

# Climate Finance Advisory Service

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Daily Briefing

7<sup>th</sup> GCF Board Meeting

(18–21 May 2014, Songdo)

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 18 May 2014

### Opening of the meeting, agenda setting and organization of work

On Sunday, May 18<sup>th</sup> 2014, the Board of the Green Climate Fund (GCF), convened for its 7<sup>th</sup> meeting in Songdo, Republic of Korea. Regarded by all stakeholders as the most important meeting in the short life of the GCF, the meeting is set to focus on working towards completing the eight essential requirements for the Fund to receive, manage and disburse financial resources, of which two were already completed at the previous meeting in Bali. The six remaining essential requirements are: 1) Guiding Framework for Accreditation; 2) Initial Proposal Approval Process; 3) Initial Results Management Framework; 4) Financial Risk Management Framework and Investment Framework; 5) Structure of the Fund; and 6) Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and its Private Sector Facility. Accordingly, the co-chairs proposed an agenda that limits the meeting to focusing on addressing all six remaining requirements plus the ensuing commencement of the resource mobilization. All other outstanding issues, e.g. country-ownership, readiness and preparatory support or a fund-wide gender-sensitive approach were postponed until the next meeting. Highlighting the importance of these issues, Board members acknowledged the paramount importance of completing the six remaining requirements, while agreeing to discuss a roadmap for addressing the postponed issues at the end of the current meeting.

During the morning session, Board members adopted the report of the last Board meeting and took note of the report of the activities by the Co-Chairs, the Secretariat and the Fund's different committees (e.g. on country-ownership, accreditation, ethics and audit, risk management and the Private Sectors Advisory Group (PSAG)), which were established at the meeting in Bali. Noteworthy was the report from the PSAG, kicked off through a first virtual meeting in March and an in-person meeting in Geneva in April, which concluded with a set of high-level recommendations to the Board on the fund-wide engagement with the private sector and modalities to that end.

### Guiding Framework for Accreditation

Most Board members agreed that the presented document on a guiding framework for accreditation was a good basis for deliberation and an improvement since Bali. However, the Board saw the need for some adjustments in order to take a final decision thereon. With regard to the fiduciary standards,

some Board members saw a lack of flexibility, and alluded to the diverse level of capacity amongst applicants. Hence, they advised to exercise caution in setting standards that are manageable for countries with low capacity, without at the same time downgrading the key requirements for accreditation. Further, Board members suggested considering “fast-tracking” the accreditation of already accredited entities from other different climate funds, especially “fast-tracking” for all multilateral development banks. In addition, it was highlighted that the accreditation process needed to apply a scaled risk-based approach, which tailors the type of accreditation according to the type, scale and risks of projects to be implemented by the different entities. With regard to the Environmental and Social Safeguard (ESS), Board members acknowledged the application of the International Finance Corporation’s ESS as the interim ESS of the GCF. At the same time it was stressed for the Board to set a clear roadmap and timeline for the elaboration of the GCF’s own standards. Last but not least, Board members pointed out the crucial role of capacity building in frame of the readiness programme for accreditation, alluding to the need for the GCF to empower – to the full extent possible – national and sub-national entities.

A small group with balanced representation of both developed and developing countries was set up, with the view of improving the document based on the comments made and to report back to the full Board at the later stage.

### **Initial Proposal approval process**

In their reactions on the paper, most of the Board members found a lack of coherence between the proposal approval process and other key documents, and pointed out some inconsistencies and missing clarity. In their view, the Results Management Framework, the Investment Framework and the Proposal Approval Process need to be regarded in a holistic manner, as they are interconnected. With regard to the role of the secretariat in the approval process, there was a convergence of views that at this stage the Board should not delegate funding decisions to the secretariat. Furthermore, members of developing countries emphasized the key role of the National Designated Authority (NDA) in the approval process, which should go beyond the expression of no objection. The NDA should play a critical role in the project approval process, by certifying the consistency of the proposals submitted to the GCF with relevant national strategies and plans. As the GCF is expected to receive several projects/programmes, some Board members were also of the view to introduce a kind of competition in appraising proposals. However some members highlighted that the competition needed to be clearly spelt out and be fair as to allow a sound distribution among different country groups. In addition, members also highlighted that the approval process should be as simple as possible and should allow a streamlined process for small-scale projects. In terms of institutional arrangements around the approval process, it was mentioned that the GCF should draw on the expertise of an independent technical advisory group. Finally, Board members agreed that capacity building for development and implementation of projects where needed to be provided in addition to the approval toolkits to be prepared by the Secretariat at a later stage.

A small group was established with balanced representation of all parties, with the goal of improving the design for the proposal approval process.

## **Initial Results Management Framework**

The paper describes the logical model which lies down the causal relationship between inputs, activities and results and the expected time for achieving results on various levels, as well as a performance measurement approach towards mitigation and adaptation interventions of both public and private services. This document was the most discussed and controversial agenda item of the day. Some Board members felt that the paper did not show the necessary link with other documents and the 14 initial results areas adopted at the 5<sup>th</sup> Board meeting in Paris. The discussion was fairly technical and centered on the issue of how to design the framework as to mitigate risks and help the GCF to meet its objectives. Most of the Board members were of the view that the indicators were still complicated and their measurement would represent a hurdle for all involved stakeholders, while it should be as simple as possible to allow comparison among and across all levels. In addition, some members also noticed that the present document did not reflect the state of the negotiations under the UNFCCC, particularly with the COP decision of Warsaw on REDD+.

In setting up the small group, which will consider the discussions on this matter, the co-chair in his summary highlighted the need to refine the indicators. In doing so, he advised the group to step back and look on the initial result areas agreed at the Paris meeting.

## **Financial Risk Management Framework**

The purpose of the RMF is to define the Fund's risk appetite, in assessing potential risks and defining risks that the GCF can afford. There was consensus among Board members that the presented document represents a good basis for discussion. However, some members pointed out that the paper is highly focused on financial risks and other risks such as reputational or managerial risks need to be also considered. In addition, there was consensus that tools for risk assessment as well as a risk system were needed, which should manage all risks that the Fund is exposed to. Noteworthy, there was consensus among Board members that the Fund should avoid cross subsidization across the Fund, which refers the way the Fund will deal with grant and loan contributions. In regard to this point, there was agreement that loans and grants should not be comingled. The discussion could however not be completed, as the chair suspended the meeting.

In terms of organization, it is worth mentioning that Co-Chair Mr. Joey Salceda (Philippines) had to leave the Board meeting because of imminent appointments in his home country and is set to return on Tuesday, May 20<sup>th</sup>. In the meantime, he will be replaced by Mr. Ayman Shasly (Saudi Arabia).

On Monday, May 19<sup>th</sup>, it is expected that the Board members finalize discussions on the remaining documents in plenary. Afterwards, Board members will be divided into small groups, in order to facilitate progress as to adopt the decisions on the remaining requirements. For Monday afternoon, a stock taking session by the groups will update Board members and observers on the progress made.

*The Climate Finance Advisory Service (CFAS) is an initiative which is delivered by a consortium of experts led by Germanwatch e.V. and funded by the Climate and Development Knowledge Network (CDKN).*

*CDKN is funded by the UK Department for International Development (DFID) and the Netherlands Directorate-General for International Cooperation (DGIS) for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of or endorsed by DFID, DGIS or the entities managing the delivery of CDKN which can accept no responsibility or liability for such views, completeness or accuracy of the information or for any reliance placed on them.*

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