proposed to expand the financial envelope of the pilot programme. Board members from developed countries agreed to some extent, questioning the adequacy of the two-year implementation period. Further views centred on seeking additional clarification on how EDA pilot proposals will be chosen and assessed; how risk during implementation could be managed and mitigated; and how the pilot phase will be monitored and evaluated following implementation.

A small group was created to work on a draft decision, taking into account the views expressed by Board members.

Issues regarding the Private Sector Facility

Next, the Board addressed issues around the Private Sector Facility (PSF), namely 'Mobilizing Funding at Scale' and 'Working with Local Private Actors, including Small and Medium Enterprises (SMEs)'.

The paper on **Mobilizing Funding at Scale** outlines modalities for mobilizing private sector funds at scale, for instance from institutional investors (e.g. through green bonds); local and international private actors; or through a potential platform for crowd funding. Board members welcomed the document. Some members questioned that crowd funding presents a valid niche for the GCF, while others perceived it as an interesting concept that could be further explored. Also, it was suggested to look at existing initiatives working on private sector engagement in developing countries, such as the Global Innovation Lab for Climate Finance. However, some Board members felt that a decision on this matter would be premature.

The paper on **Working with Local Private Actors, including SMEs**, elaborates on how the Fund can promote the participation of private sector actors in developing countries, including local financial intermediaries and private companies. As a concrete proposal the document suggests the creation of a SME Pilot Programme with an envelope of USD 100 million and a cap of USD 50 million per accredited entity.

Board members reflected on the document, specifically questioning the envelope of the pilot programme. The envelope of USD 100 million was perceived as being too low and Board members from both developed and developing countries cautioned that the proposed cap of 50 million could result in only two entities benefitting from the programme. Furthermore, members felt that while the aspect of work with SMEs was well reflected in the document, other aspects of 'local private entities' should be further strengthened. In addition, members highlighted that the role of the National Designated Authority (NDA) in relation to the private sector entities seeking accreditation had to be further fleshed out, and that the pilot should be fairly distributed geographically.

Following its deliberations on both PSF documents, the Board adopted a redrafted decision which requests the Secretariat to aim to achieve a diverse balance in accredited private entities at the national, regional and international level which already have a good track record for on-the-ground work in developing countries. It also requests the Private Sector Advisory Group to present additional recommendations regarding the establishment of a SME programme at the 10th meeting of the Board in July, as well as recommendations for activities regarding mobilizing resources at scale including modalities for issuing requests for proposals, consistent with the objectives of the Fund.

Terms and Reference of the Technical Advisory Panel

In the afternoon, the Board resumed its work addressing the ToRs of the Technical Advisory Panel (TAP), a technical body of experts, which will provide an independent technical assessment of, and advice on, funding proposals. The establishment of the TAP is critical on the Fund's path towards approving funding proposal by October. Board members highlighted that the TAP should be an independent body and that clarity was needed on the selection process for members. It was also pointed out that the proposed number of panellists on the TAP (four) was rather low in comparison to other funding institutions, and an increase to six panellists was suggested. Furthermore, it was questioned whether the TAP should only engage when considering funding proposals with a budget of more than USD 10 million, or whether it should be engaged on *all* funding proposals. Finally, it was emphasized that the TAP should also be covered by the Fund's policy on ethics and conflict of interest.

After some revision of the draft decision, which accommodated all views expressed by Board members, the ToRs of the Independent Technical Advisory Panel were adopted.

Gender Policy and Action Plan

After postponing the agenda item for several meetings, the Board turned to the Fund's Gender Policy and Action Plan. Board Members emphasized the great importance of such a policy. Following some amendments to the proposed decision text, the Board adopted the Gender Policy on an one-year interim basis, acknowledging the progress made in advancing gender balance and gender equality within the context of climate change policies, and in line with individual country circumstances.

The Secretariat will further work on the policy with inputs from Board members and Civil Society Organisations accredited to the GCF. The revised policy will be presented for consideration and approval by the Board at its 12th meeting.

Initial Term of Board Membership

The Board then considered the proposal to align the terms of Board membership to the calendar year. Currently the term expires three years after the first GCF Board meeting, i.e on 22 August 2015 g. This could be problematic if nominations for the next term could not be filled in time, resulting in a loss of institutional memory or a lack of quorum disrupting the Fund's work in the crucial 2nd half of 2015.

Following deliberations, the Board decided not to change the August timeline. Rather, Board members and Alternates whose terms end by 22 August shall continue their functions until their successors have been selected, but no later than 31 December 2015. The same applies to the civil society and private sector active observers. This information will be conveyed to the UNFCCC.

Expected Role and Impact of the GCF

Work on this agenda resumed, picking up on the discussions of the first day. The Board decided to take note of the findings of the analysis undertaken by the Secretariat, including illustrative investment opportunities in the Fund's results areas. Further they requested the Secretariat to monitor the portfolio, report to the Board and recommend actions to align the GCF portfolio composition with the initial results management framework when the portfolio reaches USD 2 billion, but no later than 2 years after the first funding decision.

Further Development of the Initial Investment Framework

The Board resumed its consideration of this agenda item, discussing a new draft decision developed by the working group. After intense debate, the Board reached an agreement, deciding to adopt the initial activity-specific sub-criteria and indicative assessment factors, which had been revised to reflect the Board's views expressed on the first day of the meeting. Further, it was decided to use indicative minimum benchmarks to ensure projects and programmes demonstrate the potential for a paradigm shift towards low-carbon and climate-resilient sustainable development. A proposal for such benchmarks will be presented by the Secretariat for the consideration of the Board at its 13th meeting, with a special focus on encouraging ambition and taking into account the needs of those countries particularly vulnerable to the adverse effects of climate change, in particular LDCs, SIDS and African States. Board members also pointed out that project size, the differentiation between mitigation and

adaptation, as well as local and sectoral circumstances should also be taken into account. In addition, the Board decided that, during a pilot phase, an assessment scale of high/medium/low will be applied to a subset of projects and programmes based on the initial investment criteria. The Investment Committee will recommend to the Board to which subset of proposals this 'scaling pilot' will apply. Should the Board not come to an agreement on an appropriate subset by its 10th meeting, the scaling pilot will automatically apply to all 'medium' and 'large' projects.

Financial Terms and Conditions for the Fund's Instruments

The working group presented a new draft decision to the Board, addressing the issues raised on the first day of the meeting. The Board decided that the use of grants with repayment contingency will be limited to the private sector only and that their terms and conditions be determined on a case-by-case basis. The interest rates for 'high concessionality' were lowered by 0.25 percentage points. Service and commitment fees were also reduced for this loan category. Further, the Board will consider at its next meeting a proposal regarding the cases in which the high or low level concessional terms will apply. Finally, members decided to review the financial terms and conditions of the Fund's instruments on an annual basis.

Other items on the agenda

Besides these issues, the Board also endorsed a policy regarding **Legal and Formal Arrangements with Accredited Entities** and discussed its **Work Plan for 2015**, which will be further dealt with intersessionally. Due to time constraints, some items were pushed to the next meeting of the Board, such as the **ToRs of a Pilot Phase for Enhanced Direct Access, Decision-making procedures in the Absence of Consensus**, the **Administrative Guidelines on the Budget and Accounting System**, as well as the **Administrative Guidelines on the Internal Control Framework and Audit Standards**.

The Board will convene for its 10th meeting from 6-9 July 2015 in Songdo, South Korea.

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