

Climate Finance Advisory Service

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Daily Briefing

7th 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 20 May 2014

On Tuesday, May 20th 2014, the 7th meeting of the Green Climate Fund (GCF) Board resumed for the third day in Songdo, Republic of Korea. Like the day before, the meeting started with a stocktaking session in plenary, on the progress achieved in the different groups along the remaining essential requirements to be adopted at this meeting. At the outset, the Co-Chairs reminded members of the Board that only two days were left before the end of this crucial meeting. Hence, it was important more than ever that Board members conclude all decisions, in order to reach a milestone that allows the Fund to start its awaited resources mobilization. According to the Co-Chairs, there would be only a short plenary discussion starting with the initial resource mobilization process, followed by the Investment framework, which Board members due to the time constraint could not conclude the day before. Afterwards, board members would be requested to join the different groups, with the hope of finding a common ground to finalize the unfinished business. In the afternoon, there would be again a short stocktaking meeting, followed by small group deliberations.

Initial resource mobilization process

This was the only document yet to be discussed in plenary. The document aims at clarifying the process and modalities of commencing the resource mobilization process of the GCF as soon as possible, after the essential requirements have been completed.

After a brief presentation of the document by the secretariat, Board members gave their first reaction. It was noticed by some members that the mobilization process as outlined, did not sufficiently empower the GCF Board, and seems to be solely focussed on contributor countries. This was perceived as inconsistent with previous decisions made by the Board. In addition, it was pointed out that the document should not restrict ambitions to make significant contributions to the Fund. Some missed a clear timeline and target for the GCF capitalization. Along this line, it was echoed by some members that the scale and size of the initial pledges need to be commensurable with the ambition and objective of the Fund and the urgency of action. Other members were of the view that it would be crucial to explore all potential donors, hence questioning the reasoning behind the set minimum contribution of USD 5 million foreseen in the decision. Furthermore, it was mentioned that it was important that the process should not only look at public sources, but also explore alternative sources

of funding. In terms of timeframe, it was recognized that the goal of commencing the process by the end of June was quite ambitious as such a process requires tremendous logistical arrangements to reach out to all stakeholders.

In his conclusions after the initial discussions, the Chair set up a working group on the matter, which should develop the terms of reference for the initial capitalisation process.

Investment Framework

As reported in yesterday's daily report, the discussion on this matter was suspended due to time constraints. Before resuming the discussion, a new paper - based on the discussions the day before - was distributed to Board members. This document contained, among others, a draft decision, which was mainly focused on the operative part of the Investment Framework. To this draft decision, an Annex was attached along the three pillars of the framework: the investment policies; the investment strategy and portfolio targets; and the investment guidelines.

As already proposed yesterday, one major amendment was the replacement of "sub-criteria" through "coverage areas" in the investment guidelines. In these coverage areas, sustainable development was separated from the "paradigm shift potential" criterion, to not overburden recipient country entities in developing the reasoning behind the respective indicators in their project proposals. In the discussion soon after, it was highlighted that the methodology (e.g. weighting or scoring) for applying the sub-criteria/coverage areas were missing, as well as any reference to readiness activities. In addition, some members pointed to inconsistencies between the chronologies outlined in the draft decision with those stipulated in the Annex. It was also mentioned that investment parameters were not reflected, which should have benchmarks in order to facilitate assessments. Further, it was accentuated by some members that any attempts of categorizing developing countries into sub-groups should be omitted.

After a long discussion on this matter, the Co-Chairs sent Board members back into the working groups.

Stocktaking session

In the afternoon, Board members resumed again in plenary for a brief stocktaking session, where all working group facilitators were invited to give a short synopsis on their state of discussions in order to allow the Co-Chairs to provide further guidance on the organisation of work.

On **Accreditation**, the facilitator reported that specific issues still needed to be addressed in the document. However, he was very confident to come to an agreement, if some additional time for further elaboration would be allocated. On the **Investment Framework**, the facilitator noted that the group identified 10 different issues that needed further work. He was also of the view that with additional time for group work, combined with some bilateral consultations, it was likely to come to a decision. On the Proposal **Approval Process**, the group continued working to streamline the different steps of the proposal funding cycle. Discussions were stagnating around the role of the National

Designated Authority (NDA) and the Independent Technical Advisory Group in the approval process; the approval process for small and medium enterprises; as well as the review guidelines. On the Financial **Risk Management Framework**, the facilitator reported that groups had come to agreement on the document and that the final text would soon be distributed by the secretariat. However, the Co-Chairs were forced to suspend the discussion, in order to allow the Board to attend a formal dinner with the Prime Minister of South Korea, who made a visit to the conference centre.

Redraft: Financial Risk Management Framework

After dinner, the secretariat distributed a new document on the Financial Risk Management Framework. It contains four Annexes: I) a draft decision on the initial financial risk management framework; II) a description of the actual risk management framework, which consists of financial risk policies, financial risk monitoring and risk governance, which outlines the role and responsibility of the chief financial officer, the secretariat and the Board's risk management committee; III) a table outlining financial risk categorization and management; and IV) financial arrangements for grants and concessional loans, which spell out the role of implementing entities and intermediaries in the financial arrangements. Board members all agreed that the document was mature for taking a decision, while proposing some minor alterations. The controversial points were voiced on Annex II), particularly on the reporting procedures of the risks identified. Some Board members were of the view that the chief financial officer should report directly to the Executive Director (ED) of the secretariat, instead of to both the GCF Board and the ED. The ED should work with the Risk Management Committee, which is in charge of the oversight of the Fund's risk management, to jointly prepare recommendations to the Board on the risks to be mitigated. Finally, Annex IV) was amended, with additional reference in a footnote that this document should not predetermine the content of the document on financial terms and conditions, which will be discussed at the upcoming 8th Board meeting in October.

Following this amendments, the Board adopted the document, which marks the first of the essential requirements to be completed at this meeting.

Soon after, the Co-Chairs suspended the Board meeting to allow the working groups to discuss the remaining items.

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