CFAS

CLIMATE FINANCE ADVISORY SERVICE

SUMMARY BRIEFING

36th Green Climate Fund Board Meeting

10-13 July 2023

Dear Friend of the Climate Finance Advisory Service (CFAS),

This is the CFAS Summary Briefing. Produced at key meetings and negotiations by the CFAS expert team, the Summary Briefing tries to provide a concise, informative update on key discussions that have taken place at each 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.

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

The CFAS Team

Summary from 10-13 July 2023

From 10 to 13 July 2023, the Board of the Green Climate Fund (GCF) convened for its 36th meeting in Songdo, Republic of Korea. The meeting's agenda focussed on the approval of the Updated Strategic Plan for the period 2024-2027 and the Fund's second replenishment. Furthermore, the Board considered the approval of twelve funding proposals (requesting USD 755.8 million in GCF funding), the re-accreditation of four previously accredited entities and the accreditation of four new entities.

Update of Strategic Plan for the GCF 2024–2027

The draft Updated Strategic Plan (USP) for GCF 2 was discussed and revised at an informal meeting, a day before the start of the Board meeting. The revised version was then circulated and presented to the Board for approval.

Board members thanked the Secretariat and the co-chairs for their work on the USP and supported the proposed draft, which they said would provide a strong signal for a successful replenishment. Many highlighted that the draft represented a compromise, and though it was not perfect, it preserved key priorities for each constituency that needed to be translated into real projects and real action, including the priority given to access.

Some comments on how the USP could have been better or more ambitious were made. It was mentioned that some of the targets included in the USP would need to be revisited, after further work, and would not be considered as targets for GCF 2 as they stood. A Board member commented that previous versions that included implementation of article 2.1c of the Paris Agreement, especially on greening the financial system, were more ambitious.

Some regretted that there was not a strong focus on the most vulnerable countries, groups and communities.

Other members mentioned their vision for the Fund, based on the USP. For some, the Fund's portfolio had to be inclusive and show regional balance. Others supported maximising comparative advantages and the mobilisation of private capital. A Board member mentioned that the comparative advantage of the GCF was its risk appetite, which should lead the GCF to collaborate with the private sector and MDBs.The importance for the GCF to strengthen coherence and complementarity with other funding arrangements was highlighted. Additionally, the recognition of the need to reduce the time for proposal review and disbursement was welcomed, but needed to be done without sacrificing quality. Finally, many emphasised and welcomed the integration of nature, biodiversity and climate change.

The Board reiterated their expectation of the development of an action plan to implement the USP, including actions to achieve the goals set in the document. A Board member stressed the importance of the Fund's programming capacity, as a determining factor for implementation. After Board members commented on the latest draft, the decision was adopted.

Report on the activities of the Secretariat

The Secretariat introduced the report by outlining key activities for the period from January to April 2023, which included managing the transition and onboarding of the new Executive Director, Ms. Mafalda Duarte; supporting the second replenishment and the USP work, and continuing to increase the GCF's headcount. Then proceeded to introduce the progress in the KPIs, as of April 2023, with 51% of KPIs showing less than 50% progress, while 15% showing progress of more than 80% and 11% of them having been achieved. KPIs in the list of those that required more active monitoring included SAP proposals from direct access entities (DAEs) and the portfolio of projects rated "on track". Concerning the implementation of the GCF portfolio, disbursements were increasing though they remained low. Projected commitment authority for 2023 was USD 3,977 million, with planned commitments of USD 2,503 million for funding proposals, USD 372 million for readiness and the Project Preparation Facility (PPF) and USD 243 million in accredited entities fees, foreign exchange risk management and administrative expenses, totaling USD 3,117 million. Finally, the Secretariat showed the GCF's institutional growth, with employees reaching 291, with a good gender balance.

Board members were pleased with the gender balance within the GCF, but noted findings that the gender policy of the GCF was not being translated into meaningful action. Others noted that regional, cultural and language representation and balance was also needed. Some were concerned with the low number of approved projects under implementation, leading to a slow speed in disbursements. Others welcomed the increases in staff and resulting capacity, while some members also pointed out the need to improve effectiveness of the GCF's operations, around access and restructuring and cancellation of projects. Finally, many welcomed the launch of the Project Specific Assessment Approach (PSAA). After these remarks, the report was noted.

Following this, the GCF 2022 audited financial statements were discussed. These were submitted late to the Board, which prompted the co-chairs to suggest the decision could be postponed and taken as a decision between Board meetings, to allow members to read the financial statements in more detail. Some welcomed the suggestion, while others disagreed and stated that this document required engagement from the Board, during a formal meeting, so it should be postponed for B.37. The Board inquired as to whether there were legal, or other implications of not approving the decision until the next Board meeting. The Secretariat clarified that there were no legal implications and it was just a matter of good practice to approve the financial statements as soon as possible, preferably in the first half of the year, as a matter of accountability and transparency. There was no agreement on the matter so the item was suspended.

A Board member noted parts of the document seemed to allow for earmarking of funds from contributors and seeked clarification as to whether refunds had occurred due to lack of funding proposals that fit the earmarked sectors. The Secretariat clarified that there had not been any refunds and that the only earmarked funds were the cushions the Fund needed for different purposes. After further consultations, the decision was adopted.

Status of GCF resources, pipeline, and portfolio performance

The Secretariat introduced the status of the resources, indicating that the commitment authority as of June 30 was USD 1.8 billion and for B.36 it was of approximately USD 2.4 billion. As for the portfolio performance, they showed growing grant approvals and also a growing portfolio under implementation, as well as a higher disbursement rate. They highlighted important results concerning the Readiness Programme, linked to the five objectives of the programme, as well as the results of the Project Preparation Facility (PPF). These included the number of stakeholder trainings organised, concept notes and adaptation plans developed, amongst others. As for the portfolio, the GCF to date had a portfolio of 216 projects (not including those up for approval) totaling USD 12 billion, and a pipeline totaling USD 20.6 billion including funding proposals and concept notes. On the existing USP targets, the portfolio showed a 50% - 50% balance between mitigation and adaptation, more than 50% of funding going to LDCs, SIDS and African States, while only 17% of the portfolio volume was channelled through DAEs and 17% to the private sector. Finally, the Secretariat presented some implementation challenges that could lead to restructuring, reduced impact or delays in funded activities and the measures adopted, including changes in scope, budget reallocations and extensions.
Board members commented on a host of issues. Some lamented the low share channelled to the private sector. Others asked the Secretariat to report to the Board on challenges they faced, that could be addressed by updating GCF policies. LDC members requested more disaggregated information on support for LDCs under the Readiness Programme; while another Board member requested detailed information on which countries are more efficiently accessing GCF resources. After a short discussion, the Board took note of the reports.

Facilitator’s summary of the second consultation meeting for the second replenishment of the Green Climate Fund

The co-chairs invited the facilitator of the GCF’s Second Replenishment process, Dr. Mahmoud Mohieldin, to provide to the Board his summary of the second consultation meeting for the replenishment. Dr. Mohieldin opened by remarking that the replenishment has been gaining traction, with more and more countries committing to global climate action and multilateralism through their pledges to the GCF, including the Czech Republic, Austria, Germany and Monaco, whom he thanked for their contributions.

He then shared the summary of the second consultation meeting, which was attended by 30 potential contributors, as well as Board members and other stakeholders. During the meeting, participants were updated by the Secretariat on the GCF's programming and progress to date, its financial position, the Updated Strategic Plan (USP) for GCF 2 and organisational matters regarding the upcoming High Level Pledging Conference. He also highlighted the discussions and the importance of the Policy on Contributions for the Second Replenishment. He shared additional information on his advocacy role for GCF 2 in different fora.

Additionally, he emphasised the key role the GCF plays within the climate finance landscape, and how this role could be enhanced through areas like regional presence, impact, enhancing the work with the private sector and communication. In the last area, he emphasised the need to communicate on progress.

Board members thanked Dr. Mohieldin for his work and encouraged him to continue with his efforts. Some highlighted the important political signal that a strong replenishment would send going into COP28 in December, and how it would help to build trust in the context of the US$100 billion goal. Others mentioned that the focus of the advocacy work around the replenishment process should be on developed countries and rejected the use of the term “emerging economies”, while also remarking that voluntary contributions are complementary.

Some members highlighted the importance of the adopted USP for GCF 2 as an important basis for a successful replenishment, with early pledges sending a clear signal of contributors’ commitment to the GCF and to the US$ 100 billion goal. Many, particularly from developed countries, invited other contributors to follow with ambitious pledges, including existing contributors, as well as those that contributed to the IRM but not to GCF 1, and new contributors, particularly from emerging economies. On the new contributors, some highlighted the need to increase the donor base in order to ensure enough resources.

In response to the comments by the Board, the facilitator highlighted that new contributions are guided by the principles of common but differentiated responsibilities (CBRD) and the policies developed by the Board. He emphasised these contributions are additional and not substitutes. He thanked the Secretariat for their work. Finally, he highlighted again issues related to communication around the GCF and its role. After these responses, the Board took note of the report by the facilitator.

Consideration of funding proposals

Prior to B.36, the independent Technical Advisory Panel (iTAP) endorsed 12 Funding Proposals (FPs) for the Board's consideration. The FP package comprises 8 adaptation and 4 cross-cutting projects and amounts to a total GCF investment of USD 755.8M. Including co-financing, the total funding adds up to USD 3.2B. 8 proposals were submitted by International Access Entities (IEAs) and 4 proposals by Direct Access Entities (DAEs). 5 proposals made use of the Project Preparation Facility’s (PPF) support. The projects and programmes dedicate most of the funding to African countries (61%), followed by the Asia-Pacific region (27%), and Latin America and the Caribbean (12%). LDCs, SIDS, and African States receive 82% of the approved total funding. Investments are projected to reach 106 million beneficiaries (direct and indirect) and avoid 382 MtCO2eq over the projects/programmes lifetime.

After extensive discussions the Board approved all FPs under consideration, including the proposed iTAP conditions. Overall, the Board positively acknowledged the scope of the presented FPs. Board members expressed appreciation that three quarters of the projects and programmes will address matters related to adaptation. It was also recognized that private sector engagement could be enhanced and funds are increasingly channelled through DAEs.

Among the project/programme package, FP208, which promotes integrated flood management in Haiti, got special attention due to its sensitive geographical context. Considering the country's circumstances as a high-conflict region, the Board was supportive of the project’s procedures and the AE’s (UNDP) conflict and security analysis. Certain Board Members even urged the secretariat to be flexible on the project’s implementation timeline. The project further initiated a discussion around the topic of conflict sensitive management and led to the call for a GCF policy that provides guidance to the engagement with areas of conflict. Moreover, the “KawiSafi II" programme (FP210), which aims at nurturing scalable enterprises that contribute to climate action in the target countries in Africa and the “Hardest-to-Reach” programme (FP211), which aims at providing first-time access to clean and climate-resilient energy to low-income population through off-grid solar systems, caused political tension at the Board. A Board member did not agree with the inclusion in the proposal's text of references to labour and human rights' violations in the relevant supply chains. Only through a voting procedure, the proposals were finally adopted by the Board. Also, the Board endorsed the request to change the Environmental and Social Risk Category of FP010 from Category C to Category B.

The following projects and programmes were approved by the the Board at B.36:

- **FP206:** "Resilient Homestead and Livelihood support to the vulnerable coastal people of Bangladesh (RHL)" / Country: Bangladesh / AE: PKSF / GCF funding: USD 42.2M
- **FP207:** "Recharge Pakistan: Building Pakistan's resilience to climate change through Ecosystem-based Adaptation (EbA) and Green Infrastructure for integrated flood risk management" / Country: Pakistan / AE: WWF / GCF funding: USD 66.0M
- **FP208:** "Enhanced climate resilience in the TroisRivières region of Haiti through Integrated Flood Management" Country: Haiti / AE: UNDP /GCF funding: USD 22.4M
- **FP209:** "Climate Change Resilience through South Africa's Water Reuse Programme ("WRP")" / Country: South Africa / AE: DBSA / GCF funding: USD 235.0M
- **FP210:** "KawiSafi II" / Countries: Côte d'Ivoire, Democratic Republic of the Congo, Kenya, Nigeria, Rwanda, Uganda, Zambia / AE: Acumen/ GCF funding: USD 52.5M
- **FP 211:** "Hardest-to-Reach" / Countries: Benin, Burkina Faso, Burundi, Chad, Democratic Republic of the Congo, Guinea, Guinea-Bissau, Lesotho, Malawi, Mozambique, Niger, Sierra Leone, Somalia, Togo, Uganda, Zambia / AE: Acumen / GCF funding: 65.0M
- **FP212:** "&Green Fund: Investing in Inclusive Agriculture and Protecting Forests" Countries: Brazil, Cameroon, Colombia, Côte d'Ivoire, Democratic Republic of the Congo, Ecuador, Gabon, Indonesia, Lao People's Democratic Republic, Liberia, Zambia / AE: FMO / GCF funding: 189.4M
- **FP213:** "The Blue Green Bank (BGB)" Country: Barbados / AE: PCA / GCF funding: 15.5M
- **SAP026:** "Extended Community Climate Change Project-Drought (ECCCP-Drought)" / Country: Bangladesh / AE: PKSF / GCF funding: 25.0M
- **SAP027:** "Solomon Islands Knowledge-ActionSustainability for Resilient Villages (SOLKAS) Project" / Country: Solomon Islands / AE: SCA / GCF funding: 25.0M
- **SAP028:** "Women-Adapt: Enhancing the climate change adaptive capacity of smallholder farmer communities in the Poro Region, focusing on vulnerable women and youth" / Country: Côte d'Ivoire / AE: WFP / GCF funding: 9.0M
- **SAP029:** "Ecosystem-based Adaptation (EbA) for Reducing Community Vulnerability to Climate Change in Northern Pacific Small Island Developing States (SIDS)" / Countries: Marshall Islands, Micronesia (Federated States of), Palau / AE: MCT / GCF funding: 8.9M

Consideration of accreditation proposal

Since the GCF receives continuous requests for new accreditations and faces an increasing number of re-accreditations, the Board engaged in a substantial discussion on accreditation proposals. Several Board Members raised concerns about the available capacity to process the large number of upcoming accreditations, some also flagged the need to better take into account the varying circumstance of entities when imposing Paris alignment conditions.

Since B.35, the Secretariat and the Accreditation Panel processed four re-accreditations to the Board. All four entities up for re-accreditation, including the Banque Ouest Africaine de Développement (West African Development Bank, BOAD), Corporación Andina de

Fomento (CAF), Fundación Avina and Agence Française de Développement (AFD) were re-accredited. However, a lengthy discussion emerged in response to the suggestion by some Board members to include text taking note of the efforts of the accredited entities to "advance the purpose of the GCF, including through strategies and statements in the context of the UNFCCC". Generally, all Board Members agreed to reflect on the entities' progress towards the GCF objectives. However, some Board Members felt uncomfortable with including such language from the floor instead of proposing and assessing it in advance of the meeting. It was finally agreed that the process of including additional text at B.36 does not represent a precedent for future re-accreditations. Thus the Board was able to adopt the decision.

The following four entities were re-accredited by the Board:

- **RAPL035:** Banque Ouest Africaine de Développement (West African Development Bank, BOAD) / regional direct access, West Africa
- **RAPL011:** Corporación Andina de Fomento (CAF) / regional direct access, Latin America and the Caribbean
- **RAPL047:** Fundación Avina / regional direct access, Latin America and the Caribbean
- **RAPL015:** Agence Française de Développement (AFD) / international access

The following four entities were newly accredited by the Board:

- **APL118:** Corporación Nacional para el Desarollo (CND) / direct access, Uruguay
- **APL119:** Development Bank of Jamaica Limited (DBJ) / direct access, Jamaica
- **APL120:** DFCC Bank PLC (DFCC Bank) / direct access, Sri Lanka
- **APL121:** responsAbility Investments AG (responsAbility) / international access

Updated policy for contributions

The Secretariat introduced the process and most recent version of the Updated Policy for Contributions. On process, they reminded the Board of the decisions and guidance agreed by the Board in relation to the policy, as well as of the three meetings where the policy was discussed, including the second consultation meeting held in April 2023. On the content of the second consultation meeting, the Secretariat highlighted three points: sources of funding, treatment of non-confirmation of pledges and non-payments, and the calculation of grant equivalence of loan contributions, which were discussed intensively. On the policy itself, the recommendations from the replenishment consultation process were shared with the Board members and the Secretariat received comments from two Board members on issues such as minimum contributions, treatment of non-confirmed pledges and non-payments, and the need for more stable, predictable and ambitious commitment authority. After further consultation and guidance, the revised draft policy, reflecting the comments received from the Board consultation process, was submitted to the Board. Two scenarios were included for minimal contributions, while stronger language was added on the reporting of the non-confirmed pledges and non-payments. Finally, a new paragraph was added to suggest a future consideration of the management of non-confirmation and non-payment and the management of predictable commitment authority and programming volume.

Some board members expressed uneasiness concerning the revised document as presented and emphasised they would not support the proposed draft. Of particular concern were the changes introduced around minimum contributions, and the introduction of an enforcement mechanism in the case of non-confirmed pledges or non-payment of contributions

On the introduction of a minimum contribution threshold, many expressed that such an

approach would not be an incentive to contribute to the Fund but a deterrent for new potential contributors, and would exclude small contributors. Members requested to keep the original text, which did not introduce a minimum contribution.
On the enforcement mechanism, members highlighted the challenges of enforcement in this context. They also pointed out that contributors are subjected to their domestic budgetary and legislative practices and requirements, and that only a sovereign state can determine its financial contributors to the GCF. They mentioned that such a mechanism could make potential contributors hesitate to contribute, which would negatively affect the GCF resource mobilisation.

Board members from the group that proposed the changes explained their rationale. They made a link to the need for a risk management statement that addresses the impact of non-contributions on the programming capacity of the Fund. They also highlighted the need for a policy and an approach to deal with non-converted pledges and for a stable annual commitment authority. They explained that a minimum contribution is an incentive to increase contributions from developed countries. They proposed to include language requesting the Secretariat to present a plan for the financial management of the commitment authority for the GCF 2 programming period for consideration by the Board at the next Board meeting.

A couple of Board members also mentioned the potential contributions from private entities, philanthropic foundations and alternative sources, which may require a new policy. They asked the Secretariat to explain under what circumstances a new policy would be required and to further discuss the policy for these new sources.

After further consultations and work, a new draft was circulated. It included, as part of the decision text, a request for the Secretariat to present a plan for the financial management of the Funds commitment authority, as well as to present to the Board potential measures to manage non-confirmed pledges and non-payment of contributions. It excluded minimum contributions and the enforcement mechanisms. The Board adopted this new draft.

Readiness and Preparatory Support Programme

Over the course of the last year, the GCF secretariat has gathered key feedback on the revision of the Readiness and Preparatory Support Programme by the IEU and through consultations with the GCF Board and additional stakeholders. The suggested revision covers mainly an update of four key modalities, including longer term planning by allowing country support of up to USD 4 million over four years, subsequent allocation for additional NAP development of USD 3 million per country, a new LDC and SIDS funding modality providing up to USD 80k per year to NDAs and focal points to cover human resource capacity for coordination and a new DAE support modality with up to USD 1 million over four years to provide technical assistance for developing and implementing projects and programmes.

The Board appreciated the Secretariat’s efforts and engaged in a discussion on how to further improve the Readiness framework. Some Board members raised the concern that the envisaged operationalization timeline for the new modalities seems not sufficiently ambitious and urged the need to prioritise local experts for implementing Readiness activities. Others had doubts regarding complementarity with either GCF internal processes such as the PPF or with external support programmes beyond the GCF. One Board member suggested integrating the PPF as one funding window of the Readiness framework. Some Board members also stressed the need for improved monitoring and evaluation of Readiness impacts. Consensus was on the need to align the draft revision properly with the approved USP and reflect the initial results of the IEU evaluation. Due to the variety of received comments, the Board finally emphasised the need to further improve the document and allow the new Executive Director and her team to enhance the draft. Thus, the co-chairs and the secretariat suggested moving the decision on the revised document including an updated workplan and budget to B.37 which was finally accepted by the Board.

Operating modalities of the Project Preparation Facility (PPF)

So far, the PPF has supported activities with 42 million USD that resulted in 19 approved funding proposals. At B.33, the Board requested the Secretariat to consult with the Board, NDAs, AEs and active observers about a PPF reform. The suggested PPF revisions comprise of expanding the list of activities that could be supported such as stakeholder engagement plans or an assessment of climate impact potential, an expansion of PPF to support requests from entities which have submitted a complete application for the Project-specific Assessment Approach, in particular subnational, national and regional entities; and a creation of partnerships and a knowledge platform that would seek to formalise feedback and learning loops from the PPF experience, and enable peer learning particularly between DAEs.

Several Board Members welcomed the envisaged reforms but also stressed the need to address remaining gaps of the PPF. This includes particularly an enhanced interface between the Readiness framework and the PPF, stronger DAE support and prioritisation and coherence with the approved USP. While some Board members flagged the need to take into account funding limitations for regional PPF activities, particularly by DAEs in LDCs, others raised the question whether simplified procedures might be more effective than spending additional funds to cover the increased complexity by PPF activities. Finally, the Board decided to postpone the decision to B.37, in line with the revised Readiness and Preparatory Support Programme. This allows the Secretariat to incorporate the Boards' feedback, further improve complementarity between the Readiness framework and PPF and align the PPF with the adopted USP.

Terms of reference for a feasibility study on options for a GCF regional presence

The GCF updated strategic plan (USP) requested the Secretariat to assess needs and options for establishing a GCF regional presence that would allow for project development and monitoring of portfolio implementation. In light of the USP, a study was commissioned, which recommended a model of regional presence. To further advance and inform a decision regarding regional presence of the GCF, Terms of Reference (ToRs) have been developed for the Board's consideration at B.36 for a needs and feasibility study to further examine respective options. According to the ToRs that study would focus on three options (among others), namely regional outposts with centralised strategic guidance, regional presence through networks of partner organisations, and regional offices that would act under decentralised programming and decision-making. Furthermore, the study will benchmark practices of other organisations and provide a rank list of options, considering a set of evaluation criteria. These criteria are: effectiveness, efficiency, minimise complexity, promote collaboration, minimise the costs of implementation, field feedback.

The board members generally welcomed the ToRs, which were approved after an intense discussion. As a result, the secretariat is trusted to take several additional aspects into account when commissioning the study. For instance, it was noted that the study should provide a detailed cost-benefit analysis instead of assessing the option's feasibility. Also, several representatives commented that regional outposts of the GCF might not be sufficient, as some would like to see in-country presence and support. Moreover, some board members recognised that due to different vulnerabilities and needs, a one fits all solution has its limitations. Instead, the study should consider recommending different options for different regions.

www.cfas.info

GERMANWATCH