Climate Finance Advisory Service

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Daily Briefing

9th Green Climate Fund Board Meeting

(25 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 25 March 2015

The 9th meeting of the Board of the Green Climate Fund (GCF) resumed on Wednesday, March 25th in Songdo, South Korea with a discussion on a draft proposal on the **Policy on Ethics and Conflicts of Interest for the Board**. This policy sets out principles and ethical standards for the Board members and their alternates, as well as their respective advisers in connection with their responsibilities in the Fund. Noteworthy, this policy does not cover the Secretariat staff, which is subject of an agreement on conflict of interest in their respective work contracts. After intense discussions and consultation during the break, the Board adopted the draft policy paper, with the deletion of the reference that allowed members and alternates to provide confidential information of the Fund to governments in their respective constituencies.

The second agenda item considered the **Financial Terms and Conditions of the Fund's Instruments**. The corresponding document outlines principles and factors for the terms and conditions of financial instruments - such as grants and concessional loans - used by accredited entities and intermediaries to deploy the resources of the GCF in approved projects and programmes. The document differentiates between two sorts of grants - with or without repayment contingency. The former is provided principally to private sector operations in order to maximize the effectiveness and efficiency of the Fund's resources. The paper also allows the GCF to provide greater concessional terms to vulnerable countries, while less concessional terms will be offered to other countries.

The discussion was centered on the question, what constitutes 'vulnerable' countries that are eligible for greater concessional terms. The paper suggested categorizing countries by using certain criteria for 'vulnerable' countries, as used by the UNFCCC, the World Bank Group, IDA or the OECD. In the discussion, several Board members from developing countries expressed concerns about using a vulnerability classification of countries outside of the UNFCCC context, while developed countries lamented the lack of clarity on the term 'vulnerability'. Other developing countries reiterated that special treatment be given to SIDS, LDCs and African States. Some members highlighted that the paper only addresses grants and loans and would have to apply more broadly to all financial instruments of the fund. The discussion also touched on the level of concessionality indicated in the paper prompting some members to call for the principle that the Fund's conditions for concessionality should be equal or better to those of other existing funds. After long discussions, the Board decided to establish a small group, which was mandated to come up with a proposal that amends the decision and reflects the discussion that took place. The small group will present its conclusion to the group the following morning.

In the afternoon, Board member addressed how to further develop the **Initial Investment Framework.** This agenda item requires a decision, if the GCF is going to be able to finance projects this year. The discussion was mostly focused on methodologies for the assessment of project and programme proposals as included in Annex III of the background document. Board members considered two distinct methodologies as proposed, which would be used by the Secretariat and the Technical Advisory Panel to conduct technical assessments of funding proposals.

The first methodology (Option A) aims to assess the proposal's expected performance against indicative minimum benchmarks, to evaluate whether a funding proposal broadly aligns with the Fund's investment criteria. These minimum benchmarks are based on quantitative indicators for each criterion or sub-criterion across the initial investment framework.

The second methodology (Option B) is based on qualitative judgement, conducting quantitative analysis where applicable and taking into account varying circumstances and sectoral and technological contexts: Accordingly, the Secretariat and the Technical Advisory Panel will each assess a proposal's expected performance for each investment criterion.

Most of the developed country members favored 'Option A', with the argument that it would enhance the quality of proposals, because it provides more detail and comparability across funding proposals, as well as more clarity to project proponents on the sort of activities the Fund is going to support. Developing countries tended towards 'Option B', as it would allow countries greater flexibility. Detailed comments were made on the need to apply benchmarks differently in SIDS, LDCs and African countries, as well as in the field of adaptation and on the inclusion of a scoring system especially to better signal ambition. CSO observers added the need to consider an exclusion list that bans fossil fuel support.

After long discussion, an 'Option C' could present the middle ground, to reflect the different views. A small group was set up, to further define the criteria, against which projects will be assed. The group met over the course of the afternoon and is expected to report back to the Board.

The Board then moved on to consider the next agenda item, which addressed a Fund's **Risk Management Framework**, i.e. a survey of methodologies conducted by the Secretariat, in consultation with the Risk Management Committee to define and determine the Fund's risk appetite. The document was well received by Board members from both developed and developing countries. It was proposed to enhance the list of institutions surveyed for the document and to also consider risks beyond the financial domain. The Board took note of the document, adopting the draft decision proposed in the background document.

The last agenda item of the day considered the **Accreditation of Applicant Entities and Intermediaries**, one of the crucial agenda items for this meeting. The accreditation of the first applicants would mark an important milestone towards the operationalization of the GCF.

The discussion started by a presentation by the Secretariat and the Accreditation Panel, the independent expert body established to assist the GCF to better assess applicants. In total, 63 entities have registered for accounts with the online accreditation system. 41 entities have submitted accreditation applications: 9 national, 5 regional, 8 private sector and 19 international intermediaries. It was reported that a lot of works and exchange have happened during the accreditation appraisal, as well as external expert support was drawn, in order for the Panel to make timely accreditation recommendation. For the 9th Board meeting of the GCF, the Accreditation Panel concluded the review of 7 implementing entities, recommending their respective accreditation.

After the presentation, the Secretariat and Accreditation Panel were questioned by the Board members. Noteworthy is the question how the GCF accreditation could be instrumental to leverage more transformation in poor countries. It was also noted that despite some reluctance by some members, the fit-for-purpose approach, which allows institutions to be accredited for specific activities, has worked out well.

Although Board members were supportive of the accreditation of the recommended entities, a group of members sought further clarifications on the accreditation of applicant APL006, which is a national development bank from a developed country that works together with its partners in developing countries in order to identify projects and programmes. This is due to the fact that the Governing Instrument of the GCF, on 'international access' (para 48) only includes the term ‘international financial institutions’ as eligible for accreditation, while at the same time, the last Board meeting in Barbados authorized bilateral entities to apply for accreditation. Further issues in the discussion was concrete action to ensure that National Designated Authorities will be informed before accreditation of implementing entities occur; and actions to the effect of encouraging more direct access institutions to accredit. Further the Secretariat was requested to publish the assessment methodology and the questions in the assessment of accreditation applications.

At 1.20am, the Board reached an agreement to accredit all proposed entities.

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