

Green Climate Fund

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# Terms of Reference and Establishment of Committees and Panels

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**GCF/B.05/13**

18 September 2013

**Meeting of the Board**

8-10 October 2013

Paris, France

Agenda item 7 (b)

## **Recommended action by the Board**

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.05/13 *Terms of Reference and Establishment of Committees and Panels*; and
- (b) Adopts the draft decision presented in Annex I to this document.

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## Terms of Reference and Establishment of Committees and Panels

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### I. Introduction

1. At its June 2013 meeting, the Board, in its decision B.04/08, requested the Interim Secretariat to prepare the draft terms of reference of a Risk Management Committee, an Investment Committee and a Private Sector Advisory Group, for consideration at its next meeting.
2. The Board, in its decision B.04/09, agreed to consider at its next meeting, the establishment and terms of reference of permanent and ad hoc committees of the Board that will assist the Board in fulfilling its roles and functions.
3. The purpose of this document is to provide:
  - (a) Draft terms of reference of the Risk Management Committee, Investment Committee and Private Sector Advisory Group, as requested in Board decision B.04/08;
  - (b) Draft terms of reference of a proposed Ethics and Audit Committee for consideration by the Board pursuant to decision B.04/09;
  - (c) Draft text of a Board decision to establish the abovementioned bodies and approve their terms of reference.
4. This document should be read in conjunction with document GCF/B.05/12 *General Guidelines for Committees and Panels*.

### II. Risk Management Committee

5. The Board decided that an appropriate risk management framework will be developed, enabling the Fund to exert due diligence and manage its risks prudently. For this purpose, the Board decided to establish a Risk Management Committee. In addition, paragraph 56 of the Governing Instrument states that the Board will develop an appropriate risk management policy for funding and financial instruments.
6. While decision B.04/08 was taken in relation to the Private Sector Facility (PSF), an appropriate risk management framework for the Fund would not be limited to the PSF, and the specific language of decision B.04/08 “... enabling the Fund to exert due diligence and manage its risks prudently” indicates the intention of the Board that the Risk Management Committee will oversee a risk management framework across the entire Fund.
7. Terms of reference of a Risk Management Committee were drafted accordingly for consideration by the Board, and are presented in Annex II to this document.
8. Specialized risk review processes and dedicated expertise will be needed in relation to the PSF. Particular risks and investment barriers are relevant to the PSF.<sup>1</sup> Accordingly, specialist skill sets will need to be built up within the Secretariat to properly assess such risks and barriers and inform the operations of the PSF.
9. The model used in regional multilateral development banks (MDBs) where the private sector window is part of the institutional structure should be further explored to see how sovereign and non-sovereign risks are managed in the institutional perspective.

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<sup>1</sup> For example, as described in paragraph 13 of document GCF/B.04/07.

### **III. Investment Committee**

10. Terms of reference of an Investment Committee were drafted for consideration by the Board, and are presented in Annex III to this document.

### **IV. Ethics and Audit Committee**

11. Terms of reference of an Ethics and Audit Committee were drafted for consideration by the Board, and are presented in Annex IV to this document.

### **V. Private Sector Advisory Group**

12. Terms of reference of a Private Sector Advisory Group were drafted for consideration by the Board, and are presented in Annex V to this document.

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**Annex I: Draft decision of the Board**

*The Board, having reviewed document GCF/B.05/13 Terms of Reference and Establishment of Committees and Panels:*

- (a) *Establishes the Risk Management Committee as a committee of the Board in accordance with decision B.04/08 and paragraphs 2 (g) and 30 of the Rules of Procedure of the Board;*
- (b) *Adopts the Terms of reference of the Risk Management Committee as set out in Annex II to this document;*
- (c) *Establishes the Investment Committee as a committee of the Board in accordance with decision B.04/08 and paragraphs 2 (g) and 30 of the Rules of Procedure of the Board;*
- (d) *Adopts the Terms of reference of the Investment Committee as set out in Annex III to this document;*
- (e) *Establishes the Ethics and Audit Committee as a committee of the Board in accordance with paragraphs 2 (g) and 30 of the Rules of Procedure of the Board;*
- (f) *Adopts the Terms of reference of the Ethics and Audit Committee as set out in Annex IV to this document;*
- (g) *Appoints the following Board members and alternate members as Chair, Vice-Chair and members of the Ethics and Audit Committee for its first term:*
  - (i) *[Xx], Committee Chair and committee member,*
  - (ii) *[Xx], Committee Vice-Chair and committee member,*
  - (iii) *[Xx], Committee member,*
  - (iv) *[Xx], Committee member;*
- (h) *Establishes the Private Sector Advisory Group as a panel of the Board in accordance with decision B.04/08 and paragraphs 2 (o) and 32 of the Rules of Procedure of the Board;*
- (i) *Adopts the Terms of reference of the Private Sector Advisory Group as set out in Annex V to this document;*
- (j) *Appoints the following Board members to the Private Sector Advisory Group for its first term in accordance with the Terms of reference as set out in Annex V to this document:*
  - (i) *[Xx developing], panel member,*
  - (ii) *[Xx developing], panel member,*
  - (iii) *[Xx developed], panel member,*
  - (iv) *[Xx developed], panel member;*
- (k) *Requests the Secretariat to initiate an open call for nominations, including from Board members, for the selection of four private sector representatives from developing countries, four private sector representatives from developed countries, and two civil society representatives, for membership of the Private Sector Advisory Group during its first term, in accordance with the Terms of Reference as set out in Annex V to this document, with the appointment of nominated representatives subject to the approval by the Co-Chairs;*
- (l) *Requests the Secretariat to convene the first meeting of the Ethics and Audit Committee and the Private Sector Advisory Group, in consultation with their respective Chairs, via videoconference prior to the first meeting of the Board in 2014; and*
- (m) *Invites the Ethics and Audit Committee and Private Sector Advisory Group to develop and present to the Board, at its first meeting in 2014, agreed work plans for their first 12 months of operation, which should take into account the Terms of reference, as set out in Annex IV and V to this document, respectively.*

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## Annex II: Terms of reference of the Risk Management Committee

### I. Role and functions

1. The role of the Risk Management Committee is to ensure the development of an appropriate risk management framework for the Fund, enabling the Fund to exert due diligence and manage its risks prudently.
2. In fulfilling this role, the Risk Management Committee will:
  - (a) Oversee the development and implementation by the Secretariat of a risk management framework that covers all areas of potential risk to the Fund, to enable the Fund, including its Private Sector Facility (PSF), to systematically identify risks, contextualize them and manage them appropriately;
  - (b) Oversee and review a register of strategic risks across the Fund;
  - (c) Monitor the management by the Secretariat of the Fund's overall risk profile, including the PSF, to confirm that the Fund is operating within Board-approved risk limits;
  - (d) Review and provide recommendations on periodic risk management reports and/or notification of material breaches of risk limits or procedures, as provided by the Secretariat;
  - (e) Review and provide recommendations on independent evaluations of the implementation of sound risk management practices by the Fund;
  - (f) Support the Executive Director in ensuring the continuous development of a risk- and compliance-aware culture in the Fund; and
  - (g) Consider any other risk-related matters the Board deems appropriate.
3. The Risk Management Committee will consider recommendations and advice provided to it by the Private Sector Advisory Group.

### II. Membership

4. The Risk Management Committee will comprise:
  - (a) Three developing country Board members and/or alternate members; and
  - (b) Three developed country Board members and/or alternate members.
5. Members of the Risk Management Committee will serve for an initial term of 18 months, in accordance with the General guidelines for the operation of Board committees.

### III. Duration

6. The Risk Management Committee will be a standing committee of the Board.
7. Three years following its establishment, the Board will evaluate the usefulness and continued necessity of the Committee.

#### **IV. Guidelines for operation**

8. The General guidelines for the operation of Board committees will apply to the conduct of business of the Risk Management Committee, except as otherwise set out in these Terms of reference or decided by the Board.
9. Provisions will be put into place to manage actual and potential conflicts of interest.

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## **Annex III: Terms of reference of the Investment Committee**

### **I. Role and functions**

1. The role of the Investment Committee is to develop and review investment strategies and instruments and recommend their approval to the Board, in particular relating to the Private Sector Facility (PSF) and in accordance with the Fund's objectives and result areas, social and environmental safeguards and risk management framework.
2. In fulfilling this role, the Investment Committee will:
  - (a) Oversee the development by the Secretariat of a Fund investment strategy for the consideration by the Board;
  - (b) Review and make recommendations to the Board on implementing the investment strategy and financial instruments, including with regard to their economic viability and alignment and compliance with the Fund's objectives, social and environmental safeguards and risk management framework;
  - (c) Oversee and review periodic assessments by the Secretariat of the Fund's portfolios to ensure consistency with the Fund's investment strategy;
  - (d) Review and recommend for Board consideration proposed amendments to the Fund's investment-related policies and the use of various financial instruments; and
  - (e) Consider any other investment-related matters that the Board deems appropriate.
3. The Investment Committee will consider recommendations and advice provided to it by the Private Sector Advisory Group.

### **II. Membership**

4. The Investment Committee will comprise:
  - (a) Three developing country Board members and/or alternate members; and
  - (b) Three developed country Board members and/or alternate members.
5. Members of the Risk Management Committee will serve for an initial term of 18 months, in accordance with the General guidelines for the operation of Board committees.

### **III. Duration**

6. The Investment Committee will be a standing committee of the Board.
7. Three years following its establishment, the Board will evaluate the usefulness and continued necessity of the Committee.

### **IV. Guidelines for operation**

8. The General guidelines for the operation of Board committees will apply to the conduct of business of the Investment Committee, except as otherwise set out in these Terms of reference or decided by the Board.
9. Provisions will be put into place to manage actual and potential conflicts of interest.

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## **Annex IV: Terms of reference of the Ethics and Audit Committee**

### **I. Role and functions**

1. The role of the Ethics and Audit Committee is to consider and provide guidance on issues of conflict of interest, confidentiality, ethics, financial management, procurement and other audit functions of the Fund.
2. In fulfilling this role, the Ethics and Audit Committee will:
  - (a) Oversee the development of a draft Board policy on ethics and conflict of interest, including the issue of confidentiality, for consideration by the Board;
  - (b) Oversee the implementation of, and compliance with, the Board policy on ethics and conflict of interest, including by providing recommendations on any breaches of the policy;
  - (c) Provide guidance on the development and review implementation of, and compliance with, the Fund's comprehensive information disclosure policy;
  - (d) Provide recommendations for the establishment of the Fund's Independent Integrity Unit and independent redress mechanism;
  - (e) Provide advice to the Board on policy and strategy matters relating to financial reporting and audit requirements for the Fund;
  - (f) Review and make recommendations to the Board on audits of the administrative budget, as necessary;
  - (g) Review and make recommendations to the Board on external audit reports; and
  - (h) Consider any other matters the Board deems appropriate.

### **II. Membership**

3. The Ethics and Audit Committee will comprise:
  - (a) Two developing country Board members and/or alternate members; and
  - (b) Two developed country Board members and/or alternate members.

### **III. Duration**

4. The Ethics and Audit Committee will be a standing committee of the Board.

### **IV. Guidelines for operation**

5. The General guidelines for the operation of Board committees will apply to the conduct of business of the Ethics and Audit Committee, except as otherwise set out in these Terms of reference or decided by the Board.
6. Provisions will be put into place to manage actual and potential conflicts of interest.

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## Annex V: Terms of reference of the Private Sector Advisory Group

### I. Role and functions

1. The role of the Private Sector Advisory Group is to make recommendations to the Board on the Fund-wide engagement with the private sector and modalities to that end.
2. In fulfilling this role, the Private Sector Advisory Group will:
  - (a) Make recommendations to the Board on how the Fund, including its Private Sector Facility (PSF), should engage the private sector in order to catalyse, mobilize and leverage flows of private climate finance in developing countries;
  - (b) Make recommendations to the Board on the design and application of the Fund's policies, procedures and financial instruments as they relate to engagement with the private sector;
  - (c) Make recommendations to the Board on engaging the private sector in climate-resilient development, particularly in Africa, and in adaptation activities at national, regional and international levels;
  - (d) Make recommendations to the Board on promoting the participation of private sector actors in developing countries, in particular local actors, including small- and medium-sized enterprises and local financial intermediaries;
  - (e) Make recommendations to the Board on activities to enable private sector engagement in small island developing States and least developed countries; and
  - (f) Respond to other matters on which its advice is sought by the Executive Director or the Board.
3. The Risk Management Committee and the Investment Committee will consider recommendations and advice provided to them by the Private Sector Advisory Group.

### II. Membership and observers

4. The Private Sector Advisory Group will comprise:<sup>1</sup>
  - (a) Two developing country Board members;
  - (b) Two developed country Board members;
  - (c) Up to four private sector representatives from developing countries;
  - (d) Up to four private sector representatives from developed countries; and
  - (e) Up to two civil society representatives.
5. The following criteria will apply to the selection and appointment of all members of the Private Sector Advisory Group:
  - (a) Expertise in climate finance and investment;
  - (b) Expertise in leveraging and/or mobilizing private finance in developing countries; and
  - (c) Expertise in private sector activities relating to low-emission and climate-resilient development.

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<sup>1</sup> Decision B.04/08, paragraph (i).

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6. In addition, the private sector representatives on the Private Sector Advisory Group will each be experts in their fields and:
    - (a) Have a proven track record of direct or indirect engagement in private sector investment, such as in project finance, private sector project development, private equity, energy trade, carbon finance, institutional investment, asset management, or private investment in emerging markets;
    - (b) Include eminent experts on different approaches to maximizing the amount and effectiveness of private and innovative sources of climate finance; and
    - (c) Include at least one representative with expertise in corporate governance and risk management structures.
  7. In addition, the civil society representatives will:
    - (a) Have experience within a reputable, environmentally-focused civil society organization or organizations that have a regional or global scope of operations; and
    - (b) Have experience in building partnerships between civil society actors and the private sector, governments and/or research experts, to increase the effectiveness of climate finance.
  8. Members of the Private Sector Advisory Group will serve for an initial term of 18 months, in accordance with the General guidelines for operation of Board panels.
  9. Private Sector Advisory Group members that are private sector representatives and civil society representatives will serve in their personal capacity.
  10. In recognition of the criteria applicable to the members of the Private Sector Advisory Group, panel members may not delegate their responsibilities under the group to other individuals.
  11. The two private sector active observers on the Board of the Fund may, in an observer capacity only, attend Private Sector Advisory Group meetings and be provided with any meeting documentation considered by the Group.

### **III. Duration**

12. The Private Sector Advisory Group will exist for an initial duration of three years, after which the Board will evaluate the usefulness and continued necessity of the Group, including amending its membership and these Terms of reference, as considered necessary.

### **IV. Guidelines for operation**

13. The General guidelines for the operation of panels” will apply to the conduct of business of the Private Sector Advisory Group, except as otherwise set out in these Terms of reference or decided by the Board.
  14. Provisions will be put into place to manage actual and potential conflicts of interest.
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