June 2014

What was decided at the Seventh Green Climate Fund meeting and where does this take us?

Series on catalysing the financial ecosystem for climate finance

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A new milestone in the Green Climate Fund's history took place last month in Songdo, South Korea. This 7th meeting of the Board (GCF7) successfully concluded the 8 essential items required to trigger the resource mobilisation process. The process for deciding on how resources are to be mobilised – who contributes, when and how – was also launched with the first meeting scheduled for 30th June in Oslo.

Expectations ahead of the meeting were high. As the previous meeting in February had only managed to agree on 2 of the essential requirements the Board faced a sizeable task of finalising the remaining 6 along with a decision on the resource mobilisation process itself.

Failure to reach these agreements would have called into question the ability of the GCF to become operational in early 2015 and start channelling finance to deliver the paradigm shift for low carbon and climate resilient development in developing countries. It was also the common view that pledges to the GCF this year would be important for building momentum towards Paris 2015.

What happened in Songdo?

With the pressure on the board worked diligently under the guidance of the co-chairs often working through the night over the 4 days. Small working groups were created and tasked to build a unified view on the key elements of the issue. In the absence of the Philippines, co-chair Saudi Arabia stepped in to work alongside Germany to oversee the working groups, which were open to observers making for a very transparent and engaging meeting. .

By Wednesday 21st May 18.30 hours in Songdo all the essential items were agreed, with only the decision on the process for resource mobilisation outstanding. The pressure was then on the board members to agree on the form and timing of this process. When finally agreed, the meeting concluded very positively with the Fund's executive director calling for the resource mobilisation process to begin before the start of the summer holidays. Before getting carried away by the size of the pot to be agreed let's unpack what was actually agreed in Songdo, identify pending decisions for October and consider whether or not we are on the right track.

What was agreed?

Funds financial risk management and investment frameworks

The general shape of the fund's financial risk management and investment frameworks were agreed. In terms of financial risk management the GCF board agreed to seek to maximize grant contributions; a key element that will allow the fund to have a catalytic role on investments by taking upfront risk for investments that otherwise may not take place. In addition, and in order to avoid cross-subsidization between providers of grants to the Fund and those providing loans, the latter will either need to write-down loan contributions and/or provide a cushion in the form of a grant contribution. The Board also agreed the need for flexibility of intermediaries in blending GCF funding with their own or third-party financial resources.

The methodology for defining the risk appetite will be defined in the first meeting after the Fund's initial resource mobilization process has been completed. To help with this a survey of methodologies that are used by relevant institutions to define the risk appetite has been requested as an input for the October meeting.

The agreed **investment framework** sets out policies for meeting the funds key objective for ensuring projects and programmes contribute towards a paradigm shift towards low-carbon and climate-resilient sustainable development. In line with accepted good practice , it was agreed that the GCF will provide the minimum concessional funding necessary to make a project or programme viable and avoid crowding out financing from other public and private sources.

Two important annexes to the investment framework were agreed on a) the initial portfolio targets, based on the allocation criteria approved in the 6th Meeting of the Board in Bali, and b) the initial criteria for assessing programme/project proposals. This covers six areas including potential impact and potential for achieving a paradigm shift. These criteria will need to be further defined through agreement on activity-specific sub-criteria and indicators, and potential for minimum benchmarks that allow proposals to be assessed in line with country specific circumstances.

Initial results management framework

The initial results management framework (RMF) decision proved to be one of the most challenging items. Having agreed on the initial logic model for mitigation and adaptation, some core indicators and the importance for evaluating results in a programmatic way, discussion focused on how the objective for delivering a paradigm shift would be at the heart of the framework.

Substantially more work is required for the next board meeting, including development of indicators on mitigation and adaptation, as well as methodologies, data sources, frequency, and responsibilities for reporting. It was also agreed to develop a logic model and performance framework for ex-post REDD+ results-based payments in line with the Warsaw Framework for REDD+.

Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund's fiduciary principles and standards and environmental and social safeguards

This decision also proved challenging to agree. Concerns focused over the potentially lengthy timeframe for ensuring robust fiduciary standards and exemplary social and environmental safeguards versus how to allow for the operationalisation of the GCF, including through national entities, as soon as possible. A compromise was reached with agreement on a fit-for-purpose accreditation approach that matches the nature, scale and risks of proposed activities with the application of the initial fiduciary standards and interim environmental and social safeguards (ESS) borrowed from the International Finance Corporation (IFC). The Fund's own ESS are to be defined within three years of the Funds operationalisation.

A two-track accreditation process to allow for direct access and international access to proceed in parallel was also agreed. An assessment of the potential to fast-track international entities accredited by other relevant funds that meet the standards and safeguards of the Fund was requested for presentation in the next Board meeting. This will allow for rapid access to funds by international entities, whilst allowing national entities to build relevant capacity for directly accessing the fund. Readiness support will be available for those national institutions wanting assistance with completing the accreditation process. A call for submissions of accreditation applications from implementing entities and intermediaries will be made following the Board's October meeting.

Whilst progress on this item was achieved through the pragmatic decisions reached, there remains a long to-do list. Further decisions will need to consider guidelines for the operationalisation of the fit-for-purpose accreditation approach along with tools and material for assisting applications, as well as development of the ESS and additional specialised fiduciary standards.

Initial proposal approval process, including the criteria for programme and project funding

The approval process adopted consists of five steps, including a voluntary "zero" step which aims to ensure that projects and programmes within the context of country and/or regional work programme. The voluntary nature of this step is to avoid creating additional hurdles for countries without the capacity to define such work programmes.

Country ownership and what has so far proven to be a sticky issue of the No-Objection procedure for private sector projects also need to be decided. To assist with this, the Board will consider potential methodologies for the selection process. The role of National Designated Authorities (NDAs) and National Implementing Agencies (NIAs) are also to be decided. This will likely lead to an interesting discussion over the potential role of NDAs beyond acknowledging project and programme proposals as well as the role and capacity of NIAs to take a leadership role in identifying and implementing projects and programmes.

Initial modalities for the operation of the Fund's mitigation and adaptation windows and its Private Sector Facility

Finally, the initial modalities of the mitigation and adaptation windows, and the Private Sector Facility (PSF), were agreed. There are still many questions over how the PSF will work. The Private Sector Advisory Group (PSAG) has been tasked with providing advice on several aspects, including modalities to promote participation of local developing country private sector actors, including small and medium-sized enterprises (SMEs) and local financial intermediaries, with particular attention to Small Island Developing States, Least Developed Countries and Africa. The PSAG is also tasked with identifying the role of the private sector in supporting countries adaptation programmes as well as recommendations on modalities and instruments to mobilize private resources at scale.

Structure of the Fund, including the structure of its Private Sector Facility

On this item there was largely a procedural decision that brought several other decisions together into one place. It was further noted that the structure of the fund is evolving.

Are we on the right track?

Prior to the GCF7 E3G set out the key indicators of success expected from the meeting on several of the essential decision. So let's have a look if the decisions adopted are on track to catalyze a paradigm shift:

Essential item	Success Criteria	Achieved?	Comments
Risk management and investment frameworks	Ability to absorb risks and how this is shaped by financial contributions to the Fund.	✔	-
	Ratio of grant to loan contributions.	✘	While the fund is aiming to maximize grant contributions a specific ratio was not defined.
	Measures to increase the risk appetite of those wanting to provide loans contributions.	✔	Although details will need to be decided in October.
	Detailed investment criteria	✔	Further definitions for activity specific sub-criteria and minimum benchmarks are to be decided.
Accreditation Guiding framework	Allowing countries to build upon existing country arrangements, capacity and priorities.	✔ / ✘	Partial – Further work is required, including clarification of a fit-for-purpose approach.
	Two track accreditation process.	✔	-
	A work programme for building complementarity and coherence with other relevant funds accreditation processes.	✔	-
Initial proposal approval process	Encourage programmes designed to deliver the greatest transformational impact.	✔	-
	Recognise that whilst some countries may be ready to come forward with these fairly quickly, others may require additional support to increase their capacity to do so.	✔	-
	Discussions beyond the no-objection process	~	This discussion will take place in the next board meeting.
RMF	A detailed performance measurement framework (PMF)	✔ / ✘	Partial – Further work is required.
Initial modalities for the operation	Clarity regarding the initial operating modalities of the Fund	✔ / ✘	Partial – Clarity on the private sector facility is to be defined.

So, what is the work plan to have fully operating and effective GCF?

The above analysis shows how many of the details are still pending before the Fund is fully operational. As such there is a very large workload for the GCF's Secretariat, and the various sub-committees and advisory groups and the Secretariat between now and the October meeting. In particular are the following key items:

> Country ownership, including: the no-objection procedure; best practices for the establishment and composition of National Designated Authorities and focal points and best-practice options for country coordination and multi-stakeholder engagement;

> Details on the modalities of the PSF for mobilising private sector resources at scale, including through special vehicles and risk-mitigation instruments, the use of financial instruments beyond grants and loans, such as guarantees and equity; how to promote participation of local private sector, particularly SMEs and local financial intermediaries in KDCs and Africa, with an emphasis on adaptation;

> Provisions for legal and formal arrangements with intermediaries and implementing entities, including policies on fees and payments;

> Simplified procedures and eligibility criteria for certain activities, particularly for small-scale activities;

> Additional result areas and indicators for adaptation activities;

> Financial terms and conditions of grants and concessional loans;

> Revised programme of work on readiness and preparatory support;

> Options for a Fund-wide gender-sensitive approach;

> Additional modalities that further enhance direct access, including through funding entities.

It's clear that a great deal of work lays ahead of when the Board next meets in Barbados, and that some key decisions are still required to define the nature of the GCF and its particular added value in ensuring climate finance catalyses transformational impacts and change. Given this it is also clear that the positive energy and good working relationships that characterised the Songdo meeting will also be required to ensure continued progress in Barbados.

Turning now to the resource mobilization process, the first meeting of takes place in less than two weeks. At the recent Bonn climate change conference multiples parties were calling for at least US$15bn for the initial capitalization of the Fund. Pledges also need to take place well before Lima COP20 in December of this year. Plenty of venues for pledging are available this year, but perhaps none as fitting as the UN Secretary-General Ban Ki-moon Climate Summit in September when Heads of Government will convene. Pledges there would provide a positive signal of the importance for maintaining progress at the October Board meeting in order for the Fund to become operational in early 2015. This would also provide valuable momentum towards an ambitious outcome in Paris 2015.