10th meeting of the Green Climate Fund
6-9 July 2015
Songdo, South Korea

Event Report

Outcome note from the 10th meeting of the Green Climate Fund (GCF)

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Introduction

The 10th Board Meeting (BM) of the Green Climate Fund (GCF) took place in Songdo, South Korea from 6th to 9th July 2015. This is the second last GCF BM for the Fund to move towards its first funding decision, which arguably is the most important symbol of its full operationalization before the Paris Conference of Parties (COP) in December. Nevertheless, this BM has proved to be more critical – among other key decisions that shape the operation of the Fund, new concessional terms proposed for the public sector is particularly controversial, which was considered as a game changer of the Fund's fundamental principles.

In the following sections of this report, key outcomes of this BM are outlined together with different stances of Board Members, together with some sparkling interventions from the CSO. Discussions about administrative procedures are less elaborated. Impressions from my observation are provided in the last section.

On Resource Mobilization, Encashment, and Replenishment

By the time of this BM, the GCF has successfully mobilized USD 10.2 billion pledges. It reached its effectiveness on 21st May 2015 with the conversion of pledges from Japan. According to GCF's weekly updated pledge tracker, 62% of total pledges have been converted before the meeting. In other words, $5.8 billion has been signed in contribution agreements and arrangements, which will be paid in cash or promissory notes over time. The actual cash available for disbursement in 2015 is expected to be $600 million, while the level at which funding decisions can be taken by the Board is up to $1.4 billion by the end of 2015.

During the discussion, concerns were raised by developing countries on the scarcity of cash available. South Africa and Zambia highlight that the Board must manage the differential between proposals received and funds available. The CSO group also echoes that 'you can't have a small piece of cloth covering a large level of ambition.' Pakistan further adds that the limited funding has affected the Fund's stance on financial instruments, as grants are now considered on exceptional basis, which is unacceptable for developing countries. Many developing countries urge the Secretariat to report the proportion of the current portfolio available in grants versus loans, and also ask the Board to reaffirm the Board's full authority on funding utilization once the contribution is made to the Fund.

Notably, South Africa asks when private sector contributions flow into the Fund whether it will affect the 60% trigger for replenishment. The Trustee reflects that encashment process allows certain flexibility but developing countries argue that certainty is needed, especially regarding if

Grant Elements/Concessionality Equation:

- Grant: 100% grant element
- High concessionality: 66% grant element
- Medium concessionality: 49% grant element
- Low concessionality: 33% grant element

The application of concessionality principles - Project based Parameters:

- Concessionality leverage: capacity of generating reflows of fund of the project (mitigation>>adaptation)

Level of income/indebtedness: capacity of the country of repaying the loan

Vulnerability: vulnerability of community – most vulnerable community in middle income country would still be entitled for grants replenishment will happen in 2017. Saudi Arabia suggests penalty measures for missing encashment schedule.

Milestones:

- May 21, 58.6% contribution – came to effective,
- by 26 June 62.2% contribution conversion, $600 million cash available
- the Board will be able to make funding decisions up to $1.4 billion by the end of 2015.

Key players:

- NO.1 pledge contributor – Japan, NO.1 Pledge per capita: Sweden

Projections based on signed agreement of encashment schedule:

- 2016: additional $1.3 billion
- 2017: additional $1.3 billion
- 2018: additional $1 billion

The Co-Chair agrees that the issue of replenishment will be discussed in detail at BM.11 and requests the Secretariat to breakdown current resource portfolio into grants and loans and get back to the Board in the next meeting.

On Terms of Concessionality for Public Sectors:

In the GCF's Governing Instrument (GI), it is agreed that the Fund will use grants, loans, and other financial instrument for fund disbursement. Ay the BM.3, the Board also agreed that grant elements should be tailored to incremental cost or risk premium and seeking the right level of concessionality to not displace investments which otherwise might have occurred. However, just before the BM.10, the Secretariat released a paper that proposes a new way of differentiating grants from concessional loans and principles for deciding concessional level for each country/project:

It was clear that both developed countries and developing countries oppose this framework. Although developed countries advocated the importance of using limited resources effectively and making loans a norm for profitable projects, they agreed with developing countries that the needs of LDCs/SIDS/African states should be highlighted and vulnerability should be a veto principle when applying the framework.

Developing countries expressed strong sentiments against this paper, especially regarding:

- This proposed framework makes the income level to override the needs of developing countries and overemphasizes financial reflow, making it no different from other MDBs.
- The vulnerability of LDC/SDIS/African States is largely missing from the current formula. It should be added as the fourth parameter.
- The use of income level/indebtedness is a terrible distortion of the Fund's fundamental mandate. Many developing countries are heavily in debts but extremely vulnerable. Also many SIDS countries are middle-income countries but extremely vulnerable. Linking income level to the concessionality will undermine their access to grants significantly for non-climate reasons.
- Strongly oppose the use of the MDB's language of LIEs (lower income economies). Must adopt UNFCC language of LDCs/SDIS/African States.

- Country ownership is compromised – it should up to the county to choose whether it prefer grants or loans. The Secretariat can provide guidance on requirements and options for each instrument but not make the choice for the country.
- Key definition on 'public sector', 'small community', and 'vulnerable community' are missing. Clarification is needed regarding on what basis the grant element equation is made.
- The emphasis on concessional loans severely risks the allocation balance between adaptation and mitigation, as adaptation is heavily grant oriented.
- Uncomfortable that Fund seems to prioritize financial instruments leverage rather than replenishment of contributions as the way to address resource scarcity.

The Board agreed that decisions on financial instruments for projects will be made on case-by-case basis, fully taking into consideration of country preference. It requested the Secretariat to revise the paper. The specific concessionality framework and its application guideline will be discussed on BM. 14.

On Readiness and Preparatory Programme

The readiness programme is a unique feature of the GCF's country driven operational approach. It provides financial and technical support to developing countries, helping them build up necessary institutional strength for sound direct access performance. By the BM.10, the Secretariat has received 74 readiness requests from NDAs/FPs, most of which are for readiness activity 1 and 2 on NDA strengthening and strategic planning. The readiness committee has developed a standardized activity package for these two areas. Seven countries are about to receive readiness support, including Ethiopia, Micronesia, Dominican Republic, Vanuatu, Comoros, Rwanda, and Thailand. All but Thailand is either LDCs or SIDS. The first disbursement of $ 20,000 has been channeled to Mali.

Drawing from personal experience, many board members praised how regional readiness workshops have contributed to information sharing and lessons exchange. Nevertheless, developing countries expressed concerns over GCF's partnering with other development agencies in delivering readiness support. Clear guideline is needed to ensure country ownership of the readiness programme and CSO groups are well engaged in the process. US highlighted the importance of having readiness materials translated into necessary languages such as French and Spanish, and then gradually to all UN languages.

The CSO group suggested that the pace at which the readiness problem is being delivered is left much to be improved. At this point, only $20,000 was disbursed out of $15 million projected in the budget. More transparency is desired in terms of the plan and the timeline for the remaining 65 requests for readiness. It also concerned about the fact that in some existing readiness programmes little outreach efforts were made to ensure wider stakeholder participation.

On Accreditation:

By the BM 10, out of 48 applications submitted (exclude 7 accredited entities), 13 applicants have concluded accreditation stage I and II and were recommended by the Accreditation Panel. After three long executive sessions, in the last minute the Board decided to accredit all 13 new implementing entities (IEs). The new cohort of accredited IEs include 3 National Implementing Entities (NIEs), 2 Regional Implementing Entities (RIEs), 2 Private Entities, and 6 Multilateral Implementing Entities (MIEs)/Non-Profitable Organizations. They are:

- Africa Finance Corporation (AFC)
- Agence Française de Développement (AFD),
- Caribbean Community Climate Change Centre (CCCCC),
- Conservation International Foundation (CI),
- Corporación Andina de Fomento (CAF),

- Deutsche Bank Aktiengesellschaft,
- Environmental Investment Fund of Namibia (EIF),
- European Bank for Reconstruction and Development (EBRD),
- Inter-American Development Bank (IDB),
- International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), together known as the World Bank
- Ministry of Natural Resources of Rwanda (MINIRENA),
- National Bank for Agriculture and Rural Development (NABARD),
- United Nations Environment Programme (UNEP),

Together with 7 accredited IEs in the first round of accreditation, the GCF now has 20 accredited IEs. The second batch of entities is more balanced in terms of types/geography/risk level/project size/intended activities etc. compared with the first batch. Nine of them applied under fast track accreditation. Eight have capacity to conduct large projects, while seven have capacity to conduct Category A risk level projects.

	First Round	Second Round
NIEs (5)	Profonanpe (Peru), CSE (Senegal)	MINIRENA (Rwanda), NABARD (India), EIF (Namibia)
RIEs (3)	SPREP (Regional Pacific)	CCCCC, CAF
MIEs/NPOs (8)	ADB, KfW, UNDP	CI, IBRD-IDA, UNEP, EBRD, IDB,
Private (3)	Acumen	Deutsche Bank AG, AFD

Due to the executive session setting, the Board Members' stance towards each IE is less clear. However the length of three executive sessions infers that it was a hard decision with many disputes. In the open discussion, the Board raised its concern about the breakdown of accredited entities – 8 out of 13 are from international access, most of which are financial intermediaries not implementing entities. In particular, Saudi pointed out that the Board should evaluate not only the number of the entities accredited, but also the volume of the money channeled to each type of IEs, which is predominately channeled to MIEs currently.

The CSO group expressed strong opposition towards the accreditation decision, criticizing that the process lacks of transparency, some accredited IEs have very unsatisfactory track records on fossil fuels and human rights, and the stringency of the fiduciary and environmental/social assessment for individual applicant is compromised. It blamed the Board to allow operational pressure (for Paris) overriding accreditation standards.

The Co-Chair responded that the accreditation is merely a start of a systemic monitoring and evaluation process that will ensure all accredited IEs stay complied with accreditation standards. The US pointed out that the GCF should allow time and space for IEs to upgrade their capacity and enable the learning curve, and that accreditation of MIEs is not a negative signal as institutions with large networks may have greater capacity to reach the most vulnerable communities than national entities.

On Country Ownership

The issue of country ownership was raised in a wide range of topics – it was discussed on sessions of monitoring & accountability, enhanced direct access, pilot development, investment framework, and concessionality terms. The Board repeatedly emphasized that the country-driven approach is a defining identity of the GCF and hence must be consistently practiced throughout all operational procedures.

It is commonly agreed across the Board that NDAs/Focal Points are central players for country ownership. However an explicit guidance should be provided for them to understand how the GCF is determined to make it an agent of change at a broader level, and what roles NDAs/Focal Points have in that ambition. It is also crucial to differentiate roles of the Secretariat, accredited entities, and the NDA/FP to avoid grey area.

In particular, South Africa, along with other developing countries, advocated that NDAs/FPs need to be fully involved/consulted in project pipeline development. Germany further added that NDAs/FPs are uniquely placed to provide feedbacks on the Fund's impact in terms of to what extent its initiatives and projects add values to the counties' national development priorities.

M&A basis:

- Fiduciary Standards,
- Environmental and Social Safeguards,
- Gender Polices

Key principle:

- Participatory monitoring
- Providing remedies through a building capacity approach

Monitoring accreditation compliance:

- Annual self-assessment
- Mid-term review – Ad Hoc check by the Secretariat
- 5th year final assessment before accreditation renew

Three levels of monitoring:

- First level: executing by IEs,
- Second level: by the Secretariat to ensure the IEs is following its own M&E framework, esp ESM Plans.
- AE performance scorecard

Guidance needed from the Board on:

- Local stakeholder participation in monitoring
- NDA's role
- Effective incentives for AE's performance

However, the CSO group argued that country ownership should go broader than NDAs/FPs and include multi stakeholder engagement at local level. This paper didn't address this aspect at all. The existing Board decisions (particularly from the 8th Board meeting) multi-stakeholder engagement and country coordination are merely presented as "best practice options". This is a very serious shortcoming that must be remedied. Multi-stakeholder engagement and country coordination must both be made obligatory.

The Co-Chair requested the Secretariat to develop a draft guideline on the best practices of enhancing country ownership across the Fund's activities, complementing the omitted parts in the current paper.

On Monitoring and Accountability of Accredited Entities

At its BM.8, the Board requested the Secretariat to develop an initial Monitoring and Accountability (M&A) Framework regarding the suspension and cancellation of accreditation, and further requested the Secretariat to include in the draft framework a proposal on the potential fixed term of the accreditation decisions at the BM. 9. The progress report on the M&A framework was submitted to the Board at this BM. The snapshot of the framework is as shown in following box.

The Board supports the five-year term proposed for the accreditation and reaffirmed that the renewal of accreditation is up to Board's decision. Germany pointed out that the M&A framework needs to be linked with the learning framework to ensure continuous improvement of the Fund. The current paper also needs robust and concrete guidance on how to implement participatory monitoring on the ground, especially in terms of the role of NDAs and multi- stakeholder engagement.

Amongst others, Zambia emphasized the harmonization of multi-layer similar M&A activities conducted by the NDA, IE, and the Fund. He also emphasized that the role of NDA on no-objection need to strengthened in order to ensure projects going in line with national priorities. In addition, The CSO group highlighted the importance of comparing findings from different levels of independent reviews and flags any inconsistencies.

The Board requested the Secretariat to further develop the framework for the decision to be made at the BM.11.

On Enhanced Direct Access Modality

Under the vision of promoting country ownership and facilitating national capacity, the GCF actively explores approach for the Enhanced Direct Access (EDA) modality, where the authority of funding decisions devolved from the GCF to national entities, thereby moving a step forward from the direct access modality that grants national actors authorities on monitoring and implementing GCF funded projects. By the BM.10, the GCF has developed 10 pilots for $ 200 millions under the EDA window.

The Board welcomed the new paper on EDA and recognized that the EDA will remarkably strengthen country ownership. However, it requested the Secretariat to reintroduce SMEs into the paper as one of the primary players for the EDA, and seek to establish a bilateral interaction between EDA and the Private Sector Facility (PSF) on private actor engagement.

Besides private sectors, the role of NDAs/FPs is also essential, especially regarding performance oversight and pilot development. This paper fails to explicitly explain the role of NDAs, their oversight responsibilities, and standard decision-making process on pilot endorsement. Concerns were raised also on the accreditation process for EDA entities. Further clarification is needed especially on whether the EDA is in fact a fast track accreditation along with existing fast track channels, and if same accreditation standards will be applied.

On monitoring the EDA pilot, UK and Germany suggested a shorter reporting and review cycle than what is proposed in the paper. The initial review to the pilot project should be 12 month after its launching. EDA entities should submit annual reports every year and conduct effect assessment every two years. Germany also proposed stronger language on the learning objective of EDA entities, which needs to be highlighted in the TOR to ensure lesson learned for scaling up. Likewise developing countries, the CSO group emphasized multi-stakeholder engagement and geographic balance of pilot distribution.

A group of Board Members together with the independent technical panel revised the paper based on the discussion. The Board adopted the revised version in the last day and requested the Secretariat to circulate all pilot program proposals to the Board for consideration no later than 21 days before its 12th BM.

On Investment Framework: Applying scale in the assessment of funding proposals

The Investment Framework is always one of the most important agenda items at BM. In BM.9, the Board decided to use a scale of low/medium/high in order to assess the relative expected performance of a subset of projects and programmes based on the initial investment criteria. The scaling pilot is an exercise by which to discern whether a scaling approach results in quicker and more effective decisions compared to a non-scaling approach. Under the request of the Board, the Investment Committee prepared a paper to recommend to which subset of proposals this assessment will be applied. It also aims helping to determine the form of scaling that is most appropriate for project and programme proposals.

General Principles:	The scaling pilot should be: • Simple and practical, • Considering the capacity constraints of accredited entities and the Secretariat;	
Approaches to define project size (in USD m)	I: Based on total project size Micro: ≤ 10, Small: 10 < x ≤ 50 Medium: 50<x≤250, Large: ≥250	II: Based on GCF Funding amount Micro: ≤ 10, Small: 10 < x ≤ 50 Medium: 50<x≤250, Large: ≥250
Options for selecting the subset of proposals for the pilot	Option 1: Total project size above US$ 50 million	
	Option 2: GCF funding amount above US$ 50 million	
	Option 3: Including a portion of small-sized proposals in the scaling pilot	
	3a: plus all international access	3b: plus 1/3 of small sized proposals
	Option 4: Including half of proposals within some categories of project size in the scaling pilot	
	4a: ½ for all category	4b: ½ for medium and large

Regarding defining the project size, it was generally agreed that Approach 1 would best fit the purpose because it is A) in line with the accreditation mechanism when assess the project risk level, B). concerning terms of concessionality – if the GCF splits its funding amount from other funding sources when defining project size it would have to also split its decision on the project leverage level when deciding concessionality of financial instruments for other sources. It will go against the principle of being ‘simple and practical’. In terms of options, led by the UK and Australia, most board members prefer option 4-A based on principles of maximizing the learning for the GCF and bringing broadest projects types, sectors, and geographic location without disadvantaging any part.

Applying scaling only to comparable projects in comparable circumstance emerged to be a strong consensus amongst both board members and the CSO group. It was pointed out that comparing mitigation projects with adaptation projects whose nature of leveraging financing varies makes little sense. Similar principles on comparability should also apply to financial instruments – Egypt pointed out that when two projects with same total costs but different financial instruments (grant vs. loans) are compared, the choice of defining project size is less relevant. A more essential question would be how to balance grant projects in scaling if the Fund discriminately prefers loans.

The Board made the decision to adopt Approach I and option 4-a as scaling pilot guidelines, adding paragraphs on comparability. In addition, four new candidates for the Independent Technical Panel were approved. One of them is Mr. Ahsan Uddin Ahmed from Bangladesh.

On Recommendations from the Private Sector Advisory Group to the Board

After its third meeting held on 18-19 May in Paris, the Private Sector Advisory Group (PSAG) submitted this recommendation paper to the Board on fund-wide engagement of private actors and modalities. This recommendation aims to propose ways that mobilize resources at scale from private sector and working with local private entities, including Small and Medium-Sized Enterprises (SMEs). In particular, it proposes Request for Proposals (RFP) a proactive approach to mobilize resources and solicit specific sorts of ideas, in comparison to a reactive approach of accepting proposals on an ad hoc basis.

The Board recognized that this paper shows the PSAG is evolving with more actionable recommendations. It also emphasized the uniqueness of the GCF-PSF and hence its remarkable significance. All board members generally agreed that RFP would send signals to private actors that the GCF is now open for business. Developing countries were happy to see that SMEs are centrally placed in the proposal, as SMEs are the 'engine of growth and employment in the developing world'. However, it was also reflected that SMEs tend to face challenges in producing full business proposals in quality due to capacity constraints. Grants and technical assistance should be provided accordingly. US then expressed support to the RFP approach but also concerns about costs involved with it.

Some countries such as the UK supported the idea of outsourcing PSF operations to external experts in order to alleviate the burden on the Board, while Zambia argued that it is important to ensure ownership is at least strongly embedded within the Secretariat. Similar to the EDA discussion, concerns on country ownership were raised in terms of finding a balance between private sector and NDAs/FPs. Saudi Arabia emphasized to strengthen NDA's role in no-rejection decision to private proposals in order to guarantee consistence with national priorities.

The Board adopted the PSAG recommendations with some slight revisions from the discussion. It decided to allocate up to $200 million to MSMEs programmes over time and up to $500 million for resource mobilizing programme. The RFP approach will complement, not substitute for proposals submitted by the accredited entities and NDAs. Reviews of pilot programmes will be made two years after the RFP was adopted.

Other Decisions Made

The Board also adopted decisions on:

- Methodology for Decisions Taken in between Meetings
- Selection Process and Terms of Reference of the Heads of the Accountability Units: Recommendations of the Appointment Committee
- Fourth Report of the Green Climate Fund to the Conference of the Parties to the United Nations Framework Convention on Climate Change
- Decision-making Procedures for the Board in the Absence of Consensus
- Template for the Bilateral Agreement on Privileges and Immunities
- Policies on Ethics and Conflicts of Interest

The Board didn't agree on the terms for next board membership. The new board is ought to start from 23 August 2015 and enter into effect in Jan 2016 for the next three years. If the current Board failed to nominate names for the new board before August, it will keep serving in the Board till Jan 2016.

The Board will reconvene for its eleventh meeting in Livingstone, Zambia, in November 2015 (dates t.b.c.).

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Event Materials

Climate Change

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