

CLIMATE INVESTMENT FUNDS

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November 7, 2013

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington D.C.
October 29, 2013

UPDATE ON THE WORK OF THE BOARD OF THE GREEN CLIMATE FUND

I. INTRODUCTION

1. At the joint meeting of the CTF and SCF Trust Fund Committees in November 2012, the joint meeting considered a document entitled, *CIF and the Emerging Financial Architecture for Climate Change* (document CTF-SCF/TFC.9/10/Rev.1), and the meeting:

- a) recognized and welcomed the progress that is being made on climate finance under the UNFCCC, including under the Standing Committee on Finance; and under the Green Climate Fund (GCF);
- b) requested the CIF partners, including countries, MDBs, the CIF Administrative Unit and observers, to share lessons and experiences from the CIF with those deliberating on climate finance within the UNFCCC and the GCF;
- c) agreed to monitor developments in the elaboration of the operational procedures and modalities of the GCF so as to determine if and when it is timely and appropriate in the joint CTF-SCF meeting to give in-depth consideration to operational, financial and legal issues associated with the CIF sunset clause;
- d) agreed that the CIF should play its part in ensuring the continuity of climate finance provided to eligible recipient countries while the GCF's structures are put in place and requests the CIF Administrative Unit to provide the joint meeting with updates relevant to this issue; and
- e) encouraged the CIF Administrative Unit to critically scrutinize the comparative advantage of the CIF to work on the proposals contained in the annex to the document, bearing in mind options for how they might be implemented.

2. The purpose of this document is to provide the joint meeting with an update on the work that has been carried out by the Board of the GCF since November 2012.¹

3. In 2013, the GCF Board organized its work along the following cluster of issues:

- a) business model framework,
- b) establishment of the independent secretariat of the Fund,
- c) readiness and preparatory support, and
- d) resource mobilization.

¹ The information in this note may be of relevance to the CIF Committees in their consideration of the proposals regarding the approaches and criteria for considering potential new countries.

II. PROGRESS ON GCF BUSINESS MODEL FRAMEWORK

4. With an aim to finalize the business model of the fund, the Board has discussed and agreed on the following elements for further preparation of detailed operational policies and procedures.

5. *Objectives, results, performance indicators and results management framework:* Initial result areas for mitigation and adaptation and initial performance indicators were agreed by the Board. The secretariat will present a working document to the Board at its first meeting in 2014 with additional result areas and indicators for adaptation activities. It will further develop for consideration by the Board at its second meeting in 2014, a detailed operational results management framework.

6. *Country Ownership*, including:

- a) role of national designated entities: The Board decided on the role of national designated authority and agreed that countries should have flexibility in relation to the location, structure, operation and governance of NDAs or focal points; and
- b) no-objection procedure for funding proposals: There was initial discussion by the Board on a no-objection procedure for funding proposals to be implemented by sub-national, national, regional and international implementing entities. The secretariat will present a revised document on countries' transparent no-objection procedure to the Board at its first meeting in 2014.

7. *Access modalities:* The Board decided on the guiding principles to develop accreditation criteria, fiduciary standards and environment and social safeguards. These principles are broadly based on the existing best practices adopted by the GEF, the Adaptation Fund (AF) and EU DEVCO. A team of four Board members will oversee the development by the secretariat of the guiding framework for the Fund's accreditation process. This team will also include four senior international experts and will oversee:

- a) the development of the Fund's own environment and social safeguards and fiduciary principles and standards;
- b) the criteria and application procedures for the accreditation of intermediaries and implementing entities;
- c) governance and organizational approach for the Fund's accreditation process;
- d) an assessment of institutions accredited by other funds; and
- e) additional modalities that further enhance direct access.

8. The accreditation process could start by the second Board meeting of 2014, whereby the Board could decide to accredit existing implementing entities of the GEF, Adaptation Fund and EU DEVCO as implementing entities of the GCF, and further accreditations would be supported by an Independent Technical Advisory Function of the secretariat.

9. *Financial inputs:* The types of financial inputs that can be received by the fund during its initial phase of implementation will include grants from public and private sources, and paid-in capital contributions and concessional loans from public sources. The secretariat will prepare a document for understanding and defining alternative sources of financial inputs for consideration by the Board at its second meeting in 2014.

10. *Financial instruments:* Guiding principles for providing grants and concessional loans, in the initial operational phase of the fund, include the following:

- a) grant elements should be tailored to incremental cost or the risk premium required to make the investment viable, or to cover specific activities such as technical assistance;
- b) seeking the right level of concessionality, so as not to displace investments that would otherwise have occurred, including for private sector investment;
- c) levels of indebtedness capacity of the recipient should be taken into account so as not to encourage excessive indebtedness;
- d) structure terms on a case-by-case basis to address specific barriers;
- e) avoid crowding out commercial financing;
- f) leveraging of other financing, including public and private financing, seeking to maximize leverage in the case of private financing;
- g) promote long-term financial sustainability; and
- h) apply due diligence to assess the risk to the investment.

11. The secretariat will develop terms and conditions for grants and concessional loans for Board consideration at its first meeting in 2014.

12. *Allocation system:* Principles for the basis for the design of an initial allocation system of the fund include a theme/activity-based approach, balance between mitigation and adaptation, and funding for private sector facility. In relation to adaptation, resources will be allocated based on an activity's potential to adapt to the impacts of climate change in the context of promoting sustainable development and a paradigm shift, and the urgent and immediate needs of vulnerable countries, in particular LDCs, SIDS and African States. In relation to mitigation, resources will be allocated based on the ability of a proposed activity to demonstrate its potential to limit and reduce greenhouse gas emissions in the context of promoting a paradigm shift. In relation to the private sector facility, resources will be allocated based on an activity's potential to contribute to paradigm shift; to directly and indirectly finance private sector mitigation and adaptation; and to promote the participation of private sector actors in developing countries. The secretariat will present a detailed resource allocation system for Board approval at its second meeting in 2014.

13. *Private sector facility:* The Board agreed on the institutional structure, initial financial instruments and operational modalities for the private sector facility of the fund, including that the facility will address barriers to private sector investment in adaptation and mitigation activities, such as market failures, insufficient capacity and lack of awareness, in order to mobilize private capital and expertise at scale in accordance with national plans and priorities. The Board further decided that the facility will seek efficient solutions that minimize market distortions and moral hazard in the use of the fund's resources by using, *inter alia*, competitive processes. The Board also established a private sector advisory group to advise the Board on fund-wide engagement with the private sector and modalities to that end.

14. *Risk management framework and investment framework:* Agreement on the terms of reference for risk management and investment management committees of the Board. These will, among other tasks, oversee the Secretariat's development of a financial risk management and investment framework for Board approval by the second Board meeting of 2014.

III. ESTABLISHMENT OF THE INDEPENDENT SECRETARIAT OF THE FUND

15. *Selection of the Executive Director:* Based on the recommendations of the Executive Director Selection Committee, the Board has selected and appointed Ms. Hela Cheikhrouhou as the first executive director of the independent secretariat of the GCF. Ms. Cheikhrouhou took office in September 2013.

16. *Administrative policies and procedures:* The Board has decided that the GCF will follow a hybrid approach to implementation of its administrative policies, whereby the administrative policies of the Asian Development Bank form the basis for the GCF's administrative policies, and the privileges and immunities for GCF staff will be established with reference to those provided to the International Fund for Agricultural Development and other international financial institutions.

17. *Organization and structure of the secretariat:* The Board established the independent secretariat at its October 2013 meeting and decided that it should be organized and structured around thematic clusters with a strong focus on support for country programming. An initial staffing structure, as proposed by the Executive Director, was also agreed by the Board. It is anticipated that the formal opening ceremony of the headquarters for the independent secretariat will be held in December 2013.

IV. READINESS AND PREPARATORY SUPPORT

18. The fund will provide readiness and preparatory support to enable the preparation of country programs providing for low-emission, climate-resilient development strategies or plans; support and strengthen in-country, fund-related institutional capacities, including for country coordination and multi-stakeholder consultation mechanisms; and enable implementing entities and intermediaries to meet the fund's fiduciary principles and standards, and environmental and social safeguards, in order to directly access the fund. The Secretariat was requested to mobilize resources for these activities and present a detailed program of work for provision of readiness and preparatory support and a system for determining the allocation of resources at the February 2014 Board meeting.

V. RESOURCE MOBILIZATION

19. Resource mobilization for the GCF is to commence with an initial resource mobilization process and transition subsequently to a formal replenishment process. The Board had identified the following essential requirements for the fund to receive, manage, program and disburse financial resources as a trigger for an initial resource mobilization session within three months after these requirements have been met as decided by the Board:

- a) initial fund and secretariat structure, including administrative policies, best practice fiduciary principles and standards, environmental and social safeguards;
- b) financial risk management and investment frameworks;
- c) initial results areas, core performance indicators and initial results management framework;
- d) accreditation procedures of implementing entities and intermediaries;
- e) policies and procedures for initial resource allocation, including results-based approaches;
- f) initial proposal approval process, including criteria for program and project funding;
- g) initial modalities for operation of the Fund's mitigation and adaptation windows and private sector facility; and
- h) terms of reference for independent evaluation and integrity units, and the independent redress mechanisms.

20. The Board will prioritize its work on these matters at its first two meetings in 2014.

VI. SHARING OF LESSONS LEARNT THROUGH THE CIF PARTNERSHIP

21. The CIF partners, including countries, MDBs, the CIF Administrative Unit and observers have utilized both formal and informal channels to share lessons and experiences from the CIF with those deliberating on climate finance within the UNFCCC and the GCF. The experience of the CIF on the following issues have been highlighted by GCF Board members as particularly useful:

- a) programmatic approaches and mechanisms to enhance country ownership;
- b) receipt of a variety of financial inputs by the fund, including grants, paid-in capital contribution and concessional loans;
- c) use of risk management framework to manage risk, especially financial risk due to use of non-grant based financial instruments;

- d) use of innovative financial instruments to mobilize additional public and private investments, including guarantees, equity and local currency lending;
- e) use of specific criteria for allocation, like set asides;
- f) use of various modalities, including dedicated private sector program, for the design of GCF's private sector facility;
- g) equitable governance structure; and
- h) active civil society and private sector observers

VII. VII. 2014 MEETINGS OF THE GCF BOARD

22. The GCF Board is scheduled to meet 3 times in calendar year 2014². The following meetings are scheduled:

- a) Sixth Board meeting, February 19–21, 2014
- b) Seventh Board meeting, May 21–23, 2014
- c) Eighth Board meeting, September 30–October 2, 2014

² http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF_B05_20_Work_plan_of_the_Board_fin_20131004.pdf