



Daily Briefing

16th Green Climate Fund Board Meeting

4 April 2017

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 its Secretariat.

During the meetings, CFAS experts are available to provide advise to and answer specific questions for Board Members, Alternates and their advisers from developing countries. The CFAS team can be reached via cfas@germanwatch.org.

Previous daily briefings and other CFAS analyses are available on the **CFAS website** www.cfas.info.

The CFAS Team

Summary from 4 April 2017

On Tuesday, 4 April 2017, the Board of the Green Climate Fund (GCF) convened for its 16th meeting in Songdo, Republic of Korea. During the meeting, the Board will consider 9 funding proposals requesting USD 855 in GCF funding and discuss several important policy matters, including the facilitation of an increase in proposals from direct access entities, the review of the proposal approval process and country ownership guidelines.

Opening of the meeting, adoption of the agenda and organization of work

The Co-Chairs, Ewen McDonald (Australia) and Ayman Shasly (Saudi Arabia), opened the Board meeting and welcomed Howard Bamsey, the new Executive Director (ED) of the GCF, and several new Board members to their first official meeting. It was noted that the Board and ED had had a retreat on the previous day. Some members suggested additional agenda items such as the consideration of an investment policy for the Fund to ensure that

its funds are invested by the trustee in a responsible and fossil-free manner and an update from the REDD+ Co-Champions on their activities. The Board adopted the meeting agenda and the report of their fifteenth meeting, urging the secretariat to release future reports at least three weeks after the close of a meeting to allow sufficient time for review.

Reports from the Co-Chairs, the Secretariat, Committees and Groups

The Co-Chairs presented their report, informing the Board on the main activities undertaken from late December 2016 to early April 2017. The Secretariat then reported on its activities, providing the Board with an update on the progress made with regard to the mandates received. The Chairs of the Ethics and Audit Committee, Risk Management Committee, Investment Committee and the Private Sector Advisory Group also presented on their activities since the last Board meeting.

Implementation of the initial strategic plan of the GCF: annual report

The Secretariat provided an overview on the progress achieved in implementing the strategic plan since it was adopted at the twelfth meeting of the Board. It outlined that during 2016, the Board adopted a number of decisions that support the prioritization of pipeline development while the Secretariat organized three regional structured dialogues (in the Pacific, African and Latin American regions). On readiness support, the Board at its fifteenth meeting decided to allocate an additional USD 50 million to the Readiness and Preparatory Support Programme, and the Secretariat has approved new readiness proposals. The report also noted that the Private Sector Advisory Group (PSAG) hosted a meeting in 2017 where a number of significant policy matters were considered.

Some members suggested to improve the country programme reporting template, and to highlight in future reports to what extent the private sector and National Designated Authorities (NDAs) have been engaged in country programmes. The Co-Chair suggested that future reporting on the strategic plan implementation could be done annually, with the exception on some items that require an update at each meeting. The Co-Chairs will consult with members to specify these items and suggest a draft decision along these lines.

Competitive process for the selection of the Permanent Trustee

The GCF has a trustee that manages its financial assets; currently the World Bank serves as the interim trustee. The Co-Chairs recalled that the GCF is to conduct a competitive process for the selection of the Trustee by the end of 2017, so that it can commence its services for the GCF no later than April 2018. The Co-Chairs proposed to establish an ad-hoc committee of the Board to develop terms of reference for the selection of the trustee. Board members stressed the need to ensure transparency and regional balance on the

Committee. One Board member suggested that the ability to implement a fossil-free investment policy should be among the selection criteria for the trustee. The Co-Chairs will pursue consultations with Board members, particularly on the composition of the ad-hoc committee and report back at a later point during this meeting.

Work programme of the Secretariat for 2017

The Executive Director presented the 2017 work programme of the Secretariat. Building on lessons learned from the past four years, the work programme provides a description of planned priority initiatives and expected outputs in each of the Secretariat's main divisions and offices, as well as the current state of the budget and staffing. The ED noted that the programme is still work in progress and welcomed suggestions for improvement.

Some Board members welcomed the focus on approvals and disbursements as highlighted in the work programme. Others praised the focus on outputs rather than inputs and recommended going even further to consider outcomes, i.e. the quality and impact of activities. Several Board members encouraged the Secretariat to be realistic in its goals. The Secretariat was urged to speed-up the finalization of as many Accreditation Master Agreements (AMAs) and Funded Activity Agreements (FAAs) as possible. The Co-Chairs postponed a decision on the work programme to allow time for a revised version to be made available.

Status of the GCF portfolio: Pipeline and approved projects

The Secretariat provided an update of the Fund's portfolio, including the pipeline of projects and programmes. The current portfolio consists of 35 approved projects, with 38% of the funding allocated to mitigation, 20% to adaptation and 42% to cross-cutting projects and programmes. In terms of instrument, grants account for 54% of the allocated Fund resources while loans account for 22%. The climate impact is estimated to be 2.5 billion tonnes of carbon dioxide equivalent reduced or avoided over the lifetime of the proposed activities, and 174 million people that are projected to benefit from reduced vulnerability and/or increased resilience. 189 concept notes for projects totalling USD 9.1 billion have been received by the Secretariat. Since the fifteenth meeting of the Board, 11 new funding proposals were submitted, of which 2 were developed from concept notes.

Several Board members expressed their concerns that while the quantity of proposals was growing, their quality would still need to be improved. It was suggested to consider only proposals that demonstrate a clear transformative impact. Some members suggested a stronger role of the Secretariat in accompanying the development of proposals and screening for quality. Some members called for less reliance on grants and more innovative financial instruments. Other members pointed to the imbalance between mitigation and adaptation and called for additional efforts to achieve the balance mandated by the Fund's allocation framework. The limited number of proposals coming from direct access entities within the portfolio – with only 3 out of 29 proposals – was criticized. As a

way forward, the Co-Chairs suggested to develop guidelines to the Secretariat on further improvement of the portfolio and its reporting to the Board.

Consideration of funding proposals

The Secretariat briefly presented an overview of the funding proposals to the Board. As of January 2017, the GCF pipeline comprises of 50 funding proposals requesting a total GCF funding of USD 3.5 billion. Of the 50 funding proposals, nine proposals are presented to the Board for consideration at this meeting (2 mitigation, 4 adaptation, 3 cross-cutting), requesting USD 855 million in GCF funding. Of the nine proposals, the two private-sector proposals are requesting USD 420 million and the 7 public sector proposals USD 435 million in GCF funding. Nearly 80% of the funding in these nine proposals is targeting the least developed countries, Small Island Developing States and African States. Only one of the proposals is a direct access proposal submitted by a National Implementing Entity. Some Board members pointed out that for all proposals they would like to see more information on incremental cost and concessionality in order to assess whether the principle of "least concessionality" was being applied. They also expressed their view that for the GCF to fund a project, it needed to be clear that a project was a climate and not a development project. Other members pointed out, however, that the Governing Instrument provided for the option of full cost grant financing and that projects could be development and climate projects at the same time.

The Co-Chairs explained that all projects would be discussed individually to collect Board members' views and concerns, without taking a decision at this point.

FP038: GEEREF NeXt (global), EIB

The proposal is for the GCF to invest USD 250 million in equity into a fund with a total volume of USD 750 million to invest in renewable energy and energy efficiency projects in developing countries across the world. So far, 30 no-objection letters have been secured, meaning that this fund could invest in these countries. The proposal proposes a "fund-of-fund approach", by which the GEEREF NeXt fund invests in specialized national or regional funds, which in turn invest in individual projects. The GCF's equity investment would be supplemented by a USD 15 grant for a technical assistance facility.

Some members expressed concerns that many elements were not clear from the proposal at this point, e.g. in which of the 30 countries or which projects the Fund would actually invest or whether the projected high leverage ratio (up to 1.50) could be reached. They pointed out that the GCF would thus take some risks in approving this proposal. It was also questioned why EIB, the project proponent, would not invest more of its own funds and accept the same junior equity position as the GCF. Several members pointed out that the proposal would mobilize private finance at scale and enable renewable energy and energy efficiency investments in developing countries where they would otherwise not happen. The proposal was thus seen by some Board members as innovative and paradigm-shifting. There were some questions as to how high-risk sub-projects (category A) would be

handled, given that this proposal was only classified as Intermediation-2 (i.e. medium risk). Furthermore, some questions were raised as to the value for money of the USD 15 million technical assistance to private sector actors (specialized funds). The Secretariat, Independent Technical Advisory Panel (ITAP) and project proponent presented their assessment and responded to some of the questions raised by Board Members.

FP039: Renewable Energy Financing Framework (Egypt), EBRD

This project aims to support Egypt in achieving its target of reaching 20% renewable electricity generation by 2022. The proposal requests USD 150 million in loans and USD 4.7 million in grants from the GCF, which will be blended with EBRD's own resources to reach USD 500 million in loans for renewable energy projects in Egypt and USD 7 in grants for technical assistance to improve the enabling environment. It is intended to leverage additional debt financing from international and development financial institutions and in the future from commercial banks, as well as private sector investments.

Board members raised several questions with regard to this proposal. They wanted to know, for instance, how it could be ensured that the concessionality of the loans provided by the GCF to EBRD would be passed on to the country. They also requested more information on the technical assistance component in order to assess whether it was necessary at this scale. The Secretariat, ITAP, and project proponent presented their assessment and responded to some of the questions raised by Board Members.

The Co-Chair closed the first day of the meeting at 6 p.m. and announced that the remaining proposals would be discussed the following day.

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