

Green Climate Fund

Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility

GCF/B.06/02

11 February 2014

Meeting of the Board

19-21 February 2014

Bali, Indonesia

Agenda item 6

Recommended action by the Board

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.06/02 *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility*; and
- (b) Adopts the draft decision presented in Annex I to this document.

Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility

I. Introduction, background and prior Board decisions

1. This document summarizes previous decisions on the initial modalities for the operation of the Fund.

1.2 Provisions of the Governing Instrument

2. Operating modalities are described in Section V of the Governing Instrument (paragraphs 31-53):

- (a) Complementarity and coherence (paragraphs 33-34);
- (b) Eligibility (paragraphs 35-36);
- (c) Funding windows and Fund structure (paragraphs 37-44),
- (d) Access modalities and accreditation (paragraphs 45-49);
- (e) Allocation (of resources) (paragraph 50-52); and
- (f) Programming and approval processes (paragraph 53).

1.3 Prior Board decisions

3. At its October 2013 meeting, the Board, in its decision B.05/03:

- (a) Adopted the initial result areas of the Fund; as contained in Annex I to document GCF/B.05/23;
- (b) Adopted the initial performance indicators of the Fund, as contained in Annex II to document GCF/B.05/23;
- (c) Decided on the Fund's results management framework.

4. At the same meeting, the Board, in its decision B.05/05, decided on principles for allocation of resources in order to meet the Fund's objectives.

II. Documents for consideration at the February 2014 Board meeting

5. The February 2014 Board meeting will consider other documents and related draft decisions that also contribute to the framework for the operation of the Fund. These are:

- (a) *Additional Result Areas and Indicators for Adaptation Activities* (GCF/B.06/03);
- (b) *Financial Terms and Conditions of Grants and Concessional loans* (GCF/B.06/16);
- (c) *Detailed Programme of Work on Readiness and Preparatory Support* (GCF/B.06/14);
- (d) *Country Ownership* (GCF/B.06/07);
- (e) *Additional Modalities That Further Enhance Direct Access, Including Through Funding Entities* (GCF/B.06/15); and
- (f) *Options for a Fund-wide Gender-sensitive Approach* (GCF/B.06/13).

III. Initial operating modalities

3.1 Requirements for the capitalization of the Fund

6. The Fund will commence its operations once it has been capitalized. The Board identified eight essential requirements for the Fund to receive, manage, programme and disburse financial resources. Draft decisions relating to three of these requirements are presented for approval at the February 2014 Board meeting:

- (a) *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility* (this document);
- (b) *Terms of Reference of the Independent Evaluation Unit, the Independent Integrity Unit, and the Independent Redress Mechanism* (GCF/B.06/06); and
- (c) *Policies and Procedures for the Initial Allocation of Fund Resources* (GCF/B.06/05).

7. The four essential requirements are addressed in progress reports presented at the February 2014 Board meeting and related draft decisions will be presented to the Board for approval at its May 2014 meeting:

- (a) *Initial Results Management Framework of the Fund* (GCF/B.06/04);
- (b) *Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding* (GCF/B.06/08);
- (c) *Guiding Framework and Procedures for Accrediting National, Regional and International Implementing Entities and Intermediaries, including the Fund's Environmental and Social Safeguards, and Fiduciary Principles and Standards* (GCF/B.06/09); and
- (d) *Financial Risk Management and Investment Frameworks* (GCF/B.06/10 and GCF/B.06/11, respectively);

8. The eighth essential requirement (Structure of the Fund, including the structure of the Private Sector Facility) will be addressed at the May 2014 Board meeting.

9. These eight decisions outline the initial operating modalities of the Fund once it has been capitalized.

3.2 Initial operating modalities once the Fund has been capitalized

10. Once the Fund has been capitalized and declared operational by the Board, its initial modalities will consist of providing resources to fund projects and programmes for climate mitigation and adaptation in developing countries; and tracking the use of these funds, in terms of climate impact and risk management. A portion of the funds provided will flow to public sector projects and programmes; flows to private sector projects and programmes will take place through the Private Sector Facility (PSF). A balance will be sought between funding for mitigation and for adaptation (see document GCF/B.06/05).

11. The modalities in which the resources would be channelled and tracked would involve the following key steps:

- (a) **National designated authorities or focal points.** Countries would designate national designated authorities (NDAs) or focal points as key interlocutors for the Fund (see document GCF/B.06/07). To assist countries in identifying their NDAs or focal points and to provide capacity building, the Fund would provide readiness resources to national authorities (see document GCF/B.06/14).
- (b) **Accredited implementing entities and intermediaries.** The Fund would accredit implementing entities (IEs) and intermediaries that would be responsible for the

implementation of specific projects and programmes supported by the Fund (see document GCF/B.06/09). In particular, the IEs and intermediaries would undertake first-level due diligence on behalf of the Fund of the proposed project or programme; conclude grant or loan agreements with executing entities (EEs); disburse funds to, and, in case of loans, receive debt service from, EEs; and ensure that the EE adheres to the Fund's social and environmental safeguards, fiduciary standards and other requirements. The Fund would provide readiness and preparatory support to sub-national, national and regional IEs and intermediaries as needed, to increase their capabilities of meeting the Fund's accreditation criteria.

- (c) **Investment framework and approval criteria.** Before funding commences, the Board would agree on approval criteria for projects and programmes on the basis of recommendations made by the Investment Committee. These approval criteria would be the second tier in the Fund's allocation process and contained in the investment framework (see document GCF/B.06/11). They would provide the basis on which the Board would approve (either directly, or through delegated or streamlined procedure) specific projects or programmes (see document GCF/B.06/08).
- (d) **Identification of potential projects and programmes.** The IEs and intermediaries would identify potential projects and programmes for Fund support and propose them to the Fund. They could (as a voluntary step) submit these as concepts to the Secretariat to ensure the proposed project or programme complies with the Fund's criteria and requirements. They would then prepare and appraise the project or programme, including the consultation with local communities and civil society, and bring it to the Secretariat for approval once the no-objection of the NDA or focal point has been obtained. In the initial phase, readiness resources could be deployed to enable national IEs or intermediaries to build strong pipelines of potential projects and programmes.
- (e) **Approval of projects and programmes.** The Secretariat would carry out second-level due diligence, notably for compliance with the Board-approved second-tier approval criteria and with the Fund's environmental and social safeguards and fiduciary standards, and submit the proposed project or programme to the Board for approval (either directly, or through delegated or streamlined procedure). The IE or intermediary, the NDA or focal point and the Trustee would be informed of the outcome (see document GCF/B.06/08).
- (f) **Terms and conditions of grants and loans.** Financial terms and conditions would be part of the Board approval package. Following approval, grant or loan agreements would be concluded with the IE or intermediary. The Trustee would receive copies of the signed documents. The IE or intermediary would itself negotiate and conclude its own grant or loan agreements with the EE responsible for the implementation of the project or programme (see document GCF/B.06/08).
- (g) **Effectiveness, implementation and disbursement.** Implementation commences once all prior conditions set by the Board for effectiveness have been met and the grant or loan declared effective. The Trustee would disburse funds to the IE or intermediary based on the agreed grant or loan agreement (see document GCF/B.06/16). These funds would be disbursed back-to-back to the EE by the IE or intermediary to fund implementation.
- (h) **Repayment of loans.** Loans would be repaid by the IE or intermediary to the Trustee on the basis of the loan agreement. The Trustee would report on a regular basis to the Fund on the status of all outstanding grants and loans (see document GCF/B.06/08).
- (i) **Measuring results.** Tracking of project or programme results would occur according to the Fund's results management framework (see documents GCF/B.06/04 and GCF/B.06/03), and would continue for a period decided on a case-by-case basis by the

Board. Results would be aggregated at the portfolio level and reviewed annually by the Board.

- (j) **Measuring financial risks of grants and loans.** Financial performance of the funded project or programme would be tracked by the IE or intermediary from the moment of its effectiveness until full disbursement of the grant, or until full repayment of the loan. This information would be submitted to the Fund on a regular basis. Project- or programme-specific risks would be aggregated at the portfolio level and tracked with other financial risks as part of the financial risk management framework (see document GCF/B.06/10). Financial risks would be reviewed regularly by the Risk Management Committee that would report to the Board.
- (k) **Measuring Fund-wide financial risks.** Other financial risks will be reviewed by the Risk Management Committee by means of a quarterly risk management summary, annual audited financial statements and external audits, annual portfolio review, annual risk register and COSO¹ self-evaluation every two years. The Risk Management Committee would report regularly to the Board that would instruct the Secretariat on corrective action, as appropriate.

¹ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission is a joint initiative of five private sector organizations dedicated to the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.06/02 *Initial Modalities for the Operation of the Fund's Mitigation and Adaptation Windows and the Private Sector Facility*:

- (a) Notes that the initial modalities for the operation of the Fund's mitigation and adaptation windows and the Private Sector Facility are under discussion by the Board according to the items as set out in Annex II to document GCF/B.06/02. In addition, modalities for the operation of the Fund's Private Sector Facility will be developed based on the recommendations of the Private Sector Advisory Group;
- (b) Decides that a conclusion on the initial modalities of the Fund can only be reached at the end of the May 2014 Board meeting, once the Board has completed its deliberations on the different elements that constitute the modalities;
- (c) Decides that the Board will continue considering the initial modalities for the operation of the Fund at its May 2014 meeting.

Annex II: Documents prepared for the February 2014 Board meeting grouped according to the structure of the Governing Instrument for initial modalities

1. Complementarity and coherence (Governing Instrument, paragraphs 33-34)		
	No new documents requested.	
2. Eligibility (Governing Instrument, paragraphs 35-36)		
	No new documents requested.	
3. Funding windows and Fund structure (Governing Instrument, paragraphs 37-44)¹		
	Detailed Programme of Work on Readiness and Preparatory Support	GCF/B.06/14
	Financial Risk Management Framework (Progress Report)	GCF/B.06/10
	Financial Terms and Conditions of Grants and Concessional Loans	GCF/B.06/16
	Options for a Fund-wide Gender-sensitive Approach	GCF/B.06/13
4. Access modalities and accreditation (Governing Instrument, paragraphs 45-49)		
	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 (Progress Report)	GCF/B.06/09
	Country Ownership	GCF/B.06/07
	Additional Modalities That Further Enhance Direct Access, Including Through Funding Entities	GCF/B.06/15
	Terms of Reference of the Independent Integrity Unit	GCF/B.06/06
	Terms of Reference of the Independent Redress Mechanism	GCF/B.06/06
5. Allocation (of resources) (Governing Instrument, paragraphs 50-51)		
	Policies and Procedures for the Initial Allocation of Fund Resources	GCF/B.06/05
	Investment Framework (Progress Report)	GCF/B.06/11
6. Programming and approval processes (Governing Instrument, paragraph 53)		
	Initial Proposal Approval Process, Including the Criteria for Programme and Project Funding (Progress Report)	GCF/B.06/08
	Initial Results Management Framework of the Fund (Progress Report)	GCF/B.06/04
	Additional Result Areas and Indicators for Adaptation Activities	GCF/B.06/03
	Terms or Reference of the Independent Evaluation Unit	GCF/B.06/06

¹ Structure of the Fund, including the structure of the Private Sector Facility, will be addressed at the May 2014 Board meeting.