

# Climate Finance Advisory Service

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Daily Briefing

10th Green Climate Fund Board Meeting

(8 July 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 8 July 2015

The third day of the GCF Board Meeting considered many crucial issues, with detailed substantive discussions on most agenda items. No decisions were reached yet, leaving a very full agenda for the final day of the meeting on Thursday.

### **Initial Risk Management Framework: Methodology to Determine and Define the Fund's Risk Appetite**

The Risk Management Committee proposed a Risk Appetite Framework (RAF), to determine the overall level of risk that the GCF is going to be willing to take in order to achieve its objectives. To complete a RAF, five steps are needed: defining categories, developing a risk dashboard, building scenarios, establishing risk targets/tolerance/limits, and risk reporting. At this Board meeting, the Board is expected to decide on the risk categories as well as the risk dashboard, while the other aspects will be considered at the next meeting.

This approach was received positively by Board Members, as an important and useful accountability tool for the Fund. Several members stressed that the objective was not to avoid risk, but to understand and manage it well. In order to achieve the transformational outcomes it seeks, the Fund will have to assume risks. Board Members also made concrete suggestions to add additional risks to be considered, remove or shift some risks to other categories, or change the scope of the risks. Additional risks that were mentioned, among others, included monitoring risks, risks of conflict of interests and accountability risks. Some Members also pointed out that in assessing risks related to country ownership, the Fund should not use the IMF and World Bank's Joint Debt Sustainability Framework, but develop its own approach. It was agreed that the Committee would revise the draft decision and report back to the Board.

## **Appointment of Experts of the Independent Technical Advisory Panel (ITAP)**

The recruitment of the Independent Technical Advisory Panel is a crucial decision for this Board meeting, as this Panel will provide recommendations to the Board on project/programme proposals that were submitted to the Fund, to enable the Board to make approval decisions. There are six experts on the panel and the Investment Committee had identified six candidates from Bangladesh, Germany, Colombia, Japan, United States, and Nigeria. However, the Committee could only agree on four of these candidates and the Board has to decide whether all six should be appointed, or only four with a new recruitment process for the remaining two open positions. Board Members stressed the need to have diverse geographical and subject area expertise represented on the panel, including from Africa and on the issue of forestry. Several Board Members were concerned that the current candidates did not have a diverse enough background, with many of them having worked for multilateral development banks before. The Board then held an executive session to discuss all six candidates and a way forward in more detail.

## **Progress Report on the Readiness and Preparatory Support Programme**

The afternoon began with a presentation by the Secretariat on the status of the readiness programme. As of June 30th, 129 national designated authorities (NDAs) and focal points have been established and 78 have requested readiness support. The Fund has concluded readiness grant agreements with seven countries worth US\$ 1.9 million and is working on additional agreements.

During the discussion, Board Members stressed that the readiness program was important to level the playing field, so that all developing countries could benefit from GCF support. The information sharing activities that were conducted were considered very useful. Outreach should still be improved, as the programme still has not reached many Least Developed Countries. It was also pointed out that more activities to empower local institutions would be essential at this stage. It was also suggested by some Board Members to work closely with bilateral programmes, the private sector, and public private partnerships.

## **Country Ownership**

The secretariat also provided a status report on country ownership, followed by a discussion among Board Members. Some Board Members said that there was not sufficient recognition of the role of NDAs or Focal Points, which should go beyond issuing the no-objection letters for accreditation and for project proposals, if the objective is to make the Fund as transformative as possible. The NDA should also play a role in the development of project/programme pipelines, communication with implementing entities and the Fund, multi-stakeholder engagement and country coordination. Rather than just acknowledging the progress report, a Board Member suggested to take a decision providing further guidance on this. The Co-chair then invited Board Members who are interested to develop a draft decision and report back to the Board.

## Further Development of the Initial Proposal Approval Process

The document on the approval process was an information document only, meant to provide further clarity, but not requiring a decision by the Board. In the discussion, there was agreement that clarity on various steps in the project and programme cycle is required, including the involvement of the NDA in the process and the concrete steps how project proposals are assessed, scaled and selected. Board Members stressed the need to also clarify interrelations to other elements such as the investment framework, concessionality, results management framework or redress mechanism. Board Members also highlighted the importance of ensuring transparency throughout the project approval process, in particular on projects and concepts submitted. Some Board Members stressed the need to rapidly develop a simplified approval process for small scale activities.

## Recommendations from the Private Sector Advisory Group (PSAG)

The Private Sector Advisory Group (PSAG) proposed two approaches to mobilizing funding: a proactive request for proposals (RFP) for mitigation and adaptation, and a reactive process, where applicants submit proposals themselves without active invitation from the GCF. A decision to begin this approach and arrange specifics of the RFP was also proposed. The PSAG recommendations were welcomed by most Board Members, while some requested further clarification regarding geographic balance, adaptation/mitigation balance and specific activities. The Executive Director raised concerns that the Secretariat had not been adequately involved in the preparation of this proposal and would face capacity constraints when implementing the RFP process. It was stressed that the timing and scale of the RFP needed to be specified to ensure it was realistic. The Co-chairs concluded that a draft decision should be drafted by the PSAG and the Secretariat should provide its comments, taking into account the potentially limited capabilities of the Secretariat to specify and prepare next steps leading to an RFP this year.

After this agenda item, it was announced that draft decisions on enhanced direct access and applying scale in the assessment of funding proposals were ready and could be discussed in the morning.

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